



Powered by the Sharekhan 3R Research Philosophy

## 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  
Updated July 08, 2022 **24.61**

Medium Risk

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

Source: Morningstar

## Company details

Market cap:	Rs. 13,534 cr
52-week high/low:	Rs. 1,607 / 801
NSE volume: (No of shares)	2.68 lakh
BSE code:	517569
NSE code:	KEI
Free float: (No of shares)	5.6 cr

## Shareholding (%)

Promoters	38.0
FII	26.5
DII	19.5
Others	16.0

## Price chart



## Price performance

(%)	1m	3m	6m	12m
Absolute	5.7	19.1	49.1	79.1
Relative to Sensex	7.1	6.8	45.3	79.3

Sharekhan Research, Bloomberg

## KEI Industries Ltd

On a sustainable growth path

## Capital Goods

Sharekhan code: KEI

Reco/View: Buy



CMP: Rs. 1,502

Price Target: Rs. 1,765



Upgrade



Maintain



Downgrade

## Summary

- We interacted with KEI Industries Limited (KEI) and came out confident on the company's capability to gain market share in wires, strengthen leadership in EHV, LT and HT cables through capacity expansion, and focus on expanding its retail business.
- Management has maintained 17-18% revenue CAGR target over the next two-three years. Management expects OPM to be at ~10.5% in FY2023 and, thereafter, move up to 11%.
- Healthy balance sheet with net cash position, improving working capital cycle, and strong return ratios give us further comfort.
- We retain our Buy rating on KEI with a revised PT of Rs. 1,765, factoring in KEI's formidable position in the W&C, which would help it capture robust demand in institutional and retail segments.

Our interaction with KEI Industries Limited's (KEI) management reinstates our bullish outlook, supported by robust demand outlook in institutional, retail, as well as exports. The company is expediting efforts to gain market share, expanding its retail business and capacity to cater to the rising demand. The recent decline in commodity prices may not lead to significant margin expansion, as 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 the retail segment and EHV cables) and operating leverage due to volume growth would lead to margin improvement. Further, improvement in the working capital cycle and strong and improving return ratios give us comfort.

**Robust revenue and margin guidance for the medium to long term:** KEI targets to grow its total revenue by 18-20% y-o-y in FY2023 and maintain a 17-18% CAGR in the coming years. The company expects the retail segment to contribute 45% to total revenue in FY23 (over 50% to total revenue in the next two-three years). The company expects exports to contribute 12% to the total revenue and the rest would come from institutional sales. The company expects continuous demand from public and private capex. The institutional segment is witnessing strong demand from oil and gas, refinery, tunnelling, and ventilation projects on highways as well as railways and metro rail projects, transmission and solar projects, cement, steel, and real estate. In retail, dealer network expansion and strong demand for housing wires (55-60% of the retail business) hold the key for robust 30-35% growth. Further, overhead electric transmission networks continue to move underground in large cities, which would generate demand for cables.

**Capacity expansion to cater to rising demand:** 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 its capacity expansion and the first phase should be commercially operational by FY2023E. The company is undertaking greenfield capacity expansion in LT, HT, and EHV cables with capex of ~Rs. 800 crore over 3-4 years through internal accruals. The company through debottlenecking would also improve capacity utilisation of its existing plants by 5-7% per annum. Annual capex is expected to be Rs. 200 crore-250 crore (including spending on new manufacturing facility at Baroda, Gujarat) over the next two-three years. The company also aims to explore FMEG opportunities in the near term, adding one to two products once retail sales reach about 50% of total sales.

**Strong balance sheet; Margin improvement will be led by higher retail contribution:** KEI's working capital cycle has improved over the years with increased contribution from retail to total revenue. In FY2022, retention money of ~Rs. 150 crore was received from clients for EPC contracts. This strengthened cash flows from Rs. 154 crore in FY2021 to Rs. 229 crore in FY2022. Improved cash flows helped the company in paying off its debt. As per our interaction, KEI is a net-cash company currently. The company expects OPM to be 10-10.5% for FY2023, post which margin could reach 11% by FY2024. Increasing contribution of retail sales would ensure better cash flows and lower working capital requirements, thus leading to better margins.

