

August 2, 2021

Q1FY22 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

| | Current | | Previous | |
|----------------|---------|--------|----------|--------|
| | FY23E | FY24E | FY23E | FY24E |
| Rating | BUY | | BUY | |
| Target Price | 854 | | 825 | |
| Sales (Rs. m) | 61,787 | 70,297 | 60,423 | 68,983 |
| % Chng. | 2.3 | 1.9 | | |
| EBITDA (Rs. m) | 7,021 | 8,057 | 6,745 | 7,838 |
| % Chng. | 4.1 | 2.8 | | |
| EPS (Rs.) | 49.8 | 57.7 | 47.7 | 56.3 |
| % Chng. | 4.3 | 2.5 | | |

Key Financials - Consolidated

| Y/e Mar | FY21 | FY22E | FY23E | FY24E |
|----------------|--------|--------|--------|--------|
| Sales (Rs. m) | 41,815 | 54,055 | 61,787 | 70,297 |
| EBITDA (Rs. m) | 4,605 | 6,120 | 7,021 | 8,057 |
| Margin (%) | 11.0 | 11.3 | 11.4 | 11.5 |
| PAT (Rs. m) | 2,733 | 3,888 | 4,474 | 5,184 |
| EPS (Rs.) | 30.4 | 43.3 | 49.8 | 57.7 |
| Gr. (%) | 6.2 | 42.3 | 15.1 | 15.9 |
| DPS (Rs.) | 2.0 | 3.1 | 3.8 | 4.5 |
| Yield (%) | 0.3 | 0.4 | 0.5 | 0.6 |
| RoE (%) | 16.6 | 19.7 | 18.8 | 18.3 |
| RoCE (%) | 21.8 | 25.4 | 24.7 | 24.1 |
| EV/Sales (x) | 1.6 | 1.3 | 1.1 | 0.9 |
| EV/EBITDA (x) | 14.8 | 11.1 | 9.5 | 8.2 |
| PE (x) | 24.6 | 17.3 | 15.0 | 13.0 |
| P/BV (x) | 3.8 | 3.1 | 2.6 | 2.2 |

Key Data

KEIN.BO | KEI IN

| | |
|---------------------|------------------|
| 52-W High / Low | Rs.764 / Rs.319 |
| Sensex / Nifty | 52,951 / 15,885 |
| Market Cap | Rs.67bn/ \$ 906m |
| Shares Outstanding | 90m |
| 3M Avg. Daily Value | Rs.746.41m |

Shareholding Pattern (%)

| | |
|-------------------------|-------|
| Promoter's | 39.23 |
| Foreign | 18.09 |
| Domestic Institution | 25.91 |
| Public & Others | 16.77 |
| Promoter Pledge (Rs bn) | - |

Stock Performance (%)

| | 1M | 6M | 12M |
|----------|-----|------|-------|
| Absolute | 1.9 | 53.5 | 115.2 |
| Relative | 1.0 | 44.4 | 52.9 |

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Growth momentum to continue; BUY

Quick Pointers:

- Lockdown/restricted movement led to non-dispatch of EHV cable worth Rs75cr
- No Price hikes in July; don't see too much upside on copper from hereon

We increase our FY22 / FY23 / FY24 earnings by 5.1% / 4.3% / 2.5% and reiterate our positive stance on KEI given 1) growing demand for cables and wires arising from Infra, Industrial, Railways, Solar & housing construction activity and 2) sustained momentum in dealer network sales (38% of sales; up 80bps QoQ)

With strong demand outlook (Rs30.2bn order book) and stabilizing copper prices, KEI's management remains confident of growing FY22 sales by minimum 20% (LT CAGR of 17%-18%) while maintaining 11%+ margins. We believe KEI is well placed to capture demand for wires and cables given 1) wide product portfolio catering to various industries 2) amongst very few players having EHV cable capabilities 3) focus on scaling up channel expansion (1,650 dealers) and 4) tapping into rising export opportunities. We estimate Sales/ PAT CAGR of 21.6%/ 27.9% over FY21-23E. We value the stock at 16x Sept23 EPS (33% discount to Polycab) and arrive at target price of Rs854 (earlier Rs825). Maintain BUY. Sharp correction in copper prices remains key risk to our estimates.

