Sharekhan by BNP PARIBAS

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Stock Update

Result Update

KEI Industries Ltd

Strong Q3; healthy growth outlook

Capital Goods	Sharekhan code: KEI
Reco/View: Buy ↔	CMP: Rs. 3,317
	Price Target: Rs. 3,800 ↑

↑ Upgrade ↔ Maintain ↓ Downgrade

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		↔	

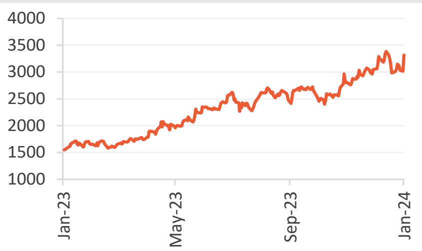
Company details

Market cap:	Rs. 29,931 cr
52-week high/low:	Rs. 3420/1503
NSE volume: (No of shares)	2.9 lakh
BSE code:	517569
NSE code:	KEI
Free float: (No of shares)	5.7 cr

Shareholding (%)

Promoters	37.1
FII	31.0
DII	16.1
Others	15.9

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	8.3	35.1	28.0	114.0
Relative to Sensex	8.7	24.1	21.0	96.0

Sharekhan Research, Bloomberg

Summary

- Q3FY2024 PAT, although in line with consensus estimates, posted a strong growth of 17% y-o-y led by strong grow-th in exports as well as B2C cables & wires (C&W) segment and a rise of 30 bps in margins.
- Management expects to generate a 16-17% revenue CAGR over next few years due to continuous capacity expansion by the company.
- Pick-up in government infrastructure spending, particularly in the power sector as well as expansion in the core sector's capacity provides company with on ample growth opportunities given the company is able to scale up its capacities on time.
- We retain a Buy rating on KEI Industries Limited (KEI) with a revised PT of Rs. 3,800. We believe company is favourably placed for sustained strong growth supported by tailwinds from power sector.

Q3FY24 performance was strong with a 17% y-o-y growth in net profit, which was largely in line with consensus estimates, albeit OPM & revenues came slightly lower than consensus estimates. Revenues grew by ~16% y-o-y to Rs 2,062 crore. The growth was driven by strong performance of retail wire & cables and EPC business; while SS cable segment reported a dip in revenues. OPM grew by 31 bps y-o-y to 10.5% due to an increase in gross margin and decline in employee & sub-contracting expenses. Despite 19% y-o-y growth in operating profit to Rs 217 crore, net profit grew by ~17% y-o-y to Rs 151 crore as lower other income partially offset by lower interest as well as depreciation cost. Current greenfield and brownfield capacity expansions in the cables segment is expected to maintain company's long-term high-growth trajectory over next few years.

Key positives

- Cable volumes rose 22% in 9MFY24.
- Domestic Institutional EHV cable & EPC projects' revenue grew by 98% & 54% y-o-y respectively.

Key negatives

- Stainless steel & domestic Institutional C&W segment revenue declined by 15% y-o-y & 12% y-o-y, respectively.

Management Commentary

- Management expects margins to remain stable with the possibility of 25 to 50 bps increase in medium term.
- In cable division is running at capacity utilisation of 90-95%, whereas wire division is running at capacity utilization of 70%.
- In 9MFY24, company has incurred a capex of Rs 308 crore. Company planes to incur capex of Rs 450 crore for FY24 and further capex of Rs 500 crores for FY25.
- Management is not witnessing any demand slowdown, hence does not expect the general elections to impact demand.
- Company is currently exporting Extra High Voltage cables to Australia. Once new capacity comes up company will ramp-up its sales effort and develop new export market for EHVP cables.

Revision in estimates – We maintain our FY2024-FY2025 earnings estimate

Our Call

Valuation: Retain Buy with a revised PT of Rs. 3,800: KEI is on a healthy and sustainable growth trajectory as it is catering to diversified user industries, increasing its focus on the retail segment, strengthening its high-margin EHV and carrying out capex to meet the rising demand. Additionally, the company has been gaining significant traction in exports. OPM is expected to increase on account of operating leverage, increasing proportion of retails sales and exports in total revenues and higher sales of EHV cables post capacity expansion. We believe the company is on a healthy and sustainable growth trajectory. The management has provided an optimistic demand outlook for both retail and institutional segments, driven by private capex and increased government spending, respectively. We expect a revenue/PAT CAGR of 17%/~21% over FY23-FY26E. The stock trades at a P/E of ~36x its FY26E EPS. Considering the economic upcycle and strong earnings outlook, we assign a target multiple of ~41x its FY26E. We reiterate our Buy rating on the stock with a revised price target (PT) of Rs. 3,800.

