KEI Industries

03 May 2024

Robust outlook intact; a 20%+ earnings CAGR to drive re-rating

RESULT UPDATE

Sector: Consumer Electricals	Rating: HOLD
CMP: Rs 3,900	Target Price: Rs 4,444

Stock Info

Sensex/Nifty	74,611/22,648
Bloomberg	KEII IN
Equity shares (mn)	90.2
52-wk High/Low	4,021/1,839
Face value	Rs 2
M-Cap	Rs 351bn/USD 4.2bn
3-m Avg turnover	USD 10.4mn

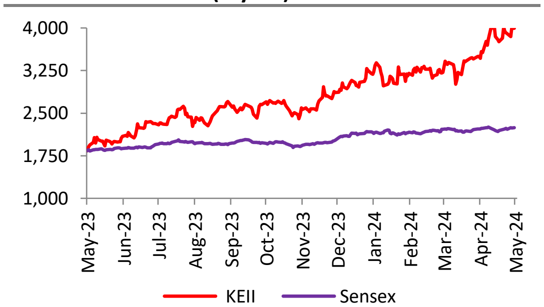
Financial Snapshot (Rs mn)

Y/E Mar	FY24	FY25E	FY26E
Net sales	81,078	94,404	1,10,602
EBITDA	8,412	10,173	12,361
OPM (%)	10.4	10.8	11.2
PAT (adj.)	5,812	7,187	8,906
EPS (adj.) (Rs)	64.4	79.7	98.8
PE (x)	61.8	49.9	40.3
P/B (x)	11.4	9.4	7.8
EV/EBITDA (x)	42.1	34.5	28.0
RoE (%)	18.5	18.8	19.2
RoCE (%)	27.0	27.2	27.9
Net-D/E (x)	(0.2)	(0.2)	(0.3)

Shareholding Pattern (%)

	Mar'24	Dec'23	Sep'23
Promoter	37.1	37.1	37.1
- Pledged			
FII	31.0	31.0	29.6
DII	16.3	16.1	17.7
Others	15.6	15.9	15.7

Stock Performance (1-year)



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KEI's (KEII) strong and inline 4Q (volume/revenue/EBITDA/PAT up 24%/19%/21% /22% YoY) was led by strong revenue in EHV cables (up 107% YoY at Rs 2.3bn; FY24: Rs 6.6bn, up 80% YoY) and house wires (up 31% YoY). Management retained its robust guidance of 15%+/20%+ revenue/PAT CAGR over 5 years, driven by India and exports. After surging 51% in FY24, exports is expected to grow 50%+ in FY25. Key drivers are large infra capex world over, buyer's China+1 strategy and KEII having major certifications in place to sell products in Europe and US markets. Growth in EHV cables revenue (FY24: Rs 6.6bn) is expected only after new capacity gets operational in FY27. Retail sales is expected to grow at 20%+ CAGR on addition of distributors in new markets and will aid its EBITDA margin (12% by FY27 from ~10.5% currently). Cables is expected to grow faster than wires, per KEII. To support future growth, KEII plans to invest ~Rs 20bn over FY23-26 to build capacities across product lines. Post 4Q, we raise FY26E earnings by 4%, expecting better growth and expect 17%/21%/24% CAGR in revenue/EBITDA/PAT over FY24-26E (FY19-24: 14%/14%/26%). We remain sanguine about KEII's promising growth prospects and maintain HOLD rating with a higher Rs 4,444 TP (45x FY26E P/E vs. earlier Rs 3,804 at 40x). A 20%+ earnings CAGR and healthy RoE (~20%), RoCE (~28%) and RoIC (~37%) in FY26E should sustain its premium valuation. Strong OCFs (~Rs 6bn annually) will be deployed towards planned capex. *(concall KTAs)*

All round performance continued in 4Q: Revenue/EBITDA/PAT grew 19%/21%/22% YoY and were inline with our estimates. Gross margin (25%) and EBITDA margin (10.5%) were broadly stable QoQ. Revenue growth was led by retail sales (up 28% YoY, 45.2% mix), domestic cables (up 13% YoY) and exports (up 12% YoY). EHV cables revenue surged 107% YoY at Rs 2.3bn (FY24: Rs 6.6bn). Housewires revenue increased 31% YoY at Rs 6.3bn. Total active working dealer increased to 1,990. Pending order book of Rs 35.31bn (EHV: 3.7bn) provides a healthy revenue visibility. A ~Rs 3bn rise in acceptances to ~Rs 5bn led to net cash falling to Rs 600mn in FY24.

Robust guidance of 15%+/20%+ revenue/PAT CAGR over 5 years intact: KEII clocked 24%/22% YoY volume growth in 4Q/FY24 and expect momentum to sustain on robust industry outlook in India and abroad. Exports revenue is expected to grow 50%+ in FY25, after surging 51% in FY24. Key drivers are large infra capex world over, buyer's China+1 strategy and KEII having major certifications in place to sell products in Europe and US markets. EHV cables is seeing strong demand from both domestic and export markets; revenue (FY24: Rs 6.6bn) growth for KEII is expected only after new capacity gets operational in FY27. Retail sales is expected to grow at 20%+ CAGR on addition of distributors in new markets and will aid its EBITDA margin inching towards 12% by FY27 from currently ~10.5%. Cables is expected to grow faster than wires, driven by govt's push for overall infra development.

