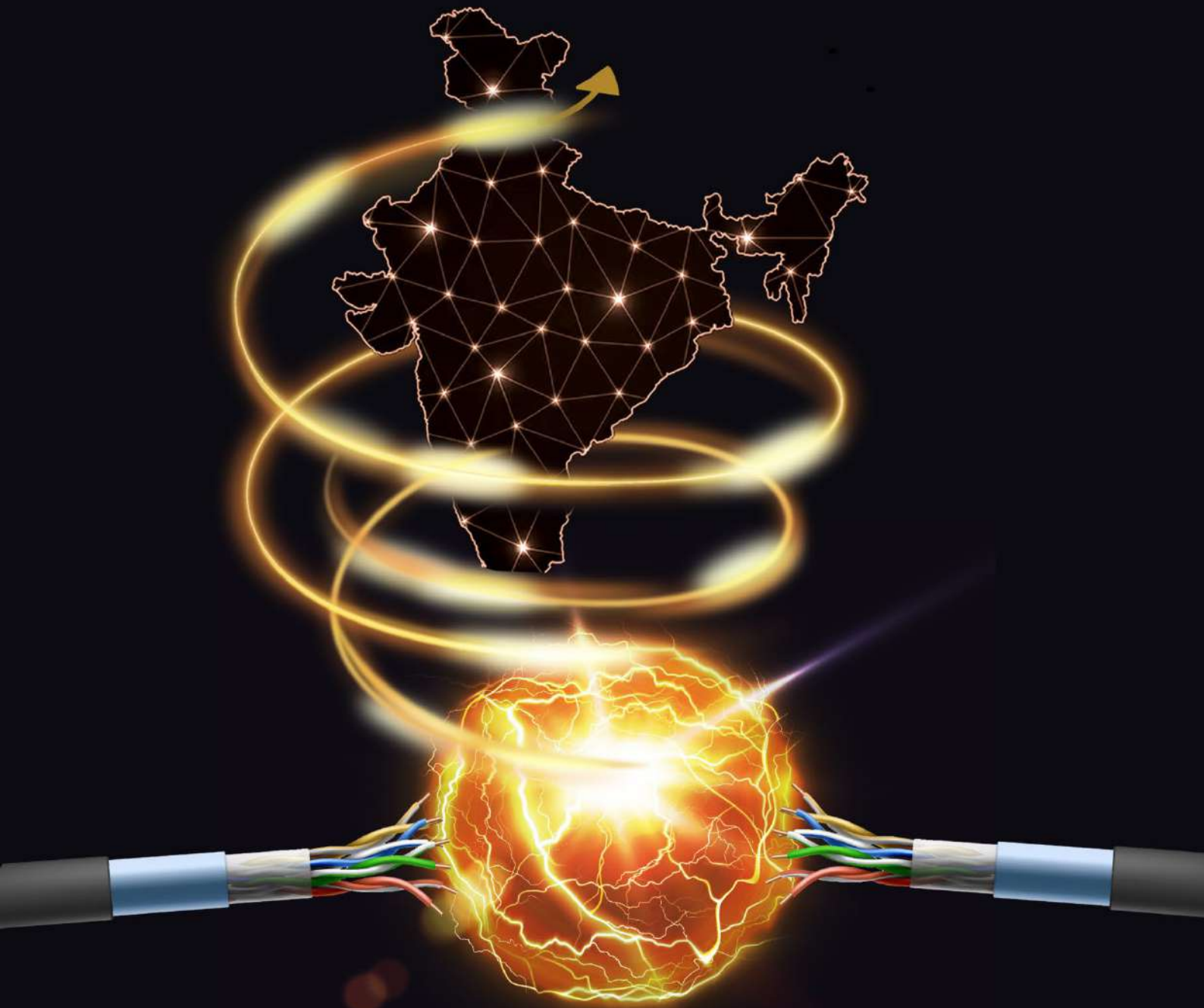


Cables and Wires



Powering the Indian growth story

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Cables and Wires: Powering the Indian growth story

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KEI INDUSTRIES

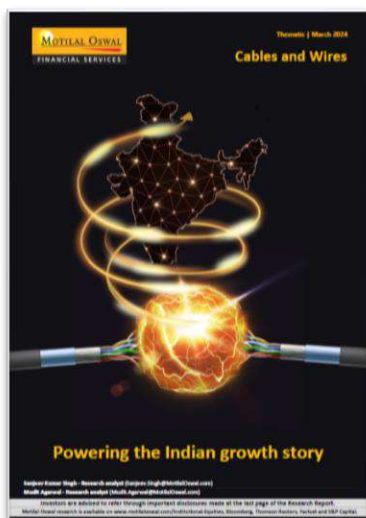
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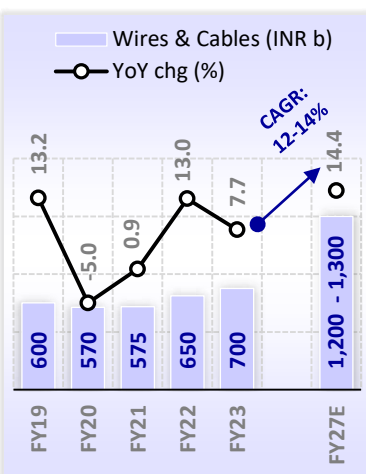
R R KABEL

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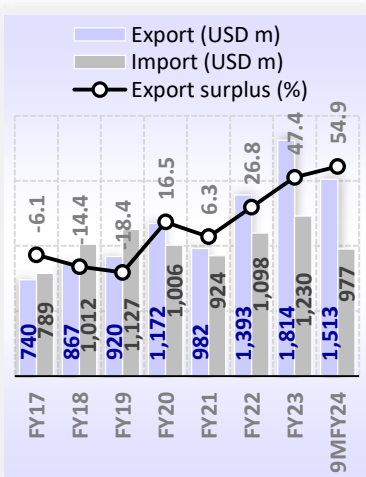
Cables and Wires



Cables & wires market is likely to post 12-14% CAGR over FY23-27



Increase in exports of cables & wires higher than the imports in last few years



Powering the Indian growth story

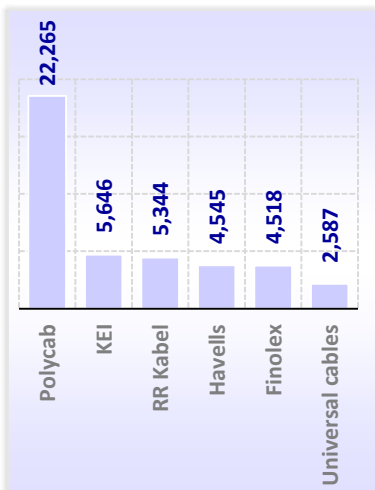
Strong demand prospects to boost earnings momentum

- The Indian electrical industry (at ~INR1.8t in FY23) likely to post 10% CAGR:** The Indian cables & wires industry, along with FMEG products, is estimated to be ~INR1.8t in FY23. The industry offers huge growth potential and is estimated to report ~10% CAGR over the next few years, led by increased traction in the infrastructure and real estate sectors. The cables & wires industry constitutes ~39% of the electrical industry and forms a crucial part of construction and infrastructure activities.
- Higher exports and market share gains to support organized players:** The industry should benefit from the rising exports of cables from India, as exports have clocked a 16% CAGR vs. ~8% CAGR for imports over FY17-23 (~15% YoY growth during 9MFY24). The organized players are also anticipated to benefit from the rising demand for branded products due to their safety features and quality. As per industry estimates, branded players currently constitute ~74% of the industry (vs. 61% in FY14), which is expected to improve to 80% by FY27.
- Polycab, KEI, and RRKABEL, among the leading players in cables & wires:** Polycab, KEI, and RRKABEL are the leading players in the cables & wires industry, with a combined market share of ~50% among the organized players (35% of the entire industry). They are favorably placed to gain from the rising infrastructure spending. A strong distribution network and higher capex, with a focus on backward integration, will drive growth for these companies.
- Initiate coverage with a BUY rating:** We initiate coverage on Polycab, KEI, and RRKABEL with a BUY rating as we expect them to benefit from the favorable industry trends and report healthy earnings growth over FY24-26. We believe these companies will maintain their premium valuations. We value: Polycab at 50x FY26E EPS to arrive at our TP of INR7,500, KEI at 50x FY26E EPS to arrive at our TP of INR5,000, and RRKABEL at 40x FY26E EPS to arrive at our TP of INR2,200.
- Key downside risks:** a) a rise in commodity prices; b) higher competitive intensity in the sector; and c) demand impact due to an economic slowdown.

Infra/real estate spending, rising exports, & market share gains to drive growth

- The Indian cables & wires industry, along with FMEG products, is estimated to be ~INR1.8t in FY23. Strong traction in the real estate and infrastructure sectors would drive higher growth for the industry, and we estimate the industry to record ~10% CAGR.
- The cables & wires industry constitutes ~39% of the electrical industry and forms a crucial part of the construction and infrastructure activities of the government and private players. Intensifying focus on infrastructure, a strong traction in the real estate sector, an increase in electrification of villages, and rising nuclear families are expected to spur cables & wires industry growth.
- The cables & wires market reported ~8% CAGR over FY14-23 and it is estimated to clock 12-14% CAGR over FY23-27 (INR1.2-1.3t). Our analyzed companies have seen a combined revenue CAGR of ~13% over this period, which should continue over FY23-26E. The share of branded players has increased to ~74% in FY23 from 61% in FY14 and is expected to improve to 80% by FY25.
- Exports of cables & wires have been on a rising trend, and companies such as KEI, RRKABEL and Polycab have increased their export revenues over the years. Exports clocked a 16% CAGR over FY17-23; whereas, imports posted an ~8% CAGR over the same period. During FY21-23, exports delivered a 36% CAGR as against 15% CAGR for imports. India is now a net exporter of cables & wires.

Cumulative capex of key players in the cables & wires segment over FY14-23 (INR m)



- Exports revenue of Polycab, KEI and RRKABEL delivered a CAGR of 54%, 7% and 25%, respectively, during FY19-23. Exports contributed 9.8%/8.1% to Polycab’s total revenue in FY23/9MFY24. For KEI, exports contributed 10.3%/14.5% to the revenue in FY23/9MFY24. For RRKABEL, exports contributed 22.5%/27.1% to the revenue in FY23/9MFY24.

Polycab, KEI & RRKABEL – leading companies in the cables & wires segment

- Polycab, KEI and RRKABEL are the leading players in the cables & wires segment, with an industry market share of 18%, 9% and 7%, respectively. These companies command 31%, 16% and 12% market share among our analyzed companies, respectively, which represents 58%/83% of the industry/organized market.
- Polycab has gained market share by 150bp over FY14-23 among the companies that we have analyzed. KEI gained 330bp market share over FY14-23 within our analyzed companies, which was primarily due to the start of cable production above 220KV+ (among the three players in the industry with the capability to manufacture cables above 220KV). RRKABEL also gained market share by 500bp over FY14-23 within our analyzed companies.
- Polycab has been on an expansion spree and cumulatively spent INR22.3b (for cables & wires) over FY14-23. This was ~3.9x higher than the nearest competitor, KEI, which spent INR5.6b over this period. Polycab has plans to commence manufacturing EHC cables above 220KV+ by FY26E and it has entered into an agreement with a leading Swiss cable manufacturer, Brugg Cables, for this purpose. KEI will spend ~INR13b over the next 3-4 years on its capex plans. RRKABEL has planned a capex of INR5b each year over the next two years which will help it to increase capacities for both cables & wires.
- Polycab has 4,300+ authorized distributors and more than 0.2m retail touchpoints. KEI expanded its dealer network to 1,975 as of Dec’23. RRKABEL has a pan-India distribution network consisting of 3,598 distributors and 3,781 dealers.

Initiate coverage with a BUY rating on Polycab, KEI and RRKABEL

- We initiate coverage on Polycab, KEI and RRKABEL with a BUY rating as we believe these companies will benefit from favorable industry trends and report healthy earnings growth over FY24-26E.
- We expect Polycab’s EBITDA and EPS to post a CAGR of 14% and 15%, respectively, over FY24-26. We expect KEI’s EBITDA and EPS to clock a CAGR of 25% (each), over FY24-26. We expect RRKABEL’s EBITDA and EPS to clock a CAGR of 39% and 43%, respectively, over FY24-26.
- We estimate Polycab’s RoE/RoCE to be 20%/21% in FY26 vs. ~19% in FY23. Its RoIC would be 27% in FY26E vs. 26% in FY23. We estimate KEI’s RoE/RoCE to be ~19%/20% in FY26 vs. ~18% in FY23. Investments in the new Greenfield unit will restrict a significant improvement in RoE for KEI. We estimate RRKABEL’s RoE/RoCE to be ~25%/24% in FY26 vs. ~14%/12% in FY23.
- We expect these companies to retain their premium valuations. We value Polycab at 50x FY26E EPS to arrive at our TP of INR7,500. We value: KEI at 50x FY26E EPS to arrive at our TP of INR5,000, and RRKABEL at 40x FY26E EPS to arrive at our TP of INR2,200.

Valuation summary

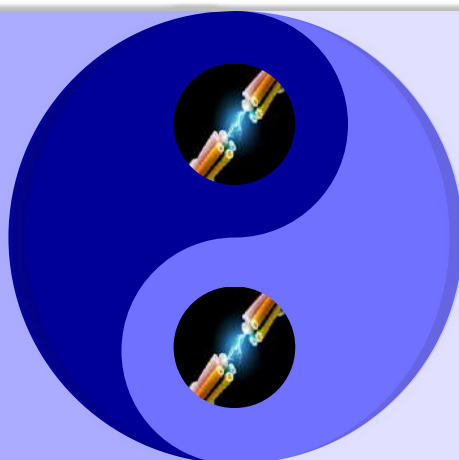
| Company | Mcap INR b | CMP (INR) | TP INR | Rating | EPS (INR) | | | EPS CAGR (FY24-26E) | P/E (x) | | | RoE (%) | | | RoIC (%) | | |
|---------|------------|-----------|--------|--------|-----------|-------|-------|---------------------|---------|-------|-------|---------|-------|-------|----------|-------|-------|
| | | | | | FY24E | FY25E | FY26E | | FY24E | FY25E | FY26E | FY24E | FY25E | FY26E | FY24E | FY25E | FY26E |
| POLYCAB | 794 | 5,300 | 7,500 | BUY | 114 | 125 | 150 | 15% | 47 | 42 | 35 | 21.3 | 19.8 | 20.0 | 26.6 | 25.6 | 27.4 |
| KEI | 359 | 3,980 | 5,000 | BUY | 64 | 81 | 100 | 25% | 62 | 49 | 40 | 18.5 | 19.2 | 19.3 | 20.2 | 20.6 | 21.2 |
| RRKABEL | 180 | 1,598 | 2,200 | BUY | 27 | 41 | 55 | 43% | 59 | 39 | 29 | 18.6 | 22.5 | 24.8 | 16.4 | 19.9 | 23.2 |
| HAVL | 946 | 1,510 | 1,690 | BUY | 19 | 25 | 31 | 26% | 78 | 60 | 49 | 16.3 | 18.7 | 19.9 | 21.2 | 26.4 | 31.9 |
| VOLT | 434 | 1,311 | 1,410 | BUY | 9 | 19 | 30 | 79% | 141 | 70 | 44 | 5.5 | 10.1 | 14.1 | 11.1 | 17.8 | 25.1 |
| KJC | 195 | 1,226 | 1,610 | BUY | 29 | 35 | 41 | 20% | 43 | 35 | 30 | 18.2 | 20.4 | 22.0 | 25.3 | 28.6 | 30.7 |

Source: MOFSL, Company

STORY IN CHARTS

Growth drivers

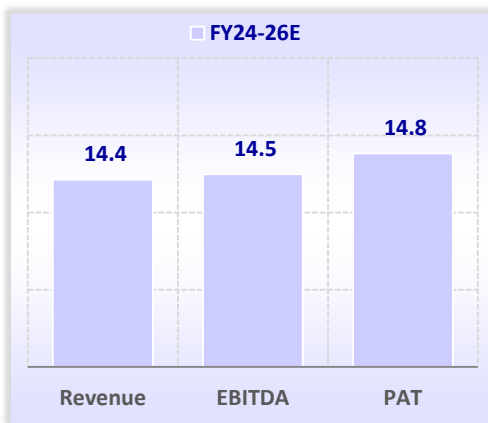
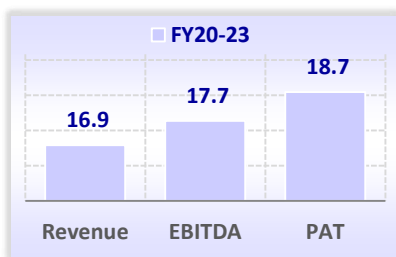
Infrastructure development, urbanization, smart cities, growth of residential and commercial real estate, rural electrification, and the move towards renewable energy.



Exports of cables & wires have been on an increasing trend from India. India is now a net exporter of cables & wires.

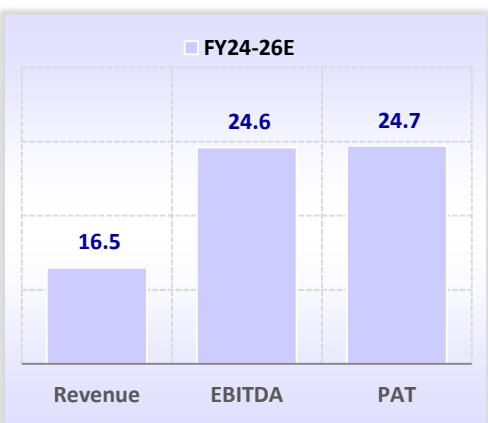
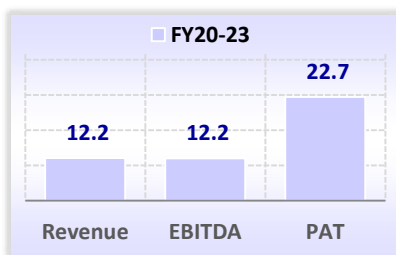
Cable & wires is estimated to report **12-14% CAGR** over FY23-27 to reach **INR1.2-1.3t**

Polycab's CAGR trend



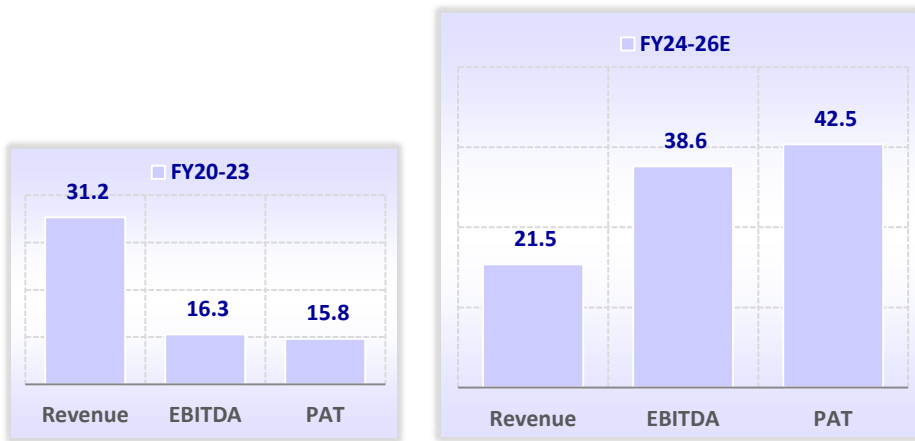
Polycab has the second highest TAM of **INR1.4t** among listed companies in the consumer durable space

KEI's CAGR trend



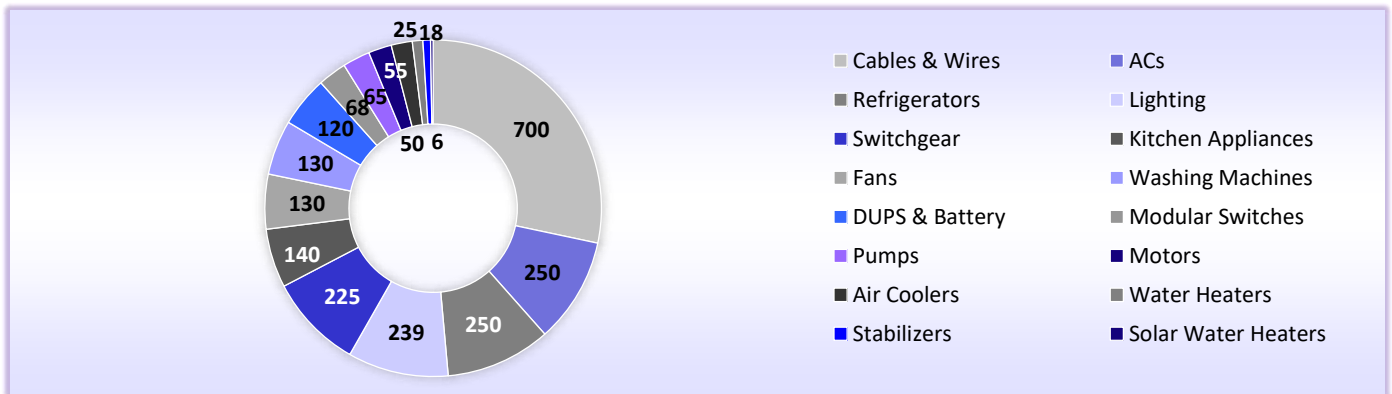
Focused on improving its retail sales to **50%** from 44% in FY23 in the next two years

RRKABEL's CAGR trend



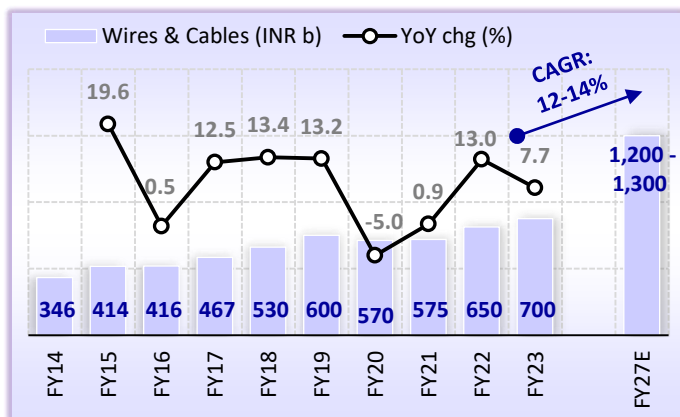
RRKABEL has the highest business-to-consumer (B2C) sales channel among peers accounting for **~77%** of revenue in FY23

Market size of different segments of the Indian electrical industry (INR b)



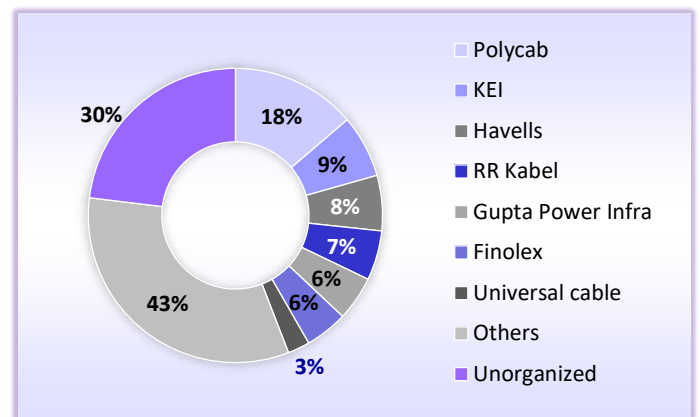
Source: MOFSL, Industry

Cables & wires market to post 12-14% CAGR over FY23-27



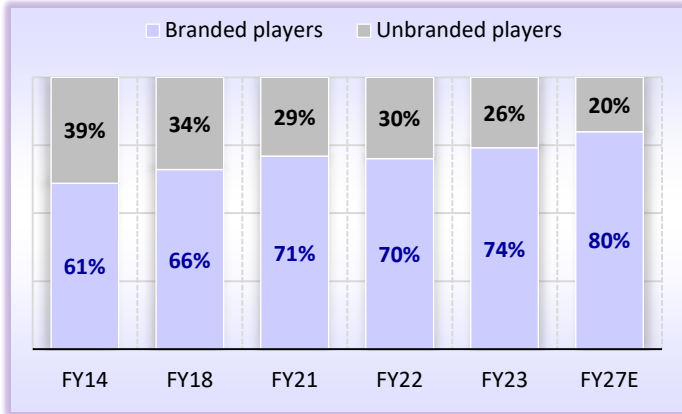
Source: MOFSL, Company, Industry

Market share of key players in value terms (FY23)*



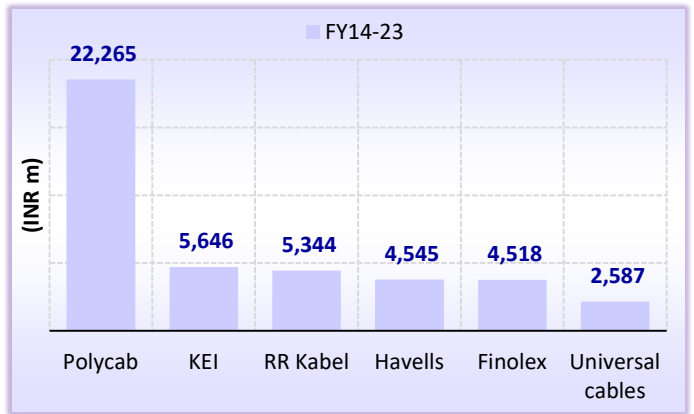
Source: MOFSL, Companies, Industry, *based on total segmental revenues

Organized players' share would continue to rise



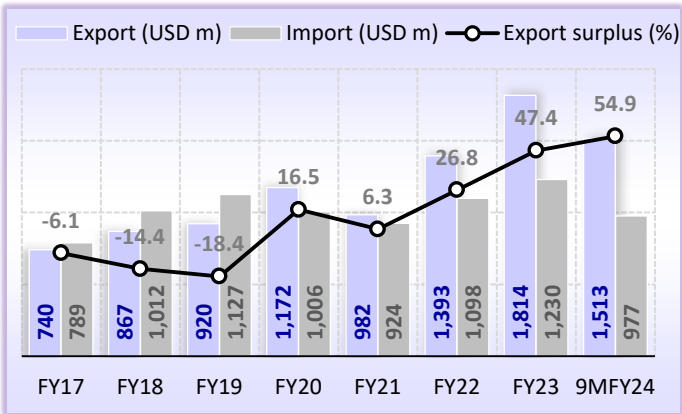
Source: MOFSL, Companies

Capex of key players in the cables & wires segment



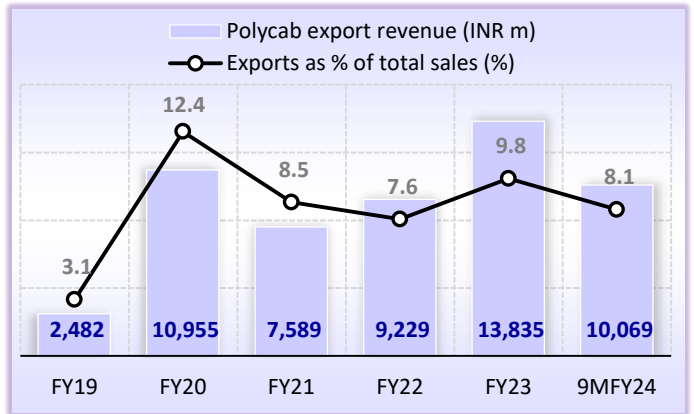
Source: MOFSL, Company

Rise in exports of cables & wires higher than the imports



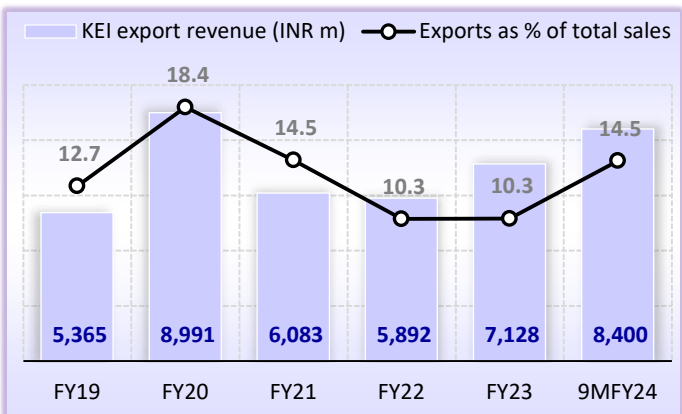
Source: MOFSL, Company

Polycab's export revenue share declined in 9MFY24



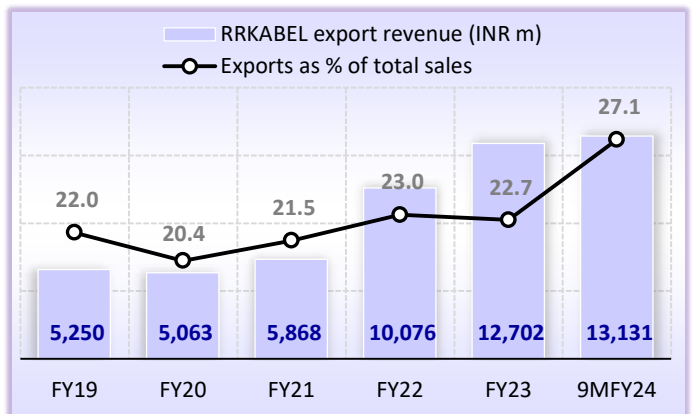
Source: MOFSL, Company

KEI's export revenue share increased in 9MFY24



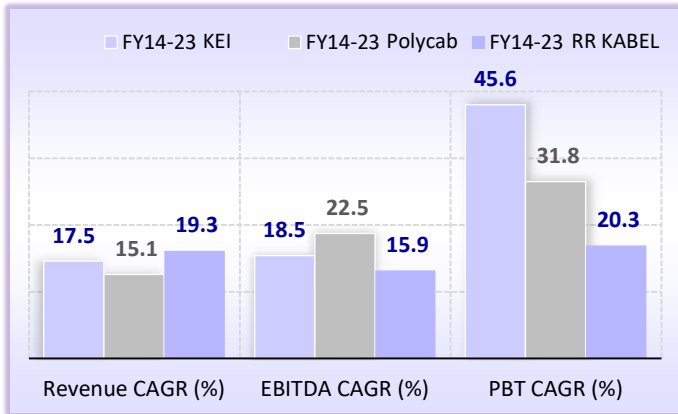
Source: MOFSL, Companies

RRKABEL's export share of ~27% is the highest among peers



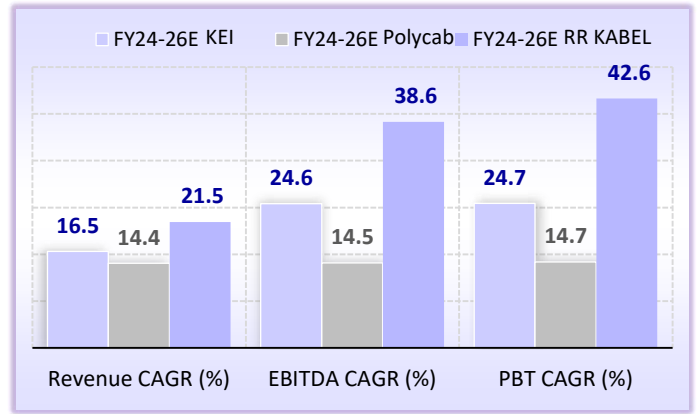
Source: MOFSL, Companies

KEI delivered better PBT CAGR over FY14-23



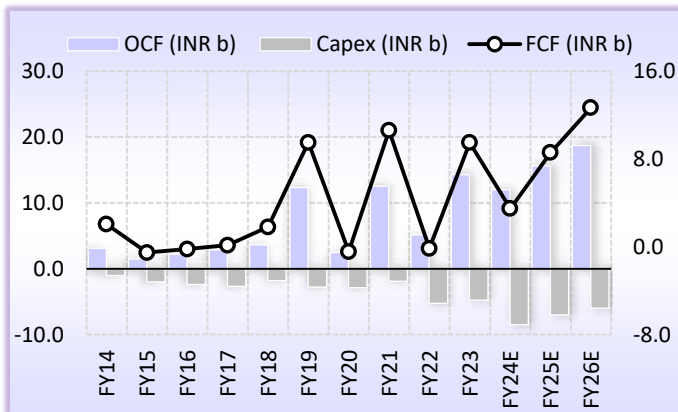
Source: MOFSL, Companies

Higher revenue/PBT growth for RRKABEL over FY24-26E



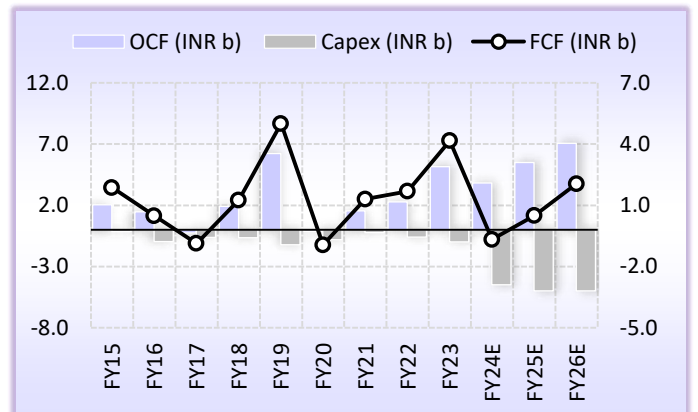
Source: MOFSL, Companies

Polycab's cumulative FCF to be INR24.7b over FY24-26E



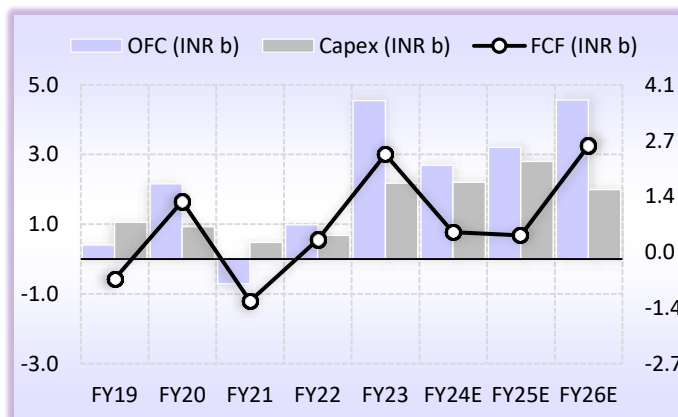
Source: MOFSL, Company

KEI to generate cumulative FCF of INR1.9b over FY24-26E



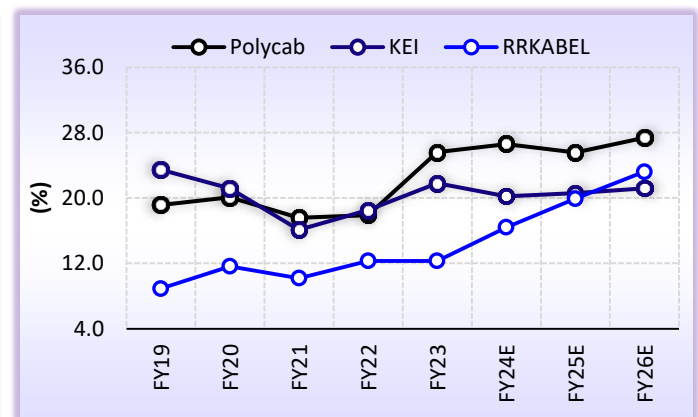
Source: MOFSL, Company

RRKABEL's FCF to improve post completion of expansions



Source: MOFSL, Company

Polycab and RRKABEL's RoIC to improve over FY25-26E



Source: MOFSL, Company

The Indian electrical industry to post broad-based growth

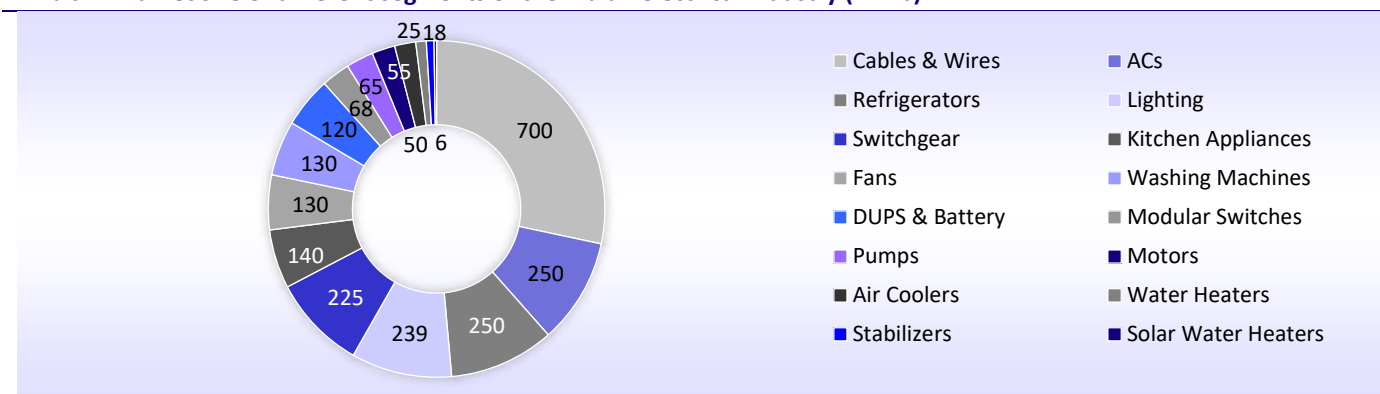
To report ~10% CAGR over the next few years

- The Indian cables & wires industry, along with FMEG products, is estimated to be ~INR1.8t in FY23. Intensifying focus on infrastructure and strong traction in the real estate sector are expected to spur growth for this industry. We estimate the industry to record ~10% CAGR over the next few years.
- The cables & wires industry constitutes ~39% of the electrical industry and forms a crucial part in the construction and infrastructure activities of the government and private players.
- Polycab, with its presence in cables & wires, switches & switchgears and FMEG (fans, appliances, lights and luminaries) segments, has the second-highest total addressable market (TAM) among the listed companies (including consumer durable players).

The Indian consumer electrical industry’s market recorded a CAGR of 9-10% over FY16-23 and stood at INR1.8t as of FY23

The Indian consumer electrical industry’s market size stood at INR1.8t as of FY23. The industry recorded a CAGR of 9-10% over FY16-23. The industry growth has been fueled by strong government focus on infrastructure development, rising trend of nuclear families, increase in electrification in rural areas, increase in exports of cables & wires, etc.

Exhibit 1: Market size of different segments of the Indian electrical industry (INR b)



Source: MOFSL, Industry

Industry growth is estimated to be at ~10% over the next few years; cables & wires to grow higher

According to our estimates, the industry should clock ~10% CAGR over the next few years, with higher growth estimated for cables & wires (12-14% CAGR until FY27E), water heaters, fans, etc. The industry would also benefit from the government policies, e.g., encouraging domestic manufacturing and PLI incentives for components. There could also be a shift to organized players from unorganized ones, which has historically been the case. This possible shift would further benefit the bigger players going forward.

Exhibit 2: Analysis of the Indian consumer electrical industry

| Industry | Market Size (INR b) | Growth rate (%) | Organized market share (%) | Major Players |
|--|---------------------|-----------------|----------------------------|--|
| Switchgear | 225 | 7-8 | 80-85 | ❖ Havells, Legrand, Schneider, ABB |
| Motors | 55 | 8-9 | 60-65 | ❖ Crompton, Kirloskar, CRI |
| Pumps | 65 | 8-9 | 60-65 | ❖ Crompton, Kirloskar, CRI |
| Cables & Wires | 700 | 12-14 | 74-75 | ❖ Polycab, Finolex, Havells, KEI |
| Modular Switches | 68 | 8-10 | 70-75 | ❖ Anchor, Legrand, Havells |
| Water Heaters | 25 | 10-11 | 65-70 | ❖ Havells, Bajaj, Crompton, Racold |
| Fans | 130 | 8-9 | 75-80 | ❖ Crompton, Usha, Havells, Orient, Bajaj |
| Kitchen Appliances (Mixers, Grinders, Gas stoves, Water Purifiers, Others) | 140 | 10-12 | 65-75 | ❖ Mixer Grinders - Bajaj, Preethi, Prestige |
| | | | | ❖ Gas Stoves - Stovekraft, Sunflame, Butterfly |
| | | | | ❖ Water Purifiers - Eureka Forbes, Kent RO, HUL Pureit |
| ❖ Others - Faber, Bajaj, Havells | | | | |
| Lighting | 239 | 11-12 | 65-70 | ❖ Signify, Havells, Wipro, Crompton |
| Stabilizers | 18 | 7-8 | 55-60 | ❖ Microtek, Livguard, Bluebird |
| DUPS & Battery | 120 | 8-10 | 65-70 | ❖ Luminous, Microtek, Exide |
| Air Coolers | 50 | 15-20 | 30-35 | ❖ Symphony, Bajaj, Voltas |
| Solar Water Heaters | 6 | 6-8 | 60-65 | ❖ Sudarshan Saur, Supreme Solar |

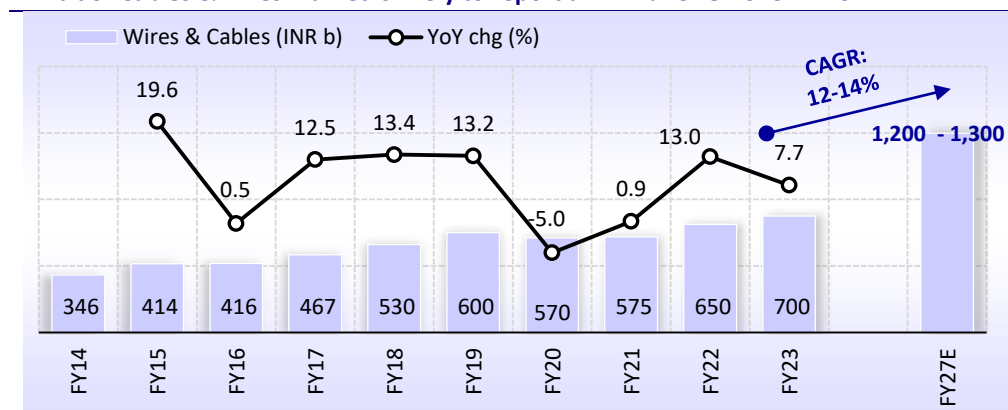
Source: MOFSL, Industry

Cables & wires – a key beneficiary of infrastructure growth

Cables & wires’ market size is estimated to report 12-14% CAGR over FY23-27 to reach INR1.2-1.3t

As a result of infrastructure development, urbanization, smart cities, the growth of residential and commercial real estate, rural electrification, and the move towards renewable energy, the cables & wires segment is expected to experience significant growth. The cables & wires market reported ~8% CAGR over FY14-23 to reach INR700b and it is estimated to clock 12-14% CAGR over FY23-27 (INR1.2-1.3t). The industry growth rate was hit by the challenges associated with Covid-19 in FY20-21 and it recorded a CAGR of mere 2.7% during FY19-22.

Exhibit 3: Cables & wires market is likely to report a 12-14% CAGR over FY23-27

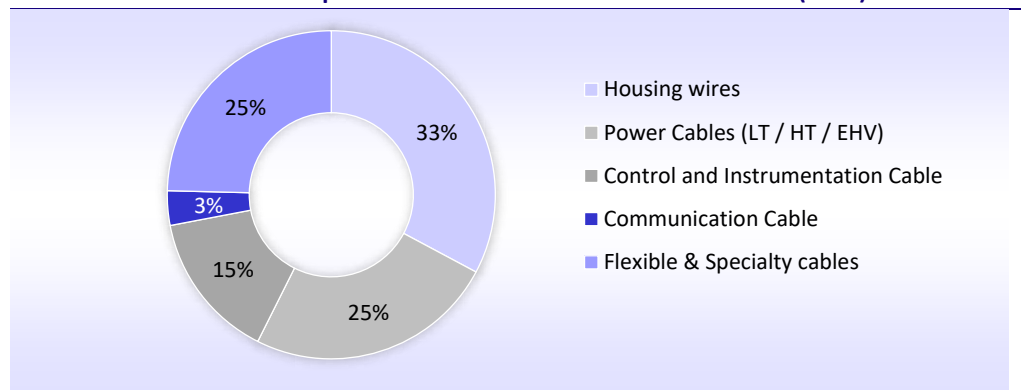


Source: MOFSL, Industry

The cables & wires industry can be split into five categories with housing wire having the largest share; it is anticipated to post a 16% CAGR between FY23 and FY27. The power cable and flexible & specialty cable category is projected to report a 14% CAGR and maintain its market share during the same period. Lastly, control & instrumentation and communication cable categories would register a CAGR of 11% and 15%, respectively, over FY23-27.

In cables & wires industry, housing wire has the largest share at ~33%

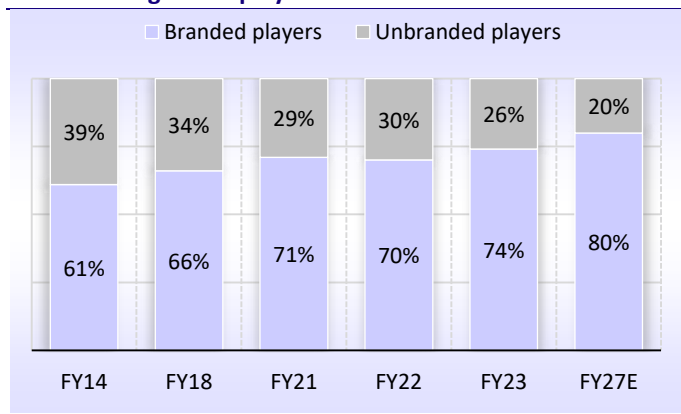
Exhibit 4: Share of different products within the cables & wires market (FY23)



Source: MOFSL, Industry

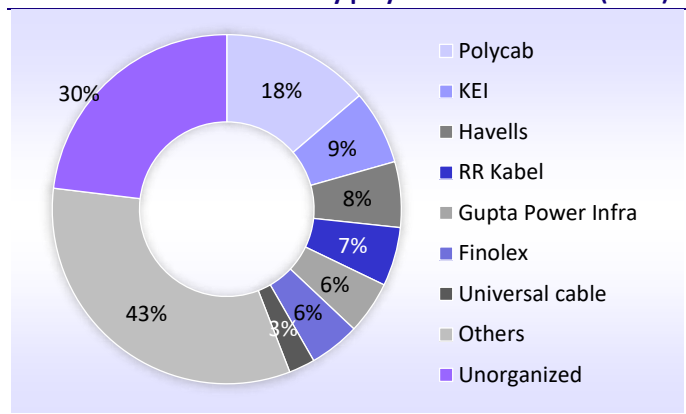
The domestic cables & wires market has steadily moved to an organized play from a largely unorganized play, including regional/national players. The shift was led by rising awareness among consumers towards safety and quality, the advent of GST regime, technological innovation, brand building, and technical & regulatory compliance.

Exhibit 5: Organized players' share would continue to rise



Source: MOFSL, Industry, RR Kabel DRHP

Exhibit 6: Market share of key players in value terms (FY23)*



Source: MOFSL, Companies, Industry, *based on total segmental revenues

Exhibit 7: Key factors driving growth in the cables & wires segment

| Segments | Factors driving growth in Cables segment |
|--|---|
| Power cables | <ul style="list-style-type: none"> ❖ Investments in power transmission and distribution ❖ Capacity addition in solar and wind energy ❖ Smart Cities Mission |
| Building wires | <ul style="list-style-type: none"> ❖ Affordable housing scheme ❖ A spike in nuclear families ❖ Investments in commercial and residential infrastructure |
| Elastometric and Flexible cables/wires | <ul style="list-style-type: none"> ❖ Automobile industry growth and increasing investments in Railways for electrification ❖ Growing demand for household appliances and automobiles due to revival in per capita income ❖ Increased construction activity supported by growing infrastructure projects |
| Control and instrumentation cables | <ul style="list-style-type: none"> ❖ Capex rising across industries such as Auto, Steel, Oil and Gas, and Power ❖ Investment expenditure by Indian Railways and in other mass transit systems ❖ Increased focus on automation in 'manufacturing and processing' to monitor and control quality |
| Switchboard and telecom cables | <ul style="list-style-type: none"> ❖ Service and industrial sector growth increasing the need for data cables ❖ Intercom and security system penetration in residential buildings ❖ Smart cities project ❖ Surge in internet users with rising internet penetration as a percentage of total households |

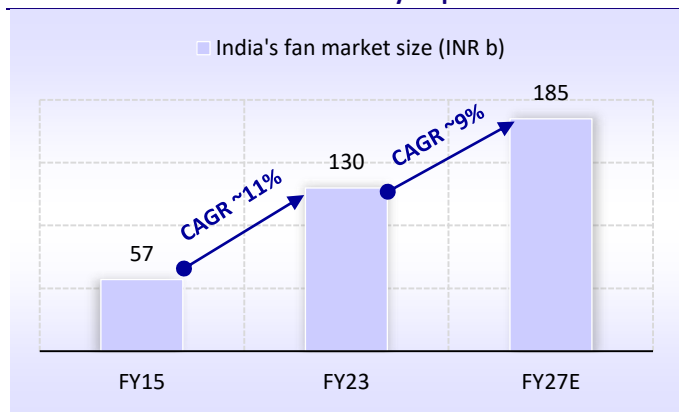
Source: MOFSL, Industry report

The Fan industry – hit in CY22/23 by a transition towards energy-efficient fans; likely to report ~9% CAGR until FY27E though

In the Fan industry, the premium category market share increased to 20%+ in FY23 from 5% in FY15

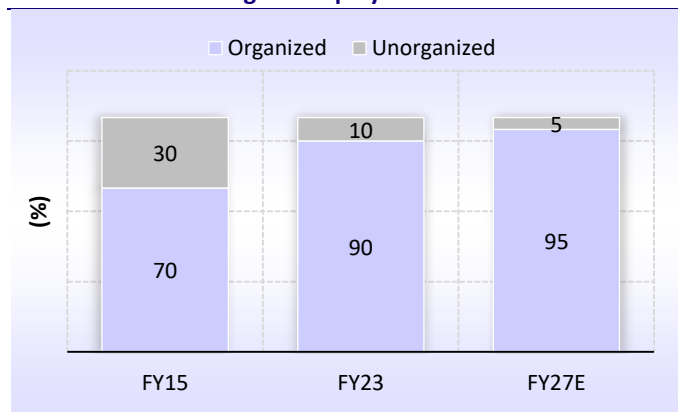
- The fan market in India was estimated at INR130b in FY23, with ceiling fans dominating (~72% by value) the market. It has grown steadily over the years, driven by population growth, urbanization, rising disposable incomes, and improved consumer knowledge of energy-efficient products. The industry was, however, hit in CY22/23 by the transition towards mandatory Star ratings introduced by The Bureau of Energy Efficiency (BEE) for ceiling fans w.e.f. 1st Jan’23. Uncertainties about this transition and significant channel destocking in CY22 hurt the performances of manufacturing companies in FY23.
- The fan industry has seen significant growth in the premium category, with a 20%+ market share in FY23 up from 5% in FY15. Manufacturing of smart and IoT-enabled ceiling fans with enhanced design and features (decorative, anti-dust, bladeless, etc.) has driven premiumization in the domestic fan market. The premium segment is anticipated to garner ~28% market share by FY27.

