Stock Update

Company Update

Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

KEI Industries Ltd

Growth outlook remains intact

Capital Goods	Sharekhan code: KEI
Reco/View: Buy ↔	CMP: Rs. 1,169 / Price Target: Rs. 1,300 ↔

↑ Upgrade ↔ Maintain ↓ Downgrade

3R MATRIX	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)	✓		

\+ Positive = Neutral – Negative

What has changed in 3R MATRIX

	Old		New
RS		↔	
RQ		↔	
RV		↔	

ESG Disclosure Score NEW

ESG RISK RATING 24.94

Updated Apr 08, 2022

Medium Risk

NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

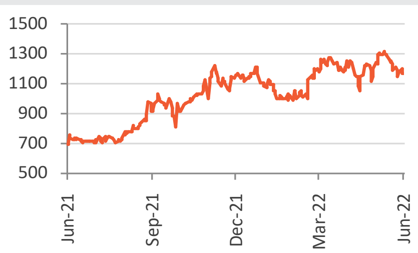
Company details

Market cap:	Rs. 10,533 cr
52-week high/low:	Rs. 1,377/686
NSE volume: (No of shares)	2.41 lakh
BSE code:	517569
NSE code:	KEI
Free float: (No of shares)	5.6 cr

Shareholding (%)

Promoters	38.0
FII	25.3
DII	21.5
Others	15.2

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-6.1	-1.2	8.6	69.0
Relative to Sensex	-0.9	7.3	17.2	68.1

Sharekhan Research, Bloomberg

Summary

- Our Interaction with KEI Industries (KEI) reaffirms our positive stance on the company underpinned by its efforts to gain market share in wires, leadership in EHV cables, and focus on expanding its retail footprints across regions.
- The management expects a 17-18% revenue CAGR for the next two-three years as the commodity prices have started to stabilize and exponential growth may not be sustainable. It also eyes an operating margin of 10.5-11% and PAT margin of 6.5% on a sustainable basis.
- De-bottlenecking in existing capacities and greenfield expansion in cables and wires at ~ Rs. 800 crore investment (first phase by Q32024E) would help in market share gain and achieve its growth targets.
- We retain a Buy rating on KEI with an unchanged PT of Rs. 1,300, factoring in optimistic demand and growth outlook.

Our interaction with KEI Industries' management reinstates our positive outlook on the company led by a robust business outlook, ample opportunities and various levers in place for market share gain, expansion of its retail business and timely capex. The recent decline in commodity prices may not lead to significant margin expansion, as the procurement prices are adjusted with the suppliers accordingly and the company does not carry very high inventory. However, a better product mix (higher proportion of retail segments and EHV cables) and operating leverage due to volume growth would lead to margin improvement in the coming years. Further, improvement in the working capital cycle and strong and improving return ratios give us comfort.

- **Robust demand outlook:** The management remains optimistic about expanding its retail franchise by increasing its dealer and distribution base (currently at 1,805 in numbers) and expects its retail segment to grow by 25-30% y-o-y. It wants to increase its market share in house wires to 8% (currently ~6%), while in cables it has a market share of ~12%. In the retail segment, KEI's products are priced 2-3% lower as compared to its competitors Polycab India and Havells India. However, given the robust industry growth of 12-14%, any aggressive price cuts by the major players including KEI is unlikely in the near term. The company expects continuous demand from government spending on infrastructure projects. Further, PLI scheme and increase in private sector CAPEX bodes well for demand for wires & cables. The company is strategically reducing its exposure to EPC business which is capital intensive as well as low margin and utilizing the funds to channel the retail segment's growth.
- **Aims 17-18% Revenue CAGR for the medium to long-term:** Apart from expanding its presence in retail segment, the company is focused on improving export business. KEI expects 10-15% Y-o-Y growth in exports in the coming years. The company is present in the Middle East, Africa, and Australia and now expanding in Latin America. Further, the company would be expanding LT, HT and EHV capacity over 3-4 years with an investment of ~ Rs 800 crore through internal accruals. The first phase of the manufacturing facility would be operational from Q3FY2024E. The management expects a 17-18% revenue CAGR for the next two three years and eyes an operating margin of 10.5-11% and PAT margin of 6.5% on a sustainable basis.
- **Wires & cables - an essential part of industrial CAPEX:** Wires & cables form an essential part of the industrial capex. E.g. in Real estate, cables comprise of 3.5-4% of the total expenditure, in transmission & distribution the proportion is at 15-25%, metro @3.5-4%. Cables also have stringent qualifying norms in the institutional business as it has a lifetime of at least 25-30 years. Hence, there is a huge scope for growth for KEI given its presence in varied sectors. EHV segment is a high-margin segment with less competition. The company makes ~15% EBITDA margin in the extra high voltage cables business and the only other major player in the segment is Universal Cables with similar margins.