Sales grew by 36.5%, PAT up by 71.1%: Revenues grew by 36.5% YoY to Rs10.2bn. Gross margins expanded by 10bps YoY to 27.6%. EBITDA grew by 49.1% YoY to Rs1.1bn while margins expanded by 100bps YoY to 11.2%. 20bps increase in Other expenses was more than offset by 100bps decline in employee cost (as a % of sales) YoY. PAT grew by 71.1% YoY to Rs671mn.

Cables sales up by 36.9% YoY while margins contract by 130bps to 10.7%: Cables Revenues/EBIT grew by 36.9%/ 22.4% YoY to Rs8.8bn/ Rs947mn; margins contracted by 130bps YoY to 10.7%. Stainless Steel Wires Revenues/ EBIT grew by 130.2%/ 51.1% YoY to Rs478mn/ Rs30mn; while margins contracted by 330bps to 6.3%. EPC Revenues/ EBIT declined by 21.8%/ 30% YoY to Rs1.4bn/ Rs125mn; margins contracted by 110bps to 9%. Dealer network sales grew by 108% YoY to Rs3.9bn contributing 38% of overall revenues (up 1300bps/ 80bps YoY/ QoQ)

Concall Takeaways: 1) EHV cables worth Rs75cr could not be dispatched due to lockdowns and restrictions in movements. Will be billed in Q2. 2) Inducted 150 sales people to strengthen dealer network sales. Dealer sales to grow by 25% 3) Remain on track to receive Rs1.5bn EPC retention money in FY22. 4) Maintain guidance of minimum 20% sales growth with 11%+ margins. Long term Sales CAGR of 17-18%. 5) With copper prices stabilizing, no price hikes taken in July. Don't see too much upside on copper prices from hereon 6) Channel financing recourse on company in certain banks down from 100% to 50%. 7) Total order book of Rs30.2bn: EPC Rs11.6bn; EHV: Rs5bn; Domestic Cables: Rs13.1bn; Export Cables: Rs0.5bn 8) Capacity utilization: Cables 66%; Housing Wires 43%; Stainless Steel Wires 100%

Exhibit 1: Q1FY22 Result Overview (Rs mn): Sales grew by 36.5% YoY; PAT grew by 71.1% YoY

| Y/e March | Q1FY22 | Q1FY21 | YoY gr. (%) | Q4FY21 | FY21 | FY20 | YoY gr. (%) |
|--|---------------|--------------|-------------|---------------|---------------|---------------|--------------|
| Net Sales | 10,176 | 7,454 | 36.5 | 12,463 | 41,815 | 48,878 | -14.4 |
| Operating & Manufacturing Expenses | 7,363 | 5,401 | 36.3 | 9,217 | 30,590 | 35,428 | -13.7 |
| <i>% of Net Sales</i> | <i>72.4</i> | <i>72.5</i> | | <i>74.0</i> | <i>73.2</i> | <i>72.5</i> | |
| Gross Profit | 2,812 | 2,052 | 37.0 | 3,246 | 11,225 | 13,450 | -16.5 |
| <i>% of Net Sales</i> | <i>27.6</i> | <i>27.5</i> | | <i>26.0</i> | <i>26.8</i> | <i>27.5</i> | |
| Personnel Cost | 505 | 447 | 13.1 | 437 | 1,849 | 2,276 | -18.7 |
| <i>% of Net Sales</i> | <i>5.0</i> | <i>6.0</i> | | <i>3.5</i> | <i>4.4</i> | <i>4.7</i> | |
| Other Expenses | 1,170 | 843 | 38.8 | 1,393 | 4,771 | 6,203 | -23.1 |
| <i>% of Net Sales</i> | <i>11.5</i> | <i>11.3</i> | | <i>11.2</i> | <i>11.4</i> | <i>12.7</i> | |
| Total Expenditure | 9,039 | 6,691 | 35.1 | 11,047 | 37,210 | 43,907 | -15.3 |
| EBITDA | 1,137 | 763 | 49.1 | 1,416 | 4,605 | 4,971 | -7.4 |
| <i>Margin (%)</i> | <i>11.2</i> | <i>10.2</i> | | <i>11.4</i> | <i>11.0</i> | <i>10.2</i> | |
| Other income | 28 | 86 | -67.7 | 25 | 201 | 167 | 20.5 |
| Depreciation | 139 | 146 | -5.0 | 145 | 578 | 567 | 2.0 |
| EBIT | 1,026 | 703 | 46.0 | 1,296 | 4,227 | 4,570 | -7.5 |
| Interest | 114 | 168 | -32.0 | 125 | 573 | 1,292 | -55.6 |
| PBT before JV/Associates/Minority share | 912 | 535 | 70.4 | 1,171 | 3,654 | 3,279 | 11.5 |
| Total Taxes | 241 | 143 | 68.8 | 278 | 921 | 716 | 28.7 |
| <i>ETR (%)</i> | <i>26.4</i> | <i>26.7</i> | | <i>23.8</i> | <i>25.2</i> | <i>21.8</i> | |
| Share of JV/Associates | - | - | | 1 | 1 | - | |
| Non-controlling Interest | - | - | | - | 1 | - | |
| Adj. PAT | 671 | 392 | 71.1 | 893 | 2,733 | 2,563 | 6.6 |
| Exceptional Item | - | - | | - | - | - | |
| PAT | 671 | 392 | 71.1 | 893 | 2,733 | 2,563 | 6.6 |

