16 October 2024

2QFY25 Results Update | Sector: Cables and Wires

KEI Industries

Estimate change	↓
TP change	↓
Rating change	↔

Bloomberg	KEII IN
Equity Shares (m)	90
M.Cap.(INRb)/(USDb)	395.7 / 4.7
52-Week Range (INR)	5040 / 2317
1, 6, 12 Rel. Per (%)	1/1/37
12M Avg Val (INR m)	1074
Free float (%)	62.9

Financials & Valuations (INR b)

Y/E MARCH	FY25E	FY26E	FY27E
Sales	94.3	109.9	128.3
EBITDA	9.7	12.3	15.2
Adj. PAT	6.8	8.2	10.1
EBITDA Margin (%)	10.3	11.2	11.9
Cons. Adj. EPS (INR)	75.6	91.1	112.1
EPS Gr. (%)	17.4	20.6	23.0
BV/Sh. (INR)	420	505	611
Ratios			
Net D:E	(0.0)	(0.0)	(0.0)
RoE (%)	18.0	18.1	18.4
RoCE (%)	17.1	17.6	18.2
Payout (%)	6.4	6.6	5.4
Valuations			
P/E (x)	58.0	48.1	39.1
P/BV (x)	10.4	8.7	7.2
EV/EBITDA (x)	40.6	32.2	25.8
Div Yield (%)	0.1	0.1	0.1
FCF Yield (%)	(1.3)	0.4	0.4

Shareholding pattern (%)

As On	Sep-24	Jun-24	Sep-23
Promoter	37.1	37.1	37.1
DII	16.0	16.6	17.7
FII	31.1	30.8	29.6
Others	15.8	15.6	15.7

FII Includes depository receipts

CMP: INR4,385 TP: INR5,100 (+16%) BUY

RM volatility and lower EPC revenue hurt margins

Obtains Board approvals for fundraise with an aim to remain debt-free

- KEI Industries (KEII)'s 2QFY25 earnings were below our estimate due to a lower-than-estimated margin in the Cables and Wires (C&W) segment led by RM cost volatility and lower EPC revenue. EBITDA was INR2.2b (est. INR2.5m), while OPM came in at ~10% (est. ~11%). PAT stood at INR1.5b (est. INR1.7b).
- Management indicated the volatility impact of RM costs will average out on a six-month basis, and it maintained its OPM guidance of 10.5-11.0% for FY25 (OPM was flat YoY at ~10% in 1HFY25). The decline in EPC revenue was due to heavy rainfalls across the country, due to which right-of-way (RoW) approvals were not available. KEII intends to remain a debt-free company and has obtained Board approvals for a fundraise of up to INR20b via QIP.
- We cut our EPS estimates for FY25-27 by ~3-6% as we factor in lower EPC revenue and reduced C&W EBIT margin by ~20bp. We estimate an EPS CAGR of ~20% over FY24-27. We value KEII at 50x Sep'26E EPS to arrive at our TP of INR5,100 (vs. INR5,300). **Reiterate BUY.**

Revenue/EBITDA up 17%/8% YoY; OPM down 80bp YoY to ~10%

- KEII's revenue/EBITDA/Adj. PAT stood at INR22.8b/INR2.2b/INR1.5b (up 17%/8%/10% YoY and up 1%/ down 12%/8% vs. our estimate). OPM margin contracted 80bp YoY to ~10%.
- Segmental highlights: a) **Cables and Wires:** Revenue rose 21% YoY to INR21.4b and EBIT was up ~17% YoY to INR2.2b. EBIT margin contracted 30bp YoY to ~10%. b) **EPC business:** Revenue declined 58% YoY to INR1.3b and EBIT dipped 61% YoY to INR121m. EBIT margin contracted 80bp YoY to ~9%. c) **Stainless Steel Wires (SSW)**: Revenue was up 1% YoY to INR598m, while EBIT declined 21% YoY to INR29m. EBIT margin contracted 1.3pp YoY to ~5%.
- In 1HFY25, revenue/EBITDA/PAT grew 16%/14%/17% YoY. EBITDA margin was flat YoY at ~10%. The C&W EBIT margin expanded 1pp YoY to ~11% during 1HFY25. The company's operating cash outflow stood at INR3.1b vs. OCF of INR1.2b in 1HFY24. Capex (including purchase of land and building) stood at INR3.1b vs. INR2.2b in 1HFY24.

