

Equity Research Desk



ALPHA

28 JAN 2023

KEI Industries Ltd. – Consistent Performer

Market Data	
CMP	Rs. 1573
Date	27-Jan-23
Target Price	Rs. 1860
Upside Potential	18.00%
52 Week High/Low	1662/951
Market Cap	Small Cap
NSE Code	KEI
Sector	Cables & Wires
Rating	Buy

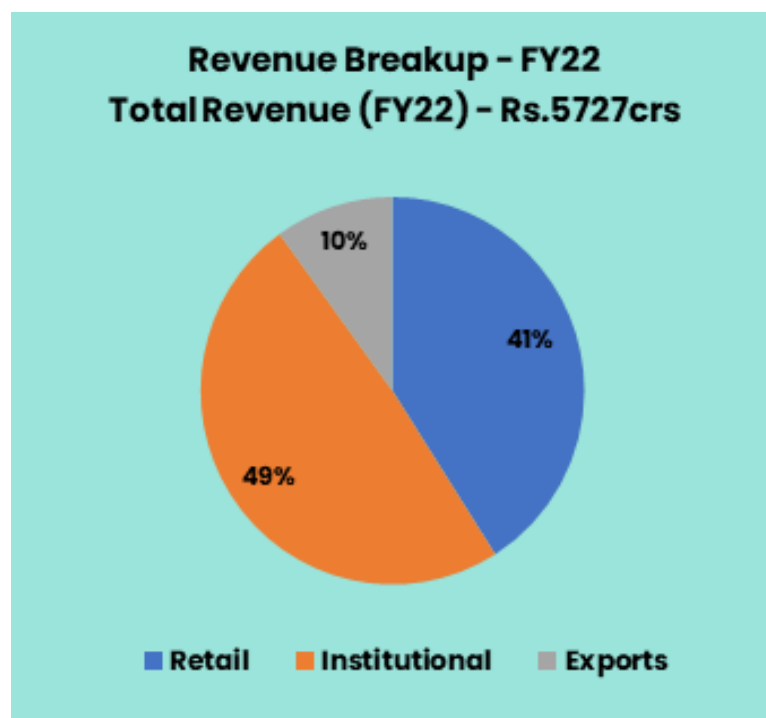
KEI Industries Limited is one of the leading manufacturers of wires and cables (W&C) and among the top three organized players in the Indian W&C industry. Incorporated in 1968, as a partnership firm, under the name Krishna Electrical Industries, it was converted into a public limited company in 1992 and was listed on the stock exchanges in 1995. The company has an overall industry experience of 50+ years with 5 manufacturing plants, 1800+ dealers/distributors, 2000+ Institutional customers and 5000+ Employees (including contracts). The company operates in a wide geography with exports to 50+ countries in the world. Featuring a diversified business model, the company serve customers across retail and institutional segments in both public and private sectors.



Products & Services: KEI's has a wide range of products (portfolio of over 400 products) generally used by almost every industry and sector, including power cables (comprises low tension (LT), high tension (HT) and extra high voltage (EHV) power cables) 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.

SHP	Dec - 22 (%)	Sep - 22 (%)	Change
Promoters	37.32	37.99	-0.67
FPI	26.84	26.97	-0.13
DII	19.10	18.09	1.01
Public & Others	16.74	16.96	-0.22
Pledged	0.00	0.00	0.00

Subsidiaries: As on 31st Mar 2022, the company has 1 subsidiary, 1 Joint Venture and 1 Associate company.





Key Rationale

- **Established Relationship** – With over five decades of operations, the company has established strong relationships with reputed customers such as Delhi Transco Ltd., L&T Limited and Tata Power Limited as well as with vendors which provide operational stability. While Management forayed into the EPC segment as a forward integration initiative in past, it is now focusing on scaling down its EPC segment because of the low margin profile of new orders, high competitive intensity and elongated working capital. However, the company is taking efforts to increase its market share in the better-margin and low-working capital-intensive retail segment while growing its institutional and export business in line with the pace of industry growth.
- **Diversified Product Mix** – Over the years, KEI has developed capabilities to manufacture a wide range of cables (low tension, high tension and extra high voltage) along with house wires, stainless steel wires, instrumentation and control cables. In the last fiscal, the company forayed into ESP & communication cables, further diversifying its product profile. Cables contributed to ~64% of the total sales in FY2022, followed ~26% from house wires, ~7% from the EPC segment (excluding cable) and the balance 4% from stainless steel wires. The growth prospects remain healthy in each of these segments, while the company has taken a strategic decision to scale down the EPC business.
- **Q3FY23** – Revenue improved by 14.10% YoY to Rs.1784 crs in Q3FY23 followed by 16% YoY improvement in the EBITDA. EBITDA margin in Q3FY23 has improved to 10.20% as against 10.02% YoY. Profit After Tax increased by 28% YoY to Rs.129 crs with a margin improvement of 7.2% in Q3FY23 from 6.4% in Q3FY22. Total Institutional Cable Sale including export contributed 47.53% in Q3FY23 against 50.66% in Q3FY22. 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.
- **Financial Performance** – The company has a strong balance sheet with a very low debt/equity ratio of 0.07x. The company's Revenue and PAT CAGR stands at 17% and 32% between FY18–22. The company generated an overall free cash flow of ~Rs.205 crs for the period of 3 years from FY20–FY22. EBITDA Margin of the company is maintained at 10% every year (except FY21) historically.

