



RR Kabel - Pre IPO Note

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Higher Contribution from B2C + Wide Channel Reach = A Positive



RR Kabel Financials

Revenue - Rs (mn)	FY21	FY22	FY23	1QFY24
W&C	25,202	41,113	49,585	14,231
YoY Growth		63.1%	20.6%	28.7%
FMEG	2,039	2,750	6,475	1,851
YoY Growth		34.9%	135.5%	42.2%
Total	27,241	43,864	56,060	16,082
YoY Growth		61.0%	27.8%	30.1%
Revenue Share	FY21	FY22	FY23	1QFY24
W&C	92.5%	93.7%	88.4%	88.5%
FMEG	7.5%	6.3%	11.6%	11.5%
Total	100.0%	100.0%	100.0%	100.0%
EBIT - Rs (mn)	FY21	FY22	FY23	1QFY24
W&C	2,269	3,227	3,516	1,246
FMEG	-301	-298	-695	-170
Total	1,968	2,929	2,821	1,076
EBIT Margin	FY21	FY22	FY23	1QFY24
W&C	9.0%	7.8%	7.1%	8.8%
FMEG	-14.8%	-10.8%	-10.7%	-9.2%
Total	7.2%	6.7%	5.0%	6.7%

Companies	B2B (Cables + EPC)	B2C (Wires + FMEG)
RR Kabel	~26%	~74%
Polycab	~65%	~35%
KEI Industries	~70%	~30%
Finolex Cables	~96%	~4%
Havells	~25%	~75%

Companies	Export - Rs mn (FY23)	% of Revenue	Export Item
RR Kabel	12,702	~23%	Mainly Wires
Polycab	13,835	~11%	Cables
KEI Industries	7,128	~10%	Cables
Finolex Cables	399	~1%	-

Companies	Wires	Cables
RR Kabel	~70%	~30%
Polycab	~35%	~65%
KEI Industries	~30%	~70%
Finolex Cables	-	~100%*
Havells	~70%	~30%

Note: *Comprises electrical & communication cables

(% of Revenue)	Ad Spend	Sales Commission	R&D Spend
RR Kabel	1.5%	0.5%	0.04%
Polycab	0.9%	0.4%	0.2%
KEI Industries	0.3%	NA	NA
Finolex Cables	0.7%	NA	NA
Havells	2.6%	0.7%	1.0%

Note: All figures are as per FY23 unless otherwise mentioned

Companies	Dealers & Distributors	Retailers	Electricians
RR Kabel	6,740	1,14,851	2,98,084
Polycab	4,300+	2,05,000+	NA
KEI Industries	1,950+	20,000	~2,00,000
Finolex Cables	5,000+	1,75,000	NA
Havells	14,000+	2,25,000+	NA

- RRK's B2C business comprises Wires + FMEG (~75% of FY23 revenue) – a positive as B2C is a higher margin business compared to B2B in the domestic market
- Exports (~23% of FY23 revenue) are mainly in the form of Wires – a low-margin business. However, sharper focus on increasing Cables exports is a step in the right direction
- Aggressive efforts in terms of ad-spends (one of the highest in W&C space) to promote 'RR Signature' brand is a good step (Luminous can be used only for maximum of ~2 years post acquisition in 2022). But, aggressive ad-spends + scale-up of the FMEG business could keep FMEG profit in the negative territory for a while
- RRK has one of the highest networks in terms of dealers & distributors and electricians – a positive. This is expected to help scale up its RR Signature brand faster
- RRK is one of the fewest companies which has 35+ international certifications for a single manufacturing facility. The company's conscious efforts to deliver high quality products is a big positive

SWOT Analysis: Sector Tailwinds to Benefit RRK



- One of the highest reach in terms of dealers & distributors; highest reach in terms of electricians
- Low dealer attrition rate; Internationally, 10 distributors and 80-90% of them are with the company for the last ~15 years
- Higher contribution from B2C business in the domestic market – a higher margin business compared to Cables
- It has one of the highest international certifications for its product portfolio – a quality conscious company
- Superior asset turns compared to industry average



