Sharekhan
by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

KEI Industries Ltd

Strong performance, margins steady yoy

Capital Goods	Sharekhan code: KEI	Result Update

Stock 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. 751**	
Price Target: **Rs. 909**	↑

↑ Upgrade ↔ Maintain ↓ Downgrade

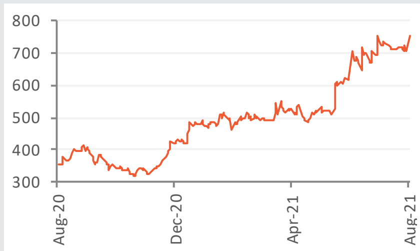
Company details

Market cap:	Rs. 6,748 cr
52-week high/low:	Rs. 763/319
NSE volume: (No of shares)	1.1 lakh
BSE code:	517569
NSE code:	KEI
Free float: (No of shares)	3.9 cr

Shareholding (%)

Promoters	39.2
FII	18.1
DII	25.9
Others	16.8

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	4	44	57	111
Relative to Sensex	0.1	9	5	43

Sharekhan Research, Bloomberg

Summary

- We retain Buy rating KEI Industries Limited (KEI) with a revised PT of Rs. 909, given its positive outlook going ahead and reasonable valuation.
- KEI reported better than expected performance for Q1FY22 led by strong growth in cables and stainless steel wire segment. Low EPC sales mix leads to lower working capital needs.
- Management retains FY2022 revenue growth of 18-20% with sustainable margins of 11% and a similar range in revenues and margins in consecutive years
- Focus on expanding retail franchise and EHV business while EPC business to be scaled down.

KEI reported better-than-expected performance for Q1 FY22 with revenue/ EBITDA/ PAT at Rs. 1018 cr/ Rs 114 cr/ Rs 67 cr (+37% y-o-y/ +49% y-o-y/ +71% y-o-y). The performance was driven by strong growth in cables and stainless steel wire segment. Domestic Institutional cable sale (HT& LT) grew by 93% y-o-y at Rs 423 crore while cables exports declined 62.97% y-o-y (execution of one large export order in Q1FY2021). Total Institutional Cable including exports sales (50% revenue share Vs 63% in Q1FY2021) increased by 9.05% y-o-y in Q1FY2022. Low EPC revenue share (8.45% Vs 10.47% in Q1FY2021) led to reduced working capital requirement. Sales through Dealer/ Distribution market increased by approx 108% y-o-y in Q1 FY22. KEI reported better-than-estimated OPM 11.2% (+94bps) led by a rise in gross profit margin (31%, +80bps y-o-y) due to cost optimisation initiatives along with the pass through of commodity price inflation. Consequently, operating profit grew by 49% y-o-y (-17% q-o-q) at Rs. 114 crore. Strong operational performance led to net profit growth of 71% y-o-y (-22% q-o-q) at Rs. 67 crore (higher than our estimate). KEI's pending order as on Q1FY2022 end stood at ~Rs 3,022 Crore. The company is witnessing good export opportunities in markets such as Australia and Africa while Middle East remains little slow. However, due to travelling constraints and the absence of large orders, exports have been slower. To compensate for export shortfall, the company is eyeing domestic markets, where it is seeing orders from metro projects, fertilisers, domestic refineries, railways, and wind and solar projects. In order to further tap into the opportunities arising from the export market, KEI is looking to build a new authorized dealer and distribution network in international markets with focus on both domestic and industrial cables and wires. The working capital cycle is expected to come down to ~2.5 -2.75 months in FY2022 as management will be lowering its EPC exposure (revenue run-rate of Rs. 1000 crore to be scaled down to Rs. 450-500 crore) and focus towards retail which would further strengthen the balance sheet. The management is focused on expanding its retail franchise through expanding the dealer and distribution base (currently at 1,650 and expects it to increase by ~20 y-o-y) and expects its retail segment to grow by 35% y-o-y in FY22 and its institutional business by 25% y-o-y. The release of funds from EPC business would be utilized towards the retail segment's growth. On capacity expansion, the company will be doing capex of Rs. 600-700 crore over the next four years which will be funded through internal accruals. Management retained FY2022 revenue growth guidance of 18-20% y-o-y with sustainable margins of 11% and a similar range revenues and margins in consecutive years. The company's net debt including acceptances too has come down to Rs 336 crore in Q1FY22 from Rs 407 crore as on March 21 which further strengthens its balance sheet. 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 utilisation-driven capex plans will help propel the company in the current environment. The stock is currently trading at a P/E of 16x/14x its FY2023E/FY2024E EPS which leaves further room for upside. Hence, we retain Buy on the stock with a revised (PT) of Rs. 909.