Exhibit 8: Indian fan market is likely to post a CAGR of ~9%



Source: MOFSL, Industry

Exhibit 9: Share of organized players to increase further

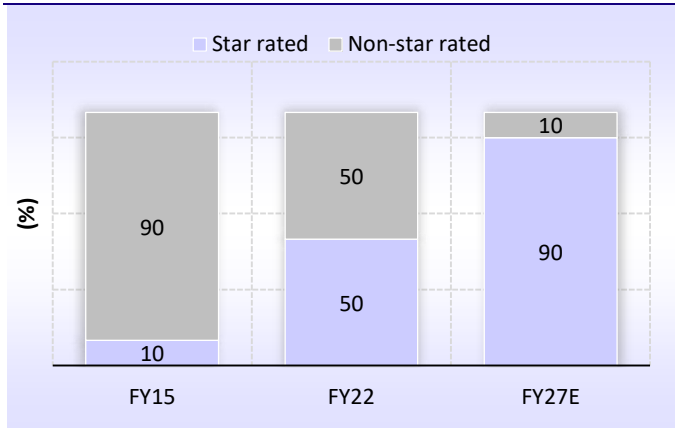


Source: MOFSL, Industry

Energy consumption of BLDC fans is lower than that of induction motor fans; share of star-rated fans to increase to 90% by FY27E vs. 50% in FY23

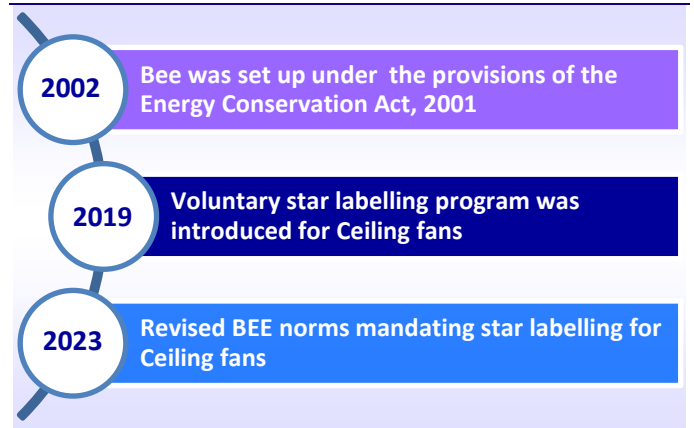
Demand for energy-efficient fans has been rising as consumers become increasingly aware of the advantages of owning energy-efficient appliances. On an average, ceiling fans account for 20% of the electricity consumed by an Indian household. The Brushless Direct Current (BLDC) technology makes ceiling fans highly energy efficient by reducing the energy consumption to almost one-third of that of a regular induction motor fan. These fans are rated as 5-star energy-efficient fans. The cost of BLDC fans is typically on the higher side because of the complex technology and electronics involved. Companies like Crompton Greaves, Orient Electric, and the new entrants such as Atom Berg and Halonix Technologies have increased the manufacturing of BLDC fans over the past few years. Voluntary star labeling for ceiling fans was introduced by BEE in CY19 and the labeling has been mandated in CY23. Due to this transition, the share of star-rated fans is estimated to increase to 90% by FY27E from 50% in FY23.

Exhibit 10: Share of star-rated ceiling fans should increase



Source: MOFSL, Industry, RR Kabel DRHP

Exhibit 11: Star labeling of fans became mandatory in 2023



Source: MOFSL, Industry, RR Kabel DRHP

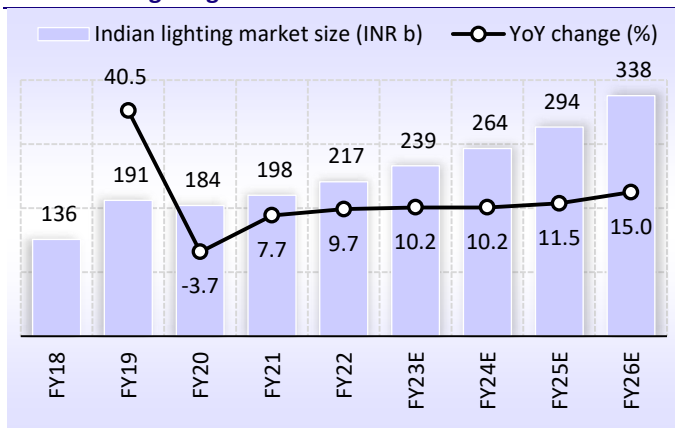
The Lighting industry – estimated to clock ~12% CAGR over FY23-26

LED market share increased to 80% in FY23 vs. 20% in FY15

The total lighting market in India reported a CAGR of 12% to reach INR239b in FY23 from INR136b in FY18. The industry is further expected to clock a 12% CAGR to reach INR338b over FY23-26. The LED market as of FY23 was ~80% of the industry, up from 20% in FY15. The shift from conventional lighting is due to the consumers’ awareness of energy efficiency, the longer life span of LEDs, and reliability. LED is expected to completely replace conventional lighting going forward.

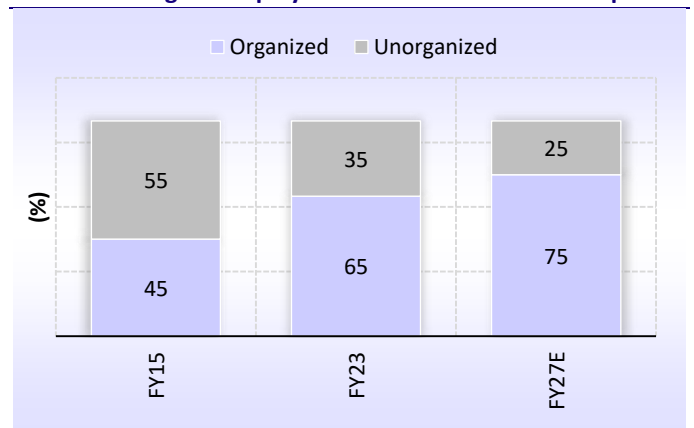
The lighting industry in India is steadily shifting towards the premium category, with ~45% market share in FY22 vs. ~35% in FY15. The premium category is likely to contribute ~60% to the lighting market by FY27. As of FY23, organized players contributed 65% of the industry vs. 45% in FY15, and their share is estimated to increase further to 75% in FY27.

Exhibit 12: Lighting market CAGR to be ~12% over FY23-26E



Source: MOFSL, Ikiio DRHP

Exhibit 13: Organized players’ market share should improve



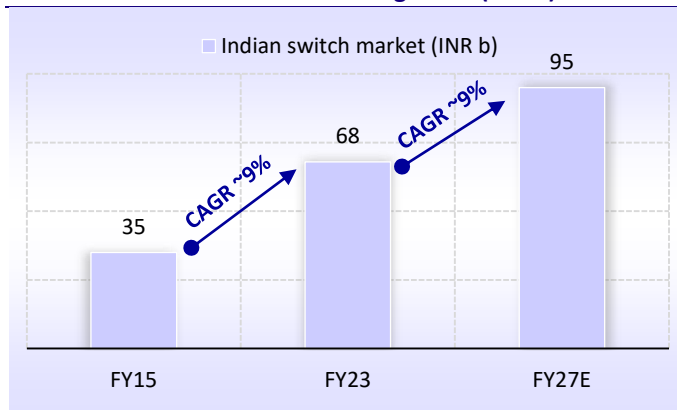
Source: MOFSL, Industry, RR Kabel DRHP

Switch and Switchgear industry – infrastructure and real estate sector to aid growth

Switch and Switchgear industry collectively is likely to post 8% CAGR until FY27 to reach INR400b

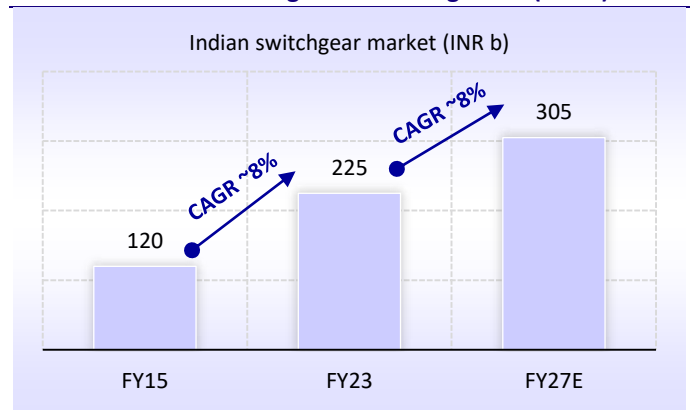
The total market size of the switch and switchgear industry in India reported an 8% CAGR to reach INR293b over FY15-23. The collective market is estimated to post ~8% CAGR until FY27 to reach INR400b. The switch industry consists of two key segments – traditional switches, comprising 40% of the market and modular switches, comprising 60% of the market in FY22. The switchgear industry consists of three key segments - low voltage (LV), which accounted for 70% of the market, and medium voltage (MV) and high voltage (HV) that combined accounted for the balance 30% of the market in FY22.

Exhibit 14: Indian Switch – market growth (INR b)



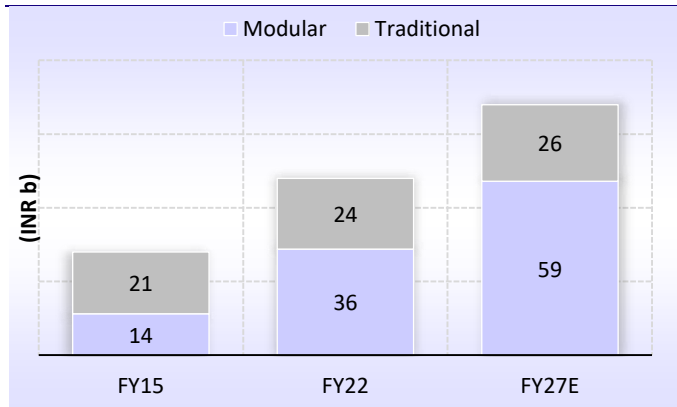
Source: MOFSL, Industry

Exhibit 15: Indian Switchgear – market growth (INR b)



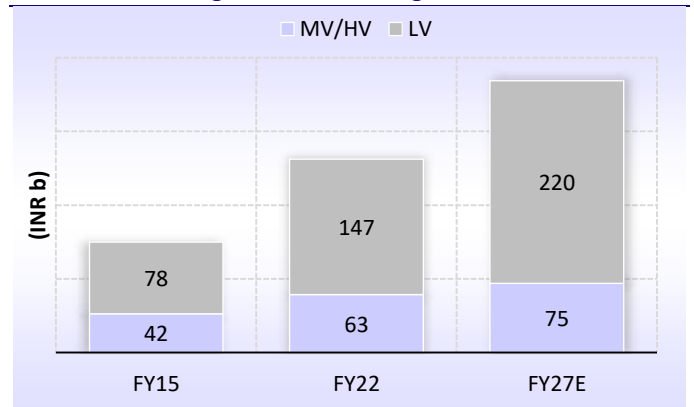
Source: MOFSL, Industry

Exhibit 16: Traditional and modular switches market size



Source: MOFSL, Industry, RR Kabel DRHP

Exhibit 17: Switchgear’s different segments’ market size



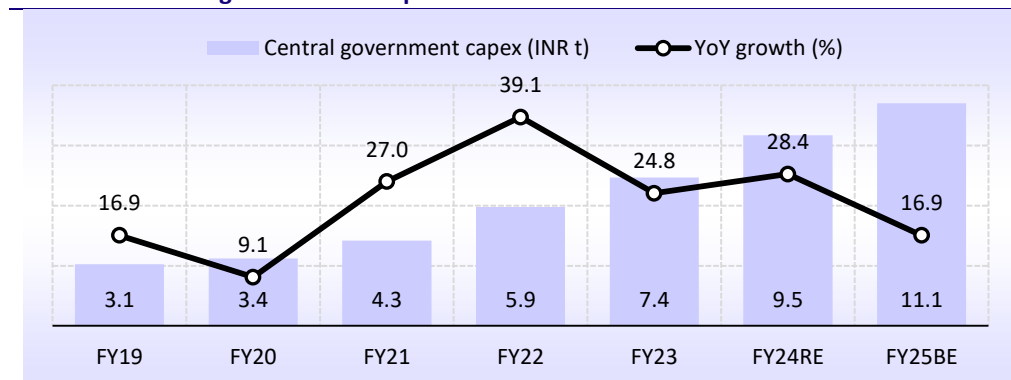
Source: MOFSL, Industry, RR Kabel DRHP

As per industry estimates; the consumer electrical industry contributes 1.5% of India's GDP

Higher infrastructure spending to drive industry growth

According to industry estimates, the consumer electrical industry contributes ~1.5% of India's GDP and it would benefit from the government impetus on infrastructure development. The Central government's capex increased at a 30% CAGR over FY20-24 to reach INR9.5t and this is likely to touch INR11.1t in FY25 (up 17% YoY). The government's increasing focus on infrastructure development would facilitate the cost-efficient movement of goods and people, which would spur economic growth.

Exhibit 18: Central government's capex trend

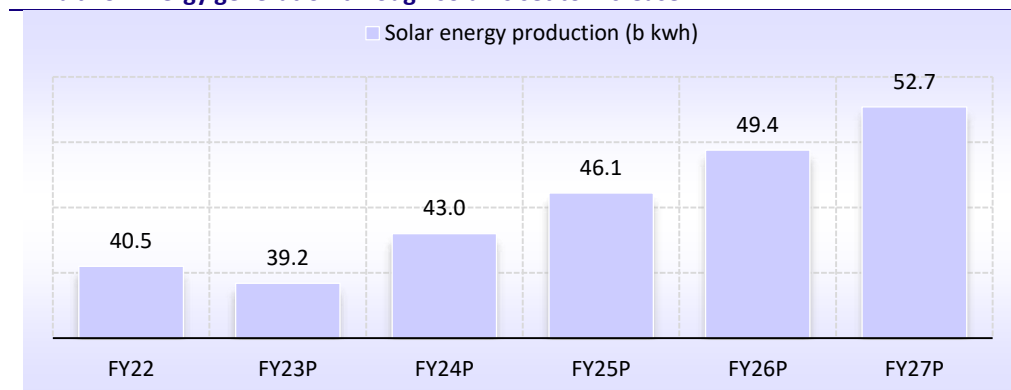


Source: MOFSL, Union Budget Documents

India is planning to install 500GW of renewable energy capacity by CY30 at an investment of INR2.4t

As a part of the Paris agreement, the Indian government has announced its target to achieve net zero emissions by CY70. India is planning to install 500GW of renewable energy capacity by CY30, which is likely to involve a massive investment of ~INR2.4t. India's energy demand too is expected to surge over the years led by rising nuclearization, higher disposable income, a rise in industrial activities, etc. The government's initiatives such as power for all, integrated power development scheme, etc. should help demand growth for cables & wires.

Exhibit 19: Energy generation through solar is set to increase

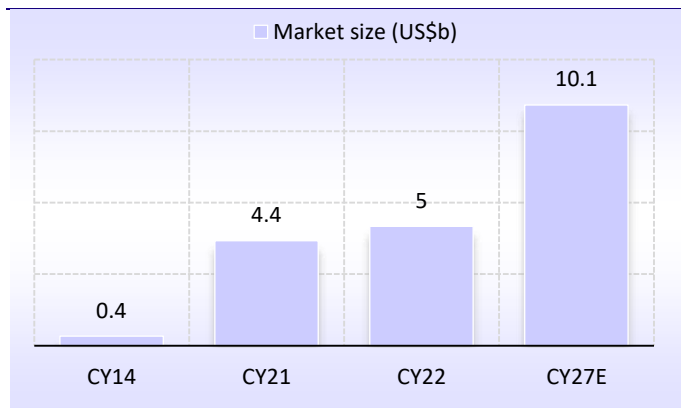


Source: MOFSL, Polycab

Area of total data centers is estimated to increase to 24m sq. ft. by CY25 v/s 11m sq. ft. in Mar'22

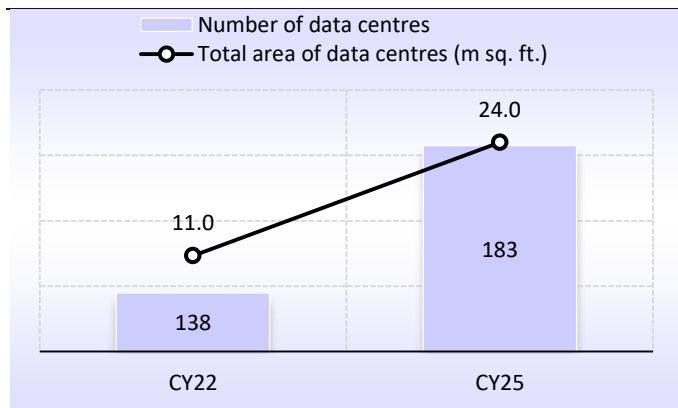
The surge in data demand from consumers has led to increased demand for data centers. The number of data centers is expected to increase to 183 with 24m sq. ft. area by CY25 from 138 data centers with 11m sq. ft. area as of Mar'22. The data center market size has jumped to USD5.0b in CY22 from USD0.4b in CY15 and is likely to reach USD10.1b in CY27. With the increase in usage of data centers, the demand for cables & wires is going to improve as well.

Exhibit 20: Estimated market size of data centers in India



Source: MOFSL, RR Kabel DRHP

Exhibit 21: Area CAGR to be 30% over CY22-25E

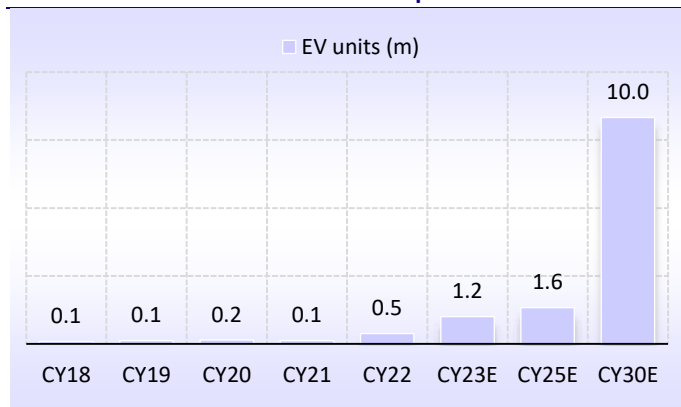


Source: MOFSL, RR Kabel DRHP

GOI has a target to achieve 30% electrification of the entire India’s vehicle fleet, which will drive growth for cables & wires

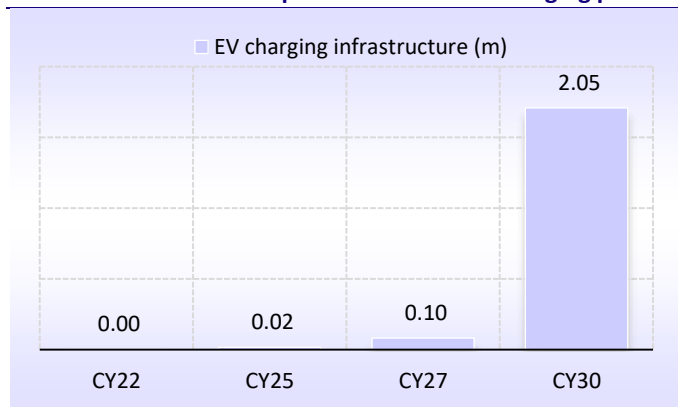
The Government of India (GoI) has a target to achieve 30% electrification of the entire India’s vehicle fleet, and consequently, the sales of Electric Vehicles (EVs) are expected to reach 10m units by CY30 from a mere 0.45m in CY22. The domestic EV market is anticipated to post a CAGR of 47% over CY22-30. The GoI announced: 1) a battery swapping policy during the FY23 Union Budget, 2) tax exemption of INR1,50,000 while purchasing an EV, 3) PLI schemes and 4) an extension of the FAME – faster adoption and manufacturing of (hybrid and) EV scheme – until CY24. The repercussions of the EV boom will be seen on the EV infrastructure too, which will further boost demand for cables & wires. By CY30, India will require a 2.05m charging infrastructure.

Exhibit 22: Demand for EVs set to improve...



Source: MOFSL, RR Kabel DRHP

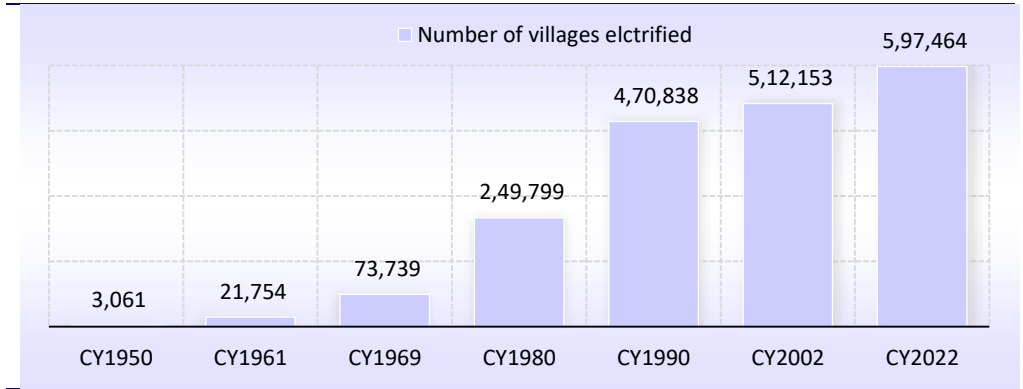
Exhibit 23: ...that will require an increase in charging points



Source: MOFSL, RR Kabel DRHP

The number of electrified villages has kept on increasing and reached ~0.6m in CY22. Several government initiatives, such as The Deendayal Upadhyaya Gram Jyoti Yojana, the Pradhan Mantri Sahaj Bijli Har Ghar Yojana – Saubhagya (“Saubhagya”), etc. have boosted electrification. Currently, 1.18m households still remain to be electrified and the process is likely to be completed in the next few years. This reflects the huge scope of the cables & wires industry.

Exhibit 24: Continuous expansion in electrification of villages

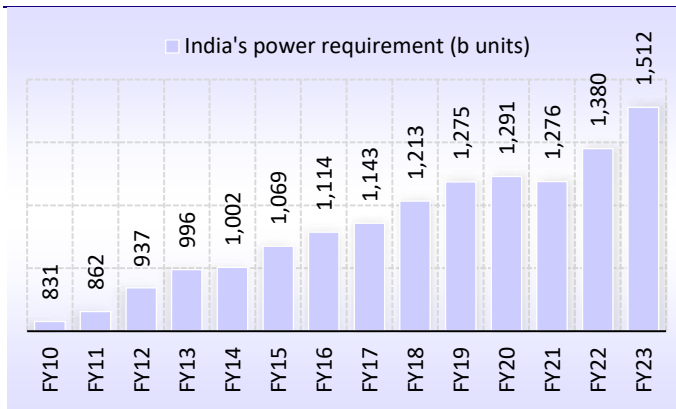


Source: MOFSL, RR Kabel DRHP

India's per capita power consumption reported a 4% CAGR over FY10-23

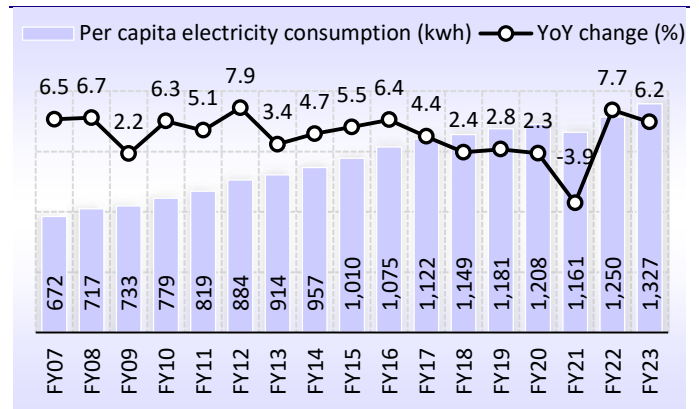
India's per capita power consumption and requirement have reported a CAGR of 4% over FY10-23. Better availability of energy, an increasing number of households, increase in the usage of electrical appliances, etc. have led to an improvement in power demand. Still, India lags behind the global average electricity consumption of 3,700 units+. A rising number of households along with an increase in earnings levels would drive the cables & wires and FMEG products.

Exhibit 25: Rising electricity demand augurs well for cables & wires



Source: MOFSL, CEA

Exhibit 26: Per capita electricity consumption has steadily risen over time



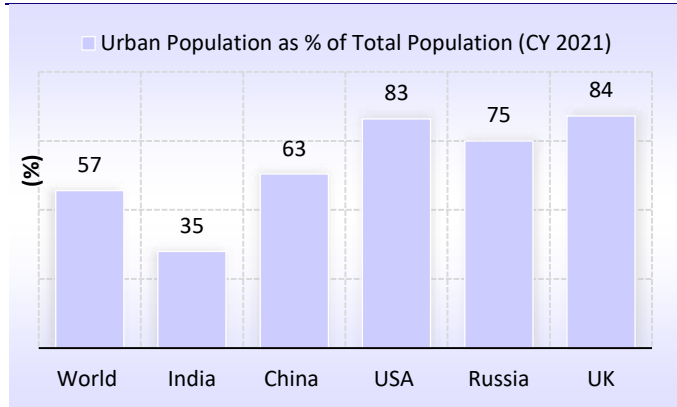
Source: MOFSL, CEA

India's power transmission and distribution loss is highest in the world, and this issue can be addressed by underground cabling

Underground cables (UG) are generally used in densely populated areas such as cities and metros, where there is a high density of automobiles, high-rise commercial & residential buildings, and places with vital installations of uninterrupted power supply (such as water supply system, hospitals, IT services, etc.). UG cables help in ensuring uninterrupted power supply, which is uncommon in the overhead (OH) system.

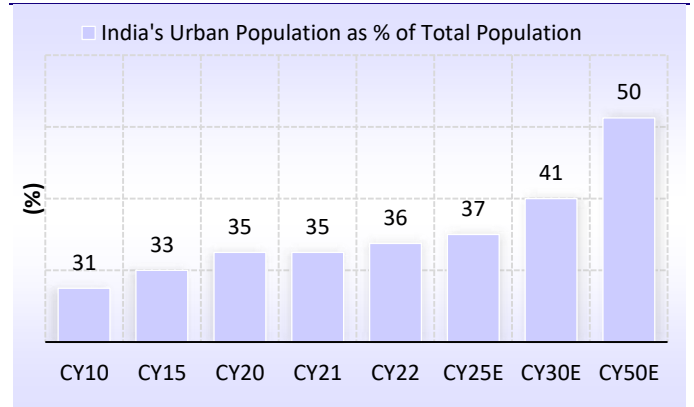
Though transmission and distribution losses have reduced over the years, India's power transmission and distribution loss of ~16% is still one of the highest in the world. This issue can be addressed via underground cabling. Hence, with increasing urbanization, we may see rising adoption of underground cables in metros and cities in the near future.

Exhibit 27: Urban population in India is below global avg.



Source: MOFSL, Industry, RR Kabel DRHP

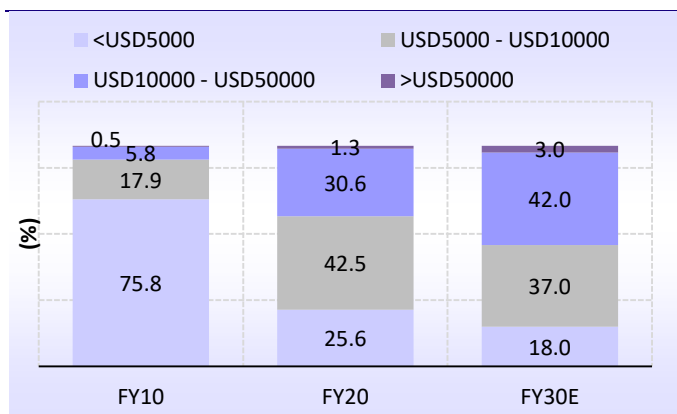
Exhibit 28: India's urban population share is rising



Source: MOFSL, Industry, RR Kabel DRHP

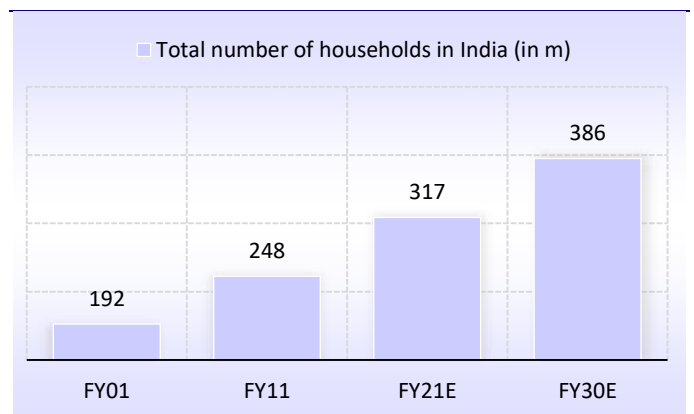
India's population stood at ~1.39b with ~317m households as per Census 2021. The growth in the number of households (CAGR of 2.5% over FY11-21) exceeds population growth (CAGR of 1.5% over FY11-21), which indicates a rising trend of nuclear families in India. Growth in the number of nuclear families in India is leading to an increase in the number of households, thereby creating a strong demand for housing units and discretionary items including consumer electrical products.

Exhibit 29: Households with annual earnings of USD10,000 to USD50,000 rising in India



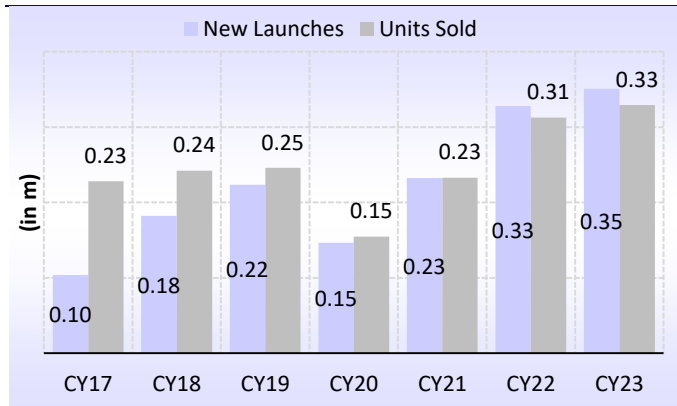
Source: MOFSL, Industry, RR Kabel DRHP

Exhibit 30: Total number of households in a rising trend; this indicates an increase in nuclearization



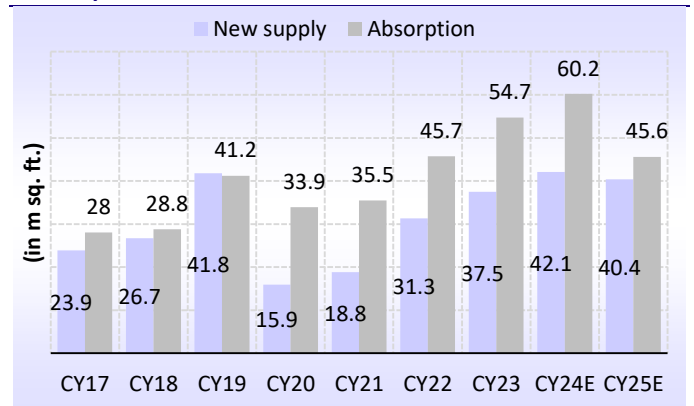
Source: MOFSL, Industry, RR Kabel DRHP

Exhibit 31: Supply of residential houses increased in top seven cities in CY22/23



Source: MOFSL, Industry, Knight Frank

Exhibit 32: Supply and absorption rates increased for Indian office spaces



Source: MOFSL, Industry, Cushman & Weikfield

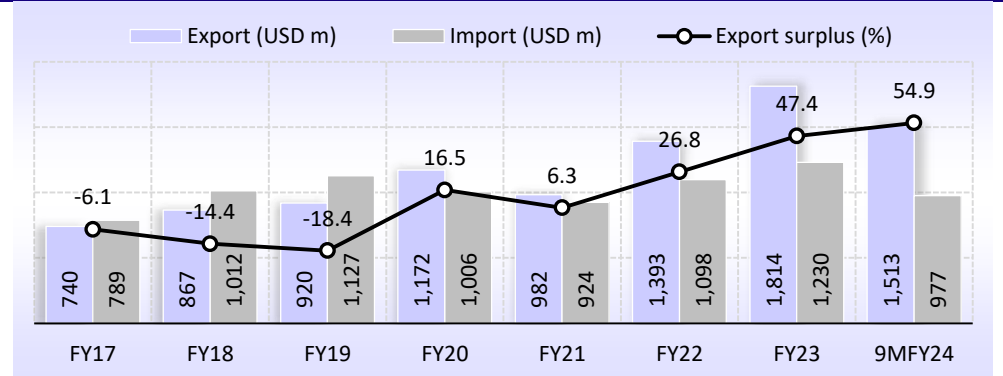
Export of cables & wires has posted ~16% CAGR over FY17-23; whereas, imports exhibited a CAGR of ~8% over the same period

Rising cables & wires export bode well for domestic players

Exports of cables & wires have been on an increasing trend from India and companies like RRKABEL, KEI and Polycab have increased their export revenues over the years. Export of cables & wires has posted 16% CAGR over FY17-23; whereas, imports exhibited a CAGR of ~8% over the same period. More so, during FY21-23, exports have delivered a CAGR of 36% vs. 15% CAGR for imports during the same period. During 9MFY24, exports grew ~15.0% YoY vs. 7.5% YoY growth of imports. India is now a net exporter of cables & wires.

Favorable government policies such as PLI schemes, development of ecosystems for component manufacturing, import substitution as well as China+1 strategy will aid domestic companies in increasing their production as well as help them find new geographies to increase revenue.

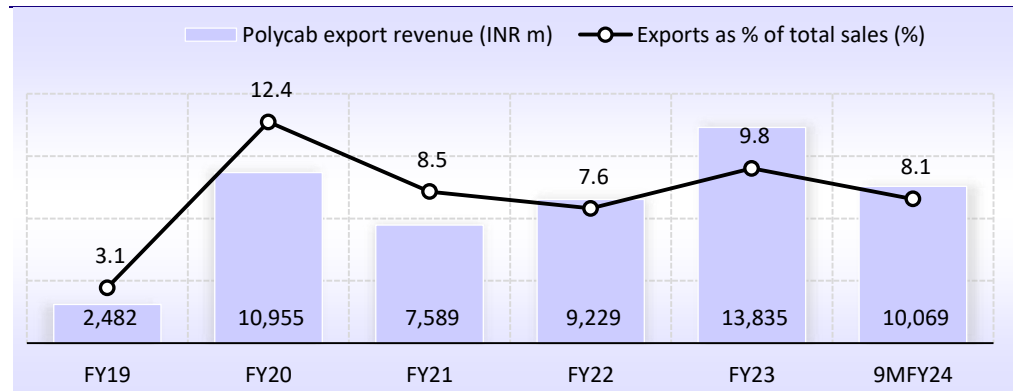
Exhibit 33: Increase in exports of cables & wires higher than that of imports



Source: MOFSL, Industry

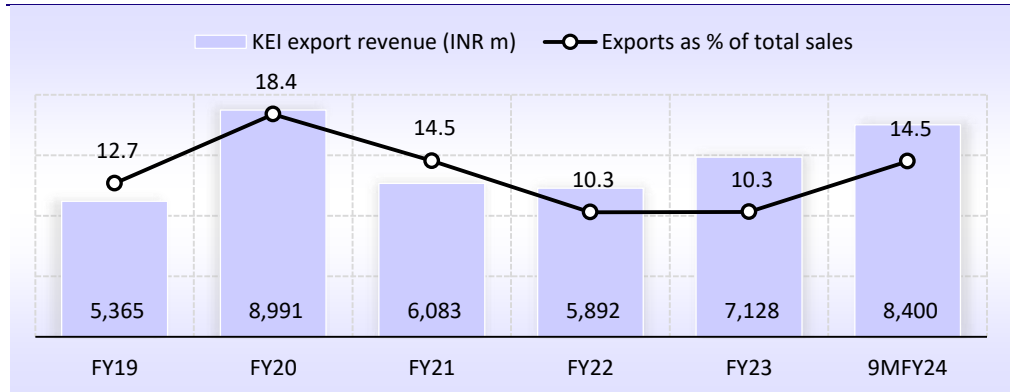
Export revenues of Polycab, KEI and RRKABEL displayed a CAGR of 54%, 7% and 25% respectively, during FY19-23. Exports contributed 9.8%/8.1% to Polycab’s total revenue in FY23/9MFY24 vs. 3.1% in FY19. For KEI, exports contributed 10.3%/14.5% to the revenue in FY23/9MFY24 vs. 12.7% in FY19. For RRKABEL, exports contributed 22.5%/27.1% to the revenue in FY23/9MFY24 vs. ~22% in FY19. During FY20, export revenues of KEI and Polycab surged 68% and 4.4x YoY, respectively, fueled by the execution of a single large order of Dangote Oil Refining Company, Nigeria.

Exhibit 34: Polycab’s export revenue contribution declined in 9MFY24



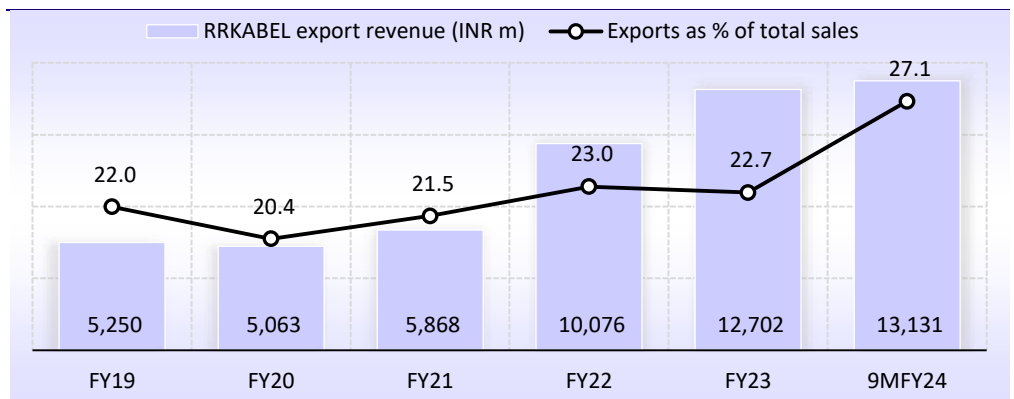
Source: MOFSL, Company

Exhibit 35: KEI’s export revenue contribution increased in 9MFY24



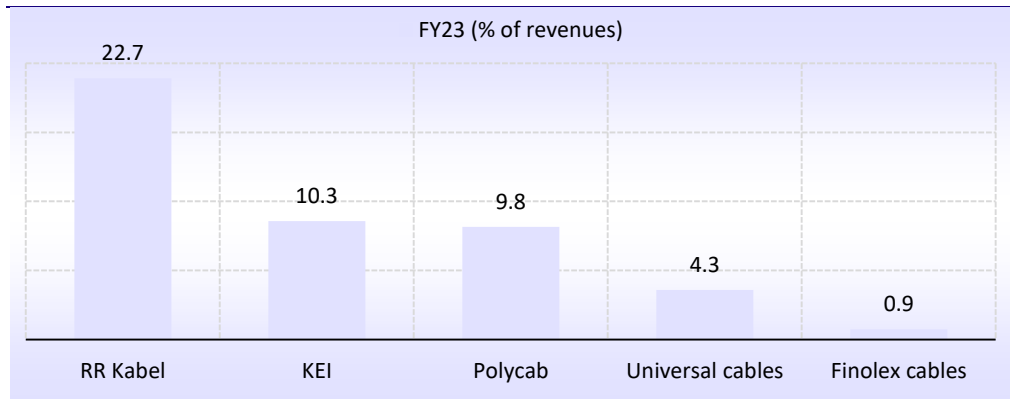
Source: MOFSL, Company

Exhibit 36: RRKABEL’s export revenue contribution increased in 9MFY24



Source: MOFSL, Company

Exhibit 37: RRKABEL’s export contribution is highest (based on FY23 data)



Source: MOFSL, Company

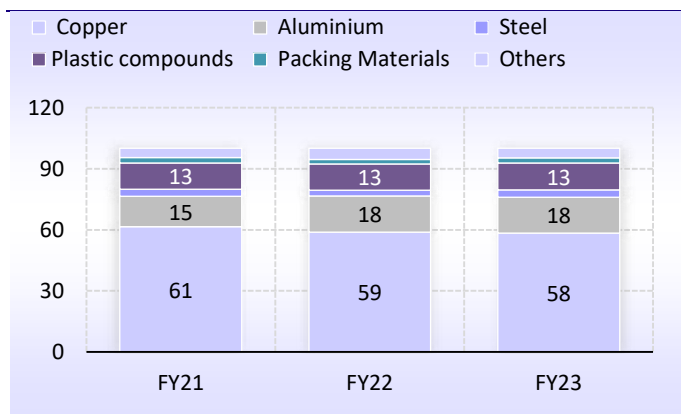
Copper – key material across cables & wires

Copper forms ~55-60% and Aluminum forms ~15-20% of the raw material cost in cables & wires

Copper and aluminum are the key raw materials used in cables & wires and form a major chunk of the raw material costs. The cost fluctuations in these materials define the margins of cables & wires for the company. Most companies typically have a 90-day window from the raw material procurement date wherein they can fix the price of cables & wires based on fluctuations in copper and aluminum rates. This allows manufacturers to factor in any increase in the raw material cost during the sale of products, which is then passed on to consumers and vice versa. Most cables & wires’ manufacturers enter into short contracts with their respective metal suppliers.

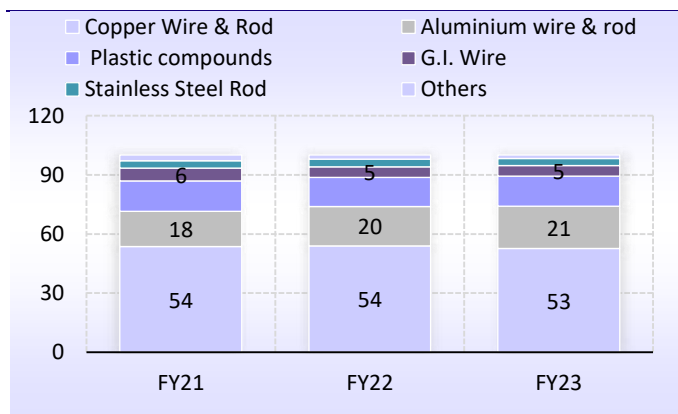
- **Copper:** Typically, copper forms ~55-60% of the raw material cost in cables & wires. Hence, cables & wires are highly sensitive to any fluctuations in the cost of copper.
- **Aluminum:** Aluminum also forms a substantial part in the raw material cost of cables & wires, ranging from 15-20%. Combined, copper and aluminum almost account for ~75% of the total raw material cost of cables & wires.

Exhibit 38: Break-up of RM cost (%) for Polycab



Source: MOFSL, Company

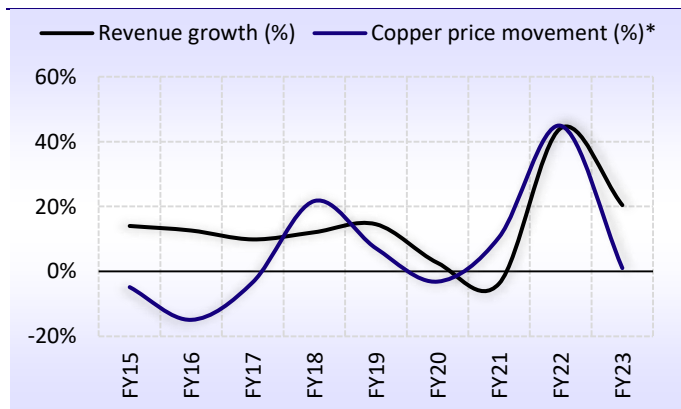
Exhibit 39: Break-up of RM cost (%) for KEI



Source: MOFSL, Company

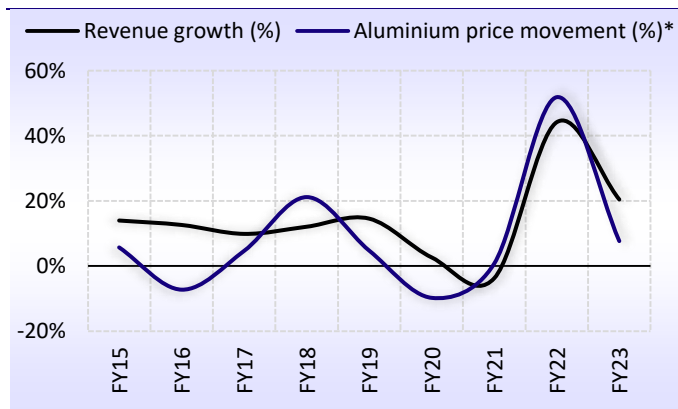
Copper and Aluminum prices remained volatile in FY21/22 and average copper prices (considering a consumption lag of three months and in INR terms) increased 11% and 45% over this period, respectively. Aluminum price too increased 52%/8% in FY22/23.

Exhibit 40: Revenue movement of the industry in line with changes in copper prices...



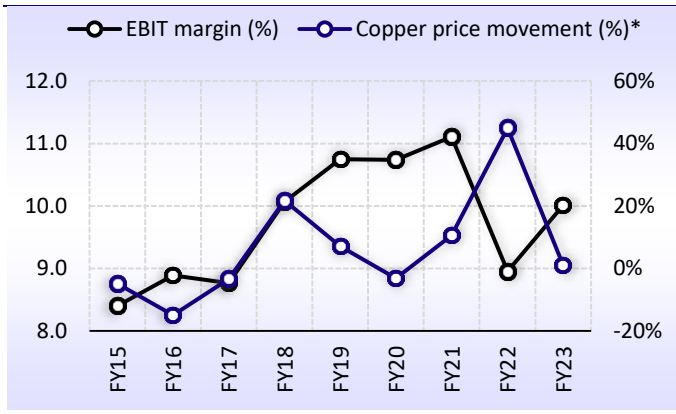
Source: MOFSL, Bloomberg, Companies; * impact considered with 3 months’ lag

Exhibit 41: ... so is the trend with aluminum prices; steep increase in RM prices helped strong growth in FY22



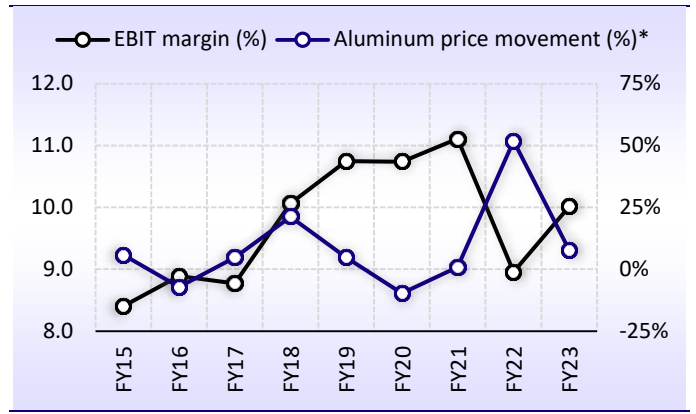
Source: MOFSL, Bloomberg, Companies; * impact considered with 3 months’ lag

Exhibit 42: Decline in copper prices helped margin improvement during FY18-21...



