

January 24, 2023

Q3FY23 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	HOLD		HOLD	
Target Price	1,572		1,555	
Sales (Rs. m)	80,444	91,013	77,992	88,857
% Chng.	3.1	2.4		
EBITDA (Rs. m)	9,048	10,371	8,773	10,304
% Chng.	3.1	0.7		
EPS (Rs.)	68.2	78.6	65.1	77.8
% Chng.	4.8	1.1		

Key Financials - Consolidated

Y/e Mar	FY22	FY23E	FY24E	FY25E
Sales (Rs. m)	57,265	69,954	80,444	91,013
EBITDA (Rs. m)	5,887	7,189	9,048	10,371
Margin (%)	10.3	10.3	11.2	11.4
PAT (Rs. m)	3,760	4,858	6,131	7,061
EPS (Rs.)	41.8	54.1	68.2	78.6
Gr. (%)	39.5	29.2	26.2	15.2
DPS (Rs.)	2.5	4.5	5.5	6.5
Yield (%)	0.2	0.3	0.4	0.4
RoE (%)	19.2	20.5	21.2	20.1
RoCE (%)	24.2	26.3	28.0	26.6
EV/Sales (x)	2.4	1.9	1.6	1.5
EV/EBITDA (x)	23.0	18.6	14.6	12.9
PE (x)	36.0	27.9	22.1	19.2
P/BV (x)	6.3	5.2	4.3	3.5

Key Data

KEIN.BO | KEII IN

52-W High / Low	Rs.1,662 / Rs.905
Sensex / Nifty	60,979 / 18,118
Market Cap	Rs.136bn / \$ 1,664m
Shares Outstanding	90m
3M Avg. Daily Value	Rs.350.24m

Shareholding Pattern (%)

Promoter's	37.32
Foreign	26.84
Domestic Institution	19.10
Public & Others	16.74
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	7.0	27.0	36.0
Relative	5.0	16.7	28.2

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Healthy growth momentum continue

Quick pointers:

- Expected Revenue/PAT CAGR of 16.7%/23.3% over FY22-25E.
- Expected higher margin to be maintained at 11%+.

We have revised upward our earnings estimate by 5.9%/4.8%/1.1% for FY23/FY24/FY25. Given strong demand outlook despite inflationary environment, management maintained its revenue CAGR at 17-18% and expects margins of 11%+ in the near term. We are positive on the company for long term given 1) focus on diversifying product portfolio and de-risking business (retail accounts for ~45%) 2) focus on scaling up distribution network (1,900 dealers, will grow by 10% p.a), 3) healthy balance sheet with net cash of Rs 2.1bn (including acceptances) by Dec-23 and 4) 17-18% growth in housing wires with improvement in real estate sector. KEII aims to achieve Rs 100bn in revenue by FY26 with an EBITDA margin target of 11-12%. We estimate Sales/EBITDA/PAT CAGR of 16.7%/20.8%/23.3% over FY22-25E then value the stock at 20x FY25 EPS and arrive at target price of Rs1,572 (Rs 1,555 earlier). Maintain 'HOLD' rating.

Revenues grew by 14%, PAT up by 27%: Sales grew 14.1% YoY to ~Rs17.8 bn (PLe: Rs17.2bn). Cables segment grew 16.2% YoY to Rs16.3 bn, Stainless Steel revenue decline 14.5% YoY to Rs557mn, EPC projects segment decline 8.0% YoY to Rs2.2bn. EBITDA grew by 16.2% YoY to Rs1.8bn (PLe: Rs1.8bn). EBITDA margin at 10.2% (PLe: 10.3%). In cables, EBIT margins contracted by 40bps YoY to 9.3%. Stainless Steel Wires/EPC EBIT margins expanded by 530bps/300bps YoY to 10.0%/12.5%. Adj. PAT stood to Rs1.3bn (+27.0%YoY; PLe Rs1.2bn). Domestic Institutional Wire & Cable sale grew by 13.8% YoY, whereas export insti sales declined 24.5% YoY. Dealer/distributor driven sales grew by 25.6%YoY to Rs 7.96bn. Dealer count is ~1900 vs 1700 in Q3FY22. Pending order book stood at Rs34.4bn in Q3FY23. Gross Debt stood at Rs1.6bn vs Rs3.31bn (FY22). Cash balance stood at Rs3.76bn vs Rs3.60bn (FY22).

