

KEI Industries

Estimate change	↔
TP change	↔
Rating change	↔

CMP: INR3,893 TP: INR5,000 (+28%) BUY

Healthy performance; outlook remains positive

Revenue CAGR of 17-18% likely, aided by a robust capex plan

- KEI Industries (KEII)'s 4QFY24 performance was in line with our estimates. Revenue grew 19% YoY to INR23.2b (vs. est. INR22.6b), fueled by 18%/53% YoY growth in the cables & wires/EPC segments, while stainless steel wires' revenue declined 11% YoY. EBITDA grew 21% YoY to INR2.4b (vs. est. INR2.5b). Profit increased 22% YoY to INR1.7b (vs. est. INR1.8b) in 4QFY24.
- Management indicated that the demand outlook remains strong both in the domestic and export markets. Volume grew more than 22% YoY in FY24. KEII anticipates revenue growth to be ~17% YoY. It will maintain ~11% margin in FY25, and expects margin to expand 1.0-1.5pp over the next few years, led by the increase in retail sales and wire prices.
- We recently [initiated coverage](#) on KEI with a BUY rating. KEI delivered a 38% profit CAGR over FY15-24, and we expect an EPS CAGR of 25% over FY24-26. We value KEII at 50x FY26E EPS to arrive at our TP of INR5,000.

Revenue/EBITDA increase 19%/21% YoY; margin up 20bp YoY to 10.5%

- KEII's revenue was up 19% YoY to INR23.2b (3% above estimates). EBITDA grew 21% YoY to INR2.4b (3% below estimates). EBITDA margin was up 20bp YoY to 10.5% (est. 11.2%). Depreciation/interest costs rose 10%/64% YoY, whereas 'other income' surged 128%. PAT rose 22% YoY to INR1.7b (vs. est. INR1.8b).
- Segmental highlights: 1) Cables and Wires: revenue was up 18% YoY to INR20.7b and EBIT grew 36% YoY to INR2.3b. EBIT margin expanded 1.5pp YoY to 10.9%; 2) EPC business: revenue was up 53% YoY to INR3.4b and EBIT grew 190% YoY to INR422m. EBIT margin surged 6pp YoY to 12.4%; 3) Stainless Steel Wires (SSW): revenue declined 11% YoY to INR572m, while EBIT dipped 78% YoY to INR13m. EBIT margin contracted 7pp YoY to 2.3%.
- In FY24**, revenue was up 17% YoY to INR81.1b, while EBITDA grew 19% YoY to INR8.4b. OPM expanded 20bp YoY to 10.4%. Depreciation/interest costs rose 7.5%/25.6% YoY, whereas 'other income' grew 55% YoY. PAT grew 22% YoY to INR5.8b. Cables and Wires' revenue/EBIT grew 17%/33% YoY, and EBIT margin surged 1.2pp YoY to 10.3%.
- In FY24**, OCF surged 19% YoY to INR6.1b led by an improvement in profitability. Working capital (WC) days improved to 77 vs. 86 days in FY23; however, WC days (ex-acceptances) stood at 100 vs. 98 days in FY23. Net cash (adj. for acceptances) stood at INR60m vs. INR183m as of end-FY23.

Key highlights from the management commentary

- The cables & wires market size is INR750b and is likely to report ~15% CAGR over the next few years. Growth in cables should be higher than in wires.
- The major demand drivers are solar power, power distribution projects, government reforms in the power sector, and a strong capex in power T&D. Real estate demand continues to remain strong.
- The company recently added EV charging cables to its portfolio and started production of the same. KEII is not planning any diversification but is planning to add new geographies and product portfolios going forward.