Key positives

- Better than expected revenues along with higher than estimated OPM.
- The company's net debt including acceptances reduces q-o-q further strengthening its balance sheet.

Key negatives

- EHV sales declined as Rs 75 cr worth of material could not be dispatched due to lockdown

Our Call

Valuation: Retain Buy with a revised PT of Rs. 909: 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 which is likely to help in sustaining a strong growth trajectory. An uptick in housing demand bodes well for KEI given its increased focus on brand building, distribution expansion & increasing B2C sales ahead of proposed entry into FMEG products. The stock is currently trading at a P/E of 16x/14x its FY2023E/FY2024E EPS which leaves further room for upside. Hence, we retain Buy on the stock with a revised (PT) of Rs. 909.

Key risk

in raw-material prices could sharply affect margins.

Valuation (Standalone) Rs cr

Particulars	FY21	FY22E	FY23E	FY24E
Revenue	4,181	4,904	5,832	6,922
OPM (%)	11.0	11.0	11.1	11.1
Adjusted PAT	273	335	412	469
% YoY growth	*12%*	*23%*	*23%*	*14%*
Adjusted EPS (Rs.)	30	37	46	52
P/E (x)	24.7	20.1	16.4	14.4
P/B (x)	2.0	1.7	1.4	0.8
EV/EBITDA (x)	8.8	7.3	5.9	2.8
RoNW (%)	20.2	21.0	21.4	21.0
RoCE (%)	15.4	16.0	16.5	16.0

Source: Company; Sharekhan estimates

Strong performance: KEI reported Q1 FY22 results above our estimates with revenue/ EBITDA/ PAT at Rs. 1018 cr/ Rs 114 cr/ Rs 67 cr (+37%/ +49%/ +71%). The performance was as a result of strong growth in cables and the stainless-steel wire segment. Gross profit margin stood at 31% (+80bps) whereas OPM was at 11.2% (+94bps) due to cost optimisation initiatives along with the pass through of commodity price inflation. Domestic Institutional cable sale (HT& LT) grew by 93% at Rs 423 Crore. In Q1 FY22 exports of cable declined by 62.97% y-o-y due to execution of one large export order. Total Institutional Cable Sale including export increased by 9.05% in Q1 FY22 and it contributed 50.34% in Q1 FY22 against 63.09% in Q1 FY21. During the Q1 FY22, EPC contribution reduced to 8.45% from 10.47%, which will reduce working capital requirement of the company. Sales through Dealer/ Distribution market increased by approx 108% y-o-y in Q1 FY22. The total active working dealer of the company as on 30.06.2021 was approx. 1650. The total pending order as on 28.07.21 was approx. Rs 3,022 Crore.

Growth prospects remains bright ahead: The management remains optimistic on expanding its retail franchise through expanding the dealer and distribution base (currently at 1,650 numbers and expects it to increase by ~20 y-o-y) and expects its retail segment to grow by 35% y-o-y in FY22 and its institutional business by 25% y-o-y. As mentioned earlier, the company will cut down its EPC business from earlier levels of Rs. 1,000 crore to ~Rs 450-500 crore and utilize the money to channelize the retail segment's growth. The management expects FY2022 revenue growth of 17-18% with sustainable margins of 11% and a similar range revenues and margins in consecutive years. The working capital cycle is expected to come down to ~2.5 -2.75 months in FY2022 as management will be lowering down its EPC exposure and focus on retail which would further strengthen the balance sheet. To mitigate the rise in commodity prices especially copper, the company has takena price hike of 40-45%.

