

# R R Kabel IPO

September 12, 2023



RR Kabel is the fastest growing consumer electrical company among peers with an operating history of over 20 years in India. The company owns and operates two integrated manufacturing facilities which are located at Waghodia, Gujarat, the Waghodia Facility, and Silvassa, Dadra and Nagar Haveli and Daman and Diu (Silvassa Facility) in India, which primarily carry out manufacturing operations in respect of wire and cables and switches. Additionally, the company owns and operates three integrated manufacturing facilities which are located at Roorkee, Uttarakhand (Roorkee Facility), Bengaluru, Karnataka (Bengaluru Facility) and Gagret, Himachal Pradesh (Gagret Facility) in India, which carry out manufacturing operations in respect of FMEG products. Its Waghodia Facility is one of the largest consumer electrical manufacturing facilities in India as of March 31, 2023, with an annual manufacturing capacity of 2.1 million CKM of wires and cables.

## Investment Rationale:

### Increasing market share in the W&C Segment:

- Nearly 72% of the wires and cables market in India is controlled by branded play. Within this 72%, five leading players namely Polycab, KEI, Havells, RR Kabel and Finolex, garner approximately 60%-62% market share and the balance 38%-40% is controlled by challenger brands like Syska and V-Guard. Polycab is the market leader having approximately 16% market share by value, followed by KEI (approximately 8% market share), Havells (approximately 8% market share), Finolex (approximately 6% market share) and RR Kabel (approximately 5% market share).
- RR Kabel is the fifth largest player in the branded wires and cables market in India, representing approximately 7% market share by value, as of FY23, as compared to approximately 5% market share by value as of FY15. RR Kabel's share in the domestic W&C market has increased from 3% in FY15 to 5% in FY23.

### Government Initiatives boosting growth in the W&C and FMEG segment:

- Key government initiatives are expected to boost the growth for W&C segment thus impacting RR Kabel's growth directly.
- As a result, we expect the consumer electrical industry consisting of W&C and FMEGs which was estimated at approximately INR 1,81,150 crores in Fiscal 2023 is expected to grow at a CAGR of approximately 10% till Fiscal 2027 to reach a market value of approximately INR 2,66,500 crores. The W&C market constitutes approximately 41% of the Indian W&C and FMEG industry. It has grown at a CAGR of approximately 11% from INR 33,500 crore in FY15 to INR 74,800 crore in FY23 and is further expected to grow at a CAGR of approximately 13% till Fiscal 2027 to reach a market value of INR 1,20,000 crores.
- In Wires and Cables segment, TAM for leading brands like RR Kabel, Polycab, KEI etc. is approximately INR 53,860 crores as of FY23, which is projected to reach approximately INR 96,000 crores by FY27.

### China+1 strategy to bring new business to RR Kabel:

- We believe that this China+1 strategy presents a great opportunity for India because of its large manufacturing base, favourable factors of production, strong business ecosystem, and incentivizing government policies, which in turn, is expected to help in growing the export market of Indian W&C industry.
- Leading players like RR Kabel are well-positioned to benefit from the global shift away from China-based manufacturing to China+1 strategy resulting in a share gain for Indian manufacturers in the global market.

### Technologically advanced and integrated precision manufacturing facilities:

- The company owns and operates five integrated manufacturing facilities – Waghodia Facility, Silvassa Facility, Roorkee Facility, Bengaluru Facility and Gagret Facility, each located in India. These facilities are accredited to Indian and international standards, capable of precision manufacturing of its range of products.
- Its Waghodia Facility is one of the largest consumer electrical manufacturing facilities in India as of March 31, 2023, with an annual manufacturing capacity of 2.1 million CKM of wires and cables.

**Valuation and Views:** RR Kabel is looking to benefit from: i. Increasing market share in the Indian W&C and FMEG segment. ii. Key government initiatives to boost growth in the market. iii. China+1 strategy to bring new business to the company. iv. Largest consumer electrical manufacturing facilities in India. V. Fastest Growing Consumer Electrical Company among peers in India with a revenue CAGR of 43.4%. The company's total income increased by 27.11% to INR 56,33.64 crores for FY23 from INR 4,432.22 crores for FY22. However, the company's profit for the year decreased by 11.25% to INR 189.87 crores for FY23 from INR 213.94 crores for FY22. RR Kabel's ROE and ROCE were reported at 20.67% and 16.19% in FY23 compared to 29.19% and 18.61% in FY22. At the upper end of the price band, the P/E translates to ~54.47x on FY23 EPS of INR 19.49. We believe the company has scope to grow ~25% p.a. given RR Kabel's growth is aligned with government initiatives, growing EV demand and China+1 strategy.