Large capex to support strong future growth: KEII plans to invest ~Rs 20bn over FY23-26 (FY24: ~Rs 4bn) in building capacities across product lines. Strong cash flows will support such large capex. Cables capacities (incl EHV) are near optimal utilisation; company is adding capacities at various locations to sustain growth momentum. Pathredi greenfield cable plant will have Rs 9bn revenue potential (likely operational by Jun'25). Chinchwada brownfield capex of Rs1.1bn for house wires (~Rs 9bn revenue potential) is expected to be fully operational in phases by Mar'25. Gujarat greenfield plant ph-1 is expected to be operational in 1QFY26.

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

Concall key highlights (4QFY24)

15%+/20%+ revenue/PAT CAGR guidance intact

- Volume grew 24%/22% YoY in 4Q/FY24
- Demand outlook remains strong in India and export market
- Exports is expected to grow at 50%+ in FY25, after surging 51% in FY24
- Retail sales is expected to grow at 20%+ CAGR on addition of distributors in new markets
- EBITDA margin is expected to expand gradually to 12% level in 3-4 years from ~10.5% currently

Aims Rs 20bn+ capex over FY23-27

- FY24: ~Rs 4bn; FY25E: Rs 9bn; FY26E: Rs 5bn
- Pathredi greenfield cable plant will have Rs 9bn revenue potential (likely operational by Jun'25)
- Chinchwada brownfield capex of Rs1.1bn for house wires (Rs 8-9bn revenue potential) to be fully operational in phases by Mar'25
- Gujarat greenfield plant ph-1 is expected to be operational in 1QFY26
- Added EV charging cables

EHV

- Annual revenue would be at ~Rs 6bn until new capacity gets operational in FY27
- Strong demand in both domestic and international markets

Exports – aims 50% revenue growth in FY25, after surging 51% in FY24

- Demand from infra projects very strong world over
- Buyer's China+1 strategy is helping KEII to get additional orders
- All major certifications in place to sell products in Europe and US markets
- Australia, Africa, Middle East – major market currently

Robust outlook of C&W industry

- India's cable capacity is not even 10% of China's capacity, so provide long runway for growth
- India C&W industry currently stands at ~Rs 750bn and is expected to grow at 12-15% CAGR
- Cables growth is expected to be faster than wires, driven by govt's push for overall infra development

4QFY24 - strong and inline results

- Revenue/EBITDA/PAT up 19%/21%/22% YoY – inline with our estimates
- CU: EHV 90%+, Cables 92%, wires 75%
- Gross margin 25%, EBITDA margin 10.5% - broadly stable QoQ
- **Revenue drivers:** retail sales up 28% YoY (45.2% mix), domestic cables up 13% YoY, exports up 12% YoY
- EHV cables revenue surged 107% YoY at Rs 2.3bn (FY24: Rs 6.6bn)
- Housewires revenue increased 31% YoY at Rs 6.3bn
- Total active working dealer increased to 1,990
- Pending order book Rs 35.31bn (EHV: 3.7bn)
- Acceptances increased by ~Rs 3bn in FY24 to ~Rs 5bn
- Thus, Net cash incl. acceptance and channel financing fell to Rs 600mn in FY24 vs. Rs 1.83bn in FY23

Exhibit 1: KEI Industries – Quarterly results (Consolidated)