Revision in estimates – We have maintained our estimates for FY2022-FY2024E. We shall revisit our estimates and target price post Q1FY2023.

Our Call

Valuation: Retain Buy with an unchanged PT of Rs. 1,300: KEI's growth outlook is expected to be positive with its diversified user industries, increased focus on retail, high-margin EHV cables business and export sales along with utilization-driven CAPEX plans. These are likely to help in sustaining a strong growth trajectory both in volumes and value front. The management has provided strong demand outlook in both retail and institutional segments driven by real estate and an increase in government spending respectively. Improving working capital cycle owing to the increase in retail business and strong return ratios give us further comfort. We expect revenue/PAT CAGR of ~18%/25% over FY2022-2024E. The stock is currently trading at a P/E of ~18x its FY2024E EPS. Hence, we maintain a Buy on the stock with an unchanged PT of Rs. 1,300.

Key Risks

Volatility in input cost may adversely impact its margin guidance. A part of its revenue is generated from exports and any fluctuations in forex rates could affect the company's financials.

Valuation (Standalone) Rs cr

Particulars	FY21	FY22	FY23E	FY24E
Revenue	4,181	5,727	6,769	8,023
OPM (%)	10.9	10.3	11.0	11.4
Adjusted PAT	270	376	479	586
% y-o-y growth	5.7	39.6	27.2	22.3
Adjusted EPS (Rs.)	30.0	41.8	53.1	65.0
P/E (x)	39.0	28.0	22.0	18.0
P/B (x)	2.0	1.6	1.3	1.1
EV/EBITDA (x)	8.9	7.0	5.2	4.1
RoNW (%)	15.2	17.7	18.5	18.5
RoCE (%)	20.0	22.5	24.1	24.5

Source: Company; Sharekhan estimates

Robust demand outlook

The management remains optimistic on expanding its retail franchise by expanding the dealer and distribution base (currently at 1,805 in numbers) and expects its retail segment to grow by 25-30% y-o-y. It wants to increase its market share in house wires to 8% (currently ~6%), while in cables it has a market share of ~12%. The company expects continuous demand from government infra and private capex and is focused on growing exports too. The company is strategically reducing its exposure to EPC business which is capital intensive and low margin and utilize the funds to channel the retail segment's growth. The company would be expanding LT, HT and EHV capacity over 3-4 years with an investment of ~ Rs 800 crore. The company has acquired land in Baroda, Gujarat for the capacity expansion and the first phase should be commercially operational by FY23E.

Marginal impact of decline in copper prices as the raw material cost is a pass through

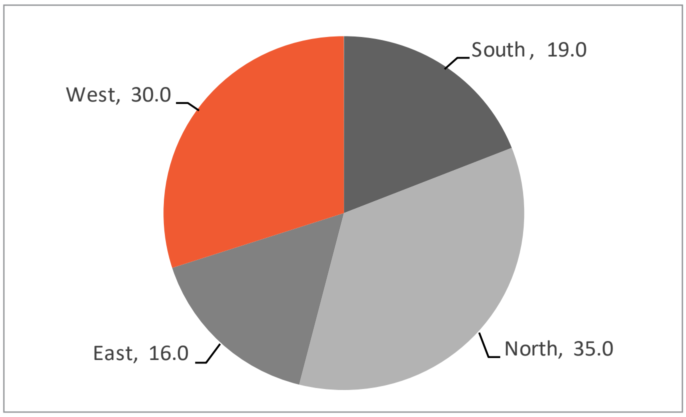
The sharp drop in copper prices recently may not have a material impact on margin as the material procurement is usually done as per the ongoing market rates. However, there could be a lag of 15-20 days in the price adjustments and thereby a marginal impact may be seen on the margins.