Key Risks

Volatile input costs may adversely hit margin guidance. Revenue is partially generated from exports and any fluctuations in forex rates could affect the company's financials.

Valuation (Standalone) Rs cr

Particulars	FYc23	FY24E	FY25E	FY26E
Net sales (Rs cr)	6,912	8,131	9,541	11,105
OPM (%)	10.2	10.6	10.9	11.1
Net profit (Rs cr)	477	585	705	837
Adjusted EPS (Rs)	52.9	64.8	78.2	92.8
Growth (YoY) %	26.9	22.5	20.6	18.7
PER (x)	62.7	51.2	42.4	35.7
P/B (x)	10.0	8.3	6.8	5.6
EV/EBIDTA (x)	41.9	32.1	26.5	22.2
RoCE (%)	24.6	24.8	25.1	24.9
Core RoE (%)	18.4	18.6	18.4	18.1

Source: Company; Sharekhan estimates

Conference Call and Investor Update Highlights:

- **Revenue guidance:** The management expects company to report revenue growth of 16-17% for FY24. Over next few years, management expects a similar kind of revenue growth (16-17%) due to continuous capacity expansion by the company.
- **Margin Guidance:** Margins likely to remain stable with possibility of 25 to 50 bps increase in medium term.
- **Volume growth:** In cables division, the volume grew by 13% and 22% for Q3FY24 & 9MFY24 respectively.
- **Capacity utilization:** Cables division is running at a capacity utilization of 90-95%, whereas wires division is running at capacity utilization of 70%.
- **Capex:** In 9MFY24, company has incurred a capex of Rs 308 crore. Company planes to incur capex of Rs 450 crore for FY24 and further capex of Rs 500 crores for FY25.
- **Capacity expansion status:** The company is currently doing a brownfield capex in Silvassa with a capex of Rs. 110 crore for house wire and LT power cables. This new capacity is expected to generate revenue of Rs 800-900 crore out of which Rs 240 crore capacity has started production in October 2023. Rest of the new Silvassa capacity will be operational by end of FY25. The company is also doing greenfield expansion in Pathredi in Rajasthan with an approximate cost of Rs 110 crore, which will increase the capacity of low-tension power cable by approximately Rs 800-900 crore per annum. This plant will be operational in the Q1FY25. The company has also planned greenfield plant for cables and wires in Gujarat at Sanand t a capex of Rs 300 crore. The company expects the first phase of the commercial production to commence by Q4FY25.
- **Impact of election:** Management is not witnessing any demand slowdown, hence does not expect general elections to impact demand.
- **Order book:** Total order book stood at Rs 3826 crores of which Rs 934 crore is EPC orders, Rs 594 crore is for extra high voltage power cable, Rs 1823 crore is for domestic institution cable orders and Rs 475 crore is for cable export orders.
- **Exports:** The company is currently exporting EHV cables to Australia. Currently company does not have capacity to grow in export market. Once new capacity comes up company will ramp up its sales efforts and develop new export market for EHV cables.

Results (Standalone) Rs cr

Particulars	Q3FY24	Q3FY23	YoY %	Q2FY24	QoQ %
Net Sales	2,062	1,784	15.5	1,947	5.9
Operating Profit	217	182	19.1	204	6.4
Other Income	12	14	(14.2)	8	54.2
Interest	11	8	40.5	8	45.0
Depreciation	15	14	6.6	16	(1.2)
PBT	**202**	**174**	**16.5**	**188**	**7.4**
Tax	52	45	14.6	48	7.3
Reported PAT	151	129	17.2	140	7.5
Adjusted PAT	**151**	**129**	**17.2**	**140**	**7.5**
Adj. EPS (Rs.)	16.7	14.3	17.2	15.5	7.5
Margin			**BPS**		**BPS**
OPM (%)	10.5	10.2	31	10.5	5
NPM (%)	7.3	7.2	10	7.2	11
Tax rate(%)	25.6	26.0	(42)	25.6	(2)

Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector view - Ample levers offer scope for growth

Domestic demand is improving with increasing spends on infrastructure and construction. The cables & wires (C&W) market is estimated to be worth around Rs. 60,000-65,000 crore, accounting for around two-fifths of the domestic electrical industry. The Indian W&C market is projected to grow to Rs. 90,000-95,000 crore by FY2026. Sectors such as power, railways, infrastructure, oil & gas, telecom, real estate, renewables, defence, automobiles, etc. are the largest demand drivers. The domestic business has grown at a strong pace, 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. Hence, the continued thrust of the government on infrastructure investment is expected to improve demand for the W&C industry.

