

September 25, 2023

Management Meet Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	BUY		HOLD	
Target Price	2,908		2,319	
Sales (Rs. m)	82,380	96,240	82,380	96,240
% Chng.	0.0	0.0		
EBITDA (Rs. m)	9,097	10,759	9,097	10,759
% Chng.	0.0	0.0		
EPS (Rs.)	68.8	82.0	68.8	82.1
% Chng.	0.0	(0.1)		

Key Financials - Consolidated

Y/e Mar	FY23	FY24E	FY25E	FY26E
Sales (Rs. m)	69,123	82,380	96,240	1,09,874
EBITDA (Rs. m)	7,054	9,097	10,759	12,279
Margin (%)	10.2	11.0	11.2	11.2
PAT (Rs. m)	4,766	6,205	7,398	8,495
EPS (Rs.)	52.8	68.8	82.0	94.2
Gr. (%)	26.3	30.2	19.2	14.8
DPS (Rs.)	3.0	5.5	6.5	7.5
Yield (%)	0.1	0.2	0.3	0.3
RoE (%)	20.2	21.6	21.2	20.1
RoCE (%)	26.0	28.7	28.0	26.6
EV/Sales (x)	3.2	2.7	2.3	2.0
EV/EBITDA (x)	31.1	24.2	20.4	17.6
PE (x)	46.9	36.0	30.2	26.3
P/BV (x)	8.6	7.1	5.8	4.8

Key Data

KEIN.BO | KEI IN

52-W High / Low	Rs.2,815 / Rs.1,351
Sensex / Nifty	66,009 / 19,674
Market Cap	Rs.224bn/ \$ 2,697m
Shares Outstanding	90m
3M Avg. Daily Value	Rs.854.85m

Shareholding Pattern (%)

Promoter's	37.10
Foreign	27.67
Domestic Institution	19.55
Public & Others	15.68
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(2.6)	51.1	66.3
Relative	(3.8)	33.2	49.0

Praveen Sahay

praveensahay@plindia.com | 91-22-66322369

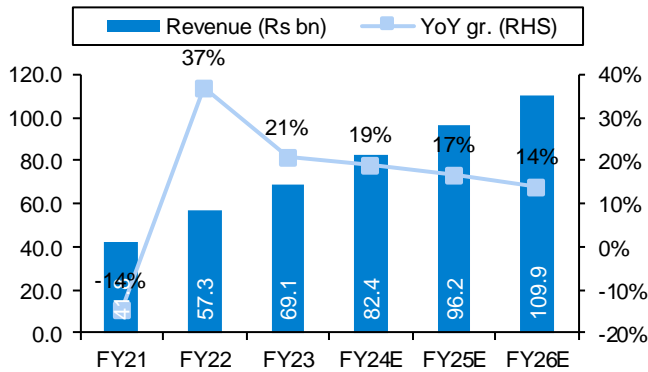
Growth momentum to continue

We introduce FY26 estimates and upgrade the stock to 'Buy' from Hold as we roll forward to Sep'25E, revised TP of Rs2908 @ 33x FY26 EPS (Rs2,319 earlier). We met management of KEI Industries (KEI) to gauge the demand, competitive scenario and capacity constraints. The company has maintained its healthy revenue growth guidance at 16-17% and expects 11%+ margins in the near term, given strong demand outlook in sectors like Infra/Railway/Data Centres etc. We are positive for long term given 1) focus on diversification of product portfolio and de-risking business (retail accounts for ~44% with target to reach 48-50% in FY24) 2) scale-up in distribution network (1,910 dealers, will grow by 7-8% p.a), 3) healthy balance sheet with net cash of Rs 4bn (including acceptances) by Mar-23 and 4) strong order book of Rs35.7bn across domestic & export EPC & cables businesses. We expect Revenue/EBITDA/ PAT CAGR of 16.7%/20.3%/21.3% over FY23-26E. Upgrade to 'Buy'.

Key takeaways:

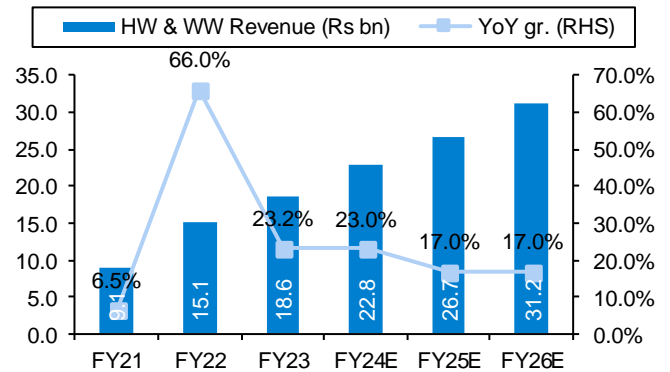
- Addressing capacity constraint:** KEI is expected to do capex of Rs 3.5bn in FY24, which includes Rs2.5-3.0bn for greenfield expansion at Gujarat and Rs450mn related to brownfield expansion at Silvassa (already invested Rs500mn in FY23). Gujarat plant to be commissioned within 18 months (between Sept-Dec'24). However, the company expects total capex of Rs10bn in greenfield expansion to be incurred over 3-4 years in Gujarat. In Bhiwadi plant, company is doing capex of around Rs 1bn (to be completed by Q1FY25). These expansions will not only address capacity constraint concerns, but will also help in achieving Revenue CAGR ~17% over next 3-5years.
- Growth across segment drive revenues:** We expect revenue growth of ~24.4% in FY24 given 1) expected improvement in utilization of cable and housing wire to 100% and 85-90% resp. and 2) Silvassa plant commissioning in Oct-23 (expected to touch Rs 5bn revenue over full utilization). The greenfield expansion in Gujarat is expected to start revenue contribution from Q4FY25 and expansion at Bhiwadi plant will start revenue contribution from Q2FY25. KEI maintained its revenue growth guidance at 16-17% in W&C business with more than 20% growth in wire business in FY24. Dealer expansion is underway and 7-8% growth (100-150 dealers) is targeted every year, with focus on increasing revenue per dealer. C&W business expected to grow at ~17% and EHV to reach Rs5.5-6.0bn by FY25. KEI expects its export contribution to increase to 17% in FY24 from 10% in FY23 and ~20% in next two years, with export approval from USA for its product.
- Strong order book:** The company has an order book of Rs 35.67bn, which includes Rs 8.32bn for EPC, Rs 8.09bn for EHV cable, Rs 16.9bn for domestic cables, and Rs 2.36bn for cable export orders.
- KEI intends to remain debt free in future and cash generations will be used for capacity expansion as well as working capital requirements.

