



TM

SYSTEMATIX INSTITUTIONAL EQUITIES

Systematix

Institutional Equities

01 November 2023

KEI Industries

Strong and inline 2Q; large capex to drive 15%+ revenue CAGR

RESULT UPDATE

Sector: Consumer Electricals Rating: HOLD

CMP: Rs 2,440 Target Price: Rs 2,745

Stock Info

Sensex/Nifty	63,875/19,080
Bloomberg	KEII IN
Equity shares (mn)	90
52-wk High/Low	2,724/1,408
Face value	Rs 2
M-Cap	Rs 220bn/USD 2.6bn
3-m Avg turnover	USD 9.6 mn

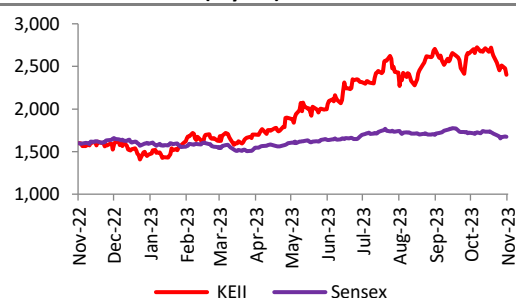
Financial Snapshot (Rs mn)

Y/E Mar	FY23	FY24E	FY25E
Net sales	69,123	80,137	92,656
EBITDA	7,062	8,534	10,136
OPM (%)	10.2	10.6	10.9
PAT (adj.)	4,773	5,890	7,073
EPS (adj.) (Rs)	52.9	65.3	78.4
PE (x)	46.1	37.4	31.1
P/B (x)	8.5	7.0	5.8
EV/EBITDA (x)	30.6	25.1	20.9
RoE (%)	18.4	18.7	18.6
RoCE (%)	25.6	27.0	26.9
Net-D/E (x)	(0.1)	(0.2)	(0.2)

Shareholding Pattern (%)

	Sep'23	Jun'23	Mar'23
Promoter	37.1	37.1	37.2
- Pledged			
FII	29.6	27.7	27.4
DII	17.7	19.6	19.5
Others	15.7	15.7	15.9

Stock Performance (1-year)



KEI (KEII) strong and inline 2Q (volume/revenue/EBITDA/PAT up 26%/21%/27%/31% YoY) was led by 4x surge in EHV cable sales (Rs 1.69bn, FY24E Rs 5-6bn). EBITDA margin expanded 47bps QoQ at 10.5%. The strong Rs 33.63bn order book comprises of all verticals. Retail sales (up 14% YoY) contributed 47% to total sales. Exports (up 130% YoY, down 23% QoQ) are on a strong footing; KEII is looking to expand its geographical footprint. Looking at robust market potential, KEII plans to invest over Rs 15bn over the next 3 years (FY24E Rs 5bn) in building capacities across product lines and achieve 15%+ revenue CAGR. The recently commissioned LT cables capacity in Silvassa can generate Rs 5bn revenue. The greenfield plant (~Rs 10bn capex at Sanand over the next 3 years) is likely to be operational in phases from 4QFY25 having Rs 50bn revenue potential. Rise in scale and superior mix (retail, EHV) will drive EBITDA margins towards 12% in 3 years (~10.5% currently). We maintain our earnings estimates post an inline 2Q result and expect 16%/20%/22% CAGR in revenue/EBITDA/PAT over FY23-25E (FY18-23: 15%/16%/27% CAGR). Healthy RoE (19%) and RoCE (27%) should sustain. Strong OCFs (~Rs 5-6bn annually) will be deployed towards planned capex. While we remain sanguine on KEII's promising growth prospects, after a significant re-rating and at ~31x FY25E P/E on CMP, we maintain our HOLD rating, with an unchanged TP of Rs 2,745, based on 35x FY25E P/E. While scope for further re-rating hereon is limited, strong performance would continue to evince investor interest and drive upside in the stock, in our view.

Strong and inline 2Q, led by strong uptick in EHV cable and exports: Revenue/EBITDA/PAT grew a healthy 21%/28%/31% YoY and 9%/13%/16% QoQ. EBITDA margin expanded 47bps QoQ at 10.5%. PAT margin stood high at 7.2%, up 39bps QoQ. The strong Rs 33.63bn order book comprise of all verticals (EPC Rs 8.04bn, EHV Rs 7.25bn, domestic cables Rs 15.48bn, exports 2.5bn).

2Q volumes up 26% YoY; sharp uptick in EHV cables: On a stable copper price YoY, volumes grew strongly by 26% YoY. EHV cable sales surge ~4x YoY to Rs 1.69bn; a Rs 5-6bn revenue is likely in FY24. Retail sales (up 14% YoY) contributed 47% to total sales. Exports (up 130% YoY, down 23% QoQ) are also on a strong footing; KEII is looking to expand its geographical footprint. Looking at robust market potential, KEII is building capacities with an aim to grow at 15%+ revenue CAGR over the next 5 years. Rise in scale and superior mix (retail, EHV) will drive EBITDA margins to 12% in 3 years.