KEI Q1FY2022 Conference call highlights

- **Guidance:** The management expects FY2022 revenue growth of 18-20% with sustainable margins of 11% and a similar range in revenues and margins in consecutive years.
- **EHV sales** declined as Rs 75 cr worth of material could not be dispatched due to lockdown, it has been dispatched in July.
- **EPC focus to come down:** As reiterated previously, the company will be focusing more on its retail wires and cables and expects it to reach 40-45% of sales in couple of years and will lower down its EPC contraction from earlier levels of Rs. 1,000 crore to ~Rs. 450-500 crore (slow recovery from the government has been an issue) and utilise the money to channelise the retail segment's growth.
- **Expansion of the retail/ institutional cable business:** The retail business largely comprises housing wires and is expected to grow by ~35% in FY2022 while in Institutional cable (domestic) it expects growth of 25% y-o-y
- **Capacity expansion:** On capacity expansion, the company will be doing capex of Rs. 600-700 crore over the next four years which will be funded through internal accruals.
- **Commodity risk:** To mitigate rise in commodity prices especially copper, the company has taken price hikes of 40-45%
- **Working capital:** Working capital is expected to come down to ~2.5-2.75 months in FY2022 as management will be lowering down its EPC exposure and focus towards retail.
- **Capacity utilisation in FY2021: Cables:** 66%, housing wires: 43%, SS wire: 100.
- **Order book:** The pending orders stand at Rs3022 cr of which EPC consists of Rs 1160 cr, EHV Rs 502 cr, domestic sales of cables Rs 1310 cr and exports Rs 50 cr

- **Dealer expansion:** The company's current dealer/distributor network is 1,650 which will be increased at ~20% per annum along with increased area coverage. New teams assigned to retail to expand the distribution channels
- **Net Debt:** The company's net debt including acceptances too has come down to Rs 336 crore in Q1FY22 from Rs 407 crore as on March 21 which further strengthens its balance sheet.

Results (Standalone) Rs cr

Particulars	Q1 FY22	Q1 FY21	YoY	Q4 FY21	QoQ
Total Income	**1017.6**	**745.3**	**37%**	**1246.3**	**-18%**
EBITDA	**113.7**	**76.3**	**49%**	**137.4**	**-17%**
Other Income	2.8	8.6	-68%	2.5	11%
Interest	11.4	16.8	-32%	12.5	-9%
Depreciation	13.9	14.6	-5%	14.5	-5%
PBT	**91.2**	**53.5**	**70%**	**112.9**	**-19%**
Total Tax	24.1	14.3	69%	26.8	-10%
Reported PAT	67.1	39.2	71%	86.1	-22%
Adjusted PAT	**67.1**	**39.2**	**71%**	**86.1**	**-22%**
Adjusted EPS	**7.5**	**4.4**	**71%**	**9.6**	**-22%**
Margin (%)			**bps**		**bps**
GPM	31%	30%	80	30%	79
OPM	11%	10%	94	11%	15
PAT Margin	7%	5%	133	7%	-31
Tax Rate	26%	27%	-	24%	-

Source: Company; Sharekhan Research

Outlook and Valuation

Sector View – Ample levers offer scope for growth

The domestic demand side is improving with unlocking, infrastructure, and construction 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 and cables industry (including exports) has grown from 6.3 million 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 a 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.