**Revision in estimates –** We have maintained our estimates for FY2022-FY2024E.

## Our Call

**Valuation: Retain Buy with a revised PT of Rs. 1,765:** KEI is on a healthy and sustainable growth trajectory as it is catering to diversified user industries, increasing its focus on retail, strengthening its high-margin EHV cables through capex, and focusing on improving exports. Management has provided strong demand outlook in both retail and institutional segments, driven by private capex and increased 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%/~24% over FY2022-FY2025E. The stock is currently trading at a P/E of ~21x its September FY2024E EPS. Therefore, we reiterate our Buy rating on the stock with a revised PT of Rs. 1,765 valuing the stock on its September 2024E EPS.

## 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)

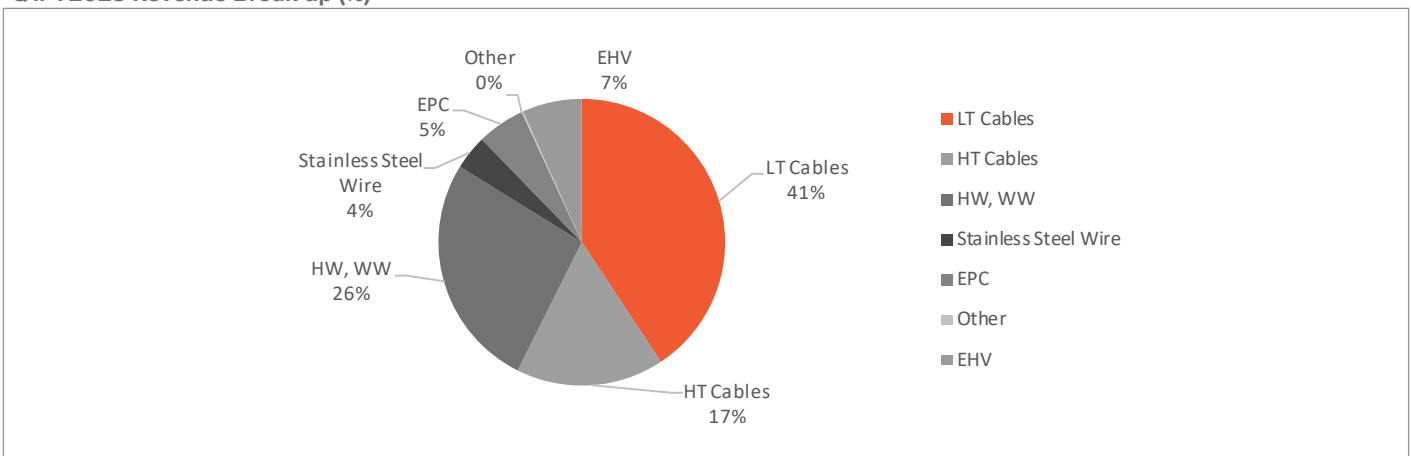
Particulars	FY22	FY23E	FY24E	FY25E
Revenue	5,727	6,769	8,023	9,346
OPM (%)	10.3	10.6	11.0	11.2
Adjusted PAT	376	489	592	712
% y-o-y growth	39.6	29.9	21.2	20.2
Adjusted EPS (Rs.)	41.8	54.2	65.7	79.1
P/E (x)	36.0	27.7	22.8	19.0
P/B (x)	1.6	1.3	1.1	0.9
EV/EBITDA (x)	7.2	5.6	4.4	3.4
RoNW (%)	17.7	18.8	18.7	18.4
RoCE (%)	22.5	23.1	23.5	23.5

