



## 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 Mar 08, 2023

24.61

## Medium Risk

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

Source: Morningstar

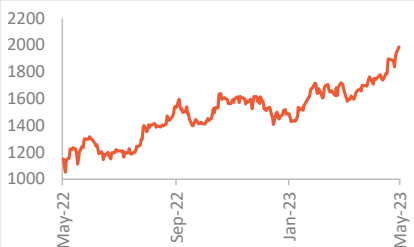
## Company details

Market cap:	Rs. 17,921 cr
52-week high/low:	Rs. 2,009/1,040
NSE volume: (No of shares)	1.95 lakh
BSE code:	517569
NSE code:	KEI
Free float: (No of shares)	5.7 cr

## Shareholding (%)

Promoters	37.2
FII	19.6
DII	27.4
Others	15.9

## Price chart



## Price performance

(%)	1m	3m	6m	12m
Absolute	11.3	15.7	24.1	61.5
Relative to Sensex	9.0	15.4	23.9	51.9

Sharekhan Research, Bloomberg

## KEI Industries Ltd

## In-line Q4, capex and healthy demand to boost growth

## Capital Goods

## Sharekhan code: KEI

## Reco/View: Buy



Upgrade



Maintain

CMP: Rs. 1,987

Price Target: Rs. 2,215



Downgrade

## Summary

- We retain our Buy rating on KEI Industries Limited (KEI) with a revised PT of Rs. 2,215, factoring in a healthy demand outlook in the domestic market and capacity expansion across its product categories.
- Q4FY2023 performance was in-line with estimates. Sales were driven by healthy volume growth of ~13% and ~20% in Q4FY2023 and FY2023, respectively. OPM jumped up by 83 bps y-o-y to 10.4% and net profit grew at a healthy pace of 19% y-o-y to Rs 138 crore.
- Management expects 16-17% revenue growth in FY2023, which would be supported by brownfield expansion in Silvassa plant. Thereafter, it aims to maintain a 17-18% revenue CAGR for the next couple of years. Management expects OPM to increase by 100-150 bps from current levels.
- KEI's leading position in the W&C industry and strengthening retail business would help it leverage on the opportunities. Healthy balance sheet with net cash of ~Rs. 400 crore and improving working capital cycle are other key positives.

KEI Industries Limited's (KEI) Q4FY2023 performance was broadly in-line with our estimates. The company's total revenue grew by ~9% y-o-y to Rs. 1,955 crore, led by a 13% y-o-y increase in volumes. Growth was driven by a healthy performance of both domestic institutional and retail wire and cables business, while EHV cables reported a dip in revenue. A decline in raw-material cost and other operating expenses resulted in an ~80bps y-o-y increase in OPM to 10.4% (slightly above our estimate of 10.2%). Net profit grew by ~19% y-o-y to Rs. 138 crore, led by healthy operating performance. The company maintained its net cash status (including acceptances) with Rs. 400 crore. The company stated that volumes in wires are better as compared to cables due to robust demand from infrastructure and industrial segments. For FY2023, KEI reported robust volume growth of ~20%, largely led by 31% growth in wires. The company would be undertaking greenfield expansion in the cables segment at an investment of ~Rs. 800 crore (Rs. 250-300 crore capex p.a.) in the coming years to maintain a high-growth trajectory in the long term. This would help the company achieve revenue growth guidance of 16-17% in FY2024E and 17-18% revenue CAGR over the next few years.

## Key positives

- Volume growth in W&C was 13% during the quarter, while volumes for FY2023 grew by 20% y-o-y.
- The company is net cash at ~Rs 400 crore.
- Revenue from the dealer/distribution network increased by ~14.5% y-o-y, contributing over 42% to total revenue.
- The demand outlook remains robust across its user industries.

## Key negatives

- A 35% y-o-y decline in other income to Rs. 5 crore.
- Domestic institutional EHV cables revenue came lower at Rs. 102 crore in Q4FY2023 vs. Rs. 146 crore in Q4FY2022.

