



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	✗	↔	✗

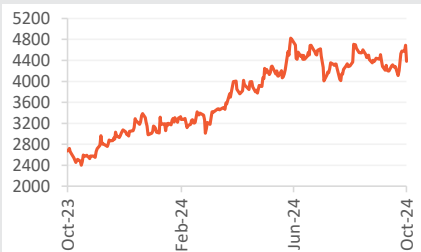
Company details

Market cap:	Rs. 39,535 cr
52-week high/low:	Rs. 5,040/2,317
NSE volume: (No of shares)	25.4 lakh
BSE code:	517569
NSE code:	KEI
Free float: (No of shares)	5.7 cr

Shareholding (%)

Promoters	37.1
FII	31.1
DII	16.0
Others	15.8

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-1.3	-2.3	13.8	63.9
Relative to Sensex	0.4	-3.2	2.1	40.7

Sharekhan Research, Bloomberg

KEI Industries

Margins hit; Maintain Hold

Capital Goods

Sharekhan code: KEI

Reco/View: Hold

CMP: Rs. 4,381

Price Target: Rs. 4,800



Upgrade



Maintain



Downgrade

Summary

- KEI reported a 10% y-o-y growth in net earnings for Q2FY2025 led by a 17% y-o-y growth in revenues. Revenue growth was driven by a 21% growth in cables segment but compensated by 58% decline in EPC segment revenues.
- The management has maintained its guidance of 16-17% y-o-y revenue growth and operating margin of 11% in FY25.
- The company looks to raise Rs 2,000 crore via QIP majorly to fund the Sanand greenfield project.
- The company is expected to do well backed by tailwind sectors like Renewables, Transmission, Data center and thriving real estate and infrastructure sector. However, the stock is currently trading a high PE of 41x its FY27 earnings. Hence, we maintain our Hold rating on the stock with a revised PT of Rs. 4,800.

KEI reported a good revenue growth of 17.1% y-o-y, reaching Rs. 2,280 crore (our estimate of Rs 2280 crore) for Q2FY2025 led by 20.5% y-o-y growth in cables revenues. Within the cable segment, LT cables was up 21%, HT cable 66%, and Housing wire 21%. EHV cables revenues decline by 50.8% y-o-y impacted by delay in execution of projects. In terms of Institutional and retail business, C&W Institutional revenue grew only 2% y-o-y because of decline in exports while the retail segment was up 20% y-o-y. Overall, domestic revenue was up 20% y-o-y while exports was down 3% y-o-y. OPM declined by 80 bps y-o-y to at 9.7% due to increase in raw material cost. In line with operating profit growth and higher other income further cushioned by lower tax rates, adjusted PAT grew by 10.4% y-o-y to Rs. 155 crore against our expectation of Rs. 169 crore. KEI remains on track with respect to its brownfield and greenfield capacity expansion plans with greenfield capex plan of Rs. 1400-1600 crore over FY2025-26.

Key positives

- Within the cables segment, HT segment's revenue increased by 66% y-o-y to Rs. 431 crore.
- C&W retail sales clocked a revenue of Rs. 2,142 crore, up 20% y-o-y.

Key negatives

- EPC segment revenues declined by 58% due to delay in execution of projects.

Management Commentary

- Company targets close to 16-17% revenue growth for FY2025. Over the longer term, it expects to grow its revenues by 15-16% CAGR. It has guided for 11% margins in FY2025. It aims to reach beyond the 50% sales mix in B2C segment. It targets to add 100 bps in EBITDA margin by FY2027,
- In the domestic market, good demand is seen in sectors of solar power, power T&D, real estate, construction and infrastructure.
- Capacity utilization is in the range of 75-78% across cables plants.
- The company looks to raise Rs 2,000 crore via QIP majorly to fund the Sanand greenfield project and to satisfy its working capital demand in the coming years.