Bloomberg	KEII IN
Equity Shares (m)	90
M.Cap.(INRb)/(USDb)	351.3 / 4.2
52-Week Range (INR)	4117 / 1801
1, 6, 12 Rel. Per (%)	12/35/88
12M Avg Val (INR M)	876
Free float (%)	62.9

Financials & Valuations (INR b)

Y/E MARCH	FY24	FY25E	FY26E
Sales	81.0	94.8	110.4
EBITDA	8.4	11.0	13.5
Adj. PAT	5.8	7.5	9.0
EBITDA Margin (%)	10.3	11.6	12.3
Cons. Adj. EPS (INR)	64.4	83.0	99.9
EPS Gr. (%)	21.7	29.0	20.3
BV/Sh. (INR)	349	427	521

Ratios

Net D:E	(0.2)	(0.0)	(0.1)
RoE (%)	18.5	19.4	19.2
RoCE (%)	18.5	18.6	18.9
Payout (%)	4.8	5.8	6.0

Valuations

P/E (x)	60.5	46.9	39.0
P/BV (x)	11.2	9.1	7.5
EV/EBITDA (x)	41.3	32.0	25.8
Div Yield (%)	0.1	0.1	0.1
FCF Yield (%)	0.6	(1.3)	0.8

Shareholding pattern (%)

As On	Mar-24	Dec-23	Mar-23
Promoter	37.1	37.1	37.2
DII	16.3	16.1	19.6
FII	31.0	31.0	27.4
Others	15.6	15.9	15.9

FII Includes depository receipts

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Investors are advised to refer through important disclosures made at the last page of the Research Report.

Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

Valuation and view

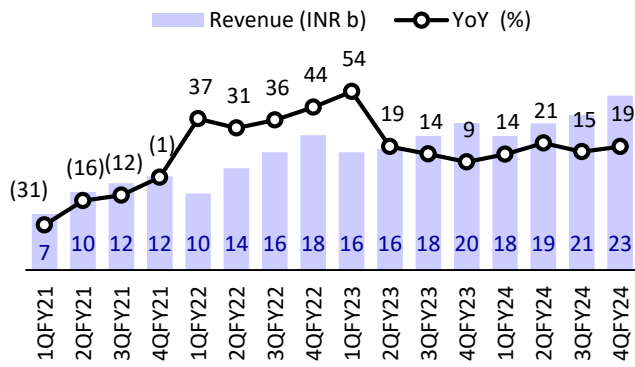
- KEI's EBITDA/Adj. PAT registered a CAGR of ~18%/38% over FY15-24, despite margin pressures (due to RM cost volatility) in the cables & wires segment during FY22/23. Going forward, we estimate EBITDA and EPS to post a CAGR of 27% and 25% over FY24-26E, respectively.
- KEI's cumulative OCF is projected to be at INR13.3b over FY25-26E vs. a cumulative capex of INR15.1b over this period. We estimate an FCF outflow of INR1.8b given the company's aggressive expansion plan. We anticipate that the company will maintain its premium valuations. We value it at 50x FY26E EPS to arrive at our TP of INR5,000. **Reiterate BUY.**

Quarterly Performance**(INR m)**

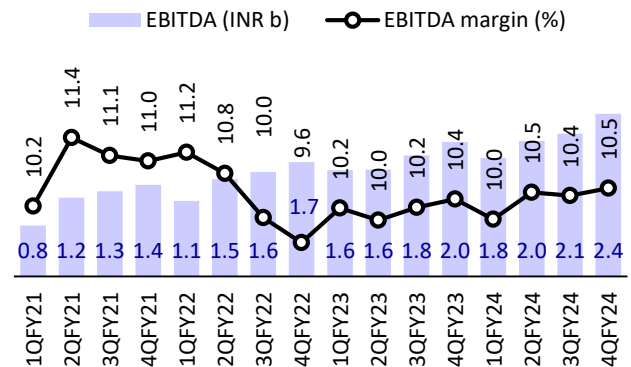
Y/E March	FY23				FY24				FY23	FY24	MOFSL	Var. (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			4QE	
Sales	15,654	16,081	17,843	19,529	17,826	19,466	20,594	23,193	69,082	81,041	22,556	3
Change (%)	53.8	18.8	14.1	9.0	13.9	21.1	15.4	18.8	20.6	17.3	15.4	
Adj EBITDA	1,596	1,606	1,822	2,022	1,783	2,039	2,146	2,446	7,020	8,375	2,526	(3)
Change (%)	40.4	9.8	16.2	17.6	11.7	27.0	17.8	20.9	19.2	19.3	26.8	
Adj EBITDA margin (%)	10.2	10.0	10.2	10.4	10.0	10.5	10.4	10.5	10.2	10.3	11.2	(66)
Depreciation	139	145	144	143	147	156	154	158	571	614	160	(1)
Interest	92	76	78	101	89	75	109	165	347	439	129	28
Other Income	35	53	138	67	83	77	142	152	318	490	150	1
Extra-ordinary Items	-	-	-	-	-	-	-	(2)	-	2	-	
PBT	1,401	1,438	1,738	1,845	1,630	1,884	2,024	2,274	6,420	7,813	2,387	(5)
Tax	363	369	451	464	416	482	518	587	1,668	1,993	620	
Effective Tax Rate (%)	25.9	25.6	26.0	25.1	25.5	25.6	25.6	25.8	26.0	25.5	26.0	
Reported PAT	1,038	1,069	1,286	1,381	1,214	1,402	1,507	1,686	4,752	5,822	1,767	(5)
Change (%)	54.6	16.2	27.0	19.2	17.0	31.2	17.2	22.1	26.3	22.5	26.6	
Adj PAT	1,038	1,069	1,286	1,381	1,214	1,402	1,507	1,688	4,752	5,820	1,767	(4)
Change (%)	54.6	16.2	27.0	19.2	17.0	31.2	17.2	22.2	26.3	22.5	26.6	

