

BUY

TP: Rs 1,900 | ▲ 25%

KEI INDUSTRIES

| Consumer Durables

| 24 January 2023

Upbeat numbers

- Strong performance in cables aids Q3 topline growth of 14% YoY; EHV drag transient
- Sustained EBITDA margin trajectory amid volatile commodity environment; 11% guidance reiterated for FY24
- FY23/FY24 EPS raised slightly by ~2%; on rollover, our TP stays at Rs 1,900 – retain BUY

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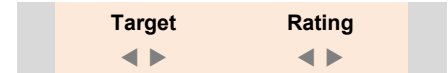
Growth momentum continues: KEII reported a good Q3FY23 print, with 14% YoY topline growth to Rs 17.8bn, ahead of our estimate of Rs 16.7bn, led by strong 20% volume growth in the cables business – a major revenue driver. The stainless-steel wires and EPC businesses posted YoY revenue contraction of 14% and 8% respectively. Pending orders rose 14% QoQ to Rs 3.4bn, and management is thus targeting healthy revenue growth of 18-20% in FY23.

Margins maintained near guided levels: At 10-10.2%, KEII’s EBITDA margin trajectory has remained stable in FY23 YTD and close to guided levels of 10.5-11% despite inflationary pressures and a lag in commodity price pass-along. In Q3, the EPC business recorded a strong EBIT margin of 13% while the cables division was largely stable. Management foresees no immediate impact of ongoing raw material cost volatility and expects channel inventory to remain at normal levels.

EHV drag transient in nature: KEII expects to close FY23 with extra-high-voltage (EHV) product sales of Rs 3.5bn-4bn vs. Rs 5.1bn in FY22, due to project delays stemming from right-of-way issues. Management is, however, confident of scaling past Rs 5bn in FY24 based on the current order book. The company foresees no medium-term impact from the entry of industry peer – Polycab - into the EHV segment due to a long gestation period for the business, and plans to adhere to its strategy of bidding for projects with reasonable margins over chasing market share.

Maintain BUY: We see structural growth drivers for KEII as the margin-accretive retail business scales up and as its core cables and EPC businesses benefit from sectoral tailwinds in the form of increased private and public capex. We raise our FY23/FY24 EPS estimates by ~2% post Q3, but cut EBITDA margin forecasts by 80bps/20bps. On rolling valuations forward to Dec’24E, our TP remains at Rs 1,900, based on 25x EPS – a 9% premium over the recent 5Y high.

Key changes



Ticker/Price	KEII IN/Rs 1,514
Market cap	US\$ 1.7bn
Free float	61%
3M ADV	US\$ 4.0mn
52wk high/low	Rs 1,662/Rs 951
Promoter/FPI/DII	37%/27%/19%

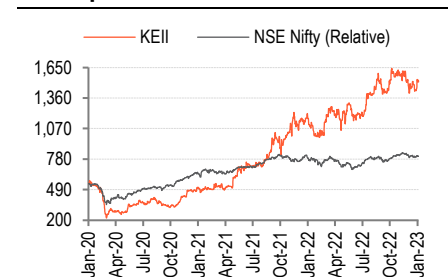
Source: NSE | Price as of 24 Jan 2023

Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
Total revenue (Rs mn)	57,266	67,599	77,902
EBITDA (Rs mn)	5,887	6,899	9,325
Adj. net profit (Rs mn)	3,760	4,387	5,829
Adj. EPS (Rs)	41.5	48.4	64.3
Consensus EPS (Rs)	41.5	51.8	64.9
Adj. ROAE (%)	19.2	18.7	20.6
Adj. P/E (x)	36.5	31.3	23.6
EV/EBITDA (x)	23.2	19.9	15.1
Adj. EPS growth (%)	37.6	16.7	32.9

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Fig 1 – Quarterly performance