Con call highlights: **1)** KEI is targeting for 17-18% revenue growth in next couple of years, **2)** Industry growth traction to continue mainly from government focus on infra, housing, rural electrifications & improving transmission lines and from sectors like steel, real estate, renewable energy etc., **3)** Cable business expected to grow at 14-15%, Housing wire at 17-18% and EHV to reach Rs5.5bn by FY24, **4)** KEI expected to do capex of Rs 2.0-2.5bn per year in FY24 & FY25, **5)** Dealer expansion is underway and 10% growth is targeted every year, with focus on increasing revenue per dealer, **6)** Receivable days in 9MFY23 is improved to 2.37 months, reduced by 15days. Management expects it to reach 2.2months in FY24, **7)** Management highlighted that unorganized market share is shrinking every year, **8)** KEI has 25% market-share in EHV segment plus import is reducing, as 400kv cables are being manufactured in the country now. Universal cable, LS cable, KEC are other players in the segment, **9)** Silvasa plant expected to add revenue of Rs 5bn in LT cable in FY24, **10)** Capacity utilization: 87%/78%/88% in cables/HW/SS.

Exhibit 1: Q3FY23 Result Overview: Sales grew by 14.1% YoY; PAT grew by 27.0% YoY

Y/e March	Q3FY23	Q3FY22	YoY gr.	Q2FY23	QoQ gr.	9MFY23	9MFY22	YoY gr.
Net Sales	17,843	15,638	14.1%	16,081	11.0%	49,578	39,348	26.0%
Expenditure								
Operating & Manufacturing Expenses	13,705	12,009	14.1%	12,378	10.7%	38,054	29,483	29.1%
<i>% of Net Sales</i>	<i>76.8%</i>	<i>76.8%</i>		<i>77.0%</i>		<i>76.8%</i>	<i>74.9%</i>	
Gross Profit	4,138	3,630	14.0%	3,702	11.8%	11,524	9,865	16.8%
<i>% of Net Sales</i>	<i>23.2%</i>	<i>23.2%</i>		<i>23.0%</i>		<i>23.2%</i>	<i>25.1%</i>	
Personnel Cost	595	511	16.5%	508	17.2%	1,663	1,507	10.3%
<i>% of Net Sales</i>	<i>3.3%</i>	<i>3.3%</i>		<i>3.2%</i>		<i>3.4%</i>	<i>3.8%</i>	
Other Expenses	1,722	1,551	11.0%	1,589	8.4%	4,837	4,190	15.4%
<i>% of Net Sales</i>	<i>9.6%</i>	<i>9.9%</i>		<i>9.9%</i>		<i>9.8%</i>	<i>10.6%</i>	
Total Expenditure	16,021	14,070	13.9%	14,475	10.7%	44,554	35,181	26.6%
EBITDA	1,822	1,568	16.2%	1,606	13.5%	5,024	4,168	20.5%
<i>Margin (%)</i>	<i>10.2%</i>	<i>10.0%</i>		<i>10.0%</i>		<i>10.1%</i>	<i>10.6%</i>	
Other income	138	17	704.0%	53	161.2%	226	68	233.1%
Depreciation	144	137	4.9%	145	-0.3%	428	416	2.8%
EBIT	1,815	1,448	25.4%	1,514	19.9%	4,822	3,819	26.2%
Interest	78	90	-13.5%	76	2.0%	246	303	-18.9%
PBT before exceptional item	1,737	1,358	27.9%	1,438	20.9%	4,576	3,516	30.1%
Total Taxes	451	346	30.6%	369	22.4%	1,183	916	29.2%
<i>ETR (%)</i>	<i>26.0%</i>	<i>25.5%</i>		<i>25.6%</i>		<i>25.9%</i>	<i>26.1%</i>	
Share of JV/Associates	0	0		0		0	0	
Minority Interest	0	0		0		0	0	
Adj. PAT	1,286	1,012	27.0%	1,069	20.3%	3,393	2,600	30.5%