Segmental Performance (INR m)

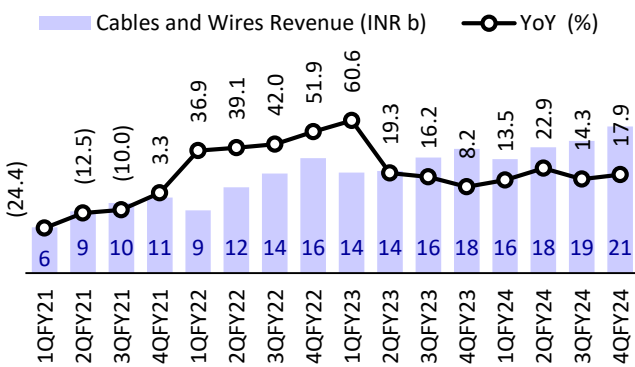
Y/E March	FY23				FY24				FY23	FY24	MOFSL	Var. (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			4QE	
Sales												
Cables (Power + Housing wires)	14,206	14,445	16,334	17,543	16,119	17,755	18,671	20,691	14,206	14,445	20,723	(0)
Stainless steel wires	610	735	557	644	590	591	461	572	610	735	710	(19)
EPC Business	1,536	1,059	2,234	2,232	1,847	3,131	3,769	3,405	1,536	1,059	3,821	(11)
EBIT												
Cables (Power + Housing wires)	1,274	1,261	1,515	1,658	1,415	1,919	1,979	2,258	1,274	1,261	2,236	1
Stainless steel wires	30	45	56	59	31	36	36	13	30	45	54	(76)
EPC Business	95	148	280	145	256	314	439	422	95	148	392	8
EBIT Margin (%)												
Cables (Power + Housing wires)	9.0	8.7	9.3	9.5	8.8	10.8	10.6	10.9	9.0	8.7	10.8	12
Stainless steel wires	5.0	6.1	10.0	9.2	5.3	6.1	7.8	2.3	5.0	6.1	7.7	(537)
EPC Business	6.2	14.0	12.5	6.5	13.9	10.0	11.6	12.4	6.2	14.0	10.3	213