Particulars (Rs mn)	Q3FY23	Q3FY22	YoY (%)	Q2FY23	QoQ (%)	9MFY23	9MFY22	YoY (%)
Revenue	17,843	15,639	14.1	16,081	11.0	49,578	39,348	26.0
EBITDA	1,822	1,568	16.2	1,605	13.5	5,024	4,168	20.5
EBITDAM (%)	10.2	10.0	20bps	10.0	20bps	10.1	10.6	(50bps)
Depreciation	144	137	-	145	-	428	416	-
Interest	78	90	-	76	-	246	303	-
Other Income	138	17	-	53	-	226	68	-
PBT	1,737	1,358	27.9	1,437	20.9	4,575	3,516	30.1
Tax	451	346	-	369	-	1,183	916	-
Adjusted PAT	1,286	1,012	27.0	1,068	20.4	3,392	2,600	30.5
Exceptional item	0	0	-	0	-	0	0	-
Reported PAT	1,286	1,012	-	1,068	-	3,392	2,600	30.5
Adj. PATM (%)	7.2	6.5	70bps	6.6	60bps	6.8	6.6	20bps
EPS (Rs)	14.3	11.2	-	11.8	-	38	29	30.5

Source: Company, BOBCAPS Research

Fig 2 – Actual vs. Estimates

Particulars	Actual	Estimates	Variance
Revenue	17,843	16,715	6.7
EBITDA	1,822	1,761	3.4
EBITDA Margin (%)	10.2	10.5	(30bps)
Adj. PAT	1,286	1,182	8.8

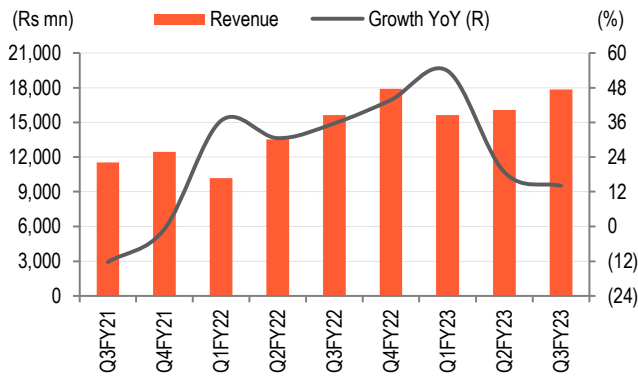
Source: Company, BOBCAPS Research

Fig 3 – Segment-wise performance

(Rs mn)	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23
Segment revenue													
Cables	10,995	10,332	6,463	8,707	9,899	10,675	8,844	12,112	14,059	16,214	14,206	14,445	16,334
Growth YoY (%)	25.2	6.0	(24.4)	(12.5)	(10.0)	3.3	36.9	39.1	42.0	51.9	60.6	19.3	16.2
Stainless Steel Wires	326	393	208	335	412	462	478	518	652	612	610	735	557
Growth YoY (%)	(2.9)	5.8	(34.7)	(1.1)	26.6	17.5	130.2	54.4	58.2	32.5	27.6	42.0	(14.5)
EPC Projects	3,985	3,701	1,763	2,477	2,929	2,597	1,379	2,754	2,428	2,174	1,536	1,059	2,234
Growth YoY (%)	54.1	(4.2)	(42.6)	(22.8)	(26.5)	(29.8)	(21.8)	11.2	(17.1)	(16.3)	11.4	(61.6)	(8.0)
EBIT													
Cables	1,321	1,149	774	1,117	1,253	999	947	1,238	1,366	1,312	1,274	1,261	1,515
EBIT margin (%)	12.0	11.1	12.0	12.8	12.7	9.4	10.7	10.2	9.7	8.1	9.0	8.7	9.3
Stainless Steel Wires	14	42	20	22	32	10	30	42	31	34	30	45	56
EBIT margin (%)	4.2	10.8	9.5	6.7	7.9	2.1	6.3	8.1	4.7	5.5	5.0	6.1	10.0
EPC Projects	467	409	178	213	314	202	125	213	233	249	95	148	280
EBIT margin (%)	11.7	11.0	10.1	8.6	10.7	7.8	9.0	7.7	9.6	11.4	6.2	14.0	12.5