Source: MOFSL, Bloomberg, Companies; * impact considered with 3 months' lag

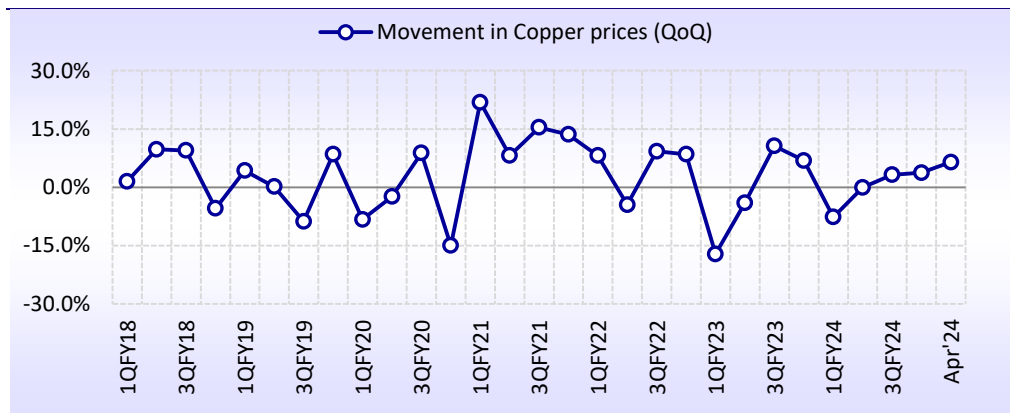
Exhibit 43: ... lower aluminum prices too helped margin improvement during FY18-21



Source: MOFSL, Bloomberg, Companies; * impact considered with 3 months' lag

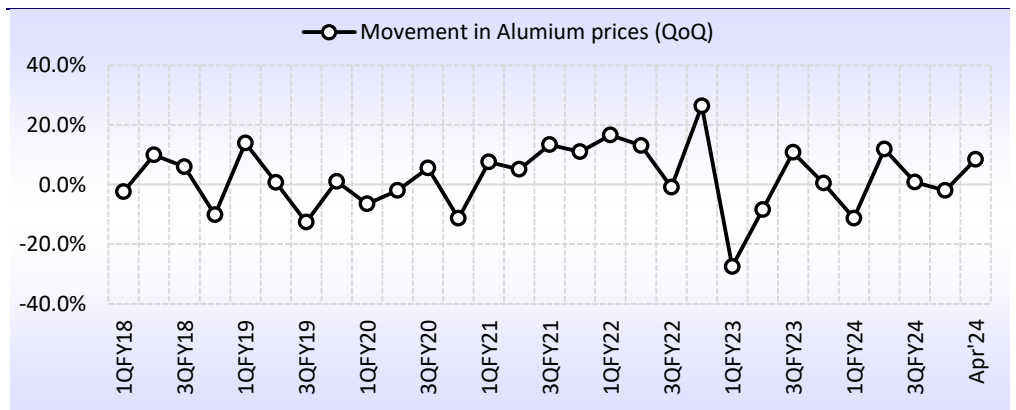
Average copper price (LME price converted in INR) increased ~2% YoY in FY24, while the current spot price is ~6%/10% higher than the Mar'24/4QFY24 average. Conversely, average aluminum price (LME price converted in INR) declined ~8% YoY in FY24, while the current spot price is ~8%/10% above the Mar'24/4QFY24 average. This could lead to short-term volatility in margins; albeit, companies have been able to pass on the impact of fluctuation in RM costs with a lag.

Exhibit 44: Copper prices increased in the past couple of months



Source: Source: MOFSL, Bloomberg; Note: Apr'24 spot price is compared with Mar'24 average price

Exhibit 45: Aluminum prices also rose recently



Source: Source: MOFSL, Bloomberg; Note: Apr'24 spot price is compared with Mar'24 average price

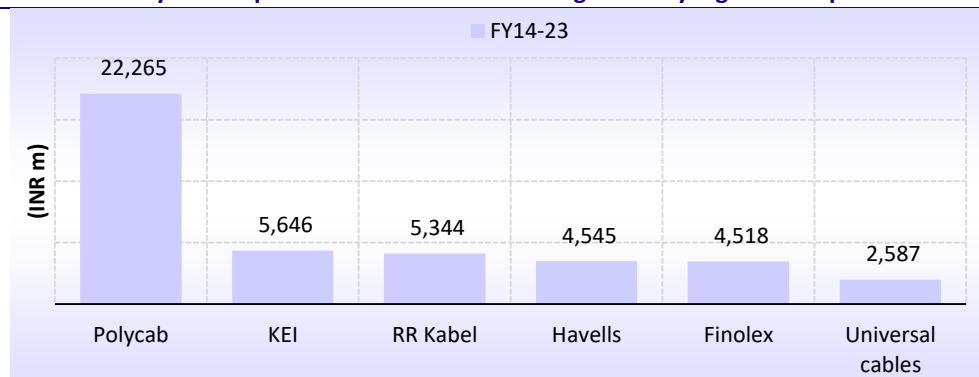
Overview of Polycab, KEI and RRKABEL



Polycab India

Polycab is the largest cables & wires company in India, with a market share of ~18% in FY23. It caters to a host of cables & wires in the 0.2KV to 220KV range, and has 12,000+ SKUs in this segment. Its offerings include EHV cables, optical fiber cables, HV cables, LAN cables, power & control cables, instrumentation cables, housing wires, and industrial flexible wires, which are used across chemicals, consumer durables, defense, energy, infrastructure, manufacturing, metals, oil & gas, real estate, and telecom sectors. In 2014, the company entered the FMEG segment via fans, appliances, led lighting & luminaries, switches & switchgears, and pumps. The company offers 7,000+ SKUs in the FMEG segment. It has 25 manufacturing facilities spread across Halol, Daman, Waghodia, Roorkee, Nashik, and Chennai. The company has 4,300+ authorized distributors and more than 0.2m retail touchpoints. Polycab has been on an expansion spree and cumulatively spent INR22.3b (for cables & wires) over FY14-23. This was ~3.9x higher than the nearest competitor KEI.

Exhibit 46: Polycab’s capex over FY14-23 has been significantly higher than peers



Source: MOFSL, Companies; * data for cables & wires segment only



KEI Industries

KEI is the second-largest player in the cables & wires segment, with a market share of ~9% as of FY23. It manufactures high and low tension cables (HT, LT, EHV), control & instrumentation cables, house wires (HW), power cables, stainless steel wires (SSW) and electrical cables. KEI is also engaged in the EPC business. It is also one of the few players globally to manufacture the 400kV EHV cables. It has five manufacturing facilities located across Bhiwadi, Rakholi, Chopanki, Pathredi, and Chinchpada. KEI exports to over 60 countries, with exports contributing 10% to its revenue in FY23. KEI has set up overseas marketing offices in five countries to drive customer outreach efforts and build on global relationships. Australia, Kuwait and Abu Dhabi (in the Middle East), Nigeria and Ghana (in Africa) are the major export destinations for the company. KEI expects to increase its export contribution and gain a strong foothold in the US with export approval for its products.



RR Kabel

RR Kabel started its cables & wires (C&W) business in FY99. It had set up its first plant in Silvassa. The company started export of its products in FY01 to UAE and has become one of the leading exporters of cables & wires. It exports its products to more than 60 countries spread across North America, Asia Pacific, Europe and Middle East. The company later diversified and expanded its product portfolio to FMEG segment, both organically and inorganically. The company has five manufacturing facilities spread across Waghodia (Gujarat), Silvassa (Dadra and Nagar Haveli and Daman and Diu), Roorkee (Uttarakhand), Bengaluru (Karnataka) and Gagret (Himachal Pradesh). It has a Pan-India distribution network which consists of 3,598 distributors and 3,781 dealers as of Sep '23. Its products are available at ~0.124m retail touchpoints and it has connects with ~0.33m electricians.

Exhibit 47: Growth and margin profiles of the cables & wires segment of key players

| (INR b) | FY14 | FY15 | FY16 | FY17 | FY18 | FY19 | FY20 | FY21 | FY22 | FY23 | CAGR FY14-23 (%) | CAGR FY20-23 (%) |
|---------------------------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------------------|------------------------|
| Polycab | 38 | 44 | 53 | 56 | 62 | 69 | 74 | 72 | 106 | 123 | 13.9 | 18.7 |
| EBIT | 2 | 3 | 4 | 4 | 6 | 8 | 9 | 9 | 11 | 17 | 24.3 | 21.6 |
| EBIT m (%) | 6.2 | 7.6 | 6.7 | 7.1 | 10.3 | 12.1 | 12.6 | 12.8 | 9.9 | 13.6 | | |
| KEI | 16 | 18 | 21 | 23 | 27 | 34 | 40 | 36 | 51 | 63 | 16.5 | 16.2 |
| EBIT | 2 | 2 | 2 | 3 | 3 | 4 | 4 | 4 | 5 | 6 | 14.0 | 8.9 |
| EBIT m (%) | 11.1 | 10.7 | 10.8 | 11.7 | 10.8 | 11.0 | 11.1 | 11.6 | 9.5 | 9.1 | | |
| Havells^ | 19 | 22 | 22 | 24 | 26 | 32 | 30 | 32 | 46 | 55 | 12.4 | 22.7 |
| EBIT | 2 | 3 | 3 | 3 | 4 | 5 | 3 | 4 | 5 | 5 | 10.7 | 16.5 |
| EBIT m (%) | 11.0 | 12.1 | 14.0 | 13.7 | 16.8 | 16.1 | 11.1 | 12.7 | 11.6 | 9.5 | | |
| RR Kabel# | 11 | 13 | 14 | 17 | 20 | 23 | 23 | 25 | 41 | 50 | 17.7 | 29.2 |
| EBIT | 1 | 1 | 1 | 2 | 2 | 2 | 2 | 2 | 3 | 3 | 17.6 | 25.2 |
| EBIT m (%) | 6.8 | 7.9 | 9.8 | 9.5 | 10.7 | 8.8 | 7.3 | 9.0 | 7.8 | 6.7 | | |
| Gupta Power & Infra* | 18 | 22 | 28 | 31 | 33 | 35 | 32 | 30 | 37 | 44 | 10.5 | 11.0 |
| EBIT | 1 | 1 | 1 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 8.1 | 7.8 |
| EBIT m (%) | 6.1 | 5.4 | 5.0 | 4.8 | 4.9 | 5.1 | 5.5 | 6.5 | 5.9 | 5.0 | | |
| Finolex | 22 | 23 | 23 | 25 | 28 | 30 | 28 | 26 | 36 | 43 | 7.5 | 15.5 |
| EBIT | 3 | 3 | 4 | 4 | 4 | 4 | 4 | 4 | 4 | 5 | 5.7 | 5.3 |
| EBIT m (%) | 12.9 | 13.0 | 16.2 | 14.3 | 15.2 | 15.0 | 14.6 | 15.3 | 11.0 | 11.0 | | |
| Universal cables | 6 | 7 | 7 | 9 | 12 | 14 | 16 | 13 | 18 | 22 | 15.2 | 12.0 |
| EBIT | -0 | 0 | 1 | 1 | 1 | 2 | 2 | 1 | 1 | 2 | n/m | 4.5 |
| EBIT m (%) | -1.8 | 2.3 | 9.1 | 8.3 | 8.2 | 11.7 | 10.1 | 6.1 | 6.5 | 8.2 | | |
| Total revenue | 131 | 150 | 169 | 185 | 208 | 237 | 242 | 233 | 336 | 400 | 13.2 | 18.1 |

Source: MOFSL, Companies, *FY23 estimated revenue and EBIT, ^segmental reporting changed from FY20; #only cables & wires revenues/EBIT from FY19

Exhibit 48: Product offerings of various players in the market

| Players | Power Cable (LT/HT/EHV) | Control and Instrumentation Cable | Communication Cable | Housing Wires | Flexible and Specialty cables |
|----------|----------------------------|---|------------------------|---------------|----------------------------------|
| KEI | ✓✓ | ✓ | ✓ | ✓ | ✓ |
| Havells | ✓ | ✓ | ✓ | ✓ | ✓✓ |
| Finolex | ✓ | ✓ | ✓ | ✓✓ | ✓ |
| Polycab | ✓✓ | ✓ | ✓ | ✓ | ✓ |
| RR Kabel | ✓* | ✓ | ✓ | ✓✓ | ✓ |

Source: MOFSL, RR Kabel DRHP; * RR Kabel does not manufacture EHV cables

Exhibit 49: Manufacturing capabilities and plants of Polycab, KEI and RRKABEL

| Players | Manufacturing facilities | Category | Units | Capacity (per annum FY23) |
|---------|---|----------------------------|-------|------------------------------|
| Polycab | 25 plants across Gujarat (cables & wires), Maharashtra (Switchgears), Uttarakhand (Fans), Daman (cables & wires) | Cables & Wires | m Kms | 5.4 |
| | | Switchgears | m | 12 |
| | | Switches | m | 12 |
| | | Pipes & Conduits | Mt | 29,800 |
| | | Fans | m | 10.2 |
| KEI | Bhiwadi, Chopanki, Pathredi, Rakholi, Chinchpada | Cables | m Kms | 0.13 |
| | | House Wires | m Kms | 1.3 |
| | | Communication Cables | Kms | 28,800 |
| | | Stainless Steel Wire | MT | 9000 |
| RRKABEL | Waghodia and Silvass (cables & wires), Waghodia (Switches), Roorkee (Fans and Lights), Gagret (Fans), Bangalore (Light) | Cables & Wires | m Kms | 4.2 |
| | | Various types of compounds | Mt | 53,600 |
| | | Switch | m | 9.9 |
| | | Fans | m | 3.2 |
| | | Lights | m | 1.9 |

Source: MOFSL, Companies

Exhibit 50: Key partnerships and M&A by players in the electrical segment

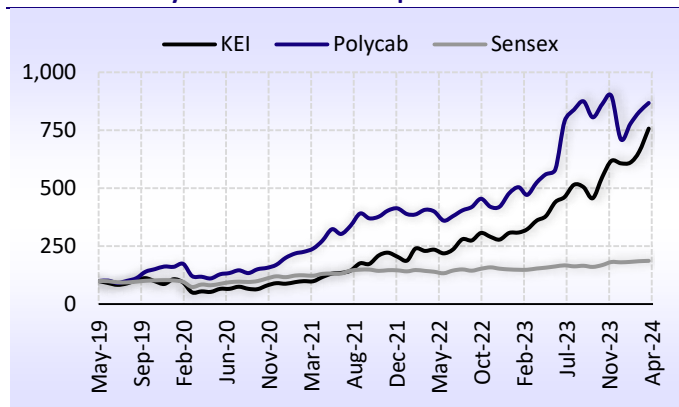
| Players | Key acquisitions | Expansion | CY |
|-------------------|--|---|------|
| RR Kabel | Home-electrical division of Luminous from Schneider Electric | Lights & Fans | 2022 |
| | Acquired Arraystorm from Kores (India) | LED Lights | 2020 |
| | Ram Ratna Electricals Limited | FMEG | 2019 |
| Finolex cables | Alpha Rubber Co. | Cables & Wires | 1972 |
| Polycab | Silvan Innovation Labs | IoT bases home automation | 2005 |
| | JV with Techno | | |
| | JV with Trafigura | Copper Wire Rod | 2015 |
| Havells | Promptec Renewable Energy Solutions | LED & Solar lighting | 2017 |
| | My Lloyd | Air Conditioners | 2021 |
| Bajaj Electricals | Nirlep Appliances Pvt Ltd | Home Appliances | 2021 |
| | Starlight Lighting | CFLs & LEDs | 2021 |
| | Trilux Lenze | Luminaires | 2005 |
| Crompton | Butterfly Gandhimathi Appliances | Kitchen Appliances | 2022 |
| V-Guard | Simon Electric Pvt Ltd | Switches & Switchgears, Fan regulators, home automation | 2021 |

Source: MOFSL, RR Kabel DRHP

Outlook & Valuation

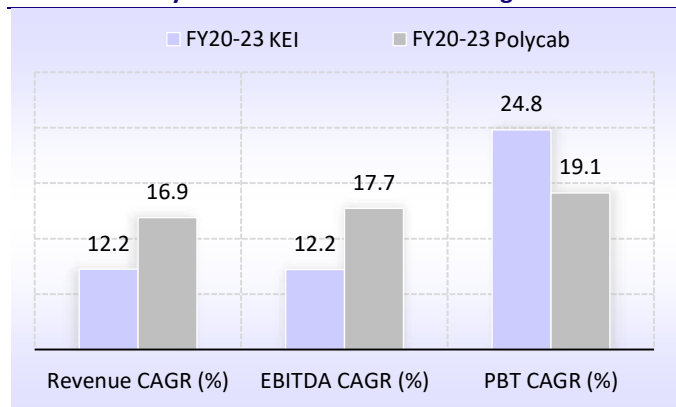
Polycab and KEI have both significantly outperformed the broader indices, and BSE Sensex, over the last few years, which we believe has been driven by strong earnings delivery over the years, an improvement in the balance sheet as both companies turned net cash positive, an improvement in return ratios compared to historical levels, a continued government focus on infrastructure development, and strong traction in the real estate segment. Polycab has a short trading history and got listed on stock exchanges on 16th Apr'19.

Exhibit 51: Polycab and KEI's stock performances vs. Sensex



Source: MOFSL, Bloomberg; Note: Rebased

Exhibit 52: Polycab delivered better EBITDA growth



Source: MOFSL, Companies

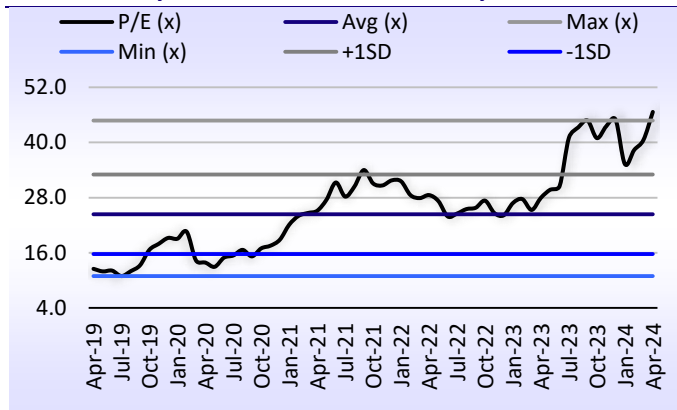
Polycab, KEI, and RRKABEL command market share of 18%, 9%, and 8% respectively, in the cables & wires industry

Polycab, KEI and RRKABEL are the leading players in the cables & wires segment, with an industry market share of 18%, 9% and 8% respectively. These companies command 31%, 15% and 14% market share among our analyzed companies (forming 58% of the industry and 83% of the organized market). Polycab has gained market share by 150bp over FY14-23 among the companies that we have analyzed. KEI gained 330bp market share over FY14-23 within our analyzed companies, which was primarily due to the start of cables production above 220KV+. KEI is amongst the few companies in India to manufacture cables above 220KV. RRKABEL also gained market share by ~500bp over FY14-23 within our analyzed companies.

Polycab delivered ~20% EBITDA CAGR over FY15-23, with a margin expansion of 370bp over the same period. This was aided by an improvement in the margin of cables & wires segment. Going forward, we expect EBITDA and EPS to report a CAGR of ~14% and 15%, respectively, during FY24-26. We expect Polycab to generate an FCF of INR24.7b over FY24-26, despite a capex of INR21.5b during this period.

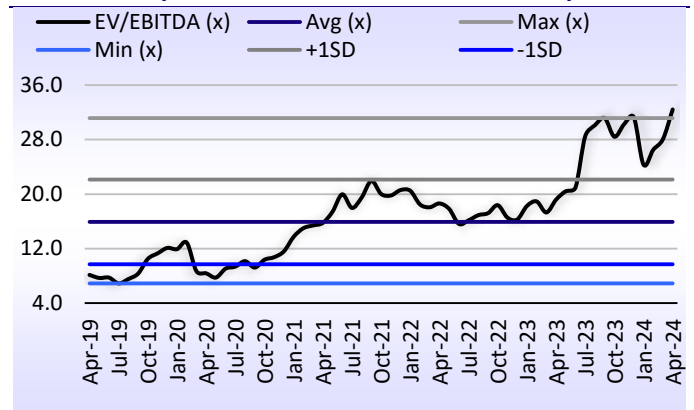
We like Polycab due to its leadership position in the cables & wires segment, strong earnings trajectory, and return ratios. We estimate Polycab's RoE/RoCE to be at 20%/21% in FY26 vs. ~19% in FY23. RoIC would be at 27% in FY26 vs. 26% in FY23. We expect the company to maintain its premium valuations. **We value the stock at 50x FY26E EPS to arrive at our TP of INR7,500. We initiate coverage on the stock with a BUY rating.**

Exhibit 53: 1-year forward P/E chart of Polycab



Source: MOFSL, Company, Bloomberg

Exhibit 54: 1-year forward EV/EBITDA chart of Polycab

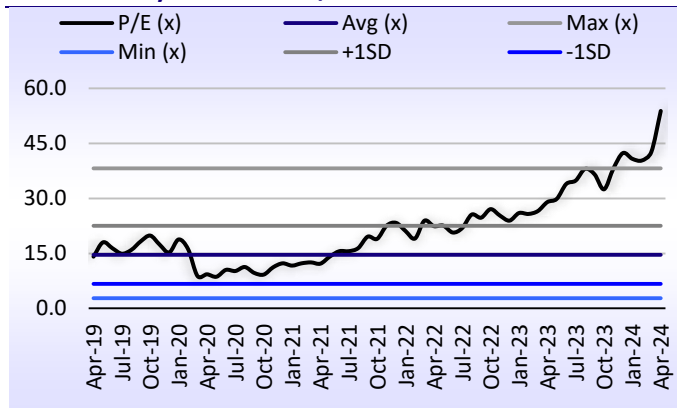


Source: MOFSL, Company, Bloomberg

KEI's reported ~18%/40% CAGR in EBITDA/Adj. PAT over FY15-23, despite margin pressure in the cables & wires segment during FY22-23 led by RM cost inflation. Going forward, we expect its EBITDA and EPS to exhibit a CAGR of ~25% (each) over FY24-26. Its FCF generation over FY24-26E would be INR1.9b, given the higher capex of INR14.5b during this period.

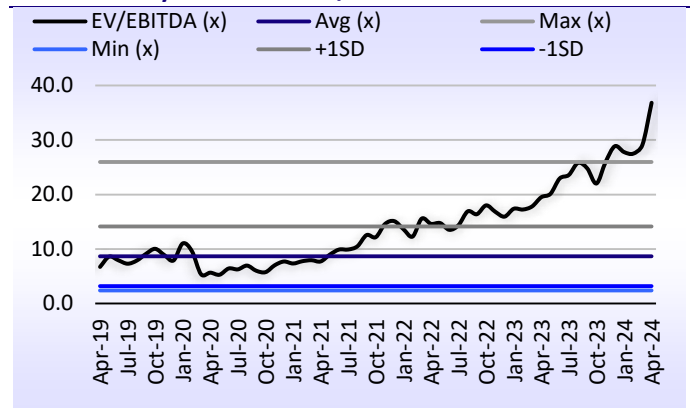
We estimate KEI's RoE/RoCE to be ~19%/20% in FY26 vs. ~18% in FY23. Investment in a new Greenfield unit would restrict its RoE improvement, in our view. **We value the stock at 50x FY26E EPS to arrive at our TP of INR5,000. We initiate coverage on the stock with a BUY rating.**

Exhibit 55: 1-year forward P/E chart of KEI



Source: MOFSL, Company, Bloomberg

Exhibit 56: 1-year forward EV/EBITDA chart of KEI



Source: MOFSL, Company, Bloomberg

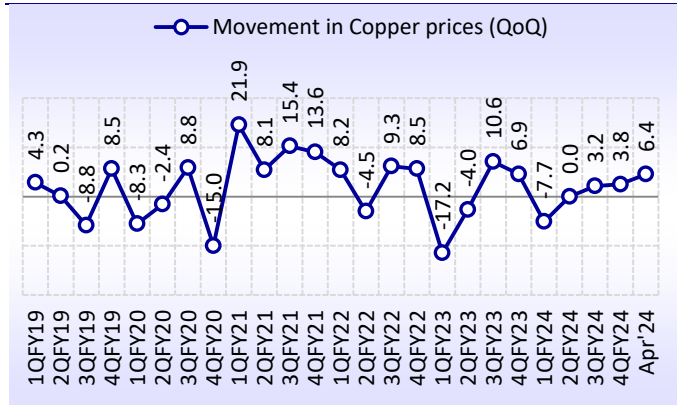
RRKABEL reported ~16%/22% CAGR in EBITDA/Adj. PAT over FY19-23, despite margin pressure in the cables & wires segment during FY22/FY23 due to high RM cost. Going forward, we expect its EBITDA and EPS to exhibit a CAGR of 39% and 43%, respectively, over FY24-26. Its FCF generation over FY24-26E would be INR3.5b, despite a capex of INR7.0b during this period.

We estimate RRKABEL's RoE/RoCE to be 25%/24% in FY26 vs. 14%/12% in FY23. Valuation multiples of cables and wires companies have rerated significantly in the last two years, driven by strong earnings growth, which we expect will continue on the back of government capex and strong traction in the real estate segment. We expect the company to trade at premium valuations. **We value it at 40x FY26E EPS to arrive at a TP of INR2,200. We initiate coverage on the company with a BUY rating.**

Key risks and concerns

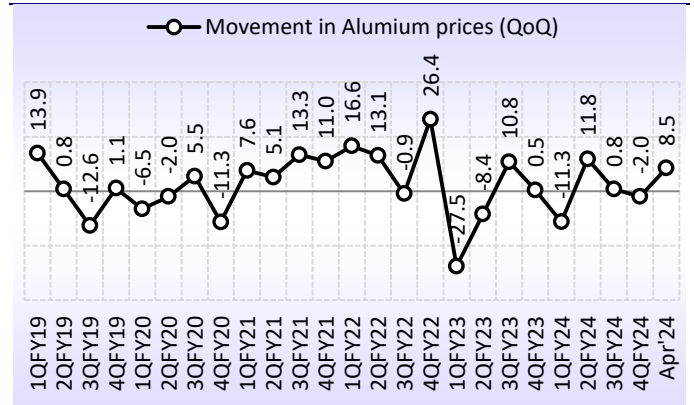
- Fluctuation in commodity prices:** A spike in commodity prices could lead to an increase in the cost of finished goods and can hurt the industry’s ability to pass on the cost hikes to consumers. Prices of key commodities, i.e. copper and aluminum, surged in FY21-FY22 and thereafter remained volatile in FY23, which in turn adversely impacted the gross margin of the company.

Exhibit 57: Copper price has increase (%) in couple months



Source: MOFSL, Bloomberg

Exhibit 58: Aluminum price also increased (%) recently



Source: MOFSL, Bloomberg

- Slower-than-expected pick-up in housing and infrastructure activities:** Demand for new housing has improved during the last two years after remaining subdued over the past several years. Further, the government has put a lot of focus on infrastructure development. This has helped growth in the cables & wires and switchgear segments. A slowdown in housing and infrastructure activities may hurt the performance of the company.
- Increase in competition:** Demand for FMEG products has been subdued for the last few quarters due to the inflationary impact, which has hit rural demand. This may create pressure on the industry’s pricing power, and in turn can hurt profitability.
- Non-availability of regular and quality power:** Availability of quality electricity is the key to demand for electrical products. Any substantial shortfall in the supply of electricity may hamper growth prospects for the industry.

COMPANIES COVERED IN THE REPORT



Polycab India

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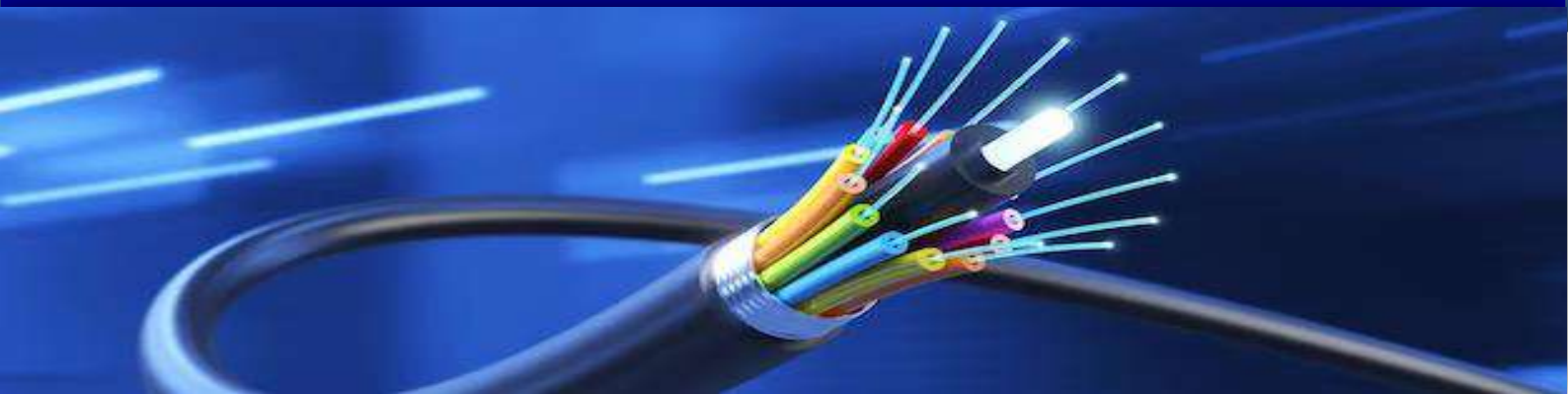
KEI Industries

| | |
|--|---------|
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| | |
|--|---------|
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Polycab India

BSE Sensex
74,245

S&P CNX
22,519

CMP: INR5,300

TP: INR7,500 (+42%)

Buy



| | |
|-----------------------|-------------|
| Bloomberg | POLYCAB IN |
| Equity Shares (m) | 150 |
| M.Cap.(INRb)/(USD\$) | 796.6 / 9.5 |
| 52-Week Range (INR) | 5733 / 3016 |
| 1, 6, 12 Rel. Per (%) | 8/-13/47 |
| 12M Avg Val (INR M) | 3476 |
| Free float (%) | 34.2 |

Financial Snapshot (INR b)

| Y/E Mar | FY24E | FY25E | FY26E |
|--------------|-------|-------|-------|
| Sales | 174.1 | 199.2 | 227.9 |
| EBITDA | 23.7 | 26.2 | 31.1 |
| PAT | 17.0 | 18.7 | 22.4 |
| EBITDA (%) | 13.6 | 13.1 | 13.7 |
| EPS (INR) | 113.7 | 124.9 | 149.7 |
| EPS Gr. (%) | 34.0 | 9.9 | 19.9 |
| BV/Sh. (INR) | 532.7 | 629.9 | 747.2 |

Ratios

| | | | |
|------------|-------|-------|-------|
| Net D/E | (0.1) | (0.1) | (0.2) |
| RoE (%) | 21.3 | 19.8 | 20.0 |
| RoCE (%) | 22.1 | 20.6 | 20.8 |
| Payout (%) | 20.9 | 22.2 | 21.6 |

Valuations

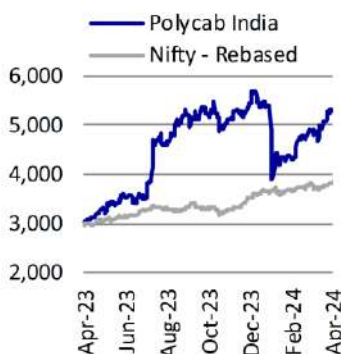
| | | | |
|---------------|------|------|------|
| P/E (x) | 46.6 | 42.4 | 35.4 |
| P/BV (x) | 10.0 | 8.4 | 7.1 |
| EV/EBITDA (x) | 33.1 | 29.8 | 24.8 |
| Div Yield (%) | 0.4 | 0.5 | 0.6 |
| FCF Yield (%) | 0.4 | 1.1 | 1.6 |

Shareholding pattern (%)

| As On | Dec-23 | Sep-23 | Dec-22 |
|----------|--------|--------|--------|
| Promoter | 65.8 | 65.9 | 66.6 |
| Public | 7.6 | 8.1 | 10.1 |
| Others | 13.4 | 12.4 | 8.1 |

FII Includes depository receipts

Stock Performance (1-year)



Consolidating its strength in cables & wires

Strong growth and FCF generation to help sustain premium multiples

- Market leader in the cables & wires segment:** Polycab is a market leader in the cables & wires sector, with a ~26% share in the organized market and an ~18% share in the overall market. It focuses on in-house manufacturing with a high degree of backward integration and has 25 manufacturing facilities. We believe that the company's market share has increased 150bp over FY14-23 among the companies we have analyzed (~58% of the industry size).
- Strengthening presence in the FMEG segment:** Polycab commenced its FMEG business in FY14 and recorded a revenue CAGR of 39% over FY15-22. Revenue growth has been muted in FY23/FY24E due to subdued demand and the restructuring of its distribution channel. We estimate a revenue CAGR of 10% over FY24-26 and expect EBIT margin to improve to 2% by FY26 vs. losses in FY23/FY24E. Polycab's entry into the FMEG business helped to improve its total addressable market (TAM) to INR1.4t, the second highest among listed companies (including consumer durable space).
- Focusing on increasing exports, capacity expansion, in-house manufacturing, and building distribution channels:** Polycab clocked a 31% CAGR in export revenue over FY18-23, and export contribution to total revenue stood at ~10% in FY23. Export contribution declined to 8% in 9MFY24, mainly due to its transition to the distribution model in the US and the impact of the Israel-Hamas conflict on EU trade routes. However, the management is confident about a recovery in its international business going forward. Its capex has been much higher than peers' (cables & wires capex over FY14-23 was 3.9x/4.9x higher than that of KEI/HAVL) as Polycab is focusing on expanding capacity and increasing in-house manufacturing. Ad spending has increased over the years due to its foray into the FMEG business, and it spent 0.9% of its revenues (2.7% of B2C sales) in FY23. It has increased its dealer count by a CAGR of 5% over FY18-23 and it has now 0.2m+ retail touchpoints. Dealers and distributors contributed about 83% to its FY23 revenue.
- Earnings to improve; initiate with BUY:** Polycab delivered a 34% profit CAGR over FY14-23 and we expect an EPS CAGR of 15% over FY24-26. We initiate coverage on Polycab with a BUY rating and a TP of INR7,500 (based on 50x FY26E EPS), considering strong earnings delivery and higher return ratios - RoCE/RoIC of ~21%/~27% in FY26E.
- Key downside risks:** a) rise in commodity prices, b) higher competitive intensity in the sector, and c) demand impact due to economic slowdown.

Market leader in cables & wires with a focus on capacity additions

- Polycab is a market leader in the cables & wires industry, with ~18% share in FY23. Its market share among organized players/our analyzed companies forming 58% of the industry is estimated to be ~26%/~31%. It has gained market share by 150bp over FY14-23 among our analyzed companies.
- Polycab has been consistent in capacity additions and its cables & wires segment's capex over FY14-23 was 3.9x/4.9x higher than that of KEI/HAVL. Polycab's cables & wires capacity of 5.4m km is 2.5x higher than that of KEI (1.54m km). We expect Polycab to incur a capex of INR7.2b p.a. during FY24-26, which should help it maintain growth momentum.

- Its Greenfield unit in Gujarat (production expected in FY26E) will enable it to enter into extra high-voltage cable manufacturing (up to 550kv).
- Polycab has the second highest TAM of INR1.4t among listed companies in the consumer durable space. Its entry into the FMEG segment with a diversified product portfolio led to an increase in its TAM.

Focus on improving its FMEG business; margins expected to improve

- Polycab started its FMEG business in FY14 and now has 10+ product ranges in the segment. It has been able to make a mark in this highly competitive business. It recorded a revenue CAGR of 39% over FY14-22 in the segment and touched the revenue mark of INR12.4b (~9% of total revenues).
- Revenue of the segment was impacted in FY23/FY24E by subdued consumer sentiment and the company's efforts to reorganize its distribution channel. We expect revenue CAGR of 10% YoY in this segment over FY24-26 and expect EBIT margin to reach to 2% in FY26 vs. losses in FY23/FY24E.

In-house manufacturing; dealer network and improved visibility to benefit

- Polycab focuses on in-house manufacturing and ~94% of its revenue in FY23 came via in-house manufactured products. It has a network of over 4,300 dealers (4,600+ in FY22), which increased at a CAGR of ~5% over FY18-23. Its retail touchpoints stand at 0.2m+ vs. 0.1m in FY18.
- Its advertising and promotion spending increased by 51% YoY to INR1.2b in FY23 mainly due to the low base effect as brand spending was muted in FY21/FY22. However, AD spending increased at a CAGR of 14% over FY17-23 (0.9%/1.3% of revenues in FY23/9MFY24). We estimate ad spending to be at 1.1-1.3% of revenues over FY24-26. Ad spending as % of B2C sales stood at 2.7%/4.2% in FY23/9MFY24 and the company expects to keep it in the range of ~3%-5% of B2C sales in the future.
- It has tied up with advertising firm Ogilvy and brand consultancy firm Interbrand to establish its brand among consumers. It became the official sponsor of three major cricket events, ICC World Test Championship Final, ICC Women's T20 World Cup, and the ICC Men's ODI Cricket World, in CY23.

Expect EBITDA and PAT CAGR of 14% (each) over FY24-26

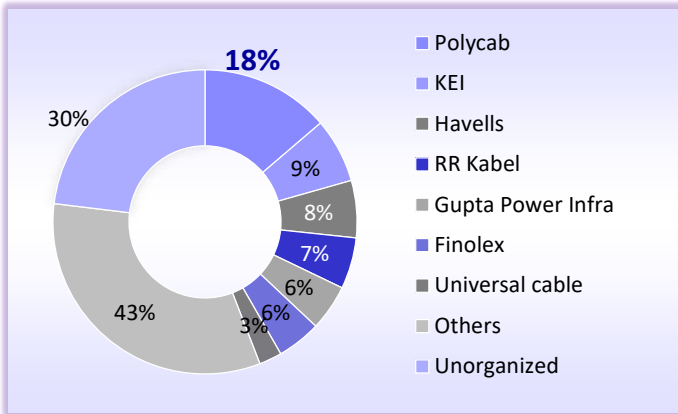
- We expect Polycab to report a ~14% revenue CAGR over FY24-26, led by 15%/10% growth in cables & wires/FMEG segments. Revenue of cables & wires is estimated to grow 26% YoY in FY24 as its peers are facing capacity constraints in cables (e.g., 91% capacity utilization for KEI in FY23).
- We estimate a CAGR of 14.5%/15% in EBITDA/profit over FY24-26. We estimate EBITDA margin to be at 13.6%/13.1%/13.7% in FY24/FY25/FY26 vs. 13.1% in FY23 (average 12% over FY18-23).

Earnings and return ratios to improve; initiate with BUY

- The company has been generating free cash flows for most of the years and its cumulative FCF over FY15-23 was INR32b (cumulative capex of INR27.7b in this period). We expect cumulative FCF of INR24.7b during FY24-26E. RoE and RoCE are expected to be at 20% and 21%, respectively, in FY26 vs. an average of ~15% (each) over FY15-23.
- We initiate coverage on Polycab with a BUY rating and a TP of INR7,500 (based on 50x FY26E EPS), considering a strong earnings CAGR, better return ratios and strong balance sheet (net cash of INR18.9b in FY23, which will increase to INR36b in FY26E).

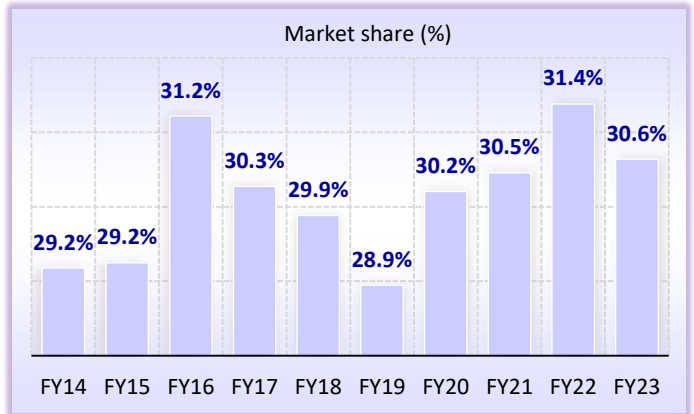
STORY IN CHARTS

Polycab is the market leader in cables & wires (FY23)



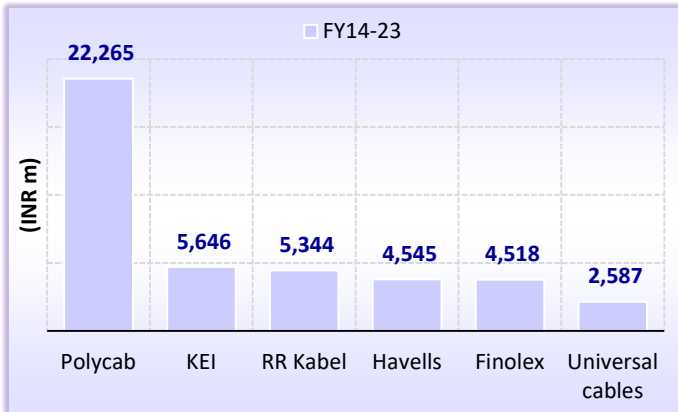
Source: MOFSL, Company, Industry

Polycab's market share trend among analyzed companies



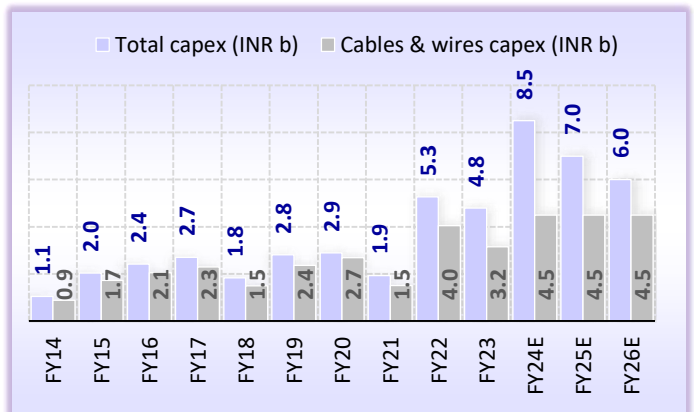
Source: MOFSL, Companies

Cumulative capex of cables & wires segment over FY14-23



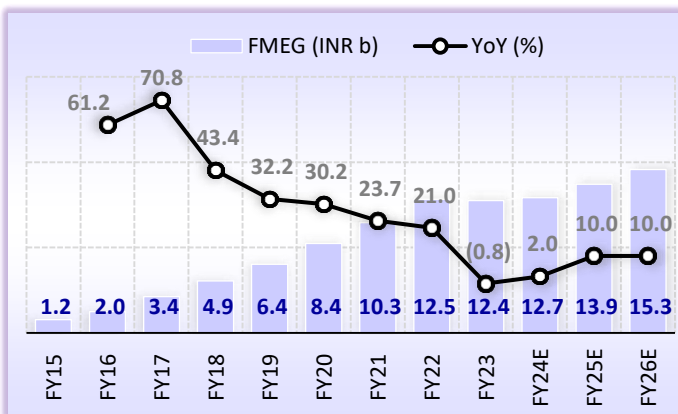
Source: MOFSL, Companies

Higher capex to continue during FY24-26E



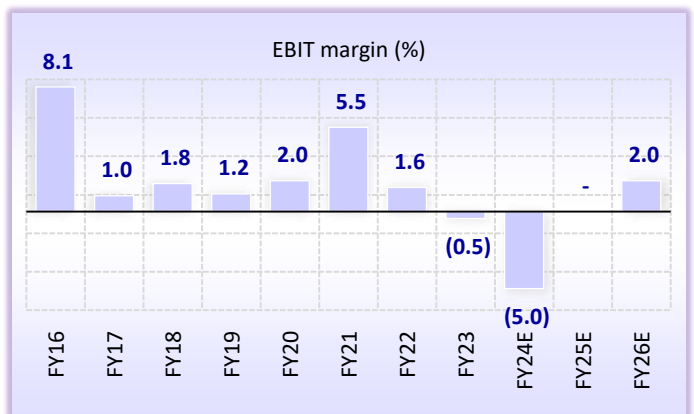
Source: MOFSL, Company

Estimate 10% revenue CAGR in FMEG segment over FY24-26E



Source: MOFSL, Company

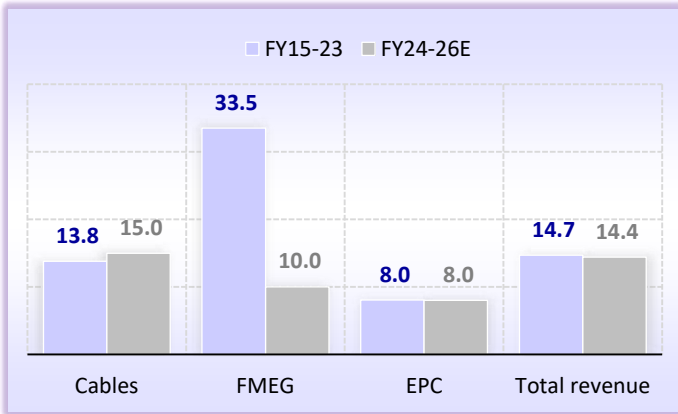
FMEG segment to break-even in FY25E



Source: MOFSL, Company

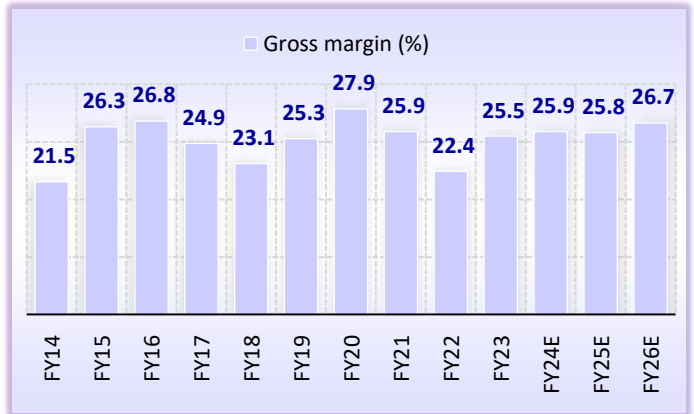
STORY IN CHARTS

Expect ~14% revenue CAGR over FY24-26E



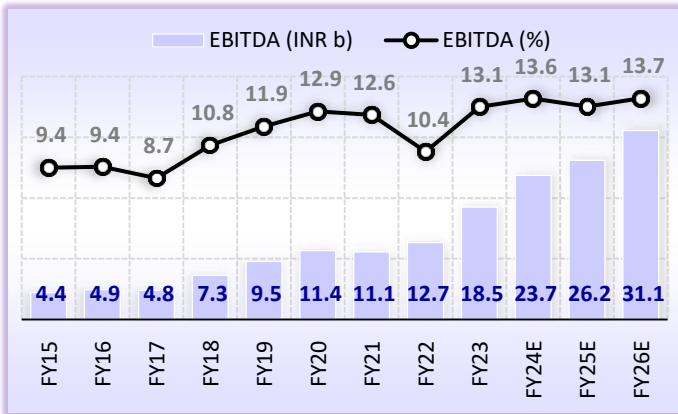
Source: MOFSL, Company

Gross margins to improve over FY24-26E



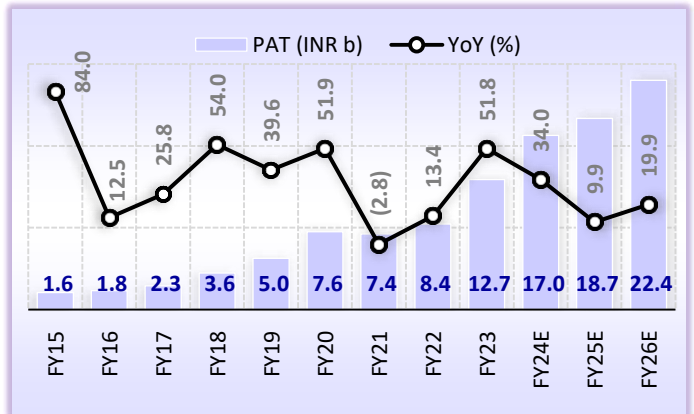
Source: MOFSL, Company

Estimate EBITDA CAGR of 14.5% over FY24-26E



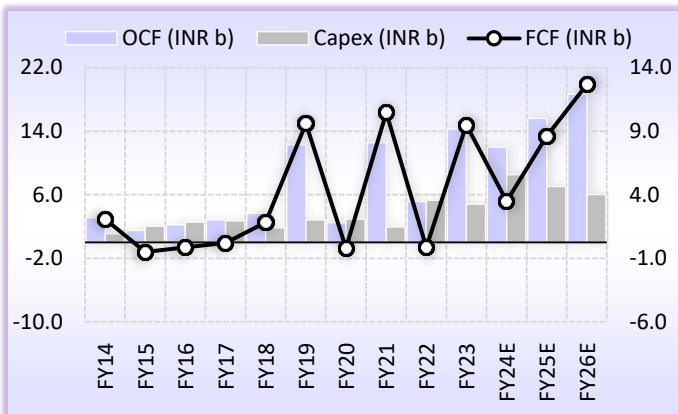
Source: MOFSL, Company

Estimate PAT CAGR of 15% over FY24-26E



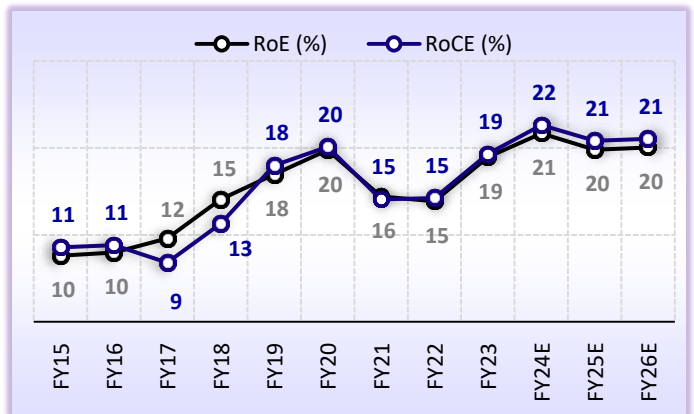
Source: MOFSL, Company

Generating free cash despite higher capex over FY24-26E



Source: MOFSL, Company

RoE/RoCE should remain higher than historical levels



Source: MOFSL, Company

Leadership in cables & wires industry

Greenfield plant in Gujarat will help to enter into EHV segment

Polycab has over four decades of experience in the cables & wires industry and is the largest manufacturer in India. Polycab manufactures a diverse range of cables & wires such as power cables, control cables, instrumentation cables, solar cables, building wires, flexible cables, multi-core cables, communication cables, submersible flat and round cables, rubber cables, overhead conductors, railway signalling cables, specialty cables and green wires.