Exhibit 1: KEI's total revenue grew 19% YoY in 4QFY24

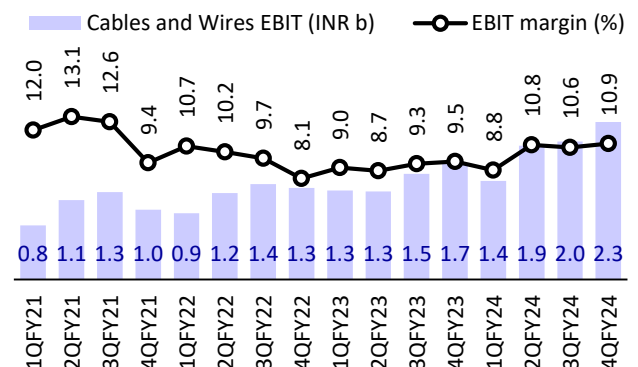
Source: MOFSL, Company

Exhibit 2: EBITDA grew 21% YoY

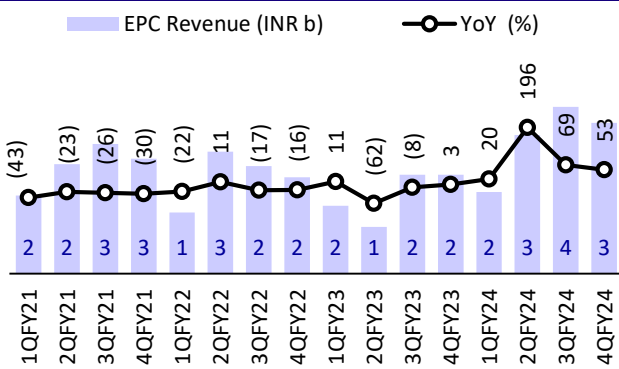
Source: MOFSL, Company

Exhibit 3: Cables & Wires' revenue grew 18% YoY

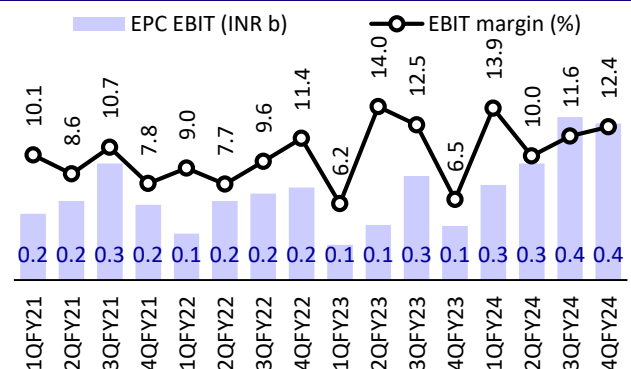
Source: MOFSL, Company

Exhibit 4: Cables and Wires' EBIT margin up 1.5pp YoY

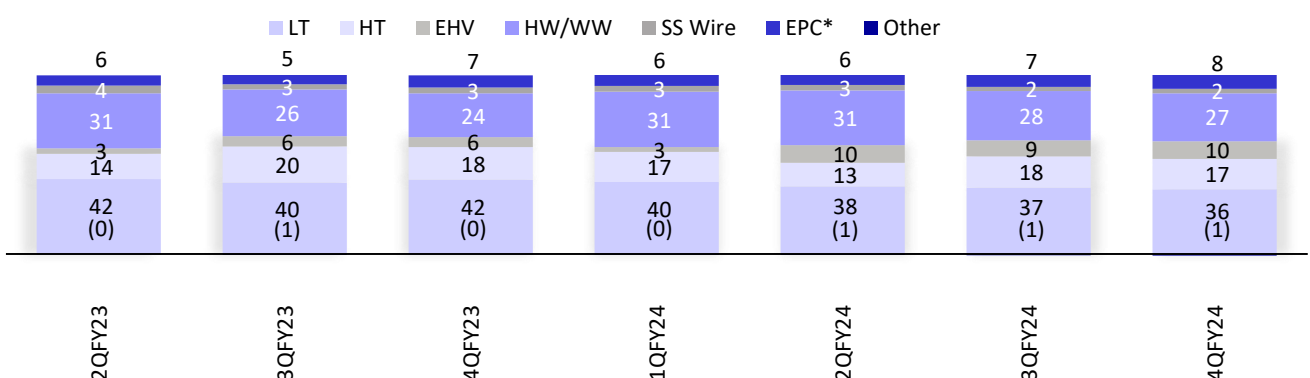
Source: MOFSL, Company

Exhibit 5: EPC revenue increased 53% YoY

Source: MOFSL, Company

Exhibit 6: EPC EBIT margin up 6pp YoY

Source: MOFSL, Company

Exhibit 7: Breakdown of product and mix in revenue (%)

Source: MOFSL, Company; *EPC (other than cable)