Source: Company, PL

Exhibit 2: Segmental Breakup (Rs mn): Cables revenues grew by 36.9% while margins contracted by 130bps YoY

| Y/e March | Q1FY22 | Q1FY21 | YoY gr. (%) | Q4FY21 | FY21 | FY20 | YoY gr. (%) |
|-----------------------------|---------------|--------------|-------------|---------------|---------------|---------------|--------------|
| Revenues | | | | | | | |
| Cables | 8,844 | 6,463 | 36.9 | 10,675 | 35,743 | 39,859 | -10.3 |
| Stainless Steel Wire | 478 | 208 | 130.2 | 462 | 1,417 | 1,375 | 3.0 |
| EPC | 1,379 | 1,763 | -21.8 | 2,597 | 9,767 | 13,967 | -30.1 |
| Less: inter-segment revenue | 525 | 980 | | 1,271 | 5,111 | 6,323 | |
| Total | 10,176 | 7,454 | 36.5 | 12,463 | 41,815 | 48,878 | -14.4 |
| EBIT | | | | | | | |
| Cables | 947 | 774 | 22.4 | 1,041 | 4,164 | 4,414 | -5.7 |
| <i>EBIT margin (%)</i> | <i>10.7</i> | <i>12.0</i> | | <i>9.8</i> | <i>11.6</i> | <i>11.1</i> | |
| Stainless Steel Wire | 30 | 20 | 51.1 | 9 | 65 | 88 | -25.7 |
| <i>EBIT margin (%)</i> | <i>6.3</i> | <i>9.5</i> | | <i>2.0</i> | <i>4.6</i> | <i>6.4</i> | |
| EPC | 125 | 178 | -30.0 | 202 | 907 | 1,637 | -44.6 |
| <i>EBIT margin (%)</i> | <i>9.0</i> | <i>10.1</i> | | <i>7.8</i> | <i>9.3</i> | <i>11.7</i> | |
| Less: inter-segment result | 29 | 121 | -76.4 | 99 | 542 | 271 | 100.1 |
| Total EBIT | 1,073 | 851 | 26.1 | 1,154 | 4,594 | 5,867 | -21.7 |
| <i>EBIT margin (%)</i> | <i>10.5</i> | <i>11.4</i> | | <i>9.3</i> | <i>11.0</i> | <i>12.0</i> | |