Source: Company, PL

Exhibit 2: Segmental Breakup: Cable revenues grew by 16.6%, while margins contracted by 40bps YoY

Y/e March	Q3FY23	Q3FY22	YoY gr.	Q2FY23	QoQ gr.	9MFY23	9MFY22	YoY gr.
Revenues								
Cables	16,334	14,057	16.2%	14,445	13.1%	44,984	35,013	28.5%
Stainless Steel Wire	557	652	-14.5%	735	-24.1%	1,902	1,648	15.5%
EPC	2,234	2,428	-8.0%	1,059	111.0%	4,828	6,560	-26.4%
Less: Inter-segment result	1,282	1,498		158		2,137	3,873	
Revenues	17,843	15,638	14.1%	16,081	11.0%	49,578	39,348	26.0%
EBIT								
Cables	1,515	1,366	10.9%	1,261	20.1%	4,050	3,551	14.0%
<i>EBIT margin (%)</i>	<i>9.3%</i>	<i>9.7%</i>	<i>-0.4%</i>	<i>8.7%</i>	<i>0.5%</i>	<i>9.0%</i>	<i>10.1%</i>	<i>-1.1%</i>
Stainless Steel Wire	56	31	82.1%	45	25.5%	131	103	27.8%
<i>EBIT margin (%)</i>	<i>10.0%</i>	<i>4.7%</i>	<i>5.3%</i>	<i>6.1%</i>	<i>4.0%</i>	<i>6.9%</i>	<i>6.2%</i>	<i>0.7%</i>
EPC	280	233	20.4%	148	88.9%	523	571	-8.3%
<i>EBIT margin (%)</i>	<i>12.5%</i>	<i>9.6%</i>	<i>3.0%</i>	<i>14.0%</i>	<i>-1.5%</i>	<i>10.8%</i>	<i>8.7%</i>	<i>2.1%</i>
Less: inter-segment result	104	95	9.6%	-41	-354.3%	12	190	-93.8%
Total	1,747	1,534	13.9%	1,495	16.8%	4,692	4,034	16.3%
<i>EBIT margin (%)</i>	<i>9.8%</i>	<i>9.8%</i>	<i>0.0%</i>	<i>9.3%</i>	<i>0.5%</i>	<i>9.5%</i>	<i>10.3%</i>	<i>-0.8%</i>

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
Net Revenues	57,265	69,954	80,444	91,013
YoY gr. (%)	36.9	22.2	15.0	13.1
Cost of Goods Sold	43,422	53,675	60,775	68,578
Gross Profit	13,843	16,278	19,668	22,435
Margin (%)	24.2	23.3	24.5	24.7
Employee Cost	2,006	2,239	2,574	2,912
Other Expenses	3,841	4,437	5,271	6,011
EBITDA	5,887	7,189	9,048	10,371
YoY gr. (%)	29.2	22.1	25.9	14.6
Margin (%)	10.3	10.3	11.2	11.4
Depreciation and Amortization	555	574	743	868
EBIT	5,332	6,615	8,305	9,503
Margin (%)	9.3	9.5	10.3	10.4
Net Interest	404	345	278	316
Other Income	146	279	238	331
Profit Before Tax	5,074	6,549	8,265	9,518
Margin (%)	8.9	9.4	10.3	10.5
Total Tax	1,315	1,691	2,134	2,458
Effective tax rate (%)	25.9	25.8	25.8	25.8
Profit after tax	3,760	4,858	6,131	7,061
Minority interest	-	-	-	-
Share Profit from Associate	0	-	-	-
Adjusted PAT	3,760	4,858	6,131	7,061
YoY gr. (%)	39.5	29.2	26.2	15.2
Margin (%)	6.6	6.9	7.6	7.8
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	3,760	4,858	6,131	7,061
YoY gr. (%)	39.5	29.2	26.2	15.2
Margin (%)	6.6	6.9	7.6	7.8
Other Comprehensive Income	8	-	-	-
Total Comprehensive Income	3,768	4,858	6,131	7,061
Equity Shares O/s (m)	90	90	90	90
EPS (Rs)	41.8	54.1	68.2	78.6

