



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 Oct 08, 2022 24.61

Medium Risk

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

Source: Morningstar

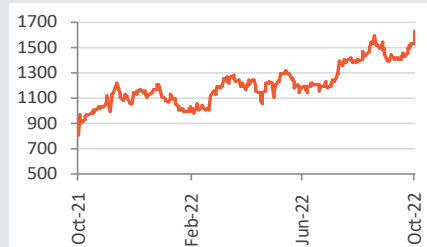
Company details

Market cap:	Rs. 14,687 cr
52-week high/low:	Rs. 1,655/801
NSE volume: (No of shares)	2.4 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	12.6	35.9	38.8	101.1
Relative to Sensex	10.1	29.1	33.6	103.4

Sharekhan Research, Bloomberg

KEI Industries Ltd

Q2 lower than estimates, Robust long-term outlook

Capital Goods	Sharekhan code: KEI		
Reco/View: Buy	↔	CMP: Rs. 1,630	Price Target: Rs. 1,895 ↑
↑ Upgrade	↔ Maintain	↓ Downgrade	

Summary

- We retain a Buy rating on KEI Industries (KEI) with a revised PT of Rs. 1,895 factoring in a promising growth outlook and 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.
- KEI's Q2FY2023 performance was below our expectations but met street expectations with ~20%/~19% volume/value growth in \ wires and cables (W&C) segment. OPM declined by 82 bps y-o-y to 10% due to poor EHV sales and input cost volatility.
- Management has maintained 17-18% revenue CAGR target for the next two-three years. Management expects OPM to be at ~10.5% in FY2023 and, thereafter, move up to ~11%.
- KEI's formidable position in W&C industry would help it capture robust demand in institutional and retail segments. Healthy balance sheet with net cash position and improving working capital cycle give us further comfort.

KEI Industries' Q2FY2023 standalone performance was below our estimates, but in-line with street expectations. Its sales grew by ~19% y-o-y to Rs 1,608 crore (vs our expectations of Rs 1,819 crore). The sales growth was driven by the strong performance of the domestic institutional wire and cables business and exports. However, EHV sales declined y-o-y due to the non-clearance of certain orders by utilities. Total institutional cable sales including export contributed 43% in Q2FY2023 against 48% in Q2FY2022. Retail sales through the dealer/distribution market increased by ~31% y-o-y and contributed ~47% to overall sales. The volatility in commodity prices and inflationary pressures as well as poor sales in high margin EHV segment weighed on profitability with the operating margin declining by ~82bps y-o-y to 10% (vs our estimate of 10.8%). Net profit grew by ~16% y-o-y to Rs 107crore (below our estimate of Rs 136crore). Net cash adjusting for acceptances stands at Rs 109 crore (vs Rs 404crore of net debt in Q2FY2022). The management maintains revenue growth guidance of ~17% (of which the retail segment is to grow at 30-35%) in FY2023 and aims to achieve an OPM of ~10.5%. The company would be undertaking greenfield expansion in the cables segment at an investment of ~Rs. 800 crore (land acquisition for which has been delayed but likely to be completed in the next three-four months) to maintain its growth trajectory in the long term.

Key positives

- The company has become net cash at Rs 109 crore (vs Rs 404 crore of net debt in Q2FY2022). This would further reduce interest cost.
- Revenues from the dealer/distribution network increased by ~31% y-o-y contributing over 47% to total revenues.
- The demand outlook is robust as both public and private Capex is picking up.
- Volume growth for H1FY2023 has been around 25% (metal volumes – copper and aluminum).

Key negatives

- OPM remained under pressure due to poor sales in EHV cables and volatility in raw material cost.
- EHV sales have been impacted due to the non-clearance of certain orders by utilities. Exports revenue came lower at Rs 80 crore vs Rs 85 crore in Q2FY2022.
- There has been a delay in land acquisition for green field capacity expansion in LT, HT and EHV cables.

Management Commentary

- The company retained its revenue growth guidance of 17% with retail sales growing at 30-35% and OPM@10.5% for FY2023E.
- The management expects continuous demand generation in the long term from government infrastructure spending, private industrial capex and real estate. It expects good demand in the coming quarters in both institutional and retail businesses due to the cooling off of commodity prices.
- The price cuts by the company have been gradual. North and West markets contributed 66% to total revenues.
- The company had approximately 1,900 total active dealers as on September 2022.
- Since the greenfield capacity expansion in LT, HT, and EHV has been delayed, the company has incurred capex of Rs35 crore which would improve the capacity utilization of its Silvassa plant and help the company achieve revenue growth guidance for the next two years.

Revision in estimates – We have tweaked our estimates for FY2022-FY2025E.