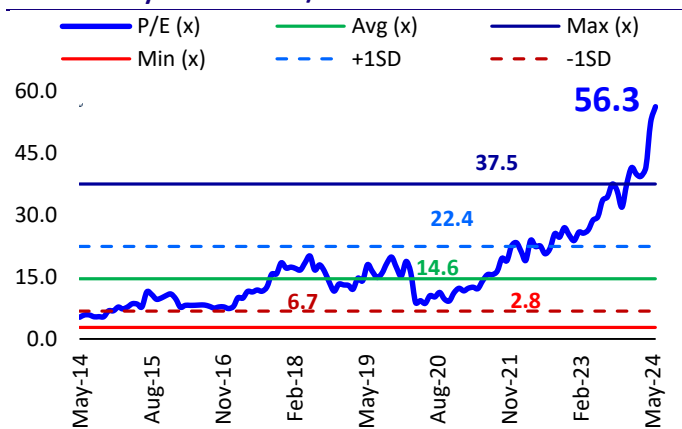
Conference call highlights

Demand and sector outlook

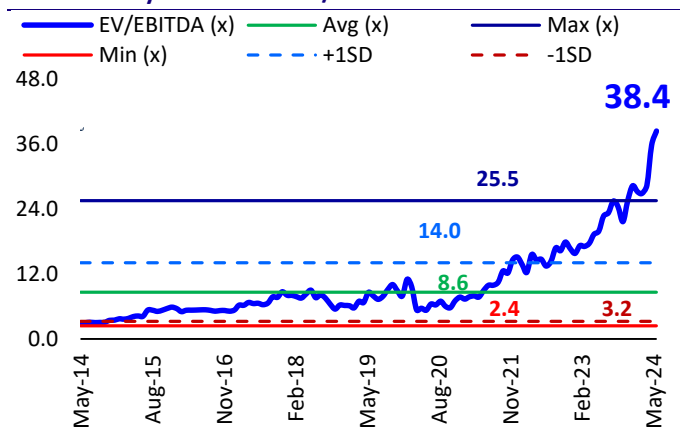
- Management remains positive on demand trends in both domestic and export markets, driven by solar power, power distribution projects, government reforms in the power sector, and a strong capex in power T&D. Capex will be incurred to raise the thermal power capacity as well as RE power generation capacity. Real estate demand continues to remain strong. Demand from oil & gas, power sector, and RE sector remains strong globally. New capacities are not getting created there and high costs are affecting capacity utilization for existing plants too. These countries are looking for one more supplier, apart from China, and India is getting benefits of the same. The company has done testing of its cables and has obtained certifications in those geographies and is reaping the benefits of the same. India's manufacturing capacity of cables & wires is only around 12-15% of China.
- Government infra projects are time-bound and heavy penalties are levied on delays. Hence, purchases cannot be delayed for a long time. RM cost hikes are getting passed onto the consumers. Even, existing contracts have clauses for RM cost fluctuations.
- Outlook for the industry remains strong as the government is incurring higher capex; even private capex has started to improve from industries like steel, cement, packaging etc. For any infra project, cables & wires are required. Pick up in housing sector too would help to boost demand for cables & wires.
- It recently added EV charging cables in its portfolio and started production of the same. It is not planning any diversification, but is planning to add new geographies/product portfolio.
- Major export markets are Australia, Europe, Africa, and the Middle East. The Middle East remains a major export market for the last 15 years. About INR750b market size is estimated for the cables & wires industry and it is estimated to report 15% CAGR over the next few years. Growth in cables should be higher than in wires.
- **Guidance:** Expects margins to improve by 1.0-1.5pp over the next few years led by improvement in retail sales and increase in wire prices. EHV: Revenue potential is INR6b/year and will remain at similar level in FY25 too as new capacity for EHV is coming only in Sanand, Gujarat. The company will target 20% growth for dealers & distributors' network and focus will be on growing higher in South and East markets.
- **AD spending:** INR490m in FY24 and will be at INR540m in FY25.
- **Capex** stood at INR4b in FY24 which included INR840m for Silvassa, INR510m for Pathredi, INR1.9b for Sanand, INR90m for land in Gujarat, and the balance INR580m at existing plants. Capex of INR9-10b is planned for greenfield expansion in Gujarat in FY25. Construction has already started during FY24 and Phase – I of this plant is expected to be commissioned in 1QFY26. It will further spend INR5-6b capex in FY26, which help maintain a CAGR of 15-16% in the coming three to four years.

