

Lighting the growth path

We hosted the senior management of RR Kabel (RRK) at a Non Deal Roadshow (NDR) in Asia last week. The company was represented by Mr Shreegopal Kabra (Managing Director) and Mr Rajesh Jain (Chief Financial Officer). Being the maiden NDR post IPO, the key questions centered around a) company and promoter history, b) strategy on cables and wires, particularly on exports and wires (domestic market), c) foray into FMEG (fast moving electrical goods) and the way forward, especially against the backdrop of heightened competitive intensity, and d) guidance on revenue/margins at the company level. The management remains upbeat about growth prospects in domestic and exports markets for W&C (the company is investing INR 5bn in FY24-25 to augment capacity) with significant margin improvement (10-10.5% by FY26) and has guided for break-even in FMEG in FY25 with revenue of IN R10bn (22% CAGR in FY23-26). Our estimates remain unchanged with Mar'25TP of INR1,790. We maintain BUY.

- Healthy outlook for domestic W&C industry:** The domestic wires and cables (W&C) industry is poised to grow at a healthy pace (typically 2x of real GDP growth rate) given a) rapid development of infrastructure such as metros, highways, railways by the government, b) policies like revamping power distribution from overhead to underground cables and affordable housing schemes, and c) robust real estate demand, driving growth for the industry. Further, with continuous product improvement and introduction of new innovative products like Low-Smoke Zero-Halogen, consumers are shifting towards branded players. RR Kabel has a strong presence all over India, with a market share of more than 9% in 13 key states.
- Expanding presence in export markets:** The company continues to enlarge its global presence (67 countries in 3Q vs. 65 countries QoQ) and expand its product portfolio (higher mix of cables); that has helped it increase its margins. Europe is the key export geography, followed by the Middle East and USA. Around 90% of exports are under the brand RR Kabel while the rest are white labeled exports. With the expansion of export geographies and product portfolio, the management expects the share of exports to increase gradually to 35% from 23% in FY23.
- Capex plans on track to achieve 20% growth over medium term:** The company has planned capex of INR 5bn over FY24-25 to support its objective of 20% volume growth in the medium term. It is expanding its copper wire/cable capacity (25% increase in volume terms), power cables capacity (100% increase in volume terms), E-Beam facility, and backward integrating (manufacturing of PVC compound in house). The management expects 5x asset turns and the entire capex will be funded from internal accruals.
- Continues to outpace industry growth in FMEG:** Fans and Lighting are key product categories for RRK, followed by switch and switch gears. The company has launched a premium product under the brand "RR Signature", and plans to introduce more products and expand its portfolio to achieve 20%+ growth and outpace the industry (revenue grew 21% YoY in 9MFY24 vs. single-digit growth for peers). While gross margins in

Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	1,790
Upside/(Downside)	23.6%
Previous Price Target	1,790
Change	0.0%

Key Data – RRKABEL IN

Current Market Price	INR1,448
Market cap (bn)	INR163.4/US\$2.0
Free Float	32%
Shares in issue (mn)	114.6
Diluted share (mn)	112.8
3-mon avg daily val (mn)	INR312.9/US\$3.8
52-week range	1,822/1,137
Sensex/Nifty	73,872/22,406
INR/US\$	82.9

Price Performance

%	1M	6M	12M
Absolute	0.1	0.0	0.0
Relative*	-2.4	0.0	0.0

* To the BSE Sensex

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Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

Financial Summary					(INR mn)
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Net Sales	43,859	55,992	65,655	78,786	94,360
Sales Growth (%)	61.0	27.7	17.3	20.0	19.8
EBITDA	3,032	3,223	4,706	6,681	8,608
EBITDA Margin (%)	6.9	5.8	7.2	8.5	9.1
Adjusted Net Profit	2,139	1,899	3,025	4,389	5,729
Diluted EPS (INR)	27.4	19.8	26.8	38.9	50.8
Diluted EPS Growth (%)	58.0	-27.5	35.2	45.1	30.5
ROIC (%)	13.8	13.0	18.1	21.2	22.9
ROE (%)	28.7	20.5	21.3	21.9	24.2
P/E (x)	52.9	73.0	54.0	37.2	28.5
P/B (x)	13.4	13.8	8.9	7.5	6.3
EV/EBITDA (x)	57.9	54.3	36.1	25.6	19.9
Dividend Yield (%)	0.2	0.3	0.4	0.7	1.0