Key highlights from the management commentary

- Demand continues to remain strong from solar renewable energy and transmission sectors. Thermal power projects, pump storage projects, data centers, and highway tunneling projects are also driving demand.
- Capacity utilization was ~78% for the cable segment, ~71% for the house wire division, and ~93% for the stainless wire division during 1HFY25.
- Capex in FY25/26 will be INR11b+/INR6-7b (including maintenance capex of INR500m every year). Receivables days will be at 2.1 months in FY25. Inventory days should fall to 2.25 months vs. 2.4 months at present.

Sanjeev Kumar Singh - Research analyst (Sanjeev.Singh@MotilalOswal.com)

Research analyst - Mudit Agarwal (Mudit.Agarwal@MotilalOswal.com) | **Abhishek Sheth** (Abhishek.Sheth@MotilalOswal.com)

Valuation and view

- KEII is focused on improving its retail sales in total revenue to ~50% from ~47% in FY24. To increase its retail sales, KEII is also expanding its dealer/ distribution network (active dealer count rose ~5% YoY to 2,038 as of Sep'24). Further, the company targets to improve its export share in total revenue to ~12-13% from ~11% in 1HFY25.
- We estimate a revenue/EBITDA/EPS CAGR of 17%/22%/20% over FY24-27. The stock currently trades at 48x FY26E EPS. Considering the strong demand outlook and robust earnings CAGR, we value KEII at 50x Sep'26E EPS to arrive at our revised TP of INR5,100 (earlier INR5,300). **Reiterate BUY.**

Quarterly performance (INR m)

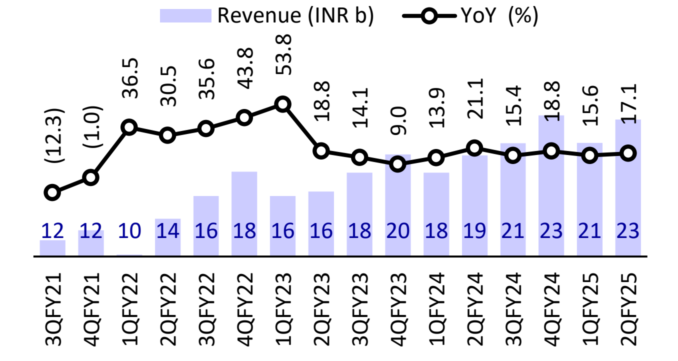
Y/E March	FY24				FY25E				FY24	FY25E	FY25	Var. (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE			2QE	
Sales	**17,826**	**19,466**	**20,594**	**23,156**	**20,605**	**22,796**	**23,724**	**27,215**	**81,041**	**94,340**	**22,586**	**1**
Change (%)	13.9	21.1	15.4	18.6	15.6	17.1	15.2	17.5	17.3	16.4	**16**	
Adj. EBITDA	**1,783**	**2,039**	**2,146**	**2,409**	**2,146**	**2,206**	**2,433**	**2,959**	**8,375**	**9,744**	**2,512**	**(12)**
Change (%)	11.7	27.0	17.8	19.1	20.4	8.2	13.4	22.8	19.3	16.3	**23**	
Adj. EBITDA margin (%)	10.0	10.5	10.4	10.4	10.4	9.7	10.3	10.9	10.3	10.3	**11.1**	(145)
Depreciation	147	156	154	158	155	163	167	182	614	668	**166**	(1)
Interest	89	75	109	165	142	133	145	160	439	580	**160**	(17)
Other Income	83	77	142	189	178	169	160	165	490	672	**85**	99
Extra-ordinary Items	-	-	-	(2)	-	-	-	-	(2)	-	**-**	
PBT	**1,630**	**1,884**	**2,024**	**2,274**	**2,027**	**2,079**	**2,282**	**2,781**	**7,813**	**9,169**	**2,272**	**(8)**
Tax	416	482	518	587	525	531	586	708	2,002	2,350	**584**	
Effective Tax Rate (%)	25.5	25.6	25.6	25.8	25.9	25.5	25.7	25.5	25.6	25.6	**25.7**	
Reported PAT	**1,214**	**1,402**	**1,507**	**1,686**	**1,502**	**1,548**	**1,695**	**2,073**	**5,808**	**6,819**	**1,688**	**(8)**
Change (%)	17.0	31.2	17.2	22.1	23.8	10.4	12.5	23.0	22.2	17.4	**20.4**	
Adj. PAT	**1,214**	**1,402**	**1,507**	**1,688**	**1,502**	**1,548**	**1,695**	**2,073**	**5,811**	**6,819**	**1,688**	**(8)**
Change (%)	17.0	31.2	17.2	22.2	23.8	10.4	12.5	22.8	22.3	17.4	**20.4**	