Exhibit 1: Estimated revenue CAGR of 16.7% over FY23-26



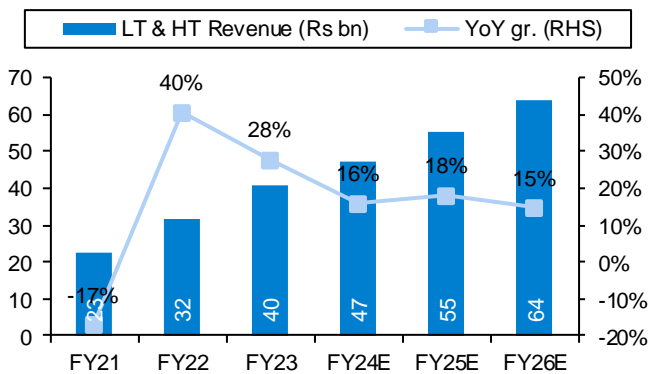
Source: Company, PL

Exhibit 2: HW grow at faster pace, est. 19% CAGR FY23-26



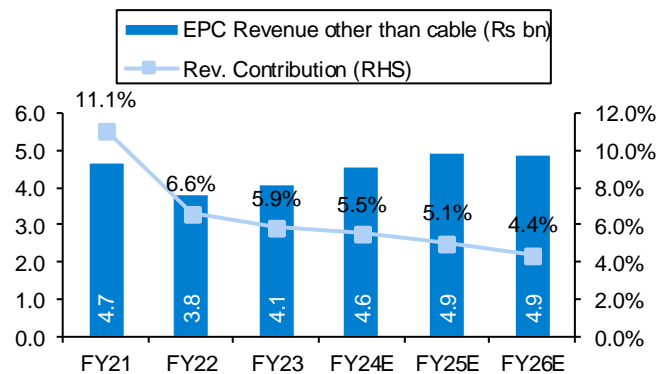
Source: Company, PL

Exhibit 3: LT & HT cable expected 16.2% CAGR FY23-26E



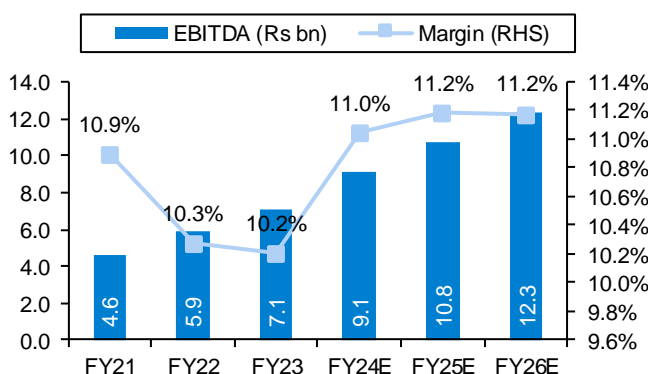
Source: Company, PL

Exhibit 4: EPC rev. contribution to reach 4.4% by FY26E



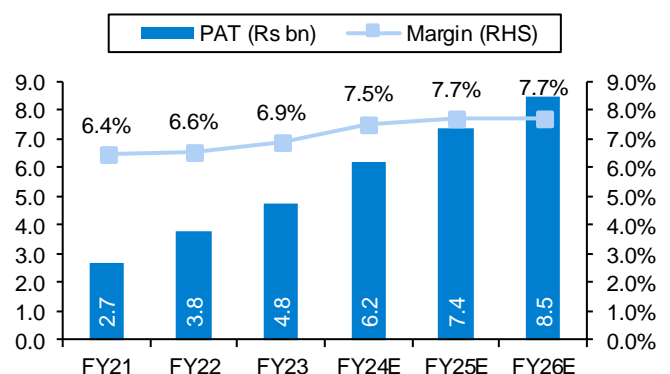
Source: Company, PL

Exhibit 5: EBITDAM maintained at 11.1% over FY23-26

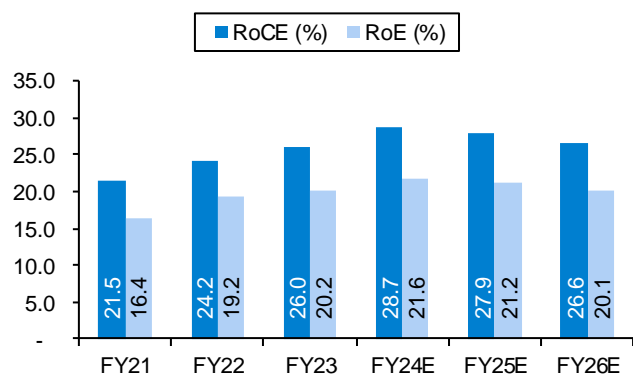


Source: Company, PL

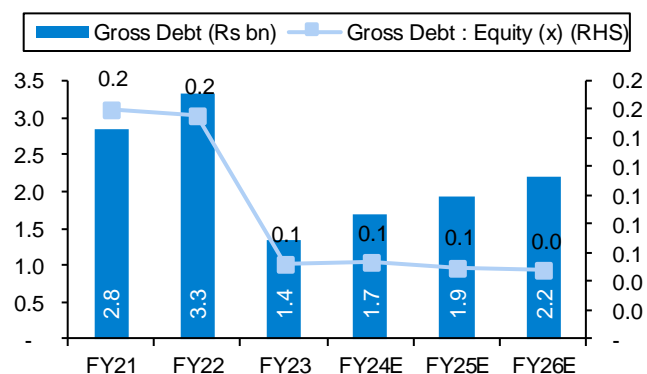
Exhibit 6: PAT CAGR of 21.3% over FY23-26



Source: Company, PL

Exhibit 7: Robust Return Ratios


Source: Company, PL

Exhibit 8: Restricted debt level


Source: Company, PL

Exhibit 9: W&C companies' valuation

Company Names	M Cap (Rs bn)	CMP (Rs)	Rating	Target Price (Rs)	PER (x)			Target PER (x) FY25E	RoCE (%)			Sales CAGR (%) FY23-FY25E	EPS CAGR (%) FY23-FY25E	Return Expectation
					FY23	FY24E	FY25E		FY23	FY24E	FY25E			
KEI Industries	223.6	2,480	BUY	2,908	46.9	36.0	30.2	32.0	26.0	28.7	27.9	18.0	24.6	17.3
RR Kabel	133.2	1,181	BUY	1,407	59.2	43.0	29.4	35.0	16.0	21.5	25.7	23.1	42.3	19.1
Finolex Cable*	166.0	1,085	NA	NA	33.0	26.4	22.4	NA	-	-	-	16.5	21.3	NA
Polycab India	768.3	5,130	Accumulate	4,760	60.5	46.5	40.5	37.6	28.6	30.5	29.1	19.3	22.2	-7.2
Havells India	872.1	1,393	BUY	1,460	81.4	60.8	46.4	48.6	22.7	27.2	30.2	16.9	32.5	4.8