KEI Industries conference call highlights:

- **Healthy demand scenario:** The company expects continuous demand from government infrastructure, private CAPEX and real estate projects. It also expects demand for wires and cables to increase given investments and capacity expansion by companies under the PLI scheme. While, Q1FY2023 volume growth would be higher given the lower base of last year (both on value/volume terms), the company expects 17-18% volume growth in FY2023.
- **Aims to expand market share:** The company has 6% market share in wires in the organized segment. The unorganized segment share is 24-25% which would further reduce by 2-3% as small players are unable to cope up with the inflationary pressures and rising working capital requirements during challenging times. The company aims to grow its market share in wires to 8-9% in the next two years. KEI's products are priced 2-3% lower as compared to its competitors Polycab India and Havells India. However, given the robust industry growth of 12-14%, any aggressive price cuts by the major players including KEI is unlikely in the near term.
- **Retail business gaining traction:** In Q4FY22, the company's retail business (through dealers and distributors) grew by 64% YoY. Housing wires comprises of 55-60% of the retail business, while the rest comes from small commercial establishments (restaurants, small shops, residential complex; etc)
- **Leading player in the cables segment:** In cables particularly in the institutional segment, KEI's share is 12-14% which is at par with other big players like Polycab India and Universal cables. There are many local players with an average sales run rate of Rs 200-500 cr per annum.
- **Focus on growing exports:** The company expects 10-15% growth in exports in the coming years. The company is present in the Middle East, Africa, Australia and now expanding in Latin America. 50% of the export revenue is derived from Oil & Gas sector and the rest from other industries.
- **Wires & cables, an essential part of industrial Capex:** Wires & cables form an essential part of the industrial capex. E.g. in Real estate cables comprise of 3.5-4% of the total expenditure, in transmission & distribution the proportion is at 15-25%, metro @3.5-4. Cables also have stringent qualifying norms in the institutional business as it has a lifetime of at least 25-30 years.
- **EHV, a high margin business**: EHV segment is a high margin segment with less competition. The company makes ~15% EBITDA margin in extra high voltage cables business and the only other major player in the segment is Universal Cables with similar margins.
- **North region is the highest contributor to revenue:** Revenue break up - 35% from North, ~30% from West, 18-19% from South and the rest is from Eastern region.
- **Raw material prices (Copper/Aluminium):** The raw material prices are hedged back-to-back with the suppliers, therefore there may just be a minor impact on the margins despite the current decline in commodity prices. The company maintains 2.5-3 months of inventory and its EPC contracts are also executable in 3-4 months.
- **Capacity Expansion:** The company is undertaking greenfield capacity expansion in LT, HT and EHV cables with a capex of ~Rs. 800crore over 3-4 years through internal accruals. The company through debottlenecking would also improve the capacity utilization of its existing plants by 5-7% per annum. The annual capex is expected to be around Rs 200-250 crore (including spending on new manufacturing facility at Baroda, Gujarat) over the next two-three years.
- **Guidance:** The company retained its retail sales target of over a 50% contribution in the next two years. The increasing contribution of the retail segment to total revenues would reduce the pricing gap with its competitors. Currently, the company clocks retail sales of Rs 225—250 crore basis per month. The company targets to grow revenues by 18-20% y-o-y in FY2023 and maintain a 17-18% CAGR in the coming years. It aims to achieve revenue of Rs 10,000-11,000 crore by FY26/FY27.