Segmental performance (INR m)

Y/E March	FY24				FY25				FY24	FY25E	FY25	Var.
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE			2QE	(%)
Sales												
Cables (Power + Housing wires)	16,119	17,755	18,671	20,691	18,757	21,402	22,032	24,940	73,236	87,131	20,774	3
Stainless steel wires	590	591	461	572	538	598	507	646	2,214	2,289	632	(5)
EPC Business	1,847	3,131	3,769	3,405	2,261	1,309	1,885	2,444	12,151	7,898	2,880	(55)
EBIT												
Cables (Power + Housing wires)	1,415	1,919	1,979	2,258	2,067	2,241	2,423	2,852	7,570	9,584	2,306	(3)
Stainless steel wires	31	36	36	13	10	29	25	27	117	92	19	51
EPC Business	256	314	439	422	298	121	188	261	1,431	869	317	(62)
EBIT Margin (%)												
Cables (Power + Housing wires)	8.8	10.8	10.6	10.9	11.0	10.5	11.0	11.4	10.3	11.0	11.1	(63)
Stainless steel wires	5.3	6.1	7.8	2.3	1.9	4.8	5.0	4.2	5.3	4.0	3.0	179
EPC Business	13.9	10.0	11.6	12.4	13.2	9.2	10.0	10.7	11.8	11.0	11.0	(175)