Leveraging its brand name, Polycab entered FMEG, the other electrical product market in FY14. The company manufactures and sells products such as fans, LED lighting and luminaires, switches and switchgears, solar products and conduits and accessories. Polycab has 25 manufacturing plants, including two JVs: 1) 50:50 JV with Techno, a Gujarat-based manufacturer of LED products; and 2) In 2016, it formed a 50:50 JV with Trafigura, a commodity trading company, to set up a manufacturing facility in Halol, Gujarat, to produce copper wire rods (Ryker Plant).

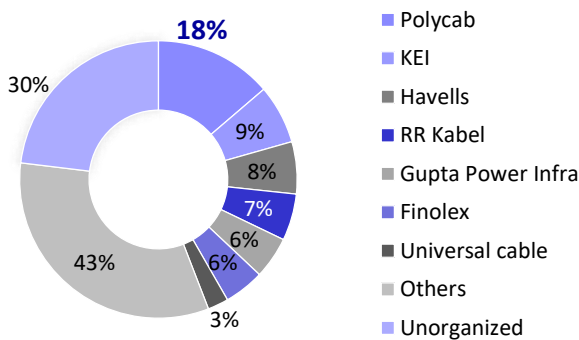
Exhibit 1: Product range across different segments

| Cables | Wires | FMEG |
|-------------------------------|---------------------------|-----------------------------|
| EHV cables | House wires | Fans |
| Fire survival cables | Green wires | Water heaters |
| Optical fibre cables (OFC) | Industrial flexible wires | Switches |
| Jelly filled telephone cables | Speaker wires | Switchgears |
| High voltage cables | | LED Lighting and luminaires |
| LAN cables | | Pumps |
| Power and control cables | | Solar products |
| Instrumentation cables | | |
| Co-axial cables | | |
| Solar cables | | |
| Railway signalling cables | | |

Source: MOFSL, Company

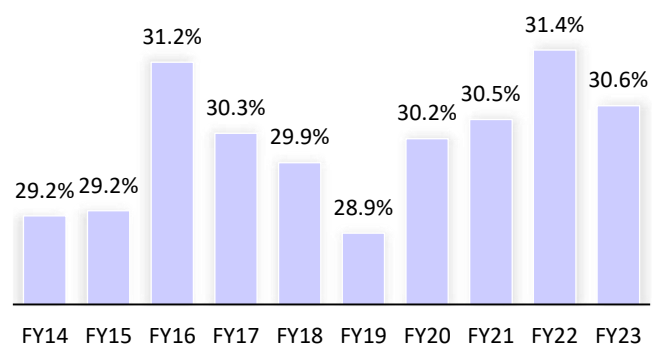
The company has a leadership position in India with a market share of ~26% in the organized cables & wires industry and ~18% in the overall market. Its market share among our analyzed companies stands at ~31% and our analysis indicates that it has gained market share by 150bp over FY14-23 among these players.

Exhibit 2: Polycab is the market leader in cables & wires with 18% market share (FY23)



Source: MOFSL, Company, Industry

Exhibit 3: Polycab's market share trend among analyzed companies

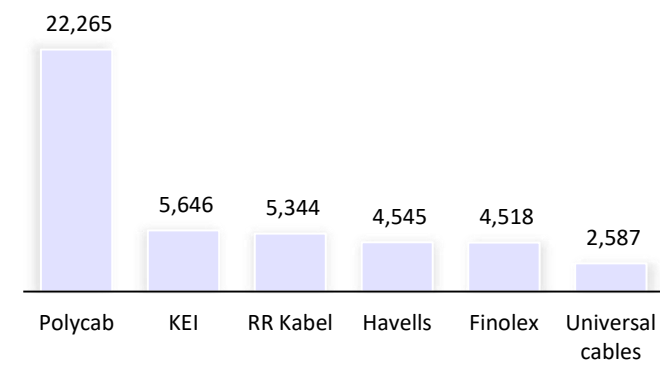


Source: MOFSL, Companies

Polycab has been consistent in capacity additions and its cables & wires segment’s capex over FY14-23 has been 3.9x/4.9x higher than that of KEI/HAVL. Polycab’s cables & wires capacity of 5.4m km is 2.5x higher than that of KEI (1.54m km). The company will continue to invest in capacity expansion and we expect it to incur a total capex of INR7.2b p.a. (cables & wires capex to be INR4.5b every year) during FY24-26E, which will help it to maintain growth momentum.

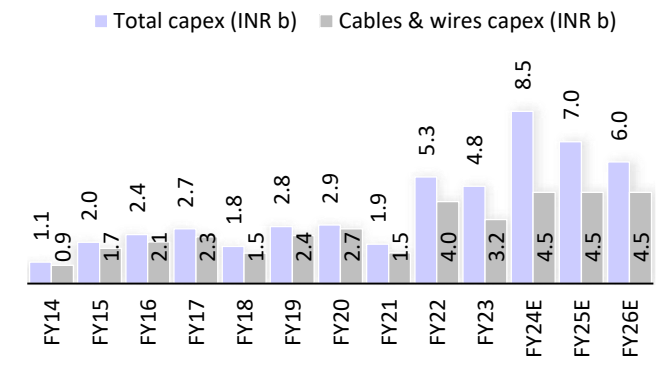
Its Greenfield unit in Gujarat (production expected in FY26) will enable it to manufacture extra high-voltage cable (up to 550kv). The management believes that India's growing power demand will create higher demand for high-voltage (HV) and extra-high-voltage (EHV) cables and there will be a replacement of 220 KV transmission lines with 400 KV gradually (even for 550 KV). The company has partnered with a leading Swiss cable manufacturer, Brugg Cables, to procure the high-end technology required for EHV production. The industry size for EHV cable above 220KV+ is estimated to be INR25-30b. The market size is estimated to achieve a CAGR of 13-14% over FY23-27E.

Exhibit 4: Cumulative capex of cables & wires segment over FY14-23 (INR m)



Source: MOFSL, Companies

Exhibit 5: Polycab will continue higher capex during FY24-26E



Source: MOFSL, Company

Strengthening the FMEG business

Likely to break-even in FY25 and EBIT margin to improve to 2% by FY26E

Polycab entered the FMEG business in FY14 and has expanded its product portfolio to 10+ categories. The segment posted a revenue CAGR of 39% over FY15-22 (INR12.5b in FY22). However, subdued consumer sentiment and its efforts to reorganize the distribution channel affected FY23/FY24E revenue (muted CAGR of 0.6% over FY22-24E).

Exhibit 6: Product portfolio of the company



Source: MOFSL, Company

Exhibit 7: Switchgear product portfolio

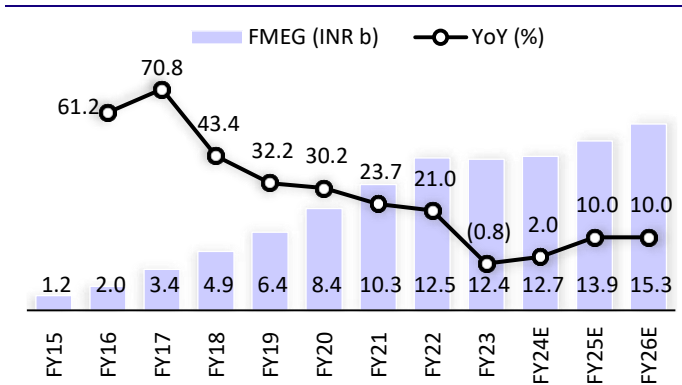


Source: MOFSL, Company

The company moved on to a large distributor model of operations, in which a large distributor supported by 8-10 sub-distributors will cater to demand from a cluster of towns. This will increase the availability of the company's products in a wider geography and at more retail outlets.

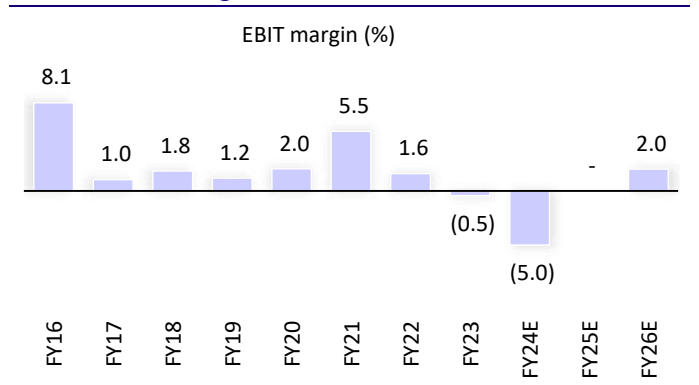
The company also increased its investment in brand building through high spending on marketing activities. It expanded its influencer management program to more cities, which will further improve its brand image. R&D efforts have improved after the acquisition of Silvan in FY22 and the company intends to offer products across price points, which will help customers. It launched ~40 new models of star-rated ceiling fans in the designer, celebration, and tech series in FY23.

Exhibit 8: Estimate ~10% revenue CAGR in FMEG over FY24-26



Source: MOFSL, Company

Exhibit 9: FMEG segment to break-even in FY25E



Source: MOFSL, Company

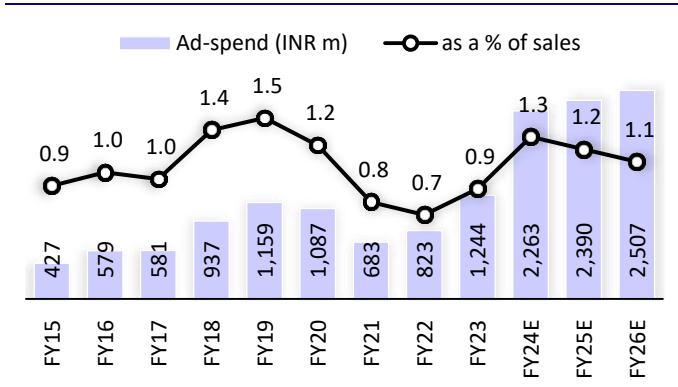
Enhancing brand and distribution network; high ad spending to benefit

High ad spending and strengthening distribution network will boost growth

Being a leader in the cables & wires segment, Polycab is a well-known brand and has a strong brand recall. It has customers across major power utilities, oil and gas, IT parks, metro rail, infrastructure, metal and non-metal, cement and EPC companies in India and abroad. The company has strengthened brand recognition by increasing brand awareness and customer loyalty through promotions and marketing. It has tied up with advertising firm, Ogilvy, and brand consultancy firm, Interbrand, which will help to establish its brand among consumers. It was the official sponsor of three major cricket events, ICC Women’s T20 World Cup, ICC World Test Championship Final and the ICC Men’s ODI Cricket World in CY23.

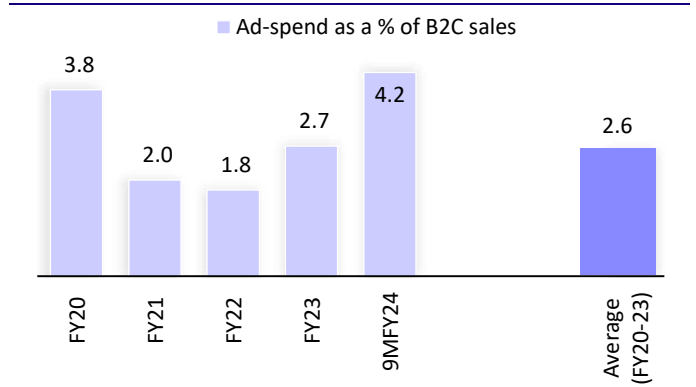
Its advertising and promotion spending increased by 51% YoY to INR1.2b in FY23 mainly due to the low base effect as brand spending was muted in FY21/22. However, ad spending increased by a CAGR of 14% over FY17-23 (0.9%/1.3% of revenue in FY23/9MFY24). Ad spending increased ~61% YoY in 9MFY24, as the company partnered with ICC to be the official Partner of the ODI Cricket World Cup 2023, launched diverse branding campaigns across multiple media platforms and engaged with influencers. Ad spending as % of B2C sales stood at 2.7%/4.2% in FY23/9MFY24. The company expects to maintain it in the range of ~3%-5% of B2C sales in the future. We estimate ad spending to be maintained at 1.1-1.3% of revenues over FY24-26E.

Exhibit 10: Ad spending as % of total sales



Source: MOFSL, Company

Exhibit 11: Ad spending as % of B2C sales



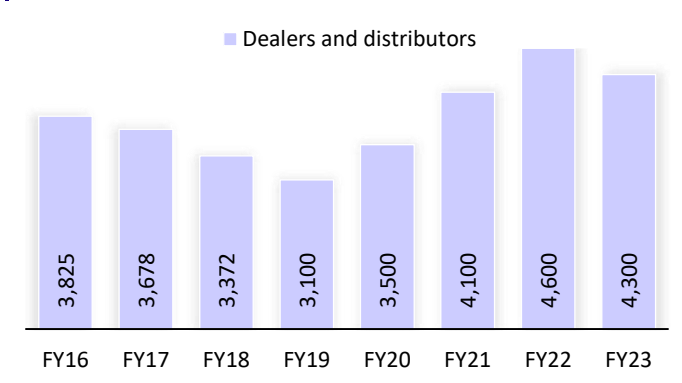
Source: MOFSL, Company

Strong distribution network

Polycab has a strong distribution network, with more than 4,300 dealers as of FY23, up from 3,372 dealers in FY18. In FY23, a rejig of its distribution channel led to a decline in the dealers count by ~300. In FY23, the company added 317 new distributors in the retail wire business and 371 new distributors in the FMEG business. The company has 23 warehouses across 22 states, which help to deliver to its over 205,000 retailer touchpoints. To increase its presence further across the country, it has identified 122 districts with untapped potential. About 83% of the company’s revenue in FY23 was generated by distributors & dealers. Fully digitalized

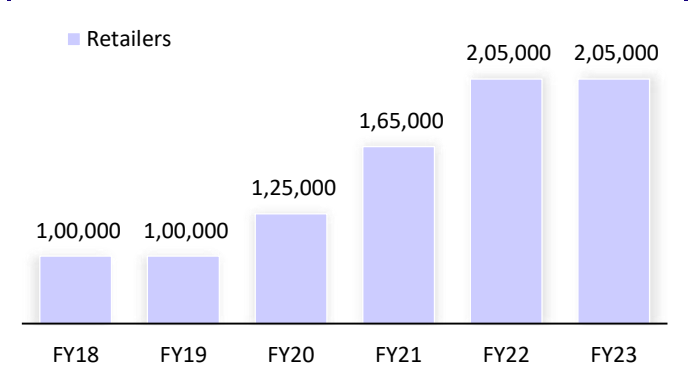
end-to-end sales help the company deliver its products to any distributor within 24 hours of order placement.

Exhibit 12: Dealers count declined in FY23 due to rejig in FMEG distribution channel



Source: MOFSL, Company

Exhibit 13: Large retail touchpoints help to meet demand



Source: MOFSL, Company

Various initiatives to strengthen its brand and distribution network

Polycab, over the years, has taken several initiatives to strengthen its brand and distribution network. It launched ‘Project Josh’ aimed at increasing its market share in the retail wires and FMEG segments. This program helped to increase the number of distributors and retailers in different locations. Bandhan, a pan-India customer relationship management program, was launched to provide sales incentives to retailers and electricians. In FY21, Polycab launched a strategic cost optimization initiative, Project Udaan, for cost savings of 80bp over the next two years. It also initiated ‘Project Shikhar’ in FY21 to strengthen engagements with key influencers like retailers, electricians and small contractors. This program was aimed at expanding its retail reach in 300 high potential cities across India in the next two years. It also launched ‘Project Leap’ in FY21, a multi-year transformational journey with an aim to cross INR200b revenue in FY26. We believe that the company will be able to achieve its revenue milestone in FY25E. Apart from setting targets in its B2B and B2C business, the company aims to grow sustainably and leverage on digital and analytics to transform its business model.

Exhibit 14: Project Leap – aims to achieve higher growth

| Parameters | Target |
|------------------------------------|--------|
| Market growth in core segments | 1.5x |
| Market growth in emerging segments | 2x |
| Contribution from adjacencies | >5% |
| Contribution from exports | >10% |

Source: MOFSL, Company

Exhibit 15: Project Leap – targets to improve B2C margins

| Parameters | Target |
|--|--------|
| Market growth in retail wires | 1.5x |
| Market growth in FMEG | 2x |
| EBITDA margin in FMEG | 10-12% |
| Contribution from Online for specific categories | >10% |

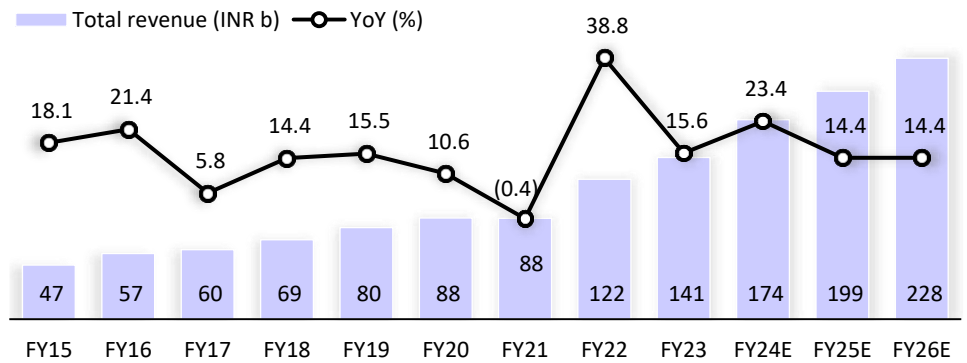
Source: MOFSL, Company

Financial Outlook

Expect revenue CAGR of ~14% over FY24-26E

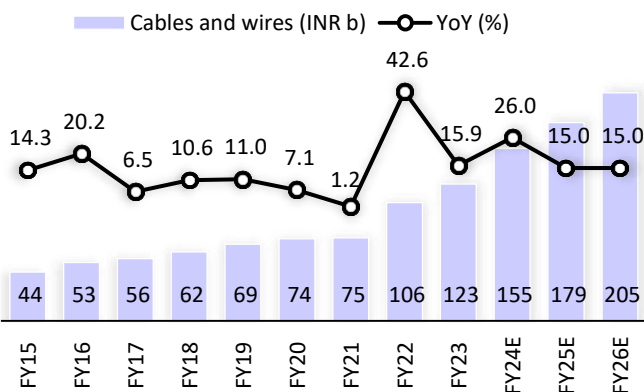
- Overall, revenue grew at a combined annual rate of ~15% over FY15-FY23, driven by double-digit growth in the cables & wires segment (~14% CAGR) and accelerated growth in the FMEG segment (~34% CAGR), albeit on a small base. The company also began EPC work related to cables & wires, which saw ~8% CAGR over FY15-FY23 and complements the company’s largest segment.
- We expect a revenue CAGR of 14% over FY24-26E, driven by the company’s leadership position in the cables & wires segment and the rising share of the FMEG segment. The cables & wires segment’s revenue is estimated to rise 26% YoY in FY24 as its peers are facing capacity constraints in cables (e.g., 91% capacity utilization for KEI in FY23). Polycab will also benefit from its Greenfield capex in the EHV segment, which is expected to commence production in FY26.

Exhibit 16: Revenue expected to clock 14% CAGR over FY24-26E



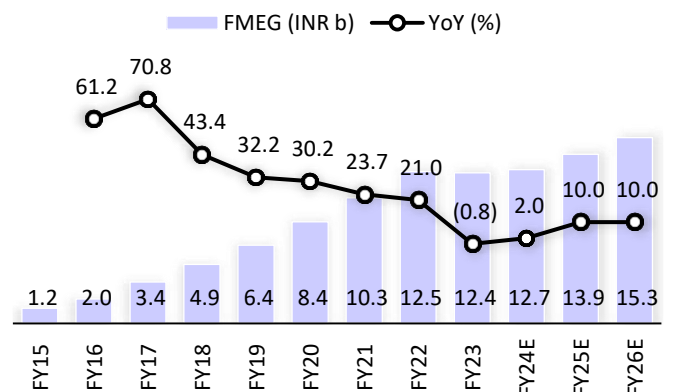
Source: MOFSL, Company

Exhibit 17: Expect cables & wires revenues to see a 15% CAGR over FY24-26



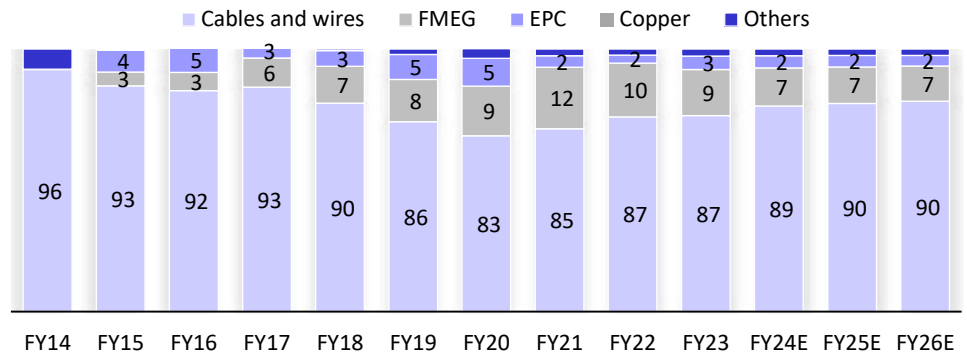
Source: MOFSL, Company

Exhibit 18: Expect FMEG revenues to remain muted in FY24E; 10% CAGR expected over FY24-26E



Source: MOFSL, Company

Exhibit 19: Expect revenue contribution from cables & wires to be at 89-90%

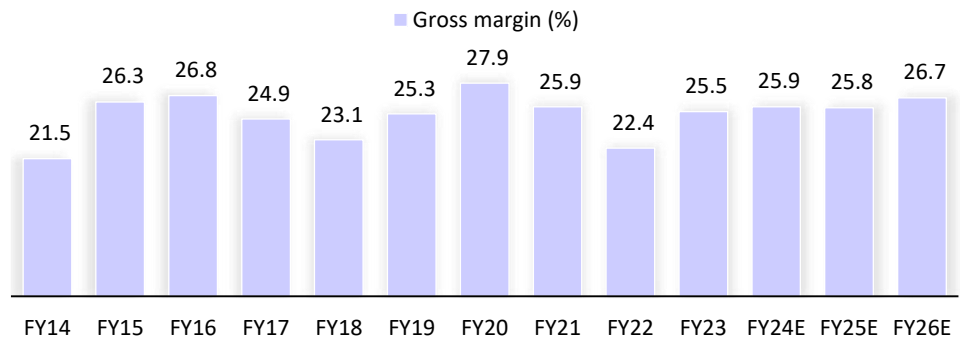


Source: MOFSL, Company

Gross margin to improve going forward

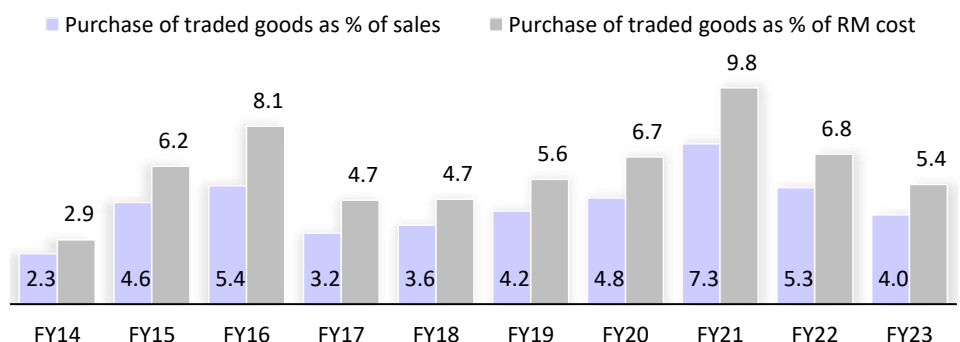
- High copper and aluminum prices hit gross margin in FY21/FY22; however, lower RM prices in 1HFY23 helped improve gross margin to 25.5% in FY23.
- The purchase of traded goods increased in FY21 due to increased traction in the FMEG segment. Its focus on in-hose manufacturing will restrict the increase in the purchase of traded goods. During FY23, the company established a switch manufacturing plant in Daman and a new fan manufacturing plant in Halol.
- We expect gross margins to revert to 26-27% during FY24-26E, as its focus on backward integration in cables & wires and increasing capacity in FMEG categories are expected to act as favorable catalysts going ahead.

Exhibit 20: Gross margins to improve to 26-27% during FY24-26E



Source: MOFSL, Company

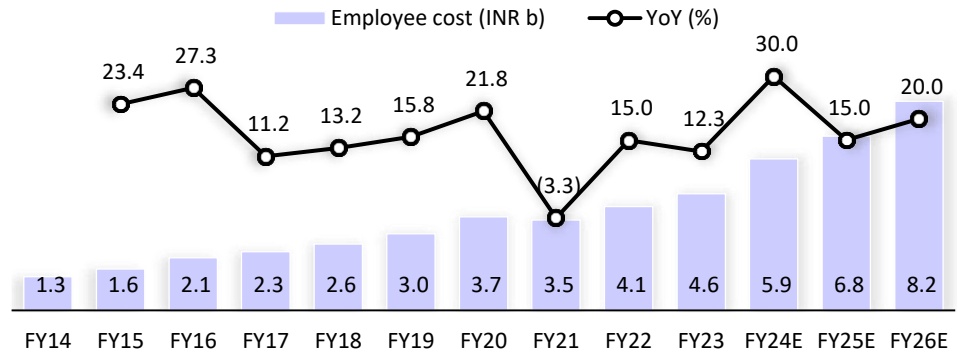
Exhibit 21: Focus on in-house manufacturing to restrict higher purchase of traded goods



Employee costs continue to increase

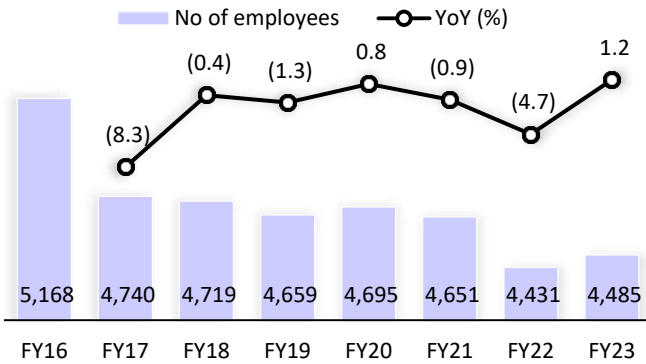
- Employee costs have risen in double digits over FY15-23 (except in FY21 due to Covid-19) as the company diversified into the FMEG segment and strengthened its capabilities in the cables & wires segment.
- The permanent employee count has been rationalized over the years and stood at 4,485 in FY23 vs. 5,168 in FY16. However, per employee cost steadily rose in double digits over FY16-23 and remained flat in FY21.

Exhibit 22: Employee costs increased in double digits over FY15-23



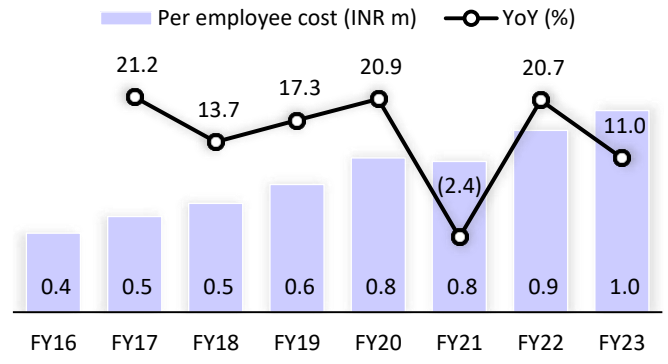
Source: MOFSL, Company

Exhibit 23: Number of employees declined sharply in FY22



Source: MOFSL, Company

Exhibit 24: Per employee cost increased over FY16-23

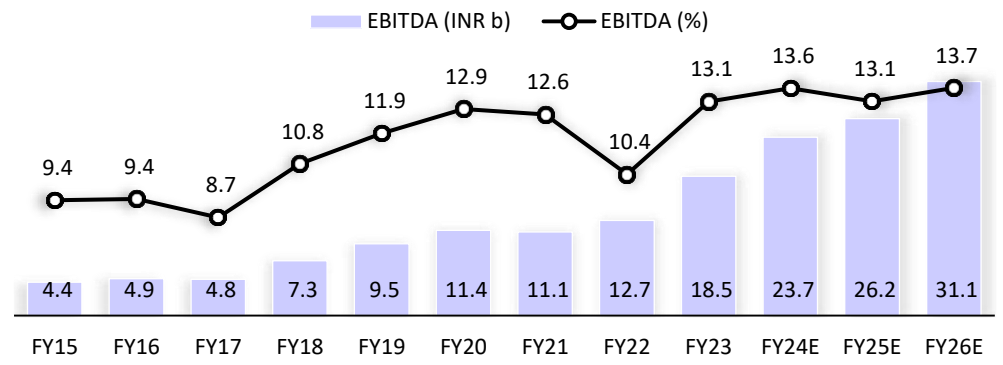


Source: MOFSL, Company

Estimate EBITDA CAGR of 14.5% over FY24-26

- EBITDA saw a ~20% CAGR over FY15-23, with margin expansion of 370bp, aided by margin improvement in the cables & wires segment. With lower commodity inflation in FY23, Polycab recorded strong 46% YoY EBITDA growth in the year.
- Polycab has benefitted in the cables segment due to capacity constraints at peer companies and its margin of cables & wires segment improved to 13.6%/14.4% in FY23/9MFY24 v/s 9.9% in FY22. We expect EBIT margin of this segment to be at 13.5%/13.8% in FY25/FY26E. The FMEG segment’s loss is estimated to increase in FY24 due to a slowdown in consumer demand, higher ad/promotion spending and higher fixed overhead. We estimate the FMEG segment to break-even in FY25 and EBIT margin to increase to ~2% in FY26.
- We estimate a CAGR of 14.5% in EBITDA over FY24-26, with OPM of 13.6%/13.1%/13.7% in FY24/FY25/26 vs. 13.1% in FY23.

Exhibit 25: Expect EBITDA margin to be stable over FY24-26E

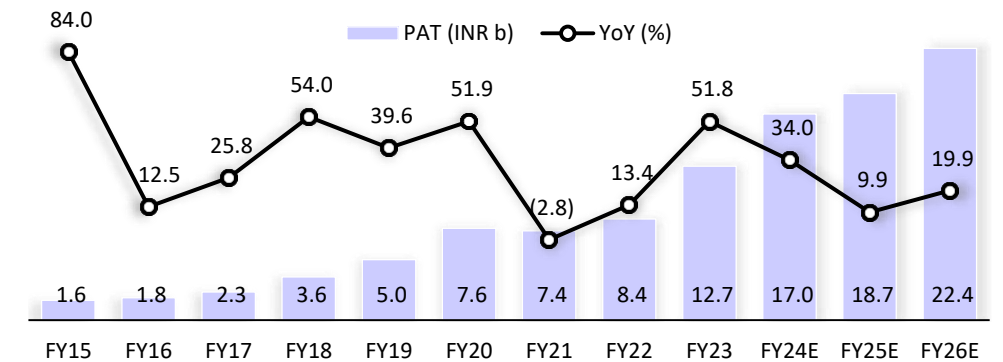


Source: MOFSL, Company

Adj. PAT CAGR expected at ~15% over FY24-26E

- Over FY15-23, adj. PAT CAGR stood at 29%, aided by lower interest expenses (declined at 7% compounded rate in this period), higher other income (~51% CAGR), and lower tax rate (24.9% in FY23 vs. 31.7% in FY15). Adj. PAT increased 52%/34% YoY in FY23/FY24E, led by a strong operating performance.
- We expect adj. PAT CAGR at ~15% over FY24-26. We estimate higher other income will be offset by higher depreciation and interest expenses. We believe that the increase in LC (letter of credit) acceptances will lead to higher interest expenses (CAGR of ~15% over FY24-26E).

Exhibit 26: Expect Adj. PAT CAGR at ~15% over FY24-26E

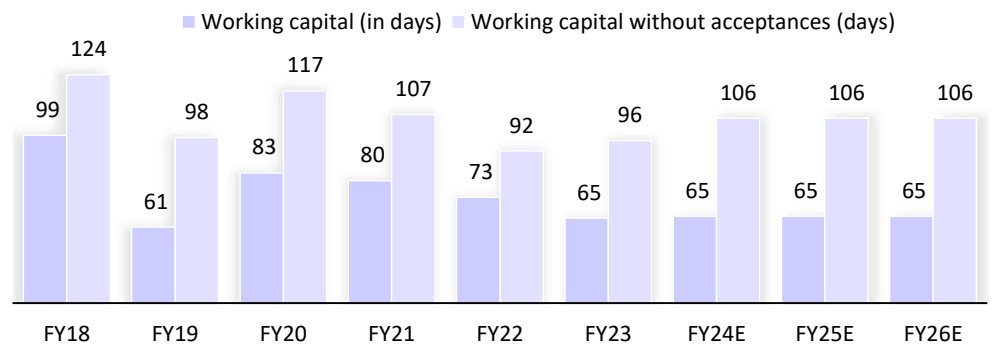


Source: MOFSL, Company

Working capital cycle to remain at 65 days going forward; working capital excluding acceptances to be at 106 days

- Polycab’s working capital cycle has improved over the years (FY18-23), led by a significant decline in receivables days (34 days in FY23 vs. 74 days in FY18). Given that the revenue contribution of the B2B business is expected to remain significant, we expect working capital cycle to remain 65 days over FY23-26.
- It has entered into arrangements for purchase under issuance of Letter of Credit by banks under its non-fund based working capital limits. These arrangements are majorly for raw materials with a maturity of up to 12 months and are recognized as Acceptances under Trade and other payables.
- Considering these acceptances as short-term loans, working capital was at 96 days in FY23 and we estimate it to be at 106 days during FY24-26E.

Exhibit 27: Working capital to be at 65days over FY24-26E

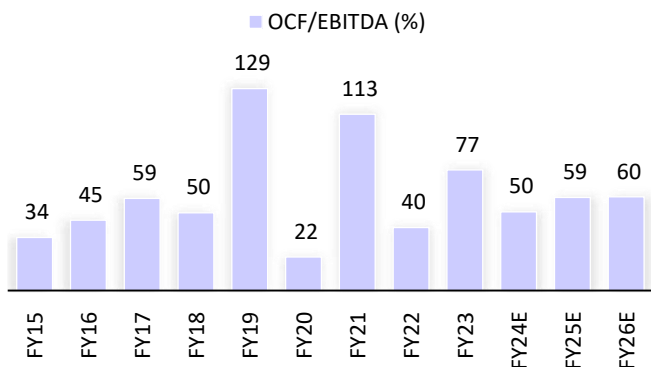


Source: MOFSL, Company

Healthy operating cash and free cash flow

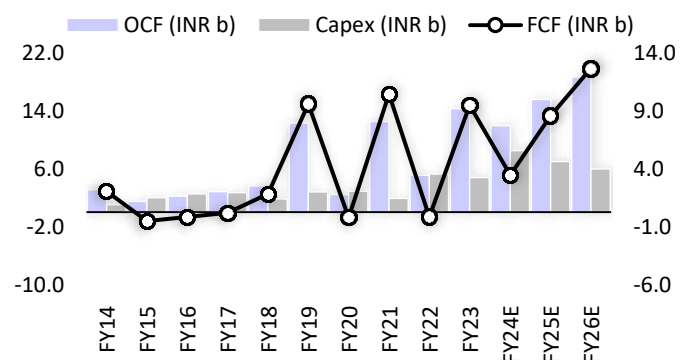
The company has been investing heavily in building in-house manufacturing capabilities and despite this, it has generated healthy free cash flows over the years. We expect free cash flow generation to accelerate in the coming years, aided by increasing profitability. Cumulative OCF is expected to be at INR46.2b over FY24-26, whereas cumulative capex over FY24-26E should be at INR21.5b. FCF generation over FY24-26E will be at INR24.7b, which will further improve its liquidity position.

Exhibit 28: OCF/EBITDA conversion of 50-60% over FY24-26E



Source: MOFSL, Company

Exhibit 29: Free cash flows to increase with robust OCF

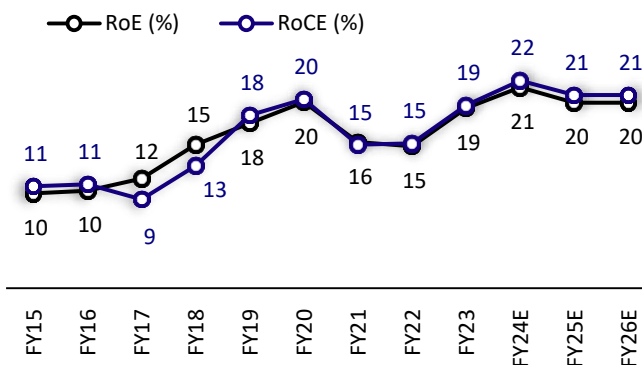


Source: MOFSL, Company

Return ratios to improve

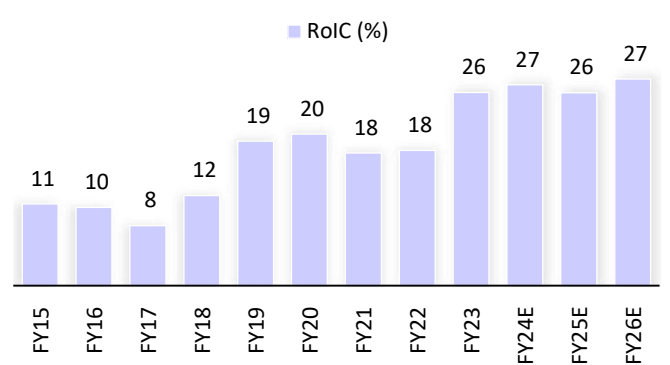
We estimate Polycab’s RoE/ROCE to increase to 20%/21% in FY26 vs. ~19% in FY23. RoIC will be at 27.4% in FY26 vs. 25.6% in FY23. Continued capacity addition will keep the asset turnover lower vs. KEI (2.0x in FY26E vs. 2.3x for KEI).

Exhibit 30: RoE/RoCE to remain above historical levels



Source: MOFSL, Company

Exhibit 31: RoIC to remain strong



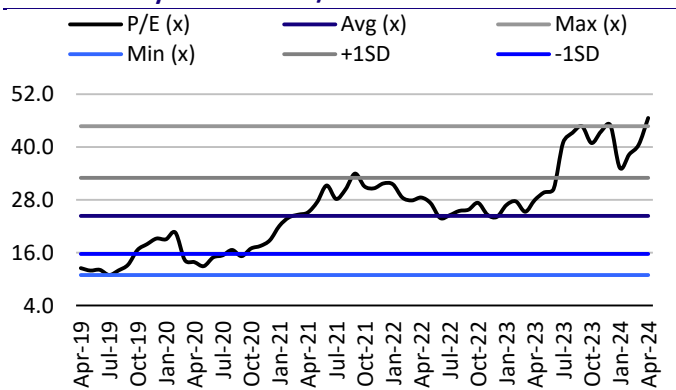
Source: MOFSL, Company

Valuation and view

Earnings to improve; initiate with BUY

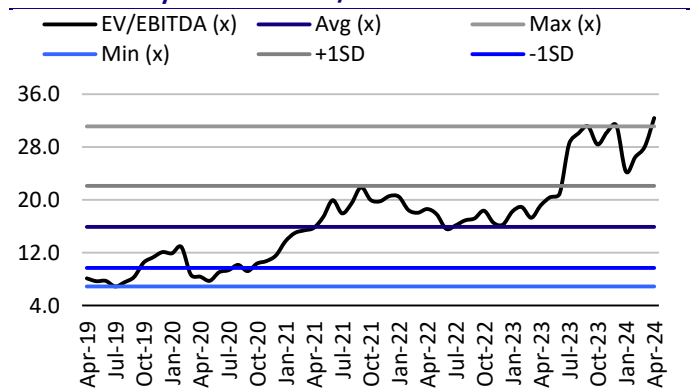
- Polycab has a leadership position in India with a market share of ~26% in the organized cables & wires industry and 18% in the overall market. Its market share among our analyzed companies stands at ~31% and our analysis indicates that it has gained market share by 150bp over FY14-23 among these players. Polycab has been consistent in capacity additions and its cables & wires segment’s capex over FY14-23 has been 3.9x/4.9x higher than that of KEI/HAVL. Polycab’s cables & wires capacity of 5.4m km is 2.5x larger than that of KEI (1.54m km).
- Polycab reported a ~20% CAGR in EBITDA over FY15-23, with margin expansion of 370bp, aided by improvements in the cables & wires segment’s margin. We estimate a CAGR of 14.5%/15% in EBITDA/EPS over FY24-26. Polycab benefitted in the cables segment due to capacity constraints at peer companies and its margin of cables & wires segment improved to 13.6%/14.4% in FY23/9MFY24 v/s 9.9% in FY22. We expect EBIT margin of this segment to be at 13.5%/13.8% in FY25/FY26. We estimate the FMEG segment to break-even in FY25 and expect EBIT margin to increase to ~2% in FY26 vs. a loss in FY23/FY24E.
- The company has been generating free cash flows for most of the years despite higher capex (due to focus on in-house manufacturing). Its cumulative OCF is expected to be at INR46.2b over FY24-26E, whereas cumulative capex over FY24-26E should be at INR21.5b. FCF generation over FY24-26E will be at INR24.7b, which will further improve its liquidity position.
- We like Polycab due to its leadership position in the cables & wires segment, a strong earnings trajectory and healthy return ratios. We estimate Polycab’s RoE/ROCE to increase to ~20%/21% in FY26E from ~19% in FY23. RoIC will grow to ~27% in FY26 vs. 25.6% in FY23. The stock has a short trading history and its multiples have rerated significantly owing to strong earnings delivery. We expect the company to maintain its premium valuations and value it at 50x FY26E EPS to arrive at our TP of INR7,500. We initiate coverage on the company with a BUY rating.

Exhibit 32: 1-year forward P/E chart



Source: MOFSL, Company, Bloomberg

Exhibit 33: 1-year forward EV/EBITDA chart



Source: MOFSL, Company, Bloomberg

Company overview

Polycab's journey began in 1964 under the name Sind Electric Stores, dealing in various electrical products including fans, lighting, switches and wires. The promoter family founded a partnership firm in the name of Thakur Industries in 1968. Thakur Industries entered into a lease agreement with MIDC in 1975 for a parcel of land at Andheri, Mumbai, to set up a factory of manufacturing cables & wires, which was in operation until 1984. In 1983, the promoters founded another partnership firm called 'Polycab Industries' and opened a factory in Halol, Gujarat, for manufacturing and processing activity of PVC-insulated cables & wires, copper and aluminum and bare copper wires. In 1996, the company was incorporated as Polycab Wires Private Limited in Mumbai. In 2000, the company became a deemed public limited company. Polycab India Limited was listed on the bourses in Apr'19.

As on date, the company has 25 manufacturing facilities spread across five locations: Gujarat, Maharashtra, Uttarakhand, Tamil Nadu and the Union territory of Daman. It has 23 warehouses and depots and has opened 17 experience centers. The company has more than 12,000 SKUs in the cables & wires segment and 7,000+ SKUs in the FMEG segment. Its product ranges in the cables & wires segment are of 0.2 KV to 220 KV and it is in the process of setting up a Greenfield unit in Halol, which will help it manufacture extra-high-voltage cables of up to 550 KV.

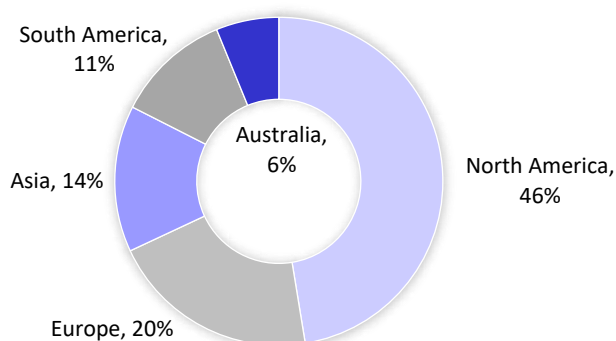
Exhibit 34: Manufacturing facilities of the company

| Product | FY23 | Location |
|-----------------------|--------|--|
| Cables & wires (m km) | 5.4 | Halol and Daman, Gujarat |
| Copper rods (k tons) | 225 | Waghodia, Gujarat |
| Fans (m units) | 10.2 | Roorkee, Uttarakhand and Halol & Daman |
| Switchgears (m units) | 12.0 | Nashik, Maharashtra |
| Pipes & Conduits (mt) | 29,800 | Chennai |
| Switches (m units) | 12.0 | Halol and Daman, Gujarat |

Source: MOFSL, Company

In FY23, the company generated 9.8% of its revenues from international markets, with 46% from North America markets.

Exhibit 35: Break-up of international revenue of the company



Source: MOFSL, Company

SWOT analysis

- ❖ Leading player in cables & wires with the second largest player far behind in revenue
- ❖ Strong backward integrated facility leads to higher cost control and better supply chain management
- ❖ Economies of scale lead to better negotiation power for RM

S
STRENGTH



- ❖ Higher dependence on cables & wires (>85% of sales); Lower construction activity and subdued real estate could negatively impact the segment
- ❖ Elevated working capital (vs. other electrical categories) owing to higher proportion of B2B sales (~65%)

W
WEAKNESS



- ❖ Scope of increasing its geographical reach; the company has yet to enter several markets
- ❖ Government's focus on construction and uptick in real estate could lead to favorable tailwinds for cables, wires and FMEG products
- ❖ Fragmentation in the industry may create scope for consolidation

O
OPPORTUNITY



- ❖ High dependence on raw materials like copper/aluminium. Any disruption in supply of these materials could lead to loss of sale
- ❖ Growing competitive intensity in FMEG segment could lead to lower margins in this segment.

T
THREATS



Bull and Bear Case



Bull Case

- ☑ Owing to higher off-take via key infrastructure projects and exports in new geographies, we assume a higher revenue/EBITDA/PAT CAGR of 15%/18%/19% over FY24-26E.
- ☑ We estimate EBITDA margin expansion of 70bp over FY24-26E, aided by positive operating leverage.
- ☑ Assuming a target P/E multiple of 55x, we arrive at a TP of INR8,800 per share, ~66% upside from CMP.



Bear Case

- ☑ With muted construction, we assume a slower off-take in cables, housing wires and other appliances. With elevated commodity prices and lower operating leverage, we factor in a decline in EBITDA margin to 13% in FY25/FY26E.
- ☑ We estimate a revenue/EBITDA/PAT CAGR of 11%/9%/9% over FY24-26E.
- ☑ Assuming a target P/E multiple of 40x, we arrive at a TP of INR5,400 per share, ~2% upside from CMP.

Scenario analysis - Bull Case

| | FY23 | FY24E | FY25E | FY26E |
|------------------------|-------|-------|-------|-------|
| Revenue (INR b) | 141.1 | 174.1 | 201.9 | 232.2 |
| Growth (%) | 15.6 | 23.4 | 16.0 | 15.0 |
| EBITDA (INR b) | 18.5 | 23.7 | 28.3 | 33.2 |
| YoY growth (%) | 46.4 | 28.2 | 19.1 | 17.5 |
| EBITDA Margin (%) | 13.1 | 13.6 | 14.0 | 14.3 |
| PAT (INR b) | 12.8 | 17.1 | 20.4 | 24.1 |
| EPS (INR) | 84.8 | 113.7 | 135.4 | 160.1 |
| P/E multiple (implied) | | | | 55 |
| Target price (INR) | | | | 8,800 |
| Upside/ (downside) (%) | | | | 66.0 |

Source: Company, MOFSL

Scenario analysis – Bear Case

| | FY23 | FY24E | FY25E | FY26E |
|------------------------|-------|-------|-------|-------|
| Revenue (INR b) | 141.1 | 174.1 | 193.2 | 216.4 |
| Growth (%) | 15.6 | 23.4 | 11.0 | 12.0 |
| EBITDA (INR m) | 18.5 | 23.7 | 24.7 | 28.1 |
| YoY growth (%) | 46.4 | 28.2 | 4.2 | 13.8 |
| EBITDA Margin (%) | 13.1 | 13.6 | 12.8 | 13.0 |
| PAT (INR m) | 12.8 | 17.1 | 17.7 | 20.3 |
| EPS (INR) | 84.8 | 113.7 | 117.7 | 134.9 |
| P/E multiple | | | | 40 |
| Target price (INR) | | | | 5,400 |
| Upside/ (downside) (%) | | | | 2.0 |

Source: Company, MOFSL

Key management personnel



Mr. Inder T. Jaisinghani, Chairman and Managing Director

Mr. Inder has been working with the company since its inception. He has completed his education up to the secondary school certificate level. He was appointed as Chairman and Director of Polycab in Dec'97 and was subsequently reappointed as Chairman and Managing Director with effect from Augt'14. He has worked in different areas of sales, marketing, production and other support services and has played a major role in leadership of Polycab.