- Exports = 23% of FY23 topline. Exports majorly comprise Wires (~85% of exports) – a low-margin business compared to Cables exports
- Currently, it doesn't have HV and EHV Cable portfolio (a higher margin business compared to LV Cables)
- FMEG business continues to post loss – a drag on overall business currently
- 2 CFO exits in the past 2 years

- Strong decadal tailwinds in Cables, both domestic & international – led by uptick in infra spending and setting up of renewable capacities
- Uptick in domestic housing & real estate market - Indian housing volume is expected to grow at ~15% CAGR over the next 4 years
- India's Real Estate market is estimated to grow at 19.5% CAGR over 2017-2028

- Slowdown in residential real estate markets (main off-taker for Wires) in export geographies (UK & US)
- Lower demand-supply gap for Wires (compared to Cables) in international markets
- Slower-than-expected shift in its product portfolio from Wires to Cables in international geographies
- Volatility in copper pricing may affect margins – RRK does not hedge its commodities
- Delay in 'RR Signature' brand's acceptance post expiry of Luminous brand agreement

Peer Benchmarking of RRK v/s Peers – Quantitative (1/2)



Parameters	RR Kabel				Polycab				KEI Industries				Finolex Cables				Havells			
	FY20	FY21	FY22	FY23	FY20	FY21	FY22	FY23	FY20	FY21	FY22	FY23	FY20	FY21	FY22	FY23	FY20	FY21	FY22	FY23
Revenue - Rs mn	24,785	27,239	43,859	55,992	88,300	87,922	122,038	141,078	48,878	41,815	57,270	69,123	28,773	27,681	37,681	44,811	94,292	104,279	138,885	168,684
YoY Growth		9.9%	61.0%	27.7%		-0.4%	38.8%	15.6%		-14.4%	37.0%	20.7%		-3.8%	36.1%	18.9%		10.6%	33.2%	21.5%
FY20-23 Revenue CAGR				31.2%				16.9%				12.2%				15.9%				21.4%
Gross Margin (%)	28.7%	26.7%	21.6%	22.4%	27.9%	25.9%	22.4%	25.5%	30.8%	30.3%	26.4%	25.2%	27.6%	25.9%	21.3%	20.9%	38.1%	37.9%	32.4%	30.8%
EBITDA Margin (%)	8.3%	8.4%	6.9%	5.8%	12.9%	12.6%	10.4%	13.1%	10.2%	10.9%	10.3%	10.2%	13.3%	13.4%	11.4%	11.4%	10.9%	15.0%	12.7%	9.5%
PAT Margin (%)	4.9%	5.0%	4.9%	3.4%	8.6%	9.5%	6.9%	9.0%	5.2%	6.4%	6.6%	6.9%	13.6%	16.7%	15.9%	11.3%	7.8%	10.0%	8.6%	6.4%
EPS (Rs)	11.0	12.2	19.3	17.1	50.7	56.0	55.9	84.8	31.2	29.8	41.6	52.9	25.6	30.2	39.2	33.0	11.7	16.6	19.1	17.2
FY20-23 EPS CAGR				15.8%				18.7%				19.2%				8.8%				13.6%
RoCE - Post Tax (%)	20.0%	9.8%	11.7%	10.8%	24.4%	15.7%	14.5%	18.0%	18.4%	14.3%	16.0%	17.7%	9.7%	7.9%	8.3%	9.0%	14.4%	18.2%	17.7%	14.1%
RoIC - Post Tax (%)	18.7%	8.6%	10.2%	9.7%	20.3%	20.4%	18.3%	25.7%	20.7%	16.0%	18.8%	22.1%	14.1%	8.0%	8.4%	9.2%	19.5%	25.7%	28.8%	22.3%
RoE (%)	27.1%	13.9%	18.6%	14.2%	19.8%	17.6%	15.1%	19.2%	17.0%	15.2%	17.6%	18.4%	13.0%	13.5%	15.3%	11.5%	17.3%	22.0%	21.4%	17.1%
Net Debt Equity Ratio	0.42x	0.47x	0.41x	0.31x	(0.04x)	(0.07x)	(0.06x)	(0.08x)	0.10x	0.05x	(0.01x)	(0.16x)	(0.31x)	(0.02x)	(0.01x)	(0.02x)	(0.26x)	(0.24x)	(0.36x)	(0.28x)
Gross Fixed Assets Turnover Ratio	5.7x	5.3x	7.9x	9.0x	4.7x	3.8x	4.7x	4.9x	8.1x	6.5x	8.4x	9.4x	4.9x	4.5x	5.9x	6.5x	4.3x	4.0x	4.9x	5.2x
Debtor Days	31	56	39	36	66	65	41	34	102	118	89	73	24	23	17	18	10	20	20	21
Inventory Days	36	77	63	63	110	111	85	102	93	96	93	78	104	134	80	69	117	148	115	116
Creditor Days	17	25	14	24	78	75	47	71	126	93	66	53	28	31	23	21	88	90	93	83
Net Working Capital Days	49	108	88	75	99	101	79	66	69	120	116	98	100	126	74	66	38	77	43	54
CFO - Rs mn	2,156	(711)	982	4,537	2,387	11,899	8,078	14,996	(130)	1,539	2,286	5,139	3,088	1,144	4,731	3,563	10,187	8,574	18,245	5,801
Capex - Rs mn	(931)	(474)	(682)	(1,083)	(3,555)	(4,816)	(6,084)	(4,763)	(805)	(240)	(585)	(975)	(323)	(549)	(671)	(310)	(5,345)	(2,136)	(3,920)	(6,092)
FCF - Rs mn	1,225	(1,185)	299	3,454	(1,168)	7,083	1,993	10,233	(936)	1,299	1,701	4,164	2,765	595	4,060	3,253	4,842	6,438	14,325	(292)
Cash & Cash Equivalents - Rs mn	113	85	123	811	2,813	5,313	4,071	6,952	2,144	2,212	3,600	5,372	9,339	537	379	734	11,069	16,247	25,358	18,619