Our Call

Valuation: Retain Buy with a revised PT of Rs. 1,895: 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 a strong demand outlook in both retail and institutional segments, driven by private capex and increased government spending, respectively. Improving the working capital cycle owing to the increase in retail business and strong return ratios gives us further comfort. We expect revenue/PAT CAGR of ~17%/~22% over FY2022-FY2025E. The stock is currently trading at a P/E of ~23x its September FY2024E EPS. We reiterate our Buy rating on the stock with a revised PT of Rs. 1,895 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	6,693	7,859	9,148
OPM (%)	10.3	10.5	10.9	11.1
Adjusted PAT	376	478	574	690
% y-o-y growth	39.6	27.1	20.1	20.2
Adjusted EPS (Rs.)	41.8	53.1	63.7	76.6
P/E (x)	39.0	30.7	25.6	21.3
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	18.5	18.3	18.1
RoCE (%)	22.5	22.7	23.0	23.1

Source: Company; Sharekhan estimates

Lower EHV sales drag down performance, retail posts strong growth

KEI Industries' Q2FY2023 standalone performance was below our estimates but in-line with street expectations. Its sales grew by ~19% y-o-y to Rs 1,608 crore (vs our expectation of Rs 1,819 crore). The sales growth was driven by the strong performance of domestic institutional wire and cables business and exports. However, EHV sales declined y-o-y due to non-clearance of certain orders by utilities. Total institutional cable sales including export contributed 43% in Q2FY2023 against 48% in Q2FY2022. Retail sales through dealer/ distribution market increased by ~31% y-o-y and contributed ~47% to overall sales. The volatility in commodity prices and inflationary pressures as well as poor sales in high margin EHV segment weighed on profitability with operating margin declining by ~82bps y-o-y to 10% (vs our estimate of 10.8%). Net profit grew by ~16% y-o-y to Rs 107crore (below our estimate of Rs 136crore). Net cash adjusting for acceptances stands at Rs 109 crore (vs Rs 404crore of net debt in Q2FY2022). The management maintains revenue growth guidance of ~17% (of which retail segment to grow at 30-35%) in FY2023 and aims to achieve OPM of ~10.5%. The company would be undertaking greenfield expansion in the cables segment at an investment of ~Rs. 800 crore (land acquisition for which has been delayed but likely to be completed in the next three-four months) to maintain a high-growth trajectory in the long term.

Robust future outlook

KEI targets to maintain 17-18% revenue 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, tunneling, 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 induce demand for cables.

KEI Q2FY2023 Conference call highlights:

- ◆ **Decline in EHV sales:** EHV sales have declined to Rs 44 crore due to non-clearance of certain orders by utilities. However, this would be normalized during the year. Overall growth in institutional sales is 15%.
- ◆ **B to C segment demand:** The company expects demand to be strong as commodity prices are declining and inflation is also normalizing gradually.
- ◆ **Strong retail sales:** The sales through the dealer network were at Rs 760 crore (+31% y-o-y). Sales through the distribution network are at 47% of total sales vs 43% in Q2FY2022. EPC sales came in flat at Rs 91 crore (vs 92 crore in Q2FY2022).
- ◆ **Stainless steel sales:** Sales of stainless steel is Rs 70 crore vs 52 crore (+35% y-o-y).
- ◆ **Decline in input cost:** The company stated that there has been a correction in input cost by 20-22% in cables and stainless-steel wire segments due to a decline in copper and aluminum prices.
- ◆ **Inventory level:** Inventory levels are at normal levels of 25-30 days.
- ◆ **Capex –** The company incurred a brownfield capex of Rs 35-40 crore in H1FY2023 at its Silvassa plant. This would help the company achieve its targeted growth of 17% revenue CAGR for FY2023/FY2024. The overall capacity utilization is 75-78% currently.
- ◆ **Strengthening dealers base –** The company has 1,900 active dealers and it is increasing dealers by 10% every year. Currently, it is strengthening its existing dealer network and working with electricians, dealers and distributors to grow its retail sales.
- ◆ **Price reduction –** The price reduction has been gradual following the decline in input cost. The price gaps are more in wires and not in cables.
- ◆ **Exports –** The company is focused on growing its institutional business as it receives direct approvals from the project and sells it to EPC contractors directly and does not want to pursue a distribution model.

