

# Initiating Coverage KEI Industries Ltd.

July 14, 2022





Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
Consumer Electricals	Rs. 1210	Buy in Rs 1198-1221 band and add more on dips to Rs 1081-1103 band	Rs. 1340	Rs. 1430	2 quarters

HDFC Scrip Code	KEIINDEQNR
BSE Code	517569
NSE Code	KEI
Bloomberg	KEII IN
CMP - Jul 13, 2022	1210
Equity Capital (Rs Cr)	18
Face Value (Rs)	2
Equity Share O/S (Cr)	9
Market Cap (Rs Cr)	10870
Book Value (Rs)	238
Avg. 52 Wk Volumes	442288
52 Week High	1376
52 Week Low	690

Share holding Pattern % (Jun, 2022)	
Promoters	38.02
Institutions	45.95
Non Institutions	16.03
Total	100.0



HDFCsec Retail research  
stock rating meter

for details about the ratings, refer at the end of the report

\* Refer at the end for explanation on Risk Ratings

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### Our Take:

KEI Industries Limited (KEI), established in the year 1968, has emerged as one of the leading manufacturer of cables and wires having successfully established its footprint across the globe. The company supplies a broad range of cables and wires products 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. The company's wide product portfolio includes cables ranging from Low Tension (LT) to Extra High Voltage (EHV) and various Housing Wires (HW) and Winding Wires (WW). By manufacturing high-quality products coupled with its proven credibility in successfully executing Engineering, Procurement and Construction (EPC) turnkey projects, KEI has fortified its position as a 'one-stop solution provider in the Cables & Wires industry.

The Government's strong thrust on infrastructure development, and the ever-increasing capital allocation towards the sector in budgets will continue to boost the demand for wires and cables. Further, the government initiatives such as 'Housing for All by 2022', Higher allocations for affordable housing under 'Pradhan Mantri Awas Yojana' etc., could boost growth in retail segment. KEI is focused on strengthening its revenue contribution from the retail sector in the medium term. To support its retail ambition, the company is strengthening its manpower across various sales branches. It also remains geared towards strengthening its distribution network and brand visibility through increased investments.

Further, the company is planning to invest in scaling up its LT, HT and EHV cables capacity. We are strong believers in the India engineering exports story and the company also remains committed to expanding its global footprint across newer geographies and deepening its penetration in existing markets. KEI has a strong balance sheet and substantial liquidity. To further improve its working capital management and margins, it has strategically decided to reduce its revenue contribution from the EPC projects which should drive the profitability and lead to superior cash generation and return ratios.

### Valuation & Recommendation:

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 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 (0.2x as on FY22). We believe it can sustain its 20% earnings CAGR during FY22-24E with further improvement in return ratios.



Currently, KEI trades at ~19x FY24E EPS. Given the high growth expectation along with healthy financials, we believe that the stock deserves higher valuations. **We think the base case fair value of the stock is Rs 1340 (21.5x FY24E EPS) and the bull case fair value of is Rs 1430 (23x FY24E EPS).** Investors can buy the stock in Rs 1198-1221 band (19x FY24E EPS) and add more on dips in Rs 1081-1103 (17.5x FY24E EPS) band.

### Financial Summary

Particulars (Rs Cr)	Q4FY22	Q4FY21	YoY-%	Q3FY22	QoQ-%	FY20	FY21	FY22P	FY23E	FY24E
Operating Income	1792	1246	44%	1564	15%	4,888	4,182	5,727	6,454	7,551
EBITDA	172	137	25%	157	10%	497	461	589	691	823
APAT	116	86	35%	101	15%	256	273	376	457	560
Diluted EPS (Rs)	12.9	9.6	34%	11.2	15%	28.6	30.4	41.9	50.8	62.3
RoE-%						22.4	16.7	19.2	19.4	19.8
P/E (x)						42.2	39.8	28.9	23.8	19.4
EV/EBITDA (x)						22.2	23.8	18.4	15.4	12.7

(Source: Company, HDFC sec)

### Q4FY22 Result Update

In Q4FY22, the company reported its highest ever quarterly net sales of Rs.1792 Cr (43.7% YoY growth). EBITDA grew by 25% to Rs 172 Cr in Q4FY22 as EBITDA margin declined to 9.6% as against 11% in Q4FY21 with normalization of certain expenses back to pre-Covid level and sharp fluctuations in the input costs as well as higher sea freight rate in case of exports. PAT grew by 35% to Rs 116 Cr.