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
Non-Current Assets				
Gross Block	7,818	10,861	13,138	14,917
Tangibles	7,738	10,771	13,028	14,787
Intangibles	80	90	110	130
Acc: Dep / Amortization	2,509	3,083	3,826	4,694
Tangibles	2,450	3,014	3,745	4,597
Intangibles	59	69	82	97
Net fixed assets	5,309	7,778	9,312	10,223
Tangibles	5,288	7,757	9,284	10,190
Intangibles	21	21	28	33
Capital Work In Progress	165	100	100	100
Goodwill	-	-	-	-
Non-Current Investments	148	308	331	349
Net Deferred tax assets	(294)	(337)	(391)	(453)
Other Non-Current Assets	38	36	36	36
Current Assets				
Investments	-	-	-	-
Inventories	10,794	11,499	13,224	16,208
Trade receivables	13,955	14,374	16,529	22,442
Cash & Bank Balance	3,604	3,699	5,327	4,023
Other Current Assets	969	1,399	1,609	1,820
Total Assets	35,270	39,586	46,867	55,596
Equity				
Equity Share Capital	180	180	180	180
Other Equity	21,175	25,928	31,654	38,221
Total Networkth	21,355	26,107	31,834	38,400
Non-Current Liabilities				
Long Term borrowings	202	134	81	50
Provisions	294	332	362	410
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	3,112	1,439	1,483	1,977
Trade payables	7,626	8,970	10,157	11,461
Other current liabilities	2,387	2,308	2,655	3,003
Total Equity & Liabilities	35,270	39,586	46,867	55,596

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
PBT	5,074	6,549	8,265	9,518
Add. Depreciation	555	574	743	868
Add. Interest	404	345	278	316
Less Financial Other Income	146	279	238	331
Add. Other	55	(359)	(209)	(271)
Op. profit before WC changes	6,088	7,109	9,077	10,431
Net Changes-WC	(2,555)	(438)	(2,621)	(7,519)
Direct tax	(1,247)	(1,691)	(2,134)	(2,458)
Net cash from Op. activities	2,286	4,980	4,322	454
Capital expenditures	(596)	(2,978)	(2,277)	(1,779)
Interest / Dividend Income	19	279	238	331
Others	(6)	(1,000)	-	(1,500)
Net Cash from Inv. activities	(584)	(3,699)	(2,039)	(2,948)
Issue of share cap. / premium	56	-	-	-
Debt changes	674	(1,736)	28	500
Dividend paid	(271)	-	(404)	(494)
Interest paid	(404)	(345)	(278)	(316)
Others	(368)	-	-	-
Net cash from Fin. activities	(313)	(2,080)	(654)	(311)
Net change in cash	1,390	(800)	1,629	(2,804)
Free Cash Flow	1,690	2,002	2,045	(1,325)