Source: Company; Sharekhan estimates

## Robust revenue and margin guidance for the medium to long term

KEI targets to grow its total revenue by 18-20% y-o-y in FY2023 and maintain a 17-18% CAGR in the coming years. The company wants to increase its market share in house wires to 8% (currently ~6%); while in cables, the company has a market share of ~12%. The company expects the retail segment to contribute 45% to total revenue in FY2023 (over 50% to total revenue in the next two-three years). The increasing contribution of the retail segment to total revenue would reduce the pricing gap with its competitors. The company expects exports to contribute 12% to the total revenue and the rest would come from institutional sales. The company expects continuous demand from public and private capex. The institutional segment is witnessing strong demand from oil and gas, refinery, tunnelling, and ventilation projects on highways as well as railways and metro rail projects, transmission and solar projects, cement, steel, and real estate. In retail, dealer network expansion and strong demand for housing wires (55-60% of the retail business) holds the key for robust 30-35% growth. Further, overhead electric transmission networks continue to move underground in large cities, which would induce demand for cables.

Q1FY2023 Revenue Break-up (%)



Source: Company, Sharekhan Research

\*Low tension (LT), High tension (HT), Housing wires (HW), Winding wires (WW), Extra high voltage (EHV)

## Capacity expansion to cater to rising demand

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 capacity expansion and the first phase should be commercially operational by FY2023E. The company is undertaking greenfield capacity expansion in LT, HT, and EHV cables with capex of ~Rs. 800 crore over 3-4 years through internal accruals. The company through debottlenecking would also improve capacity utilisation of its existing plants by 5-7% per annum. Annual capex is expected to be Rs. 200 crore-250 crore (including spending on the new manufacturing facility at Baroda, Gujarat) over the next two-three years. The company also aims to explore FMEG opportunities in the near term, adding one to two products once retail sales reach about 50% of total sales.

## Margin improvement will be led by higher retail contribution and lower input cost

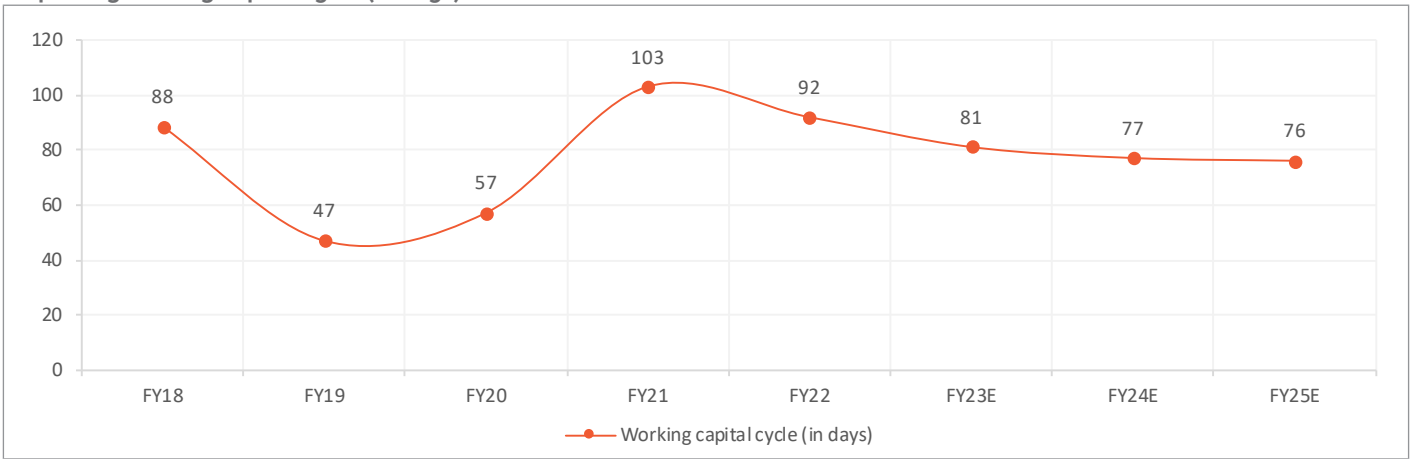
The company expects OPM to be 10-10.5% for FY2023, post which margin could reach to 11% by FY2024. Increasing contribution of retail sales would ensure better cash flows and lower working capital requirements, thus leading to better margins. The sharp drop in copper prices recently may not have a material impact on margin as material procurement is usually done as per ongoing market rates. However, there could be a lag of 15-20 days in price adjustments and, thereby, a marginal impact may be seen on margins. Raw-material

prices are hedged back-to-back with suppliers, therefore there may be a minor impact on 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.