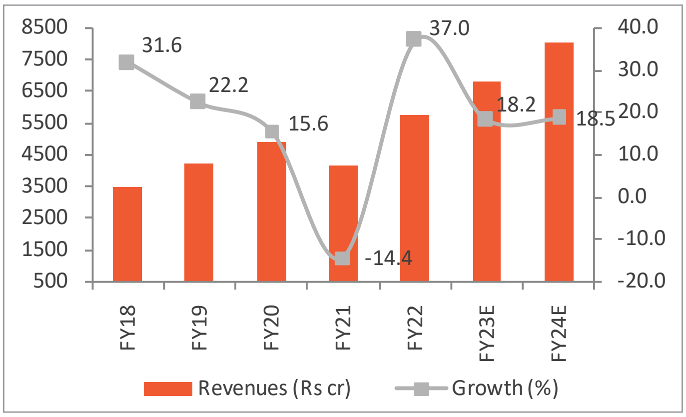
Financials in charts

Regional revenue break-up (%)



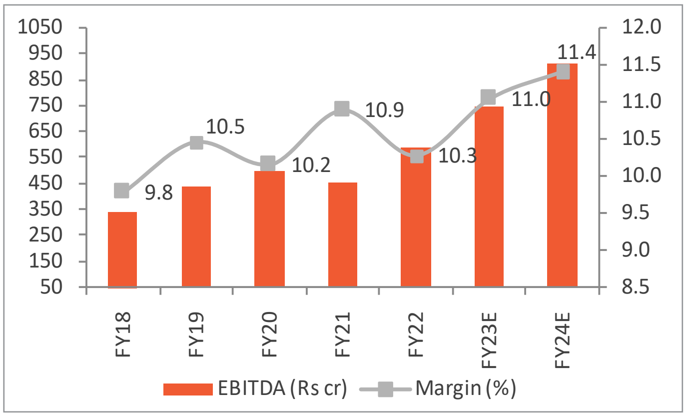
Source: Company, Sharekhan Research

Revenue growth trend



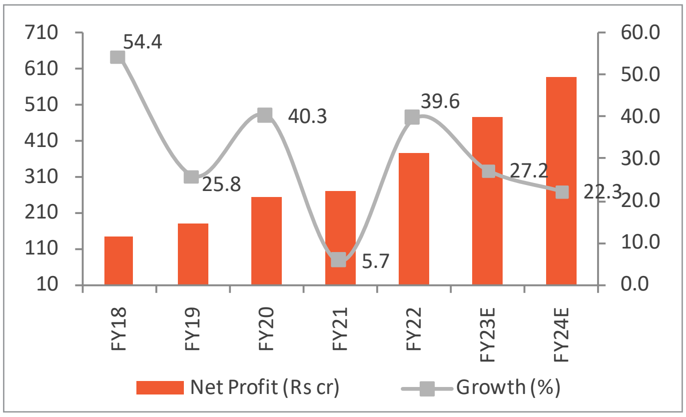
Source: Company, Sharekhan Research

EBITDA and margin trend



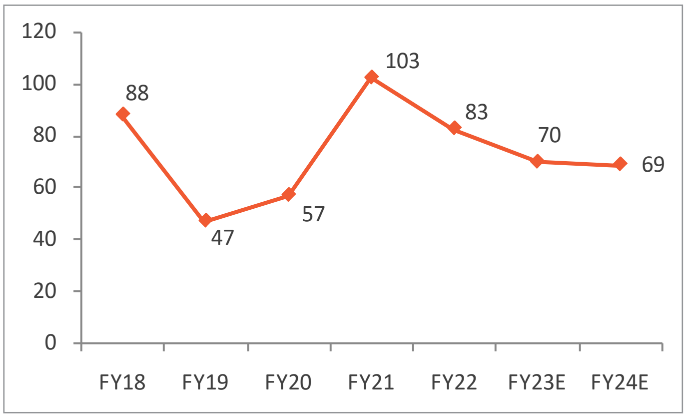
Source: Company, Sharekhan Research

Net Profit growth trend



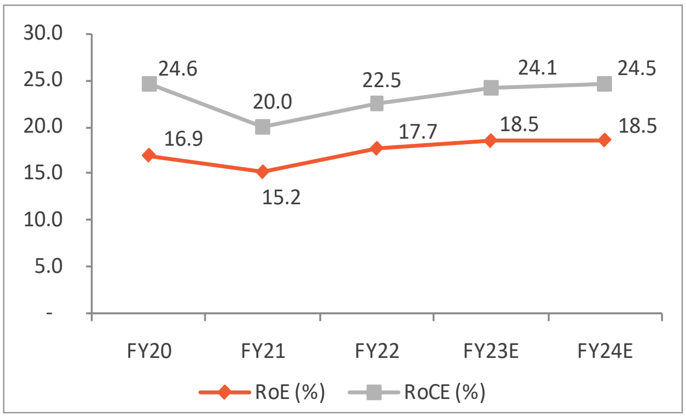
Source: Company, Sharekhan Research

Improving working capital cycle (in days)



Source: Company, Sharekhan Research

Return ratio trend



Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector view - Ample levers offer scope for growth

Domestic demand is improving with unlocking, infrastructure, and construction back in action with labour issues largely resolved, which provides a positive outlook ahead. The wires and cables industry contributes 40%-45% to India's electrical equipment