

21st December 2023

KEI Industries – BUY

CMP : Rs. 2,945.0
Target Price : Rs. 3,592.0
Upside : 22%+
Stop Loss : Rs. 2,547.0 (Closing basis)

Investment Thesis

- KEI Industries Ltd. (KEI Industries) is a leading player in Cable & Wire (C&W) segment and manufactures Extra-High Voltage (EHV) cables, HT cables, LT cables and sells domestically as well as export to overseas markets. It is among the top three organized players in the Indian W&C industry. Over the years, KEI Industries has established its presence in the institutional space by developing the ability to offer various products across locations.
- KEI Industries' retail segment comprises house wires, winding and flexible wires, LT and HT cables. In the retail segment, KEI Industries has more presence in northern and western regions which account for ~65% of sales. With the dealer expansion, it is planning to strengthen its operations in the eastern and southern parts of India. Retail segment have been steadily growing over the past five years at a CAGR of 20%, driven by investments in brand building and distribution network. Currently, revenue contribution from retail segment is 40% in FY23 and target to increase it to 50% in the medium term with focus on growing dealer network, deepening engagement with channel partners and strengthening the brand visibility through increased investments.
- KEI Industries' current capacity utilization rate for LT/HT stood at 90%, EHV – 95% and Wires – 65%. Looking at growing demand and lack of scaling up, KEI Industries plans to invest ~Rs.1,000Cr to build manufacturing facility for LT, HT and EHV cables in Gujarat over the next 3-4 years. In FY24, it has planned ~Rs.250-300Cr capex for the greenfield expansion of C&W in Gujarat and commercial production is expected to commence in 4QFY25. KEI Industries is also incurring a brownfield capex of ~Rs.45Cr in FY24 at Silvassa (which will generate additional revenue of Rs.500Cr in LT cables) and a brownfield capex of ~Rs.100-110Cr in Bhiwadi. KEI Industries aims to remain debt free and management highlighted that capex will be funded internally.
- KEI Industries' export contributed 10% revenue for FY23 where major contributor was the US followed by Middle East, Europe and Africa, mainly driven by Oil & Gas, Infra and renewable energy. KEI Industries is also getting benefits of 'China +1' strategy in terms of new enquiries from international geographies who were earlier sourcing from China. Currently, export sales are done directly without distributors, however, to expand export business, it plans to add distributors in the US market. Export business in cables has ~1% higher margin than domestic margin and therefore any incremental exports will be margin accretive.

Financials

- KEI Industries' revenue and PAT grew by CAGR of 14.8% and 26.9%, respectively during FY18-23 led by strong demand and its focus on retail segment.

Consol. (Rs.Mn)	FY21	FY22	FY23	FY24E	FY25E
Revenue	41,815	57,270	69,123	81,565	94,616
EBITDA	4,555	5,888	7,062	8,262	9,667
EBITDA Margin (%)	10.9%	10.3%	10.2%	10.1%	10.2%
PAT	2,696	3,760	4,773	5,442	6,231
EPS (Rs.)	29.9	41.7	52.9	60.3	69.1
P/E (x)	98.5	70.6	55.6	48.8	42.6
RoE (%)	15.3%	17.7%	18.5%	19.2%	20.0%

Stock Data

Market Cap (Rs. Mn)	2,67,010
Market Cap (\$ Mn)	3,206.9
Shares O/S (in Mn)	90.2
Avg. Volume (3 month)	310,000
52-Week Range (Rs.)	3,153.95 / 1,352.95

Shareholding Pattern

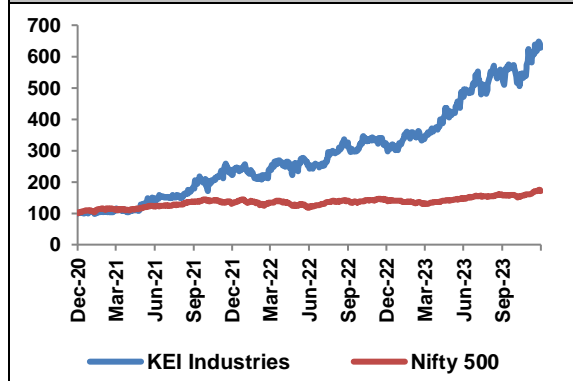
Promoters	37.08%
FII's	29.57%
Institutions	17.64%
Others (incl. body corporate)	15.71%