(Rs mn)	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	YoY %	QoQ %	FY24	FY23	YoY %
Total Income	**19,529**	**17,826**	**19,466**	**20,594**	**23,193**	**19**	**13**	**81,078**	**69,107**	**17**
Raw material costs	14,427	13,342	14,552	15,494	17,385	21	12	60,774	51,724	17
Employee costs	657	650	662	664	695	6	5	2,671	2,320	15
Other expenses	2,424	2,051	2,213	2,290	2,666	10	16	9,220	8,018	15
EBITDA	**2,022**	**1,783**	**2,039**	**2,146**	**2,446**	**21**	**14**	**8,412**	**7,046**	**19**
Depreciation	143	147	156	154	158	10	3	614	571	7
Finance costs	101	89	75	109	165	64	51	439	347	27
Other income	67	83	77	142	152	128	7	453	292	55
PBT	**1,845**	**1,630**	**1,884**	**2,024**	**2,272**	**23**	**12**	**7,811**	**6,420**	**22**
Tax	464	416	482	518	587	27	13	2,002	1,647	22
PAT	**1,381**	**1,214**	**1,402**	**1,507**	**1,686**	**22**	**12**	**5,808**	**4,773**	**22**
EPS (Rs)	15.3	13.5	15.5	16.7	18.7	22	12	64.4	52.9	22
As % Total Income						**YoY (bps)**	**QoQ (bps)**			**YoY (bps)**
Gross margin	**26.1**	**25.2**	**25.2**	**24.8**	**25.0**	**(109)**	**28**	**25.0**	**25.2**	**(11)**
Employee costs	3.4	3.6	3.4	3.2	3.0	(37)	(23)	3.3	3.4	(6)
Other expenses	12.4	11.5	11.4	11.1	11.5	(91)	38	11.4	11.6	(23)
EBITDA margin	**10.4**	**10.0**	**10.5**	**10.4**	**10.5**	**19**	**13**	**10.4**	**10.2**	**18**
Depreciation	0.7	0.8	0.8	0.7	0.7	(5)	(7)	0.8	0.8	(7)
Finance costs	0.5	0.5	0.4	0.5	0.7	20	18	0.5	0.5	4
Other income	0.3	0.5	0.4	0.7	0.7	31	(3)	0.6	0.4	14
PBT	**9.4**	**9.1**	**9.7**	**9.8**	**9.8**	**36**	**(2)**	**9.6**	**9.3**	**35**
Effective tax rate	25.1	25.5	25.6	25.6	25.8	68	24	25.6	25.6	(1)
PAT	**7.1**	**6.8**	**7.2**	**7.3**	**7.3**	**20**	**(5)**	**7.2**	**6.9**	**26**
Revenue mix (Rs mn)						**YoY %**	**QoQ %**			**YoY %**
Insti cables - domestic	7,910	5,420	6,800	7,400	8,960	13	21	28,580	26,470	8
Insti cables - exports	1,240	2,380	1,830	1,960	1,390	12	(29)	7,560	5,020	51
Retail sales	**8,220**	**8,420**	**9,230**	**9,490**	**10,560**	**28**	**11**	**37,700**	**30,980**	**22**
Revenue mix (%)	***42.0***	***47.2***	***47.4***	***46.0***	***45.2***			***46.4***	***44.8***	
LT cable	8,140	7,210	7,360	7,640	8,410	3	10	30,430	28,400	7
HT cable	3,570	2,980	2,600	3,640	3,950	11	9	13,350	12,080	11
EHV	1,110	510	1,910	1,860	2,300	107	24	6,590	3,660	80
Housewire/WW	4,780	5,520	5,990	5,710	6,250	31	9	23,470	18,550	27
Stainless steel	630	580	580	460	560	(11)	22	2,180	2,480	(12)
EPC	1,350	1,110	1,130	1,460	1,920	42	32	5,620	4,050	39
Segment EBIT (%)						**YoY (bps)**	**QoQ (bps)**			**YoY (bps)**
Wires & Cables	9.5	8.8	10.8	10.6	10.9	146	31	10.3	9.1	121
Stainless Steel	9.2	5.3	6.1	7.8	2.3	(693)	(553)	5.3	7.5	(221)
EPC	6.5	13.9	10.0	11.6	12.4	588	76	11.8	9.5	230
Un-allocable expenses	*0.3*	*0.5*	*0.4*	*0.7*	*0.7*	*31*	*(3)*	*0.7*	*(0.1)*	*78*