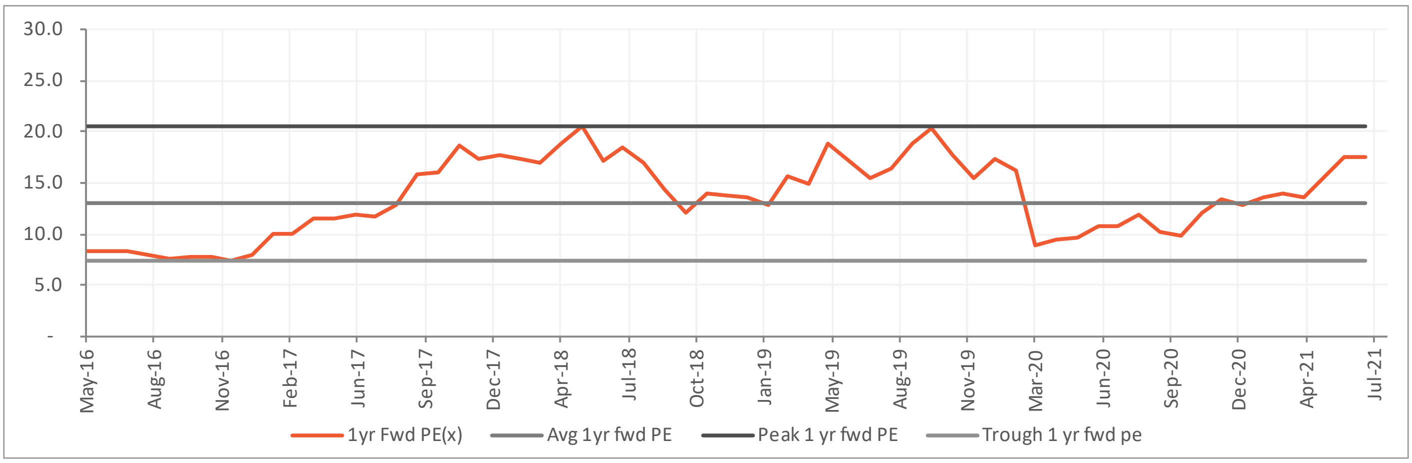
Company Outlook – Going back to business

The management remains optimistic on 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 1,650 and expects it to increase by -20% y-o-y) and expects its retail segment to reach 40% of revenue by FY2023. The management will also cut down its EPC business from earlier levels 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, while the total capacity is Rs. 1,000 crore-1,100 crore between the company and Universal cables and opportunity size remains huge. The company will be doing Greenfield capex of Rs. 175 crore in LT, HT, and EHV in FY2022 (to be funded through internal accruals). Going ahead, the company will be doing Rs. 150 crore-170 crore capex per annum and expects to generate 5x-6x of revenue from capex. The mmanagement expects FY2022 revenue growth of 17-18% with sustainable margins of 11% and a similar range revenues and margins in consecutive years. On the exports front, management remains focused and is expected to improve ahead as travelling restrictions ease further.

Valuation – Valuation: Retain Buy with a revised PT of Rs. 909

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 which is likely to help in sustaining its strong growth trajectory. An uptick in housing demand bodes well for KEI given its increased focus on brand building, distribution expansion & increasing B2C sales ahead of its proposed entry into FMEG products. The stock is currently trading at a P/E of 16x/14x its FY2023E/FY2024E EPS which leaves further room for an upside. Hence, we retain a Buy on the stock with a revised (PT) of Rs. 909.

One-year forward P/E (x) band



Source: Sharekhan Research

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 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, and real estate, etc. KEI has built its manufacturing facilities at Bhiwadi and Chopanki (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 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, oil and petroleum plants, etc. The company is now looking at tapping several large realty brands and strengthening 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. Total retail revenue has registered a CAGR of ~31% FY2014-FY2018. Because of a growing dealer network and brand-building initiatives (advertising and sponsoring), performance-linked schemes, and dealer-electrician meets etc., we expect KEI to increase its retail presence further. Government initiatives such as 'Housing for All by 2022', affordable housing under 'Pradhan Mantri Awas Yojana,' etc., could boost growth in HW and LT cables segments.

Key Risks

- **Fluctuations in raw-material prices:** Any sharp increase or decrease in key raw materials – copper and aluminium will affect margins sharply.
- **Currency risk:** A decent part of 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	Executive Director-Chairperson
Mrs. Akshit Diviaj Gupta	Executive Director
Mrs. Archana Gupta	Non-Executive – Non-Independent Director
Mr. Rajeev Gupta	Executive Director

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Gupta Anil	23.06
2	PROJECTION FIN AND MANAGEM	9.94
3	Franklin Resources Inc	6.09
4	HDFC Asset Management Co Ltd	5.06
5	SHUBH LAXMI MOTELS & INNS.	4.38
6	Soubhagya Agency Pvt Ltd	3.93
7	KEI CABLES PVT LTD	1.98
8	VANTAGE EQUITY FUND	1.95
9	Sundaram Asset Management Co Ltd	1.57
10	Dimensional Fund Advisors LP	1.56

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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