- ◆ **Release of retention money would further improve the working capital cycle** – The company would receive Rs 100 crore of retention money in its EPC business and therefore receivables would further decline from 2.9 months to 2.4-2.5 months. Further, the company has reduced trade payables and acceptances which should further reduce finance costs.
- ◆ **OPM guidance** – The decline in input prices has impacted finished goods inventory which has led to 0.5-1% impact on margin. However, on a full-year basis, the company will be maintaining 10.5% OPM which indicates that the margin should improve in H2FY2023.
- ◆ **Demand outlook** – The demand outlook is very promising in energy, infrastructure, steel, aluminum, cement, refinery, Further railways, metro, highways, power and airports are also seeing increased order placements and execution. In addition, an uptick in real estate activities would lead to demand for wires and cables.

Results (Standalone)

Particulars	Rs cr				
	Q2FY23	Q2FY22	YoY %	Q1FY23	QoQ %
Net Sales	1,608	1,353	18.8	1,565	2.7
Operating Profit	161	146	9.8	160	0.6
Other Income	5	3	104.7	4	49.3
Interest	8	10	(23.4)	9	(17.4)
Depreciation	14	14	3.3	14	4.2
PBT	144	125	15.1	140	2.7
Tax	37	33	12.0	36	1.6
Reported PAT	107	92	16.2	104	3.0
Adjusted PAT	107	92	16.2	104	3.0
Adj. EPS (Rs.)	11.9	10.2	16.2	11.5	3.0
Margin			BPS		BPS
OPM (%)	10.0	10.8	(82)	10.2	(21)
NPM (%)	6.6	6.8	(15)	6.6	2
Tax rate (%)	25.6	26.4	(71)	25.9	(26)

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 (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 from 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..

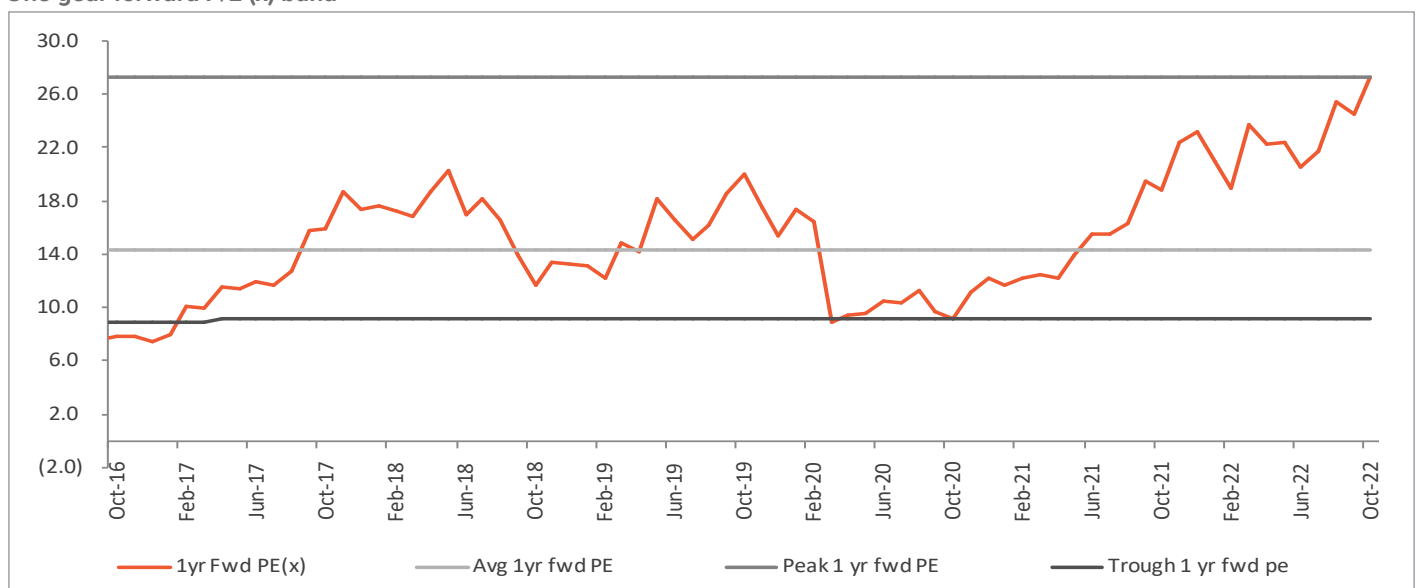
■ Company outlook - High growth to be added by the capacity expansion plan

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 utilize 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 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. 1,895

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 a strong demand outlook in both retail and institutional segments, driven by private capex and increased government spending, respectively. Improving the working capital cycle owing to the increase in retail business and strong return ratios gives us further comfort. We expect revenue/PAT CAGR of ~17%/~22% over FY2022-FY2025E. The stock is currently trading at a P/E of ~23x its September FY2024E EPS. We reiterate our Buy rating on the stock with a revised PT of Rs. 1,895 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 specialized offerings to tap niche segments such as real estate, shipping, 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 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 Diviaj 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	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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