Mr. Bharat A. Jaisinghani, Executive Director

Mr. Bharat joined the company in 2012 and was appointed Director – FMEG Business (non-board member) in 2018. He holds a Master's degree in Operations Management (University of Manchester) and has completed Program for Leadership Development from Harvard Business School. He was appointed Executive Director (board member) in May'21.



Mr. Nikhil R. Jaisinghani, Executive Director

Mr. Nikhil joined the company in 2012 and was designated as Director - LDC Business (non-board member) in 2018. He holds a Master's degree in Business Administration (MBA) from Kellogg School of Management, Illinois, USA. He was appointed Executive Director (Board member) in May'21.



Mr. Rakesh Talati, Executive Director

Mr. Talati has been associated with the company since 2014 and was appointed Director (non-board member) in 2018, working as Location Head (Halol). He holds a Diploma in Civil Engineering from the Maharaja Sayajirao University of Baroda. He was appointed Executive Director (board member) in May'21.



Mr. Gandharv Tongia, Executive Director and Chief Finance Officer

Mr. Tongia, Executive Director and CFO of Polycab India, has been associated with the company since 2018. In his current role, he is responsible for all aspects of the company's strategy, financial and information technology functions. He has been instrumental in the company's ongoing transformational journey, including 'Project Leap'. He is a fellow member of the Institute of Chartered Accountants of India.

Financials and valuations (Consolidated)

| Income Statement | | | | | | | | (INR M) |
|-----------------------------------|---------------|---------------|---------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Y/E March | FY19 | FY20 | FY21 | FY22 | FY23 | FY24E | FY25E | FY26E |
| Net Sales | 79,856 | 88,300 | 87,922 | 1,22,038 | 1,41,078 | 1,74,089 | 1,99,180 | 2,27,938 |
| Change (%) | 17.9 | 10.6 | (0.4) | 38.8 | 15.6 | 23.4 | 14.4 | 14.4 |
| EBITDA | 9,528 | 11,350 | 11,111 | 12,652 | 18,521 | 23,744 | 26,185 | 31,126 |
| % of Net Sales | 11.9 | 12.9 | 12.6 | 10.4 | 13.1 | 13.6 | 13.1 | 13.7 |
| Depreciation | 1,414 | 1,609 | 1,762 | 2,015 | 2,092 | 2,444 | 2,749 | 3,094 |
| Interest | 1,167 | 495 | 427 | 352 | 598 | 1,190 | 1,400 | 1,573 |
| Other Income | 638 | 928 | 1,193 | 899 | 1,333 | 2,600 | 2,900 | 3,400 |
| Profit of share of associates/JVs | (23) | (74) | 6 | (26) | (93) | - | - | - |
| PBT | 7,561 | 10,100 | 10,122 | 11,159 | 17,073 | 22,709 | 24,937 | 29,859 |
| Tax | 2,558 | 2,444 | 2,703 | 2,706 | 4,250 | 5,564 | 6,109 | 7,315 |
| Rate (%) | 33.8 | 24.2 | 26.7 | 24.3 | 24.9 | 24.5 | 24.5 | 24.5 |
| MI | 6 | 66 | 38 | 87 | 123 | 123 | 123 | 123 |
| Extra-ordinary Inc.(net) | - | - | (1,000) | - | - | - | - | - |
| Reported PAT | 4,997 | 7,591 | 6,380 | 8,365 | 12,700 | 17,023 | 18,704 | 22,420 |
| Change (%) | 39.6 | 51.9 | (16.0) | 31.1 | 51.8 | 34.0 | 9.9 | 19.9 |
| Adjusted PAT | 4,997 | 7,591 | 7,380 | 8,365 | 12,700 | 17,023 | 18,704 | 22,420 |
| Change (%) | 39.6 | 51.9 | (2.8) | 13.4 | 51.8 | 34.0 | 9.9 | 19.9 |

| Balance Sheet (Consolidated) | | | | | | | | (INR M) |
|----------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|-----------------|
| Y/E March | FY19 | FY20 | FY21 | FY22 | FY23 | FY24E | FY25E | FY26E |
| Share Capital | 1,412 | 1,489 | 1,491 | 1,494 | 1,498 | 1,498 | 1,498 | 1,498 |
| Reserves | 27,057 | 36,875 | 46,048 | 53,943 | 64,814 | 78,279 | 92,840 | 1,10,411 |
| Net Worth | 28,470 | 38,364 | 47,539 | 55,437 | 66,311 | 79,776 | 94,337 | 1,11,908 |
| Loans | 2,724 | 1,571 | 2,487 | 831 | 1,551 | 1,051 | 951 | 851 |
| Deferred Tax Liability | 231 | 165 | 418 | 272 | 409 | 409 | 409 | 409 |
| Minority Interest | 84 | 150 | 188 | 251 | 374 | 497 | 620 | 743 |
| Capital Employed | 31,509 | 40,250 | 50,633 | 56,791 | 68,646 | 81,734 | 96,318 | 1,13,912 |
| Gross Fixed Assets | 17,859 | 20,664 | 26,989 | 27,059 | 33,069 | 41,569 | 48,569 | 54,569 |
| Less: Depreciation | 5,103 | 6,444 | 8,293 | 10,308 | 12,400 | 14,844 | 17,593 | 20,687 |
| Net Fixed Assets | 12,756 | 14,220 | 18,696 | 16,751 | 20,669 | 26,725 | 30,976 | 33,882 |
| Capital WIP | 1,930 | 2,412 | 991 | 3,755 | 2,508 | 2,508 | 2,508 | 2,508 |
| Investments | 294 | 655 | 6,349 | 7,733 | 13,505 | 13,505 | 13,505 | 13,505 |
| Curr. Assets | 41,303 | 42,319 | 44,111 | 45,880 | 57,559 | 70,883 | 85,813 | 1,05,768 |
| Inventory | 19,958 | 19,250 | 19,879 | 21,996 | 29,514 | 36,420 | 41,669 | 47,685 |
| Debtors | 14,694 | 15,997 | 15,641 | 13,763 | 12,992 | 16,693 | 19,099 | 21,857 |
| Cash & Bank Balance | 3,176 | 2,813 | 5,313 | 4,071 | 6,952 | 7,774 | 13,607 | 23,138 |
| Loans & Advances | 178 | 298 | 123 | 127 | 103 | 128 | 146 | 167 |
| Other Current Assets | 3,297 | 3,962 | 3,155 | 5,922 | 7,997 | 9,869 | 11,291 | 12,921 |
| Current Liab. & Prov. | 24,774 | 19,356 | 19,514 | 17,328 | 25,596 | 31,887 | 36,483 | 41,751 |
| Creditors | 15,202 | 13,537 | 13,480 | 12,175 | 20,326 | 24,802 | 28,376 | 32,473 |
| Other Liabilities | 9,201 | 5,325 | 5,547 | 4,634 | 4,552 | 6,200 | 7,094 | 8,118 |
| Provisions | 371 | 494 | 487 | 518 | 717 | 885 | 1,013 | 1,159 |
| Net Current Assets | 16,529 | 22,963 | 24,597 | 28,552 | 31,964 | 38,996 | 49,329 | 64,017 |
| Application of Funds | 31,509 | 40,250 | 50,633 | 56,791 | 68,646 | 81,734 | 96,318 | 1,13,912 |

Financials and valuations (Consolidated)

Ratios

| Y/E March | FY19 | FY20 | FY21 | FY22 | FY23 | FY24E | FY25E | FY26E |
|---------------------------------|-------------|-------------|-------------|-------------|-------------|--------------|--------------|--------------|
| Basic (INR) | | | | | | | | |
| Adjusted EPS | 35.4 | 51.0 | 49.5 | 56.0 | 84.8 | 113.7 | 124.9 | 149.7 |
| Growth (%) | 39.6 | 44.1 | -2.9 | 13.1 | 51.5 | 34.0 | 9.9 | 19.9 |
| Cash EPS | 45.4 | 61.8 | 61.3 | 69.5 | 98.8 | 130.0 | 143.2 | 170.4 |
| Book Value | 201.6 | 257.7 | 318.8 | 371.0 | 442.8 | 532.7 | 629.9 | 747.2 |
| DPS | 3.0 | 7.0 | 10.0 | 14.0 | 20.0 | 23.8 | 27.7 | 32.4 |
| Payout (incl. Div. Tax.) | 8.5 | 13.7 | 20.2 | 25.0 | 23.6 | 20.9 | 22.2 | 21.6 |
| Valuation (x) | | | | | | | | |
| P/Sales | 9.4 | 8.9 | 9.0 | 6.5 | 5.6 | 4.6 | 4.0 | 3.5 |
| P/E | 149.8 | 104.0 | 107.1 | 94.7 | 62.5 | 46.6 | 42.4 | 35.4 |
| Cash P/E | 116.7 | 85.8 | 86.5 | 76.3 | 53.7 | 40.8 | 37.0 | 31.1 |
| EV/EBITDA | 78.5 | 69.4 | 70.9 | 62.3 | 42.6 | 33.1 | 29.8 | 24.8 |
| EV/Sales | 9.4 | 8.9 | 9.0 | 6.5 | 5.6 | 4.5 | 3.9 | 3.4 |
| Price/Book Value | 26.3 | 20.6 | 16.6 | 14.3 | 12.0 | 10.0 | 8.4 | 7.1 |
| Dividend Yield (%) | 0.1 | 0.1 | 0.2 | 0.3 | 0.4 | 0.4 | 0.5 | 0.6 |
| Profitability Ratios (%) | | | | | | | | |
| RoE | 17.6 | 19.8 | 15.5 | 15.1 | 19.2 | 21.3 | 19.8 | 20.0 |
| RoCE | 18.4 | 20.1 | 15.3 | 15.4 | 19.4 | 22.1 | 20.6 | 20.8 |
| RoIC | 19.1 | 20.1 | 17.6 | 17.9 | 25.6 | 26.6 | 25.6 | 27.4 |
| Turnover Ratios | | | | | | | | |
| Debtors (Days) | 67 | 66 | 65 | 41 | 34 | 35 | 35 | 35 |
| Inventory (Days) | 91 | 80 | 83 | 66 | 76 | 76 | 76 | 76 |
| Creditors. (Days) | 69 | 56 | 56 | 36 | 53 | 52 | 52 | 52 |
| Asset Turnover (x) | 2.5 | 2.2 | 1.7 | 2.1 | 2.1 | 2.1 | 2.1 | 2.0 |
| Leverage Ratio | | | | | | | | |
| Debt/Equity (x) | (0.0) | (0.0) | (0.1) | (0.1) | (0.1) | (0.1) | (0.1) | (0.2) |

Cash Flow Statement

| Y/E March | FY19 | FY20 | FY21 | FY22 | FY23 | FY24E | FY25E | FY26E |
|------------------------------|----------------|----------------|----------------|----------------|-----------------|----------------|----------------|----------------|
| (INR M) | | | | | | | | |
| PBT before EO Items | 7,561 | 10,100 | 10,122 | 11,159 | 17,073 | 22,709 | 24,937 | 29,859 |
| Add : Depreciation | 1,414 | 1,609 | 1,866 | 2,088 | 2,092 | 2,444 | 2,749 | 3,094 |
| Interest | 1,167 | 495 | 531 | 352 | 598 | 1,190 | 1,400 | 1,573 |
| Less : Direct Taxes Paid | 1,814 | 3,012 | 2,409 | 3,340 | 3,704 | 5,564 | 6,109 | 7,315 |
| (Inc)/Dec in WC | (3,052) | 6,221 | (2,600) | 4,974 | 1,058 | 6,211 | 4,500 | 5,158 |
| Others | 1,036 | (279) | (325) | (169) | (725) | (2,600) | (2,900) | (3,400) |
| CF from Operations | 12,417 | 2,692 | 12,385 | 5,116 | 14,275 | 11,969 | 15,576 | 18,653 |
| (Inc)/Dec in FA | (2,814) | (2,891) | (1,935) | (5,267) | (4,795) | (8,500) | (7,000) | (6,000) |
| Free Cash Flow | 9,603 | (199) | 10,450 | (151) | 9,481 | 3,469 | 8,576 | 12,653 |
| (Pur)/Sale of Investments | (23) | (35) | (5,664) | 997 | (7,232) | 2,600 | 2,900 | 3,400 |
| CF from Investments | (2,836) | (2,926) | (7,599) | (4,270) | (12,026) | (5,900) | (4,100) | (2,600) |
| (Inc)/Dec in Net Worth | 38 | 4,000 | - | - | - | - | - | - |
| (Inc)/Dec in Debt | (5,651) | (1,194) | (1,217) | (168) | 332 | (500) | (100) | (100) |
| Less : Interest Paid | 781 | 433 | 463 | 309 | 476 | 1,190 | 1,400 | 1,573 |
| Dividend Paid | 29 | 1,793 | - | 1,492 | 2,094 | 3,558 | 4,143 | 4,850 |
| Others | (88) | (709) | (68) | (38) | (32) | - | - | - |
| CF from Fin. Activity | (6,511) | (129) | (1,748) | (2,007) | (2,271) | (5,248) | (5,642) | (6,523) |
| Inc/Dec of Cash | 3,069 | (363) | 3,038 | (1,160) | (22) | 821 | 5,833 | 9,530 |
| Add: Beginning Balance | 106 | 3,176 | 4,658 | 5,231 | 6,974 | 6,952 | 7,774 | 13,607 |
| Closing Balance | 3,176 | 2,813 | 7,696 | 4,071 | 6,952 | 7,774 | 13,607 | 23,138 |

KEI Industries

BSE Sensex 74,245 S&P CNX 22,519



| | |
|-----------------------|-------------|
| Bloomberg | KEII IN |
| Equity Shares (m) | 90.2 |
| M.Cap.(INRb)/(USD\$b) | 360.3 / 4.3 |
| 52-Week Range (INR) | 4043 / 1715 |
| 1, 6, 12 Rel. Per (%) | 21/34/101 |
| 12M Avg Val (INR M) | 827 |
| Free float (%) | 62.9 |

Financial Snapshot (INR b)

| Y/E Mar | FY24E | FY25E | FY26E |
|--------------|-------|-------|-------|
| Sales | 79.6 | 92.7 | 108.0 |
| EBITDA | 8.5 | 10.6 | 13.1 |
| PAT | 5.8 | 7.3 | 9.0 |
| EBITDA (%) | 10.6 | 11.5 | 12.2 |
| EPS (INR) | 64.1 | 81.1 | 99.7 |
| EPS Gr. (%) | 21.1 | 26.5 | 22.9 |
| BV/Sh. (INR) | 347 | 423 | 517 |

Ratios

| | | | |
|------------|-------|-------|-------|
| Net D/E | (0.1) | (0.1) | (0.1) |
| RoE (%) | 18.5 | 19.2 | 19.3 |
| RoCE (%) | 18.7 | 19.2 | 19.5 |
| Payout (%) | 7.0 | 5.9 | 6.0 |

Valuations

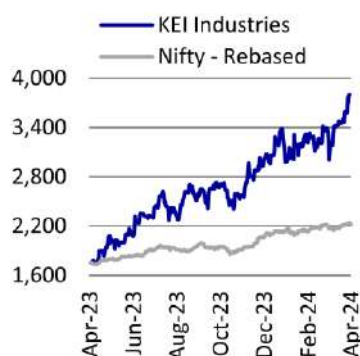
| | | | |
|---------------|-------|------|------|
| P/E (x) | 62.1 | 49.1 | 39.9 |
| P/BV (x) | 11.5 | 9.4 | 7.7 |
| EV/EBITDA (x) | 42.1 | 33.5 | 27.0 |
| Div Yield (%) | 0.1 | 0.1 | 0.1 |
| FCF Yield (%) | (0.2) | 0.1 | 0.6 |

Shareholding pattern (%)

| As On | Dec-23 | Sep-23 | Dec-22 |
|----------|--------|--------|--------|
| Promoter | 37.1 | 37.1 | 37.3 |
| Public | 16.1 | 17.7 | 19.1 |
| Others | 31.0 | 29.6 | 26.8 |

FII Includes depository receipts

Stock Performance (1-year)



CMP: INR3,980

TP: INR5,000 (+26%)

Buy

Elevating growth with focus on retail segment

Retail segment's contribution to revenue at 47% in 9MFY24 vs. 29% in FY20

- **Strong presence in the EHV segment with a varied product portfolio:** KEI, the second-largest player in the cables & wires industry, is one of the few players with the capabilities to produce EHV (extra high voltage) cable above 220KV. It has a market share of ~9% in the industry and ~15% among the companies we have analyzed. It has a diversified business model with a significant presence in domestic and international markets and gained ~330bp market share over FY14-23 within our analyzed companies.
- **Robust business model with backward integration:** KEI operates five manufacturing plants with backward integration for in-house PVC manufacturing. This approach allows the company to exercise greater control over the manufacturing process, ensuring superior quality. KEI has enhanced its manufacturing capacity over the period and further aims to invest ~INR14b over the next few years to ramp up production capacities.
- **Scaling up of retail and export segments to aid growth:** KEI is focused on improving its retail sales and its contribution to revenues increased to 47% in 9MFY24 vs. ~29% in FY20. The company further aims to enhance its retail contribution to 50% within the next two years. Exports contributed 10%/14.5% to its revenue in FY23/9MFY24, and it intends to improve it to 16-17% in the next three years. KEI has set up five overseas offices and exports its products to over 60 countries.
- **Strong earnings growth and sector dynamics support sustained rerating; initiate with BUY:** KEI has delivered a 40% profit CAGR over FY14-23 and we expect an EPS CAGR of 25% over FY24-26. We initiate coverage on KEI with a BUY rating and a TP of INR5,000, premised on 50x FY26E EPS, considering strong earnings delivery; improved balance sheet, and improved sector dynamics.
- **Key downside risks:** a) rise in commodity prices, b) higher competitive intensity in the sector and c) demand impact due to economic slowdown.

Strong presence in EHV segment with a varied product portfolio

- KEI is the second largest player in the cables & wires segment in India with a market share of ~13% in the organized cables & wires industry and ~9% of the overall market. Among the companies we have analyzed, its market share stands at ~15%. Our analysis indicates that it has gained a significant market share of 300bp over FY17-23 among these players.
- KEI is among the few companies in India to manufacture EHV cables above 220KV+. The industry size for 220KV+ cables is estimated to be INR25-30b. The industry is estimated to record a 13-14% CAGR over FY23-27.

Integrated business model; capacity increase to help growth

- KEI operates five manufacturing plants along with two plants for PVC compound, which help in backward integration. Its EHV business reaps significant benefits from seamless integration into EPC project execution, given that a 75-80% of the project's value is derived from cables. It has lowered its exposure to the EPC business (revenues declined at 19% CAGR over FY20-23) by strategically choosing a select portfolio of high-quality projects with improved margins and a streamlined working capital cycle.

- KEI has enhanced its manufacturing capacity over the years and further aims to incur a capex of ~INR13b via internal accruals over the next 3-4 years. It is planning to establish a Greenfield plant in Sanand, Gujarat (capex of ~INR12b over the next 3-4 years); the first phase of this project will be operational by 4QFY25. It is also increasing its capacity at its Chinchpada (in phases by Mar'24) and Pathredi units (in 1QFY25).

Focus on improving contribution from retail segment and exports

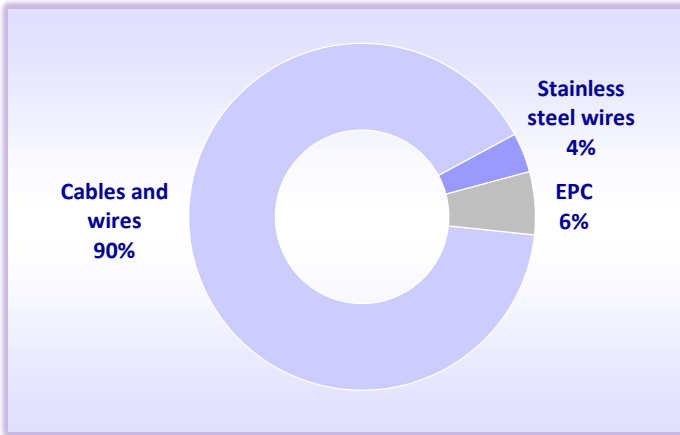
- KEI set up a target to improve its retail sales and hired a leading consultant to help formulate the strategies to increase sales through its distribution network. This segment's contribution to revenues improved to 47% in 9MFY24 (44% in FY23) vs. 29% in FY20. The company aims to achieve its stated target of ~50% revenue contribution from this segment within the next two years.
- KEI exports its products to over 60 countries and has set up overseas marketing offices in five countries. In FY23/9MFY24, exports accounted for 10%/14.5% of total sales, backed by strong foothold in the US markets. It further aims to increase its export contribution to 16-17% of revenue in the next three years.
- KEI has ramped up its dealer strength to 1,910 in FY23 (reached 1,975 in Dec'23) from 650 in FY14, registering a CAGR of ~13% over the period. In the near term, the focus will be on expanding the distribution network and increasing revenue contribution from each dealer.
- KEI has been strengthening its brand presence by increasing its ad-spends. Since FY16, there has been a continuous uptick in advertising spending, primarily aimed at driving retail sales. The company initiated a successful strategy in FY16 by becoming the lead sponsor for IPL teams, a sponsorship initiative that has been upheld till date. Average advertising expenditure as a percentage of retail sales has consistently stood at ~1% over FY16-23.

Rerating to sustain on earnings growth and improving sector dynamics; initiate with BUY

- EBITDA/Adj. PAT of KEI registered a CAGR of ~18%/40% over FY15-23 despite margin pressures (led by RM cost volatility) in the cables & wires segment during FY22/23. Going forward, we expect EBITDA and EPS to register a CAGR of 25% (each) over FY24-26E.
- FCF generation over the years has played KEI to strengthen its balance sheet, transforming it into a net cash positive company. Its cumulative OCF is expected to be at INR16.4b over FY24-26E vs. cumulative capex of INR14.5b in this period. We estimate FCF generation of INR1.9b given the aggressive expansion plan.
- We estimate KEI's RoE/RoCE to be at 19%/20% in FY26 vs. ~18% in FY23. Investments into the new Greenfield unit will limit improvements in RoE, in our view. Multiples of cables & wires companies have rerated significantly in the last two years, driven by strong earnings growth, which we expect to sustain, driven by government capex and strong traction in the real estate segment. We expect the company to maintain its premium valuations and value it at 50x FY26E EPS to arrive at our price target of INR5,000. We initiate coverage on the company with a **BUY** rating.

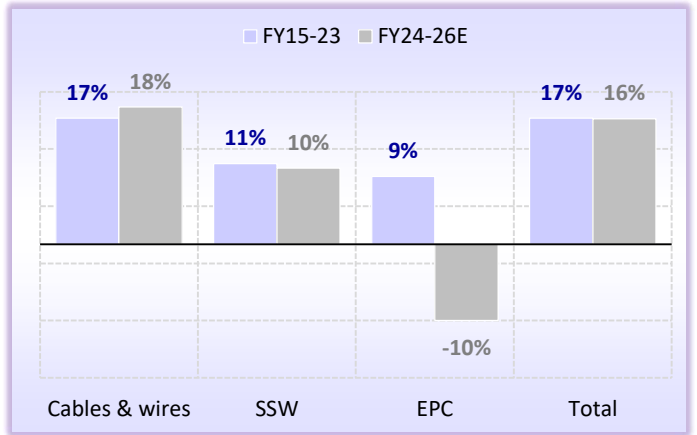
STORY IN CHARTS

Breakup of product revenue (FY23)



Source: MOFSL, Company

Expect ~16% revenue CAGR over FY24-26E



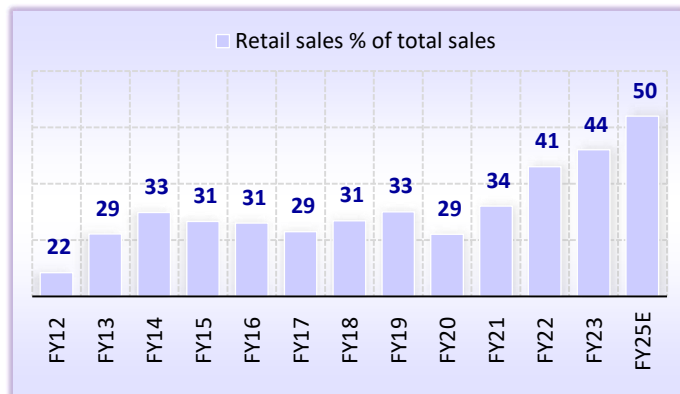
Source: MOFSL, Company

High capacity utilization in cables warrants capacity expansion

| Utilisation (%) | FY19 | FY20 | FY21 | FY22 | FY23 |
|-----------------------|------|------|------|------|------|
| Cables | 82 | 76 | 59 | 76 | 91 |
| Housing Wires | | 68 | 61 | 59 | 79 |
| Stainless steel wires | 92 | 91 | 85 | 84 | 87 |

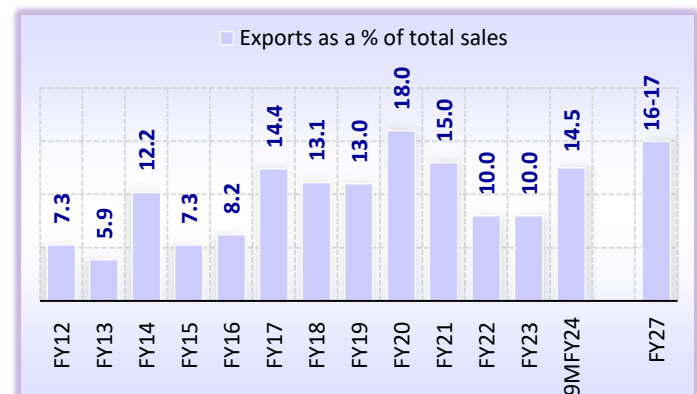
Source: MOFSL, Company

Retail sales as a percentage of total sales



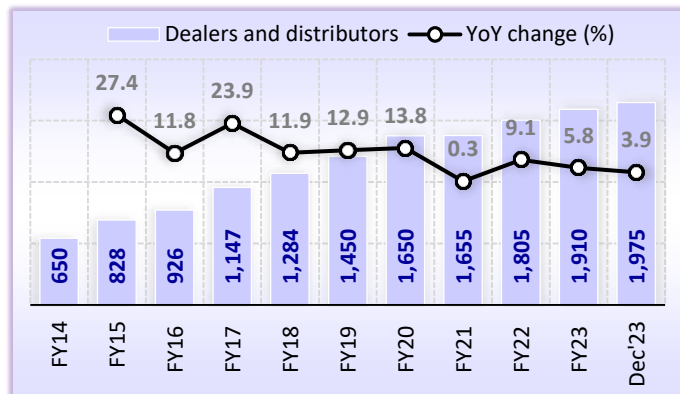
Source: MOFSL, Company

Exports as a percentage of total sales



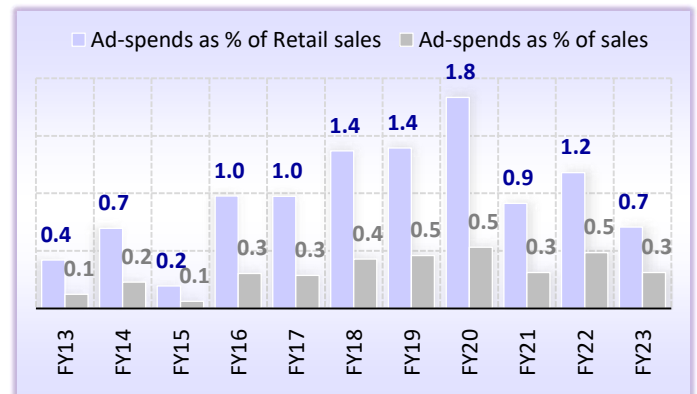
Source: MOFSL, Company

Dealer network has steadily scaled up to 1,975+ by Dec'23



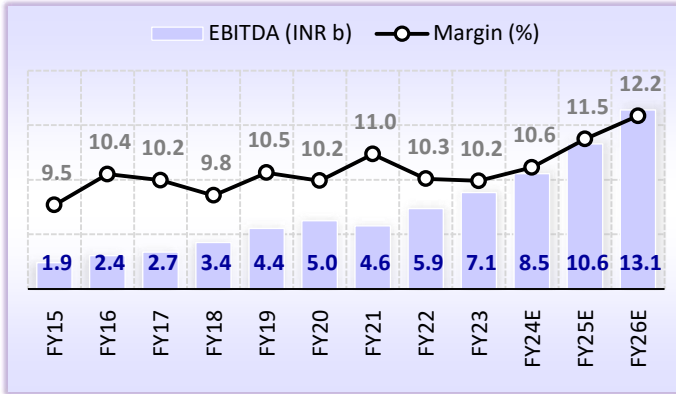
Source: MOFSL, Company

Ad spending as a percentage of retail sales trend



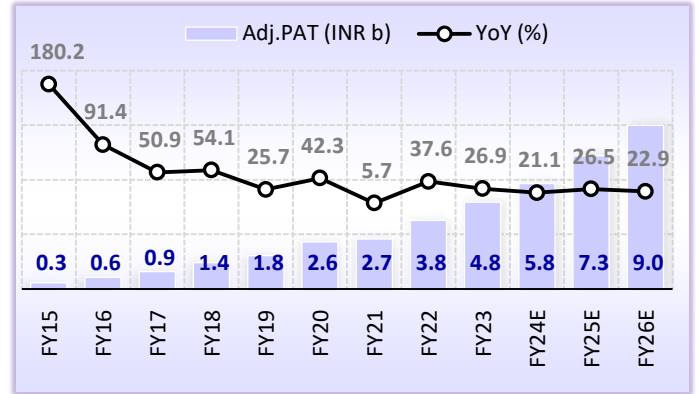
Source: MOFSL, Company

EBITDA margin to improve over FY24-26E



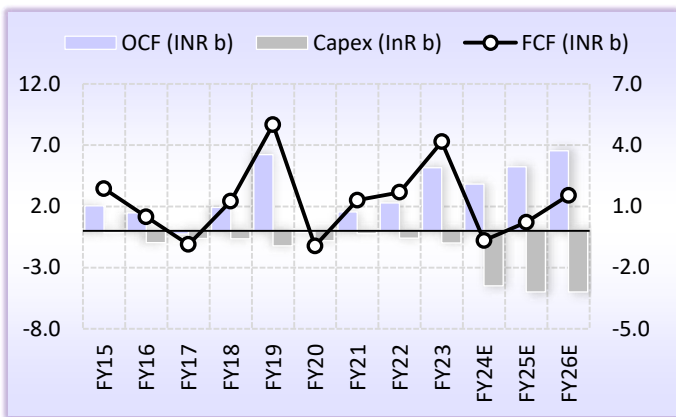
Source: MOFSL, Company

Expect Adj. PAT CAGR at ~25% over FY24-26E



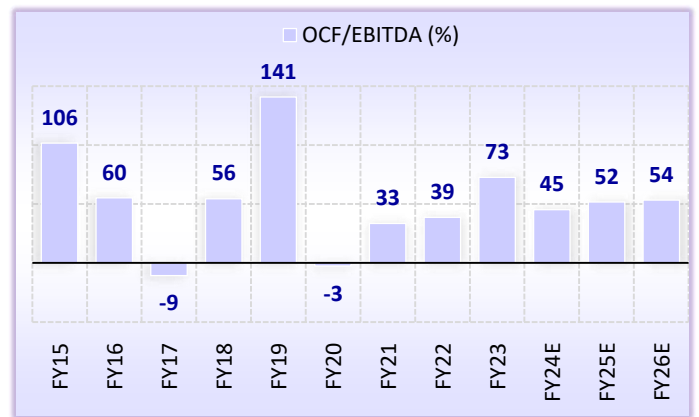
Source: MOFSL, Company

Estimate KEI to generate healthy OCF over FY24-26E



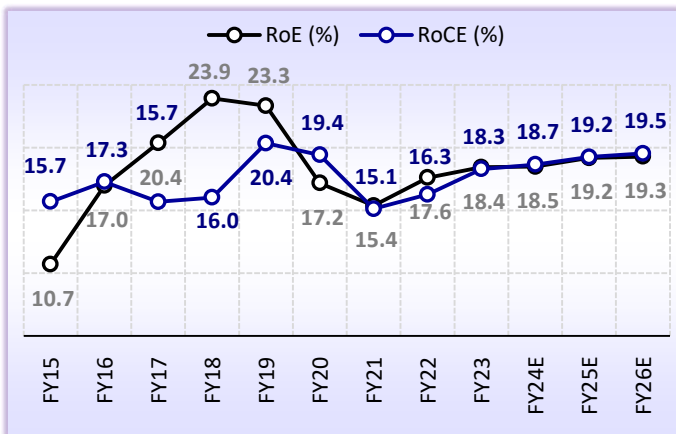
Source: MOFSL, Company

OCF/EBITDA trends



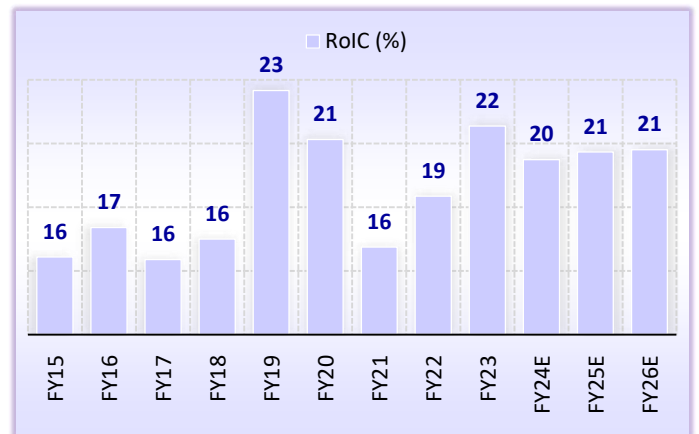
Source: MOFSL, Company

RoE/RoCE is estimated to improve over FY24-26E



Source: MOFSL, Company

Expect RoIC to stable ~21%



Source: MOFSL, Company

Second largest player with a varied product portfolio

Market share at 9% with strong revenue growth over FY15-23

- Established in 1968, KEI has ~five decades of experience in the cables & wires industry. In 2010, it set foot into the manufacturing of EHV cables up to 220kV in collaboration with BRUGG Kabels, AG a century old Swiss company, and gradually expanded it to 400kV. KEI has a diversified business model with a significant presence in domestic and international markets. It services retail and institutional segments and caters to both private and public sector clients.

Exhibit 36: Product range across different segments

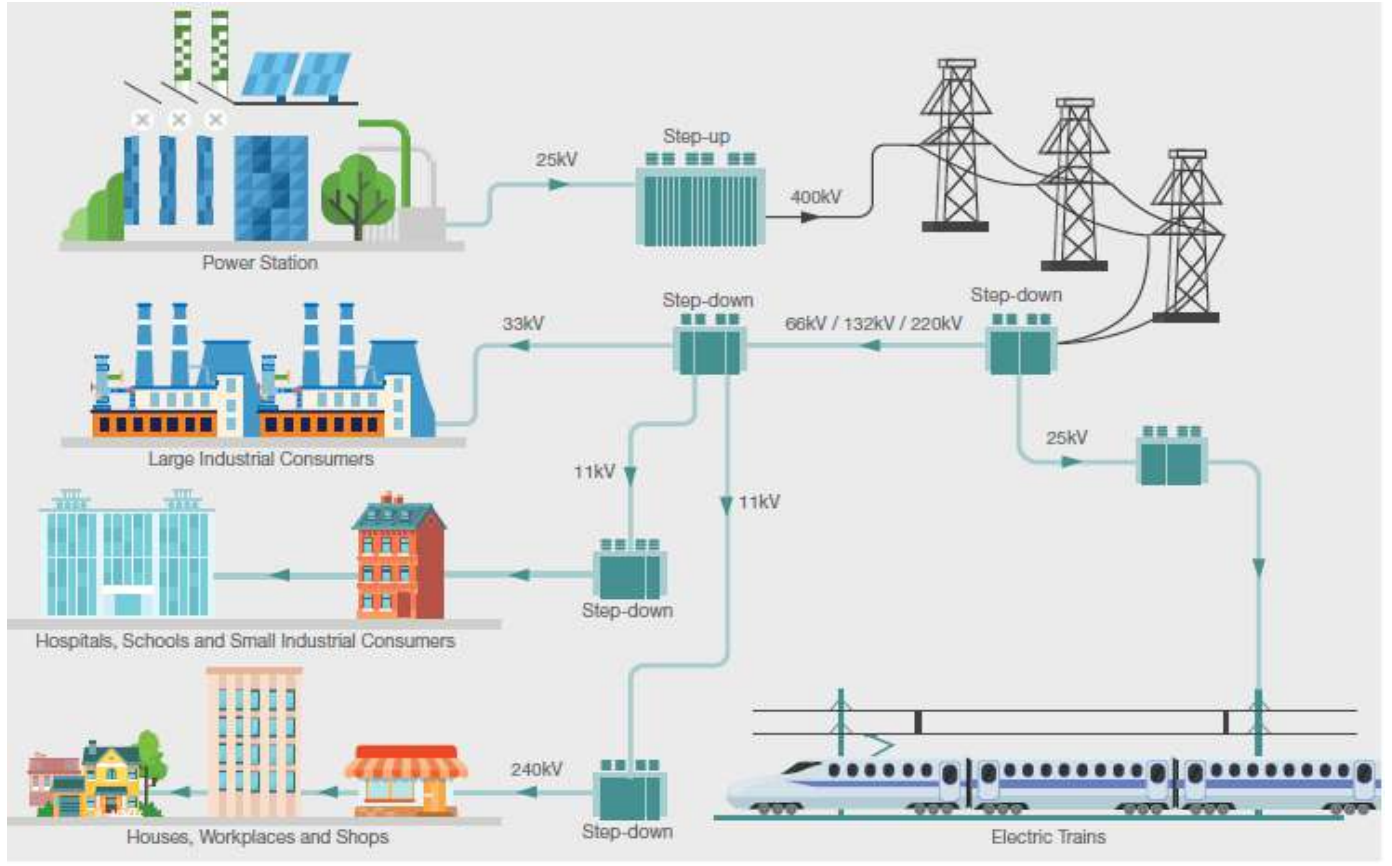


Source: MOFSL, Company

Robust business model with backward and forward integration

- KEI has built its manufacturing facilities at Bhiwadi, Chopanki, and Pathredi (all three in Rajasthan) and Rakholi and Chinchpada (Silvassa, Dadra, and Nagar Haveli). It has been able to backward integrate by setting up in-house manufacturing of PVC. Backward integration has enabled KEI to exercise greater control over the manufacturing process and quality, thereby resulting in improved efficiencies and higher margins. It also enables the company to fulfill customers' needs in a timely manner and enhance its ability to offer cost-competitive solutions. Its EHV business also benefits from the integration into EPC project execution, as 75-80% value of the EHV EPC project / contract consists of the value of the product. As forward integration, KEI largely focusses on projects with significant cabling requirements (25-30% in LT/HT and 75-80% in EHV) in the EPC space. However, the company is reducing its exposure in the EPC business, considering higher competitive intensity and prolonged working capital requirements (with revenues declining at a CAGR of 19% over FY20-23). It has a strong presence in the institutional segment and caters to more than 2,000 institutional customers.

Exhibit 37: Key cable applications in the T&D segment



Source: MOFSL, Company

- Time and again, KEI has enhanced its manufacturing capacity and further aims to invest ~INR13 via internal accruals over the next 3-4 years to ramp up capacities in LT, HT and EHV cables. It is planning to establish a Greenfield plant in Sanand, Gujarat with a total investment of ~INR12b over next 3-4 years. The first phase of facility is expected to be operational within 18 months (by 4QFY25) from the start of construction and will entail an investment of INR4-5b. This phase of expansion will provide a revenue potential of INR10-11b.
- It is also increasing capacity at its Chinchpada unit with an investment of INR1.1b and this expansion is expected to get completed in phases by Mar-24 (capacity increase in Oct'23/Dec'23 will have revenue potential of INR2.4b each; whereas; revenue potential from Mar'24 expansion will be ~INR5b). Further, the company is increasing capacity at its Pathredi plant at a capex of INR1.1b by 1QFY25. Revenue potential from this expansion will be INR8-9b.

Exhibit 38: Capacity ramp-up across all product categories over FY16-23

| Total product wise capacity | FY16 | FY17 | FY18 | FY19 | FY20 | FY21 | FY22 | FY23 |
|--|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| EHV Cables (kms) | 700 | 900 | 900 | 900 | 900 | 900 | 900 | 900 |
| HT Cables (kms) | 5,700 | 7,500 | 7,500 | 11,100 | 11,100 | 11,100 | 10,400 | 10,800 |
| LT Power and other Cables (kms) | 76,700 | 87,600 | 87,600 | 97,600 | 1,13,100 | 1,16,600 | 1,42,700 | 1,42,300 |
| Winding, Flexibles & House Wires (kms) | 3,75,000 | 6,77,000 | 6,77,000 | 8,17,000 | 11,17,000 | 11,17,000 | 13,32,000 | 13,32,000 |
| Stainless Steel Wires (MT) | 4,800 | 6,000 | 6,000 | 6,000 | 6,600 | 7,200 | 9,000 | 9,000 |
| Total capacity | FY16 | FY17 | FY18 | FY19 | FY20 | FY21 | FY22 | FY23 |
| Cables (kms) | 83,100 | 96,000 | 96,000 | 1,09,600 | 1,25,100 | 1,28,600 | 1,54,000 | 1,54,000 |
| Wires (kms) | 3,75,000 | 6,77,000 | 6,77,000 | 8,17,000 | 11,17,000 | 11,17,000 | 13,32,000 | 13,32,000 |
| Stainless steel wires (MT) | 4,800 | 6,000 | 6,000 | 6,000 | 6,600 | 7,200 | 9,000 | 9,000 |

Source: MOFSL, Company

Exhibit 39: High capacity utilization in cables warrants capacity expansion

| Utilisation (%) | FY19 | FY20 | FY21 | FY22 | FY23 |
|-----------------------|------|------|------|------|------|
| Cables | 82% | 76% | 59% | 76% | 91% |
| Housing Wires | | 68% | 61% | 59% | 79% |
| Stainless steel wires | 92% | 91% | 85% | 84% | 87% |

Source: MOFSL, Company

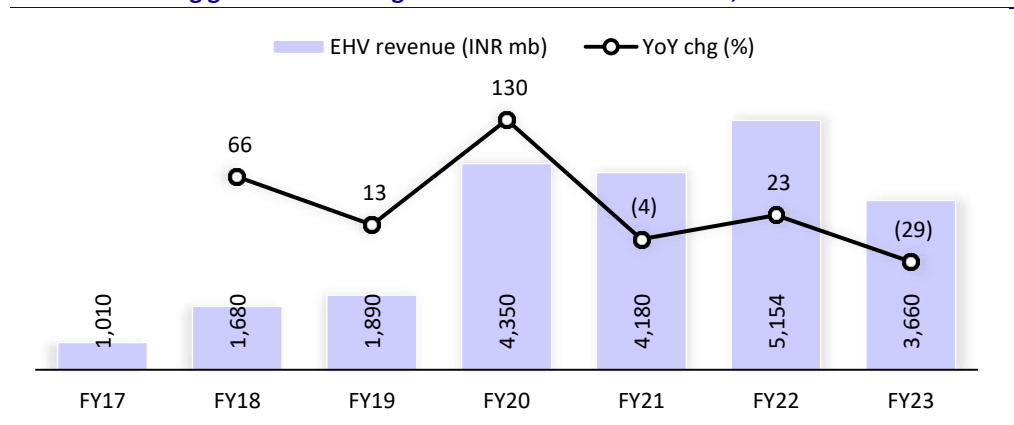
- With the commencement of 400kV EHV production in Chopanki (2017), KEI has become the third company in India to manufacture cables above 220KV+. The industry size for EHV cable above 220KV+ is estimated to be INR25-30b and is estimated to register a CAGR of 13-14% over FY23-27. KEI has also strengthened its EHV segment by undergoing forward integration through EPC project execution.
- The demand for EHV cables is rising due to the government's continued focus on converting overhead power networks to underground power grids as they offer enhanced safety and reliability. Similarly, the private sector, including premium hospitals, hotels, and shopping malls, is increasingly opting for underground cable networks.

Exhibit 40: Product range across different segments

| Companies | Power cables (EHV) up to 220KV | Power cables (EHV) up to 400KV |
|------------------|--------------------------------|--------------------------------|
| Finolex Cables | ✓ | ✓ |
| Havells | ✓ | |
| KEC | ✓ | |
| KEI | ✓ | ✓ |
| Polycab | ✓ | |
| V-Guard | ✓ | |
| Universal Cables | ✓ | ✓ |

Source: MOFSL, Company

- EHV segment's revenue of KEI clocked a CAGR of 39% over FY17-22; however; this segment's revenues faced some challenges in FY23 as delay in project clearances led to deferment of orders by a few customers.

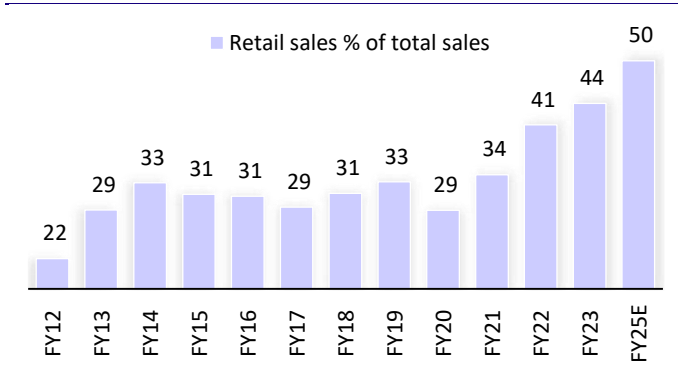
Exhibit 41: Strong growth in EHV segment's revenues over FY17-22; decline observed in FY23

Source: MOFSL, Company

Empowering retail and exports segments for accelerated growth

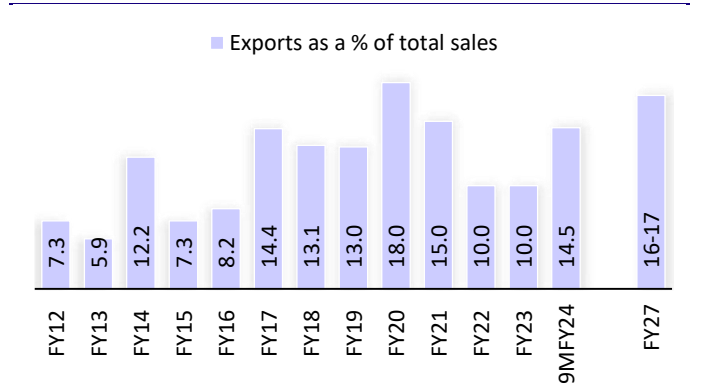
- The retail segment consists of Household wires, LT and HT cables. Given KEI’s brand strength, it enjoys higher margins in this segment, coupled with favorable working capital cycle. The company emphasized on boosting segment sales, aiming for a ~50% retail revenue share. It engaged a leading consultant to enhance sales strategies within their distribution network. This segment accounted for ~44% of total revenues in FY23 (~47% in 9MFY24), up from ~29% in FY20. The management now aims to reach its target of ~50% revenue contribution from this segment in the next two years. The company was also planning to foray into the FMEG segment to boost its B2C business; however, this decision has been deferred now considering significant capital investments for the Gujarat plant. This decision would be reviewed after the completion of Gujarat plant in the next two to three years.
- KEI exports a wide range of products such as EHV cables, HT cables, and LT power cables and stainless steel wires to over 60 countries. Also, as forward integration, the company provides EPC services to its customers. KEI has set up overseas marketing offices in five countries to drive customer outreach efforts and build on global relationships. Australia, Kuwait, and Abu Dhabi (in the Middle East), Nigeria and Ghana (in Africa) are the major export destinations for the Company. In FY23, exports accounted for 10% of total sales. Its export contribution increased to 14.5% of revenues in 9MFY24 as it targets to gain a strong foothold in the US markets with export approval for its product. The company further expects its export contribution to increase to 16-17% of revenue by FY27.

Exhibit 42: Retail sales as a percentage of total sales



Source: MOFSL, Company

Exhibit 43: Exports as a percentage of total sales

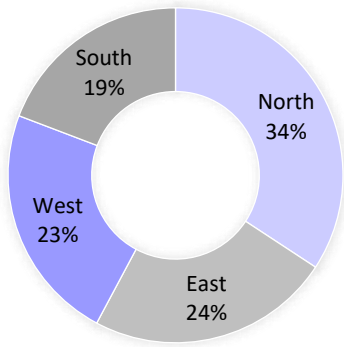


Source: MOFSL, Company

Ramping up distribution and ad-spends with focus on retail segment

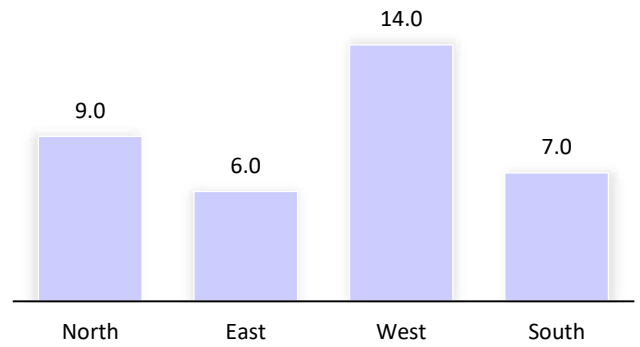
With an aim to quickly scale up its retail segment, KEI is focused on expanding its dealer network and also started also weeding out the non-performing touchpoints in certain geographies, replacing them with new dealers. KEI has increased its dealers network to 1,910 in FY23 (reached 1,975 in Dec’23); a 13% CAGR over FY14-23. It has 23 depots and 36 marketing offices across the country. The focus in the near term will be to continue expanding the distribution network as well as higher revenue contribution from each dealer.

