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KEI Industries

Outlook positive, growth visibility intact

Capital Goods	Sharekhan code: KEI	Company Update

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		↔	

Reco/View	Change
Reco: **Buy**	↔
CMP: **Rs. 533**	
Price Target: **Rs. 645**	↑

↑ Upgrade ↔ Maintain ↓ Downgrade

Company details

Market cap:	Rs. 4,790 cr
52-week high/low:	Rs. 563/208
NSE volume: (No of shares)	1.1 lakh
BSE code:	517569
NSE code:	KEI
Free float: (No of shares)	5.4 cr

Shareholding (%)

Promoters	40.3
FII	16.3
DII	23.5
Others	19.9

Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	5	10	51	130
Relative to Sensex	4	2	18	38

Sharekhan Research, Bloomberg

Summary

- We retain a Buy rating on KEI with a revised PT of Rs 645 given the positive outlook going ahead.
- The management reiterated its revenue growth guidance along with stable OPM for FY2021 and expects revenue growth of 18-20% for FY22 led by the retail and EHV segments
- Industry-leading growth to be led by ongoing market consolidation. Capacity expansion to generate 5x-6x revenues of capex incurred in the ensuing years.
- The working capital cycle expected to normalise by year-end as payments are getting back on track; changing revenue mix (lower EPC) would generate better cash/returns over the medium term.

We interacted with the Mr.Rajeev Gupta, CFO of KEI Industries (KEI) to update ourselves about the current and future outlook of the company and the industry. The management remained positive on overall business given the geographical and client diversity. The business through retail/distributors have passed pre-COVID level wherein demand has witnessed a healthy pickup while institutional business is operating at 70-75% and expected and improve from FY2022. Institutional business is seeing a gradual pickup as new enquiries from the Government are increasing indicating a good demand outlook ahead. The management reiterated its guidance that FY2021 revenue to be at 85-87% of pre-COVID levels and expects a 11% margin. However, there should not be any constraint for FY2022 growth, and the management expects growth of 18-20% for FY22 and a similar range in consecutive years with sustainable margins of 11%. On the exports revenue, it is expected to be ~Rs. 500 crore in FY2021 and 10-15% growth is expected thereafter. The company has its presence in 45 countries and continuously adding newer geographies. It does not expect a major impact of rise in commodity prices especially copper as prices are revised monthly in the retail segment while for institutional business it maintains sufficient inventory for execution. Retail and EHV are the segments that the management remains optimistic in the longer run. It is focused on expanding its retail franchise through expanding the dealer and distribution base (currently at 1600 numbers and expects to increase by 10-12% y-o-y) and expects its retail segment to reach 38%/40% of revenues by FY22/FY23 from 34% currently. On the high margin Extra High Voltage (EHV) front which remains a Rs 2000 crore market in India while the total capacity is Rs. 1000-1100 crore and opportunity size remain huge. It expects Rs. 475 crore revenues from EHV in FY2021 and Rs. 525 crores in FY2022 expected to boost further after new capacity being added. As indicated earlier by the company, it will be doing green field capex of Rs. 175 crores in LT, HT and EHV in FY2022 (to be funded through internal accruals) and revenue from capex to accrue from H2FY2023. Going ahead, the company will be doing Rs. 150-170 crore capex per annum and expects to generate 5x-6x of revenues from capex. The phase 1 of capex would be completed in one and half year and it would commence work from April 2021 and expected to complete by Sept, 2022. It expects additional Rs. 450 crores topline to get added over 3-4 years. The management indicated that working capital cycle is expected to normalise by year-end as payments are getting back on track which along with a reduction in EPC and a higher retail mix, debt and interest cost is expected to decline further going ahead. We believe KEI's diversified user industries, increased focus on retail, high-margin EHV cables, and export sales along with focused industry approach as well as utilization-driven capex plans will help propel the company in the current environment. Hence, we retain Buy on the stock with a revised price target (PT) of Rs. 645.