industry. In terms of volumes, the Indian cables & wires industry (including exports) has grown from 6.3 million km in FY2014 to 14.5 million km in FY2018, posting a ~23% CAGR over the period. The industry registered an ~11% CAGR in value terms, from Rs. 34,600 crore in FY2014 to Rs. 52,500 crore in FY2018. The cables & wires industry was expected to register a CAGR of 14.5% from Rs. 52,500 crore in FY2018 to Rs. 1,03,300 crore by FY2023. The government has envisaged a Rs. 111 lakh crore capital expenditure in infrastructure sectors in India during FY2020 to FY2025. Sectors such as energy (24%), roads (18%), urban (17%), and railways (12%) amount to ~71% of the projected infrastructure investments. The continued thrust of the government on infrastructure investment is expected to improve demand for the W&C industry.

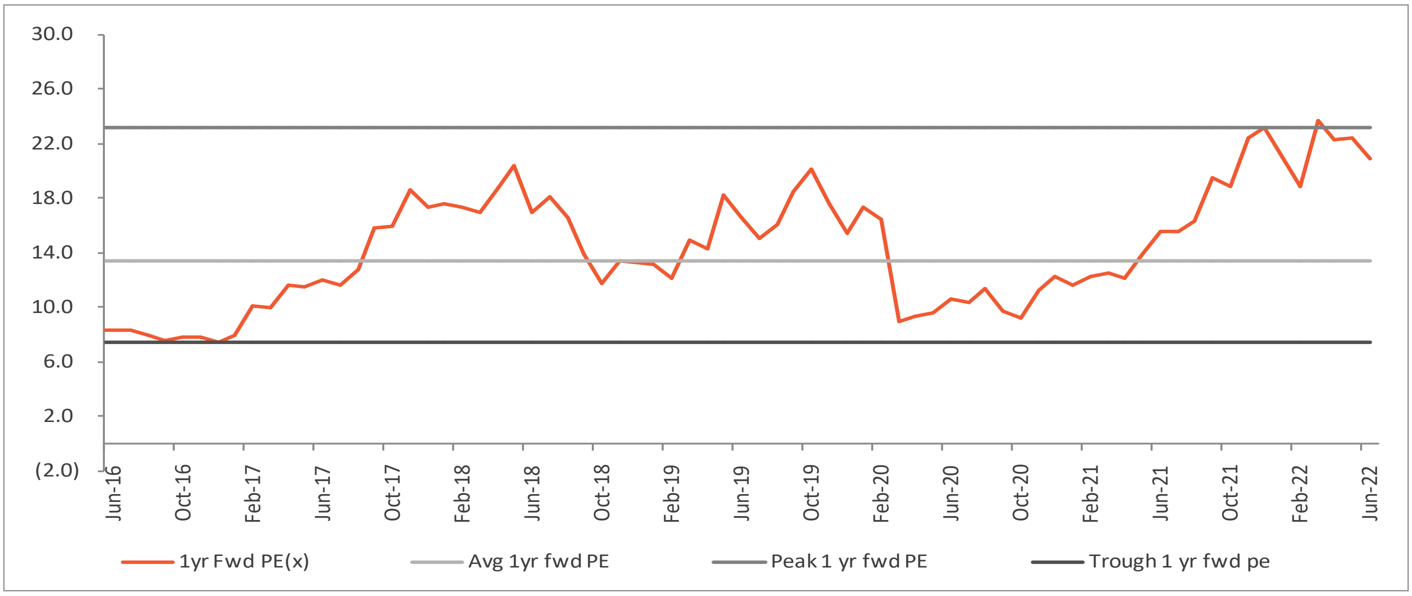
■ Company outlook - High growth to be aided by capacity expansion plan

