

31 July 2024

KEI Industries

Stable growth; retaining a Hold

With revenue up 16% y/y to Rs20.6bn, Kei Industries reported a decent Q1. Demand is strong, considering private and government capex. Exports would substantially add to growth, with construction approvals and new capacities. Large capex and the strong orderbook would drive growth. The company continues to guide to ~16-17% revenue growth, with a steady, ~11%, FY25 EBITDA margin. We maintain our Hold recommendation as the run-up in the stock price restricts potential, based on FY26e earnings.

Healthy Q1. On 18% y/y volume growth, Q1 revenue grew 16% y/y to Rs20.6bn. (Polycab's cable and wire revenue grew 12% y/y) Stainless steel wire revenue came at Rs538m, down 9% y/y. EPC revenue rose 22% y/y to Rs2.3bn. The EBITDA margin grew 40bps y/y to 10.4%, led by a 110bp increase in gross margins. Staff cost rose 13% y/y and other expenses, 24% y/y. PAT rose 24% y/y to Rs1.5bn, supported by a 20% y/y increase in EBITDA and a 114% rise in other income.

Demand outlook strong. Management expects strong domestic and export demand. Also, new capacities commencing would add to exports and domestic volumes. Management sees significant demand coming from solar, wind, transmission and distribution projects and the industrial sector. It guided to 16-17% revenue growth for FY25, with an 11% EBITDA margin.

Valuation. Post-Q1 results, we raise our FY25e/26e EBITDA/PAT an average of 3/4%. We are optimistic about the company's growth prospects and expect revenue/net income to register 18/22% CAGRs over FY24-26. At the CMP, the stock trades at 57x/45x FY25e/26e EPS of Rs76/95. Our 12-mth TP, post-Q1 earnings, is Rs4,771 (50x FY26e EPS of Rs95.4). We maintain our Hold recommendation due to expensive valuations.

Key financials (YE: Mar)	FY22	FY23	FY24	FY25e	FY26e
Sales (Rs m)	57,270	69,082	81,041	93,785	1,12,105
Net profit (Rs m)	3,760	4,773	5,811	6,824	8,619
EPS (Rs)	41.6	52.9	64.3	75.6	95.4
P/E (x)	33.9	81.5	66.9	57.0	45.1
EV / EBITDA (x)	21.6	54.8	45.8	37.6	29.4
PBV (x)	6.0	15.0	12.4	10.2	8.3
RoE (%)	17.6	18.4	18.5	17.8	18.4
RoCE (%) - after tax	15.8	17.4	17.4	16.5	17.0
RoIC (%) - after tax	19.6	22.0	23.9	21.7	20.6
Net debt / equity (x)	-0.0	-0.2	-0.2	-0.0	0.0

Source: Company

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Rating: **Hold**

Target Price(12-mth): Rs.4,771

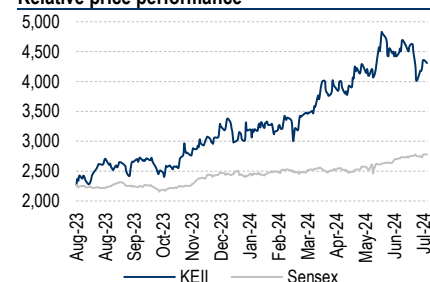
Share Price: Rs.4,330

Key data	KEII IN / KEIN.BO
52-week high/low	Rs5040 / 2223
Sensex/Nifty	81455 / 24857
3-m average volume	\$15.1m
Market cap	Rs389bn / \$4642.3m
Shares outstanding	90m

Shareholding pattern (%)	Jun'24	Mar'24	Dec'23
Promoters	37.1	37.1	37.1
- of which, Pledged			
Free float	62.9	62.9	62.9
- Foreign institutions	30.8	31.0	31.0
- Domestic institutions	16.6	16.3	16.1
- Public	15.6	15.6	15.9

Estimates revision (%)	FY25e	FY26e
Sales	-	-
EBITDA	1	4
PAT	2	6

Relative price performance



Source: Bloomberg

Manish Valecha
Research Analyst

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Research Analyst

Quick Glance – Financials and Valuations

Fig 1 – Income statement (Rs m)