### Key Financial & Operating Metrics (Consolidated)

In INR mn	Revenue	YoY (%)	EBITDA	EBITDA %	PAT	EPS	ROE	ROCE
FY21	27239.41	-2.75	253.24	9.22	1353.98	12.18	23.85	14.82
FY22	43859.36	61.01	353.73	7.98	2139.35	19.22	29.19	18.61
FY23	55992.01	27.66	357.7	6.35	1898.73	17.07	20.67	16.13

### Issue Snapshot

Issue Open	13-Sep-23
Issue Close	15-Sep-23
Price Band	INR 983 - 1035
Issue Size (Shares)	1,89,75,938
Market Cap (cr)	INR 11675.63 cr

### Particulars

Fresh Issue	1,739,130 shares
OFS Issue	17,236,808 shares
QIB	50%
Non-institutionals	15%
Retail	35%

### Capital Structure

Pre Issue Equity	9,56,96,296
Post Issue Equity	9,74,35,426
Bid Lot	14 shares
Minimum Bid amount @ 983	INR 13,762
Maximum Bid amount @ 1035	INR 14,490

### Share Holding Pattern

	Pre Issue	Post Issue
Promoters	66.42%	62.77%
Public	33.58%	37.23%

### Particulars

Face Value	INR 5
Book Value	INR 145.70
EPS, Diluted	INR19.49

### Objects of the Issue

- Repayment of borrowings
- General corporate purposes

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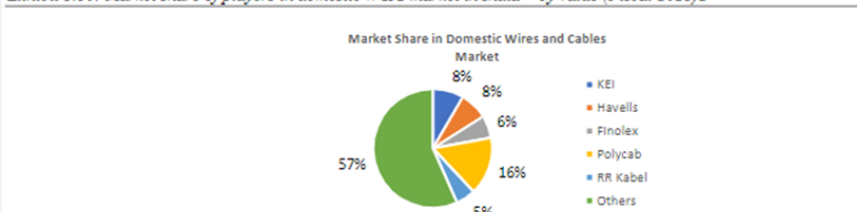
research@smifs.com

RR Kabel is one of the leading companies in the Indian consumer electrical industry (comprising wires and cables and fast moving electrical goods (FMEG)), with an operating history of over 20 years in India. The company sells products across two broad segments - (i) wires and cables including house wires, industrial wires, power cables and special cables; and (W&C) (ii) FMEG including fans, lighting, switches and appliances. The company's product's end use determines whether the sale is through a business-to-business (B2B) or B2C channel. The company undertakes the manufacturing, marketing and sale of (i) its wires and cable products under its 'RR Kabel' brand, and (ii) a variety of consumer electrical products, including fans and lights under the 'RR' brand, which is licensed by it. The company also manufacture, market and sell fans and lights under the 'Luminous Fans and Lights' brand, which is licensed by it. Its 'RR Kabel' brand and has over 20 years of operating history, while the 'RR' and the 'Luminous Fans and Lights' brands, which are licensed by it, have over 7 years and over 10 years of operating history, respectively. The company owns and operates two integrated manufacturing facilities which are located at Waghodia, Gujarat, the Waghodia Facility, and Silvassa, Dadra and Nagar Haveli and Daman and Diu (Silvassa Facility) in India, which primarily carry out manufacturing operations in respect of wire and cables and switches. Additionally, the company owns and operates three integrated manufacturing facilities which are located at Roorkee, Uttarakhand (Roorkee Facility), Bengaluru, Karnataka (Bengaluru Facility) and Gagret, Himachal Pradesh (Gagret Facility) in India, which carry out manufacturing operations in respect of FMEG products. Its Waghodia Facility is one of India's largest consumer electrical manufacturing facilities as of March 31, 2023, with an annual manufacturing capacity of 2.1 million CKM of wires and cables.