## Management Commentary

- Management has guided for 16-17% revenue growth in FY2024 and expects a 17-18% revenue CAGR in the next few years.
- The company plans to invest Rs. 800 crore to increase its capacity to cater to increasing demand across its product categories. Total FY2024E capex is likely to be Rs. 300-350 crore, including brownfield expansion.
- Total active working dealer base was 1,910 in numbers.
- The industry outlook is promising as there is a strong demand momentum from the manufacturing sector, infrastructure development projects as well as real estate.

## Our Call

**Valuation: Retain Buy with a revised PT of Rs. 2,215:** KEI has performed well in Q4FY2023 and FY2023 with strong volume growth. We believe the company 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, and carrying out capex to meet the rising demand. Management has provided an optimistic demand outlook in both the retail and institutional segments, driven by private capex and increased government spending, respectively. Improving working capital cycle, owing to an increase in the retail business and strong return ratios, gives us further comfort. We expect revenue/PAT CAGR of ~18%/~23% over FY2023-FY2025E. The stock is currently trading at a P/E of ~25x its FY2025E EPS. We reiterate our Buy rating on the stock with a revised price target (PT) of Rs. 2,215, valuing the stock on its FY2025E 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	FY23	FY24E	FY25E
Revenue	5,727	6,912	8,131	9,541
OPM (%)	10.3	10.2	10.6	11.1
Adjusted PAT	376	477	585	723
% y-o-y growth	39.6	26.9	22.5	23.7
Adjusted EPS (Rs.)	41.8	52.9	64.8	80.2
P/E (x)	47.6	37.5	30.7	24.8
P/B (x)	7.3	6	4.9	4
EV/EBITDA (x)	30.4	24.8	20.4	16.4
RoNW (%)	17.6	18.4	18.6	18.8
RoCE (%)	22	24.6	24.8	25.4

Source: Company Data; Sharekhan estimates

## Healthy volumes in wires lead the show

Q4FY2023 performance was broadly in-line with our estimates. The company's total revenue grew by ~9% y-o-y to Rs. 1,955 crore, led by a 13% y-o-y increase in volumes. Growth was driven by healthy performance of both the domestic institutional and retail wire and cables businesses, while EHV cables reported a dip in revenue. The decline in raw-material cost and other operating expenses resulted in an ~80bps y-o-y increase in OPM to 10.4% (slightly above our estimate of 10.2%). Net profit grew by ~19% y-o-y to Rs. 138 crore, led by healthy operating performance. The company maintained its net cash status (including acceptances) with Rs. 400 crore. The company stated that volumes in wires are better as compared to cables due to robust demand from infrastructure and industrial segments. For FY2023, KEI reported robust volume growth of ~20%, largely led by 31% growth in wires.

## Capacity expansion and sector tailwinds to drive long-term growth

KEI targets a 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 over 50% to the total revenue in the next two-three years. Increasing contribution of the retail segment to total revenue would reduce the pricing gap with its competitors. The institutional segment is witnessing strong demand from oil and gas, refinery, railways, metro rail projects, transmission, solar projects, cement, steel, and real estate. In retail, dealer network expansion and strong demand for housing wires (55-60% of the retail business) are key for robust 30-35% growth. Further, overhead electric transmission networks continue to move underground in large cities, which would induce demand for cables. The company would be undertaking greenfield expansion in the cables segment at an investment of ~Rs. 800 crore (Rs. 250-300 crore capex p.a.) in the coming years to maintain a high-growth trajectory in the long term. This would help the company achieve its revenue growth guidance.