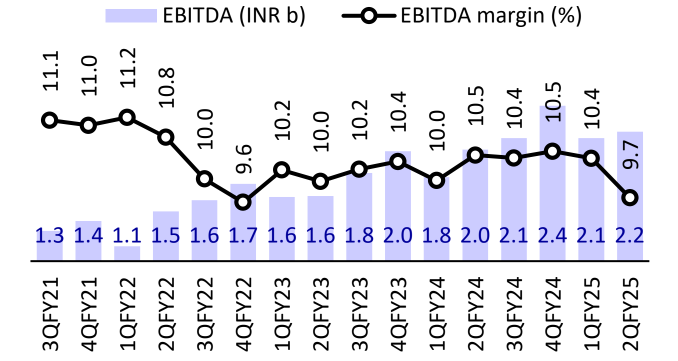
Story in charts

Exhibit 1: Total revenue grew ~17% YoY in 2QFY25



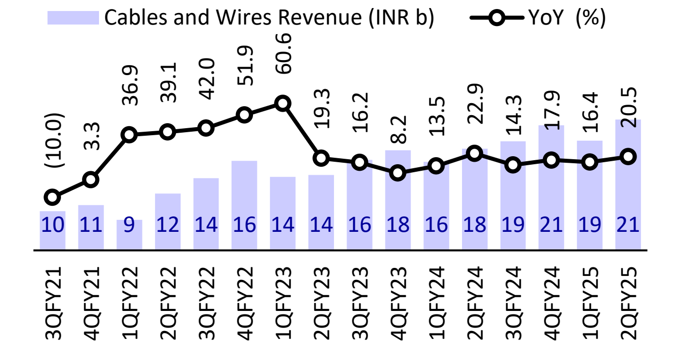
Source: MOFSL, Company

Exhibit 2: EBITDA grew ~8% YoY



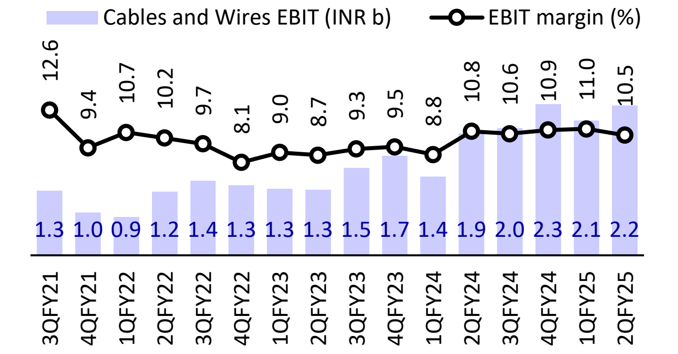
Source: MOFSL, Company

Exhibit 3: Cables & Wires' revenue rose ~21% YoY



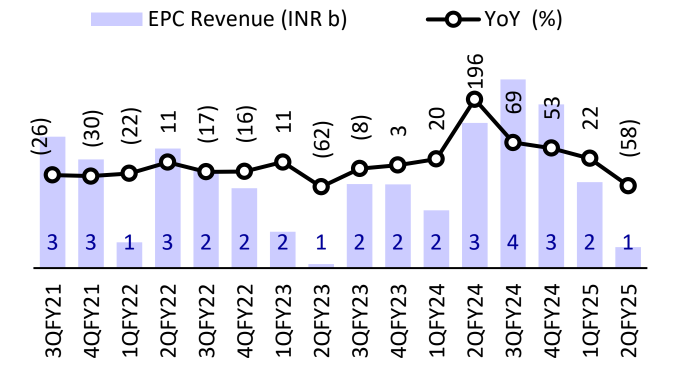
Source: MOFSL, Company

Exhibit 4: Cables and Wires' EBIT margin dipped 30bp YoY



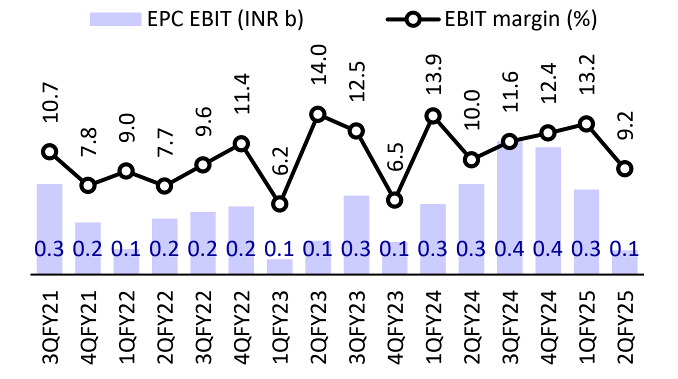
Source: MOFSL, Company

Exhibit 5: EPC revenue declined 58% YoY



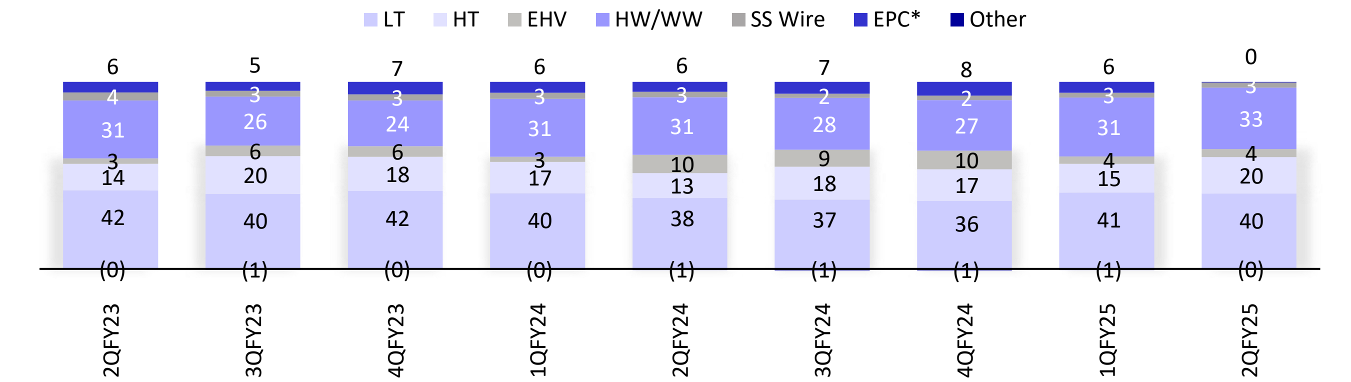
Source: MOFSL, Company

Exhibit 6: EPC EBIT margin contracted 80bp YoY



Source: MOFSL, Company

Exhibit 7: Breakdown of product and mix in revenue (%)



Source: MOFSL, Company; Note: *EPC (Other than cable)

Conference call highlights

Demand drivers and growth guidance

- Demand continues to remain strong from solar renewable energy and transmission sectors. Thermal power projects, pump storage projects, data centers, and highway tunneling projects are also driving demand.
- Based on consumption of metals and production, volume growth in the cables division was ~14% in 1HFY25. Volume growth was slightly lower as some of the materials could not be dispatched in exports as well as in EHV, and this led to an increase in finished goods inventory.
- Capacity utilization was ~78% for the cable segment, ~71% for the house wire division, and ~93% for the stainless wire division during 1HFY25.
- EHV demand was hit and is being driven by government utilities in the transmission sector. There are fluctuations on a quarterly basis; however, there should be a growth on a full-year basis. RoW permissions were not given in any part of the country due to the monsoon season/heavy rains, which also impacted EHV demand. EHV capacity was used for HT cable production. There is 4-5pp margin difference between HT and EHV cables.