Our Call

Valuation: Retain Buy with a revised PT of Rs. 645: KEI's outlook is expected to be positive with its diversified user industries, increased focus on retail, high-margin EHV cables, and export sales along with focused industry approach as well as utilisation-driven capex plans likely to help in sustaining a strong growth trajectory. We expect revenue and PAT to report a CAGR of 18% and 24%, respectively, during FY2021-2023E. The stock is currently trading at a P/E of 15.0x/12.4x its FY2022E/FY2023E EPS which remains at a discount to its average peak PE. Hence, we retain Buy on the stock with a revised price target (PT) of Rs. 645.

Key Risks

Slowdown in infrastructure, real estate and industrial segments. can significantly impact demand for KEI's products.

Valuation (Standalone) Rs cr

Particulars	FY20	FY21E	FY22E	FY23E
Revenue	4,884	4,206	4,937	5,886
OPM (%)	9.9	10.6	11.1	11.2
Adjusted PAT	243	249	319	385
% YoY growth	35.8	2.4	28.0	20.6
Adjusted EPS (Rs.)	27.2	27.8	35.6	43.0
P/E (x)	19.6	19.2	15.0	12.4
P/B (x)	2.3	2.0	1.7	1.4
EV/EBITDA (x)	8.4	8.4	7.0	5.8
RoNW (%)	16.2	14.3	15.6	15.9
RoCE (%)	24.0	19.7	21.3	22.0

Source: Company; Sharekhan estimates

Growth momentum remains intact: The management remained positive on overall business given the geographical and client diversity. The business through retail/distributors have passed pre-COVID level wherein demand has witnessed a healthy pickup while institutional business is operating at 70-75% and is expected toimprove from FY2022. Institutional business is seeing a gradual pickup as new enquiries from the Government are increasing indicating a good demand outlook ahead. The management reiterated its guidance that FY2021 revenue to be at 85-87% of pre-COVID levels and expects 11% margin. However, there should not be any constraint for FY2022 growth, and the management expects growth of 18-20% for FY22 and a similar range in consecutive years with sustainable margins of 11%. On the exports revenue it is expected to be ~Rs. 500 crore in FY2021 and 10-15% growth is expected thereafter. The company has its presence in 45 countries and continuously adding newer geographies. It does not expect a major impact of rise in commodity prices especially copper as prices are revised monthly in the retail segment while for institutional business it maintains sufficient inventory for execution. Retail and EHV are the segments that the management remains optimistic in the longer run. It is focused on expanding its retail franchise through expanding the dealer and distribution base (currently at 1600 numbers and expects to increase by 10-12% y-o-y) and expects its retail segment to reach 38%/40% of revenues by FY22/FY23 from 34% currently.

Focus remains on retail and EHV: Retail and EHV are the segments the management remains optimistic in the longer run. It is focused on expanding its retail franchise through expanding the dealer and distribution base (currently at 1600 numbers and expect to increase by 10-12% y-o-y) and expects its retail segment likely to reach 38%/40% of revenues by FY22(34% currently) and FY23. It will also cut down its EPC business from earlier levels and utilize the money to channelize the retail segment's growth. On the high margin Extra High Voltage (EHV) front which remains a Rs 2000 crore market in India while the total capacity is Rs. 1000-1100 crore between the company and Universal cables and opportunity size remains huge. It expects revenue of Rs. 475 crore from EHV in FY2021 and Rs. 525 crore in FY2022 further to boost after new capacity being added.

Capacity expansion update: The company will be doing capex of Rs. 175 crore in LT, HT and EHV in FY2022. The revenue from capex is expected from 2HFY2023. Going ahead, the company will be doing Rs. 150-170 crore capex per annum. The company expects to generate 5x-6x of revenues from capex. The phase I of capex would be completed in one and half year. It would be finalizing land of about 50-60 acre in Gujarat after December and commence work from April 2021. The company expects Rs. 450 crore topline to get added over 3-4 years.