Key Ratios

Div Yield	0.1%
TTM PE	50.4x
ROE	18.8%
TTM EPS (Rs.)	58.5/-

Stock Performance

Performance (%)	1M	6M	1Yr
ABSOLUTE	7.4%	14.7%	97.5%
NIFTY 500	6.9%	7.6%	19.4%



- KEI Industries has reported 9.2% QoQ and 21.1% YoY growth in revenue to Rs.19,466mn in Q2FY24 led by 26% YoY volume growth in cable. Its Q1FY24 volume growth was impacted due to a lack of capacity as it was operating at high 90% utilization but in Q2FY24 its brownfield expansion for HT and LT wires became operational. This results in 26% YoY volume growth in cables in Q2FY24.
- KEI Industries' C&W segment grew by 22.9% YoY, driven by robust domestic institutional demand and exports of cables and wires and EPC projects segment grew by a significant 195.8% YoY whereas revenue from the stainless steel wire segment declined by 19.6% YoY in Q2FY24.
- EBITDA of KEI Industries grew by 14.4% QoQ and 27.0% YoY to Rs.2,039mn. As a result of this, EBITDA margin also improved by 49bps QoQ and 47bps YoY to 10.5% in Q2FY24.

Key Business Highlights

- KEI Industries is a leading player in C&W segment and manufactures EHV cables, HT cables, LT cables and sells domestically as well as export to overseas markets. KEI Industries supplies a broad range of cables and wires products to retail and institutional markets and plays an integral role in the development of core sectors of the country, such as Real Estate, Infrastructure, Power, Steel, Fertilizer, Refinery, Transportation, Energy, and Building Materials, among many others.
- KEI Industries also provides Engineering, Procurement and Construction (EPC) services. It provides EPC solutions in areas of GIS and AIS substations, overhead and underground power transmission and distribution system and railway electrification/ substation on turnkey basis.12956
- KEI Industries has a wide range of products portfolio with 400+ products, which includes power cables (LT, HT and EHV) up to and including 400 kV grade, control and instrumentation cables, rubber cables, winding, flexible and house wires, specialty cables, submersible cables, OVC/poly wrapped winding wires and stainless-steel wires. In the cables segment, KEI Industries has a technical collaboration with BruggKabel AG, Switzerland, for the manufacturing of EHV cables.

Valuation

We believe, overall demand environment continues to remain strong for KEI Industries on the back of healthy B2B demand, led by public infra as well as pick-up in private capex. Expansion of power transmission network along with modernization of existing transmission network and growing installed RE capacities are also expected to boost demand for Cables (on both domestic as well as export fronts) while continued uptick in the residential real estate segment is expected to boost demand for Wires in the domestic market. The company expects significant opportunities for EHV cables on the back of conversion of overhead transmission lines to underground cables.

Order book as of Q2FY24 was Rs.3,363Cr (not including retail orders) out of which EPC was Rs.800Cr, EHV at Rs.730Cr, Domestic cable LT/HT was Rs.1,550Cr and Export order of Rs.290Cr.

In Q2FY24 concall, management retained guidance of 16-17% revenue growth and a ~11% EBITDA margin for both FY24E and FY25E and expects to sustain this revenue run-rate for the next decade. Also, it said that A&P spends will remain in the range of 0.5% of revenue.

With leading player in C&W segment, retail segment growing at a CAGR of 20%, plans to invest ~Rs.1,000Cr to build manufacturing facility for LT, HT and EHV cables over the next 3-4 years, getting benefits of 'China +1' strategy and overall demand environment continues to remain strong for KEI Industries, we are assigning BUY rating to KEI Industries Ltd. (KEI Industries) and value at 52.0x FY25E EPS of Rs.69.10 to arrive at target price of Rs.3,592.00, an upside of ~22.0%+.