The management remains optimistic about the retail and EHV segments in the longer run. It is focused on expanding its retail franchise through expanding its dealer and distribution base (currently at 1,805 and expects it to increase by 20% y-o-y) and expects its retail segment to contribute more than 45% to revenue by FY2023. The management will also cut down its EPC business and utilise the money to channelise the retail segment's growth. On the high-margin EHV front, which remains a Rs. 2,000 crore market in India, the total capacity is Rs. 1,000-1,100 crore between the company and Universal cables. The company will be undertaking a greenfield Capex of ~Rs.800 crore in LT, HT, and EHV over a three to four-year period. The management expects 17-18% y-o-y revenue growth CAGR in the next two-three years.

■ Valuation - Retain Buy with an unchanged PT of Rs. 1,300

KEI's growth outlook is expected to be positive with its diversified user industries, increased focus on retail, high-margin EHV cables business and export sales along with utilization-driven CAPEX plans. These are likely to help in sustaining a strong growth trajectory both in volumes and value front. The management has provided strong demand outlook in both retail and institutional segments driven by real estate and an increase in government spending respectively. Improving working capital cycle owing to the increase in retail business and strong return ratios give us further comfort. The stock is currently trading at a P/E of ~18x its FY2024E EPS. Hence, we maintain a Buy on the stock with an unchanged PT of Rs. 1,300.

One-year forward P/E (x) band



Source: Sharekhan Research

About company

KEI is among the top three organized players in the Indian W&C industry and an EPC player in the power T&D segment. KEI has a diversified business model with a significant presence in domestic and international markets. The company services retail and institutional customers and caters to both private and public sector clients. Currently, KEI manufactures and markets power cables and addresses cabling requirements of a wide spectrum of sectors such as power, oil refineries, railways, automobiles, cement, steel, real estate, etc. KEI has built its manufacturing facilities in Rajasthan and Silvassa (Dadra and Nagar Haveli). The company is well poised to garner opportunities from power utilities, core infrastructure, and construction projects across the country. The company's prudent foray into the EHV cable for power sector projects has further expanded the opportunity horizon.

Investment theme

Over the years, the company has established its presence in the institutional space by developing the ability to offer various products across locations. KEI has a well-entrenched marketing presence across all states, which increases its ability to deliver products speedily from plants in North and West India. The company has created a presence in building specialized offerings to tap niche segments such as the shipping sector, oil and petroleum plants, etc. The company is now looking at tapping several large realty brands and strengthening its all-India presence by embarking on opening new warehouses across India. The retail segment comprises house wires (HW) and a part of low-tension cables (LT) sold through dealers. Given its growing dealer network and brand-building initiatives (advertising and sponsoring), performance-linked schemes, dealer-electrician meets etc., we expect KEI to increase its retail presence further.

Key Risks

- Volatility in input cost may adversely impact its margin guidance.
- A part of its revenue is generated from exports and any fluctuations in forex rates could affect the company's financials.