#### Investment Rationale:

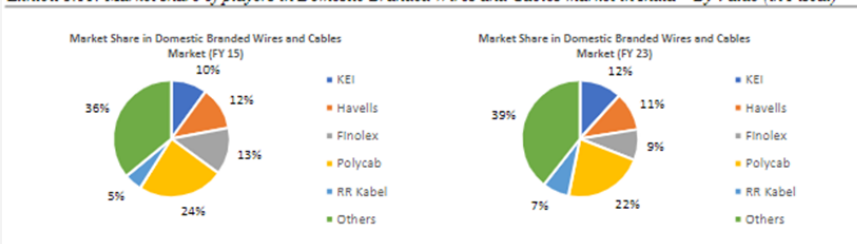
**Increasing market share in the W&C Segment:** Nearly 72% of the wires and cables market in India is controlled by branded play. Within this 72%, five leading players namely Polycab, KEI, Havells, RR Kabel and Finolex, garner approximately 60%-62% market share and the balance

*Exhibit 3.10: Market share of players in domestic W&C market in India – by value (Fiscal 2023)2*



Source – Technopak Analysis

*Exhibit 3.11: Market share of players in Domestic Branded Wires and Cables market in India – By Value (in Fiscal)*

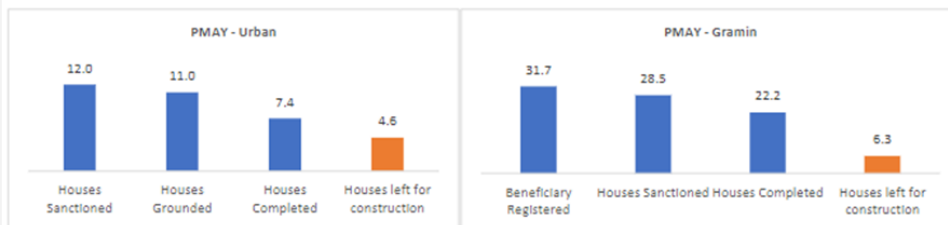


has increased from 3% in FY15 to 5% in FY23. The company also enjoys 9% of the export market in the W&C segment as it exports its products to 63 countries. The W&C category is a distribution-led category wherein the role of distributors and retail touchpoints is critical for capturing the market. For instance, leading player RR Kabel has approximately 7,106 dealers and distributors spread across Pan-India and has approximately 1,14,851 retail touchpoints as of June 30, 2023. In FY23 88% of RR Kabel's revenues came from the W&C segment of which 74% was from B2C customers. The exports revenue in W&C segment was reported at INR 1270.2 crores which grew at a CAGR of 47% between FY21-FY23.

**Government Initiatives boosting growth in the W&C and FMEG segment:** Key government initiatives are expected to boost the growth for W&C segment thus impacting RR Kabel's growth directly. Under PMAY (Urban), the total capital assistance committed by Govt to build approximately 12 million units of houses was approximately INR 2.02 lakh crore, of which approximately 7.4 million units of houses have been completed by releasing INR 1.14 lakh crore till April 2023 and the remaining approximately 4.6 million units of houses are expected to be completed by CY24. Under PMAY (Gramin), the total capital assistance transferred, or fund utilized by the government till April 2023 to build approximately 28.5 million units of houses is approximately INR 2.98 lakh crore, of which approximately 22.2 million units of houses have been completed and the remaining approximately 6.3 million units are expected to be completed by CY 2024. Approximately 11 lakh houses (approximately 4.6 lakh houses in urban and approximately 6.3 lakh houses in rural) are under construction or to be constructed in coming years under the PMAY by CY24. Further, the budget outlay for PMAY has been increased by 66% to over INR 79,000 crores, as per the Indian Union budget 2023-24. These initiatives are expected to generate demand for W&C such as housing wires, power cables, flexible and specialty cables and for FMEG products like lights, fans, home, and kitchen appliances in the next 5-7 years. As of December 2, 2022, GOI has released approximately INR 34,675 crore as part of the Smart City project, of which approximately INR 30,418 crore (88%) have been utilized in building smart cities across India. These initiatives are expected to generate demand for electrical products, especially in the W&C, switches and switchgear segments in the next 5-7 years. The EV push in India by the GOI has also opened up business opportunities across three key segments – mobility, infrastructure (W&C) and energy. These include opportunities in EV franchising, EV OEM market, battery infrastructure, solar vehicle charging and battery swapping technology, among several others. With the expansion of the EV infrastructure, the industry of W&C and also FMEG products is expected to witness a surge in demand. Based on the increasing sales of EVs in the market, India is expected to require the installation of 20.5 lakhs of charging infrastructure by CY30. As a result, we expect the consumer electrical industry consisting of