Large capex to achieve 15%+ revenue CAGR over 5 years: KEII plans to invest over Rs 15bn over next 3 years (FY24E Rs 5bn) in building capacities across product lines. The recently commissioned LT cables capacity in Silvassa can generate Rs 5bn revenue. The greenfield plant (~Rs 10bn capex at Sanand over the next 3 years) is likely to be operational in phases from 4QFY25 having Rs 50bn revenue potential. Strong earnings, tight WC management and a rise in channel financing (~40% of sales) could drive healthy cash flows, which KEII would use for growth capex. ([concall KTAs](#))

Strong and consistent earnings growth to support rich valuations: We maintain our earnings estimates post an inline 2Q result and expect 16%/20%/22% CAGR in revenue/EBITDA/PAT over FY23-25E (FY18-23: 15%/16%/27% CAGR). Healthy RoE (19%) and RoCE (27%) should sustain. Strong OCFs (~Rs 5-6bn annually) will be deployed towards planned capex. While we remain sanguine on KEII's promising growth prospects, after a significant re-rating and currently at ~31x FY25E P/E, we maintain **HOLD** rating on the stock. Strong earnings growth would continue to evince investor interest and drive upside in the stock, in our view.

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Investors are advised to refer disclosures made at the end of the research report.

2QFY24 concall key highlights and outlook

Business dynamics & Outlook

- 2Q volume/revenue was up 26%/21% YoY
- EBITDA margin in FY24 will be sustained in 10.5-11% range; management aims to touch 12% in 3 years
- EHV cables to clock Rs 5-6bn annual sales (2Q Rs 1.69bn, 1H Rs 2.42bn)
- Order Book at Rs 33.63bn (EPC Rs 8.04bn, EHV Rs 7.25bn, Dom. LT-HT Rs 15.48bn, Exports 2.5bn)
- In Exports KEI looks to expand geographical footprint for cables; China+1 benefitting Indian players
- Building capacities to achieve 15%+ growth over next 5 years
- EHV cables is Rs 30bn market in India (domestic demand is met by four domestic players and imports)

Robust capex plans

- Commissioned Silvassa LT plant in Oct'23
- FY24E capex: Rs 5bn (Rs 2bn b/f + Rs 3bn g/f)
- Sanand g/f plant will be operational in phases from 4QFY25
- A Rs 10bn capex (over next 3 years) would enable in generating ~Rs 50bn revenue

2QFY24 result - strong quarter led by sharp uptick in EHV cables

- Revenue/EBITDA/PAT up 21%/28%/31% YoY and 9%/13%/16% QoQ
- EBITDA margin 10.5%, up 47bps QoQ; PAT margin 7.2%, up 39bps QoQ
- EHV cable sales surged 4x YoY to Rs 1.69bn
- Exports were up 130% YoY at Rs 1.83bn (down 23% QoQ)
- Domestic LT+HT cable sales growth was flattish YoY
- Retail sales were up 14% YoY at Rs 9.23bn (up 10% QoQ)
- EPC revenue was up 25% YoY at Rs 1.13bn
- Net debt after acceptances was nil

Exhibit 1: KEI Industries – Quarterly results (Consolidated)

(Rs mn)	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	YoY (%)	QoQ (%)	1HFY24	1HFY23	YoY (%)
Total Income	16,081	17,843	19,545	17,826	19,466	21	9	37,291	31,735	18
Raw material costs	12,091	13,445	14,427	13,342	14,552	20	9	27,894	23,852	17
Employee costs	508	595	657	650	662	30	2	1,312	1,068	23
Other expenses	1,877	1,982	2,424	2,051	2,213	18	8	4,264	3,613	18
EBITDA	1,606	1,822	2,038	1,783	2,039	27	14	3,821	3,202	19
Depreciation	145	144	143	147	156	8	6	302	283	7
Finance costs	76	78	101	89	75	(1)	(16)	165	168	(2)
Other income	53	138	51	83	77	45	(8)	160	88	82
PBT	1,438	1,737	1,845	1,630	1,884	31	16	3,514	2,838	24
Tax	369	451	464	416	482	31	16	898	732	23
PAT	1,069	1,286	1,381	1,214	1,402	31	16	2,616	2,106	24
EPS (Rs)	11.9	14.3	15.3	13.5	15.5	31	15	29.0	23.4	24
As % Total Income						YoY (bps)	QoQ (bps)			YoY (bps)
Gross margin	24.8	24.7	26.2	25.2	25.2	43	9	25.2	24.8	36
Employee costs	3.2	3.3	3.4	3.6	3.4	24	(24)	3.5	3.4	15
Other expenses	11.7	11.1	12.4	11.5	11.4	(30)	(14)	11.4	11.4	5
EBITDA margin	10.0	10.2	10.4	10.0	10.5	49	47	10.2	10.1	16
Depreciation	0.9	0.8	0.7	0.8	0.8	(10)	(2)	0.8	0.9	(8)
Finance costs	0.5	0.4	0.5	0.5	0.4	(9)	(11)	0.4	0.5	(9)
Other income	0.3	0.8	0.3	0.5	0.4	7	(7)	0.4	0.3	15
PBT	8.9	9.7	9.4	9.1	9.7	74	54	9.4	8.9	48
Effective tax rate	25.6	26.0	25.1	25.5	25.6	(6)	6	25.6	25.8	(21)
PAT	6.6	7.2	7.1	6.8	7.2	56	39	7.0	6.6	38
Revenue mix (Rs mn)						YoY (%)	QoQ (%)			YoY (%)
Insti cables - domestic	5,610	7,430	8,140	5,420	6,800	21	25	12,220	10,880	12
Insti cables - exports	800	1,050	1,240	2,380	1,830	129	(23)	4,210	2,730	54
Retail sales	8,080	7,960	8,220	8,420	9,230	14	10	17,650	15,050	17
Revenue mix (%)	50.2	44.6	42.0	47.2	47.4			47.3	47.4	
LT cable	6,740	7,150	8,140	7,210	7,360	9	2	14,570	13,110	11
HT cable	2,300	3,600	3,570	2,980	2,600	13	(13)	5,580	4,910	14
EHV	470	1,030	1,110	510	1,910	306	275	2,420	1,520	59
Housewire/WW	4,970	4,660	4,780	5,520	5,990	21	9	11,510	9,110	26
Stainless steel	700	540	630	580	580	(17)	-	1,160	1,310	(11)
EPC	910	950	1,350	1,110	1,130	24	2	2,240	1,750	28
Segment EBIT (%)						YoY (bps)	QoQ (bps)			YoY (bps)
Wires & Cables	8.7	9.3	9.4	8.8	10.8	208	203	9.8	8.8	99
Stainless Steel	6.1	10.0	9.2	5.3	6.1	4	82	5.7	5.6	13
EPC	14.0	12.5	6.5	13.9	10.0	(399)	(384)	11.5	9.4	209
Un-allocable expenses	0.3	0.8	0.3	0.5	0.4	7	(7)	0.5	(0.2)	66