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 – 4QFY24

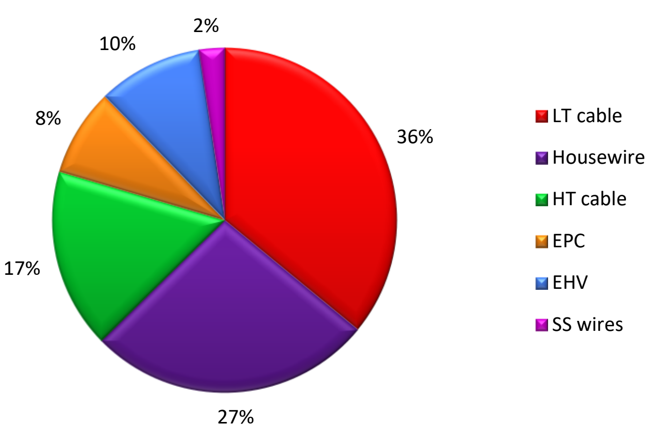


Exhibit 3: Revenue mix – trend

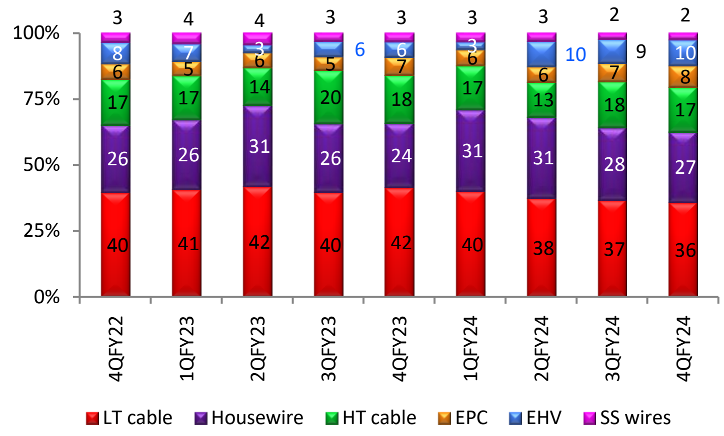


Exhibit 4: Revenue – Growth trend

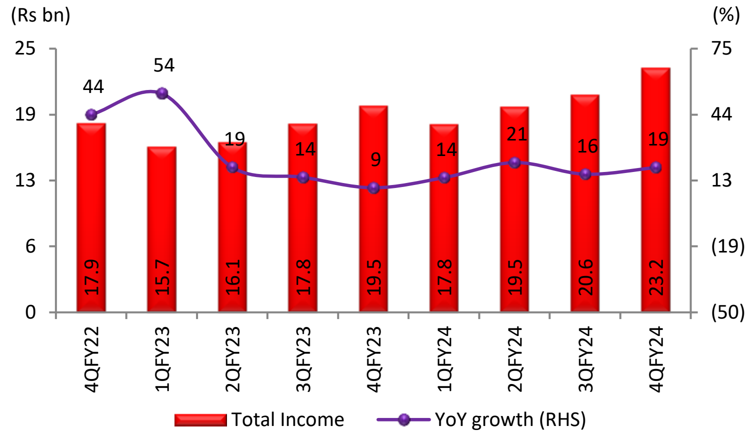


Exhibit 5: Expenses as a percentage of total income

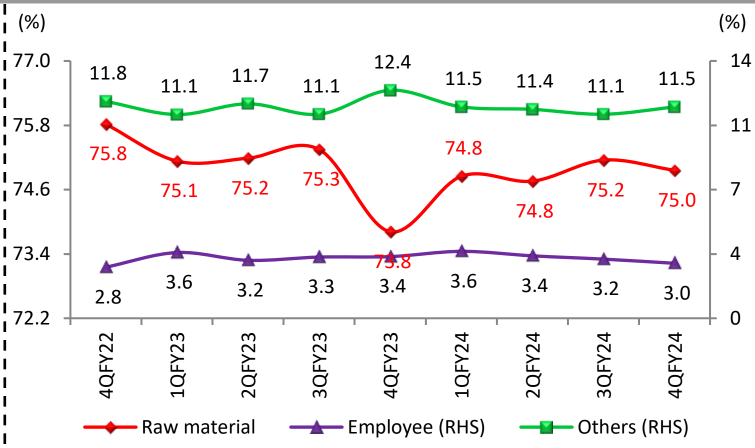


Exhibit 6: EBITDA, PAT & margin trend

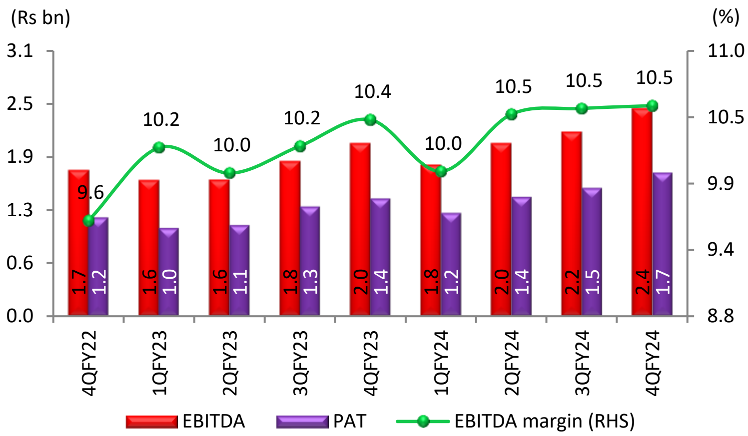
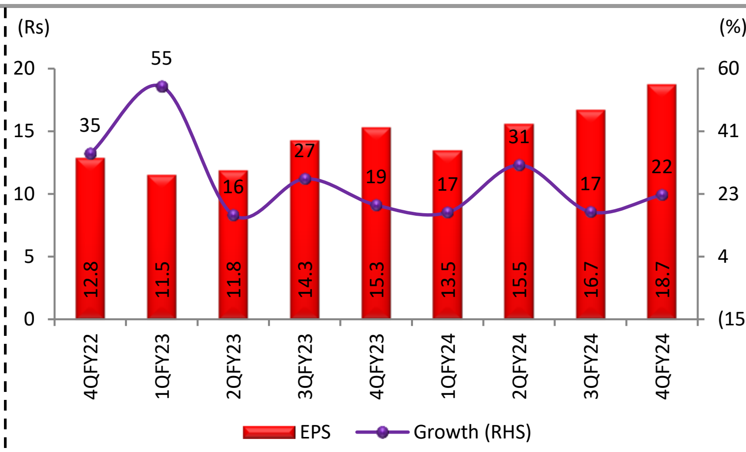


Exhibit 7: Earnings – Growth trend



Source: Company, Systematix Institutional Research

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

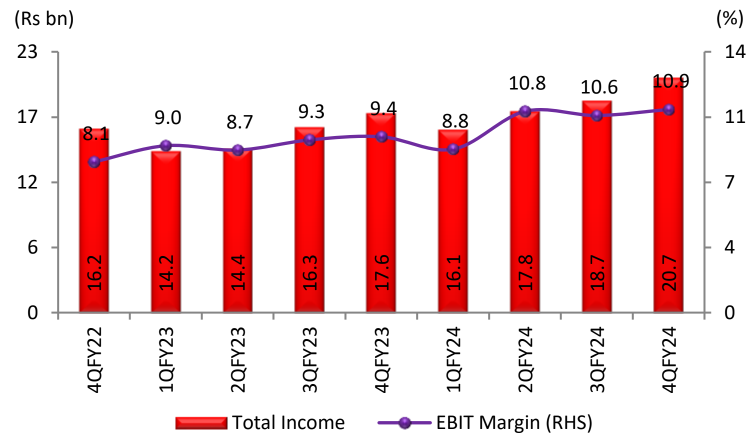


Exhibit 9: EPC (incl. cables) – Revenue & EBIT trend (%)