The domestic institutional wire and cable sales through direct sales B2B grew by 47% while domestic institutional EHV cable sales grew by 103% to Rs. 146 Cr. Exports in Q4FY22 stood at Rs.177 Cr as against Rs.126 Cr in Q4FY21. Sales through dealer network in Q4FY22 stood at Rs.717 Cr in Q4FY22 as against Rs.464 Cr in FY21. The company’s order book at Q4FY22 stood at Rs 2419 Cr.

### Key triggers

#### Diversified product portfolio

KEI’s has a wide range of products (portfolio of over 400 products), 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. In the cables segment, KEI has a technical collaboration with BruggKabel AG, Switzerland, for the manufacturing of EHV cables. It also has a presence in EPC and turnkey solutions segment for infrastructure projects. KEI’s presence across diverse products and geographies enables it to cater to a wide range of customer.



Cables and wires is its primary business (~82% revenue contribution in FY22) while turnkey contributed ~14%. Even though the former category is highly commoditised and extremely price sensitive (intense competition from the unorganised sector), KEI persists with it in order to offer its customers a well-rounded product profile. Going forward, KEI has decided to de-scale the EPC business and limit the annual income from the segment to around Rs.500 crore meanwhile focusing on increasing retail sales which would result in improved margins and shorter realization periods.

### **Retail business to drive KEI's next leg of growth**

KEI's retail segment comprises house wires, winding and flexible wires, LT power cables and HT cables. The products are made available pan-India through the company's well-entrenched and increasing network of authorized dealers and distributors. The northern and western regions 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 sales have been steadily growing over the past five years at a CAGR of 20%, driven by investments in brand building and distribution network. Likewise, the contribution from the same has increased from 29% in FY20 to 40 % in FY22.

Going forward, KEI has identified the Retail segment for driving its next leg of growth. It aims to scale up Retail contribution to 50% of overall sales in the medium term, led by 40% growth in housing wires. It has also hired a leading consultant for the development of strategies and policies for increasing sales through retail dealer network. The company remains focused on growing its dealer network, deepening engagement with channel partners and strengthening the brand visibility through increased investments.

Higher margins and lower working capital requirements in Retail vis-à-vis other business segments are key factors driving its focus towards growing the former. As the company increases the contribution of retail in sales mix and enhance the channel coverage, it will narrow receivable days, enhance RoCE and strengthen cash generation.

Plans to foray into the FMEG sector leverage its distribution network and brand positioning are also being carefully evaluated to boost its retail sales. While the FMEG segment holds considerable potential given India's huge consumption demand and the growing shift towards branded products, the market is crowded with few well established brands and we will continue to monitor the company's development in this space.

### **EHV cables to drive the growth of institutional business**

KEI's Institutional segment comprises of EHV cables, HT and LT power cables, stainless steel wires and EPC solutions. It is largely focused on projects with significant cabling requirements (25-30% in LT/HT | 75-80% in EHV) in the EPC space. In India, it is serving more than 1,450



institutional customers and holds around ~12% market share. The company's strong prequalification credentials is a key factor enabling it to cater to the institutional demand.

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. Its foray into the EHV cables segment was powered by technological collaboration with Switzerland based Brugg Kabel AG, which has over 100 years of experience in manufacturing EHV cables up to 550kV. This strategic collaboration enables the company to provide high-end designs and process backup services benchmarked to the highest global standards. EHV cables offer significant advantages over conventional overhead lines for sub-transmission and distribution of power, including higher power density, lower transmission losses and efficient bulk-power delivery. Stringent requirements for meeting compliances and securing product approvals pose formidable entry barriers in the EHV cable space, generally taking new entrants at least eight years to enter the market. This gives KEI a compelling advantage to seize the growing opportunities in the EHV cables market.

#### **De-scaling EPC business to drive profitability and strengthen balance sheet**

As a strategic decision, KEI is reducing its stake in the EPC business due to the elongated working capital cycle, slow recovery of payments and low margin profile. The shift from EPC will be compensated by Retail segment in the coming years, as it plans to use the freed-up resources to drive the latter's growth. While the company would continue to pursue EPC projects when it satisfies its project selection criteria, KEI will limit its contribution to overall sales at below 15%.