Additional Data

Key management personnel

Mr. Anil Gupta	Chairman and Managing Director
Mrs. AkshitDiviaj Gupta	Executive Director
Mrs. Archana Gupta	Non-Executive – Non-Independent Director
Mr. Rajeev Gupta	CFO

Source: Company

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Anil Gupta	12.98
2	Projection Financial & Management Consultants Private Limited	8.77
3	Anil Gupta HUF-karta Anil Gupta	5.16
4	Smallcap World Fund, Inc	5.02
5	DSP Value Fund	4.21
6	ShubhLaxmi Motels & Inns Private Limited	3.86
7	Soubhagya Agency Private Limited	3.47
8	HDFC Trustee Co Ltd A/c HDFC Retirement Saving Fund - Equity Plan	2.97
9	Franklin Build India Fund	2.71
10	Massachusetts Institute Of Technology	2.39

Source: Capitaline, Bloomberg

Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

Know more about our products and services

For Private Circulation only

Disclaimer: This document has been prepared by Sharekhan Ltd. (SHAREKHAN) and is intended for use only by the person or entity to which it is addressed to. This Document may contain confidential and/or privileged material and is not for any type of circulation and any review, retransmission, or any other use is strictly prohibited. This Document is subject to changes without prior notice. This document does not constitute an offer to sell or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. Though disseminated to all customers who are due to receive the same, not all customers may receive this report at the same time. SHAREKHAN will not treat recipients as customers by virtue of their receiving this report.

The information contained herein is obtained from publicly available data or other sources believed to be reliable and SHAREKHAN has not independently verified the accuracy and completeness of the said data and hence it should not be relied upon as such. While we would endeavour to update the information herein on reasonable basis, SHAREKHAN, its subsidiaries and associated companies, their directors and employees ("SHAREKHAN and affiliates") are under no obligation to update or keep the information current. Also, there may be regulatory, compliance, or other reasons that may prevent SHAREKHAN and affiliates from doing so. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. Recipients of this report should also be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The user assumes the entire risk of any use made of this information. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. We do not undertake to advise you as to any change of our views. Affiliates of Sharekhan may have issued other reports that are inconsistent with and reach different conclusions from the information presented in this report.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject SHAREKHAN and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

The analyst certifies that the analyst has not dealt or traded directly or indirectly in securities of the company and that all of the views expressed in this document accurately reflect his or her personal views about the subject company or companies and its or their securities and do not necessarily reflect those of SHAREKHAN. The analyst and SHAREKHAN further certifies that neither he or his relatives or Sharekhan associates has any direct or indirect financial interest nor have actual or beneficial ownership of 1% or more in the securities of the company at the end of the month immediately preceding the date of publication of the research report nor have any material conflict of interest nor has served as officer, director or employee or engaged in market making activity of the company. Further, the analyst has also not been a part of the team which has managed or co-managed the public offerings of the company and no part of the analyst's compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this document. Sharekhan Limited or its associates or analysts have not received any compensation for investment banking, merchant banking, brokerage services or any compensation or other benefits from the subject company or from third party in the past twelve months in connection with the research report.

Either, SHAREKHAN or its affiliates or its directors or employees / representatives / clients or their relatives may have position(s), make market, act as principal or engage in transactions of purchase or sell of securities, from time to time or may be materially interested in any of the securities or related securities referred to in this report and they may have used the information set forth herein before publication. SHAREKHAN may from time to time solicit from, or perform investment banking, or other services for, any company mentioned herein. Without limiting any of the foregoing, in no event shall SHAREKHAN, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind.

Compliance Officer: Mr. Joby John Meledan; Tel: 022-61150000; email id: compliance@sharekhan.com;

For any queries or grievances kindly email igc@sharekhan.com or contact: myaccount@sharekhan.com

Registered Office: Sharekhan Limited, The Ruby, 18th Floor, 29 Senapati Bapat Marg, Dadar (West), Mumbai – 400 028, Maharashtra, INDIA, Tel: 022 - 67502000/ Fax: 022 - 24327343. Sharekhan Ltd.: SEBI Regn. Nos.: BSE / NSE / MSEI (CASH / F&O / CD) / MCX - Commodity: INZ000171337; DP: NSDL/CDSL-IN-DP-365-2018; PMS: INP000005786; Mutual Fund: ARN 20669; Research Analyst: INH000006183.