### Balance sheet getting stronger

KEI's working capital cycle has improved over the years with increased retail contribution to total revenue. In FY2022, retention money of ~Rs. 150 crore was received from clients for EPC contracts. This strengthened cash flows from Rs. 154 crore in FY2021 to Rs. 229 crore in FY2022. Improved cash flows helped the company in paying off its debt and, as per our interaction, KEI is a net-cash company currently.

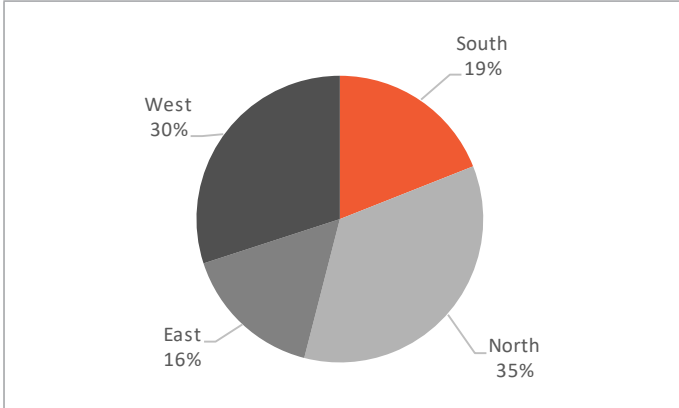
### Improving working capital cycle (in days)