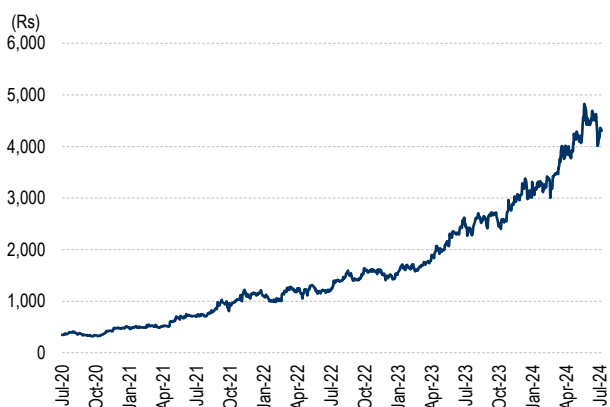
Year-end: Mar	FY22	FY23	FY24	FY25e	FY26e
Net revenues	57,270	69,082	81,041	93,785	1,12,105
<i>Growth (%)</i>	37.0	20.6	17.3	15.7	19.5
Direct costs	42,142	51,724	60,774	70,339	84,079
SG&A	9,241	10,338	11,892	13,092	14,802
EBITDA	5,887	7,020	8,375	10,354	13,224
<i>EBITDA margins (%)</i>	10.3	10.2	10.3	11.0	11.8
- Depreciation	555	571	614	937	1,329
Other income	146	318	490	516	617
Interest expenses	404	347	439	774	943
PBT	5,075	6,420	7,813	9,159	11,569
<i>Effective tax rates (%)</i>	25.9	25.6	25.6	25.5	25.5
+ Associates / (Minorities)	0	0	-	-	-
Net income	3,760	4,773	5,811	6,824	8,619
Adjusted income	3,760	4,774	5,811	6,824	8,619
WANS	90	90	90	90	90
FDEPS (Rs)	41.6	52.9	64.3	75.6	95.4
<i>FDEPS growth (%)</i>	39.7	27.2	21.7	17.4	26.3
<i>Gross margins (%)</i>	26.4	25.1	25.0	25.0	25.0

Fig 3 – Cash-flow statement (Rs m)

Year-end: Mar	FY22	FY23	FY24	FY25e	FY26e
PBT	5,075	6,420	7,811	9,159	11,569
+ Non-cash items	1,013	844	1,028	1,195	1,655
Oper. prof. before WC	6,088	7,264	8,839	10,354	13,224
- Incr. / (decr.) in WC	-2,555	-349	-689	-2,856	-4,164
Others incl. taxes	-1,247	-1,776	-2,045	-2,336	-2,950
Operating cash-flow	2,286	5,139	6,105	5,163	6,110
- Capex (tang. + intang.)	-596	-977	-4,000	-10,513	-6,077
Free cash-flow	1,690	4,163	2,105	-5,351	33
Acquisitions					
- Div. (incl. buyback & taxes)	-225	-271	-281	-632	-632
+ Equity raised	-	20	11	-0	-
+ Debt raised	-190	-202	-9	2,658	1,000
- Fin investments	-9	9	3	-	-
- Misc. (CFI + CFF)	485	-1,759	-	659	632
Net cash-flow	1,389	1,209	1,861	(2,925)	706

Source: Company

Fig 5 – Price movement



Source: Bloomberg

Fig 2 – Balance sheet (Rs m)

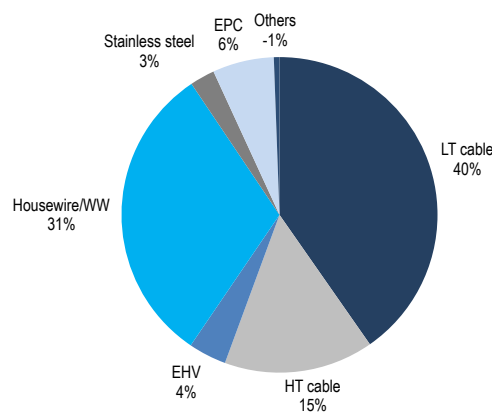
Year-end: Mar	FY22	FY23	FY24	FY25e	FY26e
Share capital	180	180	180	180	180
Net worth	21,355	25,892	31,483	38,306	46,925
Debt	3,314	1,353	1,342	4,000	5,000
Minority interest	-0	-0	-	-	-
DTL / (Assets)	294	266	273	300	300
Capital employed	24,963	27,511	33,098	42,606	52,225
Net tangible assets	5,288	5,656	7,688	17,469	22,218
Net intangible assets	21	17	15	20	20
Goodwill	-	-	-	-	-
CWIP (tang. & intang.)	165	146	1,209	1,000	1,000
Investments (strategic)	20	13	16	16	16
Investments (financial)	-	-	-	-	-
Current assets (excl. cash)	26,196	26,511	30,648	35,129	41,956
Cash	3,600	5,372	7,004	4,079	4,786
Current liabilities	10,307	10,191	13,466	15,091	17,755
Working capital	15,889	16,320	17,182	20,038	24,202
Capital deployed	24,963	27,511	33,098	42,606	52,225
Contingent liabilities	2,768	1,446	-	-	-