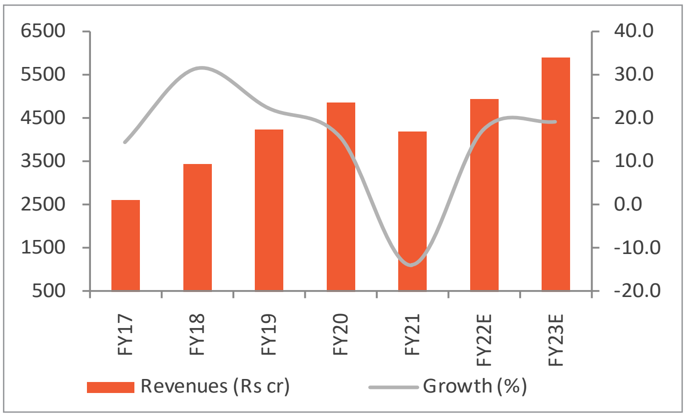
KEI Management Interaction key highlights:

- **Business Update:** Overall capacity utilisation remains at 70-75% and until 9MFY21 retails division remained on growth trajectory, good traction in seen in institutional side with good orders coming boosting domestic institutional sales. Exports at 75% of pre-covid levels and expect to reach Rs 600 crore in exports by FY2022E as travelling opens up.
- **Guidance:** The revenue for FY2021 is expected to be 85%-87% of FY2020 while it expects Rs. 5100 crore revenue in FY2022. The increase in retail contribution should lead to 11% OPM for FY2022. Revenue from exports is expected to be Rs. 500-550 crore in FY2021 and 10-15% growth is expected thereafter. The company is the largest exporter of cables from India with presence in 45 countries. Currently, it is in the process of getting approval in USA which will take 5-6 months.
- **Cables & wires industry growth:** Over the last five years, the industry has been growing at 12-14% per annum which is expected to be maintained going ahead
- **Expansion of retail business:** Retail business comprises 34% of overall revenues which is slated to increase to 38% and 40% in FY2022 and FY2023 respectively. In retail the company remains focussed on expanding the housing wires segment (current market share -5%) and placed a dedicated team to further strengthen the market reach.

- **Institutional wires:** With a pickup in institutional business as government projects are being awarded, a favourable and healthy demand visibility is likely to be seen across railways, metros, highway projects (underground cabling)
- **EPC business:** The company expect to the cap the business to Rs 500 crore due to higher retention money stretching working capital. Going ahead, this is going to be the norm.
- **Regional mix:** The company's regional revenue mix is 36% North, 32% West, 18% South and balance East. The top 10 metros contribute 32-35%, Tier 3 comprise 42-45% and C class cities 17-18%.
- **EHV revenues:** The company's EHV capacity generates around Rs. 500 crore revenues. The market size is more than the capacity in EHV segment. The EHV market size is Rs. 2000 crore while the total capacity is Rs. 1000-1100 crore between the company and Universal cables.
- **Capacity expansion:** The company will be doing capex of Rs. 175 crore in LT, HT and EHV in FY2022. The revenue from capex is expected from 2HFY2023. Going ahead, the company will be doing Rs. 150-170 crore capex per annum. The company expects to generate 5x-6x of revenues from capex. The phase I of capex would be completed in one and half year.
- **Commodity risk:** The rise in commodity prices especially copper is revised monthly in retail segment. In the institutional business it works as a natural hedge. The company keeps on an average three-month inventory which sufficiently executes institutional projects having around the same gestation period. Hence, a rise in copper price does not impact institutional business.
- **Dealer expansion:** The company's current dealer/distributor network is 1600 which will be increased at 10-12% per annum along with increase in area coverage.
- **Covid-19 Second wave:** The given ongoing second wave of COVID-19 has hardly impacted any demand as the business is continuing but if there is any major lockdown then it can impact demand.