Source: Company, Systematix Institutional Research

*Note: Segment EBIT margin is as reported and not adjusted for the un-allocable expense/income

Exhibit 2: Revenue mix – 2QFY24

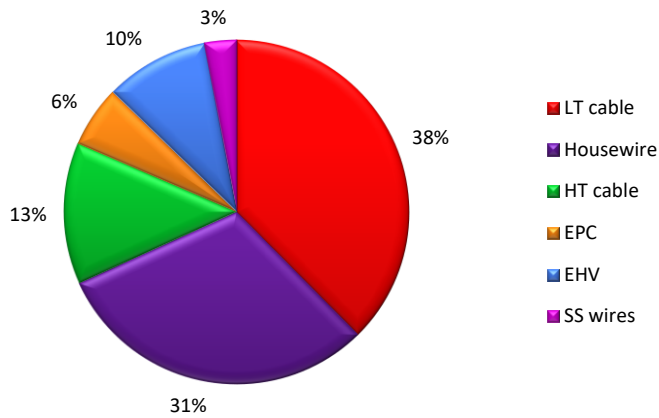


Exhibit 3: Revenue mix – trend

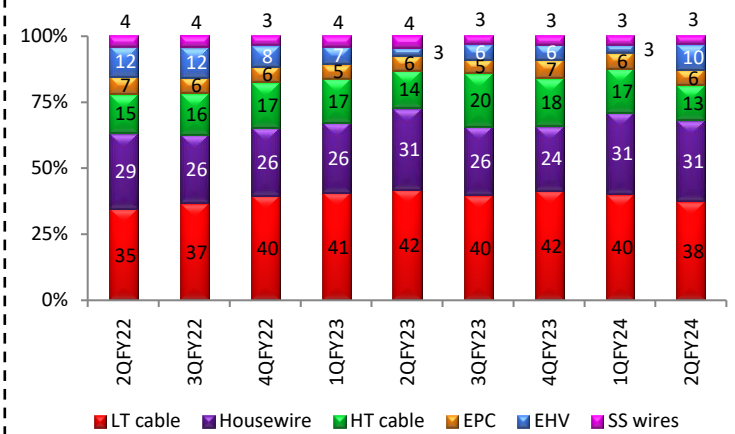


Exhibit 4: Total Income – Growth trend

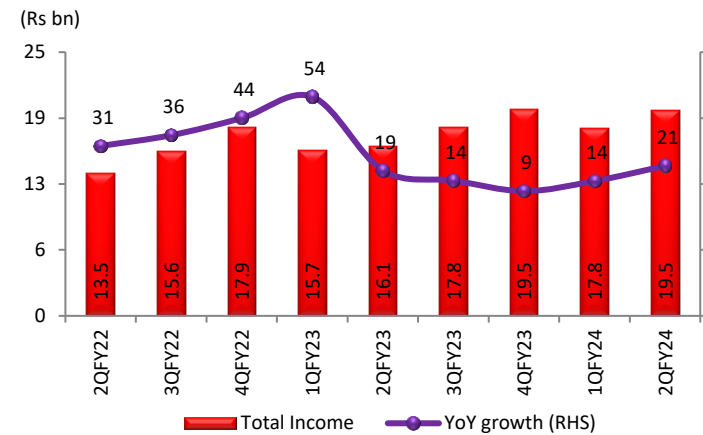


Exhibit 5: Expenses as a percentage of total income