Source: Company, PL

Financials

Income Statement (Rs m)

| Y/e Mar | FY21 | FY22E | FY23E | FY24E |
|-------------------------------|---------------|---------------|---------------|---------------|
| Net Revenues | 41,815 | 54,055 | 61,787 | 70,297 |
| YoY gr. (%) | (14.4) | 29.3 | 14.3 | 13.8 |
| Cost of Goods Sold | 30,590 | 39,217 | 44,796 | 50,860 |
| Gross Profit | 11,225 | 14,838 | 16,991 | 19,437 |
| Margin (%) | 26.8 | 27.5 | 27.5 | 27.7 |
| Employee Cost | 1,849 | 2,324 | 2,626 | 2,952 |
| Other Expenses | 3,119 | 4,150 | 4,750 | 5,404 |
| EBITDA | 4,605 | 6,120 | 7,021 | 8,057 |
| YoY gr. (%) | (7.4) | 32.9 | 14.7 | 14.8 |
| Margin (%) | 11.0 | 11.3 | 11.4 | 11.5 |
| Depreciation and Amortization | 578 | 619 | 758 | 869 |
| EBIT | 4,027 | 5,501 | 6,262 | 7,188 |
| Margin (%) | 9.6 | 10.2 | 10.1 | 10.2 |
| Net Interest | 573 | 404 | 390 | 388 |
| Other Income | 201 | 187 | 208 | 245 |
| Profit Before Tax | 3,654 | 5,284 | 6,080 | 7,045 |
| Margin (%) | 8.7 | 9.8 | 9.8 | 10.0 |
| Total Tax | 921 | 1,395 | 1,605 | 1,860 |
| Effective tax rate (%) | 25.2 | 26.4 | 26.4 | 26.4 |
| Profit after tax | 2,733 | 3,889 | 4,475 | 5,185 |
| Minority interest | 1 | 1 | 1 | 1 |
| Share Profit from Associate | 1 | - | - | - |
| Adjusted PAT | 2,733 | 3,888 | 4,474 | 5,184 |
| YoY gr. (%) | 6.6 | 42.3 | 15.1 | 15.9 |
| Margin (%) | 6.5 | 7.2 | 7.2 | 7.4 |
| Extra Ord. Income / (Exp) | - | - | - | - |
| Reported PAT | 2,733 | 3,888 | 4,474 | 5,184 |
| YoY gr. (%) | 6.6 | 42.3 | 15.1 | 15.9 |
| Margin (%) | 6.5 | 7.2 | 7.2 | 7.4 |
| Other Comprehensive Income | - | - | - | - |
| Total Comprehensive Income | 2,733 | 3,888 | 4,474 | 5,184 |
| Equity Shares O/s (m) | 90 | 90 | 90 | 90 |
| EPS (Rs) | 30.4 | 43.3 | 49.8 | 57.7 |

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

| Y/e Mar | FY21 | FY22E | FY23E | FY24E |
|---------------------------------------|---------------|---------------|---------------|---------------|
| Non-Current Assets | | | | |
| Gross Block | 9,063 | 10,994 | 12,720 | 14,468 |
| Tangibles | 8,971 | 10,892 | 12,608 | 14,336 |
| Intangibles | 92 | 102 | 112 | 132 |
| Acc: Dep / Amortization | 3,692 | 4,311 | 5,070 | 5,939 |
| Tangibles | 3,618 | 4,225 | 4,970 | 5,824 |
| Intangibles | 74 | 87 | 100 | 115 |
| Net fixed assets | 5,371 | 6,683 | 7,650 | 8,529 |
| Tangibles | 5,353 | 6,667 | 7,638 | 8,512 |
| Intangibles | 18 | 16 | 12 | 17 |
| Capital Work In Progress | 71 | 100 | 100 | 100 |
| Goodwill | - | - | - | - |
| Non-Current Investments | 212 | 247 | 265 | 283 |
| Net Deferred tax assets | (295) | (329) | (368) | (414) |
| Other Non-Current Assets | 29 | 37 | 37 | 38 |
| Current Assets | | | | |
| Investments | - | - | - | - |
| Inventories | 7,682 | 9,626 | 11,003 | 12,519 |
| Trade receivables | 13,496 | 14,809 | 16,082 | 18,296 |
| Cash & Bank Balance | 2,212 | 1,699 | 2,992 | 3,874 |
| Other Current Assets | 783 | 1,081 | 1,236 | 1,406 |
| Total Assets | 30,140 | 34,596 | 39,682 | 45,363 |
| Equity | | | | |
| Equity Share Capital | 180 | 180 | 180 | 180 |
| Other Equity | 17,601 | 21,489 | 25,684 | 30,531 |
| Total Network | 17,781 | 21,669 | 25,864 | 30,711 |
| Non-Current Liabilities | | | | |
| Long Term borrowings | 314 | 208 | 107 | 55 |
| Provisions | 329 | 270 | 293 | 316 |
| Other non current liabilities | - | - | - | - |
| Current Liabilities | | | | |
| ST Debt / Current of LT Debt | 2,536 | 2,204 | 2,368 | 2,466 |
| Trade payables | 7,415 | 8,166 | 8,714 | 9,197 |
| Other current liabilities | 1,471 | 1,784 | 2,039 | 2,320 |
| Total Equity & Liabilities | 30,140 | 34,596 | 39,682 | 45,363 |