Source: Company Data, PL Research

Key Financial Metrics

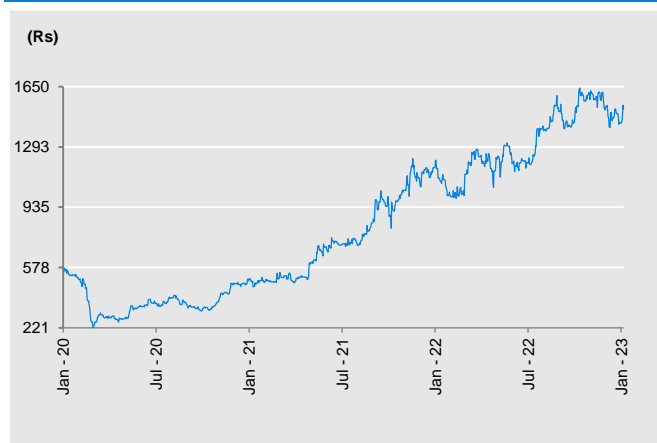
Y/e Mar	FY22	FY23E	FY24E	FY25E
Per Share(Rs)				
EPS	41.8	54.1	68.2	78.6
CEPS	48.0	60.5	76.5	88.2
BVPS	237.7	290.5	354.3	427.4
FCF	18.8	22.3	22.8	(14.7)
DPS	2.5	4.5	5.5	6.5
Return Ratio(%)				
RoCE	24.2	26.3	28.0	26.6
ROIC	20.8	21.8	24.4	21.4
RoE	19.2	20.5	21.2	20.1
Balance Sheet				
Net Debt : Equity (x)	0.0	(0.1)	(0.1)	(0.1)
Net Working Capital (Days)	109	88	89	109
Valuation(x)				
PER	36.0	27.9	22.1	19.2
P/B	6.3	5.2	4.3	3.5
P/CEPS	31.4	24.9	19.7	17.1
EV/EBITDA	23.0	18.6	14.6	12.9
EV/Sales	2.4	1.9	1.6	1.5
Dividend Yield (%)	0.2	0.3	0.4	0.4

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q4FY22	Q1FY23	Q2FY23	Q3FY23
Net Revenue	17,917	15,654	16,081	17,190
YoY gr. (%)	43.8	53.8	18.8	9.9
Raw Material Expenses	13,939	11,761	12,091	13,116
Gross Profit	3,978	3,683	3,702	4,074
Margin (%)	22.2	23.5	23.0	23.7
EBITDA	1,720	1,596	1,606	1,771
YoY gr. (%)	21.5	40.4	9.8	12.9
Margin (%)	9.6	10.2	10.0	10.3
Depreciation / Depletion	139	139	145	145
EBIT	1,581	1,457	1,461	1,625
Margin (%)	8.8	9.3	9.1	9.5
Net Interest	100	92	76	72
Other Income	78	35	53	95
Profit before Tax	1,559	1,400	1,438	1,648
Margin (%)	8.7	8.9	8.9	9.6
Total Tax	399	363	369	429
Effective tax rate (%)	25.6	25.9	25.6	26.0
Profit after Tax	1,160	1,038	1,069	1,220
Minority interest	-	-	-	-
Share Profit from Associates	-	1	-	-
Adjusted PAT	1,160	1,039	1,069	1,220
YoY gr. (%)	29.8	54.8	16.6	20.5
Margin (%)	6.5	6.6	6.6	7.1
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	1,160	1,039	1,069	1,220
YoY gr. (%)	29.8	54.8	16.6	20.5
Margin (%)	6.5	6.6	6.6	7.1
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	1,160	1,039	1,069	1,220
Avg. Shares O/s (m)	90	90	90	90
EPS (Rs)	12.9	11.6	11.9	13.6

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	06-Jan-23	Hold	1,555	1,503
2	27-Jul-22	Accumulate	1,273	1,214
3	04-Jul-22	Accumulate	1,273	1,198
4	10-May-22	Accumulate	1,273	1,149
5	27-Apr-22	Accumulate	1,154	1,195
6	11-Apr-22	Accumulate	1,154	1,274
7	28-Jan-22	Accumulate	1,183	1,090

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Bajaj Electricals	Hold	1,147	1,196
2	Crompton Greaves Consumer Electricals	BUY	435	338
3	Havells India	BUY	1,447	1,205
4	KEI Industries	Hold	1,555	1,503
5	Polycab India	Hold	2,750	2,761
6	Voltas	BUY	1,030	815

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly



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