## KEI's Q4FY2023 Conference Call and Investor Update Highlights:

- ♦ **Decent growth in domestic institutional wire and cable (W&C) sales** – Domestic institutional W&C sales stood at Rs. 712 crore (~8% y-o-y).
- ♦ **Robust volume growth for Q4FY2023 and FY2023:** Volume growth in W&C was 13%/20% in Q4FY2023/FY2023, largely led by strong volumes in wires.
- ♦ **Strong retail sales:** Sales through the dealer/distribution market increased by ~15% y-o-y in Q4FY2023. Sales through dealer/ distribution contributed ~42% to overall sales in Q4FY2023 and ~44% in FY2023.
- ♦ **Update on the EHV segment's performance:** Domestic institutional EHV sales stood at Rs. 102 crore (down 30% y-o-y) due to slow-moving orders. For FY2023, EHV sales have stood at Rs. 348 crore and the company expects sales of over ~Rs. 550 crore in FY2024.
- ♦ **Capex guidance:** The company would be undertaking brownfield capex of Rs. 45 crore in its Silvassa plant for increasing capacity of LT power cables. This shall help the company earn revenue of Rs. 500 crore and enable 16-17% revenue growth in FY2024. The company is doing greenfield expansion in its Gujarat plant and production would commence in 18 months from the end of September/December 2024. The company plans to undertake Rs. 250-300 crore capex in the next three years to achieve a 17-18% revenue CAGR in the long term.
- ♦ **Margin guidance:** The company expects OPM to increase by 100-150 bps in the next few years from 10.5-11% currently.
- ♦ **Robust industry outlook:** The industry outlook is promising as there is demand emanating from manufacturing sectors like steel, oil and gas, cement, and miscellaneous industries. Further, infrastructure-development projects (metro, highways, and railways) and real estate look promising. Solar energy projects have also picked up and, therefore, the company is seeing strong growth from solar developers. The Revamped Distribution Sector Scheme (RDSS) has also led to good demand from power developers.

- ♦ **Exports target for FY2023:** The company is present in Australia, the Middle East, and some of the African countries and aims to gain a strong foothold in US markets in FY24. The company expects exports contribution in total sales to grow to 10-12% (as compared to 10% in FY2023).
- ♦ **Dealers count to increase every year:** The total active working dealer strength of the company is 1,910 dealers. Dealer expansion is underway and the addition of 100-150 dealers is targeted every year, with a focus on increasing revenue per dealer.
- ♦ **Capacity utilisation:** Utilisation in the cables, housing wires, and stainless-steel segment is at 91%, 79%, and 87%, respectively.

Results (Standalone)

Particulars	Q4FY23	Q4FY22	YoY%	Q4FY23	Rs cr QoQ%
Net Sales	1,955	1,792	9.1	1,784	9.5
Operating Profit	204	172	18.6	182	11.9
Other Income	5	8	(35.3)	14	(63.2)
Interest	10	10	0.4	8	29.8
Depreciation	14	14	3.3	14	(0.7)
PBT	184	156	18.4	174	6.2
Tax	46	40	16.1	45	2.7
Adjusted PAT	138	116	19.2	129	7.4
Adj. EPS (Rs.)	15.3	12.9	19.2	14.3	7.4
Margin			BPS		BPS
OPM (%)	10.4	9.6	83	10.2	22
NPM (%)	7.1	6.5	60	7.2	(14)
Tax rate (%)	25.1	25.6	(49)	26.0	(85)

Source: Company Data; 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. Regarding 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.

