

# R R Kabel | BUY

## Key takeaways from 3QFY24 earnings call

RR Kabel (RRK) management reiterated volume guidance of 20% YoY for FY24 (implies 20% growth in revenue YoY for 4QFY24) as well as for the medium term. Wires and Cables (W&C) segment volume growth was muted at 10% YoY during 3QFY24 primarily due to higher base of 3QFY23/2QFY24 (restocking/strong quarters). In 9MFY24, volume grew 19% YoY, led by Exports (+36% YoY; 27% of revenue) while domestic volume grew 12% YoY. Gross margin contracted 110bps YoY during 3QFY24, though it is expected to improve in 4QFY24 and the medium term. The company continues to augment/expand its capacity to achieve its target of 20% volume growth over the medium term. Fast Moving Electrical Goods (FMEG) segment revenue grew 17% YoY in 2QFY24 (+21% YoY in 9MFY24) on strong growth in fans and lighting (volume growth was partially offset by c.20% price reduction in LED YoY). EBIT losses reduced YoY/QoQ and the company maintained its guidance of break-even in FY25 (at EBITDA level). We have a BUY rating on the stock with Mar'25 TP of INR 1,790 ([Link to our 3QFY24 update note](#)).

### Wires & Cables:

- **3Q/9MFY24 volume performance:** RRK's W&C volume grew 10% YoY in 3QFY24, primarily due to higher base of 3QFY23/2QFY24 while it stood at 19% YoY in 9MFY24. The management reiterated its volume guidance of 20% for FY24 and over the next 2-3 years. Generally, wires and cables industry grows at 2x GDP growth, i.e., 13-14% annually, implying continued market share gain for RRK.
- **Exports:** RRK continues to expand its global presence (67 countries now vs. 65 countries QoQ) along with expansion of its product portfolio (higher mix of cables). This has resulted in 36% volume growth in 9MFY24 (+30% YoY). Exports margin profile continues to improve on the back of increasing share of cables in exports (globally, cables has higher margins than wires). The company is targeting to increase share of exports to 30-35% in the next couple of years, from the current 25-27%.
- **Margins:** Copper prices rose by 4-5% during the quarter, which the company passed on to customers with lag of 20-25 days, resulting in negative impact on gross margin (c.70-80bps QoQ to 19.1%). The management believes that if raw material prices remain stable, margins may return to 2QFY24 levels in 4QFY24 (gross margin in 2QFY24 was 19.9%). Going ahead, the management aims to expand EBITDA margin from 7.2% in 9MFY24 to 10-10.5% in the next couple of years, owing to improvement in product mix in W&C along with increase in capacity utilisation and profitability of the FMEG segment.
- **Capex:** Capacity utilisation during the quarter stood at 65-70%/80-90% for wires/ cables respectively. The company has planned total capex of INR 5bn for FY24-25 (of which, INR 1.5bn was incurred in 9MFY24) to expand its copper wire/cable capacity (25% increase in volume terms), power cables (100% increase in volume terms), E-Beam facility and backward integration (manufacturing of PVC compound in house). This capex will be fully funded from internal accruals and will have asset turns of c.5x, as per the company. RRK plans to add power cable capacity of 1,000tn/month, wherein 500tn/month would be operational from Sep'24 and the remaining from Mar'25. The power cables expansion is expected to enable the company to broaden its product range, enhance delivery times, optimise costs and, thus, improve margins.
- The situation in the Red Sea has increased shipment period; however, due to variable copper prices and freight component, it expects minimal impact on profitability.



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**FMEG:**

- RRK posted revenue growth of 17% YoY in 3QFY24 on the back of strong growth in fans (low base due to liquidation of inventories in 3QFY23 because of BEE transition for fans) and lighting, despite significant 20% price correction in LEF category. Revenue grew 21% YoY in 9MFY24.
- FMEG segment PBIT losses reduced from INR347mn/INR 198mn in 3QFY23/2QFY24 to INR 124mn in 3QFY24 on the back of a) improved gross margin, b) operating leverage and c) efficiencies. In 9MFY24 loss reduced to INR 491mn from INR 736mn in 9MFY23. RRK reiterated its guidance of break-even for FMEG segment in FY25 (at EBITDA level).
- Fans & lighting are key product categories in FMEG segment followed by switch and switch gears. Western and Northern India are the key markets for the company.
- The company has launched premium products under the brand "RR Signature", and these products are enjoying strong demand.