Our Call

Valuation: Maintain Hold with an revised PT of Rs. 4,800: KEI looks to maintain a healthy growth of around 17% over coming years backed by strong tailwinds from emerging sectors such as renewables, Transmission, Data centre etc. Additionally, the company has been gaining traction in exports. The management has provided an optimistic demand outlook for both retail and institutional segments, driven by private capex and higher government spending, respectively. We expect a revenue/PAT CAGR of 17%/~19% over FY24-FY27E. However, the stock trades at a P/E of ~41x its FY27E EPS, which we think prices in all the upside. Hence, we maintain our Hold rating on the stock with a revised PT of Rs. 4,800.

Key Risks

Volatile input costs may adversely hit margin guidance. The strong demand environment can be an upside risk to estimates.

Valuation (Standalone)

Particulars	FY23	FY24	FY25E	FY26E	FY27E
Net sales (Rs cr)	6,908	8,104	9,502	11,077	12,901
OPM (%)	10.2	10.3	10.6	10.8	10.8
Net profit (Rs cr)	477	581	700	836	974
Adjusted EPS (Rs)	52.9	64.4	77.6	92.7	108.0
Growth (YoY) %	26.9	21.7	20.4	19.5	16.5
PER (x)	83.1	68.3	56.7	47.5	40.7
P/B (x)	13.3	11.0	9.0	7.4	6.2
EV/EBIDTA (x)	56.0	46.7	39.4	33.1	28.4
RoCE (%)	24.6	24.9	25.2	25.2	25.4
Core RoE (%)	18.4	18.5	18.4	18.6	18.7

Source: Company; Sharekhan estimates

Key Conference Call Highlights:

Guidance: KEI targets close to 16-17% revenue growth with 11% margins for FY2025. Over the longer term, it expects to grow its revenues at a 15-16% CAGR. It aims to reach beyond 50% sales mix in the B2C segment.

Exports: The segment saw a minor de-growth of 3%.

Outlook: Management remains bullish on demand driven by sectors such as solar power, power T&D, real estate, construction, and infrastructure on the domestic front.

Volume: Cables division experienced lower volume growth impacted by exports.

Capacity utilisation: Cables division operated at 75-78% capacity utilisation while Housing wire at 80% and stainless-steel wires - 90%.

Capex: The company incurred a Rs. 312 crore capex as on H12025. In greenfield capex, company will invest Rs. 1100 crore for LT, HT & EHV cables in Sanand, Gujarat, expected to operationalise in FY26. Further, Rs. 500-600 crore will be spent in FY26 to complete this plant. The Sanand plant would have an asset turn of 2.5x leading to total revenue of 5000 crore.

Order book: Total outstanding order book stands at Rs. 3,847 crore of which Rs. 603 crore is EPC orders, Rs. 301 crore EHV cables, Rs. 2,368 crore for domestic institutional cable orders and Rs. 575 crore for cable export orders.

Results (Standalone)

Particulars	Rs cr				
	Q2FY25	Q2FY24	YoY %	Q1FY25	QoQ %
Net Sales	2,280	1,947	17.1	2,060	10.6
Operating Profit	221	204	8.2	215	2.8
Other Income	17	8	121.1	18	(5.2)
Interest	13	8	77.0	14	(5.9)
Depreciation	16	16	4.9	16	5.3
PBT	208	188	10.3	203	2.5
Tax	53	48	10.0	52	1.1
PAT	155	140	10.4	150	3.0
EPS (Rs.)	17.2	15.5	10.4	16.7	3.0
Margin			BPS		BPS
OPM (%)	9.7	10.5	(80)	10.4	(74)
NPM (%)	6.8	7.2	(41)	7.3	(50)
Tax rate(%)	25.5	25.6	(7)	25.9	(37)

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 C&W industry.