- EBITDA margin was hurt by volatility in copper and aluminum prices. However, this will average out on a six-month basis. Management maintains its full-year revenue growth guidance of ~17% and OPM guidance of 10.5-11%.
- EPC revenue share in total revenue is estimated to be ~5-6% in FY25. It expects annual sales from EPC projects of INR2.5b-3.0b.
- The total active working dealers of the company increased to 2,038 as of Sep'24 from 1,950/2,015 as of Sep'23/Jun'24.

Rational for fundraise

- The Sanand project will have a capex of INR18-19b. Apart from this, the company spent INR2.5b on brownfield expansions, which was not envisaged when it finalized the Sanand project. It will also require additional working capital of INR3-4b p.a. apart from annual capex of INR5-6b to maintain its growth ambition of 17% YoY. Further, KEII aims to remain a debt-free company.

Order book and revenue growth

- Domestic institutional cable sales increased ~20% YoY to INR6.15b. Domestic institutional EHV sales declined 57% YoY to INR730m. Capacity of the extra-high voltage cable has been used for medium-voltage and high-voltage power cables. Export sales declined ~3% YoY to INR2.41b.
- Revenue contribution from cable institutional sales was 39% vs. 44% in 2QFY24. Sales through dealers increased 36% YoY to INR12.6b and contributed 55% to revenue vs. 47% in 2QFY24.
- The order book stood at INR38.5b vs. INR33.6b in 2QFY24 and INR35.9b in 1QFY25. The order book mix in 2QFY25 — EPC: 16%, EHV: 8%; Cables: 62% and Export: 15%.
- In 1HFY25, export share in total revenue stood at ~11%. KEII targets export share in total revenue to be at ~12-13%.