Risk & Concern

- KEI Industries has huge capacity expansion plan, any delays in capacity expansion may have adverse impact on future growth of the Company.
- Any volatility in input cost may adversely impact KEI Industries' margin going ahead.
- KEI Industries generates ~10% of its revenue from exports, any negative movement of major currency against rupee may affect margins.

Graphs & Charts

Figure 1: Net Sales Trend

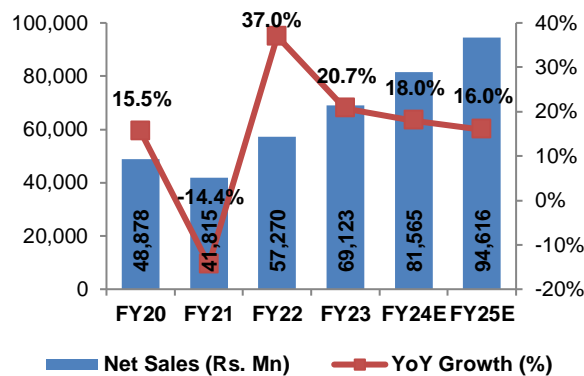


Figure 2: EBITDA & EBITDA Margin Trend

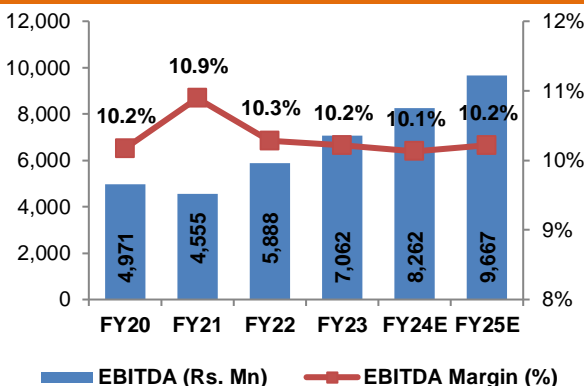


Figure 3: PAT Trend

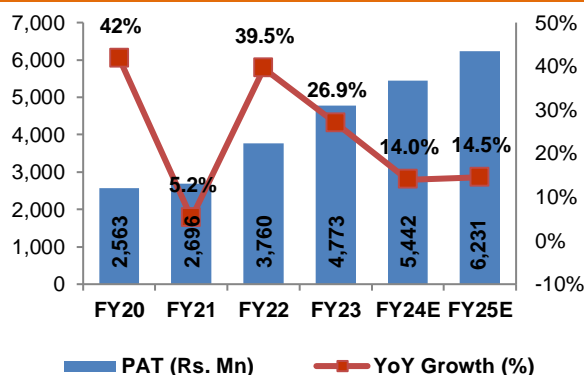
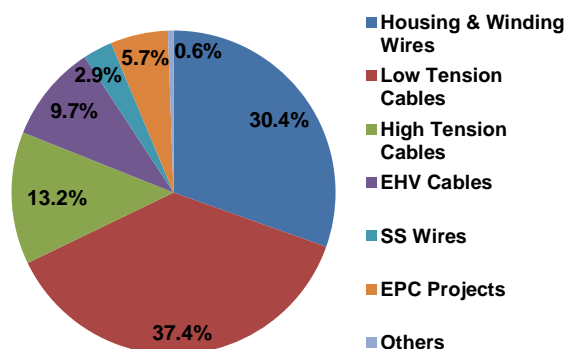


Figure 4: Segment-wise Revenue (Q2FY24)



Name
Rajesh Sinha

Designation
Sr. Research Analyst

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M/s. Bonanza Portfolio Ltd at Bonanza House, Plot No. M-2, Cama Industrial Estate. Walbhat Road, Goregaon (E), Mumbai – 400063
Web site: <https://www.bonanzaonline.com>

Research Analyst Regn No. INH100001666

SEBI Regn. No.: INZ000212137

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