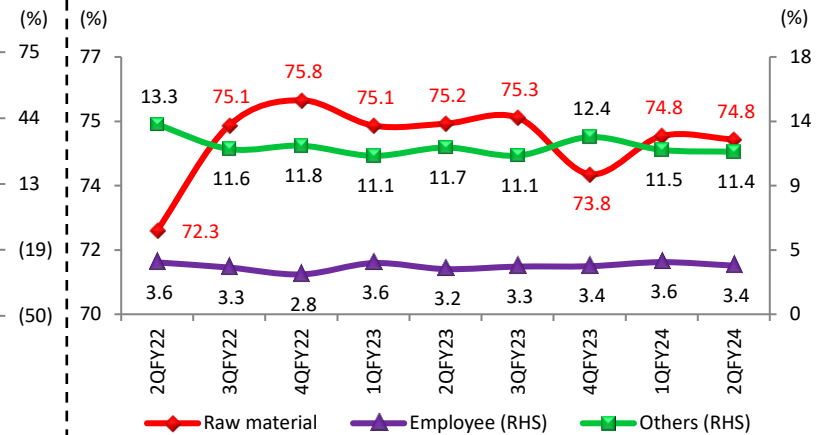


Exhibit 6: EBITDA, PAT & margin trend

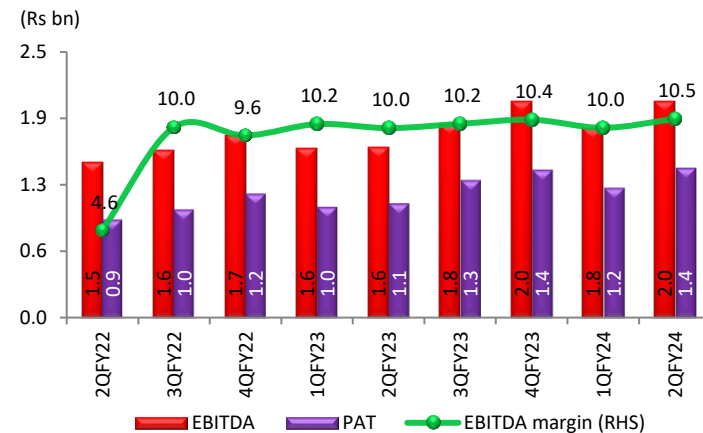
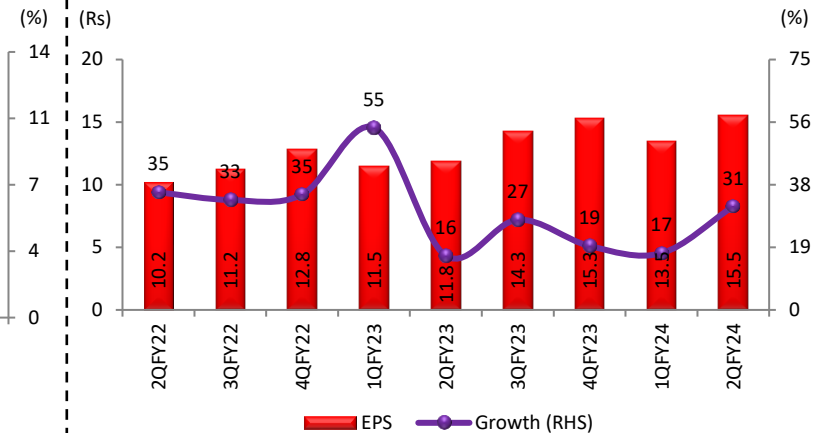


Exhibit 7: Earnings – Growth trend



Source: Company, Systematix Institutional Research

Exhibit 8: W&C –Revenue & EBIT trend (%)

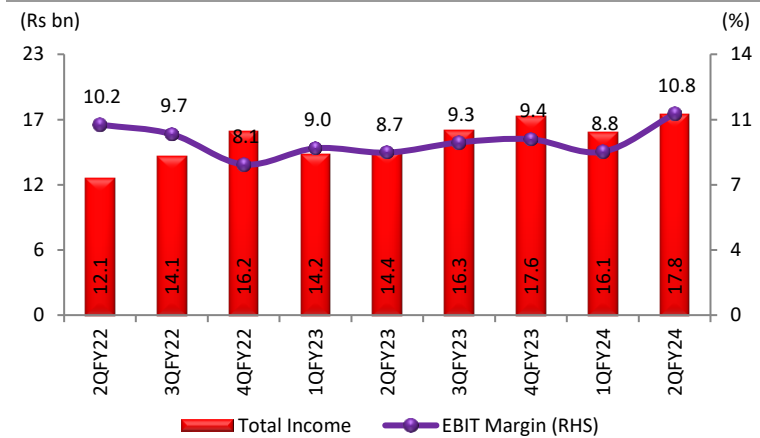


Exhibit 9: EPC (incl. cables) – Revenue & EBIT trend (%)