Fig 4 – Ratio analysis

Year-end: Mar	FY22	FY23	FY24	FY25e	FY26e
P/E (x)	33.9	81.5	66.9	57.0	45.1
EV / EBITDA (x)	21.6	54.8	45.8	37.6	29.4
EV / Sales (x)	2.2	5.6	4.7	4.1	3.5
P/B (x)	6.0	15.0	12.4	10.2	8.3
RoE (%)	17.6	18.4	18.5	17.8	18.4
RoCE (%) - after tax	15.8	17.4	17.4	16.5	17.0
RoIC (%) - after tax	19.6	22.0	23.9	21.7	20.6
DPS (Rs)	2.5	3.0	3.5	7.0	7.0
Dividend yield (%)	0.1	0.1	0.1	0.2	0.2
Dividend payout (%) - incl. DDT	6.0	5.7	5.4	9.3	7.3
Net debt / equity (x)	-0.0	-0.2	-0.2	-0.0	0.0
Receivables (days)	89	73	68	70	70
Inventory (days)	69	58	60	60	60
Payables (days)	49	40	45	45	45
CFO : PAT %	60.8	107.7	105.1	75.7	70.9

Source: Company

Fig 6 – Revenue mix, Q1 FY25



Source: Company

Fig 7 – Financial performance

(Rs m)	Q4 FY22	Q1 FY23	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24	Q1 FY25	% Y/Y	% Q/Q
Income	17,922	15,654	16,081	17,843	19,529	17,826	19,466	20,594	23,193	20,605	15.6	(11.2)
Raw material costs	13,585	11,761	12,091	13,445	14,427	13,342	14,552	15,494	17,385	15,194	13.9	(12.6)
Employee costs	499	560	508	595	657	650	662	664	695	731	12.6	5.2
Other expenses	2,117	1,736	1,877	1,982	2,424	2,051	2,213	2,290	2,666	2,534	23.5	(5.0)
EBITDA	1,720	1,596	1,606	1,822	2,022	1,783	2,039	2,146	2,446	2,146	20.4	(12.3)
Depreciation	139	139	145	144	143	147	156	154	158	155	5.8	(1.6)
Finance costs	101	92	76	78	101	89	75	109	165	142	58.3	(14.3)
Other income	78	35	53	138	67	83	77	142	152	178	114.2	17.7
Exceptional items	-	-	-	-	-	-	-	-	(2)	-		
PBT	1,559	1,400	1,438	1,737	1,845	1,630	1,884	2,024	2,272	2,027	24.4	(10.8)
Tax	399	363	369	451	464	416	482	518	587	525	26.1	(10.5)
Net income	1,159	1,038	1,068	1,286	1,381	1,214	1,402	1,507	1,686	1,502	23.8	(10.9)
EPS (Rs)	12.9	11.5	11.8	14.3	15.3	13.5	15.5	16.7	18.7	16.6	23.7	(10.9)
As percent of income											bps y/y	bps q/q
Gross margins	24.2	24.9	24.8	24.7	26.1	25.2	25.2	24.8	25.0	26.3	111	122
Employee costs	2.8	3.6	3.2	3.3	3.4	3.6	3.4	3.2	3.0	3.5	(10)	55
Other expenses	11.8	11.1	11.7	11.1	12.4	11.5	11.4	11.1	11.5	12.3	79	80
EBITDA margins	9.6	10.2	10.0	10.2	10.4	10.0	10.5	10.4	10.5	10.4	41	(13)
Depreciation	0.8	0.9	0.9	0.8	0.7	0.8	0.8	0.7	0.7	0.8	(7)	7
Finance costs	0.6	0.6	0.5	0.4	0.5	0.5	0.4	0.5	0.7	0.7	19	(2)
Other income	0.4	0.2	0.3	0.8	0.3	0.5	0.4	0.7	0.7	0.9	40	21
PBT margins	8.7	8.9	8.9	9.7	9.4	9.1	9.7	9.8	9.8	9.8	70	3
Effective tax rates	25.6	25.9	25.6	26.0	25.1	25.5	25.6	25.6	25.8	25.9	36	8
NI margins	6.5	6.6	6.6	7.2	7.1	6.8	7.2	7.3	7.3	7.3	48	2
Segment revenues (Rs m)											% Y/Y	% Q/Q
Cables	16,218	14,206	14,445	16,334	17,543	16,119	17,755	18,671	20,691	18,757	16.4	(9.3)
Stainless steel	612	610	735	557	644	590	591	461	572	538	(8.9)	(6.0)
Turnkey projects	2,174	1,536	1,059	2,234	2,232	1,847	3,131	3,769	3,405	2,261	22.4	(33.6)
Less: Inter-segmental	1,083	698	158	1,282	890	730	2,011	2,308	1,474	950	30.1	(35.6)
Net revenue	17,922	15,654	16,081	17,843	19,529	17,826	19,466	20,594	23,193	20,605	15.6	(11.2)
Mix (%)												
Cables	85	86	89	86	85	87	83	82	84	87		
Stainless steel	3	4	5	3	3	3	3	2	2	2		
Turnkey projects	11	9	6	12	11	10	15	17	14	10		
Segment EBIT (%)											bps y/y	bps q/q
Cables	8.1	9.0	8.7	9.3	9.5	8.8	10.8	10.6	10.9	11.0	225	11
Stainless steel	5.5	3.3	6.1	10.0	9.2	5.3	6.1	7.8	2.3	1.9	(339)	(38)
Turnkey projects	11.4	6.2	14.0	12.5	6.5	13.9	10.0	11.6	12.4	13.2	(70)	79