#### **Exploring newer opportunities in exports**

KEI's wide range of cables, including EHV cables, HT cables and LT power cables, stainless steel wires, are exported to customers in over 50 countries. Its high quality, customizable solutions and specialty cables at competitive prices enables it to meet the requirements of the oil and gas and other infrastructure-focused sectors in these geographies. The company also provides international customers with EPC services.

KEI has set up overseas marketing/project offices in Australia, Dubai, Nigeria, Gambia, Nepal and South Africa to drive customer outreach efforts and build global relationships. Tie-ups with agents and distributors in international markets have further strengthened its ability to engage with the customers.

Rising demand from various end-users continues to drive the growth of our Export segment. To further tap into the opportunities arising from the export market, KEI is looking to build a new authorized dealer and distribution network in international markets with a focus on both domestic and industrial cables and wires. Currently, its key end-users include oil and gas, renewable energy, power and infrastructure sectors across important markets around the world.



### Capex to drive the growth

KEI has a strong manufacturing base and operates through five state of the art manufacturing facilities (1.25 lakh kms of cables, 11.2 lakh kms of wires and 6,600 MT of Stainless Steel wires). All facilities are equipped with flexible manufacturing systems that can quickly adapt to the rapidly changing market and produce high quality products at cost effective prices. To keep in pace with demand, KEI continued to increase its capacities at regular intervals (FY16-20 capex at ~Rs 450 Cr.) After augmenting housing wires capacities, KEI has envisaged a capex of ~Rs 800 Cr in LT/HT/EHV cables and facilities are likely to be operational phase-wise from end of FY24.

### Healthy Financials

Going ahead, we expect KEI to report a robust performance over FY22-24E as revenue/EBITDA/PAT is expected to grow by CAGR of 15%/19%/22% respectively. This is on the back of phenomenal 13%/15%/27% CAGR growth in revenue/EBITDA/PAT reported by the company over FY18-22. The robust growth is likely to be driven by; a) consolidation of its position in institutional segment, b) tapping into export opportunities, c) scaling up of margin accretive retail business, and d) increasing demand for EHV cables where it is the biggest player. Reducing contribution of working-capital intensive EPC business should drive higher free cashflow generation. KEI's PAT margins have improved from 3.6% in FY17 to 6.6% in FY22 driven by aggressive debt reduction. The planned capex would also be funded by internal accruals aided by strong cashflows helping the company to maintain leaner balance sheet.

### Key risks

**Raw material risk:** Volatility, unavailability of and uncertainty in the key supply of key raw materials such as copper, aluminum, steel, and nickel at competitive rates may negatively impact the company's profitability. However, it tries to hedge the commodity price fluctuations by inserting a price fluctuation clause in large supply orders and three months price validity for small scale projects. It revises list price of wires / cables, in retail segment, on bi-monthly / monthly basis to pass on the price fluctuation risk to customers. It however faces the risk of inventory losses when the raw material prices fall sharply in a short period of time.

**Policy Change Risk:** The company's institutional, EHV, and EPC business is largely dependent on the Government and PSU-led projects. Any change in Government, legislation, policies and regulations may materially impact the company's existing projects and order book leading to a loss of revenue and profitability.

**Currency Fluctuation 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. However, the company proactively hedges its exposure here.



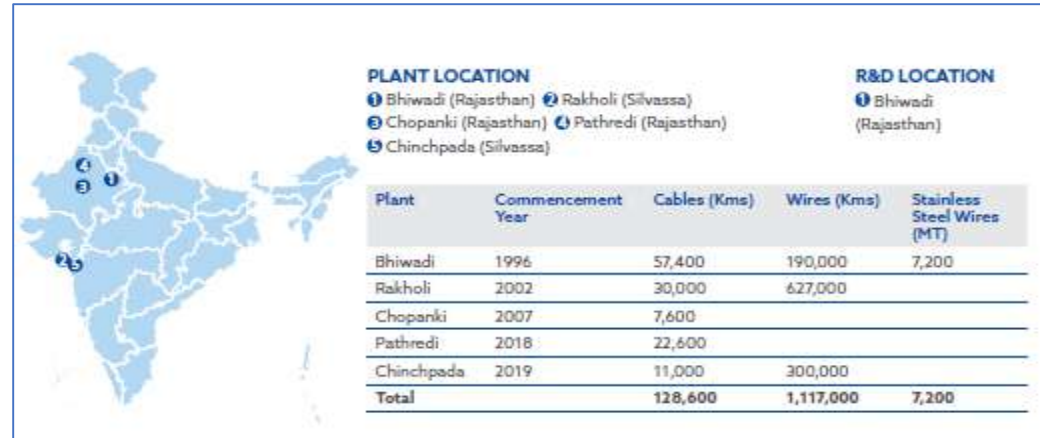
**Competitive Risk:** Given the lucrative growth potential of the industry, the company operates in a highly competitive industry with the presence of both unorganized and organized players. Heightened competitive intensity through superior products and services may materially impact its profitability.