Note: Negative ratios for Net Debt to Equity implies a net cash position; CFO = Cash From Operation & FCF = Free Cash Flow

Peer Benchmarking of RRK v/s Peers – Qualitative (2/2)



- **Polycab:**
 - FY20-23 Revenue CAGR = 16.9% & EPS CAGR = 18.7%
 - EBITDA Margin movement during FY20-23 = 12.9% to 13.1%; *Efficient hedging and therefore lower susceptibility to RM volatility (gross margin protected) + high margin Cables exports + operating leverage benefits*
 - FY23 RoCE (post-tax) = 18.0% & RoE = 19.2%; FY23 FCF = Rs10.2bn. *Consistent margin maintenance & enhancement + high channel financing*
- **KEI Industries:**
 - FY20-23 Revenue CAGR = 12.2% & EPS CAGR = 19.2%
 - EBITDA Margin movement during FY20-23 = 10.2%; *Maintained margins during RM volatility*
 - FY23 RoCE (post-tax) = 17.7% & RoE = 18.4%; FY23 FCF = Rs4.2bn. *Planned investment of ~Rs10bn over the next 3-4 years >> could lead to depressed return ratios going forward*
- **RR Kabel:**
 - FY20-23 Revenue CAGR = 31.2% (*aggressively expanding into international geographies – a positive*) & EPS CAGR = 15.8%
 - EBITDA Margin movement during FY20-23 = 8.3% to 5.8%; *RM volatility and lack of hedging + low margin Wires exports + losses in FMEG segment*
 - FY23 RoCE (post-tax) = 10.8% & RoE = 14.2%; FY23 FCF = Rs3.5bn. *Volatile FCF history; Increasing Cables manufacturing capacity could be a drag on FCFs going forward + aggressive ad-spends to promote 'RR Signature' brand and royalty required to be paid for Luminous brand could keep FMEG profits in the negative territory for a while*
- **Havells:**
 - FY20-23 Revenue CAGR = 21.4% & EPS CAGR = 13.6%
 - EBITDA Margin movement during FY20-23 = 10.9 to 9.5%; *Lloyd – 20% of overall business – continues to be loss making and therefore is a drag on overall profitability*
 - FY23 RoCE (post-tax) = 14.1% & RoE = 17.1%; FY23 FCF = -Rs292mn (FY22 = Rs14.3bn). *Aggressive capex has led to lower RoCE compared to peers*
- **Finolex Cables:**
 - FY20-23 Revenue CAGR = 15.9% & EPS CAGR = 8.8%
 - EBITDA Margin movement during FY20-23 = 13.3% to 11.4%; *RM volatility affected margins*
 - FY23 RoCE (post -tax) = 9.0% & RoE = 11.5%; FY23 FCF = INR3.3bn. *RM volatility translated into lower EBIT and therefore lower RoCE*