Source: Company

Q1 FY25: Concall highlights

- 16% y/y revenue growth with production volumes rising 18%. Aspires to grow 16-17% in FY25, with an 11% EBITDA margin, driven by strong demand and capacity added. Also, as capacities come in and with better economies of scale, margins may rise 100bps in FY26-27.
- Growth from a) strong order-book at end-Q1 (Rs35.9bn; EPC Rs6.5bn, EHV Rs3.3bn, exports Rs5.5bn, domestic cables Rs20.5bn); b) widening network of channel partners (2,015) at end-Q1; plans to increase the figure 22-25%. c) rising share of exports to 15% of FY25 overall sales.
- Q1 exports fell 24% y/y as orders of Rs650m could not be dispatched due to delays caused by an overseas customer (logistics issue); cleared in Q2. Now, with a strong, >Rs5.5bn, export order-book in LT, HT, EHV cables and execution (delivery in 3-4 months), export outlook bright.
- Major export markets: Australia, the Mid-East, Europe, US, Africa. ~Rs2-3bn to come from the US in FY25, as the last year base was low. Outlook for the US market is strong; substantial growth expected. HT cables 33kV to 66kV and cables for oil & gas exported to the Mid-East and US.
- Cables exported to ~60 countries. Aiming at a strong foothold in the US as it has all mandatory approvals.
- Retail channel revenue rising. Dealers and distributors at end-Q1 grew to 2,015 (~1,990 at end-FY24) from the good exposure to real estate. Such revenue was Rs10.85bn in Q1, 52.65% of revenue, up 29% y/y.
- In Q1, 100% utilisation at the Rs6bn EHV cable plant; to continue till the new plant at Sanand, Gujarat, comes up in FY26.
- Capacity utilisation now is 88% in cables, 80% in house wire, 90% in stainless steel wire.
- Good growth expected in cables and wires, led by economic growth and the government's push (huge private capex at manufacturing plants creating robust demand for cables).
- With the strong industry outlook and good domestic and export demand likely, the company well set. It aims to broaden its international footprint. Also, capacities commencing would add to export and domestic volumes. Management sees significant demand from solar, wind, transmission and distribution projects and the industrial sector.

Capex

- Rs1.45bn capex in Q1 (Rs760m for greenfield expansion at Sanand, Rs240m for Chinchpada capacity, Rs210m for the Bhiwadi plant, Rs140m at Pathedi, Rs100m for other plants).
- Brownfield capex at Chinchpada, Silvassa, would add capacity for wires, house wires and LT power cables, to be ready in Q2. Another Rs1.25bn capex likely for the Bhiwadi plant (brownfield; expected by Q2), to generate ~Rs8bn-9bn revenue a year in LT power cables. The expansion would boost growth 16-17% in FY25 and FY26.
- Rs9bn-10bn greenfield expansion for LT/HT/EHV cables planned in Gujarat. Construction began in FY24; commercial production will begin by Q4. Further, Rs5bn-6bn for FY26 would be used to complete the project and maintain a 15-16% CAGR for the next 3-4 years.