Source: Company, Sharekhan Research

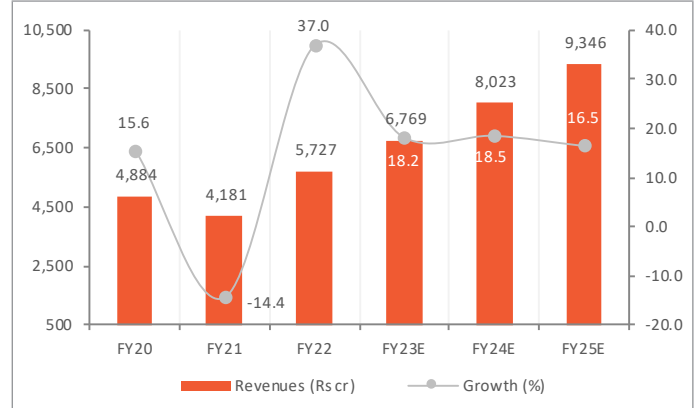
**Financials in charts**

**Regional revenue break-up (%)**



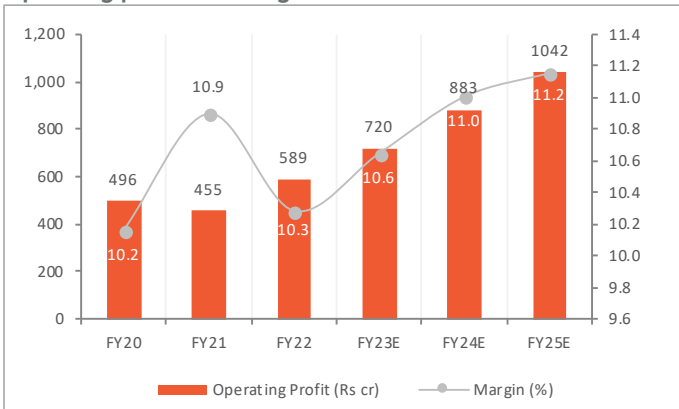
Source: Sharekhan Research

**Revenue growth trend**



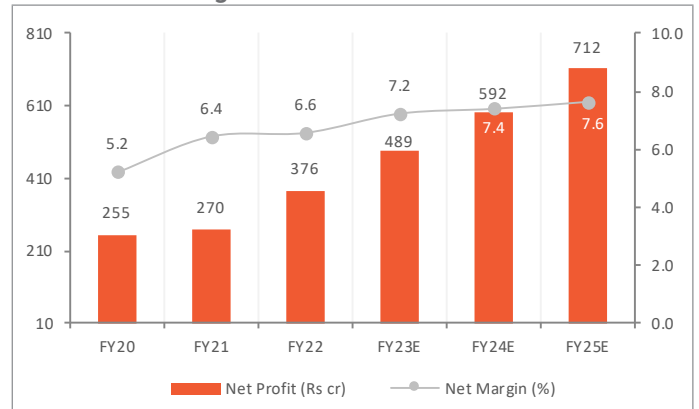
Source: Sharekhan Research

**Operating profit and margin trend**



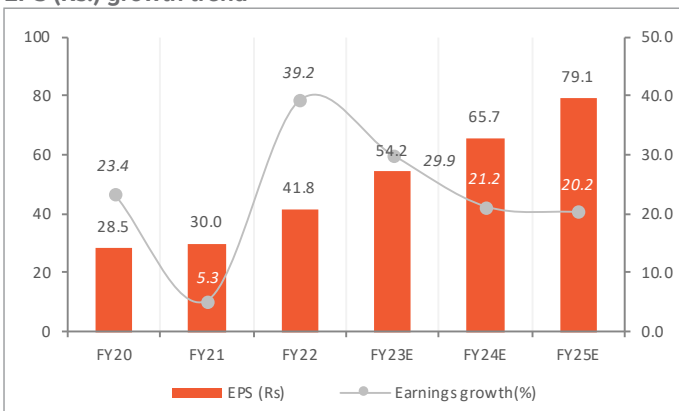
Source: Sharekhan Research

**Net Profit and margin trend**



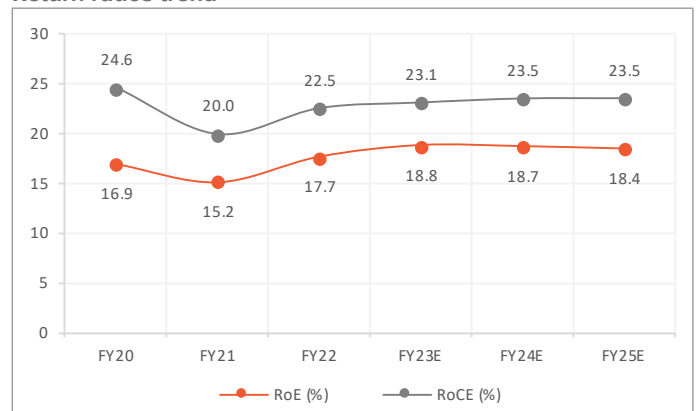
Source: Sharekhan Research

**EPS (Rs.) growth trend**



Source: Sharekhan Research

**Return ratios trend**



Source: 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 (W&C) market is estimated to be worth around Rs. 600 billion-650 billion, accounting for around two-fifths of the domestic electrical industry. In terms of volumes, the Indian 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 W&C 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 domestic W&C business has grown by 20-25% in FY2022, mostly due to greater realisation because of inflation. The government has envisaged 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.