**Others**

- Working capital days during the quarter was stable at 65 days, as compared to 65days/75 days in Sep'23/ Mar'23 respectively. The management remains committed to maintaining working capital days at this level.

**Exhibit 1. Quarterly performance (consolidated)**

INR mn; Y/E March	3Q23	3Q24	YoY	2Q24	QoQ	3Q24E	Var	9MFY23	9MFY24	YoY
<b>Net Sales (Incl Operating Income)</b>	<b>14,795</b>	<b>16,335</b>	<b>10%</b>	<b>16,097</b>	<b>1%</b>	<b>16,078</b>	<b>2%</b>	<b>40,827</b>	<b>48,405</b>	<b>19%</b>
Raw Material Cost	11,805	13,219	12%	12,901	2%	13,023	2%	33,519	39,176	17%
<b>Gross Profit</b>	<b>2,991</b>	<b>3,116</b>	<b>4%</b>	<b>3,195</b>	<b>-2%</b>	<b>3,055</b>	<b>2%</b>	<b>7,308</b>	<b>9,230</b>	<b>26%</b>
<b>Gross Margin</b>	<b>20.2%</b>	<b>19.1%</b>	<b>-110 bps</b>	<b>19.9%</b>	<b>-80 bps</b>	<b>19.0%</b>	<b>10 bps</b>	<b>17.9%</b>	<b>19.1%</b>	<b>120 bps</b>
Employee Costs	638	818	28%	803	2%	819	0%	1,930	2,389	24%
% of Sales	4.3%	5.0%	70 bps	5.0%	0 bps	5.1%	-10 bps	4.7%	4.9%	20 bps
Other Expenses	1,177	1,172	0%	1,184	-1%	1,183	-1%	3,159	3,377	7%
% of Sales	8.0%	7.2%	-80 bps	7.4%	-20 bps	7.4%	-20 bps	7.7%	7.0%	-80 bps
Total Expenditure	13,620	15,210	12%	14,888	2%	15,025	1%	38,608	44,941	16%
<b>EBITDA</b>	<b>1,176</b>	<b>1,126</b>	<b>-4%</b>	<b>1,209</b>	<b>-7%</b>	<b>1,053</b>	<b>7%</b>	<b>2,219</b>	<b>3,464</b>	<b>56%</b>
<b>EBITDA Margin</b>	<b>7.9%</b>	<b>6.9%</b>	<b>-110 bps</b>	<b>7.5%</b>	<b>-60 bps</b>	<b>6.6%</b>	<b>30 bps</b>	<b>5.4%</b>	<b>7.2%</b>	<b>170 bps</b>
Other Income	37	122	229%	148	-17%	185	-34%	206	433	110%
Depreciation	165	165	0%	166	-1%	165	0%	460	492	7%
<b>EBIT</b>	<b>1,048</b>	<b>1,083</b>	<b>3%</b>	<b>1,191</b>	<b>-9%</b>	<b>1,073</b>	<b>1%</b>	<b>1,966</b>	<b>3,405</b>	<b>73%</b>
Interest Expenses	114	124	9%	142	-12%	150	-17%	291	410	41%
<b>PBT</b>	<b>933</b>	<b>959</b>	<b>3%</b>	<b>1,049</b>	<b>-9%</b>	<b>923</b>	<b>4%</b>	<b>1,674</b>	<b>2,995</b>	<b>79%</b>
Taxes	239	250	4%	310	-19%	240	4%	431	810	88%
Tax Rate	26%	26%	NA	30%	NA	26%	NA	26%	27%	NA
XO (Income)/Expenses	0	0	NA	0	NA	0	NA	0	0	NA
Share of profit/(loss) from associates	20	0	-98%	2	-80%	7	-77%	3	9	209%
<b>Reported Net Profit</b>	<b>714</b>	<b>710</b>	<b>-1%</b>	<b>741</b>	<b>-4%</b>	<b>690</b>	<b>3%</b>	<b>1,246</b>	<b>2,194</b>	<b>76%</b>
Reported EPS	6.43	6.35	-1%	6.66	-5%	6.12	4%	11.21	19.70	76%
<b>Adjusted Net Profit</b>	<b>714</b>	<b>710</b>	<b>-1%</b>	<b>741</b>	<b>-4%</b>	<b>690</b>	<b>3%</b>	<b>1,246</b>	<b>2,194</b>	<b>76%</b>
Adjusted EPS	6.43	6.35	-1%	6.66	-5%	6.12	4%	11.21	19.70	76%