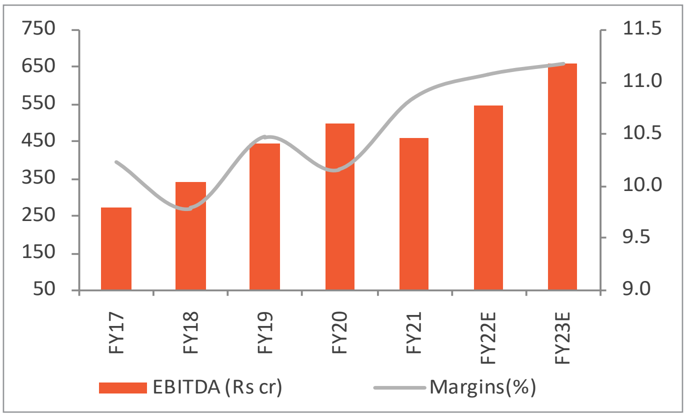
Financials in charts

Revenue trend



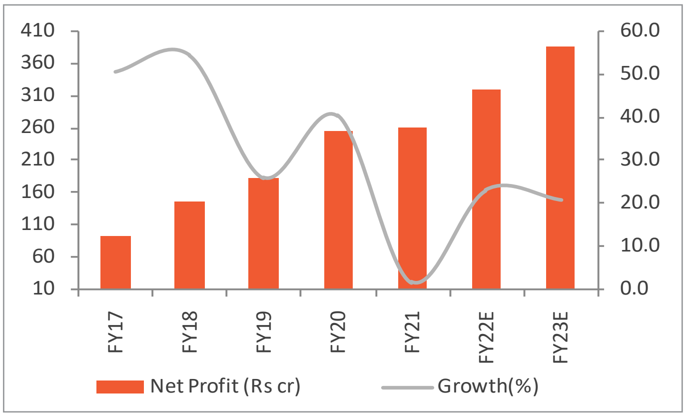
Source: Company, Sharekhan Research

EBITDA and margin trend



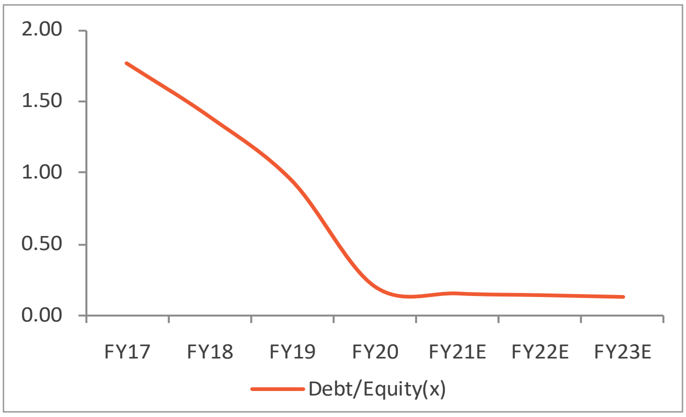
Source: Company, Sharekhan Research

Net Profit Growth



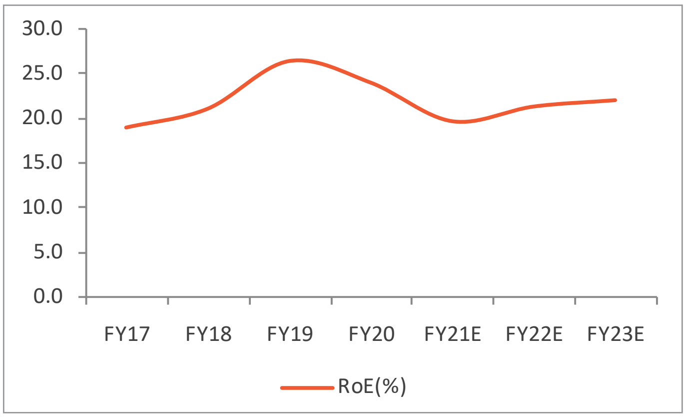
Source: Company, Sharekhan Research

Debt/ Equity (x)