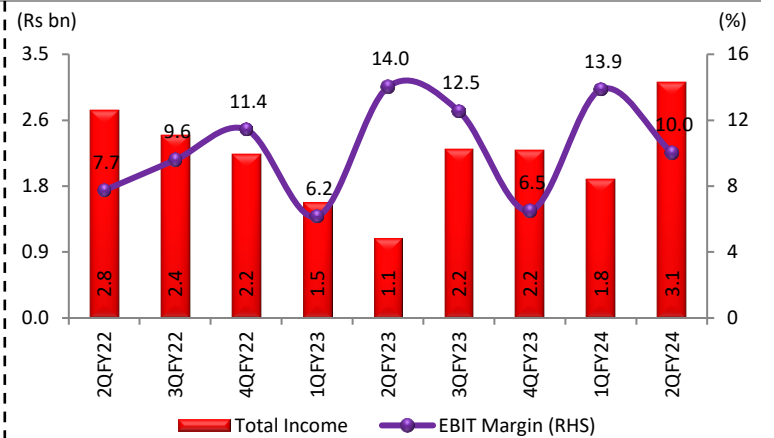


Exhibit 10: Income – Annual growth trend

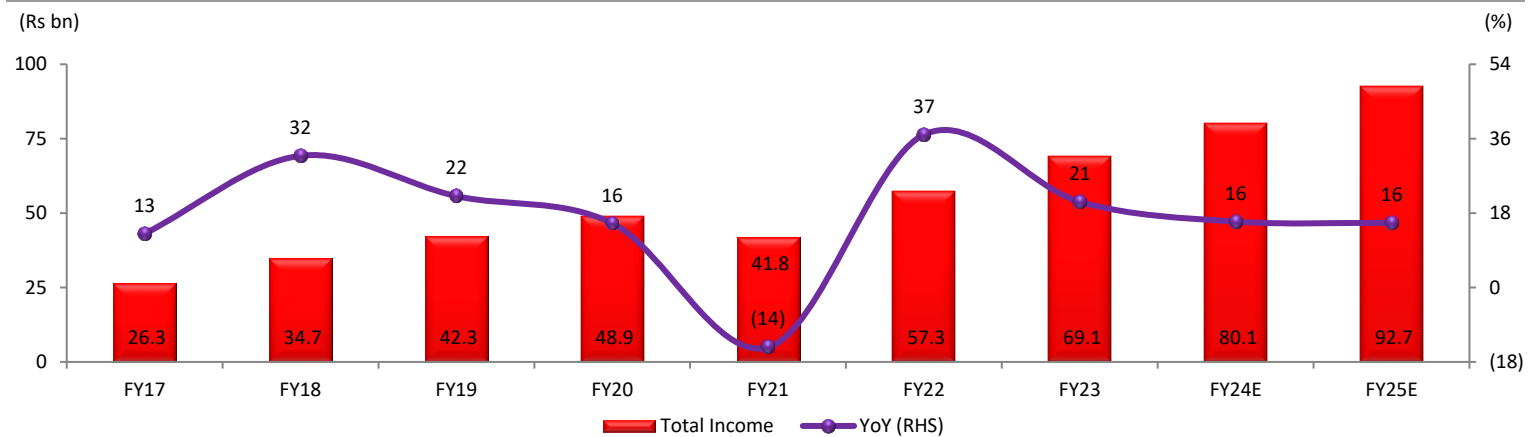
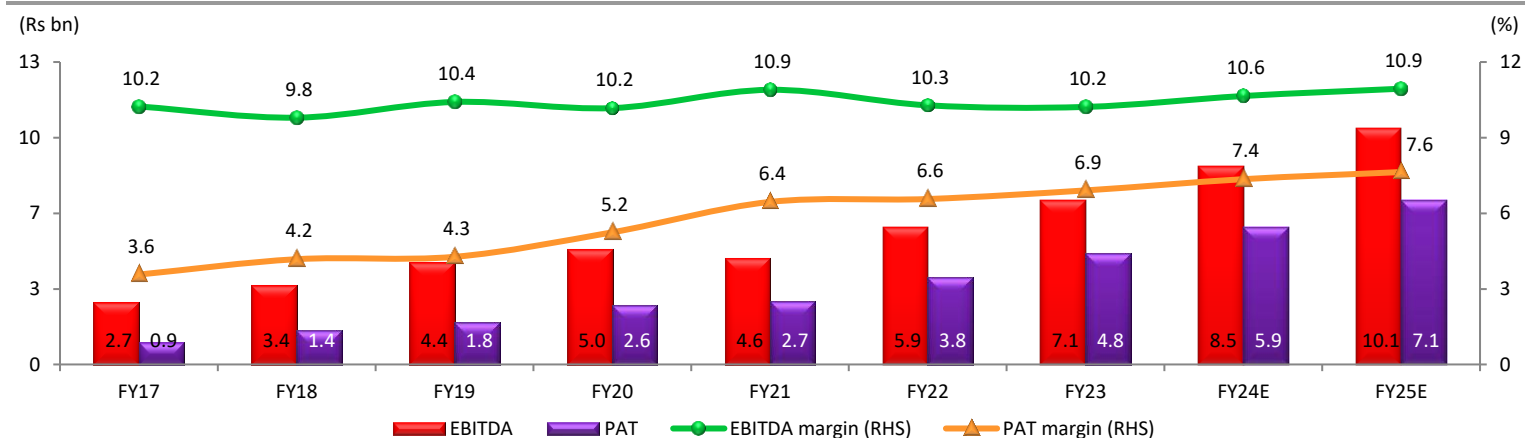