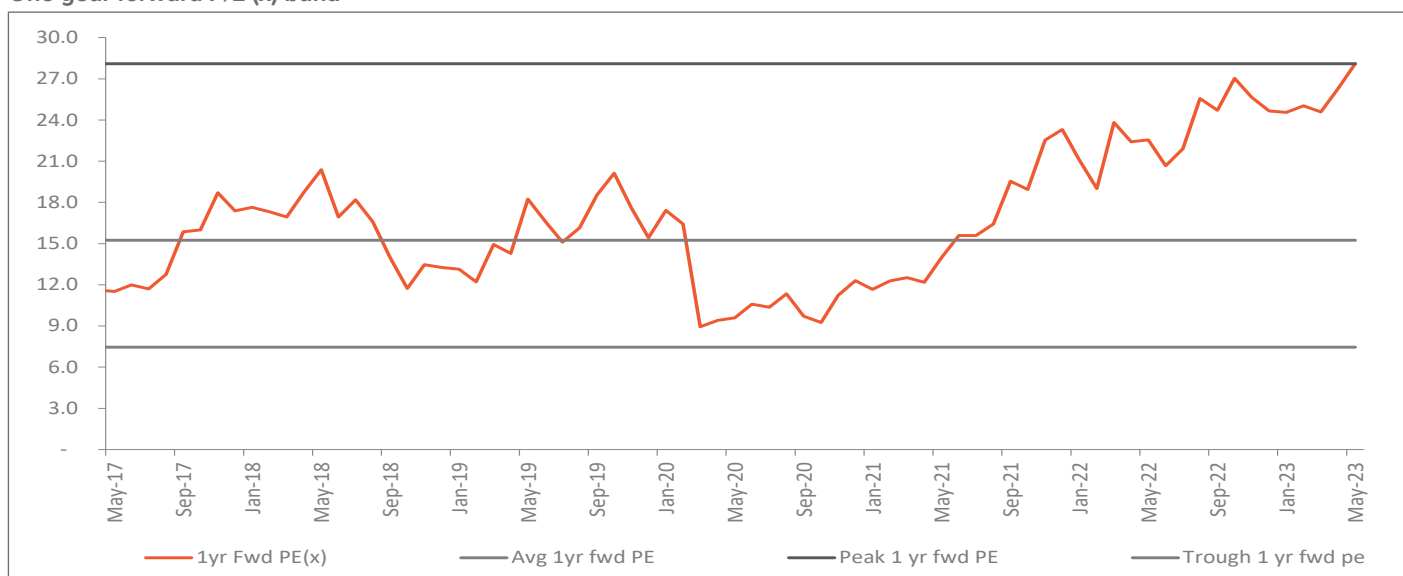
### ■ Company Outlook – High growth to be added by the capacity expansion plan

Management remains optimistic about the retail and EHV segments in the longer run. Management is focused on expanding its retail franchise through 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, 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 a 17-18% y-o-y revenue CAGR in the next two-three years.

### ■ Valuation – Retain Buy with a revised PT of Rs. 2,215

KEI has performed well in Q4FY2023 and FY2023 with strong volume growth. We believe the company 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, and carrying out capex to meet the rising demand. Management has provided an optimistic demand outlook in both the retail and institutional segments, driven by private capex and increased government spending, respectively. Improving working capital cycle, owing to an increase in the retail business and strong return ratios, gives us further comfort. We expect revenue/PAT CAGR of ~18%/~23% over FY2023-FY2025E. The stock is currently trading at a P/E of ~25x its FY2025E EPS. We reiterate our Buy rating on the stock with a revised PT of Rs. 2,215, valuing the stock on its FY2025E EPS.

#### One-year forward P/E (x) band



Source: Company Data; Sharekhan Research

## About the 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 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 poised to garner opportunities from power utilities, core infrastructure, and construction projects across the country. The company's presence in EHV cables for power sector projects has 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 by building specialised offerings to tap niche segments such as real estate, shipping, oil, and petroleum plants. 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

Anil Gupta	Chairman and Managing Director
Akshit Diviaj Gupta	Executive Director
Archana Gupta	Non-Executive – Non-Independent Director
Rajeev Gupta	CFO

Source: Company Website

### Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Projection Financial & Management Consultants limited	8.8
2	Capital Group Cos Incorporation	4.6
3	Small Cap World Fund Incorporation	4.6
4	Subhlaxmi Motels & Inns Private Limited	3.9
5	Morgan Stanley	3.6
6	Soubhagya Agency Private Limited	3.5
7	Canara Robeco Asset Management Company	2.7
8	Franklin Resources Incorporation	2.6
9	HDFC Asset Management Company Limited	2.5
10	FIL Limited	2.4

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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Compliance Officer: Ms. Binkle Oza; Tel: 022-61169602; email id: [complianceofficer@sharekhan.com](mailto:complianceofficer@sharekhan.com)

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