Exhibit 44: Dealers' concentration is lower in the South



Source: MOFSL, Company

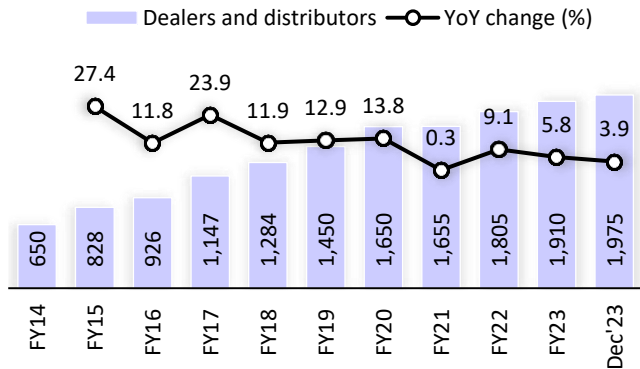
Exhibit 45: Marketing offices across geographies



Source: MOFSL, Company

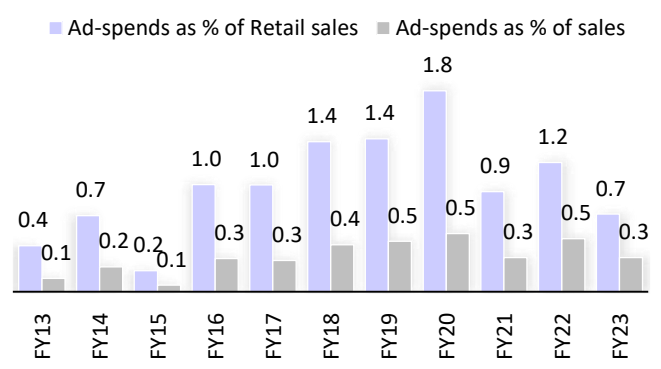
KEI has been strengthening its brand recall by increasing ad-spends. Ad-spends has increased from FY16 onwards, with focus on ramping up retail sales. Since FY16, the company has been the lead sponsor for IPL teams. In FY21, owing to COVID outbreak and increased TV viewership, the company strategically invested in branding activity on Hindi news channels as well as leading regional news channels. In CY23, it entered into a strategic association with Royal Challengers Bangalore as its principal partner for the IPL tournament, 2023. While IPL remains the key area of focus, the company is also expanding its sponsorship to other sports such as kabaddi and football to enhance brand visibility.

Exhibit 46: Dealer network has steadily scaled up to 1,975 by Dec'23



Source: MOFSL, Company

Exhibit 47: Average ad-spends as a percentage of retail sales stood at ~1% over FY16-23



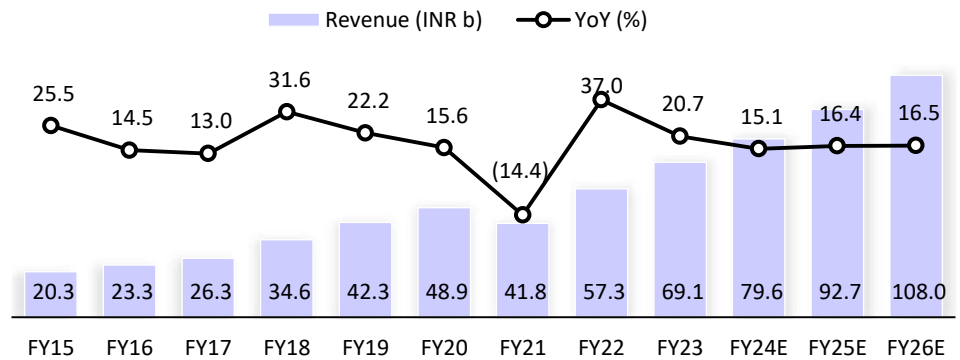
Source: MOFSL, Company

Financial Outlook

Expect revenue CAGR of ~16% over FY24-26

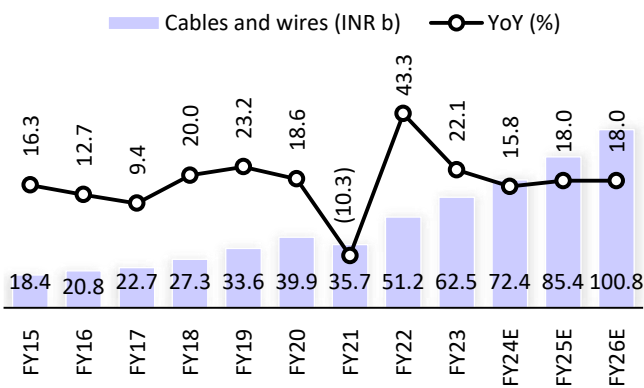
- Overall, revenue CAGR stood at ~16% over FY15-FY23, driven by double-digit growth (~17% CAGR) in cables & wires (EHV cables, HT cables, LT cables, Housing wires) and (~11% CAGR) in stainless steel wire, while EPC revenues registered a CAGR of ~9%.
- We expect a revenue CAGR of 16% over FY24-26E, led by ~18% growth in the cables & wires segment. However, EPC (other than cables) revenue is likely to see a CAGR of ~3% as the company continues to focus on selecting limited and high-quality projects above a certain margin threshold and a better working capital cycle.

Exhibit 48: Expect Revenue CAGR of 16% over FY24-26



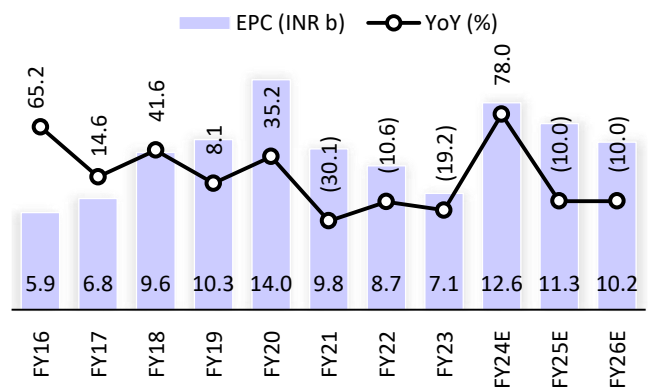
Source: MOFSL, Company

Exhibit 49: Expect cables & wires revenues to register a CAGR of 18% over FY24-26E



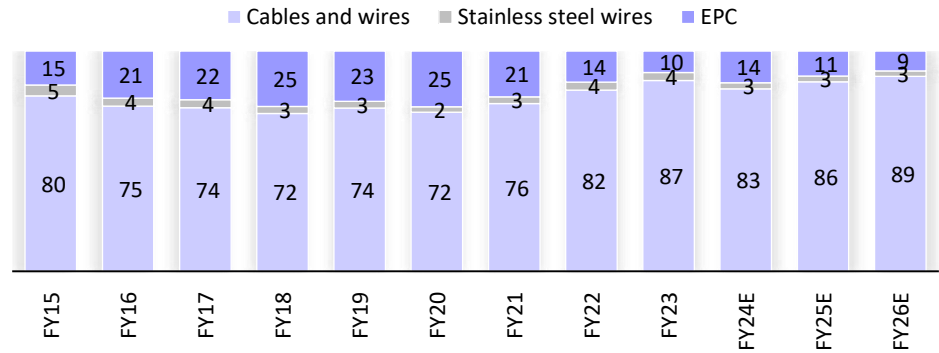
Source: MOFSL, Company

Exhibit 50: In the EPC segment (ex-cables), we expect gradual scale down of the business during FY25-26E



Source: MOFSL, Company

Exhibit 51: Expect revenue contribution from cables & wires to be 86-89% over FY25-26, as the EPC business share gradually reduces

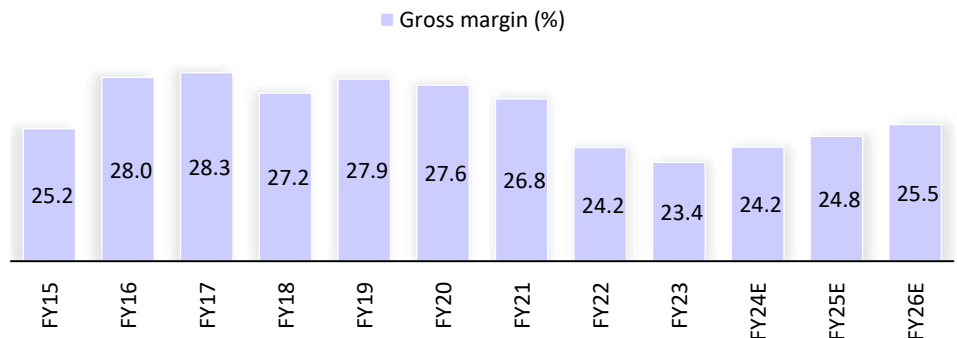


Source: MOFSL, Company

Gross margin to improve going forward

- Surge in the price of raw materials (Copper and Aluminum) adversely impacted gross margins in FY22/23. Gross margin declined to 24.2%/23.4% in FY22/23 vs. 26.8% in FY21.
- We estimate gross margins to improve gradually to 25.5% in FY26, benefitting from softening raw material prices.

Exhibit 52: Gross margins to scale up to 25.5% in FY26E

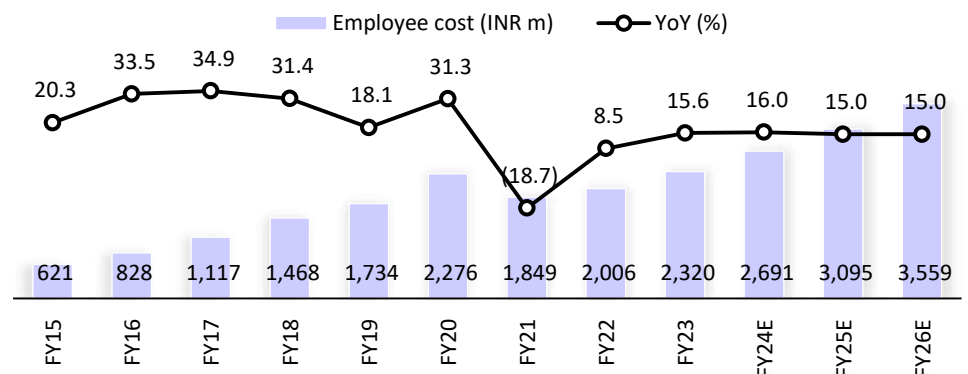


Source: MOFSL, Company

Employee cost continues to increase with growth in retail business

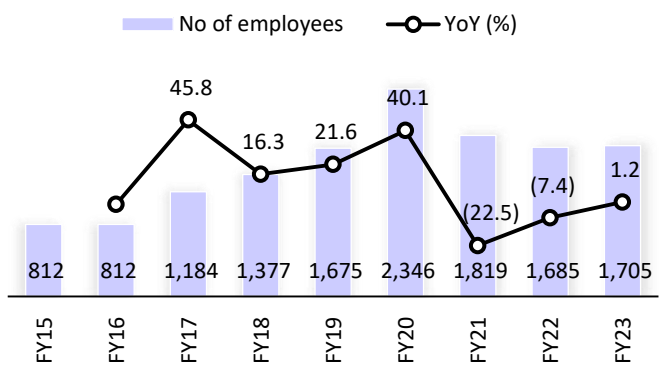
- Employee costs grew in double-digits over FY15-20 as the company ramped up its retail business and further strengthened its position in cables (especially EHV cables) and EPC segments.
- In FY21, employee costs decreased ~19% YoY due to the pandemic-driven cost control measures. The company experienced growth in the number of employees over FY17-20, driven by the execution of a significant order for Dangote Oil refining company in FY19-20. The company has rationalized its permanent employee strength and employee counts have declined at a CAGR of ~10% over FY20-23.
- We estimate employee cost to register a CAGR of ~15% over FY24-26E with focus on rapid growth in retail business and commissioning of new capacities.

Exhibit 53: Employee costs to increase due to commissioning of new capacities



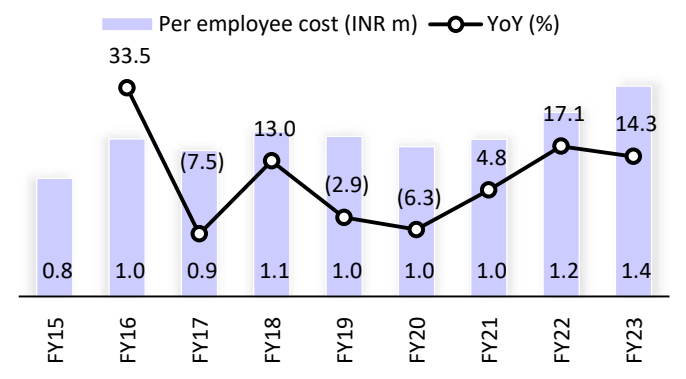
Source: MOFSL, Company

Exhibit 54: Permanent employee counts declined over FY20-22



Source: MOFSL, Company

Exhibit 55: However, per employee cost increased during FY20-23

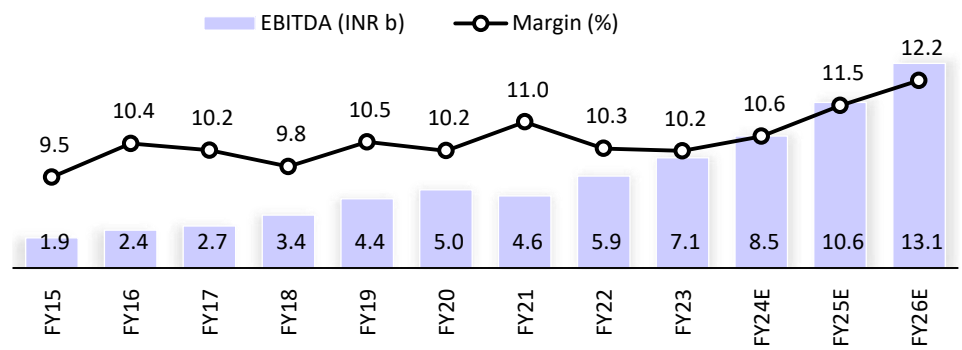


Source: MOFSL, Company

Estimate EBITDA CAGR of ~25% over FY24-26

- EBITDA registered a CAGR of ~18% over FY15-23, with margin expansion of 70bp over the same period due to the rising share of retail and export revenue. This growth was achieved despite a significant margin pressure in FY22/23, attributed to an inflationary RM-cost environment.
- We estimate margins to improve gradually, backed by softening raw material cost, a higher contribution from retail sales, and the expansion of its export operations. We also expect improvement in EBIT margin in the cables & wires segments over FY24-26E. EBIT margin of the cables & wires segment is estimated to be at 10.3%/11.2%/11.7% in FY24/25/26E vs. 9.1% in FY23. We expect EBIT margin of the EPC segment to be at 11.2%/11.2%/11.5% in FY24/25/26E vs. 9.5% in FY23.
- Margin improvement in the cables & wires and EPC segments will drive EBITDA CAGR of 25% over FY24-26 with OPM of 10.6%/11.5%/12.2% in FY24/25/26E vs. 10.2% in FY23.

Exhibit 56: EBITDA margin should improve FY24-26E

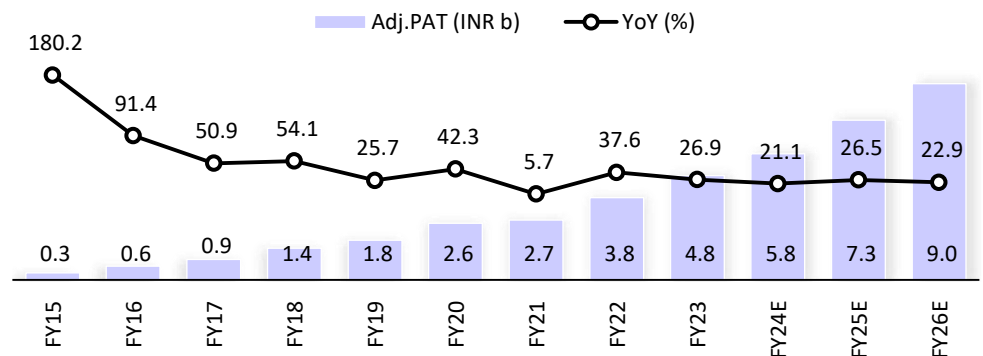


Source: MOFSL, Company

Adj. PAT CAGR expected at ~25% over FY24-26E

- Over FY15-23, Adj. PAT CAGR stood at 40%, aided by lower interest expense (declined at ~14% CAGR and the company becomes net cash positive in FY22), higher other income (increased at ~36% CAGR) and lower tax rate (ETR at 25.6% in FY23 vs. 35.3% in FY15).
- We expect Adj. PAT CAGR at ~25% over FY24-26E similar to EBITDA CAGR. Depreciation expense should increase at 26% CAGR over FY24-26E due to commissioning of new capacities.

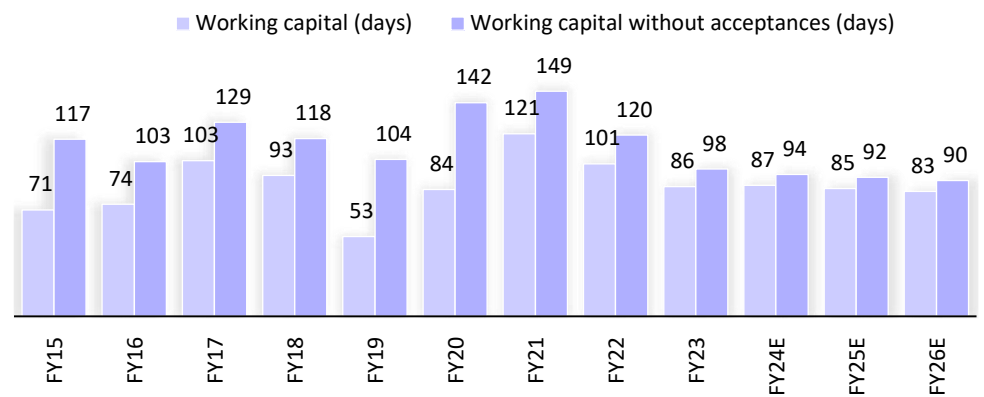
Exhibit 57: Expect Adj. PAT CAGR at ~25% over FY24-26E



Source: MOFSL, Company

Working capital cycle to remain at 83-87 days going forward; though working capital excluding acceptances to be at 99-94 days

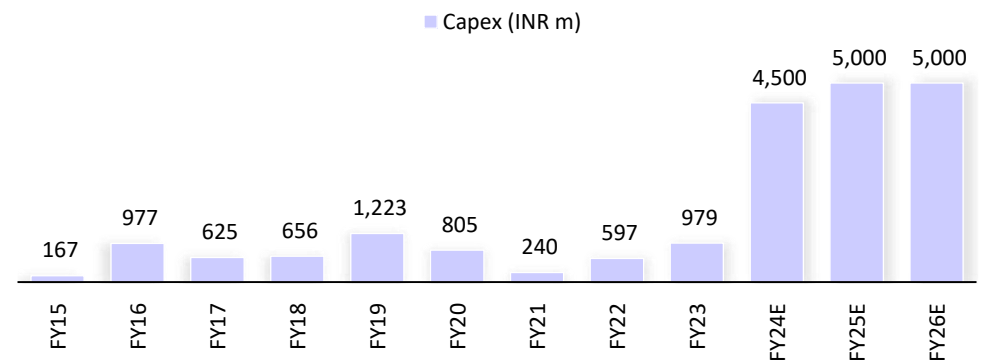
- Working capital cycle of the company increased during FY19-21, led by an increase in inventory days and lower payables. Average working capital of the company has been at 88days over FY14-23 (86days in FY23).
- Average working capital days, excluding trade acceptances, have remained at 123days over FY14-23 and FY23 working capital cycle (ex-trade acceptances) was the best at 98days in this period.
- With increase in retail contribution to revenues, we expect the working capital cycle to remain stable at 83-87 days over FY24-26E. The working capital cycle (ex-trade acceptances) is projected to stay in the range of 90-94 days over the same period.

Exhibit 58: Working capital to be at 83-87 days over FY24-26E

Source: MOFSL, Company

Announced brownfield and Greenfield expansion

- The company is aiming for higher growth and announced a capex of INR12b over the next three-four years to set up a facility in Sanand, Gujarat. It has already acquired land and the first phase of this plant is expected to be operational within 18 months (by 4QFY25) from the start of construction.
- Apart from that, the company is investing INR1.1b in brownfield expansion at its Chinchpada unit. This expansion is expected to get completed in phases by Mar'24. Further, the company is increasing capacity at its Pathredi plant at a capex of INR1.1b by 1QFY25.

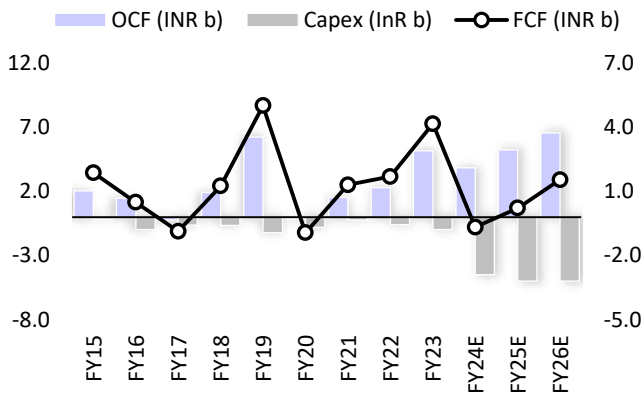
Exhibit 59: Capex increased, owing to high utilization in the cable segment

Source: MOFSL, Company

Healthy operating cash flow to support elevated capex plan

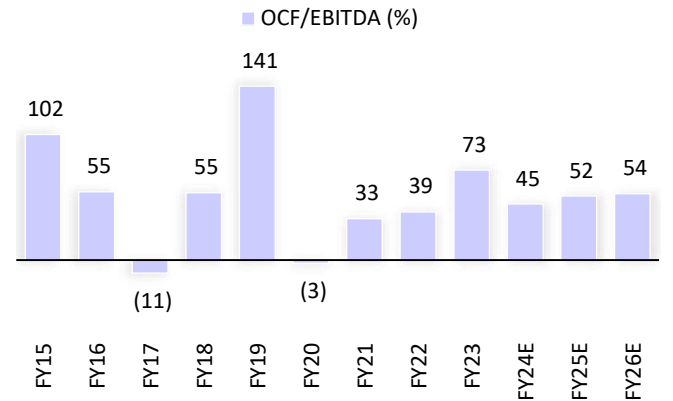
- KEI has generated a cumulative OCF of INR20.9b over FY14-23; though higher working capital requirements had led to a negative OCF in FY17/20. It spent a cumulative capex of INR6.5b in this period, and hence, cumulative FCF stood at INR14.4b over FY14-23.
- The company's robust FCF generation during FY21-23 facilitated the deleveraging of its balance sheet, leading to a net cash position by FY22. Net cash stood at INR4b in FY23 (INR3.1b as of Dec'23) vs. a net debt of INR638m in FY21 (average net debt of INR4.8b over FY14-19).
- Going forward, we expect its cumulative OCF to be at INR16.4b over FY24-26E; whereas cumulative capex over FY24-26E should be at INR14.5b. We estimate FCF generation of INR1.9b given the aggressive expansion plan.

Exhibit 60: Estimate KEI to generate healthy OCF



Source: MOFSL, Company

Exhibit 61: OCF/EBITDA conversion of 52-54% over FY25-26E

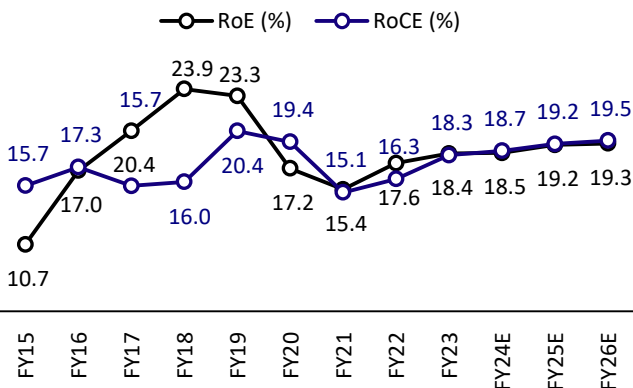


Source: MOFSL, Company

Expect ROE/ROCE to improve over FY24-26E

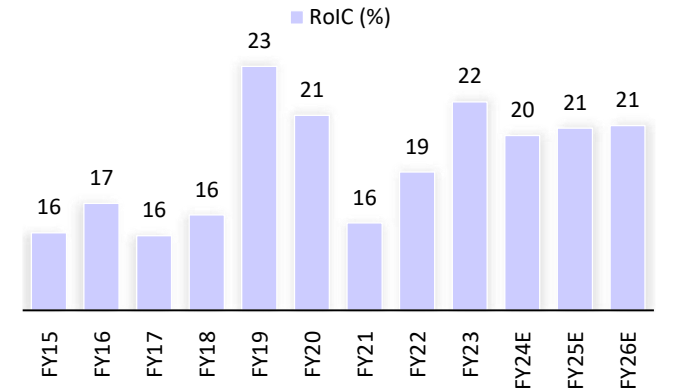
- With ~40% Adj. PAT CAGR over FY15-23, RoE expanded from ~11% in FY15 to ~18% in FY23. With robust operating performance and lower corporate tax rate, RoIC expanded to ~22% in FY23 from ~16% in FY15. We estimate the company's RoE/ROCE to be at ~19%/20% in FY26E vs. ~18% in FY23. RoIC should decline in the initial period of high capex to ~21% in FY26 vs. ~22% in FY23.

Exhibit 62: ROE/ROCE to improve over FY24-26E



Source: MOFSL, Company

Exhibit 63: Expect RoIC to stable ~21%

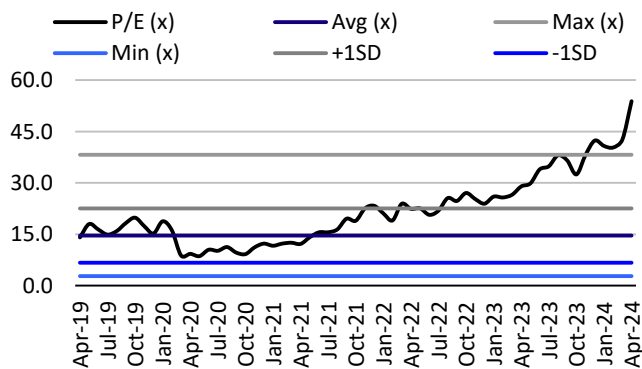


Source: MOFSL, Company

Earnings growth and strong sector dynamics to help sustain rerating; initiate with BUY

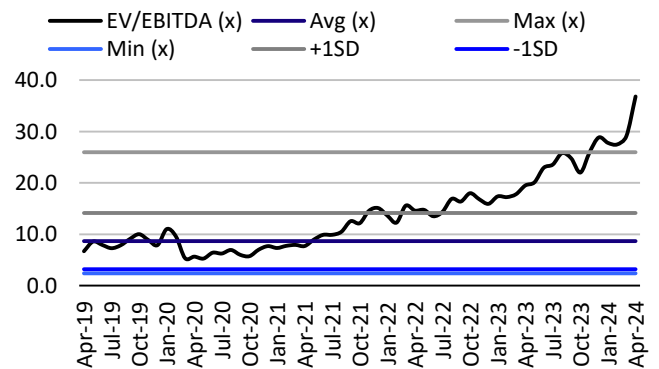
- KEI, one of the rare industry players capable of manufacturing cables above 220KV+, holds the position of the second-largest player in the cables & wires segment. The company commands a significant market share of ~13% in the organized industry and ~9% in the overall market. In our analyzed company group, KEI stands out with a market share of ~15%. Our analysis indicates that it has gained 300bp in market share over FY17-23, among these players.
- Its brownfield expansion at its Chinchpada, Silvassa plant (to be completed in phases by Mar'24) and Pathredi plant (by 1QFY25) should help growth in FY25E as the utilization rate of the cable segment was higher at 91% in FY23. It is also in the process of setting up a Greenfield plant at Sanand, Gujarat; the first phase (investment of INR4-5b) of the plant will be commissioned by 4QFY25. It intends to invest ~INR12b over the next three to four years at this location.
- EBITDA/Adj. PAT of the company registered a CAGR of ~18%/40% over FY15-23 despite margin pressures in the cables & wires segment during FY22/23, led by RM cost pressures. Going forward, we expect EBITDA and EPS to register a CAGR of 25% (each) over FY24-26E.
- FCF generation over most of the years helped it to strengthen its balance sheet, transforming it into a net cash positive company. Projections indicate that its cumulative OCF is expected to reach INR16.4b over FY24-26E; while the cumulative capex over the same period is estimated to be INR14.5b.
- We estimate KEI's RoE/RoCE to be at 19%/20% in FY26 vs. 18% in FY23. Investments into the new Greenfield unit will limit improvement in RoE, in our view. Multiples of cables & wires companies have rerated significantly in the last two years driven by strong earnings growth, which we expect to sustain, driven by government capex and strong traction in the real estate segment. We expect the company to maintain its premium valuations and value it at 50x FY26E EPS to arrive at our price target of INR5,000. We initiate coverage on the company with a BUY rating.

Exhibit 64: One-year forward P/E chart



Source: MOFSL, Company, Bloomberg

Exhibit 65: One-year forward EV/EBITDA chart



Source: MOFSL, Company, Bloomberg

Company overview

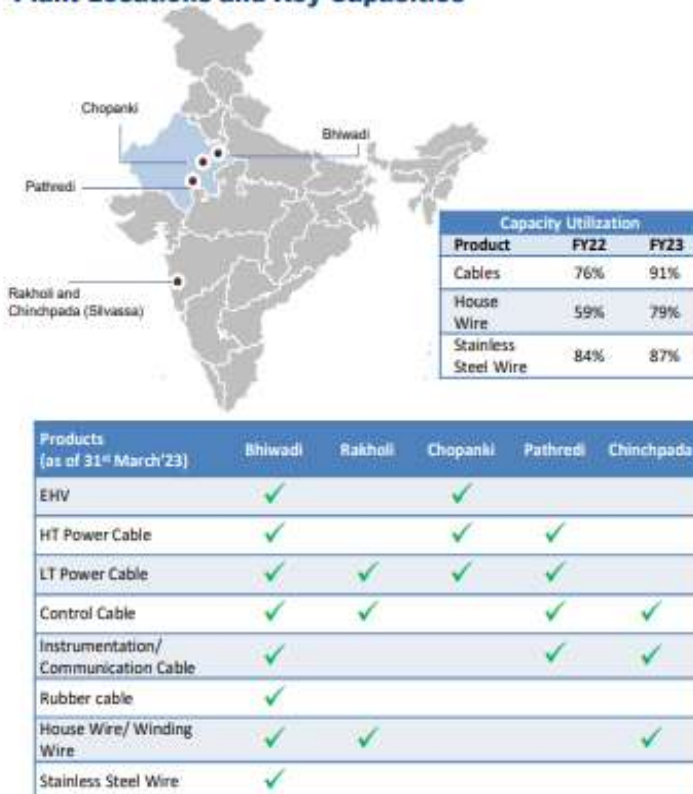
KEI Industries Limited (KEI) was established in 1968 as a partnership firm known as Krishna Electrical Industries, primarily engaged in the manufacturing of house wiring rubber cables. In December 1992, the company underwent a transformation and became a public limited company, adopting the name KEI Industries Limited.

In 1996, it acquired 'Matchless', a company operating under the same management, specializing in the manufacturing of SSW. In 2010, KEI further diversified its portfolio by venturing into the production of EHV cables up to 220kV, in collaboration with BRUGG Kables, AG, a renowned Swiss company with a century-long legacy. Over the years, KEI successfully expanded its expertise in EHV cables, eventually reaching the capability to manufacture cables up to 400kV.

KEI has a diversified business model with a significant presence in domestic and international markets. It services retail and institutional segments and caters to both private and public sector clients. Currently, it is engaged in manufacturing and marketing of Power cables and addresses the cabling requirements of a wide spectrum of sectors such as Power, Oil Refineries, Railways, Automobiles, Cement, Steel, Real Estate, Telecommunications, Textile, and Renewable energy. It is well-poised to garner opportunities from the power utilities, core infrastructure, and construction projects across the country.

Exhibit 66: Plant locations and manufacturing capabilities of KEI

Plant Locations and Key Capacities



| Plant Location | Start Date | Capacity (As of 31st March, 23) |
|----------------|------------|--|
| Bhiwadi | 1996 | <ul style="list-style-type: none"> Cable – 54,800 Kms House Wire/WW – 190,000 Kms Stainless Steel Wire – 9,000 MT |
| Rakholi | 2002 | <ul style="list-style-type: none"> Cable – 30,000 Kms House Wire – 696,000 Kms |
| Chopanki | 2007 | <ul style="list-style-type: none"> Cable – 4,900 Kms |
| Pathredi | 2018 | <ul style="list-style-type: none"> Cable – 22,600 Kms |
| Chinchpada | 2019 | <ul style="list-style-type: none"> House Wire – 4,46,000 Kms Cable- 12,900 Kms Communication cable – 28,800 Kms |

Strong R&D capabilities

- R&D facility with in-house lab accredited by NABL
- Customized solutions for customers
- Continuous focus on development of new products
- Niche product offerings
- Focus on developing specialty products

Source: MOFSL, Company

SWOT analysis

- ❖ Second largest player in the cables & wires industry, one of the few companies with a presence in cables above 220KV in India.
- ❖ Strong backward integrated facility leads to higher advantage toward cost control and supply chain management.
- ❖ Wide outreach across different export markets with marketing offices setup in five countries.

S
STRENGTH



- ❖ Higher dependence on cables & wires (~90% of sales). Lower construction activity and subdued real estate could negatively impact the segment.
- ❖ Elevated working capital (compared to other electrical categories) owing to higher proportion of B2B sales (~50-55%).

W
WEAKNESS



- ❖ Rising demand for the EHV cables with growing EPC infrastructure projects, where the competitive intensity is low.
- ❖ Increasing revenue share of retail segment due to its superior profitability.
- ❖ Growth in the exports revenues with increasing geographical presence and penetration.

O
OPPORTUNITY



- ❖ Capex deferment, delays in key infrastructure projects and temporary sluggishness in the housing sector owing to various headwinds.
- ❖ Volatility in key raw material prices and exchange rates.
- ❖ Rising competitive intensity from existing players.

T
THREATS



Bull and Bear Case



Bull Case

- ☑ With increased focus on Infrastructure and construction, we assume revenue CAGR of ~19% and EBITDA/PAT CAGR of ~28% (each) over FY24-26E.
- ☑ Higher revenues from retail wires and exports would lead to favorable revenue mix, thus aiding EBITDA margin expansion of 170bp over FY24-26E.
- ☑ Assuming a target P/E multiple of 55x, we arrive at a target price of INR5,820, at ~46% upside from CMP.



Bear Case

- ☑ We assume slower off take in industrial and construction activity, thus factoring in revenue/EBITDA/PAT CAGR of 12%/11%/10% over FY24-26E.
- ☑ With lower operating leverage, we expect EBITDA margin at ~10-10.5% over FY25-26E.
- ☑ Assuming a target P/E multiple of 45x, we arrive at a target price of INR3,500, at ~12% downside from CMP.

Scenario analysis - Bull Case

| (INR b) | FY23 | FY24E | FY25E | FY26E |
|------------------------|------|-------|-------|-------|
| Revenue (INR b) | 69.1 | 79.6 | 93.9 | 112.7 |
| Growth (%) | 20.7 | 15.1 | 18.0 | 20.0 |
| EBITDA (INR b) | 7.1 | 8.5 | 11.2 | 13.9 |
| YoY growth (%) | 19.9 | 19.7 | 32.2 | 24.0 |
| EBITDA Margin (%) | 10.2 | 10.6 | 11.9 | 12.3 |
| PAT (INR b) | 4.8 | 5.8 | 7.7 | 9.5 |
| EPS (INR) | 52.9 | 64.1 | 85.7 | 105.8 |
| P/E multiple (implied) | | | | 55.0 |
| Target price (INR) | | | | 5,820 |
| Upside/ (downside) (%) | | | | 46.0 |

Source: Company, MOFSL

Scenario analysis – Bear Case

| (INR b) | FY23 | FY24E | FY25E | FY26E |
|------------------------|------|-------|-------|--------|
| Revenue | 69.1 | 79.6 | 89.1 | 99.8 |
| Growth (%) | 20.7 | 15.1 | 12.0 | 12.0 |
| EBITDA (INR m) | 7.1 | 8.5 | 9.2 | 10.5 |
| YoY growth (%) | 19.9 | 19.7 | 8.6 | 14.2 |
| EBITDA Margin (%) | 10.2 | 10.6 | 10.3 | 10.5 |
| PAT (INR m) | 4.8 | 5.8 | 6.2 | 7.0 |
| EPS (INR) | 52.9 | 64.1 | 69.3 | 77.8 |
| P/E multiple (implied) | | | | 45.0 |
| Target price (INR) | | | | 3,500 |
| Upside/ (downside) (%) | | | | (12.0) |

Source: Company, MOFSL

Management overview



Mr. Anil Gupta - Chairman cum Managing Director

Mr. Gupta commenced his journey with KEI in 1979 as a partner in the erstwhile Krishna Electrical Industries and soon rose to become its Chairman-cum- Managing Director. With over four decades of experience at the helm, he plays a strategic role in guiding the Company to scale new heights of success.



Mr. Akshit Diviaj Gupta - Executive Director, Non-Independent

Mr. Akshit Diviaj Gupta is a young and dynamic professional with a strong entrepreneurial background. He has experience in handling EPC projects and marketing functions of the Company. He holds a BBA degree in Management, an Honorary Graduate Fellowship, and has an acute interest and knowledge of diverse business activities.



Mr. Rajeev Gupta - Executive Director Finance and CFO

Mr. Rajeev Gupta has around 28 years of experience in Corporate Finance and is presently heading the Finance & Accounts Department of KEI. Mr. Gupta holds a B.Com. degree and is a Chartered Accountant.



Mr. Manoj Kakkar - Executive Director: Sales and Marketing

Mr. Manoj Kakkar has around 34 years of experience heading the Sales and Marketing of KEI. He holds B.Com. and PGDM degrees.

Financials and valuations (Consolidated)

| Income Statement | | | | | | | | (INR M) |
|----------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|-----------------|
| Y/E March | FY19 | FY20 | FY21 | FY22 | FY23 | FY24E | FY25E | FY26E |
| Net Sales | 42,270 | 48,878 | 41,815 | 57,270 | 69,123 | 79,582 | 92,650 | 1,07,968 |
| Change (%) | 22.2 | 15.6 | (14.4) | 37.0 | 20.7 | 15.1 | 16.4 | 16.5 |
| EBITDA | 4,422 | 4,996 | 4,605 | 5,887 | 7,062 | 8,450 | 10,618 | 13,122 |
| % of Net Sales | 10.5 | 10.2 | 11.0 | 10.3 | 10.2 | 10.6 | 11.5 | 12.2 |
| Depreciation | 340 | 567 | 578 | 555 | 571 | 677 | 830 | 1,075 |
| Interest | 1,362 | 1,292 | 573 | 404 | 347 | 402 | 252 | 231 |
| Other Income | 72 | 165 | 201 | 146 | 276 | 403 | 300 | 274 |
| PBT | 2,792 | 3,302 | 3,655 | 5,075 | 6,420 | 7,774 | 9,834 | 12,090 |
| Tax | 974 | 716 | 921 | 1,315 | 1,647 | 1,994 | 2,522 | 3,101 |
| Rate (%) | 34.9 | 21.7 | 25.2 | 25.9 | 25.6 | 25.6 | 25.6 | 25.6 |
| Extra-ordinary Inc.(net) | - | - | - | - | - | - | - | - |
| Reported PAT | 1,818 | 2,586 | 2,734 | 3,760 | 4,773 | 5,780 | 7,312 | 8,989 |
| Change (%) | 25.7 | 42.3 | 5.7 | 37.5 | 27.0 | 21.1 | 26.5 | 22.9 |
| Adjusted PAT | 1,818 | 2,586 | 2,734 | 3,760 | 4,773 | 5,780 | 7,312 | 8,989 |
| Change (%) | 25.7 | 42.3 | 5.7 | 37.5 | 27.0 | 21.1 | 26.5 | 22.9 |
| Balance Sheet | | | | | | | | (INR M) |
| Y/E March | FY19 | FY20 | FY21 | FY22 | FY23 | FY24E | FY25E | FY26E |
| Share Capital | 158 | 179 | 180 | 180 | 180 | 180 | 180 | 180 |
| Reserves | 7,631 | 14,889 | 17,597 | 21,175 | 25,711 | 31,087 | 37,966 | 46,414 |
| Net Worth | 7,789 | 15,068 | 17,776 | 21,355 | 25,892 | 31,267 | 38,146 | 46,594 |
| Loans | 5,059 | 3,151 | 2,850 | 3,314 | 1,353 | 1,053 | 553 | 53 |
| Deferred Tax Liability | 442 | 310 | 296 | 294 | 266 | 266 | 266 | 266 |
| Capital Employed | 13,289 | 18,528 | 20,922 | 24,963 | 27,511 | 32,586 | 38,965 | 46,913 |
| Gross Fixed Assets | 5,799 | 6,298 | 6,631 | 7,733 | 8,668 | 13,168 | 18,168 | 23,168 |
| Less: Depreciation | 912 | 1,309 | 1,869 | 2,424 | 2,995 | 3,672 | 4,502 | 5,577 |
| Net Fixed Assets | 4,887 | 4,989 | 4,761 | 5,309 | 5,673 | 9,496 | 13,666 | 17,591 |
| Capital WIP | 316 | 112 | 71 | 165 | 146 | 146 | 146 | 146 |
| Investments | 16 | 6 | 9 | 20 | 13 | 13 | 13 | 13 |
| Curr. Assets | 22,432 | 27,579 | 25,295 | 29,776 | 31,870 | 34,110 | 37,647 | 43,146 |
| Inventory | 6,896 | 8,638 | 7,682 | 10,794 | 11,023 | 13,300 | 14,976 | 16,861 |
| Debtors | 10,946 | 13,676 | 13,496 | 13,955 | 13,878 | 15,044 | 17,007 | 19,227 |
| Cash & Bank Balance | 1,953 | 2,143 | 2,212 | 3,600 | 5,372 | 3,993 | 3,600 | 4,654 |
| Loans & Advances | 115 | 154 | 220 | 16 | 24 | 28 | 33 | 38 |
| Other Current Assets | 2,521 | 2,969 | 1,685 | 1,410 | 1,573 | 1,744 | 2,031 | 2,366 |
| Current Liab. & Prov. | 14,360 | 14,158 | 9,214 | 10,307 | 10,191 | 11,178 | 12,506 | 13,982 |
| Creditors | 10,203 | 11,690 | 7,414 | 7,626 | 7,482 | 8,285 | 9,138 | 10,057 |
| Other Liabilities | 3,936 | 2,277 | 1,658 | 2,538 | 2,469 | 2,616 | 3,046 | 3,550 |
| Provisions | 221 | 192 | 142 | 143 | 240 | 277 | 322 | 375 |
| Net Current Assets | 8,071 | 13,421 | 16,081 | 19,469 | 21,679 | 22,932 | 25,141 | 29,164 |
| Application of Funds | 13,289 | 18,528 | 20,922 | 24,963 | 27,511 | 32,586 | 38,965 | 46,913 |

Financials and valuations (Consolidated)

Ratios

| Y/E March | FY19 | FY20 | FY21 | FY22 | FY23 | FY24E | FY25E | FY26E |
|---------------------------------|-------|-------|-------|-------|-------|-------|-------|-------|
| Basic (INR) | | | | | | | | |
| Adjusted EPS | 23.0 | 28.9 | 30.4 | 41.7 | 52.9 | 64.1 | 81.1 | 99.7 |
| Growth (%) | 24.8 | 25.5 | 5.3 | 37.2 | 26.8 | 21.1 | 26.5 | 22.9 |
| Cash EPS | 27.3 | 35.2 | 36.9 | 47.9 | 59.3 | 71.6 | 90.3 | 111.6 |
| Book Value | 98.7 | 168.3 | 197.8 | 237.0 | 287.1 | 346.7 | 423.0 | 516.6 |
| DPS | 1.0 | 1.5 | 2.0 | 2.5 | 3.0 | 3.7 | 4.0 | 5.0 |
| Payout (incl. Div. Tax.) | 5.2 | 10.7 | 6.6 | 6.0 | 5.7 | 7.0 | 5.9 | 6.0 |
| Valuation (x) | | | | | | | | |
| P/Sales | 7.4 | 7.3 | 8.6 | 6.3 | 5.2 | 4.5 | 3.9 | 3.3 |
| P/E | 172.8 | 137.7 | 130.8 | 95.4 | 75.2 | 62.1 | 49.1 | 39.9 |
| Cash P/E | 145.6 | 113.0 | 108.0 | 83.1 | 67.2 | 55.6 | 44.1 | 35.7 |
| EV/EBITDA | 71.7 | 71.5 | 77.8 | 60.9 | 50.3 | 42.1 | 33.5 | 27.0 |
| EV/Sales | 7.5 | 7.3 | 8.6 | 6.3 | 5.1 | 4.5 | 3.8 | 3.3 |
| Price/Book Value | 40.3 | 23.6 | 20.1 | 16.8 | 13.9 | 11.5 | 9.4 | 7.7 |
| Dividend Yield (%) | 0.0 | 0.0 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 |
| Profitability Ratios (%) | | | | | | | | |
| RoE | 23.3 | 17.2 | 15.4 | 17.6 | 18.4 | 18.5 | 19.2 | 19.3 |
| RoCE | 20.4 | 19.4 | 15.1 | 16.3 | 18.3 | 18.7 | 19.2 | 19.5 |
| RoIC | 23.5 | 21.2 | 16.1 | 18.5 | 21.8 | 20.2 | 20.6 | 21.2 |
| Turnover Ratios | | | | | | | | |
| Debtors (Days) | 95 | 102 | 118 | 89 | 73 | 69 | 67 | 65 |
| Inventory (Days) | 60 | 65 | 67 | 69 | 58 | 61 | 59 | 57 |
| Creditors. (Days) | 88 | 87 | 65 | 49 | 40 | 38 | 36 | 34 |
| Asset Turnover (x) | 3.2 | 2.6 | 2.0 | 2.3 | 2.5 | 2.4 | 2.4 | 2.3 |
| Leverage Ratio | | | | | | | | |
| Net Debt/Equity (x) | 0.4 | 0.1 | 0.0 | (0.0) | (0.2) | (0.1) | (0.1) | (0.1) |

Cash Flow Statement

| Y/E March | FY19 | FY20 | FY21 | FY22 | FY23 | FY24E | FY25E | FY26E |
|------------------------------|----------------|--------------|----------------|--------------|----------------|----------------|----------------|----------------|
| (INR M) | | | | | | | | |
| PBT before EO Items | 2,782 | 3,279 | 3,654 | 5,075 | 6,420 | 7,774 | 9,834 | 12,090 |
| Add : Depreciation | 339 | 567 | 578 | 555 | 571 | 677 | 830 | 1,075 |
| Interest | 1,356 | 1,276 | 554 | 404 | 347 | 402 | 252 | 231 |
| Less : Direct Taxes Paid | 865 | 947 | 903 | 1,247 | 1,776 | 1,994 | 2,522 | 3,101 |
| (Inc)/Dec in WC | (2,592) | 4,365 | 2,420 | 2,505 | 349 | 2,631 | 2,602 | 2,970 |
| Others | 21 | 61 | 76 | 4 | (74) | (403) | (300) | (274) |
| CF from Operations | 6,226 | (130) | 1,539 | 2,286 | 5,139 | 3,826 | 5,493 | 7,052 |
| (Inc)/Dec in FA | (1,223) | (805) | (240) | (597) | (979) | (4,500) | (5,000) | (5,000) |
| Free Cash Flow | 5,003 | (936) | 1,299 | 1,688 | 4,160 | (674) | 493 | 2,052 |
| (Pur)/Sale of Investments | (1,564) | 783 | 952 | (8) | (547) | - | - | - |
| Others | 37 | 133 | 42 | 22 | 156 | 403 | 300 | 274 |
| CF from Investments | (2,751) | 110 | 754 | (584) | (1,371) | (4,097) | (4,700) | (4,726) |
| (Inc)/Dec in Net Worth | 20 | 5,020 | 79 | 56 | 20 | - | - | - |
| (Inc)/Dec in Debt | (2,951) | (1,062) | (714) | 666 | (1,961) | (300) | (500) | (500) |
| Less : Interest Paid | 1,356 | 2,558 | 471 | 404 | 347 | 402 | 252 | 231 |
| Dividend Paid | 94 | 276 | 180 | 224 | 271 | 405 | 433 | 541 |
| Others | | (131) | - | (408) | - | - | - | - |
| CF from Fin. Activity | (4,382) | 994 | (1,286) | (314) | (2,559) | (1,107) | (1,185) | (1,272) |
| Inc/Dec of Cash | (906) | 974 | 1,007 | 1,388 | 1,208 | (1,378) | (393) | 1,053 |
| Add: Beginning Balance+FD | 2,859 | 1,169 | 1,205 | 2,212 | 4,163 | 5,372 | 3,993 | 3,600 |
| Closing Balance | 1,953 | 2,143 | 2,212 | 3,600 | 5,372 | 3,993 | 3,600 | 4,654 |

R R Kabel

BSE Sensex
74,245S&P CNX
22,519

CMP: INR1,598

TP: INR2,200 (+38%)

Buy



| | |
|-----------------------|-------------|
| Bloomberg | RRKABEL IN |
| Equity Shares (m) | 112.8 |
| M.Cap.(INRb)/(USDb) | 180.3 / 2.2 |
| 52-Week Range (INR) | 1822 / 1137 |
| 1, 6, 12 Rel. Per (%) | 15/-3/- |
| 12M Avg Val (INR M) | 667 |
| Free float (%) | 37.2 |

Financial Snapshot (INR b)

| Y/E Mar | FY24E | FY25E | FY26E |
|--------------|-------|-------|-------|
| Sales | 65.9 | 81.9 | 97.4 |
| EBITDA | 4.7 | 6.9 | 9.1 |
| PAT | 3.0 | 4.6 | 6.2 |
| EBITDA (%) | 7.2 | 8.4 | 9.4 |
| EPS (INR) | 27.0 | 40.7 | 54.8 |
| EPS Gr. (%) | 60.3 | 51.0 | 34.5 |
| BV/Sh. (INR) | 164.5 | 198.3 | 244.1 |

Ratios

| | | | |
|------------|-------|-------|-------|
| Net D/E | (0.0) | (0.0) | (0.1) |
| RoE (%) | 18.6 | 22.5 | 24.8 |
| RoCE (%) | 16.6 | 20.7 | 23.6 |
| Payout (%) | 18.5 | 17.2 | 16.4 |

Valuations

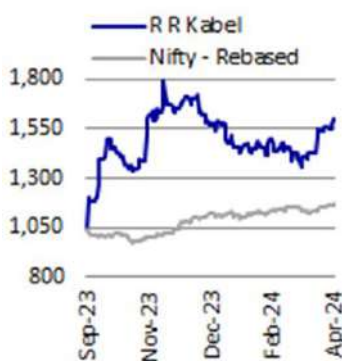
| | | | |
|---------------|------|------|------|
| P/E (x) | 59.2 | 39.2 | 29.2 |
| P/BV (x) | 9.7 | 8.1 | 6.5 |
| EV/EBITDA (x) | 37.9 | 26.2 | 19.6 |
| Div Yield (%) | 0.3 | 0.4 | 0.6 |
| FCF Yield (%) | 0.3 | 0.2 | 1.4 |

Shareholding pattern (%)

| As On | Dec-23 | Sep-23 |
|----------|--------|--------|
| Promoter | 62.8 | 62.8 |
| Public | 8.9 | 8.7 |
| Others | 4.7 | 5.0 |

FII Includes depository receipts

Stock Performance (1-year)



Electrifying growth in cables and wires

Expected to deliver industry-leading profitability growth over FY24-26

- **One of the top five players in fast-growing cables and wires business:** RR Kabel (RRKABEL) has ~7% market share in the domestic cables and wires industry, with the business-to-consumer (B2C) sales channel accounting for ~77% of revenue in FY23, one of the highest among peers. The company clocked a CAGR of 36% in export revenue over FY20-23, significantly higher than its peers. RRKABEL plans to increase its cables capacity by 2.4x by FY26E and aims to grow its wires revenue by 20% YoY over the next few years. This will ease out capacity constraints for cables and drive higher growth along with margin improvement.
- **Acquisition in FMEG segment accelerated growth:** RRKABEL has diversified and expanded its product portfolio in the FMEG segment, primarily led by inorganic opportunities. Its portfolio of FEMG products now covers ~77% of the addressable market. It now focuses on the integration of acquired businesses, diversification of product portfolio and value-added products. We estimate a revenue CAGR of 15% over FY24-26 and expect this segment to break-even at EBIT level in FY26.
- **Increasing dealer network led to market share gain:** The company has significantly increased its distribution network over the last few years, which consists of 3,598 distributors (up 3.3x vs. FY20) and 3,781 dealers as of Sep'23 (up 50% vs. FY20). The company has expanded its distribution network through various initiatives, such as - 1) Project KaRRma, which was aimed at increasing its market share; and 2) Project Lakshya for FMEG business.
- **Estimated to deliver industry-leading profitability growth; initiate with BUY:** RRKABEL delivered a PAT CAGR of ~22% over FY19-23 and we estimate an EPS CAGR of ~43% over FY24-26. We initiate coverage on RRKABEL with a BUY rating and a TP of INR2,200 (based on 40x FY26E EPS), considering strong earnings growth and better return ratios — RoE/RoCE of 25%/24% in FY26E.
- **Key downside risks:** a) volatility in RM prices, b) higher competitive intensity in the sector, and c) demand impact due to economic slowdown.