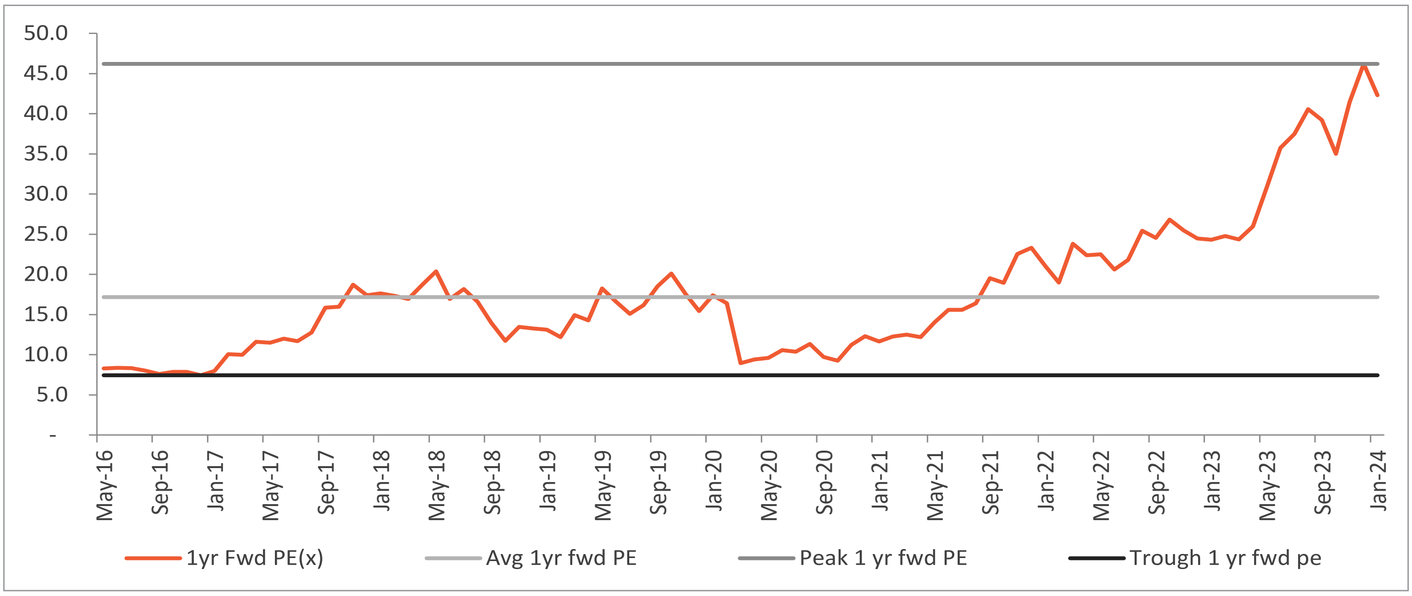
■ Company outlook - Capacity expansions to keep growth elevated

The management is optimistic about the retail and EHV segments in the longer run. It is focused on expanding its retail franchise through its dealer and distribution base (currently at 1,975) and expects its retail segment to contribute more than 50% to revenue going forward. 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. 1,000-1,100 crore between the company and Universal Cables. KEI will be undertaking a greenfield capex of over ~Rs. 900 crore in LT, HT, and EHV over three years. The management expects a 16-17% y-o-y revenue CAGR in 2-3 years.

■ Valuation - Retain Buy with a revised PT of Rs. 3,800

KEI is on a healthy and sustainable growth trajectory as it is catering to diversified user industries, increasing its focus on the retail segment, strengthening its high-margin EHV and carrying out capex to meet the rising demand. Additionally, the company has been gaining significant traction in exports. OPM is expected to increase on account of operating leverage, increasing proportion of retails sales and exports in total revenues and higher sales of EHV cables post capacity expansion. We believe the company is on a healthy and sustainable growth trajectory. The management has provided an optimistic demand outlook for both retail and institutional segments, driven by private capex and increased government spending, respectively. We expect a revenue/PAT CAGR of 17%/~21% over FY23-FY26E. The stock trades at a P/E of ~36x its FY26E EPS. Considering the economic upcycle and strong earnings outlook, we assign a target multiple of ~41x its FY26E. We reiterate our Buy rating on the stock with a revised price target (PT) of Rs. 3,800.

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 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 specialized 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

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Capital Group Cos Inc/The	4.3
2	SMALL CAP WORLD FUND INC	4.0
3	Morgan Stanley	2.8
4	Vanguard Group Inc/The	2.5
5	Canara Robeco Asset Management Co	2.3
6	Franklin Resources Inc	2.0
7	L&T Mutual Fund Trustee Ltd/India	1.7
8	HDFC Asset Management Co Ltd	1.7
9	Invesco Asset Management India Pvt	1.5
10	William Blair & Co LLC	1.4

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 detoriating 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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