Source: Company data, JM Financial. Note: Valuations as of 04/Mar/2024

FMEG are higher than company levels margins, they are still below that of the industry and the management aims to improve that on the back of a) increasing share of premium products, b) price improvement and c) operating leverage. With improving scale of operations, operating losses have declined for the segment. Hence, the management expects the segment to break-even at EBITDA level in FY25. Western and northern India are RRK's key markets at present, and the company aims to expand its footprint into southern and eastern markets in the medium term. It hopes to achieve 8-10% EBITDA margins in the FMEG segment over the next 4-6 years.

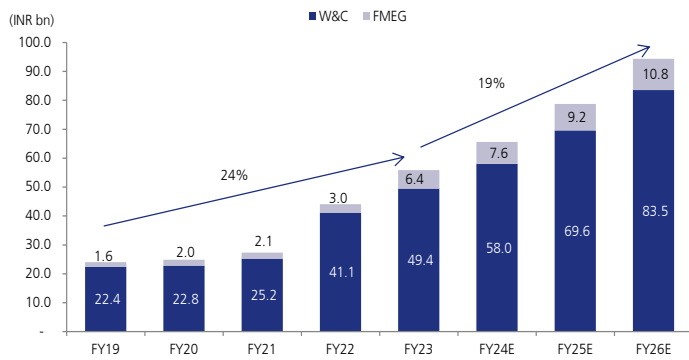
- **Maintain estimates; BUY:** Our estimates remain unchanged. We believe the company is seeing robust growth momentum in both domestic (particularly cables) and exports markets. Moreover, the export mix is improving towards cables (higher margins than wires), which will help the company further improve margins in the W&C segment for RRK. Our Mar'25TP of INR1,790 stays. BUY.

Exhibit 1. Cables & Wires Segment

Cables and wires (INR bn)	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E	CAGR FY19-23	CAGR FY23-26
Cables and Wires Revenue										
Havells	32.3	29.9	31.8	46.5	55.3	62.5	73.8	85.6	14%	16%
Finolex Cables	29.8	27.7	26.3	35.7	42.6	NA	NA	NA	9%	NA
Polycab	70.6	75.9	75.9	107.9	127.8	NA	NA	NA	16%	NA
KEI	35.0	41.2	37.2	53.5	65.1	NA	NA	NA	17%	NA
R R Kabel	22.6	22.8	25.2	41.1	49.6	58.0	69.6	83.5	22%	19%
Total	190.4	197.6	196.4	284.7	340.4	120.5	143.4	169.1	16%	NA
Copper Price (INR/kg)	444	415	490	720	687	NA	NA	NA	12%	NA
Aluminium Price (INR/kg)	143	125	131	206	202	NA	NA	NA	9%	NA
Cables and Wires EBIT										
Havells	3.4	3.3	4.0	5.4	5.2	7.2	8.7	10.4	12%	26%
Finolex Cables	4.5	4.0	3.5	3.9	4.7	NA	NA	NA	1%	NA
Polycab	8.4	9.3	9.1	10.5	16.7	NA	NA	NA	19%	NA
KEI	3.8	4.5	4.2	5.0	5.9	NA	NA	NA	12%	NA
R R Kabel	1.7	2.0	2.3	3.2	3.5	4.9	6.4	7.9	20%	31%
Total	21.6	23.1	23.1	28.1	36.1	12.1	15.1	18.4	14%	NA
Cables and Wires EBIT Margin										
Havells	10.4%	11.1%	12.7%	11.6%	9.5%	11.5%	11.8%	12.2%	-90 bps	270 bps
Finolex Cables	15.0%	14.6%	13.3%	11.0%	11.0%	NA	NA	NA	-400 bps	NA
Polycab	11.8%	12.3%	11.9%	9.8%	13.1%	NA	NA	NA	130 bps	NA
KEI	10.8%	10.9%	11.4%	9.3%	9.1%	NA	NA	NA	-170 bps	NA
R R Kabel	7.5%	8.7%	9.0%	7.8%	7.1%	8.5%	9.2%	9.5%	-40 bps	240 bps
Total	11.4%	11.7%	11.8%	9.9%	10.6%	10.1%	10.5%	10.9%	-80 bps	30 bps