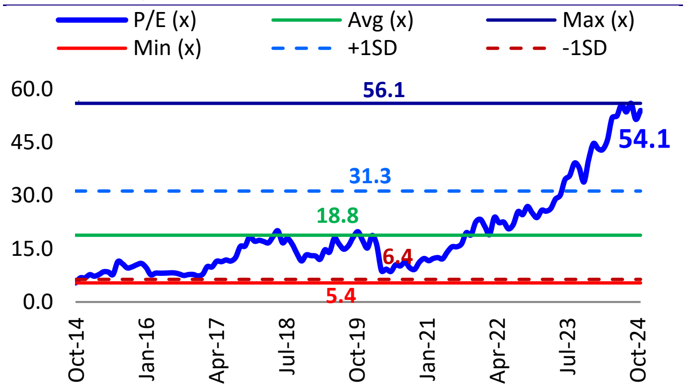
Future growth and capex plan

- In 1HFY25, capex stood at INR3.12b, which included INR1.7b for a greenfield project at Sanand, Gujarat, INR480m for brownfield expansion at Silvassa plant, INR250m for Bhiwadi plant, INR380m for Pathredi plant, and INR320m for other plants. Brownfield capacity expansions at Pathredi and Chinchpada plants have been completed in 1HFY25. This brownfield expansion will help drive ~17% growth in FY25.
- Commercial production at the Greenfield expansion in Sanand plant is expected from 1QFY26. This plant will have a revenue potential of INR50b (INR15b for LT, INR12-15b for HT, and the rest for EHV cables). Asset turnover ratio will be low due to higher capacities for EHV (having asset turnover ratio of 1.5-2.0x) while, for other products; asset turnover ratio will be between 3.0x and 5.0x. EHV capacity can also be used for HT production based on the demand trends.
- Capex (including maintenance) is pegged at INR11b/INR6-7b in FY25/FY26. Maintenance capex stood at INR500m annually at existing plants.

Other highlights

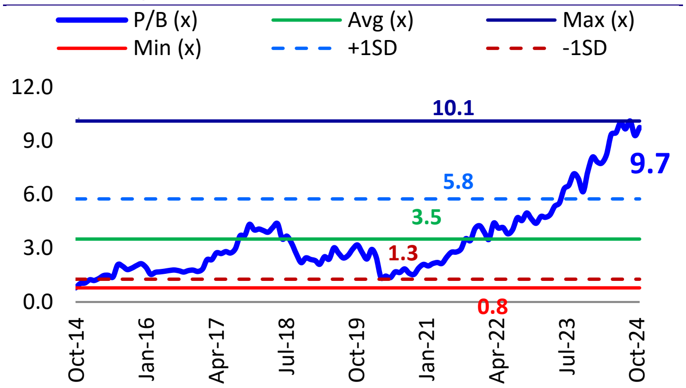
- **Working capital:** Receivables days will be at 2.1 months in FY25. Inventory days should fall to 2.25 months from 2.4 months now.
- Gross debt was INR3.1b (includes channel financing of INR1.1b) vs. INR1.3b as of Mar'24. Cash balance was INR2.5b. Acceptance credit was INR3.6b vs. INR5.1b as of Mar'24. Overall, net debt stood at INR4.3b vs. net cash balance of INR600m as of Mar'24.

Exhibit 8: 1-year forward P/E chart



Source: MOFSL, Company

Exhibit 9: 1-year forward P/B chart



Source: MOFSL, Company

Financials and valuations (Consolidated)

Income Statement								(INR m)
Y/E March	**FY20**	**FY21**	**FY22**	**FY23**	**FY24**	**FY25E**	**FY26E**	**FY27E**
Net Sales	**48,878**	**41,815**	**57,270**	**69,082**	**81,041**	**94,340**	**1,09,907**	**1,28,311**
Change (%)	15.6	(14.4)	37.0	20.6	17.3	16.4	16.5	16.7
EBITDA	**4,996**	**4,605**	**5,887**	**7,020**	**8,375**	**9,744**	**12,256**	**15,237**
% of Net Sales	10.2	11.0	10.3	10.2	10.3	10.3	11.2	11.9
Depreciation	567	578	555	571	614	668	1,012	1,499
Interest	1,292	573	404	347	439	580	710	761
Other Income	165	201	146	318	490	672	523	625
PBT	**3,302**	**3,655**	**5,075**	**6,420**	**7,813**	**9,169**	**11,056**	**13,602**
Tax	716	921	1,315	1,647	2,002	2,350	2,834	3,486
Rate (%)	21.7	25.2	25.9	25.7	25.6	25.6	25.6	25.6
Extraordinary Inc.(net)	-	-	-	-	2.1	-	-	-
Reported PAT	**2,586**	**2,734**	**3,760**	**4,773**	**5,813**	**6,819**	**8,223**	**10,116**
Change (%)	42.3	5.7	37.5	26.9	21.8	17.3	20.6	23.0
Adjusted PAT	**2,586**	**2,734**	**3,760**	**4,773**	**5,811**	**6,819**	**8,223**	**10,116**
Change (%)	42.3	5.7	37.5	26.9	21.7	17.4	20.6	23.0