Other highlights:

- **Volume** growth was more than 22% in FY24. Revenue growth should be at 17-18% at least going forward. Margin will be maintained at ~11% in FY25 too. The company wants to grow B2C sales to 50% of total revenue. Capacity utilization stood at 92% in cables, 90% in stainless wire, and 70-75% in housing wire.
- It was working on approvals from the US. Customers also believe that India can be developed as a notable country in the supply chain and they want to secure their orders. Export base was low and hence, growth looks stronger. Domestic demand grew 19% YoY, while export revenue was up 58% YoY.
- Pending order book stood at INR35.3b; order book break up – EPS (INR7.71b), EHV (INR3.74b), cables domestic (INR18.65b), and export (INR5.21b).
- Total borrowings stood at INR1.34b, which were mainly for channel financing of INR970m. Financial expense increased due to bank guarantees on large orders.

Exhibit 8: 1-year forward P/E chart

Source: MOFSL, Company

Exhibit 9: 1-year forward EV/EBITDA chart

Source: MOFSL, Company

Financials and valuations (Consolidated)

Income Statement							(INR m)	
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Net Sales	42,270	48,878	41,815	57,270	69,082	81,041	94,819	1,10,423
Change (%)	22.2	15.6	(14.4)	37.0	20.6	17.3	17.0	16.5
EBITDA	4,422	4,996	4,605	5,887	7,020	8,375	10,961	13,527
% of Net Sales	10.5	10.2	11.0	10.3	10.2	10.3	11.6	12.3
Depreciation	340	567	578	555	571	614	668	1,084
Interest	1,362	1,292	573	404	347	439	740	902
Other Income	72	165	201	146	318	490	525	580
PBT	2,792	3,302	3,655	5,075	6,420	7,813	10,079	12,121
Tax	974	716	921	1,315	1,647	2,002	2,586	3,110
Rate (%)	34.9	21.7	25.2	25.9	25.7	25.6	25.7	25.7
Extra-ordinary Inc.(net)	-	-	-	-	-	2.1	-	-
Reported PAT	1,818	2,586	2,734	3,760	4,773	5,813	7,493	9,011
Change (%)	25.7	42.3	5.7	37.5	26.9	21.8	28.9	20.3
Adjusted PAT	1,818	2,586	2,734	3,760	4,773	5,811	7,493	9,011
Change (%)	25.7	42.3	5.7	37.5	26.9	21.7	29.0	20.3

Balance Sheet							(INR m)	
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Share Capital	158	179	180	180	180	180	180	180
Reserves	7,631	14,889	17,597	21,175	25,711	31,302	38,362	46,832
Net Worth	7,789	15,068	17,776	21,355	25,892	31,483	38,543	47,013
Loans	5,059	3,151	2,850	3,314	1,353	1,342	4,342	3,842
Deferred Tax Liability	442	310	296	294	266	273	273	273
Capital Employed	13,289	18,528	20,922	24,963	27,511	33,098	43,158	51,128
Gross Fixed Assets	5,799	6,298	6,631	7,733	8,668	11,312	12,536	23,612
Less: Depreciation	912	1,309	1,869	2,424	2,995	3,608	4,276	5,360
Net Fixed Assets	4,887	4,989	4,761	5,309	5,673	7,703	8,260	18,251
Capital WIP	316	112	71	165	146	1,224	10,000	4,000
Investments	16	6	9	20	13	16	16	16
Curr. Assets	22,432	27,579	25,295	29,776	31,870	37,636	39,517	45,601
Inventory	6,896	8,638	7,682	10,794	11,023	13,427	15,067	17,244
Debtors	10,946	13,676	13,496	13,955	13,878	15,179	17,405	19,664
Cash & Bank Balance	1,953	2,143	2,212	3,600	5,372	7,004	4,935	6,236
Loans & Advances	115	154	220	16	24	27	31	36
Other Current Assets	2,521	2,969	1,685	1,410	1,573	2,000	2,078	2,420
Current Liab. & Prov.	14,360	14,158	9,214	10,307	10,191	13,482	14,635	16,740
Creditors	10,203	11,690	7,414	7,626	7,482	10,079	11,170	12,706
Other Liabilities	3,936	2,277	1,658	2,538	2,469	3,106	3,117	3,630
Provisions	221	192	142	143	240	296	347	404
Net Current Assets	8,071	13,421	16,081	19,469	21,679	24,155	24,882	28,861
Application of Funds	13,289	18,528	20,922	24,963	27,511	33,098	43,158	51,128