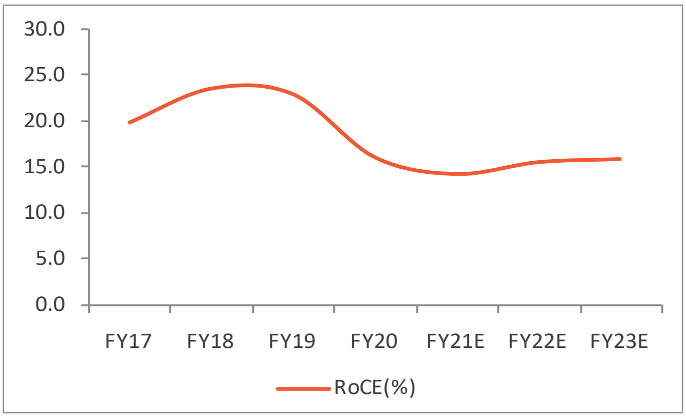
Source: Company, Sharekhan Research

RoE trend



Source: Company, Sharekhan Research

RoCE trend



Source: Company, Sharekhan Research

Outlook and Valuation

Sector view - Ample levers offer scope for growth

Domestic demand side is improving with unlocking, infrastructure, and construction course back in action with labour issues largely resolved, which provide a positive outlook ahead. The wires and cables industry contributes 40-45% to India's electrical equipment industry. In terms of volumes, the Indian wires & cables industry (including exports) has grown from 6.3mn kms in FY2014 to 14.5 million kms 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 C&W 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. However, a slowdown in infrastructure growth and uncertainty in real estate will lead to moderation in growth for the C&W segment. A gradual resumption of normal economic activity and infrastructure projects will push the recovery to H2FY2021. 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.

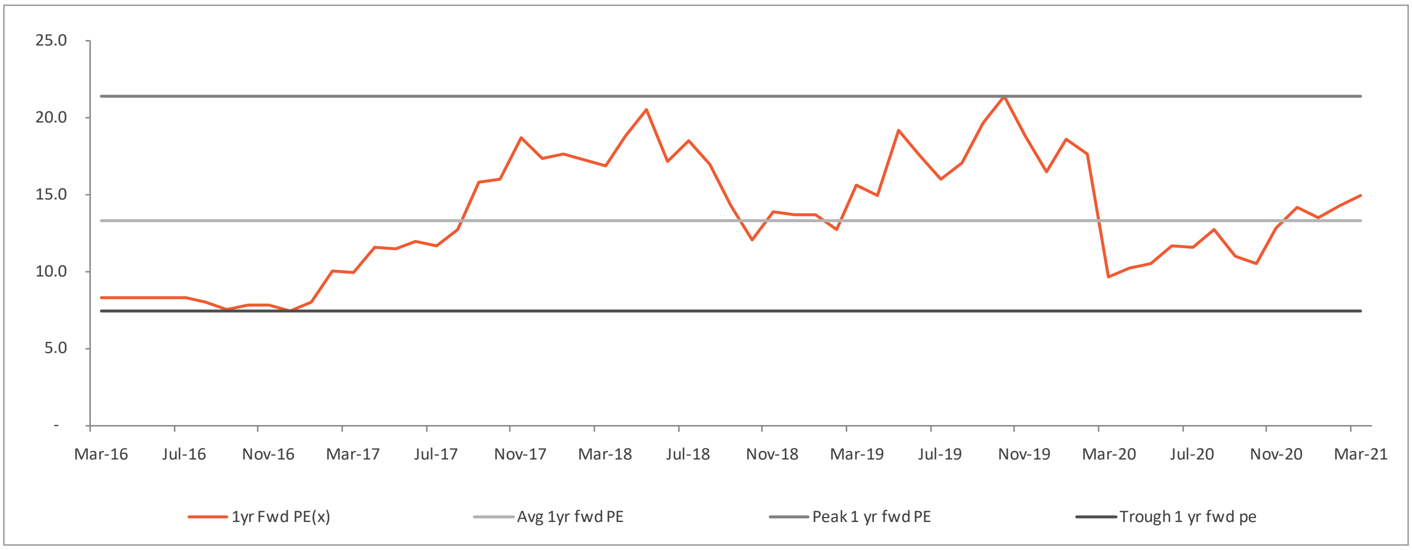
Company outlook - Growth visibility intact