Source: Company, PL; Note: *Bloomberg estimates

Financials

Income Statement (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
Net Revenues	69,123	82,380	96,240	1,09,874
YoY gr. (%)	20.7	19.2	16.8	14.2
Cost of Goods Sold	52,956	62,279	72,575	82,856
Gross Profit	16,167	20,101	23,666	27,018
Margin (%)	23.4	24.4	24.6	24.6
Employee Cost	2,320	2,666	3,114	3,556
Other Expenses	4,401	5,393	6,352	7,255
EBITDA	7,054	9,097	10,759	12,279
YoY gr. (%)	19.8	29.0	18.3	14.1
Margin (%)	10.2	11.0	11.2	11.2
Depreciation and Amortization	571	652	811	909
EBIT	6,483	8,445	9,948	11,370
Margin (%)	9.4	10.3	10.3	10.3
Net Interest	347	340	326	368
Other Income	276	237	325	420
Profit Before Tax	6,412	8,342	9,947	11,422
Margin (%)	9.3	10.1	10.3	10.4
Total Tax	1,647	2,137	2,548	2,926
Effective tax rate (%)	25.7	25.6	25.6	25.6
Profit after tax	4,766	6,205	7,398	8,495
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	4,766	6,205	7,398	8,495
YoY gr. (%)	26.7	30.2	19.2	14.8
Margin (%)	6.9	7.5	7.7	7.7
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	4,766	6,205	7,398	8,495
YoY gr. (%)	26.7	30.2	19.2	14.8
Margin (%)	6.9	7.5	7.7	7.7
Other Comprehensive Income	(1)	-	-	-
Total Comprehensive Income	4,765	6,205	7,398	8,495
Equity Shares O/s (m)	90	90	90	90
EPS (Rs)	52.8	68.8	82.0	94.2

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
Non-Current Assets				
Gross Block	8,753	12,134	13,962	15,286
Tangibles	8,667	12,028	13,836	15,141
Intangibles	86	106	126	146
Acc: Dep / Amortization	3,080	3,731	4,542	5,451
Tangibles	3,011	3,650	4,447	5,339
Intangibles	69	81	95	112
Net fixed assets	5,673	8,403	9,420	9,835
Tangibles	5,656	8,378	9,389	9,802
Intangibles	17	25	30	33
Capital Work In Progress	146	100	100	100
Goodwill	-	-	-	-
Non-Current Investments	122	331	360	409
Net Deferred tax assets	(266)	(304)	(349)	(400)
Other Non-Current Assets	147	36	36	36
Current Assets				
Investments	-	-	-	-
Inventories	11,023	13,542	17,139	19,567
Trade receivables	13,878	16,927	21,094	24,082
Cash & Bank Balance	5,372	5,515	5,693	9,829
Other Current Assets	1,105	1,648	1,925	2,197
Total Assets	37,702	46,985	56,282	66,597
Equity				
Equity Share Capital	180	180	180	180
Other Equity	25,711	31,355	38,167	45,986
Total Networkth	25,892	31,536	38,348	46,167
Non-Current Liabilities				
Long Term borrowings	-	167	50	50
Provisions	368	371	433	494
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	1,353	1,519	1,880	2,146
Trade payables	7,482	10,408	12,129	13,847
Other current liabilities	2,341	2,719	3,176	3,626
Total Equity & Liabilities	37,702	46,985	56,282	66,597

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
PBT	6,412	8,342	9,947	11,422
Add. Depreciation	571	652	811	909
Add. Interest	347	340	326	368
Less Financial Other Income	276	237	325	420
Add. Other	(334)	(321)	(289)	(397)
Op. profit before WC changes	6,996	9,012	10,795	12,302
Net Changes-WC	(439)	(3,087)	(5,947)	(3,604)
Direct tax	(1,647)	(2,137)	(2,548)	(2,926)
Net cash from Op. activities	4,911	3,788	2,300	5,772
Capital expenditures	(915)	(3,336)	(1,828)	(1,325)
Interest / Dividend Income	276	237	325	420
Others	(555)	0	(1,500)	(1,500)
Net Cash from Inv. activities	(1,194)	(3,099)	(3,003)	(2,405)
Issue of share cap. / premium	1	-	-	-
Debt changes	(1,936)	356	293	314
Dividend paid	(271)	(496)	(586)	(676)
Interest paid	(347)	(340)	(326)	(368)
Others	-	-	-	-
Net cash from Fin. activities	(2,553)	(480)	(619)	(731)
Net change in cash	1,164	209	(1,323)	2,636
Free Cash Flow	3,995	452	472	4,447