W&C and FMEGs which was estimated at approximately INR 1,81,150 crores in Fiscal 2023 is expected to grow at a CAGR of approximately 10% till Fiscal 2027 to reach a market value of approximately INR 2,66,500 crores. The W&C market constitutes approximately 41% of the Indian W&C and FMEG industry. It has grown at a CAGR of approximately 11% from INR 33,500 crore in FY15 to INR 74,800 crore in FY23 and is further expected to grow at a CAGR of approximately 13% till Fiscal 2027 to reach a market value of INR 1,20,000 crores. In Wires and Cables segment, TAM for leading brands like RR Kabel, Polycab, KEI etc. is approximately INR 53,860 crores as of FY23, which is projected to reach

Exhibit 2.8: Supply of Housing under Government Schemes (PMAY – Urban and PMAY – Rural) (in millions)



Source: PMAY

Note: All units in the above chart are in millions

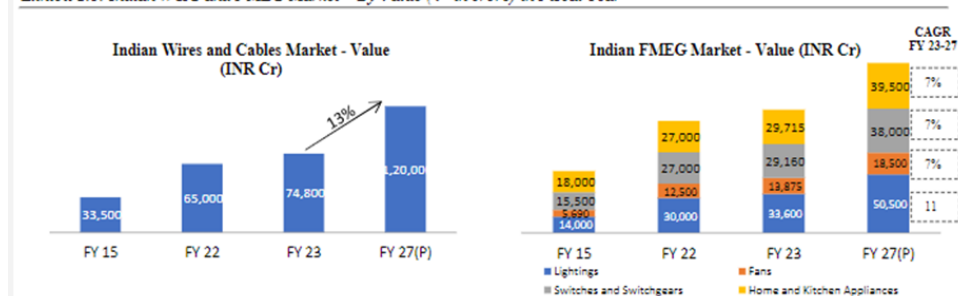
new products under development for W&C and FMEG respectively to address the upcoming demand in the market.

#### Impact of key growth drivers on the W&C and FMEG industry

The table below depicts the impact of the key growth drives on W&C and FMEG sector.

Sl. No.	Key Growth Drivers of W&C and FMEG industry	W&C	Lights	Fans	Switches and Switch gear
1	Public and private investment outlay in infrastructure	High	Medium	Medium	Medium
2	Urbanization and smart cities	High	Medium	Medium	Medium
3	FDI and PE investment in real estate sector	High	High	High	High
4	Continued growth of residential real estate sector	High	High	High	High
5	Resilient commercial real estate sector	High	High	High	High
6	Transition of automobiles and transport towards electric vehicles	High	NA	NA	NA
7	Policy reforms promoting production, exports and ease of doing business	High	Medium	Medium	Medium
8	Digitalization	High	NA	NA	NA
9	Safety standards	High	High	High	High
10	Rural electrification	High	Medium	Medium	Medium
11	Push towards renewable energy	High	NA	NA	NA

Exhibit 2.1: Indian W&C and FMEG Market – By Value (₹ in crore) in Fiscal Year



Source – Primary Research, Secondary Research and Technopak Analysis

Note: This does not include exports.

Home appliances constitute 28% and kitchen appliances constitute 72% of the Indian home and kitchen appliances market in Fiscal 2023.