Retail and EHV are the segments the management remains optimistic about in the longer run. It is focused on expanding its retail franchise through expanding the dealer and distribution base (currently at 1600 numbers and expect to increase by 10-12% y-o-y) and expects its retail segment likely to reach 38% /40% of revenues by FY22 and FY23. It will also cut down its EPC business from earlier levels and utilize the money to channelize the retail segment's growth. On the high margin Extra High Voltage (EHV) front which remains a Rs 2000 crore market in India while the total capacity is Rs. 1000-1100 crore between the company and Universal cables and opportunity size remains huge. The company will take on green field capex of Rs. 175 crore in LT, HT and EHV in FY2022 (to be funded through internal accruals) and revenue from capex to accrue from H2FY2023. Going ahead, the company has capex plans of Rs. 150-170 crore per annum and expects to generate 5x-6x of revenues from capex. The phase 1 of capex would be completed in one and half year. The management reiterated its guidance that FY2021 revenue to be at 85%-87% of pre-COVID levels and expects 11% margin for FY21.However, there should not be any constraint for FY2022 growth and expects growth of 18-20% for FY22 and a similar range in consecutive years with sustainable margins of 11%. On the exports revenue, it is expected to be Rs. 500-550 crore in FY2021 and 10-15% growth is expected thereafter. The company has its presence in 45 countries and it is process of getting approval in USA which will take 5-6 months providing further opportunities. Earlier the company had deleveraged its balance sheet by raising funds through QIP. Due to improved visibility on the future outlook and healthy balance sheet of the company we upgrade our company view from grey to green.

Valuation - Retain Buy with a revised PT of Rs. 645

KEI's outlook is expected to be positive with its diversified user industries, increased focus on retail, high-margin EHV cables, and export sales along with focused industry approach as well as utilisation-driven capex plans likely to help in sustaining a strong growth trajectory. We expect revenue and PAT to report a CAGR of 18% and 24%, respectively, during FY2021-2023E. The stock is currently trading at a P/E of 15.0x/12.4x its FY2022E/FY2023E EPS which remains at a discount to its average peak PE. Hence, we retain Buy on the stock with a revised price target (PT) of Rs. 645.

One-year forward P/E (x) band



Source: Sharekhan Research

Peer Comparison

Particulars	P/E (x)			EV/EBITDA (x)			RoCE (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
KEI Industries	19.2	15.0	12.4	8.4	7.0	5.8	19.7	21.3	22.0
Polycab	31.3	25.4	22.9	18.6	15.3	13.2	21.4	22.6	22.3
Finolex Cables	22.2	15.9	13.3	12.2	8.9	7.4	12.3	15.6	16.9

Source: Company, Sharekhan estimates

About company

KEI is among the top three organised 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 clients 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 and real estate. The company has built its manufacturing facilities at Bhiwadi and Chopanki (in Rajasthan) and Silvassa (Dadra and Nagar Haveli). KEI 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 and EPC services 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 specialised offerings to tap niche segments such as the shipping sector and oil and petroleum plants. 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. KEI has sharpened its focus on branding of its retail wires which has increased to 15-20% of its revenues, complemented by rising distribution. On account of a growing dealer network and brand-building initiatives (advertising and sponsoring), performance-linked schemes and dealer-electrician meets etc., we expect KEI to further increase its retail presence. Government initiatives such as 'Housing for All by 2022' and affordable housing under 'Pradhan Mantri Awas Yojana' could boost growth in HW and LT cables segments.

Key Risks

- KEI's products are used primarily by power utilities, infrastructure, real estate and industrial segments. Any slowdown in these sectors can significantly impact demand for KEI's products.
- A majority of KEI's products are highly competitive in nature and face strong threat from other large players.

Additional Data

Key management personnel

Mr. Anil Gupta	Executive Director-Chairperson
Mrs. Akshit Diviaj Gupta	Executive Director
Mrs. Archana Gupta	Non-Executive - Non Independent Director
Mr. Rajeev Gupta	Executive Director and CFO

Source: Company

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Gupta Anil	20.48
2	PROJECTION FIN AND MANAGEMENT	8.83
3	Franklin Resources Inc	4.89
4	HDFC Asset Management Co Ltd	4.5
5	SHUBH LAXMI MOTELS & INNS.	3.89
6	Soubhagya Agency Pvt Ltd	3.49
7	DSP Investment Managers Pvt Ltd	3.42
8	KEI CABLES PVT LTD	1.76
9	VANTAGE EQUITY FUND	1.73
10	Sundaram Asset Management Co Ltd	1.57

Source: 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

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