### About the company

KEI Industries Limited (KEI) was incorporated in 1992 while its beginnings trace back to 1968 when it commenced operations as a partnership firm. Its robust manufacturing prowess, high-quality products and growing presence, both in India and overseas, have enabled the company to successfully scale up our business. Today, it is one of India's leading and amongst the fastest-growing Wires and Cables (W&C) manufacturers. It has a broad-based product portfolio ranging from House Wires (HW) to Extra High Voltage (EHV) cables, which enables it to cater to a wide customer base across industries. It is also amongst the few players globally with manufacturing capabilities for EHV 400kV cables.



Source: Company, HDFC sec



Source: Company, HDFC sec

## Segment-wise Trends

Particulars	Revenue (in Rs Cr.)							
	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22
Cables	1841	2073	2272	2733	3364	3986	3574	5123
YoY growth		12.6%	9.6%	20.3%	23.1%	18.5%	-10.3%	43.3%
as % of revenues	79%	74%	74%	72%	74%	72%	76%	82%
Stainless Steel Wire	114	102	114	118	138	138	142	226
YoY growth		-10.3%	11.4%	3.8%	16.7%	-0.4%	3.0%	59.5%
as % of revenues	5%	4%	4%	3%	3%	2%	3%	4%
Turnkey Projects	366	639	675	956	1033	1397	977	873
YoY growth		74.6%	5.7%	41.6%	8.1%	35.2%	-30.1%	-10.6%
as % of revenues	16%	23%	22%	25%	23%	25%	21%	14%
<b>Total Segment Revenue</b>	<b>2321</b>	<b>2815</b>	<b>3061</b>	<b>3808</b>	<b>4535</b>	<b>5520</b>	<b>4693</b>	<b>6222</b>
	<b>EBIT Margin (%)</b>							
Cables	11%	11%	12%	11%	11%	11%	12%	9%
Stainless Steel Wire	3%	7%	7%	6%	7%	6%	5%	6%
Turnkey Projects	11%	13%	10%	11%	14%	12%	9%	9%
	<b>RoCE(%)</b>							
Cables	31%	33%	30%	40%	70%	61%	38%	31%
Stainless Steel Wire	15%	25%	29%	29%	27%	24%	13%	21%
Turnkey Projects	38%	46%	23%	24%	26%	20%	15%	19%





### Wire and Cable revenue mix

Particulars	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22
LT	992	963	1,232	1,446	1,634	2,041	1567	2166
HT	328	435	380	498	712	673	688	1002
EHV	59.5	134	101	168	189	435	418	514
HW/WW	328	377	428	564	812	852	907	1506
SS Wire	105	94	104	115	137	137	140	226
EPC (without cable)	218	323	424	654	730	764	466	380

Source: Company, HDFC sec

### Peer Comparison

Particulars (in Rs Cr)	Market Capitalisation (in Rs Cr)	Revenue (in Rs Cr.)			EBITDA Margin(%)			APAT (in Rs Cr.)			P/E(X)		
		FY22P	FY23E	FY24E	FY22P	FY23E	FY24E	FY22P	FY23E	FY24E	FY22P	FY23E	FY24E
KEI	10870	5727	6454	7551	10%	11%	11%	376	457	560	29	24	19
Polycab	33089	12204	13758	15743	10%	10%	12%	917	1069	1325	36	30	25
Finolex Cables	6278	3768	4089	4607	11%	12%	13%	394	504	580	16	12	11