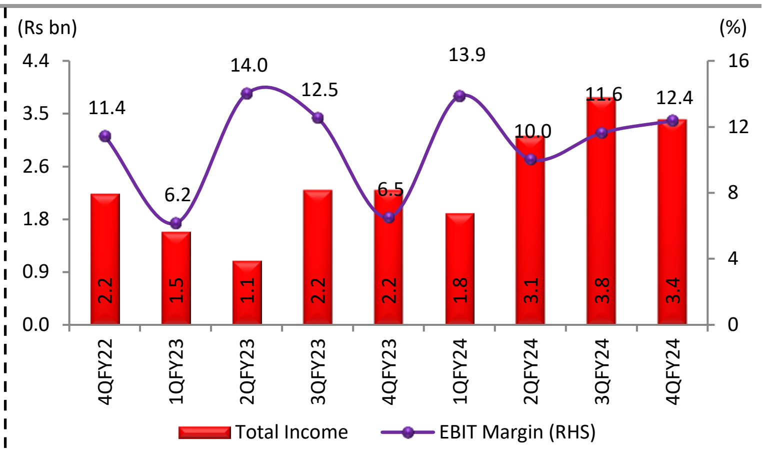


Exhibit 10: Revenue – Annual growth trend

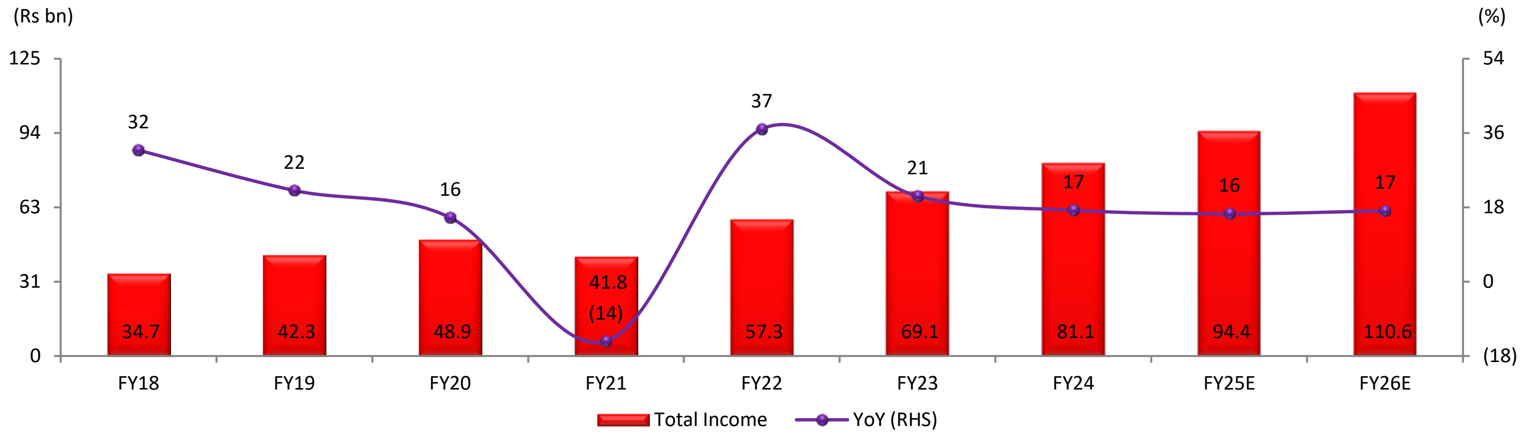
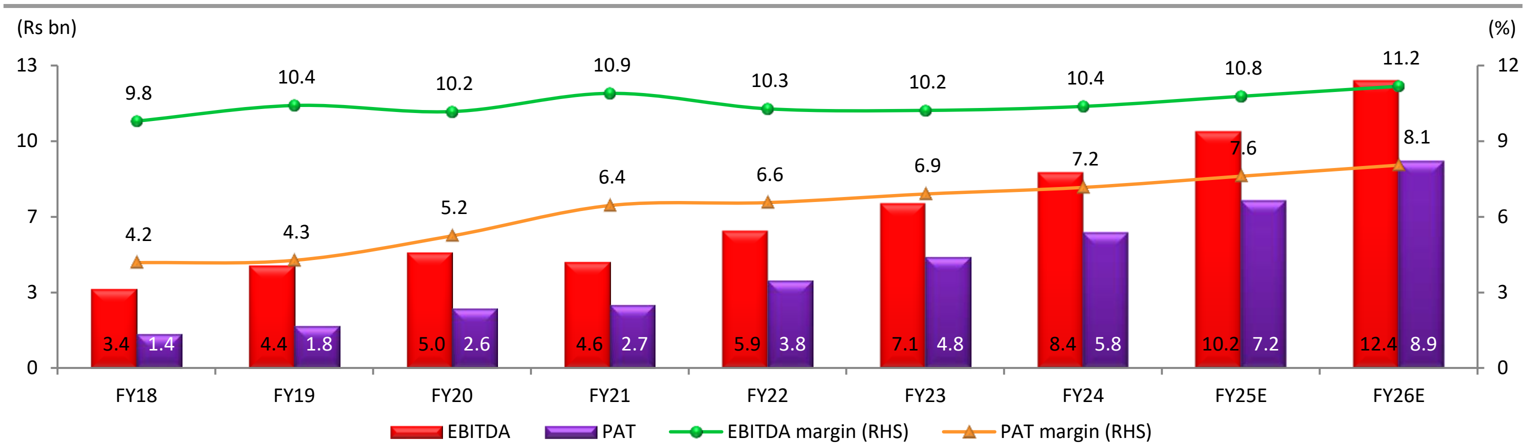