Delivering industry-leading growth in cables and wires

- RRKABEL is one of the leading producers of cables and wires in India and has been in the industry for more than 20 years. The company's revenue growth over the last few years has been the strongest among peers and it delivered a revenue CAGR of 22% (21% excluding export revenues) in the cables and wires segment over FY19-23. In this period, its export revenue saw a CAGR of 25%. It is the second-largest exporter of cables and wires among the companies we have analyzed.
- The company plans to spend INR5b each year for the next two years to increase capacities for cables and wires. It plans to increase cables capacity by 2.4x over the next two years and wires revenues by 20% every year over the next few years.
- We estimate higher revenue growth for cables (36% over FY23-26) in our assumptions, which should lead to margin improvements for the segment. In 9MFY24, the cables & wires segment reported revenue/EBIT growth of 18%/43% YoY, and its EBIT margin improved to 8.6% from 7.2% in 9MFY23.

Targets to accelerate growth of FMEG business and reduce losses

- The company has diversified and expanded its product portfolio in the FMEG segment, both organically and inorganically. Its portfolio now covers ~77% of the addressable market and consists of fans, lighting, switches & switchgears, and other home appliances.
- RRKABEL plans to increase revenue and margins of the FMEG segment through – 1) expansion of product portfolio- 344 products launched during FY21-23 and 45 products under development at Sep'23-end; 2) offering products across price ranges; 3) higher share of value-added products like premium fan, downlights, etc.; 4) integration of acquired companies and realizing synergies in logistics, brand promotion, manpower, etc.; and 5) expansion of distribution network.
- We estimate a revenue CAGR of 15% for the FMEG segment over FY24-26. We expect losses in this segment to decline going forward and expect the segment to break-even at EBIT level in FY26. RRKABEL's initiatives to offer value-accretive products and expansion of product portfolio will help it to reduce losses.

Increasing dealer network led to market share gain

- RRKABEL has significantly increased its distribution network over the last few years through various initiatives, like Project KaRRma and Project Lakshya.
- As of Sep'23, it has a pan-India distribution network, with 3,598 distributors and 3,781 dealers. Its products are available at ~124k retail touchpoints and it has connect with ~330k electricians.
- Its advertising and promotion spending increased by 73% YoY to INR851m in FY23, mainly due to the low base effect as brand spending was muted in FY21/FY22. It spent 1.5% of its revenue on ads in FY23. We estimate ad spending to be at 1.2-1.4% of revenue over FY24-26 (11% CAGR over FY23-26E). The company has a strong R&D team, which helps it to develop the first-of-its-kind products and acquire export certifications from various countries.

Expect 39% EBITDA CAGR and 43% PAT CAGR over FY24-26

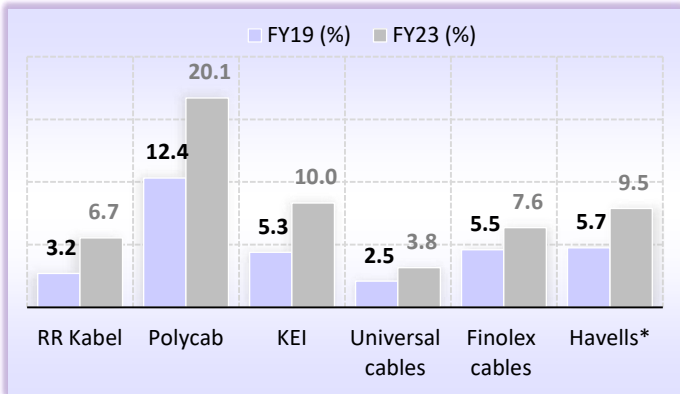
- We estimate RRKABEL to report a ~22% revenue CAGR over FY24-26, led by 22% growth in cables and wires and 15% growth in FMEG. The cables and wires segment's revenue would be largely driven by volume growth (estimate a CAGR of 36%/16% in cables/wires volume over FY24-26).
- We estimate a CAGR of 39%/43% in EBITDA/profit over FY23-26. We estimate EBITDA margin to be at 7.2%/8.4%/9.4% in FY24/FY25/FY26 vs. 5.8% in FY23 (average 7.8% over FY19-22).

Industry-leading profitability growth over FY24-26E; initiate with BUY

- RRKABEL has demonstrated its ability to grow at a higher rate than peers, with its cables and wires segment posting a CAGR of 22%/20% in revenue/EBITDA over FY20-23. In 9MFY24, revenue of this segment grew ~18% YoY and the management indicated that volume growth was ~19%.
- We initiate coverage on RRKABEL with a BUY rating and a TP of INR2,200 (based on 40x FY26E EPS), considering strong earnings growth and better return ratios - RoE/RoCE of 25%/24% in FY26E.

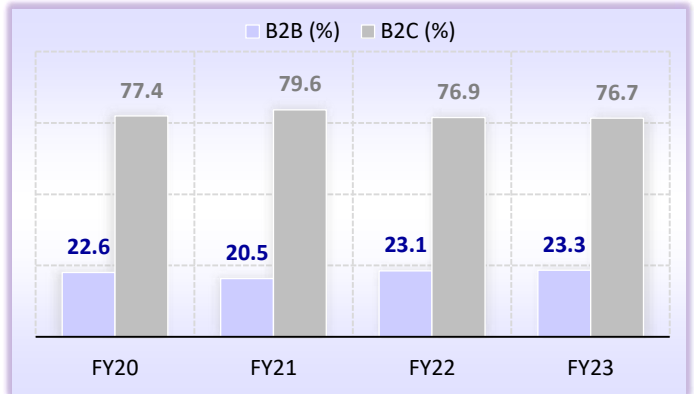
STORY IN CHARTS

Domestic market share trend of key players



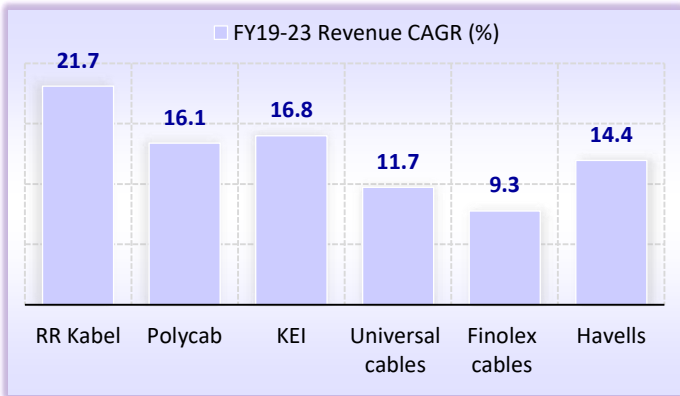
Source: MOFSL, Companies, *60% of exports assumed for C&W

B2C revenue contribution is higher



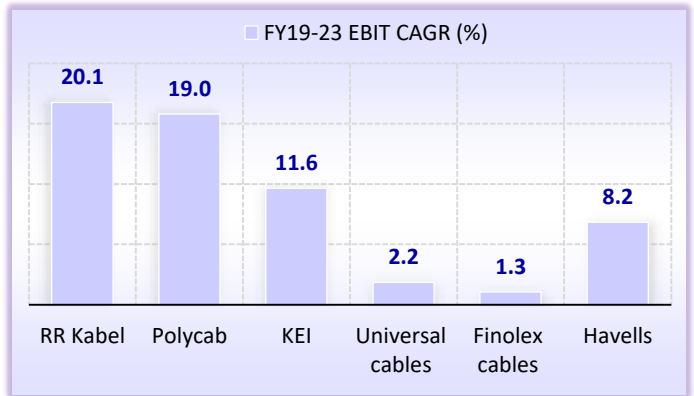
Source: MOFSL, Company

RRKABEL's revenue growth better than peers'...



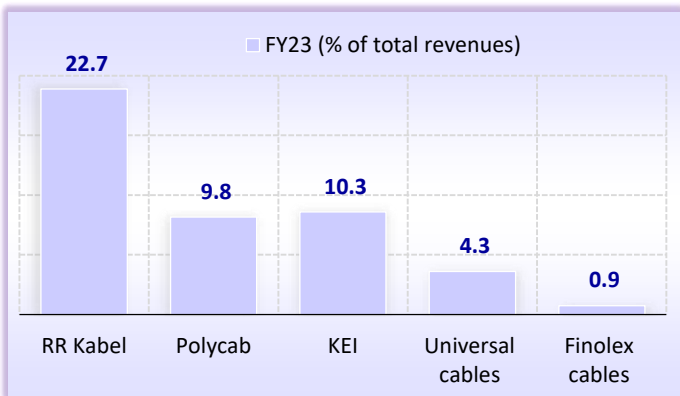
Source: MOFSL, Companies; C&W segment revenues

...so was EBIT growth over FY19-23



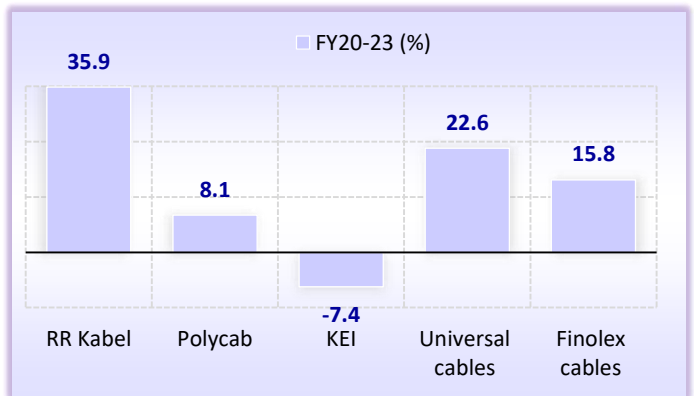
Source: MOFSL, Companies; * contribution margin for Havells

Export contribution is highest among peers



Source: MOFSL, Companies

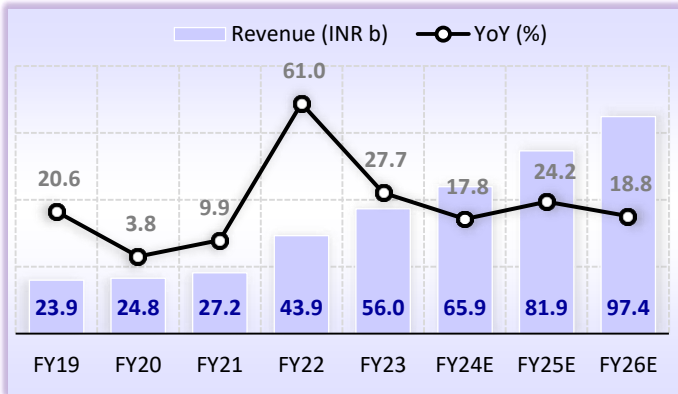
Export revenue growth of different companies



Source: MOFSL, Companies

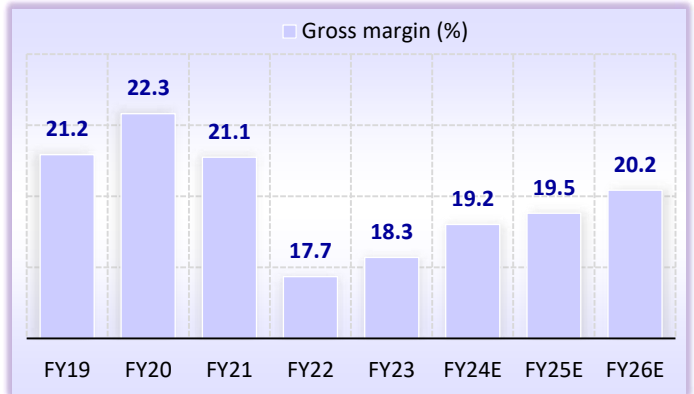
STORY IN CHARTS

Expect revenue CAGR of 22% over FY24-26



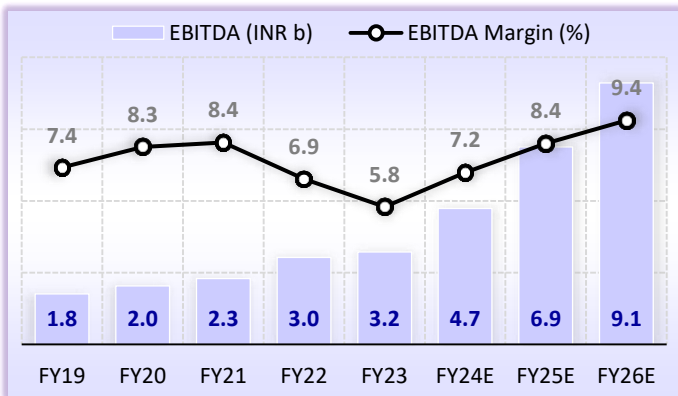
Source: MOFSL, Companies

Gross margins to improve to 20% by FY26E



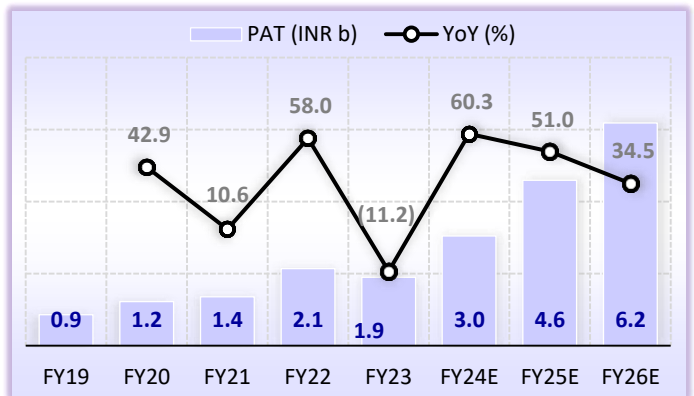
Source: MOFSL, Companies

Expect EBITDA margin to improve over FY24-26



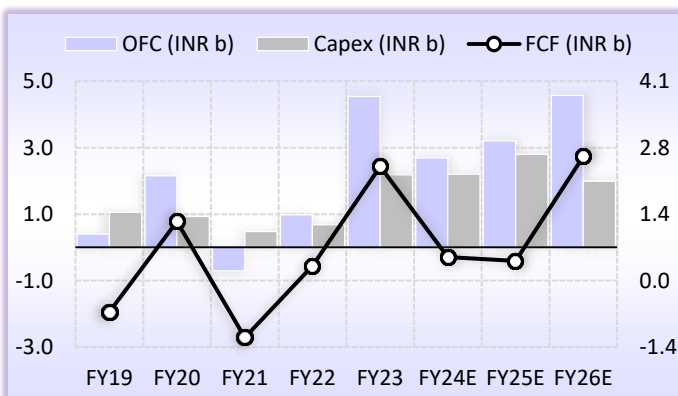
Source: MOFSL, Companies

Expect Adj. PAT CAGR at ~43% over FY24-26



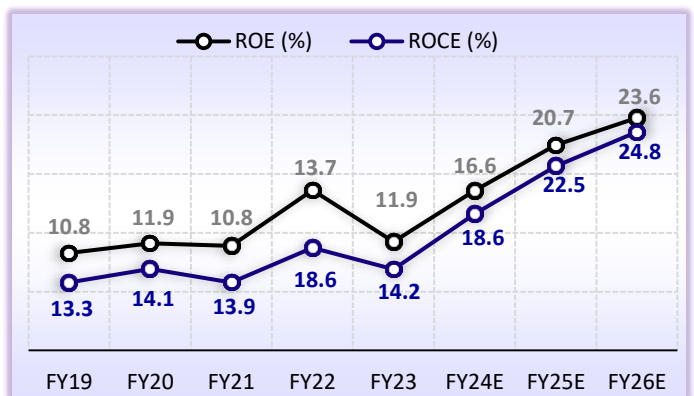
Source: MOFSL, Companies

FCF to increase post completion of expansions



Source: MOFSL, Companies

RoE/RoCE to improve over FY24-26E



Source: MOFSL, Companies

Delivering industry-leading growth in cables and wires

Fifth-largest player in domestic market with ~7% market share

RRKABEL is one of the leading producers of cables and wires in India and has been in the industry for more than 20 years. The company diversified and expanded its product portfolio in the FMEG segment, both organically and inorganically. In FY20, it amalgamated the business from one of its group companies, Ram Ratna Electricals Limited. In FY20, it acquired the LED lights and related hardware business of Arraystorm Lighting Pvt. Ltd., along with its trademarks and design certificates. In May'22, it acquired the home electrical business of Luminous Power Technologies Pvt. Ltd. It also started manufacturing switches in FY21.

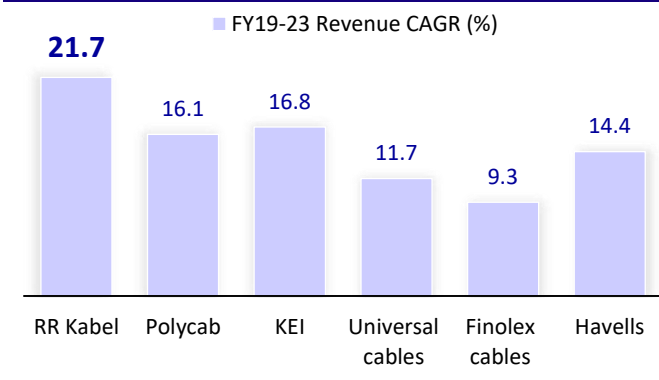
Exhibit 67: Product range across different segments

| Cables | Wires (House + Industrial) | FMEG |
|------------------------------|------------------------------------|--------------|
| LT Power Cable | Heat Resistant Wires | Fans |
| Medium & High Voltage Cables | Fire Resistant Wires | Lighting |
| Data & Communication Cables | Low Smoke Zero Halogen Wires | Switches |
| Instrumentation Cables | Single & Multi Core Flexible Cable | Water Heater |
| Solar Cables | Control Cables | Room Heater |
| Fire & Security Cables | Submersible Flat Cable | Irons |
| Silicon Rubber Cables | | Coolers |
| Auto Cables | | |
| Battery Cables | | |
| Lift & Elevator Cables | | |
| Appliance Wiring Material | | |
| Power Cord | | |

Source: MOFSL, Company

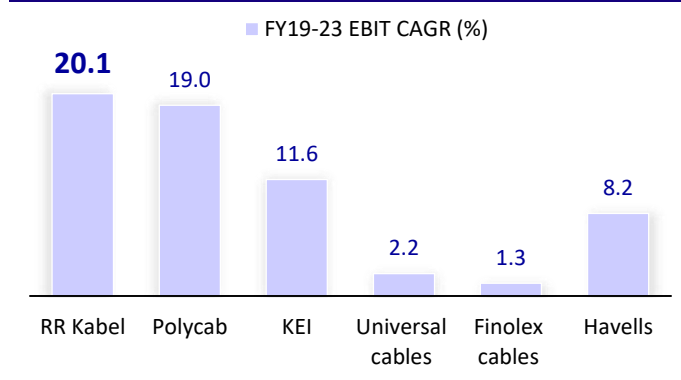
Its revenue growth over the last few years has been the strongest among peers, with a revenue CAGR of 22% (21% excluding export revenues) in the cables and wires segment over FY19-23. RRKABEL is the second-largest exporter of cables and wires among our analyzed companies, with a CAGR of 25% in export revenue over FY19-23.

Exhibit 68: RRKABEL beat peers in revenue growth...



Source: MOFSL, Companies; C&W segment revenues

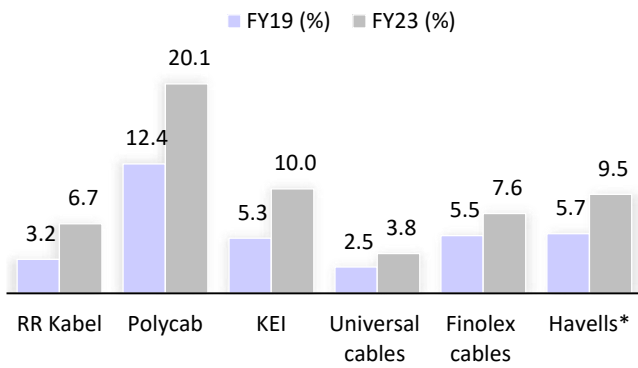
Exhibit 69: ...and EBIT growth over FY19-23



Source: MOFSL, Companies; * contribution margin for Havells

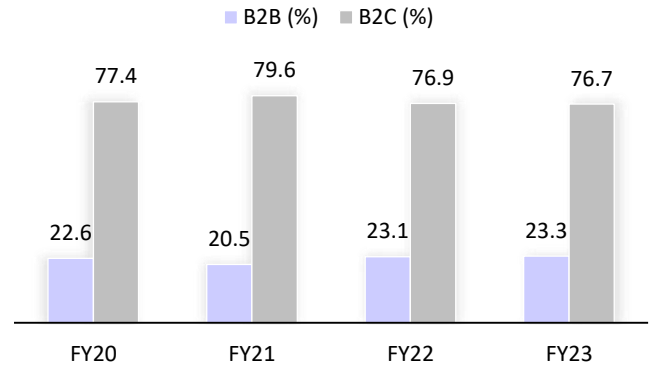
As per our analysis, RRKABEL is the fourth-largest producer of cables and wires in India; however, it ranks fifth in terms of total sales of cables and wires in the domestic markets. Its revenue contribution from the B2C sales channel stood at 76.7% in FY23, one of the highest among peers.

Exhibit 70: Domestic market share trend of key players



Source: MOFSL, Companies, *60% of exports assumed for C&W

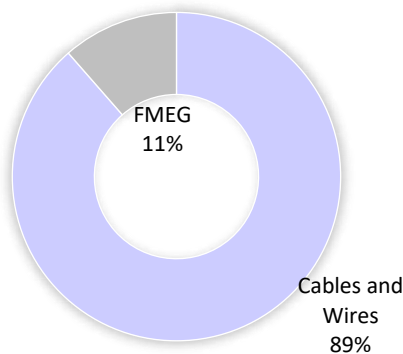
Exhibit 71: B2C revenue contribution is higher



Source: MOFSL, Company

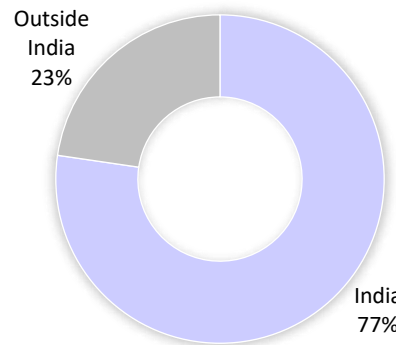
The company has been operating in the cables and wires segment since FY19 and has a wide range of products such as house wires, industrial wires, power cables and special cables. It was the first company in India to introduce low-smoke zero halogen insulation technology in wires and cables products, and to introduce ‘Unilay’ core technology (heat resistant and flame retardant) products.

Exhibit 72: Revenue composition in FY23



Source: MOFSL, Company

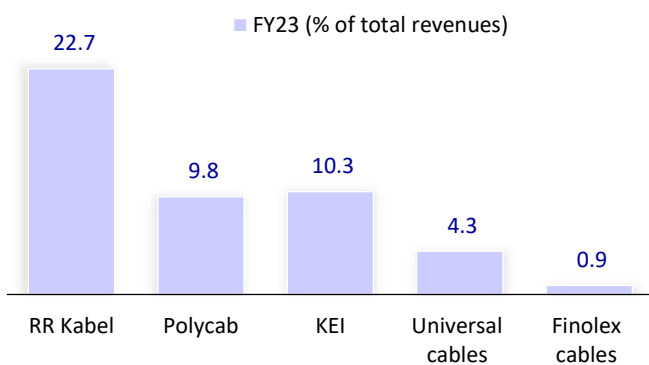
Exhibit 73: Export contribution is on higher side



Source: MOFSL, Company

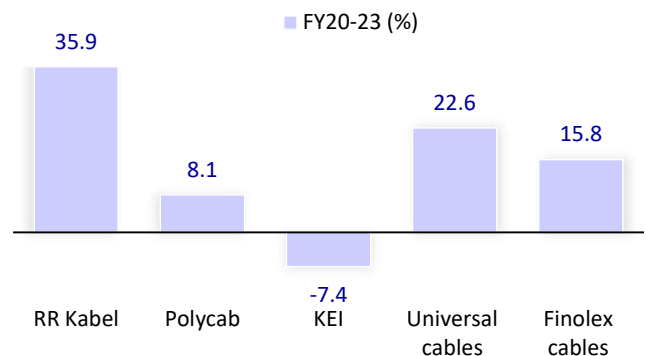
RRKABEL reported a CAGR of 36% in export revenues over FY20-23 (export revenue grew ~19% YoY in 9MFY24); significantly higher than its peers. The company exports its products to 67 countries across North America, Europe, Middle East and Asia Pacific. In the export markets, the company sells most of its product under its own brand, and also manufacturers under private labels for select customers.

Exhibit 74: Export contribution is highest among peers



Source: MOFSL, Companies

Exhibit 75: Export revenue growth of different companies



Source: MOFSL, Companies

RRKABEL has 35 certifications for exporting its products to international markets, which should help the company boost its exports in the wake of the China+1 strategy. It has long-standing relationships with 10 distributors (72 distributors in total), who cover a majority of its exports.

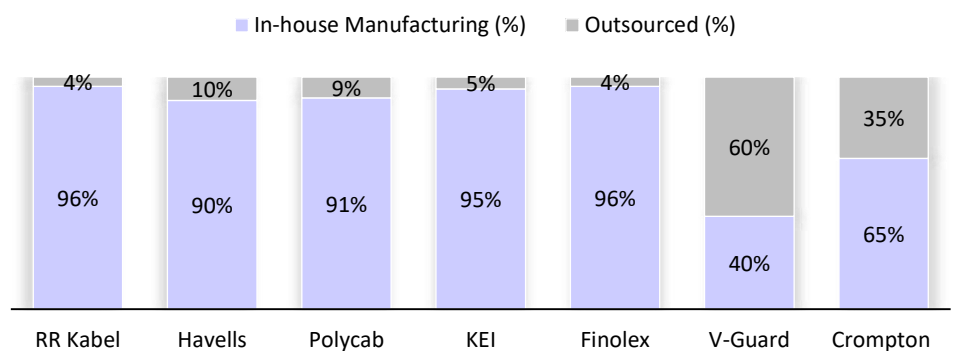
Exhibit 76: Few of the international certifications of RRKabel



Source: MOFSL, company

The company’s cables and wires plants are located at Waghodia, Gujarat (started in FY2012) and Silvassa, Daman (started in FY1999). It has been able to backward-integrate by setting up in-house manufacturing of PVC, LSOH compound, cross-linked polythene compound and solar cable compound at both these plants. Backward-integration helps the company to ensure quality control and reduce raw material and logistics costs. It also intends to start manufacturing other raw materials such as thermoset e-beamable LSOH compound and ethylene propylene rubber compound in FY24. The company’s share of in-house manufacturing is one of the highest in the industry (100% for cables & wires).

Exhibit 77: Mix of in-house manufacturing and outsourcing of different companies



Source: MOFSL, RRKabel DRHP

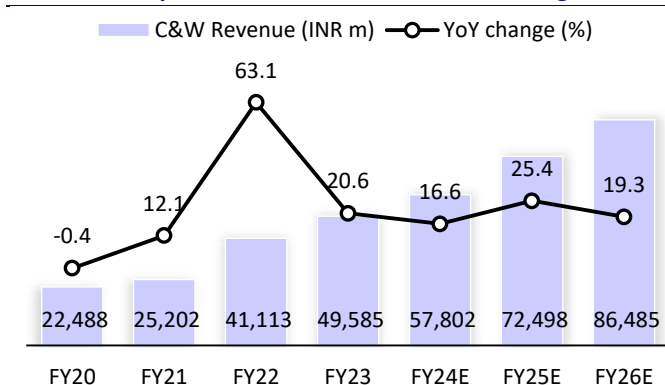
RRKABEL has increased its Installed capacities of cables and wires at a CAGR of 9% over FY20-23 (20% CAGR at Waghodia facility). The company’s export requirements are primarily fulfilled from the Waghodia facility.

Exhibit 78: Manufacturing plants and capacities of the cables & wires segment

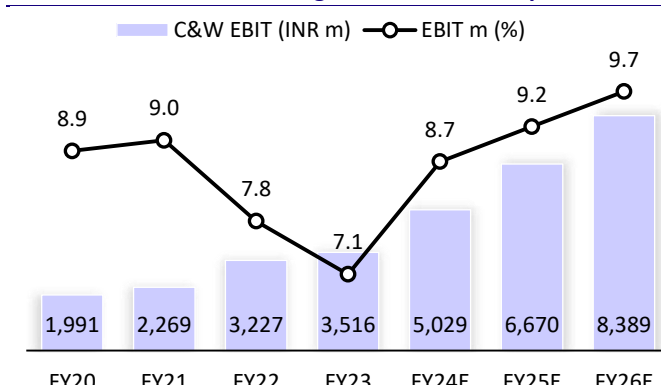
| | FY20 | FY21 | FY22 | FY23 |
|-----------------------------------|-----------|-----------|-----------|-----------|
| Cables & Wires plants | | | | |
| Waghodia, Gujarat | | | | |
| Cables & Wires (Circuit km) | 12,23,670 | 13,49,850 | 17,19,300 | 21,16,620 |
| Various types of compounds (Mts) | 22,150 | 25,300 | 39,950 | 40,400 |
| Silvassa, Daman | | | | |
| Cables & Wires (Circuit km) | 19,41,000 | 19,41,000 | 19,41,000 | 19,36,000 |
| Various types of compounds (Mts) | 13,200 | 13,200 | 13,200 | 13,200 |
| Total Cables & Wires (circuit km) | 31,64,670 | 32,90,850 | 36,60,300 | 40,52,620 |
| Capacity Utilization (%) | | | | |
| Waghodia, Gujarat | | | | |
| Cables & Wires | 52% | 55% | 62% | 62% |
| Various types of compounds | 73% | 64% | 55% | 63% |
| Silvassa, Daman | | | | |
| Cables & Wires | 66% | 61% | 67% | 87% |
| Various types of compounds | 68% | 65% | 75% | 86% |

Source: MOFSL, Company

RRKABEL plans to spend INR5b each year for the next two years to increase capacities for cables and wires. It is facing capacity constraints for cables, which impacted its pricing power, leading to lower margins for the cables and wires segment. The company plans to increase its cables capacity by 2.4x over the next two years and its wires revenues by 20% YoY for next few years. We expect higher revenue growth for cables (28% over FY23-26) in our assumptions, which should also improve margin of the segment. In 9MFY24, the cable & wire segment saw revenue/EBIT growth of 18%/43% YoY, and its EBIT margin improved to 8.6% vs. 7.2% in 9MFY23.

Exhibit 79: Expect 20% revenue CAGR for C&W segment

Source: MOFSL, Company

Exhibit 80: C&W's EBIT margin estimated to improve

Source: MOFSL, Company

Targets to accelerate growth of FMEG business

Estimate 15% revenue CAGR and EBIT losses to reduce over FY24-26E

The company diversified and expanded its product portfolio in FMEG segment, both organically and inorganically. Its portfolio of FEMG products covers ~77% of its addressable market and consists of fans, lighting, switches & switchgears and home appliances (room heaters, water heaters, Irons and coolers). Around 35% of FMEG products are manufactured in-house (in value terms).

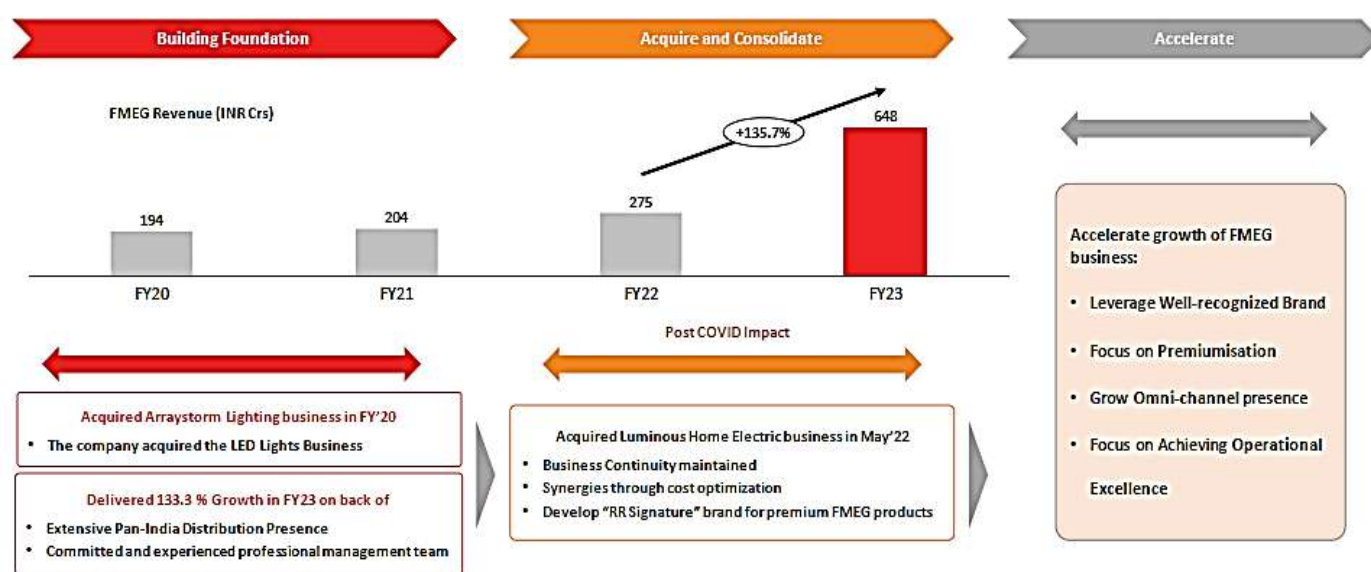
Exhibit 81: Production capabilities of the FMEG segment

| Capacity | FY20 | FY21 | FY22 | FY23 |
|---------------------------------|-----------|-----------|-----------|-----------|
| Waghodia, Gujarat | | | | |
| Switches | | 9,00,000 | 56,83,000 | 89,25,000 |
| Roorkee, Uttar Pradesh | | | | |
| Fan | 15,00,000 | 15,00,000 | 15,00,000 | 15,00,000 |
| Lights | 54,00,000 | 55,12,500 | 39,00,000 | 18,00,000 |
| Gagret, Himachal Pradesh | | | | |
| Fan | | | | 16,50,000 |
| Bengaluru, Karnataka | | | | |
| Lights | 1,10,080 | 1,32,096 | 1,21,088 | 1,32,096 |

Source: MOFSL, Company

In FY20, it amalgamated the business from one of its group companies, Ram Ratna Electricals. In FY20, it acquired the LED lights and related hardware business of Arraystorm Lighting, along with its trademarks and design certificates. In May'22, it acquired the home electrical business of Luminous Power Technologies, which helped it to enter the premium FMEG segment. It also obtained a limited and exclusive license to use the 'Luminous Fans and Lights' brand for fan and light products for a maximum period of four years with a one-time option to further renew the license for a period of three months. It started manufacturing switches in FY21.

Exhibit 82: Acquisition helped growth in FMEG segment; targets to accelerate growth



Source: MOFSL, Company

RRKABEL plans to increase revenues and margins of the FMEG segment through – 1) expansion of product portfolio- 344 products launched during FY21-23 and 45 products under development as of Sep’23-end; 2) offering products across price ranges; 3) higher share of value-added products like premium fan, downlights, etc.; 4) integration of acquired companies and realizing synergies in logistics, brand promotion, manpower, etc.; and 5) expansion of distribution network.

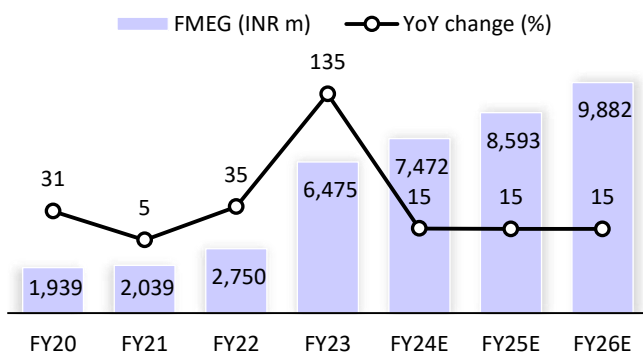
Exhibit 83: Strategy for FMEG segment



Source: MOFSL, Company

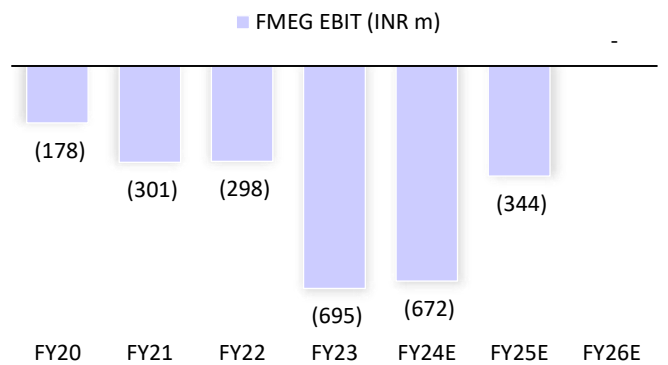
We estimate a 15% revenue CAGR for the FMEG segment over FY24-26. Revenue growth in FY23 was led by the acquisition of Luminous. We expect losses in this segment to reduce going forward and expect it to achieve break-even at EBIT level in FY26. RRKABEL’s initiatives to offer value-accretive products and the expansion of its product portfolio will help it to reduce losses, in our view. In FY23, this segment had incurred higher losses due to acquisition/integration-related costs of HEB business of Luminous.

Exhibit 84: Expect 12% revenue CAGR for FMEG segment



Source: MOFSL, Company

Exhibit 85: Estimate to reduce losses going forward



Source: MOFSL, Company

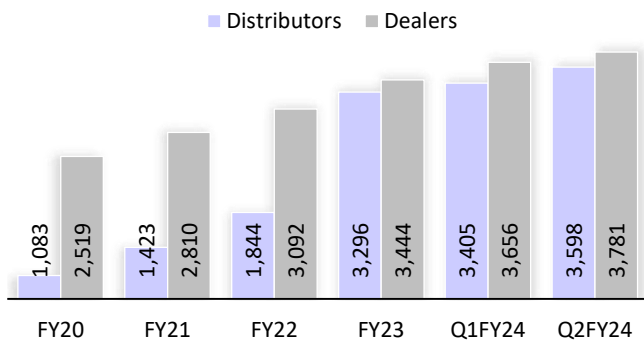
Increasing dealer network led to market share gains

Ad spending grew in FY23; focus on renovation and new product launches

RRKABEL has significantly increased its distribution network over the last few years, led by its focused approach through various initiatives like Project KaRRma and Project Lakshya. Even before the acquisition of the HEB segment of Luminous, the company had increased its network of electricians/retailers by 5.7x/2.4x during FY20-22. Similarly, its network of distributors/dealers increased at a CAGR of 31%/11% during FY20-22.

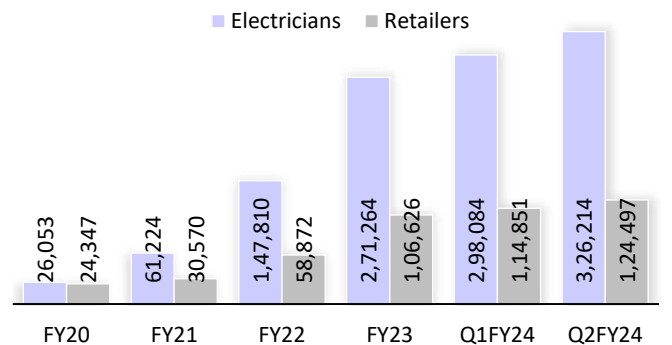
As of Sep'23, it has a pan-India distribution network with 3,598 distributors and 3,781 dealers. Its products are available at ~124k retail touchpoints and it has connect with ~330k electricians. RRKABEL implemented a partner loyalty program for retailers and electricians, including RR Connect mobile phone application and web portal, and rewards schemes, such as RR Dosti 3.0 and Udaan 3.0. Its Kabel Star initiative further provides scholarships to the children of electricians, who have registered on RR Connect application.

Exhibit 86: Significant increase in distribution network



Source: MOFSL, Company

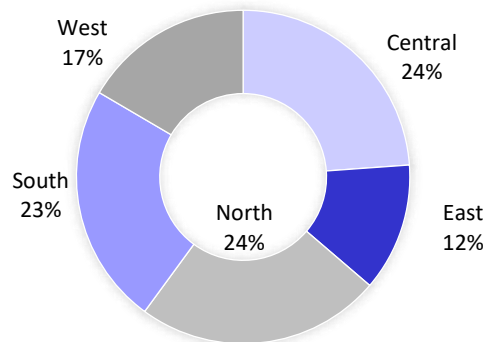
Exhibit 87: Strong jump in retail touchpoints



Source: MOFSL, Company

Its distribution network is spread across regions, with the north, central and south regions comprising 23-24% of total distributors and dealers. The west and east regions make up 17% and 12%, respectively, at FY23-end.

Exhibit 88: Dealers/distributors concentration is higher in north, central and south regions



Source: MOFSL, Company

RRKABEL initiated Project KaRRma in FY20 to increase its market share in housing wires by expanding retail outlets, electrician connect, sales force and product portfolio. This project was intended to double the market share and retail outreach in domestic house wires by increasing its reach into the micro (all towns with over 0.3m population) and nano (particular localities within micro markets) markets.

It also launched another five-year long initiative Project Lakshya in FY20, comprising two phases: 1) grow fans and lights product portfolio organically and inorganically, and 2) integration of acquired business segments of Luminous.

Exhibit 89: Project KaRRma: to increase C&W market share Project KaRRma (C&W)

Phase 1: Double market share and retail outreach in domestic house wires

Phase 2: Increase micro and nano market reach

Source: MOFSL, Company

Exhibit 90: Project Lakshya launched for FMEG segment Project Lakshya (FMEG)

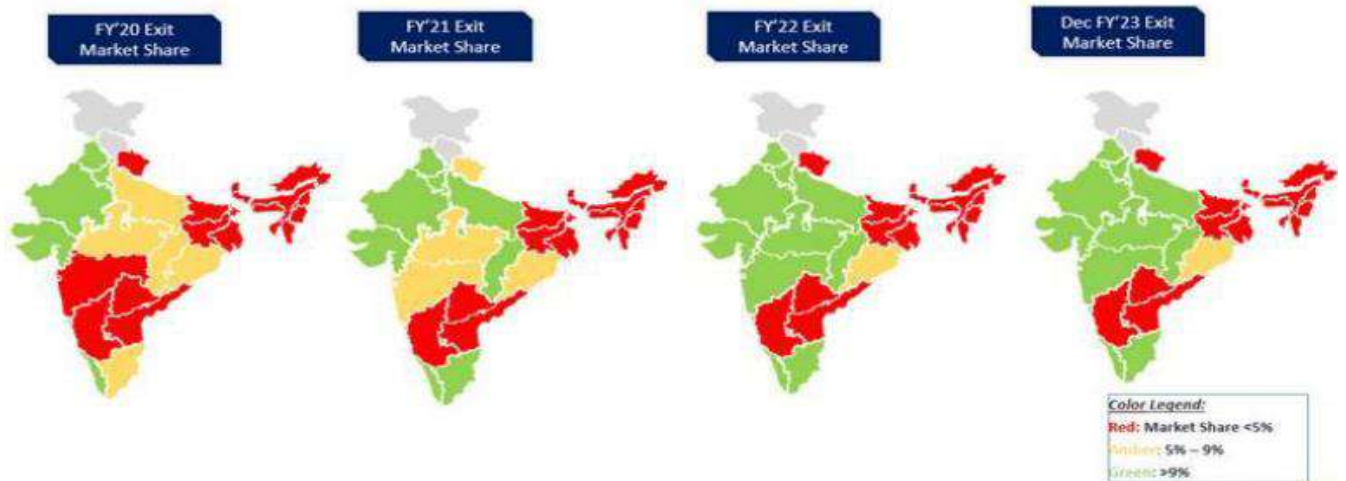
Phase 1: Grow fans & lights segment through field sales officers

Phase 2: Integration of Luminous Home Electrical Business

Source: MOFSL, Company

RRKABEL focused on expanding its geographical market share. For instance, for its 90-meter housing wires, the company classified its geographical presence in India into ‘winner’ (9%+ market share), ‘growing’ (market share between 5-9%) and ‘opportunity states’ (less than 5% market share). This approach helped it to increase its market share in this product category over the last few years. It intends to classify its geographical presence in the same manner for all product categories over the next few years.