Financials and valuations (Consolidated)

Ratios

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Basic (INR)								
Adjusted EPS	23.0	28.9	30.4	41.7	52.9	64.4	83.0	99.9
Growth (%)	24.8	25.5	5.3	37.2	26.8	21.7	29.0	20.3
Cash EPS	27.3	35.2	36.9	47.9	59.3	71.2	90.4	111.9
Book Value	98.7	168.3	197.8	237.0	287.1	348.9	427.1	521.0
DPS	1.0	1.5	2.0	2.5	3.0	2.6	4.0	5.0
Payout (incl. Div. Tax.)	5.2	10.7	6.6	6.0	5.7	4.8	5.8	6.0
Valuation (x)								
P/Sales	7.3	7.1	8.4	6.1	5.1	4.3	3.7	3.2
P/E	169.0	134.7	128.0	93.3	73.6	60.5	46.9	39.0
Cash P/E	142.4	110.5	105.6	81.3	65.7	54.7	43.0	34.8
EV/EBITDA	70.2	70.0	76.1	59.5	49.4	41.3	32.0	25.8
EV/Sales	7.3	7.1	8.4	6.1	5.0	4.3	3.7	3.2
Price/Book Value	39.4	23.1	19.7	16.4	13.6	11.2	9.1	7.5
Dividend Yield (%)	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1
Profitability Ratios (%)								
RoE	23.3	17.2	15.4	17.6	18.4	18.5	19.4	19.2
RoCE	20.4	19.4	15.1	16.3	18.3	18.5	18.6	18.9
RoIC	23.5	21.2	16.1	18.5	21.7	22.1	20.0	20.6
Turnover Ratios								
Debtors (Days)	95	102	118	89	73	68	67	65
Inventory (Days)	60	65	67	69	58	60	58	57
Creditors. (Days)	88	87	65	49	40	45	43	42
Asset Turnover (x)	3.2	2.6	2.0	2.3	2.5	2.4	2.2	2.2
Leverage Ratio								
Net Debt/Equity (x)	0.4	0.1	0.0	(0.0)	(0.2)	(0.2)	(0.0)	(0.1)

Cash Flow Statement

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
(INR m)								
PBT before EO Items	2,782	3,279	3,654	5,075	6,420	7,811	10,079	12,121
Add : Depreciation	339	567	578	555	571	614	668	1,084
Interest	1,356	1,276	554	404	347	439	740	902
Less : Direct Taxes Paid	865	947	903	1,247	1,776	2,045	2,586	3,110
(Inc)/Dec in WC	(2,592)	4,365	2,420	2,505	349	689	2,796	2,677
Others	21	61	76	4	(74)	(24)	(525)	(580)
CF from Operations	6,226	(130)	1,539	2,286	5,139	6,105	5,579	7,740
(Inc)/Dec in FA	(1,223)	(805)	(240)	(597)	(979)	(4,005)	(10,000)	(5,076)
Free Cash Flow	5,003	(936)	1,299	1,688	4,160	2,100	(4,421)	2,664
(Pur)/Sale of Investments	(1,564)	783	952	(8)	(547)	265	-	-
Others	37	133	42	22	156	209	525	580
CF from Investments	(2,751)	110	754	(584)	(1,371)	(3,531)	(9,475)	(4,496)
(Inc)/Dec in Net Worth	20	5,020	79	56	20	11	-	-
(Inc)/Dec in Debt	(2,951)	(1,062)	(714)	666	(1,961)	(9)	3,000	(500)
Less : Interest Paid	1,356	2,558	471	404	347	439	740	902
Dividend Paid	94	276	180	224	271	281	433	541
Others		(131)	-	(408)	-	(225)	-	-
CF from Fin. Activity	(4,382)	994	(1,286)	(314)	(2,559)	(942)	1,827	(1,943)
Inc/Dec of Cash	(906)	974	1,007	1,388	1,208	1,632	(2,068)	1,301
Add: Beginning Balance	2,859	1,169	1,205	2,212	4,163	5,372	7,004	4,935
Closing Balance	1,953	2,143	2,212	3,600	5,372	7,004	4,935	6,236

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NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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