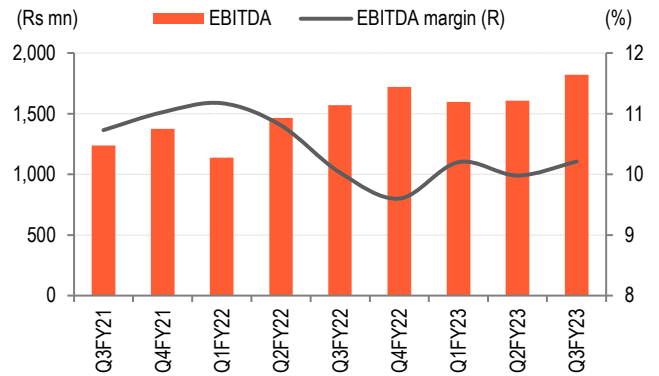
Source: Company, BOBCAPS Research

Fig 4 – Strong revenue growth



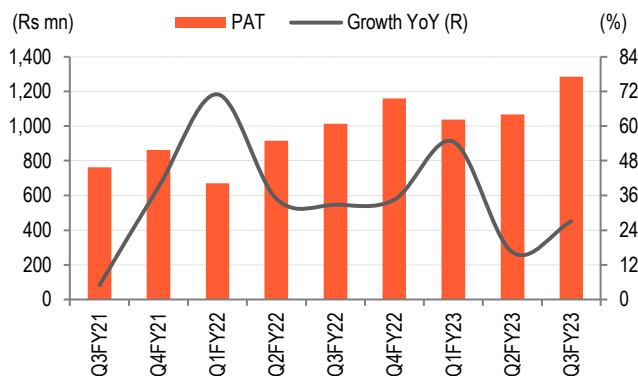
Source: Company, BOBCAPS Research

Fig 5 – Consistent EBITDA margin trajectory



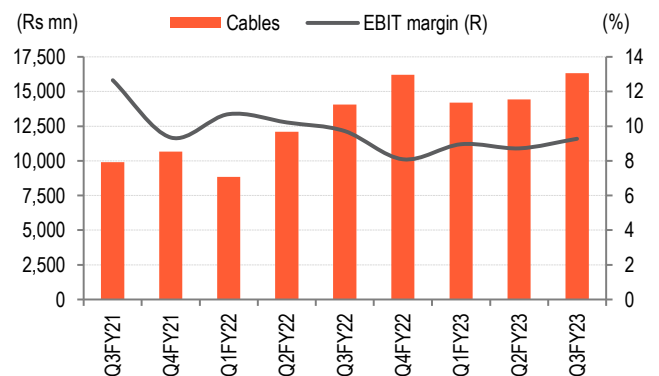
Source: Company, BOBCAPS Research

Fig 6 – Improved profitability



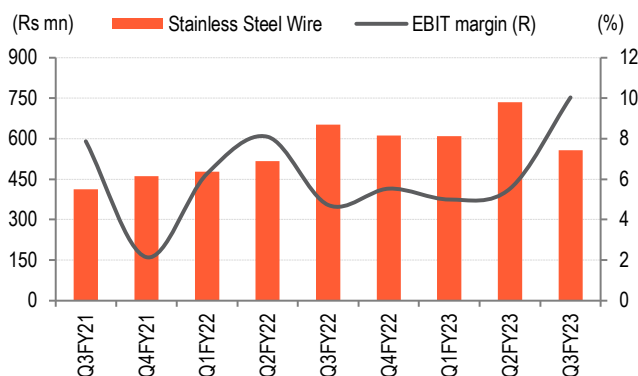
Source: Company, BOBCAPS Research

Fig 7 – Upbeat cables division performance



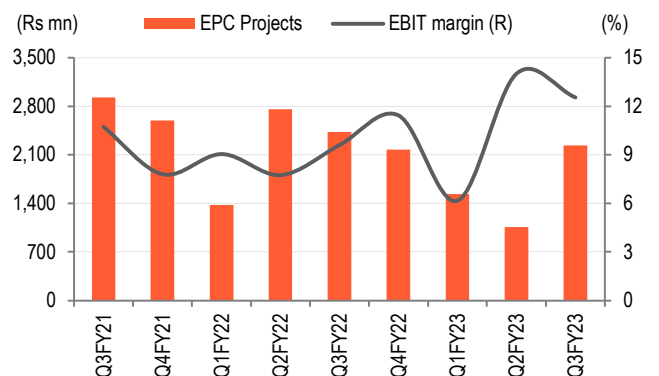
Source: Company, BOBCAPS Research

Fig 8 – Sustained wire division performance



Source: Company, BOBCAPS Research

Fig 9 – EPC projects division has bounced back



Source: Company, BOBCAPS Research

Earnings call takeaways

- **Rising capex buoys demand prospects:** The government's emphasis on infrastructure coupled with rural and rail electrification is boosting demand prospects for KEIL. Power distribution-led capex and real estate construction are other areas of opportunity. The company foresees a prolonged capex cycle and thus no hindrance to demand growth.
- **EHV drag likely to subside:** KEIL expects to close FY23 with EHV revenue of Rs 3.5bn-4bn (vs. Rs 5.1bn in FY22) due to project delays stemming from right-of-way issues. Management is, however, confident of scaling past Rs 5bn in FY24 based on the current order book.

The company foresees no medium-term impact from the entry of industry peer Polycab into the EHV segment due to the long 5-8-year gestation period for the business. Currently, the space has two other major players – Universal Cables and LS Cables (Korean), with a minor contribution from KEC International and Sterlite Tech. KEIL commands reasonable market share and aims to maintain it by bidding for projects that carry a better margin profile.

- **Volatile raw material (copper) prices:** The company has been meticulously balancing its raw material inventories against the orders booked, giving it an edge over peers. Management expects to maintain margins going ahead.
- **Trade channel inventory:** Inventory in trade channels is averaging 15-20 days. The recent commodity price rebound is unlikely to change inventory levels due to a three-month-lag in the cycle.