RANKING



1

2

3

3

4

Note: The rankings is predominantly based on Wires & Cables segment performance despite the financials being based on a consolidated level

IPO Analysis: Scope for Expansion From Current Price Band



Consolidated Financials - RRK	FY20	FY23	FY24E	FY25E	FY26E
Total Revenue – Rs mn	24,785	55,992	64,951	75,343	87,398
CAGR (over FY23)	FY20-23 CAGR = 31.2%		16.0%	16.0%	16.0%
EBITDA – Rs mn	2,048	3,224	4,287	5,801	7,516
EBITDA Margin (%)	8.3%	5.8%	6.6%	7.7%	8.6%
PAT – Rs mn	1,224	1,900	2,598	3,405	4,532
PAT Margin (%)	4.9%	3.4%	4.0%	4.5%	5.2%
EPS Rs	11.0	17.1	21.7	28.4	37.8
EPS YoY Growth (%)	NA	(11.3%)	26.7%	31.0%	33.1%
EPS CAGR (over FY23)	FY20-23 CAGR = 15.8%		26.7%	28.9%	30.3%

- Assuming an average gross fixed asset turnover of 6-7x, we expect ~16% revenue CAGR over FY23-26E (~Rs5bn total capex planned over FY24E-25E)
- We expect healthy EPS CAGR at 30.3% over FY23-26E vs 15.8% CAGR over FY20-23
 - At an average price of Rs1,009, RRK trades at an implied multiple of 26.7x on FY26E EPS, which is a ~20% discount to Polycab's FY26E P/E multiple of 34.0x
 - We feel ~12-15% discount to Polycab is justified given that Polycab – the market leader – has larger scale of operations and higher margins compared to RRK
 - Hence, the share's upper price band has scope for expansion

IPO Lower Price Band	IPO Upper Price Band	IPO Average Price Band
Rs983	Rs1,035	Rs1,009

FY25E Earnings: Implied Forward P/E Multiple Basis Average Price – RR Kabel		
35.6x		
FY25E Earnings: Implied Forward PE Multiple of Peers		
Polycab	KEI Industries	Finolex Cables
40.9x	31.1x	22.2x
At an average price of Rs1,009, RRK is expected to trade at:		
~ 15% discount to Polycab	~15% premium to KEI Industries	~60% premium to Finolex Cables

FY26E Earnings: Implied Forward P/E Multiple Basis Average Price – RR Kabel		
26.7x		
FY25E Earnings: Implied Forward PE Multiple of Peers		
Polycab	KEI Industries	Finolex Cables
34.0x	24.2x	21.8x
At an average price of Rs1,009, RRK is expected to trade at:		
~20% discount to Polycab	~10% premium to KEI Industries	~20% premium to Finolex Cables

Note: The estimated EPS for Polycab is basis our own assumptions, whereas, estimated EPS for KEI Industries and Finolex Cables are basis the Bloomberg estimates

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