Exhibit 91: Focused approach led to market share gains in housing wires (90 meters)

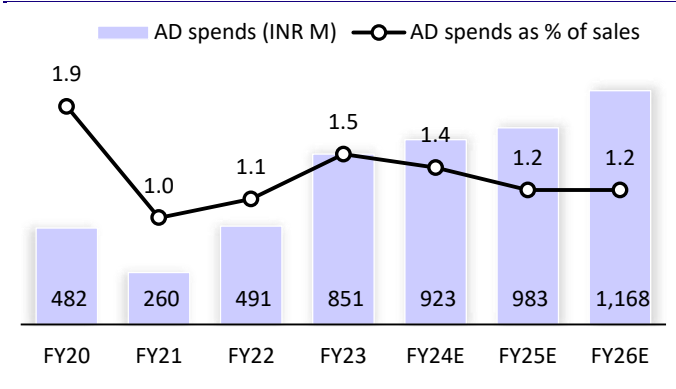


Source: MOFSL, Company

Its advertising and promotion spending increased by 73% YoY to INR851m in FY23, mainly due to the low base effect as brand spending was muted in FY21/FY22. It spent 1.5% of its total revenue on advertising in FY23. We estimate ad spending to be at 1.2-1.4% of revenues over FY24-26 (11% CAGR over FY23-26E). Ad spending as % of B2C sales stood at 2.2% in FY23 (average of 2% over FY20-23). It sponsored Bengaluru Pro Kabaddi Team in CY19 and KKR IPL Team in CY21. The company has invested in implementing brand initiatives, such as Kabel Nukkad and Kabel Mela, to

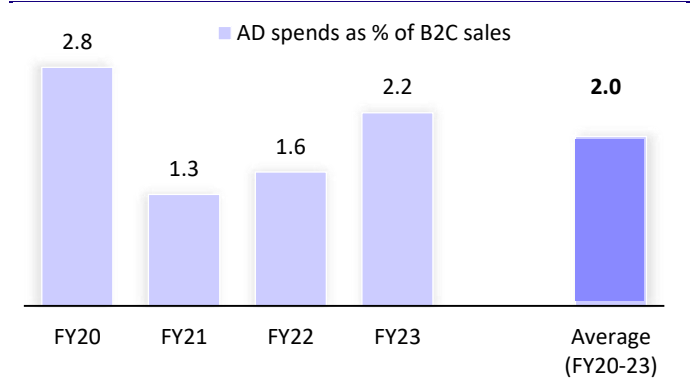
enhance its brand visibility over the last few years. Its brand also provides the opportunity to cross-sell its FMEG products to cables and wires customers. The company has also mapped the distribution network of its cables and wires products, and identified and worked with distributors and retailers to carry its FMEG products. The company focuses on a strategic advertising mix between outdoor advertising (such as temples and police stations) and advertising campaigns with a broad reach, namely, through print, television and sponsorships.

Exhibit 92: Ad spending as a % of total sales



Source: MOFSL, Company

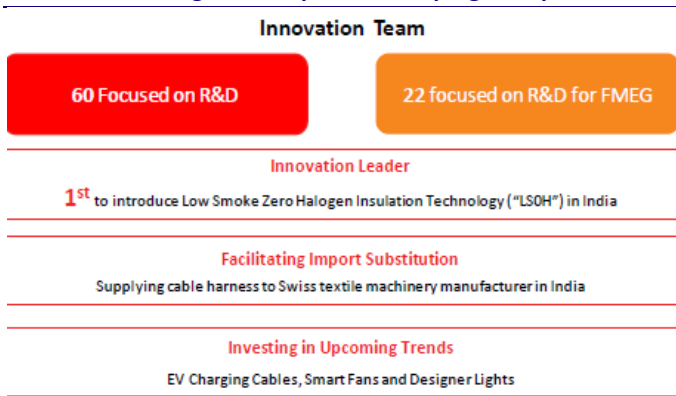
Exhibit 93: Ad spending as a % of B2C sales



Source: MOFSL, Company

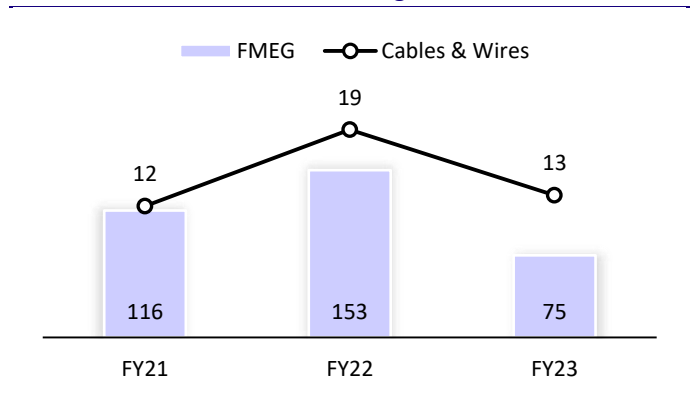
- RRKABEL has a strong R&D team, which helps it to develop first of its kind products and acquiring export certifications from various countries. It was the first company in India to launch products compliant with European regulations such as REACH (Registration, Evaluation, Authorization and Restriction of Chemicals), ROHS (Restriction of Hazardous Substances Directive) and CPR (Construction Products Regulations). RRKABEL was the first company to launch low-smoke zero halogen (LSOH) insulation technology wire in the country. Its R&D consists of 60 people, of which 22 work exclusively for FMEG products.

Exhibit 94: Strong R&D helps in developing new products



Source: MOFSL, Company

Exhibit 95: Product launches during FY21-23



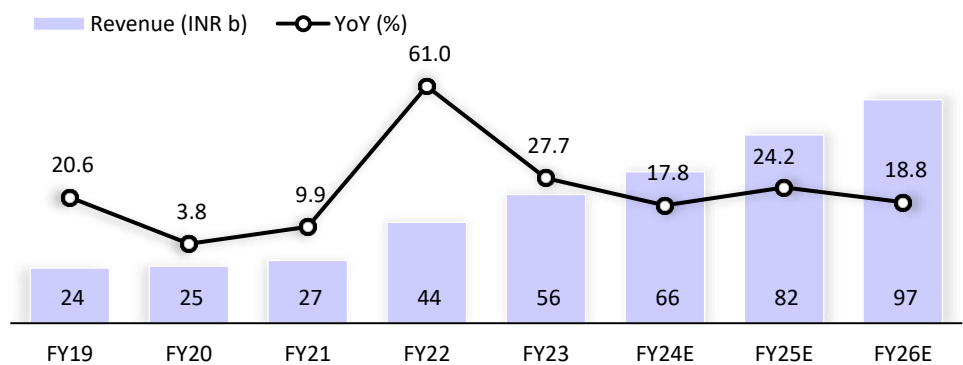
Source: MOFSL, Company

Financial Outlook

Expect revenue CAGR of ~22% over FY24-26

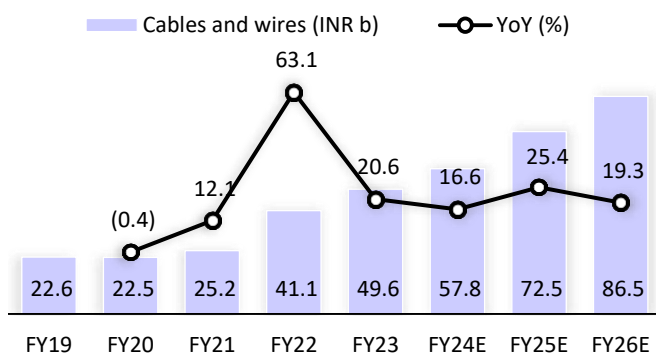
- RRKABEL posted a revenue CAGR of ~24% over FY19-23, driven by a ~22% CAGR in the cables and wires segment and a ~45% CAGR in the FMEG segment, albeit on a small base. RRKABEL exports its products to 67 countries and generated ~23% of its revenue from exports in FY23 (~27% in 9MFY24). The company reported a CAGR of ~25% in export revenues over FY19-23.
- We expect a revenue CAGR of 22% over FY24-26, driven by robust growth in the cables and wires segment (strong demand in infrastructure development, real estate and rural electrification), capacity expansions in cable and wires, and various initiatives for both business segments (Project KaRRma and Project Lakshya aimed at growing distribution network; new product launches etc.).
- We estimate a revenue CAGR of ~22% in the cables and wires segment over FY24-26. FMEG revenue is estimated to see a CAGR of ~15% over the same period.

Exhibit 96: Revenue is estimated to clock 22% CAGR over FY24-26



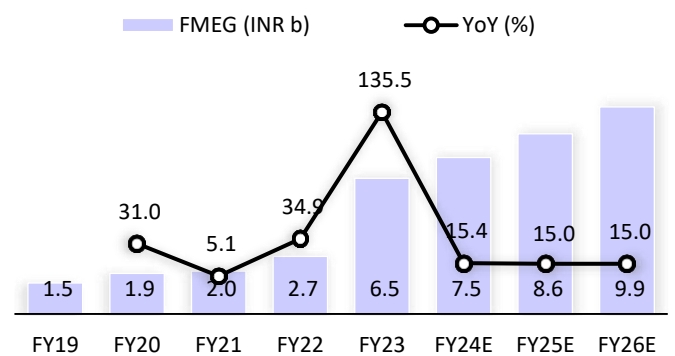
Source: MOFSL, Company

Exhibit 97: Estimate revenue CAGR of ~22% in C&W



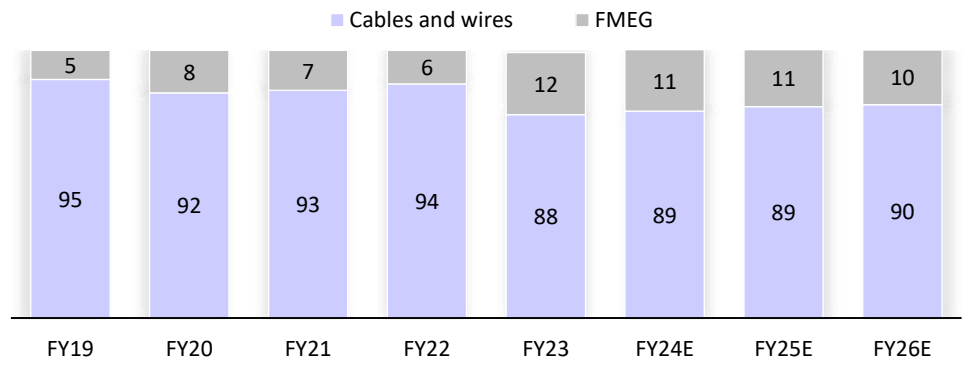
Source: MOFSL, Company

Exhibit 98: Estimate ~15% revenue CAGR in FMEG



Source: MOFSL, Company

Exhibit 99: Revenue contribution from cables and wires to be at 89-90% till FY26E

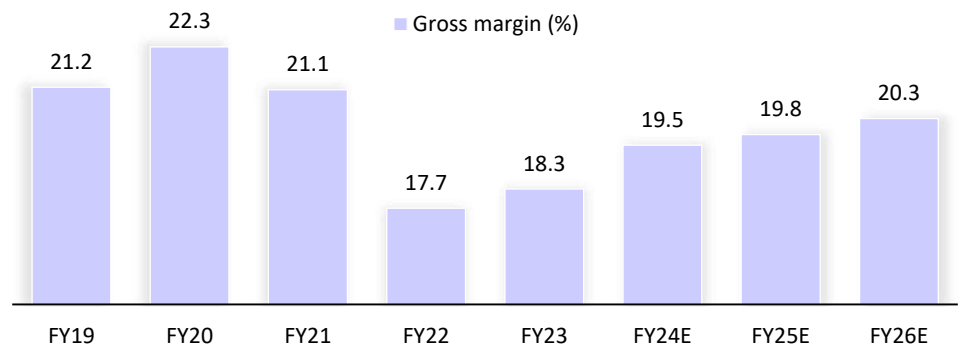


Source: MOFSL, Company

Gross margin to improve going forward

- Higher key raw material (copper and aluminum) prices, inability to pass on the price increases and higher exports led to lower gross margin in FY22/FY23. However, lower raw material prices led to increase in gross margin to ~19% in 9MFY24 vs. ~18% in 9MFY23.
- Gross margins will improve to ~20% by FY26E vs. ~18% in FY22-23, with stable commodity prices and higher share of value-added products.

Exhibit 100: Gross margins to improve to ~20% by FY26E

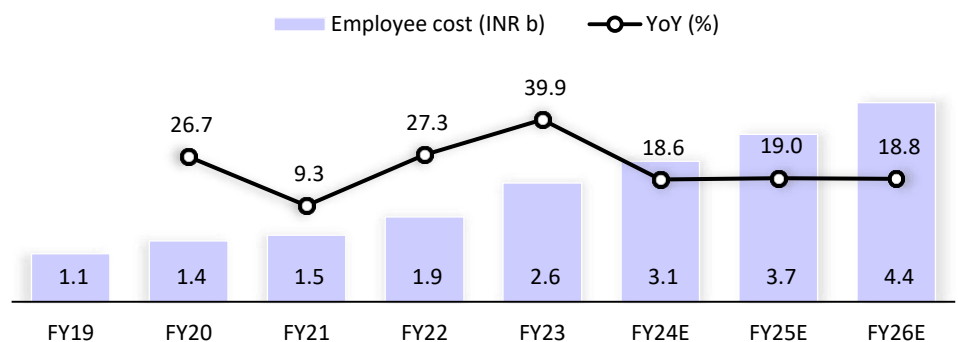


Source: MOFSL, Company

Employee costs continue to increase

- Employee costs grew in double digits over FY20-23 (except in FY21 due to Covid-19) due to business growth and the expansion of its product portfolio in the FMEG segment. The permanent employee count has been increasing over the years and stood at 3,036 in FY23 vs. 2,247 in FY20.

Exhibit 101: Employee costs increased in double digits over FY20-23 (except in FY21)

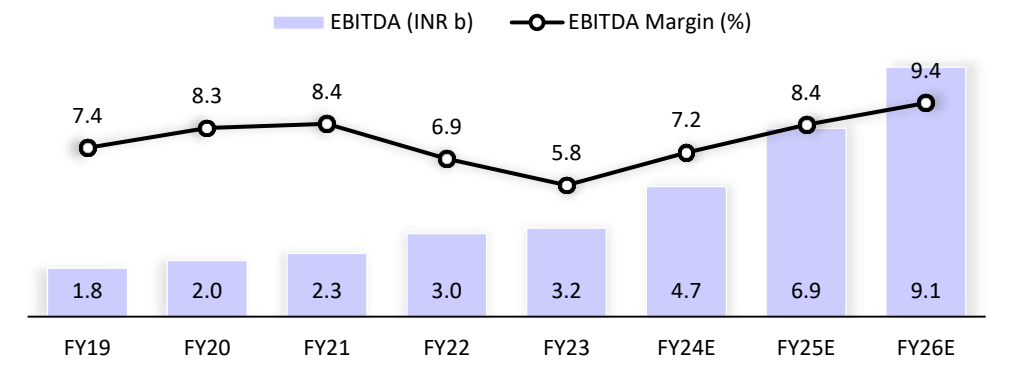


Source: MOFSL, Company

Estimate EBITDA CAGR of ~39% over FY24-26

- EBITDA recorded a ~16% CAGR over FY19-23, primarily driven by volume growth. However, margin contracted 164bp in this period mainly due to higher commodity prices and higher losses in the FMEG business.
- We expect that the company’s margin will improve, driven by - 1) stability in RM cost, which should lead to improvement in gross margin and, in turn, EBITDA margin; and 2) reduction in FMEG losses and expect it to achieve break-even at EBIT level in FY26. EBIT margin of the cables and wires segment is estimated to be at 8.7%/9.2%/9.7% in FY24/FY25/FY26 vs. 7.1% in FY23. We expect the FMEG segment’s EBIT loss to be at INR672m/INR344m in FY24/FY25 vs. a loss of INR695m in FY23. We expect this segment to break-even at EBIT level in FY26.
- Strong revenue growth and margin improvements should lead to an EBITDA CAGR of 39% over FY24-26E, with OPM of 7.2%/8.4%/9.4% in FY24/25/26E vs. 5.8% in FY23.

Exhibit 102: Expect improvement in EBITDA margin over FY23-26

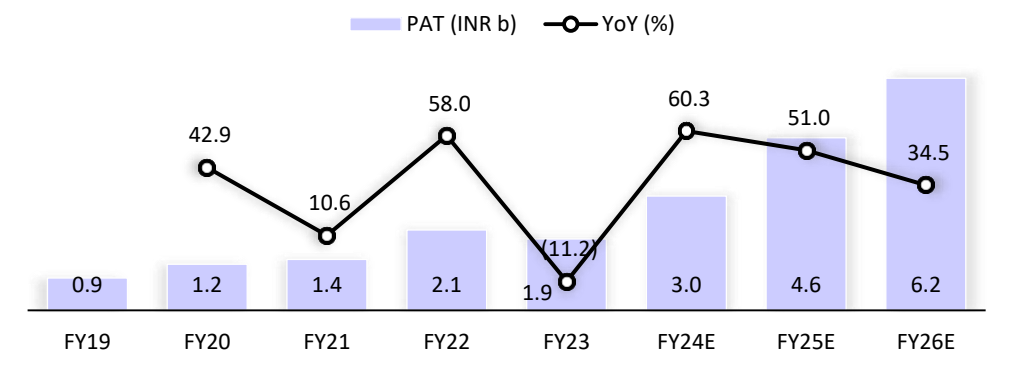


Source: MOFSL, Company

Adj. PAT expected to see strong CAGR of ~48% over FY23-26

- Over FY19-23, adj. PAT CAGR stood at ~22%, aided by lower tax expenses (25.8% in FY23 vs. 35.3% in FY19). Adj. PAT declined ~11% YoY in FY23 due to lower OPM, higher interest and depreciation expenses, and lower other income.
- We expect adj. PAT CAGR at ~43% over FY24-26, led by strong EBITDA growth and financial deleverage (IPO proceeds would be used for debt repayment).

Exhibit 103: Expect Adj. PAT CAGR at ~43% over FY24-26

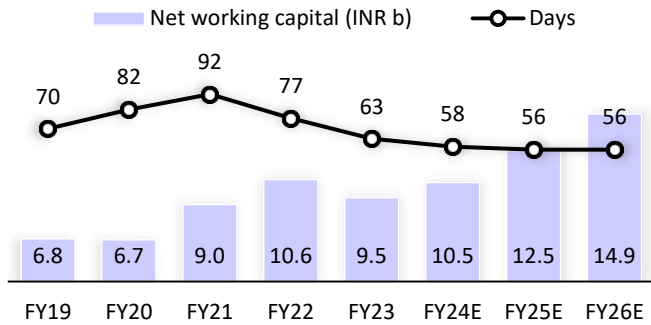


Source: MOFSL, Company

Working capital cycle to further improve to 56-58 days going forward

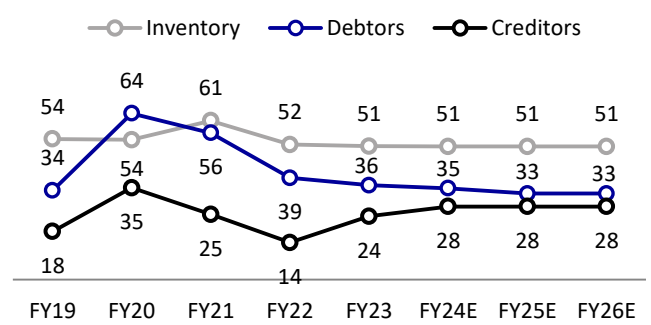
- RRKABEL’s working capital cycle improved over FY22-23, led by a decline in debtor days (36 days in FY23 vs. 56 days in FY21) and inventory days (51 days in FY23 vs. 61 days in FY21). We estimate net working capital cycle to further improve to ~56-58 days over FY24-26 from ~63 days in FY23.

Exhibit 104: Net working capacity and days trend



Source: MOFSL, Company

Exhibit 105: Inventory, debtors and creditors days trend

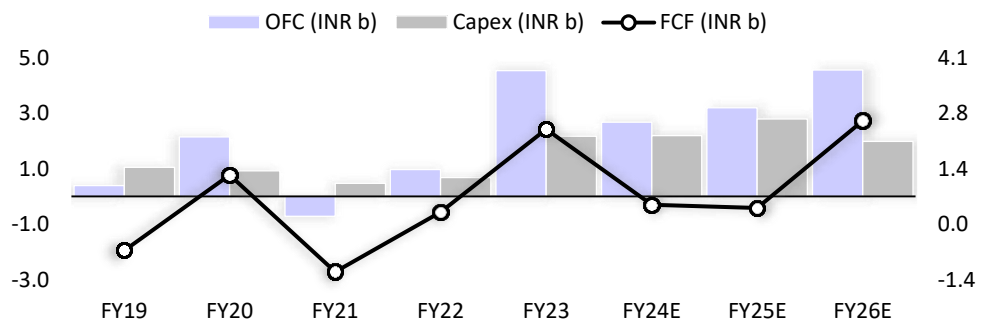


Source: MOFSL, Company

Operating cash flows to support robust capacity expansion plan

Cumulative OCF is expected to be at INR10.5b over FY24-26, while cumulative capex of INR7b. Its FCF generation over FY24-26E will be INR3.5b.

Exhibit 106: Capex to be funded through internal accruals

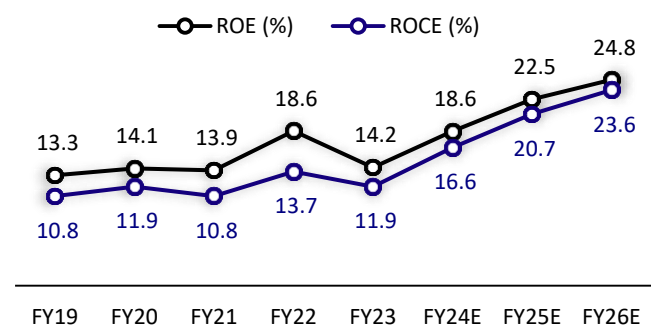


Source: MOFSL, Company

Return ratios to improve

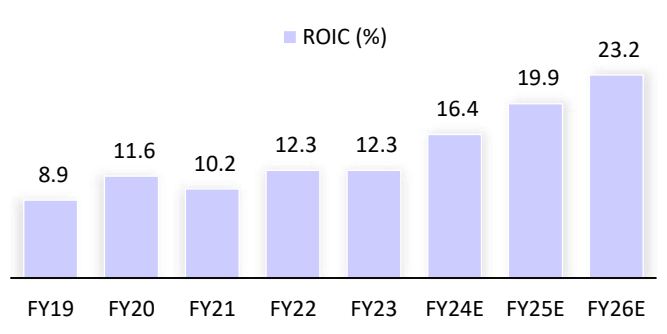
We estimate RRKABEL’s RoE/ROCE to increase to 25%/24% in FY26 vs. 14%/12% in FY23, led by improvements in operating profit margin and higher asset turnover. RoIC will be at ~23% in FY26 vs. ~12% in FY23.

Exhibit 107: RoE/RoCE to improve over FY24-26E



Source: MOFSL, Company

Exhibit 108: RoIC to improve over FY24-26E



Source: MOFSL, Company

Valuation and view

- RRKABEL has demonstrated its ability to grow at a higher rate than peers, with its cables & wires segment recording a CAGR of 22%/20% in revenue/EBITDA over FY20-23. In 9MFY24, revenue of this segment grew ~18% YoY and the management indicated that volume growth was ~19%.
- It is one of the leading exporters of cables and wires, with exports accounting for 23% of its revenues in FY23 (27% in 9MFY24). Exports from India are growing strongly, with a CAGR of 16% over FY17-23 (36% over FY21-23). Globally, many countries have opted for a 'China+1 strategy' after Covid-19-related disruptions, and RRKABEL, with various international certifications, is well suited to benefit from this opportunity.
- The company has outlined a capex of INR5b in FY24/FY25 to expand its cables capacity by 2.4x and its wire capacity by 20% every year for the next few years. This expansion will boost growth from FY26 onward.
- EBITDA/Adj. PAT clocked a CAGR of 16%/22% over FY19-23 despite margin pressures in the cables and wires segment during FY22/FY23 due to high RM costs. We expect a CAGR of 39%/43% in EBITDA/EPS over FY24-26.
- OCF during FY21/FY22 (cumulative OCF of INR271m) was affected by working capital issues (cumulative working capital increase of INR4.6b in this period). Working capital release of INR1.5b in FY23 helped the company to generate FCF of INR2.4b despite a higher capex of INR2.2b. Going forward, we expect RRKABEL to generate cumulative OCF of INR10.5b over FY23-26, leading to FCF of INR3.5b (capex of INR7b over FY24-26E).
- We estimate RoE to improve gradually to 25% in FY26 vs. 14% in FY23. RoCE is estimated to be at 24% in FY26 vs. 12% in FY23. Multiples of cables and wires companies have rerated significantly in the last two years, driven by strong earnings growth, which we expect will continue on the back of government capex and strong traction in the real estate segment. We expect the company to trade at premium valuations and value it at 40x FY26E EPS to arrive at a TP of INR2,200, upside of 38% from CMP. We initiate coverage on the company with a BUY rating.

Company overview

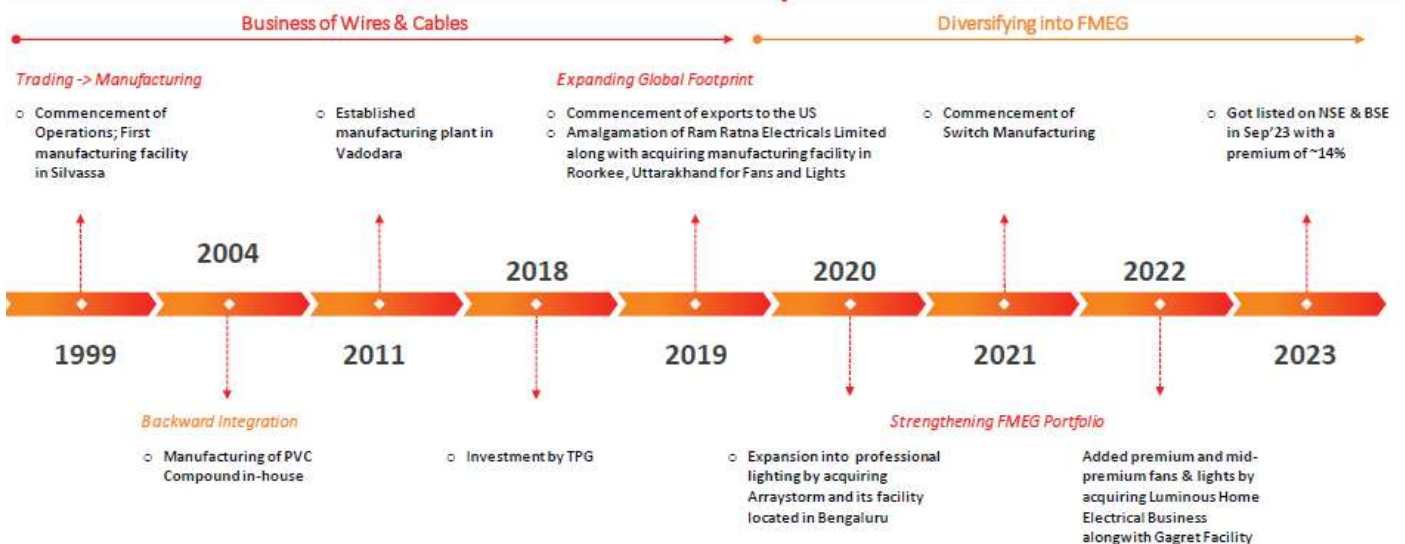
RRKABEL started its cables and wires business in FY99 and was founded by Mr. Rameshwarlal Kabra. It had set up its first plant in Silvassa. The company’s cables and wires segment offers a wide range of products such as house wires, industrial wires, power cables and special cables. The company later diversified and expanded its product portfolio to the FMEG segment, both organically and inorganically.

In FY20, the company amalgamated the FMEG business of one of its group companies, Ram Ratna Electricals and acquired the LED and related hardware business of Arraystorm Lighting. In May ‘22, it acquired the home electrical business of Luminous Power Technologies and also obtained a limited and exclusive license to use the ‘Luminous Fans and Lights’ brand for fan and light products for an initial period of two years’ subject to extension of six months at a time for a maximum of four times.

The company started export of its products in FY2001 to UAE and has become one of the leading exporters of cables and wires. It exports its products to more than 60 countries across North America, Asia Pacific, Europe and the Middle East.

The company has five manufacturing facilities across Waghodia (Gujarat), Silvassa (Dadra and Nagar Haveli, Daman and Diu), Roorkee (Uttarakhand), Bengaluru (Karnataka) and Gagret (Himachal Pradesh). It has a pan-India distribution network, with 3,598 distributors and 3,781 dealers as of Sep ‘23. Its products are available at ~124k retail touchpoints and it has connect with ~3.3lakh electricians

Exhibit 109: Journey of RRKABEL



Source: MOFSL, Company

Exhibit 110: Manufacturing facilities of the company



Pan-India Facilities
5 Facilities: 2 for W&C + 3 for FMEG
Shorter time to market & cost competitiveness



Quality & Reliability
In-house manufacturing
Backward integration

Automation in Manufacturing⁽¹⁾



Robotic Rotor Machining



Automatic Paintshop



Digitized Rotor Inspection

Large Scale Operations

Annual Installed Capacity

| | |
|------------------------|---------------------|
| W&C: 4.2mn ckm | Fans: 3.2mn units |
| Switches : 9.9mn units | Lights: 1.9mn units |

W&C: 100% In-House Manufacturing



Waghodia
Capacity
W&C- 2.3 Mn CKM, Switches- 9.9 Mn



Silvassa
Capacity
W&C- 1.9 Mn CKM

Backward Integrated Key Raw Materials (PVC, LSOH, XLPE and Solar Cable Compund)

FMEG: 37% In-House Manufacturing



Roorkee
Capacity
Fans - 1.2 Mn, lights 1.8 Mn
Fans and lights



Bengaluru
Capacity
lights (>0.1 Mn)
Designer Customizable Lights



Gagret
Capacity
Fans - 1.7 Mn
Premium Fans

⁽¹⁾ In Gagret facility

Source: MOFSL, Company

SWOT analysis

- ❖ Leading exporter of cables and wires from India, with various international certifications
- ❖ B2C sales one of the highest in the industry aided by its strong distribution network
- ❖ Strong R&D team has helped it to launch various new products in cables and wires

S
STRENGTH



- ❖ Higher sales of wires (~70% of the cables and wires segment's volumes) impact its margins of the segment
- ❖ It has followed acquisition-led growth in the FMEG segment and hence, delivery needs to be watched for over the next few years

W
WEAKNESS



- ❖ International certifications to help increase cable exports (~15% of total export revenues in FY23); Wires have low margins
- ❖ Government's focus on construction, expectation of private capex pick-up and uptick in real estate should boost growth in cables, wires and FMEG products

O
OPPORTUNITY



- ❖ High dependence on raw materials like copper/aluminium; Any disruption in supply of these materials could lead to loss of sale
- ❖ Growing competitive intensity in FMEG segment could lead to continued losses in this segment

T
THREATS



Bull and Bear Case



Bull Case

- ☑ Considering higher off-take via key infrastructure projects and exports in new geographies, we assume a higher revenue/EBITDA/PAT CAGR of 23%/41%/48% over FY24-26E.
- ☑ With higher operating leverage, we expect margin expansion of 260bp over FY24-26E.
- ☑ Assuming a target P/E multiple of 43x, we arrive at a TP of INR2,460 per share, ~54% upside from CMP.



Bear Case

- ☑ We factor in lower volume growth and estimate EBITDA margins to be at 7.5-8% through FY25-26.
- ☑ We estimate a revenue/EBITDA/PAT CAGR of 16%/23%/25% over FY24-26E.
- ☑ Assuming a target P/E multiple of 35x, we arrive at a TP of INR1,470 per share, ~8% downside from CMP.

Scenario analysis - Bull Case

| | FY23 | FY24E | FY25E | FY26E |
|------------------------|------|-------|-------|-------|
| Revenue (INR b) | 56.0 | 65.9 | 83.1 | 99.7 |
| Growth (%) | 27.7 | 17.8 | 26.0 | 20.0 |
| EBITDA (INR b) | 3.2 | 4.7 | 7.3 | 9.5 |
| YoY growth (%) | 6.3 | 47.2 | 54.1 | 29.5 |
| EBITDA Margin (%) | 5.8 | 7.2 | 8.8 | 9.5 |
| PAT (INR b) | 1.9 | 3.0 | 4.9 | 6.4 |
| EPS (INR) | 16.8 | 27.0 | 43.5 | 57.1 |
| P/E multiple (implied) | | | | 43 |
| Target price (INR) | | | | 2,460 |
| Upside/ (downside) (%) | | | | 54 |

Source: Company, MOFSL

Scenario analysis – Bear Case

| | FY23 | FY24E | FY25E | FY26E |
|------------------------|------|-------|-------|-------|
| Revenue (INR b) | 56.0 | 65.9 | 75.8 | 89.5 |
| Growth (%) | 27.7 | 17.8 | 15.0 | 18.0 |
| EBITDA (INR m) | 3.2 | 4.7 | 5.7 | 7.2 |
| YoY growth (%) | 6.3 | 47.2 | 19.9 | 25.9 |
| EBITDA Margin (%) | 5.8 | 7.2 | 7.5 | 8.0 |
| PAT (INR m) | 1.9 | 3.0 | 3.7 | 4.7 |
| EPS (INR) | 16.8 | 27.0 | 32.9 | 42.0 |
| P/E multiple | | | | 35 |
| Target price (INR) | | | | 1,470 |
| Upside/ (downside) (%) | | | | (8.0) |

Source: Company, MOFSL

Key management personnel



Mr. Tribhuvanprasad Kabra, Executive Chairman

Mr. Kabra was appointed to the company's Board of Directors in May'97. He has an extensive experience in the electrical industry. Previously, he was associated with Shramik Winding Wires Pvt. Ltd. as a Director.



Mr. Shreegopal Kabra, Managing Director

Mr. Shreegopal Kabra was appointed to the company's Board of Directors in Jun'14. He has extensive experience in the electrical industry. Previously, he was associated with the International Copper Association as the chairman of wire and cable product council and the Indian Electrical and Electronics Manufacturers' Association as the president.



Mr. Mahendrakumar Kabra, Joint Managing Director

Mr. Mahendrakumar Kabra was appointed to the company's Board of Directors in Feb'95. He completed his diploma in mechanical engineering from Veermata Jijabai Technological Institute, Mumbai. He has extensive experience in the electrical industry. Previously, he was associated with MEW Electricals Limited as a Director.



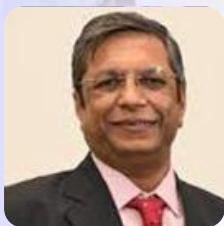
Mr. Dinesh Aggarwal, CEO (Domestic)

Mr. Aggarwal joined the company in Dec'22 and is responsible for handling the domestic business administration of the company. He holds a degree of bachelor's in science from Kurukshetra University and a post graduate diploma in management from the Indian Institute of Management, Calcutta. Previously, he has worked with Anchor Electronics and Electricals Private Limited, Panasonic Life Solutions India Private Limited, Net4India Limited, Voltas Limited, DSQ world.com Limited, Antarix e-Applications Limited and Forbes Gokak Limited.



Mr. Sanjay Taparia, CEO (International Business)

Mr. Taparia has been associated with the company since 2010. In his current role, he is responsible for the expansion of the company's international business and exports. He holds a degree of bachelor's in science from the University of Bombay. Previously, he has worked with Ram Ratna International as a Director.



Mr. Rajesh Jain, CFO

Mr. Jain has been associated with the company since 2000. He holds a degree of bachelor's in commerce from Mohanlal Sukhadia University, Udaipur. He has also qualified as an associate from the Institute of Cost and Works Accountants of India and enrolled as a licentiate of the Institute of Company Secretaries of India. Previously, he had worked with Harshvardhan Chemicals and Minerals Limited.

Financials and valuations (Consolidated)

Income Statement (INR m)

| Y/E March | FY19 | FY20 | FY21 | FY22 | FY23 | FY24E | FY25E | FY26E |
|------------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Net Sales | 23,881 | 24,785 | 27,239 | 43,859 | 55,992 | 65,937 | 81,922 | 97,360 |
| Change (%) | 20.6 | 3.8 | 9.9 | 61.0 | 27.7 | 17.8 | 24.2 | 18.8 |
| EBITDA | 1,766 | 2,048 | 2,301 | 3,032 | 3,223 | 4,743 | 6,882 | 9,116 |
| Change (%) | (20.7) | 15.9 | 12.4 | 31.8 | 6.3 | 47.2 | 45.1 | 32.5 |
| Margin (%) | 7.4 | 8.3 | 8.4 | 6.9 | 5.8 | 7.2 | 8.4 | 9.4 |
| Depreciation | 306 | 388 | 448 | 461 | 596 | 664 | 848 | 1,034 |
| Int. and Fin. Charges | 383 | 352 | 271 | 233 | 421 | 555 | 442 | 377 |
| Other Income | 247 | 270 | 220 | 463 | 344 | 575 | 604 | 634 |
| Profit before Taxes | 1,324 | 1,578 | 1,803 | 2,802 | 2,550 | 4,098 | 6,196 | 8,339 |
| Change (%) | (28.1) | 19.1 | 14.3 | 55.4 | (9.0) | 60.7 | 51.2 | 34.6 |
| Margin (%) | 5.5 | 6.4 | 6.6 | 6.4 | 4.6 | 6.2 | 7.6 | 8.6 |
| Tax | 468 | 353 | 460 | 704 | 661 | 1,066 | 1,611 | 2,168 |
| Tax Rate (%) | 35.3 | 22.4 | 25.5 | 25.1 | 25.9 | 26.0 | 26.0 | 26.0 |
| Profit before JV/Associates | 856 | 1,225 | 1,343 | 2,097 | 1,889 | 3,033 | 4,585 | 6,171 |
| Share of JV/Associates | - | (1) | 11 | 42 | 9 | 10 | 10 | 10 |
| Adjusted PAT | 856 | 1,224 | 1,354 | 2,139 | 1,899 | 3,043 | 4,595 | 6,181 |
| Change (%) | (30) | 43 | 11 | 58 | (11) | 60 | 51 | 35 |
| Margin (%) | 3.6 | 4.9 | 5.0 | 4.9 | 3.4 | 4.6 | 5.6 | 6.3 |
| Reported PAT | 856 | 1,224 | 1,354 | 2,139 | 1,899 | 3,043 | 4,595 | 6,181 |

Balance Sheet (INR m)

| Y/E March | FY19 | FY20 | FY21 | FY22 | FY23 | FY24E | FY25E | FY26E |
|----------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Share Capital | 234 | 234 | 239 | 239 | 478 | 564 | 564 | 564 |
| Reserves | 8,081 | 8,807 | 10,227 | 12,264 | 13,718 | 17,999 | 21,805 | 26,971 |
| Net Worth | 8,315 | 9,040 | 10,466 | 12,503 | 14,197 | 18,564 | 22,369 | 27,535 |
| Loans | 3,824 | 3,953 | 4,987 | 5,211 | 5,158 | 3,558 | 3,058 | 1,788 |
| Deferred Tax Liability | 76 | 92 | 79 | 131 | 149 | 149 | 149 | 149 |
| Capital Employed | 12,215 | 13,085 | 15,532 | 17,845 | 19,504 | 22,271 | 25,576 | 29,472 |
| Gross Fixed Assets | 3,783 | 5,031 | 5,526 | 5,914 | 7,574 | 9,778 | 12,576 | 14,567 |
| Less: Depreciation | 768 | 1,126 | 1,527 | 1,923 | 2,403 | 3,067 | 3,915 | 4,950 |
| Net Fixed Assets | 3,016 | 3,905 | 3,999 | 3,991 | 5,172 | 6,711 | 8,660 | 9,617 |
| Capital WIP | 426 | 154 | 67 | 423 | 436 | 436 | 436 | 436 |
| Investments | 382 | 320 | 406 | 622 | 777 | 777 | 777 | 777 |
| Curr. Assets | 10,868 | 11,075 | 12,679 | 15,471 | 19,951 | 21,296 | 24,317 | 28,830 |
| Inventory | 3,527 | 3,752 | 5,341 | 7,096 | 8,602 | 9,213 | 11,447 | 13,604 |
| Investments | 1,552 | 1,888 | 1,960 | 2,055 | 2,849 | 2,849 | 2,349 | 2,849 |
| Debtors | 4,465 | 4,190 | 4,204 | 5,171 | 5,919 | 6,323 | 7,407 | 8,802 |
| Cash & Bank Balance | 58 | 113 | 85 | 123 | 811 | 1,038 | 816 | 865 |
| Loans & Advances | 366 | 472 | 58 | 143 | 129 | 151 | 189 | 224 |
| Other Current Assets | 899 | 660 | 1,032 | 882 | 1,642 | 1,721 | 2,110 | 2,485 |
| Current Liab. & Prov. | 2,477 | 2,368 | 1,619 | 2,661 | 6,832 | 6,949 | 8,614 | 10,189 |
| Creditors | 1,904 | 1,809 | 1,135 | 1,679 | 4,401 | 4,087 | 5,057 | 5,962 |
| Other Liabilities | 383 | 469 | 369 | 771 | 1,982 | 2,335 | 2,901 | 3,447 |
| Provisions | 190 | 91 | 115 | 212 | 448 | 528 | 656 | 780 |
| Net Current Assets | 8,392 | 8,707 | 11,061 | 12,809 | 13,119 | 14,347 | 15,703 | 18,641 |
| Application of Funds | 12,215 | 13,085 | 15,532 | 17,845 | 19,504 | 22,271 | 25,576 | 29,472 |

Financials and valuations (Consolidated)

| Ratios | | | | | | | | |
|-------------------------------|------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Y/E March | FY19 | FY20 | FY21 | FY22 | FY23 | FY24E | FY25E | FY26E |
| Basic (INR) | | | | | | | | |
| EPS | 7.6 | 10.8 | 12.0 | 19.0 | 16.8 | 27.0 | 40.7 | 54.8 |
| Cash EPS | 10.3 | 14.3 | 16.0 | 23.0 | 22.1 | 32.9 | 48.3 | 64.0 |
| BV/Share | 177.7 | 193.2 | 218.7 | 261.3 | 148.4 | 164.5 | 198.3 | 244.1 |
| DPS | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 5.0 | 7.0 | 9.0 |
| Payout % | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 18.5 | 17.2 | 16.4 |
| Valuation (x) | | | | | | | | |
| P/E | 210.5 | 147.3 | 133.1 | 84.3 | 94.9 | 59.2 | 39.2 | 29.2 |
| Cash P/E | 155.1 | 111.8 | 100.1 | 69.3 | 72.3 | 48.6 | 33.1 | 25.0 |
| EV/Sales | 7.6 | 7.4 | 6.7 | 4.2 | 3.2 | 2.7 | 2.2 | 1.8 |
| EV/EBITDA | 103.3 | 89.0 | 79.6 | 60.4 | 56.4 | 37.9 | 26.2 | 19.6 |
| P/BV | 9.0 | 8.3 | 7.3 | 6.1 | 10.8 | 9.7 | 8.1 | 6.5 |
| Dividend Yield (%) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.3 | 0.4 | 0.6 |
| Return Ratios (%) | | | | | | | | |
| RoE | 13.3 | 14.1 | 13.9 | 18.6 | 14.2 | 18.6 | 22.5 | 24.8 |
| RoCE | 10.8 | 11.9 | 10.8 | 13.7 | 11.9 | 16.6 | 20.7 | 23.6 |
| RoIC | 8.9 | 11.6 | 10.2 | 12.3 | 12.3 | 16.4 | 19.9 | 23.2 |
| Working Capital Ratios | | | | | | | | |
| Debtor (Days) | 68.2 | 61.7 | 56.3 | 43.0 | 38.6 | 35.0 | 33.0 | 33.0 |
| Creditor (Days) | 29.1 | 26.6 | 15.2 | 14.0 | 28.7 | 22.6 | 22.5 | 22.4 |
| Inventory (Days) | 41.4 | 53.6 | 71.6 | 59.1 | 56.1 | 51.0 | 51.0 | 51.0 |
| Asset Turnover (x) | 2.3 | 2.0 | 1.9 | 2.6 | 3.0 | 3.2 | 3.4 | 3.5 |
| Leverage Ratio | | | | | | | | |
| Debt/Equity (x) | 0.5 | 0.4 | 0.5 | 0.4 | 0.4 | 0.2 | 0.1 | 0.1 |

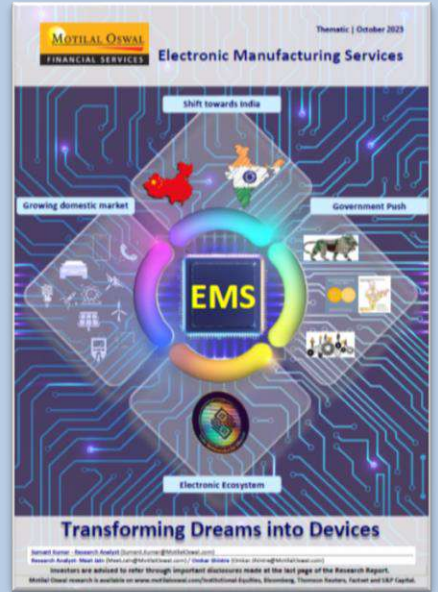
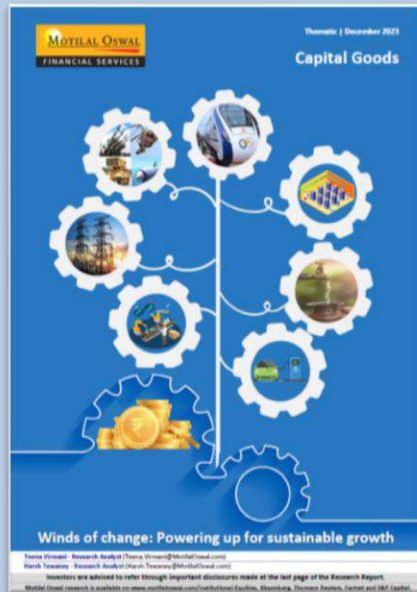
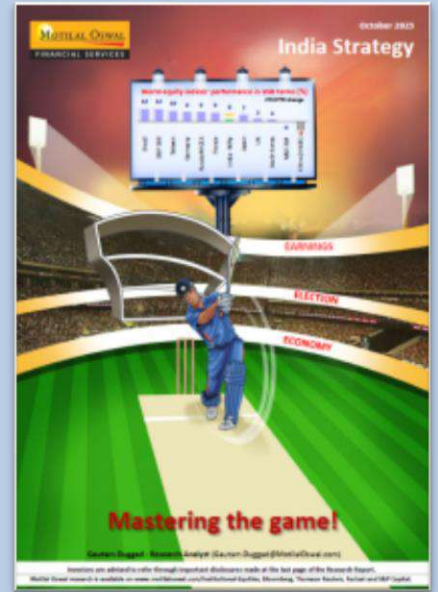
Cash Flow Statement

| Y/E March | FY19 | FY20 | FY21 | FY22 | FY23 | FY24E | FY25E | FY26E |
|------------------------------|----------------|----------------|--------------|--------------|----------------|----------------|----------------|----------------|
| Profit before tax | 1,324 | 1,578 | 1,803 | 2,844 | 2,560 | 4,108 | 6,206 | 8,349 |
| Depreciation | 306 | 388 | 448 | 461 | 596 | 664 | 848 | 1,034 |
| Exceptional Income | - | - | - | - | - | - | - | - |
| Interest Paid | 383 | 352 | 271 | 233 | 421 | 555 | 442 | 377 |
| Others | (48) | 37 | 23 | (69) | 18 | (575) | (604) | (634) |
| Direct Taxes Paid | (648) | (335) | (419) | (733) | (582) | (1,066) | (1,611) | (2,168) |
| (Incr)/Decr in WC | (915) | 135 | (2,837) | (1,754) | 1,534 | (1,000) | (2,079) | (2,389) |
| CF from Operations | 402 | 2,156 | (711) | 982 | 4,547 | 2,688 | 3,203 | 4,569 |
| Incr in FA | (1,054) | (931) | (474) | (682) | (2,179) | (2,204) | (2,798) | (1,992) |
| Pur of Investments | (1,507) | (288) | 367 | (2) | (1,188) | - | 500 | (500) |
| Interest/MF/Div Income | 29 | 68 | 39 | 11 | 27 | 575 | 604 | 634 |
| Others | (225) | (132) | 10 | 47 | 5 | - | - | - |
| CF from Invest. | (2,758) | (1,283) | (59) | (627) | (3,335) | (1,628) | (1,694) | (1,858) |
| Changes in Net worth | 3,153 | - | - | - | - | 1,888 | - | - |
| Incr in Debt | (264) | (54) | 1,029 | 184 | (160) | (1,600) | (500) | (1,270) |
| Dividend Paid | (233) | (425) | - | (278) | (500) | (564) | (790) | (1,015) |
| Interest paid | (379) | (340) | (287) | (222) | (355) | (555) | (442) | (377) |
| Others | - | - | (33) | (40) | - | - | - | - |
| CF from Fin. Activity | 2,277 | (819) | 708 | (356) | (1,015) | (832) | (1,731) | (2,662) |
| Incr/Decr of Cash | (79) | 54 | (61) | (1) | 197 | 228 | (222) | 49 |
| Add: Opening Balance | (21) | 58 | 113 | 52 | 614 | 811 | 1,038 | 816 |
| Closing Balance | 58 | 113 | 52 | 51 | 811 | 1,038 | 816 | 865 |

NOTES

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JSW Infrastructure



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|----------------------------------|--|
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| SELL | < - 10% |
| NEUTRAL | < - 10 % to 15% |
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| NOT RATED | We have forward looking estimates for the stock but we refrain from assigning recommendation |

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