- **Guidance:** Management has guided for 18-20% revenue growth for FY23 and ~15% growth for FY24. EBITDA margin guidance has been maintained at ~11% for FY24.
- **Unorganised segment no longer a threat:** Per management, the unorganised cables and wire segment is now restricted to 15-20% of the Indian market as the introduction of GST and rising working capital burden has steadily taken a toll on the segment, enabling organised players to gain share.
- **Exports:** KEIL has an order-driven export business with no exposure to distribution-led business. The company is targeting Rs 7bn of exports this year and expects to surpass this figure. It is currently serving clients across Australia, the Middle East and a few African countries, with plans to target the US market in FY24.
- **Capex:** In FY23, KEIL expects to incur an additional Rs 1bn toward working capital and a sum of Rs 400mn-450mn on brownfield expansion at the Silvassa plant (which it estimates can yield additional revenue of Rs 5bn). For FY24, capex plans total Rs 2.5bn.

Valuation methodology

We see structural growth drivers for KEI as the margin-accretive retail business scales up and as its core cables and EPC (engineering, procurement & construction) businesses benefit from sectoral tailwinds in the form of increased private and public capex. We raise our FY23/FY24/FY25 EPS estimates by 3%/2%/2% post the Q3FY23 results, but cut EBITDA margin forecasts by 80bps/20bps/20bps. On rolling valuations forward to Dec'24E, our TP remains at Rs 1,900, based on 25x EPS – a 9% premium over the stock's recent five-year high. Maintain BUY.

Fig 10 – Revised estimates

(Rs mn)	New			Old			Change (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Sales	67,599	77,902	89,017	68,584	79,027	90,285	(1.4)	(1.4)	(1.4)
EBITDA	6,899	9,325	11,272	7,515	9,642	11,628	(8.2)	(3.3)	(3.1)
PAT	4,387	5,829	7,157	4,282	5,709	7,018	2.5	2.1	2.0
EPS (Rs)	48.4	64.3	78.9	47.2	62.9	77.4	2.5	2.1	2.0
EBITDA Margin (%)	10.2	12.0	12.7	11.0	12.2	12.9	(80bps)	(20bps)	(20bps)

Source: Company, BOBCAPS Research

Key risks

Key downside risks to our estimates are:

- slowdown in the retail segment, and
- softening of commodity prices, resulting in suppressed realisations.