Balance Sheet								(INR m)
Y/E March	**FY20**	**FY21**	**FY22**	**FY23**	**FY24**	**FY25E**	**FY26E**	**FY27E**
Share Capital	179	180	180	180	180	180	180	180
Reserves	14,889	17,597	21,175	25,711	31,302	37,688	45,369	54,944
Net Worth	**15,068**	**17,776**	**21,355**	**25,892**	**31,483**	**37,868**	**45,550**	**55,125**
Loans	3,151	2,850	3,314	1,353	1,342	4,342	3,842	3,342
Deferred Tax Liability	310	296	294	266	273	273	273	273
Capital Employed	**18,528**	**20,922**	**24,963**	**27,511**	**33,098**	**42,484**	**49,665**	**58,740**
Gross Fixed Assets	6,298	6,631	7,733	8,668	11,312	12,536	23,612	29,912
Less: Depreciation	1,309	1,869	2,424	2,995	3,608	4,276	5,288	6,787
Net Fixed Assets	**4,989**	**4,761**	**5,309**	**5,673**	**7,703**	**8,260**	**18,324**	**23,125**
Capital WIP	112	71	165	146	1,224	10,000	4,000	4,000
Investments	6	9	20	13	16	16	16	16
Curr. Assets	**27,579**	**25,295**	**29,776**	**31,870**	**37,636**	**38,769**	**43,988**	**51,052**
Inventory	8,638	7,682	10,794	11,023	13,427	14,991	17,164	20,038
Debtors	13,676	13,496	13,955	13,878	15,179	17,317	19,572	22,850
Cash & Bank Balance	2,143	2,212	3,600	5,372	7,004	4,362	4,807	5,309
Loans & Advances	154	220	16	24	27	31	36	42
Other Current Assets	2,969	1,685	1,410	1,573	2,000	2,068	2,409	2,812
Current Liab. & Prov.	**14,158**	**9,214**	**10,307**	**10,191**	**13,482**	**14,561**	**16,662**	**19,452**
Creditors	11,690	7,414	7,626	7,482	10,079	11,114	12,647	14,765
Other Liabilities	2,277	1,658	2,538	2,469	3,106	3,102	3,613	4,218
Provisions	192	142	143	240	296	345	402	469
Net Current Assets	**13,421**	**16,081**	**19,469**	**21,679**	**24,155**	**24,208**	**27,326**	**31,599**
Application of Funds	**18,528**	**20,922**	**24,963**	**27,511**	**33,098**	**42,484**	**49,665**	**58,740**

Financials and valuations (Consolidated)