Source: Company Data, PL Research

Key Financial Metrics

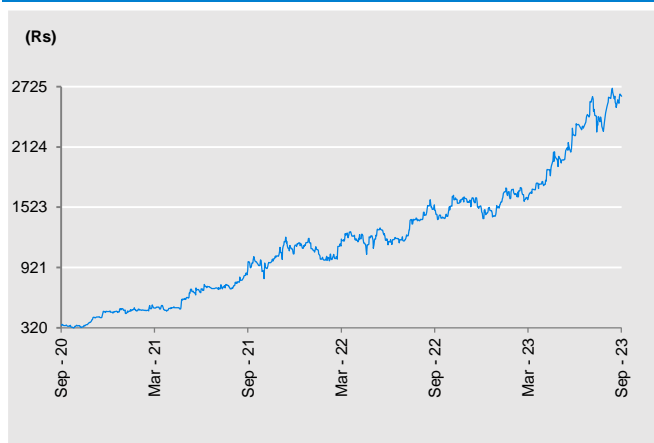
Y/e Mar	FY23	FY24E	FY25E	FY26E
Per Share(Rs)				
EPS	52.8	68.8	82.0	94.2
CEPS	59.2	76.0	91.0	104.3
BVPS	287.1	349.7	425.2	511.9
FCF	44.3	5.0	5.2	49.3
DPS	3.0	5.5	6.5	7.5
Return Ratio(%)				
RoCE	26.0	28.7	28.0	26.6
ROIC	23.4	25.4	23.8	24.5
RoE	20.2	21.6	21.2	20.1
Balance Sheet				
Net Debt : Equity (x)	(0.2)	(0.1)	(0.1)	(0.2)
Net Working Capital (Days)	92	89	99	99
Valuation(x)				
PER	46.9	36.0	30.2	26.3
P/B	8.6	7.1	5.8	4.8
P/CEPS	41.9	32.6	27.2	23.8
EV/EBITDA	31.1	24.2	20.4	17.6
EV/Sales	3.2	2.7	2.3	2.0
Dividend Yield (%)	0.1	0.2	0.3	0.3

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q2FY23	Q3FY23	Q4FY23	Q1FY24
Net Revenue	16,081	17,843	19,545	17,826
YoY gr. (%)	18.8	14.1	9.1	13.9
Raw Material Expenses	12,378	13,705	14,902	13,605
Gross Profit	3,702	4,138	4,643	4,221
Margin (%)	23.0	23.2	23.8	23.7
EBITDA	1,606	1,822	2,038	1,783
YoY gr. (%)	9.8	16.2	18.5	11.7
Margin (%)	10.0	10.2	10.4	10.0
Depreciation / Depletion	145	144	143	147
EBIT	1,461	1,678	1,895	1,636
Margin (%)	9.1	9.4	9.7	9.2
Net Interest	76	78	101	89
Other Income	53	138	51	83
Profit before Tax	1,438	1,737	1,845	1,630
Margin (%)	8.9	9.7	9.4	9.1
Total Tax	369	451	464	416
Effective tax rate (%)	25.6	26.0	25.1	25.5
Profit after Tax	1,069	1,286	1,381	1,214
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	1,069	1,286	1,381	1,214
YoY gr. (%)	16.6	27.0	19.1	16.9
Margin (%)	6.6	7.2	7.1	6.8
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	1,069	1,286	1,381	1,214
YoY gr. (%)	16.6	27.0	19.1	16.9
Margin (%)	6.6	7.2	7.1	6.8
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	1,069	1,286	1,381	1,214
Avg. Shares O/s (m)	90	90	90	90
EPS (Rs)	11.9	14.3	15.4	13.5

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	01-Aug-23	Hold	2,319	2,270
2	06-Jul-23	Hold	2,319	2,329
3	03-May-23	Hold	1,811	1,836
4	11-Apr-23	Hold	1,811	1,710
5	24-Jan-23	Hold	1,572	1,508
6	06-Jan-23	Hold	1,555	1,503

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Astral Ltd.	Hold	1,955	1,974
2	Bajaj Electricals	Accumulate	1,337	1,220
3	Century Plyboard (I)	BUY	800	629
4	Cera Sanitaryware	Hold	8,224	7,917
5	Crompton Greaves Consumer Electricals	BUY	369	309
6	Finolex Industries	Accumulate	197	184
7	Greenpanel Industries	BUY	459	341
8	Havells India	BUY	1,460	1,348
9	Kajaria Ceramics	Hold	1,363	1,393
10	KEI Industries	Hold	2,319	2,270
11	Polycab India	Accumulate	4,760	4,309
12	R R Kabel	BUY	1,407	1,035
13	Supreme Industries	Hold	3,377	3,382
14	Voltas	Hold	831	829

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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Prabhudas Lilladher Pvt. Ltd.

3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India | Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209

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