Exhibit 11: EBITDA, PAT – Annual growth and margin trend



Source: Company, Systematix Institutional Research

Commodity prices, currency movement

Exhibit 12: LME Copper price

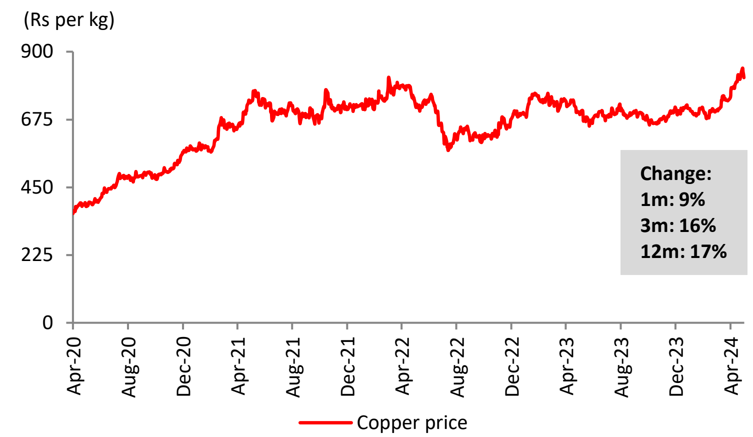


Exhibit 13: LME Copper price - 3-month rolling average

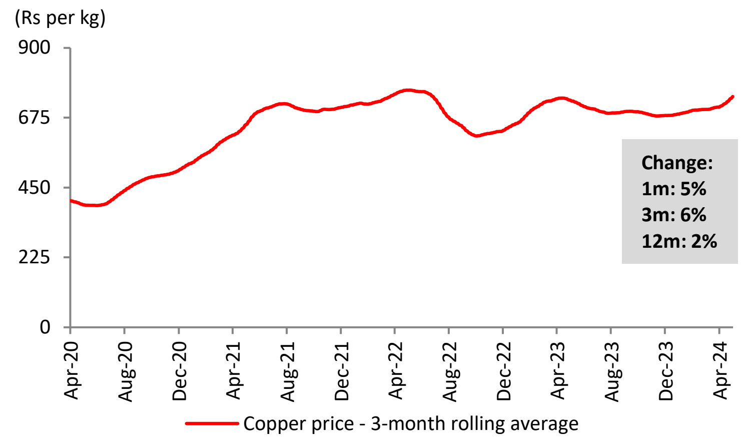


Exhibit 14: LME Aluminium price

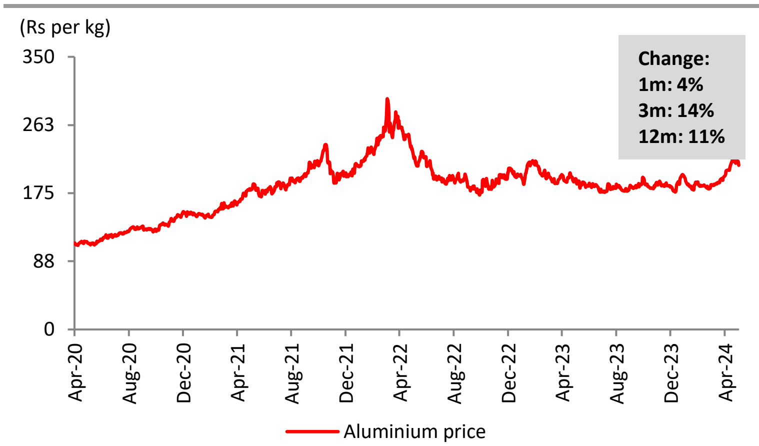


Exhibit 15: LME Aluminium price - 3-month rolling average

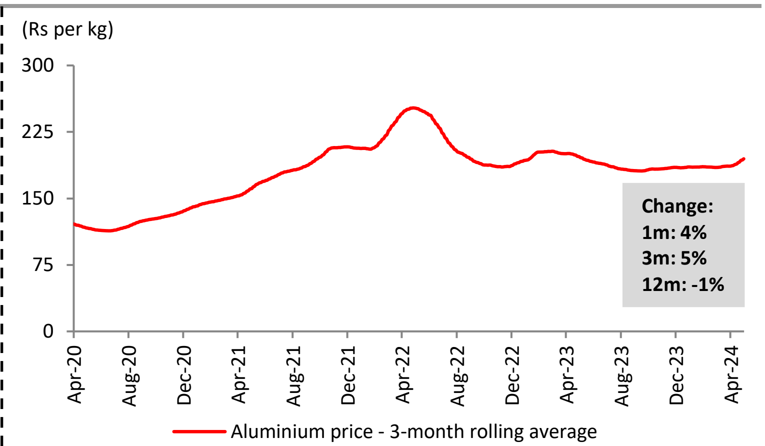


Exhibit 16: Polypropylene (PP) price

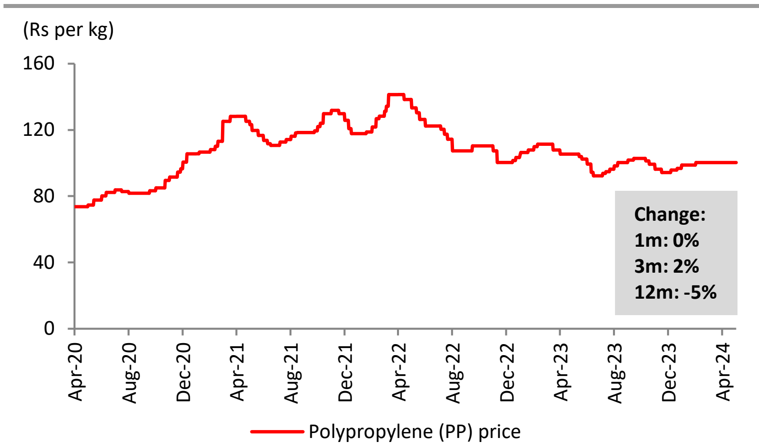
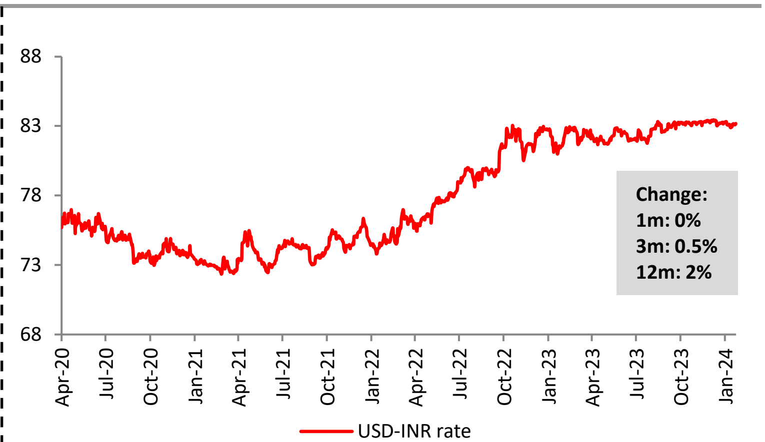


Exhibit 17: USD-INR rate