Source: Company Data, PL Research

Cash Flow (Rs m)

| Y/e Mar | FY21 | FY22E | FY23E | FY24E |
|---------------------------------------|----------------|----------------|----------------|----------------|
| PBT | 3,655 | 5,284 | 6,080 | 7,045 |
| Add. Depreciation | 578 | 619 | 758 | 869 |
| Add. Interest | 573 | 404 | 390 | 388 |
| Less Financial Other Income | 201 | 187 | 208 | 245 |
| Add. Other | 56 | (178) | (187) | (220) |
| Op. profit before WC changes | 4,863 | 6,129 | 7,042 | 8,083 |
| Net Changes-WC | (2,420) | (2,554) | (2,048) | (3,189) |
| Direct tax | (903) | (1,395) | (1,605) | (1,860) |
| Net cash from Op. activities | 1,539 | 2,180 | 3,389 | 3,034 |
| Capital expenditures | (231) | (1,959) | (1,726) | (1,748) |
| Interest / Dividend Income | 42 | 187 | 208 | 245 |
| Others | 943 | (500) | (1,000) | - |
| Net Cash from Invt. activities | 754 | (2,273) | (2,518) | (1,503) |
| Issue of share cap. / premium | 79 | - | - | - |
| Debt changes | (714) | (517) | 91 | 75 |
| Dividend paid | (180) | - | (279) | (337) |
| Interest paid | (573) | (404) | (390) | (388) |
| Others | 102 | - | - | - |
| Net cash from Fin. activities | (1,286) | (921) | (578) | (650) |
| Net change in cash | 1,007 | (1,013) | 293 | 882 |
| Free Cash Flow | 1,308 | 221 | 1,663 | 1,287 |

Source: Company Data, PL Research

Key Financial Metrics

| Y/e Mar | FY21 | FY22E | FY23E | FY24E |
|----------------------------|-------|-------|-------|-------|
| Per Share(Rs) | | | | |
| EPS | 30.4 | 43.3 | 49.8 | 57.7 |
| CEPS | 36.9 | 50.2 | 58.2 | 67.4 |
| BVPS | 197.9 | 241.2 | 287.8 | 341.8 |
| FCF | 14.6 | 2.5 | 18.5 | 14.3 |
| DPS | 2.0 | 3.1 | 3.8 | 4.5 |
| Return Ratio(%) | | | | |
| RoCE | 21.8 | 25.4 | 24.7 | 24.1 |
| ROIC | 17.5 | 19.6 | 19.9 | 19.7 |
| RoE | 16.6 | 19.7 | 18.8 | 18.3 |
| Balance Sheet | | | | |
| Net Debt : Equity (x) | 0.0 | 0.0 | 0.0 | 0.0 |
| Net Working Capital (Days) | 120 | 110 | 109 | 112 |
| Valuation(x) | | | | |
| PER | 24.6 | 17.3 | 15.0 | 13.0 |
| P/B | 3.8 | 3.1 | 2.6 | 2.2 |
| P/CEPS | 20.3 | 14.9 | 12.9 | 11.1 |
| EV/EBITDA | 14.8 | 11.1 | 9.5 | 8.2 |
| EV/Sales | 1.6 | 1.3 | 1.1 | 0.9 |
| Dividend Yield (%) | 0.3 | 0.4 | 0.5 | 0.6 |