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Amber Enterprises	AMBER IN	0.8	2,043	2,100	HOLD
Blue Star	BLSTR IN	1.5	1,246	1,350	HOLD
Crompton Greaves	CROMPTON IN	2.6	339	500	BUY
Dixon Technologies	DIXON IN	2.5	3,477	5,200	BUY
Havells India	HAVL IN	9.2	1,193	1,500	BUY
KEI Industries	KEI IN	1.7	1,514	1,900	BUY
Orient Electric	ORIENTEL IN	0.7	264	280	HOLD
Polycab India	POLYCAB IN	5.2	2,817	3,300	BUY
Syrma SGS	SYRMA IN	0.6	265	390	BUY
V-Guard Industries	VGRD IN	1.3	251	250	HOLD
Voltas	VOLT IN	3.2	778	950	HOLD

Source: BOBCAPS Research, NSE | Price as of 24 Jan 2023

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Total revenue	41,815	57,266	67,599	77,902	89,017
EBITDA	4,605	5,887	6,899	9,325	11,272
Depreciation	578	555	577	600	624
EBIT	4,027	5,333	6,322	8,725	10,648
Net interest inc./(exp.)	573	404	676	1,169	1,335
Other inc./(exp.)	201	146	219	236	255
Exceptional items	0	0	0	0	0
EBT	3,654	5,075	5,865	7,793	9,568
Income taxes	921	1,315	1,478	1,964	2,411
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	2,733	3,760	4,387	5,829	7,157
Adjustments	0	0	0	0	0
Adjusted net profit	2,733	3,760	4,387	5,829	7,157

Balance Sheet

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Accounts payables	7,415	7,626	11,112	11,739	12,194
Other current liabilities	1,471	2,387	3,704	4,269	4,878
Provisions	0	0	0	0	0
Debt funds	2,850	3,314	2,314	2,814	2,714
Other liabilities	624	589	695	801	915
Equity capital	180	180	180	180	180
Reserves & surplus	17,601	21,175	25,335	30,847	37,623
Shareholders' fund	17,781	21,355	25,516	31,027	37,803
Total liab. and equities	30,140	35,271	43,341	50,649	58,504
Cash and cash eq.	2,212	3,600	6,207	8,575	10,723
Accounts receivables	13,496	13,955	15,742	17,501	19,511
Inventories	7,682	10,794	12,409	14,300	16,340
Other current assets	1,066	1,261	1,867	1,724	1,970
Investments	12	20	24	27	31
Net fixed assets	5,371	5,313	6,736	8,137	9,513
CWIP	71	165	165	165	165
Intangible assets	0	0	0	0	0
Deferred tax assets, net	0	0	0	0	0
Other assets	230	162	191	220	251
Total assets	30,140	35,270	43,340	50,649	58,504

Cash Flows

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Cash flow from operations	1,539	2,286	5,760	4,112	4,550
Capital expenditures	(231)	(596)	(2,000)	(2,000)	(2,000)
Change in investments	0	(9)	(4)	(4)	(4)
Other investing cash flows	985	22	77	77	83
Cash flow from investing	754	(584)	(1,927)	(1,927)	(1,921)
Equities issued/Others	(612)	667	0	0	0
Debt raised/repaid	79	56	(1,000)	500	(100)
Interest expenses	0	0	0	0	0
Dividends paid	0	0	0	0	0
Other financing cash flows	(753)	(1,037)	(227)	(317)	(381)
Cash flow from financing	(1,286)	(314)	(1,227)	183	(481)
Chg in cash & cash eq.	1,007	1,389	2,607	2,368	2,148
Closing cash & cash eq.	2,212	3,600	6,207	8,575	10,723

Per Share

Y/E 31 Mar (Rs)	FY21A	FY22A	FY23E	FY24E	FY25E
Reported EPS	30.1	41.5	48.4	64.3	78.9
Adjusted EPS	30.1	41.5	48.4	64.3	78.9
Dividend per share	2.0	2.5	2.5	3.5	4.2
Book value per share	196.0	235.5	281.3	342.1	416.8

Valuations Ratios

Y/E 31 Mar (x)	FY21A	FY22A	FY23E	FY24E	FY25E
EV/Sales	3.3	2.4	2.0	1.8	1.6
EV/EBITDA	29.6	23.2	19.9	15.1	12.7
Adjusted P/E	50.2	36.5	31.3	23.6	19.2
P/BV	7.7	6.4	5.4	4.4	3.6