Source: Company, HDFC sec, Bloomberg Consensus



## Financials

### Income Statement

Particulars (Rs Cr)	FY19	FY20	FY21	FY22P	FY23E	FY24E
<b>Net Revenues</b>	<b>4231</b>	<b>4888</b>	<b>4182</b>	<b>5727</b>	<b>6454</b>	<b>7551</b>
<b>Growth (%)</b>	<b>22.1</b>	<b>15.5</b>	<b>-14.4</b>	<b>36.9</b>	<b>12.7</b>	<b>17.0</b>
Operating Expenses	3790	4391	3721	5138	5763	6728
<b>EBITDA</b>	<b>441</b>	<b>497</b>	<b>461</b>	<b>589</b>	<b>691</b>	<b>823</b>
<b>Growth (%)</b>	<b>29.8</b>	<b>12.8</b>	<b>-7.4</b>	<b>27.9</b>	<b>17.3</b>	<b>19.2</b>
<b>EBITDA Margin (%)</b>	<b>10.4</b>	<b>10.2</b>	<b>11.0</b>	<b>10.3</b>	<b>10.7</b>	<b>10.9</b>
Depreciation	34	57	58	55	64	76
Other Income	7	17	20	15	19	23
<b>EBIT</b>	<b>414</b>	<b>457</b>	<b>423</b>	<b>548</b>	<b>646</b>	<b>770</b>
Interest expenses	136	129	57	40	33	19
<b>PBT</b>	<b>278</b>	<b>328</b>	<b>365</b>	<b>508</b>	<b>613</b>	<b>751</b>
Tax	97	72	92	132	156	192
<b>Adj. PAT</b>	<b>181</b>	<b>256</b>	<b>273</b>	<b>376</b>	<b>457</b>	<b>560</b>
<b>Growth (%)</b>	<b>24.8</b>	<b>41.8</b>	<b>6.7</b>	<b>37.6</b>	<b>21.4</b>	<b>22.5</b>
EPS	22.9	28.6	30.4	41.9	50.8	62.3

### Balance Sheet

Particulars (Rs Cr) - As at March	FY19	FY20	FY21	FY22P	FY23E	FY24E
<b>SOURCE OF FUNDS</b>						
Share Capital	16	18	18	18	18	18
Reserves	762	1489	1756	2118	2547	3071
<b>Shareholders' Funds</b>	<b>778</b>	<b>1507</b>	<b>1774</b>	<b>2135</b>	<b>2565</b>	<b>3089</b>
Total Debt	506	367	305	331	221	96
Net Deferred Taxes	44	31	28	29	29	29
<b>Total Sources of Funds</b>	<b>1328</b>	<b>1905</b>	<b>2107</b>	<b>2497</b>	<b>2816</b>	<b>3215</b>
<b>APPLICATION OF FUNDS</b>						
Net Block & Goodwill	489	554	537	531	655	710
CWIP	32	11	7	17	17	17
Investments	2	1	1	3	3	3
Other Non-Curr. Assets	17	17	23	16	24	28
<b>Total Non Current Assets</b>	<b>539</b>	<b>583</b>	<b>568</b>	<b>566</b>	<b>698</b>	<b>757</b>
Inventories	693	864	763	1079	1202	1407
Debtors	1091	1368	1350	1396	1591	1862
Cash & Equivalents	195	214	221	360	444	546
Other Current Assets	246	240	107	126	208	200
<b>Total Current Assets</b>	<b>2226</b>	<b>2685</b>	<b>2440</b>	<b>2961</b>	<b>3446</b>	<b>4016</b>
Creditors	1021	1169	741	763	1061	1241
Other Current Liab & Provisions	416	195	159	268	268	318
<b>Total Current Liabilities</b>	<b>1436</b>	<b>1364</b>	<b>901</b>	<b>1030</b>	<b>1329</b>	<b>1560</b>
Net Current Assets	789	1322	1539	1931	2116	2456
<b>Total Application of Funds</b>	<b>1328</b>	<b>1905</b>	<b>2107</b>	<b>2497</b>	<b>2816</b>	<b>3215</b>