Source: Company Data, PL Research

Quarterly Financials (Rs m)

| Y/e Mar | Q2FY21 | Q3FY21 | Q4FY21 | Q1FY22 |
|-----------------------------------|---------------|---------------|---------------|---------------|
| Net Revenue | 10,369 | 11,529 | 12,463 | 10,176 |
| YoY gr. (%) | (15.9) | (12.3) | (1.0) | 36.5 |
| Raw Material Expenses | 7,409 | 8,523 | 9,217 | 7,363 |
| Gross Profit | 2,960 | 3,006 | 3,246 | 2,812 |
| Margin (%) | 28.5 | 26.1 | 26.0 | 27.6 |
| EBITDA | 1,183 | 1,283 | 1,416 | 1,137 |
| YoY gr. (%) | (3.1) | (7.9) | 16.2 | 57.4 |
| Margin (%) | 11.4 | 11.1 | 11.4 | 11.2 |
| Depreciation / Depletion | 142 | 145 | 145 | 139 |
| EBIT | 1,041 | 1,138 | 1,271 | 999 |
| Margin (%) | 10.0 | 9.9 | 10.2 | 9.8 |
| Net Interest | 150 | 130 | 125 | 114 |
| Other Income | 36 | 53 | 25 | 28 |
| Profit before Tax | 928 | 1,061 | 1,171 | 912 |
| Margin (%) | 8.9 | 9.2 | 9.4 | 9.0 |
| Total Tax | 246 | 264 | 278 | 241 |
| Effective tax rate (%) | 26.5 | 24.9 | 23.8 | 26.4 |
| Profit after Tax | 682 | 797 | 892 | 671 |
| Minority interest | 1 | - | - | - |
| Share Profit from Associates | - | - | 1 | - |
| Adjusted PAT | 681 | 797 | 893 | 671 |
| YoY gr. (%) | (10.5) | 9.9 | 44.0 | 85.2 |
| Margin (%) | 6.6 | 6.9 | 7.2 | 6.6 |
| Extra Ord. Income / (Exp) | - | - | - | - |
| Reported PAT | 681 | 797 | 893 | 671 |
| YoY gr. (%) | (10.5) | 9.9 | 44.0 | 85.2 |
| Margin (%) | 6.6 | 6.9 | 7.2 | 6.6 |
| Other Comprehensive Income | - | - | - | - |
| Total Comprehensive Income | 681 | 797 | 893 | 671 |
| Avg. Shares O/s (m) | 90 | 90 | 90 | 90 |
| EPS (Rs) | 7.6 | 8.9 | 9.9 | 7.5 |

Source: Company Data, PL Research

Price Chart
Recommendation History


| No. | Date | Rating | TP (Rs.) | Share Price (Rs.) |
|-----|-----------|--------|----------|-------------------|
| 1 | 6-Jul-21 | BUY | 825 | 721 |
| 2 | 23-Jun-21 | BUY | 825 | 673 |

Analyst Coverage Universe

| Sr. No. | Company Name | Rating | TP (Rs) | Share Price (Rs) |
|---------|---------------------|--------|---------|------------------|
| 1 | InterGlobe Aviation | Hold | 1,630 | 1,705 |
| 2 | KEI Industries | BUY | 825 | 721 |
| 3 | Polycab India | Hold | 1,977 | 1,912 |
| 4 | SpiceJet | Hold | 85 | 79 |

PL's Recommendation Nomenclature (Absolute Performance)

| | |
|--------------------------|-----------------------------------|
| Buy | : > 15% |
| Accumulate | : 5% to 15% |
| Hold | : +5% to -5% |
| Reduce | : -5% to -15% |
| Sell | : < -15% |
| Not Rated (NR) | : No specific call on the stock |
| Under Review (UR) | : Rating likely to change shortly |

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