Source: Company, JM Financial

**Exhibit 2. Segmental performance (consolidated)**

INR mn	3Q23	3Q24	YoY	2Q24	QoQ	3Q24E	Var	9MFY23	9MFY24	YoY
<b>Total revenue</b>	<b>14,836</b>	<b>16,335</b>	<b>10%</b>	<b>16,102</b>	<b>1%</b>	<b>16,078</b>	<b>2%</b>	<b>40,868</b>	<b>48,519</b>	<b>19%</b>
Wires and cables	13,124	14,331	9%	14,504	-1%	14,026	2%	36,367	43,066	18%
FMEG	1,712	2,005	17%	1,598	25%	2,052	-2%	4,501	5,454	21%
<b>Total EBIT</b>	<b>999</b>	<b>1,023</b>	<b>2%</b>	<b>1,131</b>	<b>-10%</b>	<b>1,028</b>	<b>0%</b>	<b>1,865</b>	<b>3,232</b>	<b>73%</b>
Wires and cables	1,346	1,147	-15%	1,329	-14%	1,192	-4%	2,601	3,723	43%
FMEG	-347	-124	-64%	-198	-38%	-164	-25%	-736	-491	-33%
Unallocated finance Income	48	60	23%	59	1%	45	33%	100	174	73%
Finance Costs	114	124	9%	142	-12%	150	-17%	291	410	41%
Share of gains of joint venture (net of taxes)	20	0	-98%	2	-80%	7	-95%	3	9	209%
<b>PBT</b>	<b>953</b>	<b>959</b>	<b>1%</b>	<b>1,050</b>	<b>-9%</b>	<b>930</b>	<b>3%</b>	<b>1,677</b>	<b>3,004</b>	<b>79%</b>
<b>EBIT margin</b>										
<b>Total EBIT margin</b>	<b>6.7%</b>	<b>6.3%</b>	<b>-50 bps</b>	<b>7.0%</b>	<b>-80 bps</b>	<b>6.4%</b>	<b>-10 bps</b>	<b>4.6%</b>	<b>6.7%</b>	<b>210 bps</b>
Wires and cables	10.3%	8.0%	-230 bps	9.2%	-120 bps	8.5%	-50 bps	7.2%	8.6%	150 bps
FMEG	-20.3%	-6.2%	1410 bps	-12.4%	620 bps	-8.0%	180 bps	-16.4%	-9.0%	740 bps

Source: Company, JM Financial

**Exhibit 3. Revenue mix**

INR mn	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24	9MFY23	9MFY24
<b>Domestic</b>	<b>8,885</b>	<b>10,118</b>	<b>11,688</b>	<b>12,601</b>	<b>11,662</b>	<b>11,429</b>	<b>12,088</b>	<b>30,691</b>	<b>35,178</b>
% of Revenue	72%	74%	79%	83%	73%	71%	74%	75%	73%
YoY	NA	NA	NA	NA	31%	13%	3%	NA	15%
<b>Exports</b>	<b>3,474</b>	<b>3,555</b>	<b>3,107</b>	<b>2,564</b>	<b>4,312</b>	<b>4,668</b>	<b>4,247</b>	<b>10,136</b>	<b>13,227</b>
% of Revenue	28%	26%	21%	17%	27%	29%	26%	25%	27%
YoY	NA	NA	NA	NA	24%	31%	37%	NA	30%