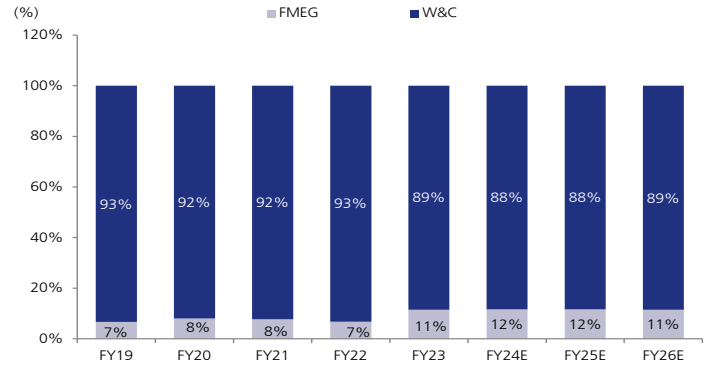
Source: Company, JM Financial

Exhibit 2. Revenue trajectory



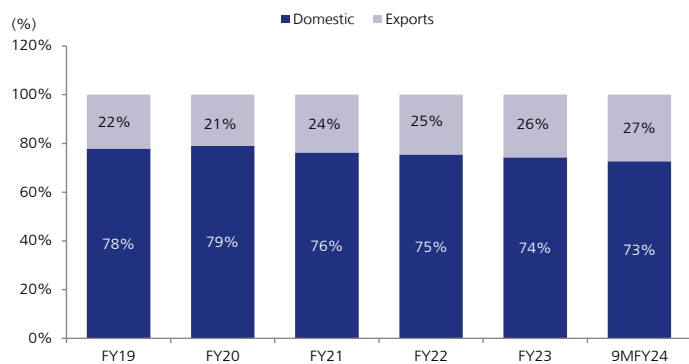
Source: Company, JM Financial

Exhibit 3. Revenue mix



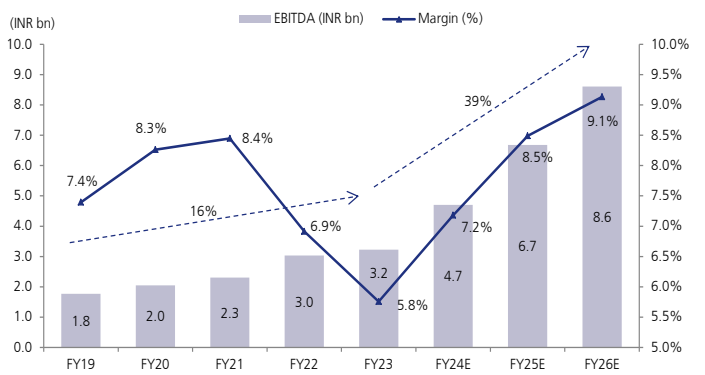
Source: Company, JM Financial

Exhibit 4. Domestic-Exports mix



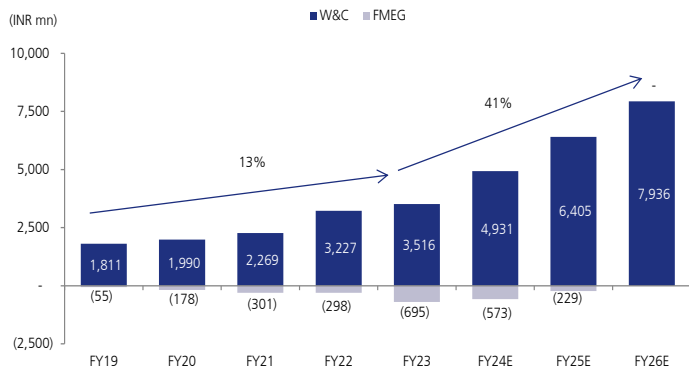
Source: Company, JM Financial

Exhibit 5. EBITDA trajectory



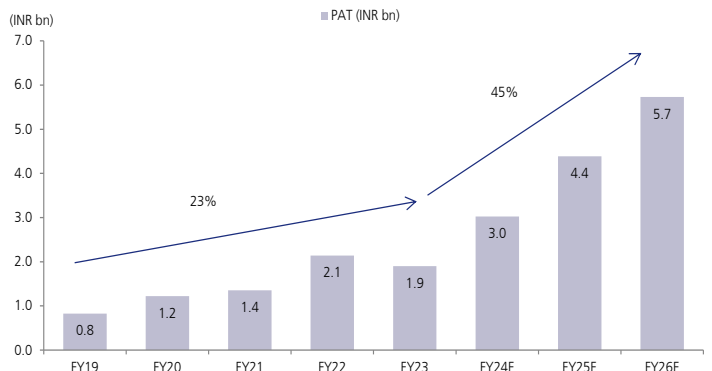
Source: Company, JM Financial

Exhibit 6. EBIT trajectory



Source: Company, JM Financial

Exhibit 7. PAT trend



Source: Company, JM Financial

Financial Tables (Consolidated)

Income Statement		(INR mn)				
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E	
Net Sales	43,859	55,992	65,655	78,786	94,360	
Sales Growth	61.0%	27.7%	17.3%	20.0%	19.8%	
Other Operating Income	0	0	0	0	0	
Total Revenue	43,859	55,992	65,655	78,786	94,360	
Cost of Goods Sold/Op. Exp	36,080	45,757	52,940	63,052	75,040	
Personnel Cost	1,889	2,642	3,249	3,834	4,524	
Other Expenses	2,859	4,370	4,760	5,220	6,188	
EBITDA	3,032	3,223	4,706	6,681	8,608	
EBITDA Margin	6.9%	5.8%	7.2%	8.5%	9.1%	
EBITDA Growth	31.8%	6.3%	46.0%	41.9%	28.8%	
Depn. & Amort.	461	596	668	855	1,021	
EBIT	2,572	2,627	4,038	5,826	7,586	
Other Income	463	344	560	630	670	
Finance Cost	233	421	530	550	550	
PBT before Excep. & Forex	2,802	2,550	4,068	5,906	7,706	
Excep. & Forex Inc./Loss(-)	0	0	0	0	0	
PBT	2,802	2,550	4,068	5,906	7,706	
Taxes	704	661	1,052	1,526	1,992	
Extraordinary Inc./Loss(-)	0	0	0	0	0	
Assoc. Profit/Min. Int.(-)	0	0	0	0	0	
Reported Net Profit	2,097	1,889	3,016	4,379	5,714	