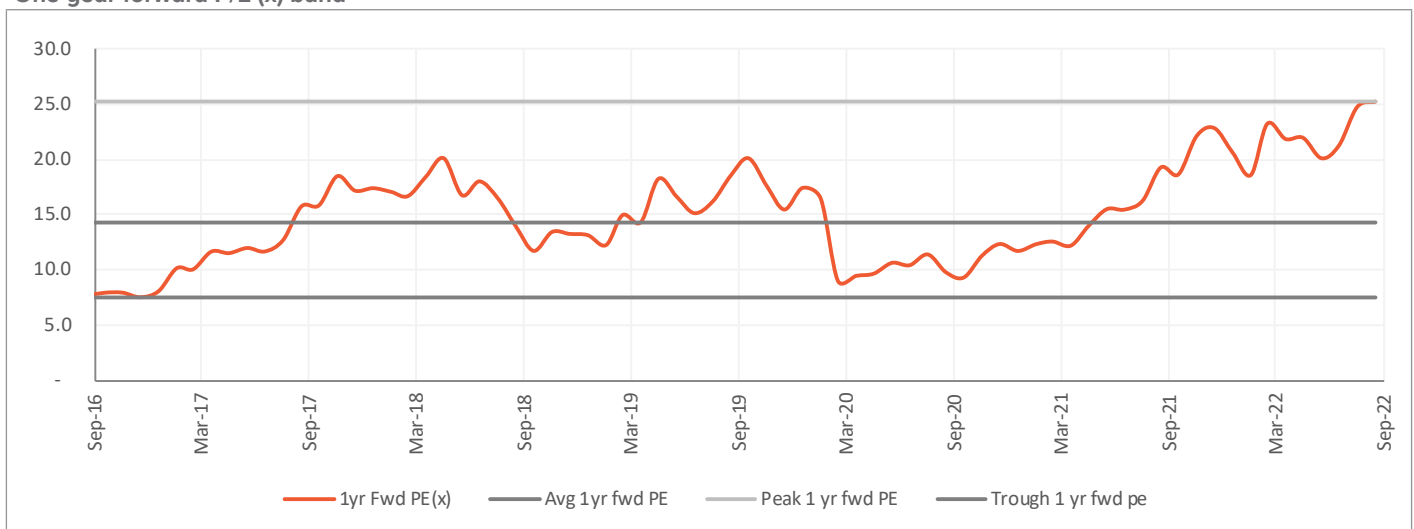
### ■ Company Outlook – High growth to be added by capacity expansion plan

Management remains optimistic about the retail and EHV segments in the longer run. Management 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. 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, total capacity is Rs. 1,000 crore-1,100 crore between the company and Universal cables. The company will be undertaking greenfield capex of ~Rs. 800 crore in LT, HT, and EHV over a three to four-year period. Management expects 17-18% y-o-y revenue CAGR in the next two-three years.

### ■ Valuation – Retain Buy with a revised PT of Rs. 1,765

KEI is on a healthy and sustainable growth trajectory as it is catering to diversified user industries, increasing its focus on retail, strengthening its high-margin EHV cables through capex, and focusing on improving exports. Management has provided strong demand outlook in both retail and institutional segments, driven by private capex and increased 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%/~24% over FY2022-FY2025E. The stock is currently trading at a P/E of ~21x its September FY2024E EPS. Therefore, we reiterate our Buy rating on the stock with a revised PT of Rs. 1,765 valuing the stock on its September 2024E EPS.

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. 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 specialised offerings to tap niche segments such as the real estate, shipping, oil and petroleum plants, etc. The company is now looking at tapping several large realty brands and strengthen 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 deepen its retail presence and gain market share.

## 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. Akshit Divij Gup-ta	Executive Director
Mrs. Archana Gupta	Non-Executive – Non-Independent Director
Mr. Rajeev Gupta	CFO

Source: Company Website

### Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	HDFC Trustee Co Ltd	2.68
2	Franklin Build India Fund	2.65
3	DSP Value Fund	2.23
4	Invesco Asset Management India Pvt. Ltd.	1.99
5	Vanguard Group Inc.	1.98
6	Massachusetts Institute Of Technology	1.89
7	William Blair and Co.	1.84
8	Canara Robeco Asset Management Co.	1.55
9	L&T Mutual Fund	1.50
10	Sundaram Asset Management Ltd.	1.32

Source: Bloomberg

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## 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 deteriorating 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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