Outlook & Valuation

Outlook, Estimates. Post-Q1, we raise our FY25e/26e EBITDA/PAT on average 3/4% as KEI's ability to scale up volumes could increase by end-Q2 on capacities commissioned at Silvassa and Bhiwadi (for LT power cables). The outlook for cables and wires is strong, considering the strong government and private capex. Demand from solar, wind transmission and power distribution projects is strong.

The company is set to benefit from structural demand for cables and wires. Exports can be an additional lever for leading companies in the sector. We are positive about the company's growth prospects and expect revenue/net income to register 18/22% CAGRs over FY24-26.

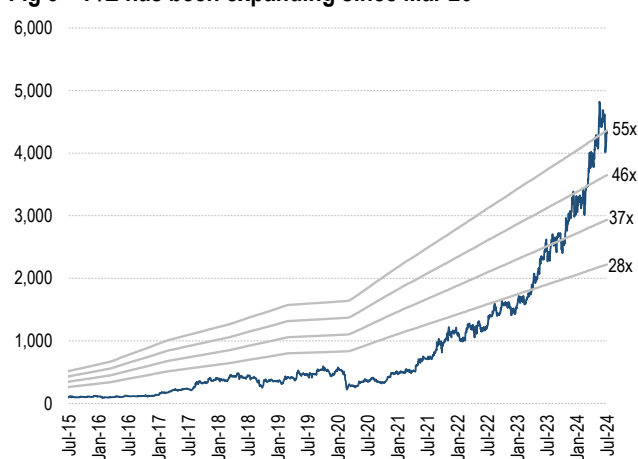
Fig 8 – Estimates change

(Rs m)	New		Old		Variance (%)	
	FY25e	FY26e	FY25e	FY26e	FY25	FY26
Revenue	93,785	112,105	93,785	112,105	-	-
EBITDA	10,354	13,224	10,227	12,737	1	4
EBITDA (%)	11.0	11.8	10.9	11.4		
PBT	9,159	11,569	8,977	10,921	2	6
PAT	6,824	8,619	6,688	8,136	2	6
PAT (%)	7.3	7.7	7.1	7.3		
EPS	75.6	95.4	74	90		

Source: Anand Rathi Research

Valuation, Rating. At the CMP, the stock trades at 57x/45x FY25e/26e EPS of Rs76/95. Our 12-mth TP, post-Q1 earnings, is Rs4,771 (50x FY26e EPS of Rs95.4). We retain our Hold recommendation.

Fig 9 – P/E has been expanding since Mar'20



Source: Company, Anand Rathi Research

Fig 10 – The stock trades above +2 SD



Source: Company, Anand Rathi Research

Risks

- Significant delays in commissioning of capacity
- Slow addition of dealers could restrict channel sales growth, which command higher margins and require less working capital.

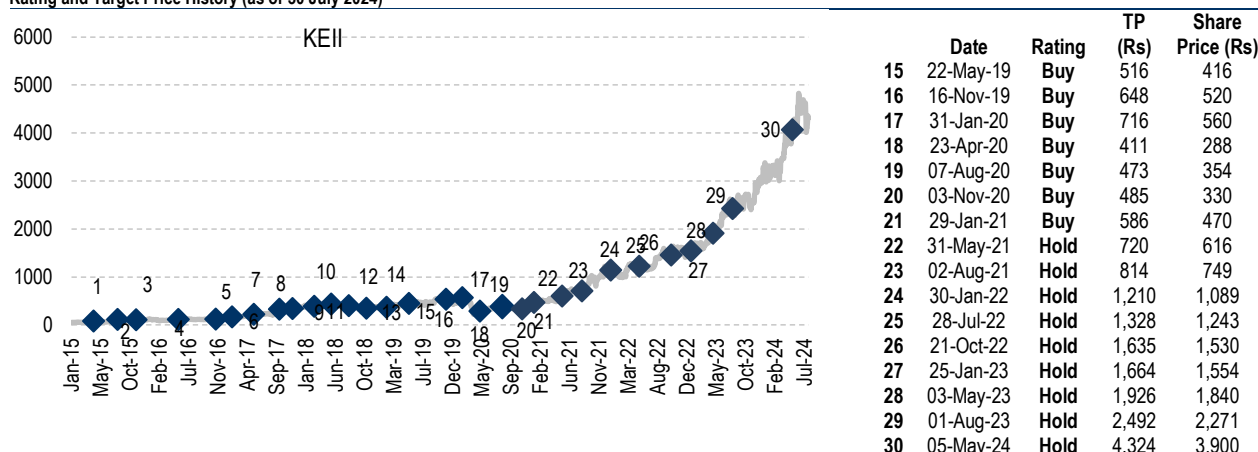
Appendix

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