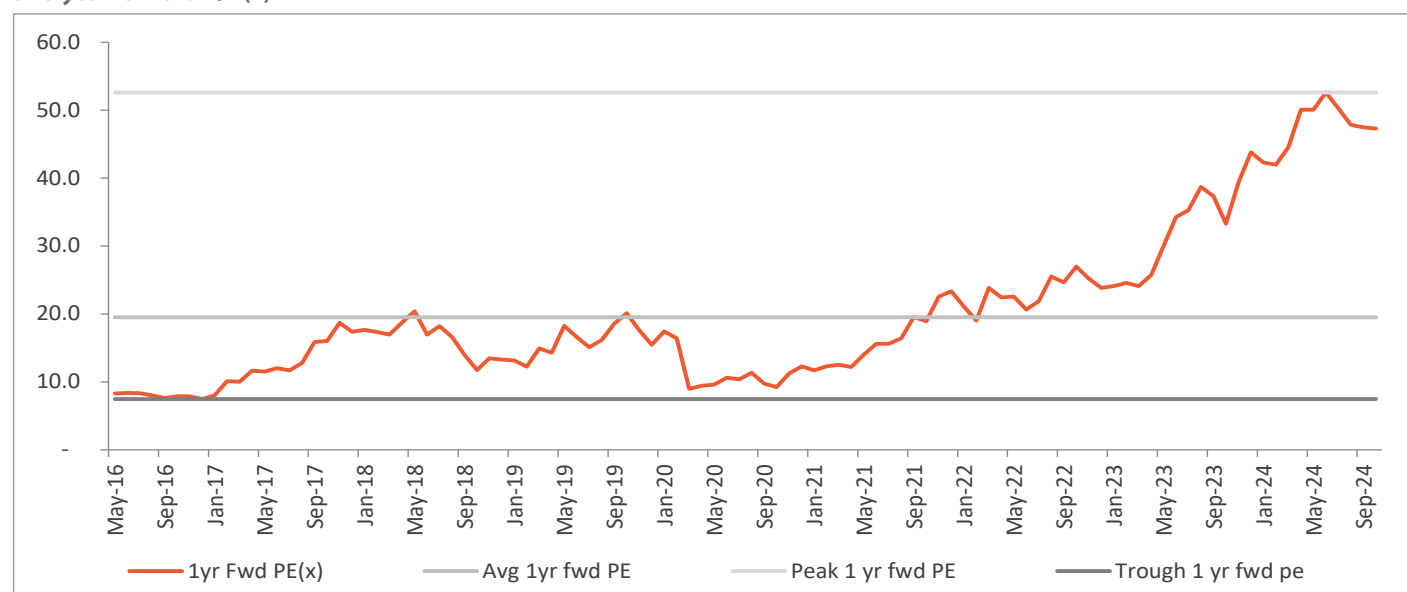
■ Company outlook - Capacity expansions to keep growth elevated

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 2,015) and expects its retail segment to contribute more than 50% to revenues 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 17-18% y-o-y revenue CAGR in 2-3 years.

■ Valuation - Maintain Hold with an revised PT of Rs. 4,800

KEI looks to maintain a healthy growth of around 17% over coming years backed by strong tailwinds from emerging sectors such as renewables, Transmission, Data centre etc. Additionally, the company has been gaining traction in exports. The management has provided an optimistic demand outlook for both retail and institutional segments, driven by private capex and higher government spending, respectively. We expect a revenue/PAT CAGR of 17%/~19% over FY24-FY27E. However, the stock trades at a P/E of ~41x its FY27E EPS, which we think prices in all the upside. Hence, we maintain our Hold rating on the stock with a revised PT of Rs. 4,800.

One-year forward P/E (x)



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.
- ♦ The strong demand environment can be an upside risk to estimates.

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	3.18
2	Vanguard Group Inc/The	2.63
3	SMALLCAP World Fund Inc/Fund Paren	2.61
4	Canara Robeco Asset Management Co	2.12
5	Franklin Resources Inc	1.89
6	L&T Mutual Fund Trustee Ltd/India	1.78
7	Axis Asset Management	1.26
8	Blackrock Inc	1.22
9	HDFC Asset Management Co	1.20
10	HSBC Asset Management Co	1.14

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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