Source: Company, JM Financial

**Exhibit 4. Quarterly peer comparison**

<b>W&amp;C Revenue</b>	<b>1Q23</b>	<b>2Q23</b>	<b>3Q23</b>	<b>4Q23</b>	<b>1Q24</b>	<b>2Q24</b>	<b>3Q24</b>	<b>9MFY23</b>	<b>9MFY24</b>
Havells	11,929	13,594	14,121	15,682	14,852	14,702	15,727	39,645	45,280
Finolex Cables *	8,265	8,784	9,468	10,318	10,115	9,885	NA	26,517	NA
Polycab	24,057	29,517	33,418	40,783	35,338	38,047	39,041	86,992	1,12,426
KEI	14,816	15,180	16,891	18,203	16,710	18,346	19,156	46,887	54,211
RR Kabel	11,058	12,185	13,124	13,218	14,231	14,504	14,331	36,367	43,066
<b>YoY</b>									
Havells	48%	19%	17%	5%	24%	8%	11%	NA	14%
Finolex Cables *	48%	12%	15%	1%	22%	13%	NA	NA	NA
Polycab	48%	12%	11%	15%	47%	29%	17%	NA	29%
KEI	59%	20%	15%	8%	13%	21%	13%	NA	16%
RR Kabel	NA	NA	NA	-2%	29%	19%	9%	NA	18%
<b>W&amp;C EBIT</b>									
Havells	875	859	1,628	1,885	1,691	1,707	1,633	3,362	5,030
Finolex Cables *	1,061	876	1,320	1,318	1,328	1,399	-	3,257	NA
Polycab	2,773	3,463	4,593	5,896	5,223	5,547	5,474	10,828	16,244
KEI	1,304	1,306	1,571	1,718	1,446	1,955	2,015	4,181	5,416
RR Kabel	462	793	1,346	914	1,246	1,329	1,147	2,601	3,723
<b>EBIT Margin</b>									
Havells	7.3%	6.3%	11.5%	12.0%	11.4%	11.6%	10.4%	8.5%	11.1%
Finolex Cables *	12.8%	10.0%	13.9%	12.8%	13.1%	14.2%	NA	12.3%	NA
Polycab	11.5%	11.7%	13.7%	14.5%	14.8%	14.6%	14.0%	12.4%	14.4%
KEI	8.8%	8.6%	9.3%	9.4%	8.7%	10.7%	10.5%	8.9%	10.0%
RR Kabel	4.2%	6.5%	10.3%	6.9%	8.8%	9.2%	8.0%	7.2%	8.6%
<b>EBIT (YoY)</b>									
Havells	-31%	-25%	30%	9%	93%	99%	0%	NA	50%
Finolex Cables *	77%	-24%	19%	11%	25%	60%	NA	NA	NA
Polycab	160%	52%	49%	44%	88%	60%	19%	NA	50%
KEI	33%	2%	12%	28%	11%	50%	28%	NA	30%
RR Kabel	NA	NA	NA	NA	170%	68%	-15%	NA	43%

Source: Company, JM Financial; \* Finolex Cables yet to announce its 3QFY24 results

**Exhibit 5. Annual peer comparison- RRK has historically delivered superior growth to peers**

INR mn	FY19	FY20	FY21	FY22	FY23	CAGR FY19-23
<b>Revenue</b>						
Havells	32,346	29,942	31,802	46,451	55,326	14%
Finolex Cables	29,833	27,701	26,315	35,730	42,626	9%
Polycab	70,643	75,898	75,911	1,07,938	1,27,775	16%
KEI	34,976	41,199	37,159	53,488	65,090	17%
RR Kabel	22,576	22,848	25,202	41,113	49,585	22%
<b>YoY</b>						
Havells	21%	-7%	6%	46%	19%	
Finolex Cables	7%	-7%	-5%	36%	19%	
Polycab	12%	7%	0%	42%	18%	
KEI	23%	18%	-10%	44%	22%	
RR Kabel	NA	1%	10%	63%	21%	
<b>EBIT</b>						
Havells	3,363	3,321	4,038	5,403	5,247	11.8%
Finolex Cables	2,420	2,576	2,871	3,312	4,191	14.7%
Polycab	8,351	9,309	9,069	10,545	16,724	19.0%
KEI	2,015	2,313	2,732	3,027	3,772	17.0%
RR Kabel	1,690	1,990	2,269	3,227	3,516	20.1%
<b>EBIT Margin</b>						
Havells	10%	11%	13%	12%	9%	
Finolex Cables	8%	9%	11%	9%	10%	
Polycab	12%	12%	12%	10%	13%	
KEI	6%	6%	7%	6%	6%	
RR Kabel	7%	9%	9%	8%	7%	
<b>YoY</b>						
Havells	18.9%	-1.2%	21.6%	33.8%	-2.9%	
Finolex Cables	24.0%	6.5%	11.5%	15.3%	26.5%	
Polycab	30.3%	11.5%	-2.6%	16.3%	58.6%	
KEI	0.0%	14.8%	18.1%	10.8%	24.6%	
RR Kabel	NA	17.8%	14.0%	42.2%	8.9%	

Source: Company, JM Financial

## APPENDIX I

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