Adjusted Net Profit	2,139	1,899	3,025	4,389	5,729	
Net Margin	4.9%	3.4%	4.6%	5.6%	6.1%	
Diluted Share Cap. (mn)	78.2	95.7	112.8	112.8	112.8	
Diluted EPS (INR)	27.4	19.8	26.8	38.9	50.8	
Diluted EPS Growth	58.0%	-27.5%	35.2%	45.1%	30.5%	
Total Dividend + Tax	217	386	666	1,097	1,604	
Dividend Per Share (INR)	2.8	4.0	5.9	9.7	14.2	

Source: Company, JM Financial

Balance Sheet		(INR mn)				
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E	
Shareholders' Fund	8,450	10,045	18,358	21,650	25,775	
Share Capital	391	478	564	564	564	
Reserves & Surplus	8,059	9,567	17,794	21,086	25,211	
Preference Share Capital	0	0	0	0	0	
Minority Interest	0	0	0	0	0	
Total Loans	9,202	9,310	4,890	5,390	5,890	
Def. Tax Liab. / Assets (-)	131	149	149	149	149	
Total - Equity & Liab.	17,783	19,504	23,396	27,188	31,813	
Net Fixed Assets	4,414	5,607	7,483	9,128	10,106	
Gross Fixed Assets	5,993	7,753	10,303	12,803	14,803	
Intangible Assets	0	0	0	0	0	
Less: Depn. & Amort.	2,008	2,581	3,249	4,104	5,126	
Capital WIP	429	436	429	429	429	
Investments	2,624	3,627	3,627	3,627	3,627	
Current Assets	13,416	17,102	19,277	22,409	27,223	
Inventories	7,096	8,602	8,994	10,793	12,926	
Sundry Debtors	5,171	5,919	6,835	8,202	9,824	
Cash & Bank Balances	123	811	1,372	922	1,488	
Loans & Advances	1,025	1,771	2,077	2,492	2,985	
Other Current Assets	0	0	0	0	0	
Current Liab. & Prov.	2,670	6,832	6,990	7,975	9,142	
Current Liabilities	1,679	4,401	4,497	5,396	6,463	
Provisions & Others	992	2,431	2,493	2,579	2,679	
Net Current Assets	10,745	10,270	12,287	14,434	18,080	
Total - Assets	17,783	19,504	23,396	27,188	31,813	