Exhibit 11: EBITDA, PAT – Annual growth and margin trend



Source: Company, Systematix Institutional Research

Commodity prices, currency movement

Exhibit 12: LME Copper price

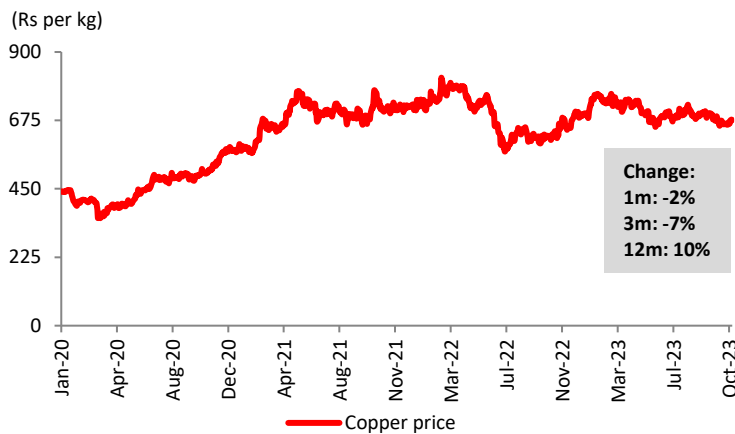


Exhibit 13: LME Copper price - 3-month rolling average

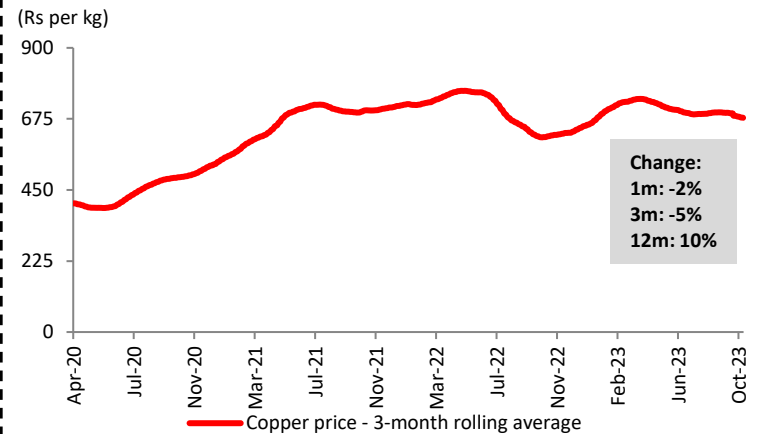


Exhibit 14: LME Aluminium price

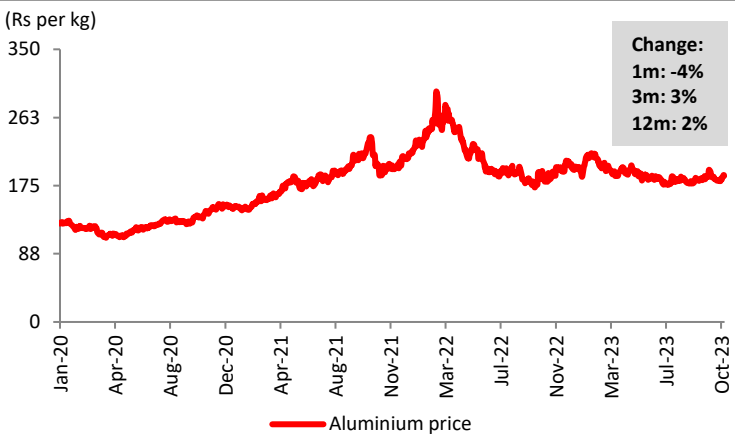


Exhibit 15: LME Aluminium price - 3-month rolling average

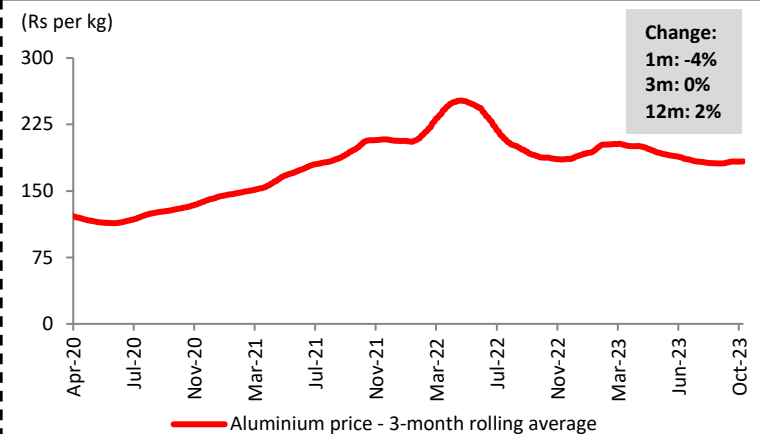


Exhibit 16: Polypropylene (PP) price

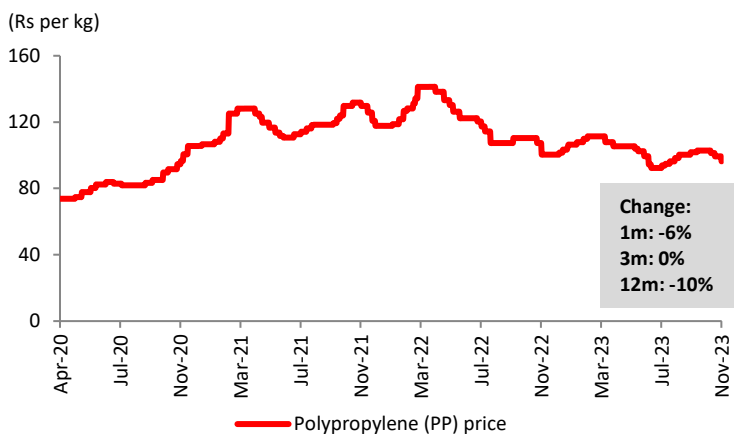
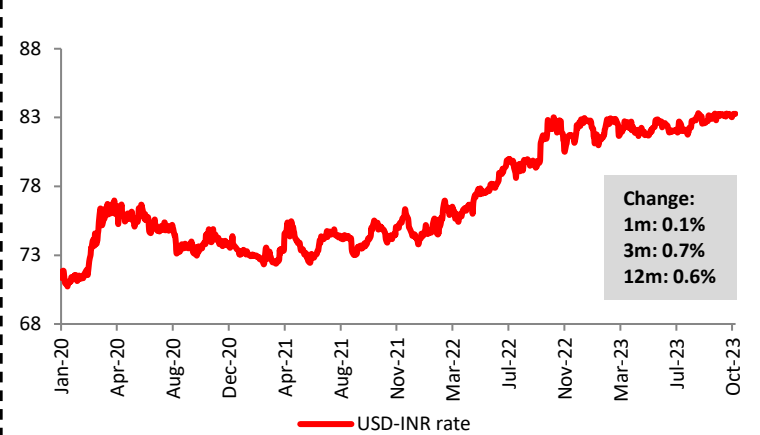


Exhibit 17: USD-INR rate



Source: Bloomberg

Valuation and View

We remain optimistic on KEI's strong earnings growth potential, supported by healthy demand in its cable business across institutional, retail and export verticals. Given the lower proportion of EPC in its overall sales mix, we believe a shorter working capital cycle should help the company in generating healthy FCF.