## Cash Flow Statement

Particulars (Rs Cr)	FY19	FY20	FY21	FY22P	FY23E	FY24E
Reported PBT	278	328	365	507	613	751
Non-operating & EO items	6	18	10	7	-2	3
Interest Expenses	132	116	53	38	33	19
Depreciation	34	57	58	55	64	76
Working Capital Change	259	-437	-242	-255	-107	-245
Tax Paid	-87	-95	-90	-125	-156	-192
<b>OPERATING CASH FLOW ( a )</b>	<b>623</b>	<b>-13</b>	<b>154</b>	<b>228</b>	<b>444</b>	<b>412</b>
Capex	-122	-80	-23	-60	-190	-130
Free Cash Flow	501	-93	131	169	254	282
Investments	0	0	0	-1	0	0
Non-operating income	-153	91	98	2	0	0
<b>INVESTING CASH FLOW ( b )</b>	<b>-275</b>	<b>11</b>	<b>75</b>	<b>-59</b>	<b>-190</b>	<b>-130</b>
Debt Issuance / (Repaid)	-243	-232	-70	68	-110	-125
Interest Expenses	-136	-129	-57	-40	-33	-19
FCFE	-31	-363	102	197	111	138
Share Capital Issuance	2	502	8	6	0	0
Dividend	-8	-23	-18	-23	-27	-36
<b>FINANCING CASH FLOW ( c )</b>	<b>-384</b>	<b>118</b>	<b>-137</b>	<b>11</b>	<b>-170</b>	<b>-180</b>
<b>NET CASH FLOW (a+b+c)</b>	<b>-37</b>	<b>116</b>	<b>92</b>	<b>180</b>	<b>84</b>	<b>102</b>

## One-year share price data



## Key Ratios

Particulars	FY19	FY20	FY21	FY22P	FY23E	FY24E
<b>Profitability Ratios (%)</b>						
EBITDA Margin	10.4	10.2	11.0	10.3	10.7	10.9
EBIT Margin	9.8	9.4	10.1	9.6	10.0	10.2
APAT Margin	4.3	5.2	6.5	6.6	7.1	7.4
RoE	26.1	22.4	16.7	19.2	19.4	19.8
RoCE	31.4	28.9	21.4	24.1	24.6	25.8
<b>Solvency Ratio (x)</b>						
Net Debt/EBITDA	0.7	0.3	0.2	0.0	-0.3	-0.5
Net D/E	0.4	0.1	0.0	0.0	-0.1	-0.1
<b>PER SHARE DATA (Rs)</b>						
EPS	22.9	28.6	30.4	41.9	50.8	62.3
CEPS	27.2	35.0	36.9	48.0	57.9	70.7
BV	98.6	168.4	197.4	237.7	285.5	343.8
Dividend	1.2	1.5	2.0	2.5	3.0	4.0
<b>Turnover Ratios (days)</b>						
Debtor days	91	92	119	87	84	83
Inventory days	54	58	71	59	65	63
Creditors days	71	82	83	48	52	56
<b>VALUATION</b>						
P/E	53	42	40	29	24	19
P/BV	12	7	6	5	4	4
EV/EBITDA	25	22	24	18	15	13
EV / Revenues	3	2	3	2	2	1
Dividend Yield (%)	0.1	0.1	0.2	0.2	0.2	0.3

Source: Company, HDFC sec



## HDFC Sec Retail Research Rating description

### Green Rating stocks

This rating is given to stocks that represent large and established business having track record of decades and good reputation in the industry. They are industry leaders or have significant market share. They have multiple streams of cash flows and/or strong balance sheet to withstand downturn in economic cycle. These stocks offer moderate returns and at the same time are unlikely to suffer severe drawdown in their stock prices. These stocks can be kept as a part of long term portfolio holding, if so desired. These stocks offer low risk and lower reward and are suitable for beginners. They offer stability to the portfolio.

### Yellow Rating stocks

This rating is given to stocks that have strong balance sheet and are from relatively stable industries which are likely to remain relevant for long time and unlikely to be affected much by economic or technological disruptions. These stocks have emerged stronger over time but are yet to reach the level of green rating stocks. They offer medium risk, medium return opportunities. Some of these have the potential to attain green rating over time.

### Red Rating stocks

This rating is given to emerging companies which are riskier than their established peers. Their share price tends to be volatile though they offer high growth potential. They are susceptible to severe downturn in their industry or in overall economy. Management of these companies need to prove their mettle in handling cyclical of their business. If they are successful in navigating challenges, the market rewards their shareholders with handsome gains; otherwise their stock prices can take a severe beating. Overall these stocks offer high risk high return opportunities.

### Disclosure:

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