Source: Company, JM Financial

Cash Flow Statement		(INR mn)				
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E	
Profit before Tax	2,844	2,560	4,077	5,916	7,721	
Depn. & Amort.	461	596	668	855	1,021	
Net Interest Exp. / Inc. (-)	343	390	-30	-80	-120	
Inc (-) / Dec in WCap.	-1,754	1,534	-1,456	-2,597	-3,080	
Others	-179	40	0	0	0	
Taxes Paid	-733	-582	-1,052	-1,526	-1,992	
Operating Cash Flow	982	4,537	2,207	2,568	3,551	
Capex	-682	-1,083	-2,543	-2,500	-2,000	
Free Cash Flow	299	3,454	-336	68	1,551	
Inc (-) / Dec in Investments	-2	-1,602	0	0	0	
Others	58	-649	560	630	670	
Investing Cash Flow	-627	-3,335	-1,983	-1,870	-1,330	
Inc / Dec (-) in Capital	0	0	1,801	0	0	
Dividend + Tax thereon	-278	-500	-666	-1,097	-1,604	
Inc / Dec (-) in Loans	224	-382	-269	500	500	
Others	-262	-133	-530	-550	-550	
Financing Cash Flow	-316	-1,015	337	-1,147	-1,654	
Inc / Dec (-) in Cash	39	187	561	-450	567	
Opening Cash Balance	85	123	811	1,372	922	
Closing Cash Balance	124	310	1,372	922	1,488	

Source: Company, JM Financial

Dupont Analysis		FY22A	FY23A	FY24E	FY25E	FY26E
Y/E March						
Net Margin		4.9%	3.4%	4.6%	5.6%	6.1%
Asset Turnover (x)		2.6	3.0	3.1	3.1	3.2
Leverage Factor (x)		2.2	2.0	1.5	1.3	1.2
RoE		28.7%	20.5%	21.3%	21.9%	24.2%

Key Ratios		FY22A	FY23A	FY24E	FY25E	FY26E
Y/E March						
BV/Share (INR)		108.0	105.0	162.7	191.9	228.5
ROIC		13.8%	13.0%	18.1%	21.2%	22.9%
ROE		28.7%	20.5%	21.3%	21.9%	24.2%
Net Debt/Equity (x)		1.1	0.8	0.2	0.2	0.2
P/E (x)		52.9	73.0	54.0	37.2	28.5
P/B (x)		13.4	13.8	8.9	7.5	6.3
EV/EBITDA (x)		57.9	54.3	36.1	25.6	19.9
EV/Sales (x)		4.0	3.1	2.6	2.2	1.8
Debtor days		43	39	38	38	38
Inventory days		59	56	50	50	50
Creditor days		15	30	27	27	28

Source: Company, JM Financial

History of Recommendation and Target Price

Recommendation History

Date	Recommendation	Target Price	% Chg.
31-Oct-23	Buy	1,650	
9-Nov-23	Buy	1,750	6.1
30-Jan-24	Buy	1,790	2.3

APPENDIX I

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Corporate Identity Number: U67100MH2017PLC296081

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Rating	Meaning
Buy	Total expected returns of more than 10% for stocks with market capitalisation in excess of INR 200 billion and REITs* and more than 15% for all other stocks, over the next twelve months. Total expected return includes dividend yields.
Hold	Price expected to move in the range of 10% downside to 10% upside from the current market price for stocks with market capitalisation in excess of INR 200 billion and REITs* and in the range of 10% downside to 15% upside from the current market price for all other stocks, over the next twelve months.
Sell	Price expected to move downwards by more than 10% from the current market price over the next twelve months.

* REITs refers to Real Estate Investment Trusts.

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