Source: Bloomberg

Valuation and View

We remain optimistic on KEII'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 raise FY26E earnings by 4% on better growth expectation and expect 17%/21%/ 24% CAGR in revenue/EBITDA/PAT over FY24-26E (FY19-24: 14%/14%/26% CAGR).

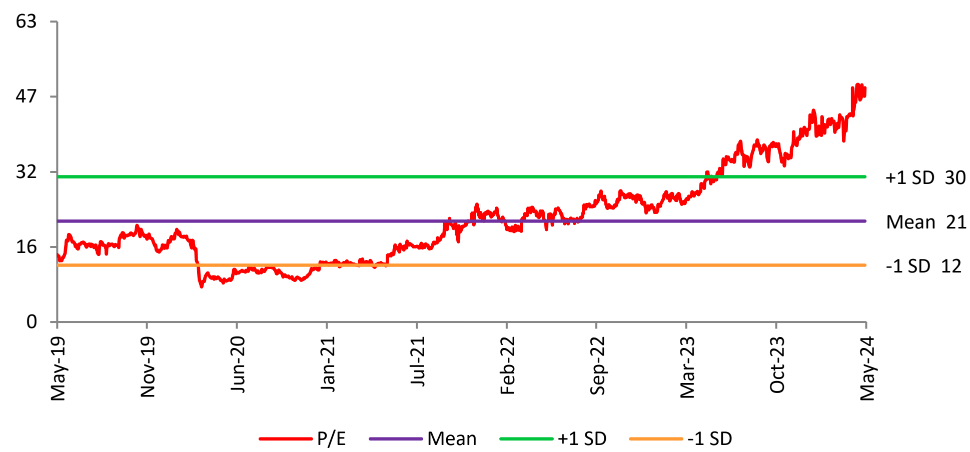
We remain sanguine about KEII's promising growth prospects and maintain HOLD rating with a higher Rs 4,444 TP (45x FY26E P/E vs. earlier Rs 3,804 at 40x). A 20%+ earnings CAGR and healthy RoE (~20%), RoCE (~28%) and RoIC (~37%) in FY26E should sustain its premium valuation. Strong OCFs (~Rs 6bn annually) will be deployed towards planned capex.