We maintain our earnings estimates post an inline 2Q result and expect 16%/20%/22% CAGR in revenue/EBITDA/PAT over FY23-25E (FY18-23: 15%/16%/27% CAGR). Healthy RoE (19%) and RoCE (27%) should sustain. Strong OCFs (~Rs 5-6bn annually) will be deployed towards planned capex.

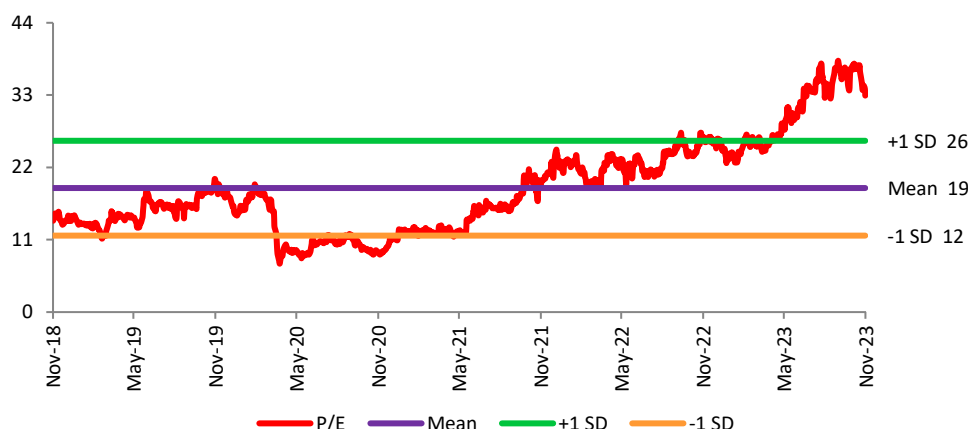
Strong industry-leading growth and cashflows have driven significant re-rating in KEI's scrip over the last five years. We remain sanguine on KEI's promising growth prospects. However, at ~31x FY25E P/E on CMP, we maintain our **HOLD** rating on the stock, with an unchanged target price of Rs 2,745, based on 35x FY25E P/E. While scope for further re-rating hereon is limited, strong performance would continue to evince investor interest and drive upside in the stock, in our view.