Margins - FY22

Gross	29%
EBITDA	10%
PAT	7%

**Ratios - FY22**

ROE	18%
ROCE	21%
Div. Yield	0.19%
PE Ratio	38.00
Face Value	2.00
EPS	Rs. 41.73

Industry Analysis

The Indian consumer durables market is broadly segregated into urban and rural markets and is attracting marketers from across the world. The sector comprises of a huge middle class, relatively large affluent class and a small economically disadvantaged class. Appliances and consumer electronics industry stood at US\$ 9.84 billion in 2021 is expected to more than double to reach Rs. 1.48 lakh crore (US\$ 21.18 billion) by 2025. The Cable & Wire industry is estimated to be over Rs.600-650 Bn as of FY22. It is the largest constituent contributing 40-45% to the Consumer Electrical Industry. Market Size (Rs. Bn) of C&W Industry over 5 years grew at a healthy CAGR of ~7%. India is also the third-largest producer and second-largest consumer of electricity in the world.

Growth Drivers

The requirement for an established EV charging infrastructure will open up new vistas of opportunity for the W&C business as the country's penetration of electric vehicles (EVs) increases in the coming years.

Increasing agricultural output and farm incomes encourage increased rural consumption, and as a result, demand for additional power.

Increasing affordable housing, nuclear families, and increased household spending, along with commercial & residential infrastructure investment.



Peer Analysis

Competitors: Polycab, Finolex Cables, etc.

Currently, KEI is one of the few Indian players having the capability to manufacture EHV cables above 220kV and also amongst the select players globally to manufacture EHV 400kV cables. 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.

Company	CMP	Mcap.	ROE	ROCE	Gross Margin	P/E	EPS
KEI Industries	1573	14160	18.00%	21.00%	29%	38	41.73
Polycab	2777	41580	17.00%	19.00%	23%	46	60.80
Finolex Cables	541	8285	15.00%	19.00%	21%	14	39.18

Outlook

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. KEI expects to close FY23 with extra-high-voltage (EHV) product sales of Rs.350 crs-400 crs vs. Rs.510 crs in FY22, due to project delays stemming from right of way issues. Management is, however, confident of scaling past Rs.500 crs in FY24 based on the current order book. As per management, the unorganized 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. In FY23, KEI expects to incur an additional Rs.100 crs toward working capital and a sum of Rs.40-45 crs on brownfield expansion at the Silvassa plant (which it estimates can yield additional revenue of Rs.500crs). For FY24, capex plans is expected around Rs.250 crs.



Valuation

KEI has transformed into a mid-sized cables and EPC company in the past decade. From volatility in margins given its modest scale earlier, it has moved to a stable base and is in the right business growth segments. The company is a play on housing, capex and also engineering exports in India. It has high return ratios, free cash flows and low debt to equity. We recommend a BUY rating in the stock with the target price (TP) of Rs.1860, 30x FY24E EPS.

Risks

- **Raw Material Risk** – Volatility, unavailability of and uncertainty in the key supply of key raw materials such as copper, aluminium, steel, and nickel at competitive rates may negatively impact the company's profitability.
- **Competitive Risk** – Given the lucrative growth potential of the industry, the company operates in a highly competitive industry with the presence of both unorganized and organized players.
- **Forex Risk** – The company exports its products to several international markets while importing various raw materials from foreign destinations. This subjects it to an exchange rate risk, and any adverse movement in the currency rates may negatively impact the company's profitability.

Source – Tickertape, Company's Website, BSE Website.

Thanks & Regards

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