DuPont Analysis

Y/E 31 Mar (%)	FY21A	FY22A	FY23E	FY24E	FY25E
Tax burden (Net profit/PBT)	74.8	74.1	74.8	74.8	74.8
Interest burden (PBT/EBIT)	90.7	95.2	92.8	89.3	89.9
EBIT margin (EBIT/Revenue)	9.6	9.3	9.4	11.2	12.0
Asset turnover (Rev./Avg TA)	133.1	175.1	172.0	165.8	163.1
Leverage (Avg TA/Avg Equity)	1.9	1.7	1.7	1.7	1.6
Adjusted ROAE	16.6	19.2	18.7	20.6	20.8

Ratio Analysis

Y/E 31 Mar	FY21A	FY22A	FY23E	FY24E	FY25E
YoY growth (%)					
Revenue	(14.4)	36.9	18.0	15.2	14.3
EBITDA	(7.4)	27.9	17.2	35.2	20.9
Adjusted EPS	6.6	37.6	16.7	32.9	22.8
Profitability & Return ratios (%)					
EBITDA margin	11.0	10.3	10.2	12.0	12.7
EBIT margin	9.6	9.3	9.4	11.2	12.0
Adjusted profit margin	6.5	6.6	6.5	7.5	8.0
Adjusted ROAE	16.6	19.2	18.7	20.6	20.8
ROCE	21.5	24.3	24.1	26.7	26.9
Working capital days (days)					
Receivables	118	89	85	82	80
Inventory	67	69	67	67	67
Payables	65	49	60	55	50
Ratios (x)					
Gross asset turnover	5.8	7.4	7.0	6.7	6.5
Current ratio	2.1	2.2	2.1	2.3	2.6
Net interest coverage ratio	7.0	13.2	9.4	7.5	8.0
Adjusted debt/equity	0.0	0.0	(0.2)	(0.2)	(0.2)

Source: Company, BOBCAPS Research | Note: TA = Total Assets

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Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

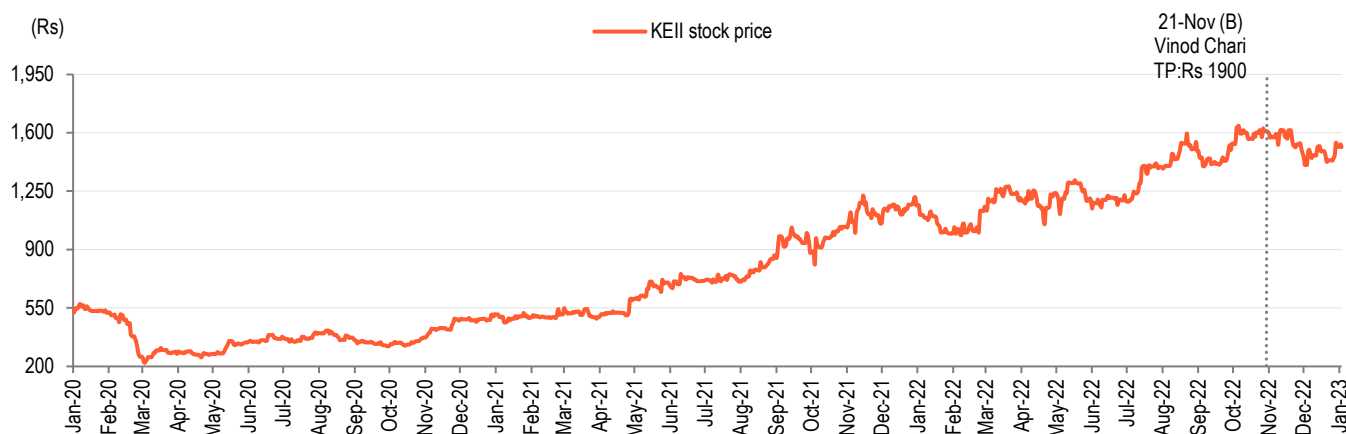
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

Ratings and Target Price (3-year history): KEI INDUSTRIES (KEI IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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