Exhibit 18: Change in estimates

(Rs mn)	Old estimates		New estimates		% Var	
	FY25	FY26	FY25	FY26	FY25	FY26
Total Income	93,266	1,07,979	94,404	1,10,602	1	2
EBITDA	10,164	12,081	10,173	12,361	0	2
EBITDA margin (%)	*10.9*	*11.2*	*10.8*	*11.2*		
PAT	7,111	8,577	7,187	8,906	1	4
EPS (Rs)	78.8	95.1	79.7	98.8	1	4

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 KEII's growth.

FINANCIALS (CONSOLIDATED)

Profit & Loss Statement

YE: Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Net revenues	**57,266**	**69,123**	**81,078**	**94,404**	**1,10,602**
Growth (%)	*37*	*21*	*17*	*16*	*17*
Raw material expenses	42,142	51,724	60,774	70,574	82,462
Gross Margin(%)	*26.4*	*25.2*	*25.0*	*25.2*	*25.4*
Employee & Other exp.	9,237	10,338	11,892	13,657	15,780
EBITDA	**5,887**	**7,062**	**8,412**	**10,173**	**12,361**
EBITDA margins (%)	*10.3*	*10.2*	*10.4*	*10.8*	*11.2*
Depreciation	555	571	614	755	885
Other income	146	276	453	528	774
Finance costs	404	347	439	283	277
PBT	5,074	6,420	7,813	9,662	11,974
Effective tax rate (%)	*25.9*	*25.6*	*25.6*	*25.6*	*25.6*
Associates/(Minorities)	-	-	-	-	-
Net Income	**3,759**	**4,773**	**5,812**	**7,187**	**8,906**
Adjusted net income	3,759	4,773	5,812	7,187	8,906
Shares outstanding	90	90	90	90	90
FDEPS (Rs)	41.7	52.9	64.4	79.7	98.8
FDEPS growth (%)	*39*	*27*	*22*	*24*	*24*

Balance Sheet

YE: Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Share capital	180	180	180	180	180
Net worth	21,355	25,892	31,483	38,128	46,313
Total debt	3,520	1,572	1,601	1,511	1,421
Minority interest	(0)	(0)	(0)	(0)	(0)
DT Liability/ (Asset)	294	266	273	263	253
Capital Employed	**25,170**	**27,730**	**33,357**	**39,902**	**47,987**
Net tangible assets	5,288	5,656	7,688	9,433	11,048
Net Intangible assets	21	17	15	15	15
Goodwill	-	-	-	-	-
CWIP	165	146	1,209	1,229	1,249
Investments (Strategic)	-	-	-	-	-
Investments (Financial)	20	13	16	3,016	6,016
Current Assets	26,176	26,498	30,633	34,380	38,785
Cash	3,600	5,372	7,004	6,884	8,132
Current Liabilities	10,101	9,972	13,208	15,055	17,258
Working capital	16,075	16,527	17,425	19,325	21,527
Capital Deployed	**25,170**	**27,730**	**33,357**	**39,902**	**47,987**
Contingent Liabilities	2,867	2,084	-	-	-

Cash Flow

YE: Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
EBIT (incl. other income)	5,483	6,693	8,226	9,418	11,476
Non-cash items	554	571	614	755	885
OCF before WC changes	6,038	7,264	8,839	10,173	12,361
Incr./(decr.) in WC	2,505	349	689	1,901	2,202
Others including taxes	1,246	1,775	2,046	2,467	3,059
Operating cash-flow	2,286	5,139	6,105	5,805	7,100
Capex	584	755	3,994	2,520	2,520
Free cash-flow	1,703	4,384	2,111	3,285	4,580
Acquisitions	-	-	-	-	-
Dividend	224	271	281	541	722
Equity raised	1	0	0	(0)	-
Debt raised	(191)	(202)	-	(90)	(90)
Fin Investments	9	550	(265)	3,000	3,000
Misc. Items (CFI + CFF)	(110)	2,153	234	(226)	(480)
Net cash-flow	1,389	1,208	1,862	(120)	1,248

Ratios @ Rs 3,900

YE: Mar	FY22	FY23	FY24	FY25E	FY26E
P/E (x)	93.5	73.7	60.6	48.9	39.5
EV/EBITDA (x)	59.7	49.3	41.2	33.8	27.4
EV/sales (x)	6.1	5.0	4.3	3.6	3.1
P/B (x)	16.5	13.6	11.2	9.2	7.6
RoE (%)	17.6	18.4	18.5	18.8	19.2
RoCE (%)	23.6	25.6	27.0	27.2	27.9
ROIC (%)	18.5	21.7	23.9	34.0	36.7
DPS (Rs per share)	2.5	3.0	4.0	6.0	8.0
Dividend yield (%)	0.1	0.1	0.1	0.2	0.2
Dividend payout (%)	6.0	5.7	6.2	7.5	8.1
Net debt/equity (x)	(0.0)	(0.1)	(0.2)	(0.2)	(0.3)
Receivables (days)	89	73	68	66	64
Inventory (days)	69	58	60	58	56
Payables (days)	49	40	45	45	45
CFO:PAT%	61	108	105	81	80

Source: Company, Systematix Institutional Research

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