Ratios								
Y/E March	**FY20**	**FY21**	**FY22**	**FY23**	**FY24**	**FY25E**	**FY26E**	**FY27E**
Basic (INR)								
Adjusted EPS	**28.9**	**30.4**	**41.7**	**52.9**	**64.4**	**75.6**	**91.1**	**112.1**
Growth (%)	25.5	5.3	37.2	26.8	21.7	17.4	20.6	23.0
Cash EPS	35.2	36.9	47.9	59.3	71.2	83.0	102.3	128.7
Book Value	168.3	197.8	237.0	287.1	348.9	419.6	504.8	610.9
DPS	1.5	2.0	2.5	3.0	3.5	4.0	5.0	5.0
Payout (incl. Div. Tax.)	10.7	6.6	6.0	5.7	4.8	6.4	6.6	5.4
Valuation (x)								
P/Sales	8.0	9.4	6.9	5.7	4.9	4.2	3.6	3.1
P/E	151.6	144.0	105.0	82.8	68.0	58.0	48.1	39.1
Cash P/E	124.4	118.9	91.5	73.9	61.5	52.8	42.8	34.0
EV/EBITDA	78.7	85.6	67.0	55.7	46.5	40.6	32.2	25.8
EV/Sales	8.0	9.4	6.9	5.7	4.8	4.2	3.6	3.1
Price/Book Value	26.0	22.1	18.5	15.3	12.6	10.4	8.7	7.2
Dividend Yield (%)	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1
Profitability Ratios (%)								
RoE	17.2	15.4	17.6	18.4	18.5	18.0	18.1	18.4
RoCE	19.4	15.1	16.3	18.3	18.5	17.1	17.6	18.2
RoIC	21.2	16.1	18.5	21.7	22.1	17.7	18.6	19.1
Turnover Ratios								
Debtors (Days)	102	118	89	73	68	67	65	65
Inventory (Days)	65	67	69	58	60	58	57	57
Creditors. (Days)	87	65	49	40	45	43	42	42
Asset Turnover (x)	2.6	2.0	2.3	2.5	2.4	2.2	2.2	2.2
Leverage Ratio								
Net Debt/Equity (x)	0.1	0.0	(0.0)	(0.2)	(0.2)	(0.0)	(0.0)	(0.0)

Cash Flow Statement								(INR m)
Y/E March	**FY20**	**FY21**	**FY22**	**FY23**	**FY24**	**FY25E**	**FY26E**	**FY27E**
PBT before EO Items	**3,279**	**3,654**	**5,075**	**6,420**	**7,811**	**9,169**	**11,056**	**13,602**
Add : Depreciation	567	578	555	571	614	668	1,012	1,499
Interest	1,276	554	404	347	439	580	710	761
Less : Direct Taxes Paid	947	903	1,247	1,776	2,045	2,350	2,834	3,486
(Inc)/Dec in WC	4,365	2,420	2,505	349	689	2,696	2,673	3,771
Others	61	76	4	(74)	(24)	(672)	(523)	(625)
CF from Operations	**(130)**	**1,539**	**2,286**	**5,139**	**6,105**	**4,699**	**6,750**	**7,980**
(Inc)/Dec in FA	(805)	(240)	(597)	(979)	(4,005)	(10,000)	(5,076)	(6,300)
Free Cash Flow	**(936)**	**1,299**	**1,688**	**4,160**	**2,100**	**(5,301)**	**1,674**	**1,680**
(Pur)/Sale of Investments	783	952	(8)	(547)	265	-	-	-
Others	133	42	22	156	209	672	523	625
CF from Investments	**110**	**754**	**(584)**	**(1,371)**	**(3,531)**	**(9,328)**	**(4,552)**	**(5,675)**
(Inc)/Dec in Net Worth	5,020	79	56	20	11	-	-	-
(Inc)/Dec in Debt	(1,062)	(714)	666	(1,961)	(9)	3,000	(500)	(500)
Less : Interest Paid	2,558	471	404	347	439	580	710	761
Dividend Paid	276	180	224	271	281	433	541	541
Others	(131)	-	(408)	-	(225)	-	-	-
CF from Fin. Activity	**994**	**(1,286)**	**(314)**	**(2,559)**	**(942)**	**1,987**	**(1,752)**	**(1,802)**
Inc/Dec of Cash	**974**	**1,007**	**1,388**	**1,208**	**1,632**	**(2,642)**	**445**	**503**
Add: Beginning Balance	1,169	1,205	2,212	4,163	5,372	7,004	4,362	4,807
Closing Balance	**2,143**	**2,212**	**3,600**	**5,372**	**7,004**	**4,362**	**4,807**	**5,309**

NOTES

Explanation of Investment Rating	
Investment Rating	**Expected return (over 12-month)**
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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Nainesh Rajani
Email: nainesh.rajani@motilaloswal.com
Contact: (+65) 8328 0276

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Contact Person	Contact No.	Email ID
Ms. Hemangi Date	022 40548000 / 022 67490600	query@motilaloswal.com
Ms. Kumud Upadhyay	022 40548082	servicehead@motilaloswal.com
Mr. Ajay Menon	022 40548083	am@motilaloswal.com

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