Exhibit 18: Change in estimates

(Rs mn)	Old estimates		New estimates		% Variance	
	FY24	FY25	FY24	FY25	FY24	FY25
Total Income	79,412	91,805	80,137	92,656	1	1
EBITDA	8,420	10,101	8,534	10,136	1	0
EBITDA margin (%)	10.6	11.0	10.6	10.9		
PAT	5,804	7,073	5,890	7,073	1	(0)
EPS (Rs)	64.3	78.4	65.3	78.4	1	(0)

Source: Systematix Institutional Research

Exhibit 19: P/E band – 1-year-forward and standard deviation (SD)



Source: BSE, Systematix Institutional Research

Key risks

- **Volatile raw material (RM) prices:** Copper and aluminium are key raw materials in W&C, constituting ~70% of costs. Any substantial volatility in RM prices could cause fluctuations in operating margins, posing a key risk to our estimates.
- **Slowdown in government's infra push:** Government's push on infra has been a key growth driver for W&C since the past few years. Any slowdown in this spending could have a huge impact on KEI's growth.

FINANCIALS (CONSOLIDATED)

Profit & Loss Statement

YE: Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Net revenues	41,815	57,266	69,123	80,137	92,656
<i>Growth (%)</i>	(14)	37	21	16	16
Raw material expenses	29,146	42,142	51,724	59,770	69,024
<i>Gross Margin (%)</i>	30.3	26.4	25.2	25.4	25.5
Employee & Other exp.	8,114	9,237	10,338	11,833	13,496
EBITDA	4,556	5,887	7,062	8,534	10,136
<i>EBITDA margins (%)</i>	10.9	10.3	10.2	10.6	10.9
Depreciation	578	555	571	622	723
Other income	201	146	276	313	362
Finance costs	573	404	347	315	278
PBT	3,605	5,074	6,420	7,909	9,497
<i>Effective tax rate (%)</i>	25.2	25.9	25.6	25.5	25.5
Associates/(Minorities)	-	-	-	-	-
Net Income	2,696	3,759	4,773	5,890	7,073
Adjusted net income	2,696	3,759	4,773	5,890	7,073
Shares outstanding	90	90	90	90	90
FDEPS (Rs)	29.9	41.7	52.9	65.3	78.4
<i>FDEPS growth (%)</i>	5	39	27	23	20

Balance Sheet

YE: Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Share capital	180	180	180	180	180
Net worth	17,740	21,355	25,892	31,421	37,953
Total debt	3,293	3,520	1,572	1,482	1,392
Minority interest	(0)	(0)	(0)	(0)	(0)
DT Liability/ (Asset)	281	294	266	256	246
Capital Employed	21,313	25,170	27,730	33,159	39,591
Net tangible assets	5,353	5,288	5,656	7,534	9,311
Net Intangible assets	18	21	17	17	17
Goodwill	-	-	-	-	-
CWIP	71	165	146	166	186
Investments (Strategic)	-	-	-	-	-
Investments (Financial)	12	20	13	3,013	6,013
Current Assets	22,419	26,176	26,498	29,668	33,105
Cash	2,212	3,600	5,372	4,116	3,858
Current Liabilities	8,772	10,101	9,972	11,354	12,899
Working capital	13,646	16,075	16,527	18,314	20,206
Capital Deployed	21,313	25,170	27,730	33,159	39,591
Contingent Liabilities	2,084	2,867	2,084	-	-

Cash Flow

YE: Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
EBIT (incl. other income)	4,285	5,483	6,693	7,912	9,413
Non-cash items	579	554	571	622	723
OCF before WC changes	4,864	6,038	7,264	8,534	10,136
Incr./(decr.) in WC	2,370	2,505	280	1,787	1,892
Others including taxes	955	1,246	1,844	2,013	2,418
Operating cash-flow	1,539	2,286	5,139	4,734	5,826
Capex	240	584	755	2,520	2,520
Free cash-flow	1,299	1,703	4,384	2,214	3,306
Acquisitions	-	-	-	-	-
Dividend	180	224	271	361	541
Equity raised	79	1	0	-	-
Debt raised	(567)	(191)	(202)	(90)	(90)
Fin Investments	(943)	9	550	3,000	3,000
Misc. Items (CFI + CFF)	567	(110)	2,153	19	(68)
Net cash-flow	1,007	1,389	1,208	(1,255)	(258)

Ratios @ Rs 2,440

YE: Mar	FY21	FY22	FY23	FY24E	FY25E
P/E (x)	81.5	58.5	46.1	37.4	31.1
EV/EBITDA (x)	48.4	37.3	30.6	25.1	20.9
EV/sales (x)	5.3	3.8	3.1	2.7	2.3
P/B (x)	12.4	10.3	8.5	7.0	5.8
RoE (%)	15.2	17.6	18.4	18.7	18.6
RoCE (%)	20.6	23.6	25.6	27.0	26.9
ROIC (%)	14.9	18.5	21.7	24.3	33.6
DPS (Rs per share)	2.0	2.5	3.0	4.0	6.0
Dividend yield (%)	0.1	0.1	0.1	0.2	0.2
Dividend payout (%)	6.7	6.0	5.7	6.1	7.7
Net debt/equity (x)	0.1	(0.0)	(0.1)	(0.2)	(0.2)
Receivables (days)	118	89	73	71	69
Inventory (days)	67	69	58	56	54
Payables (days)	65	49	40	40	40
CFO:PAT (%)	57	61	108	80	82

Source: Company, Systematix Institutional Research

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