Exhibit 2.2: Total Market and Branded Market of FMEG – by Value (₹ in crore) in Fiscal Year

Segment	Category	Total Market Fiscal 2023	Share of Branded Fiscal 2023	Branded market Fiscal 2023	Total Market Fiscal 2027 (P)	Share of Branded Fiscal 2027 (P)	Branded Market Fiscal 2027 (P)	CAGR of Branded Market (Fiscal 2023-2027)
W&C	Wires and Cables	74,800	72%	53,860	1,20,000	80%	96,000	16%
	Lighting	33,600	67%	22,500	50,500	75%	37,875	14%
	Fan	13,875	91%	12,630	18,500	95%	17,575	9%
FMEG	Switches and Switchgears	29,160	82%	23,900	38,000	90%	34,200	9%
	Home and Kitchen appliances	29,715	81%	24,070	39,500	85%	33,575	9%

the largest consumer electrical manufacturing facilities in India as of March 31, 2023, with an annual manufacturing capacity of 2.1 million CKM of wires and cables. Its Waghodia and Silvassa Facilities have the capability to manufacture a wide variety of wire and cable products including house wires, industrial wires, power cables and special cables. Its manufacturing facilities give it the ability to manufacture 100% of its requirements for wires and cables in-house.

approximately INR 96,000 crores by FY27. In FMEG segment, the TAM for leading brands such as Havells and Crompton Greaves and challenger brands such as RR Kabel and Polycab is approximately INR 83,100 crore as of FY23, which is projected to reach approximately INR 1,24,000 crores by FY27. As of FY23, the FMEG product portfolios of leading players in the W&C industry like RR Kabel covers approximately 77% of the FMEG industry market size in India by value. As of June 30, 2023, RR Kabel has 15 and 55

#### China+1 strategy to bring new business to

**RR Kabel:** In the 1990s, many global manufacturing entities in geographies such as the US and Europe shifted their production facilities to China owing to favourable factors of production, which made it the centre of the global supply chain. But in CY21, when there was a surge in demand across the world post-COVID-19 pandemic, China's zero COVID policy and supply chain disruption issues made it difficult for these manufacturing entities to meet the demand. As a result, such companies are contemplating diversifying their business and investment out of China to alternative destinations. We believe that this China+1 strategy presents a great opportunity for India because of its large manufacturing base, favourable factors of production, strong business ecosystem, and incentivizing government policies, which in turn, is expected to help in growing the export market of Indian W&C industry. Leading players like RR Kabel are well-positioned to benefit from the global shift away from China-based manufacturing to China+1 strategy resulting in a share gain for Indian manufacturers in the global market.

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The percentage of overall rejection for its wires and cables is low at 0.12% in three months ended June 30, 2023. The acquisition of HEB of 'Luminous Fans and Lights' in May 2022 also allowed it to expand into the premium FMEG segment through its access to manufacturing capabilities for premium FMEG products.

Players	Manufacturing Facilities	Category	Units	Capacity per annum (FY 23)
RR Kabel	Waghodia, Silvassa, Roorkee, Gagret, Bangalore	Fans	Mn	3.15
		Switches & Switchgears	Mn	8.9
		Wires & Cables	Mn CKM	4.1
		PVC	MT	53,600
		Lights	Mn	1.9
Finolex Cables	Roorkee, Urse, Pimpri, Verna, Ponda	Wires & Cables	-	NA
		Switches & Switchgears	-	NA
		Copper Rods	-	NA
		Wires & Cables	Mn Kms	5.4
		Switches	Mn	12
Polycab	25 manufacturing facilities across Halol & Daman (W&C, Fans, Switches), Roorkee (Fans), Nashik (Switchgears)	Switchgears	Mn	12
		Fans	Mn	10.2
		Cables	Mn Kms	0.125
		House Wires	Mn Kms	1.3
		Communication Cables	Kms	28,800
KEI Industries	Bhiwadi, Chopanki, Pathredi, Rakholi, Chinchpada	Stainless Steel Wire	MT	9000
		Wires & Cables	-	NA
		Switches & switchgears	-	NA
		Lightings	-	NA
		Fans	-	NA
Havells	Alwar, Baddi, Faridabad, Haridwar, Neemrana, Sahibabad, Ghiloth	AC	Mn (Units)	2
		Bulbs	-	NA
		Panel Lights	-	NA
		Industrial Lights	-	NA
		Fans	Mn	2.7
Bajaj Electricals	Ranjangaon, Chakan, Nashik, Aurangabad	LED	Mn	0.8
		Starlite Lighting	Mn	11.8
		Lightings	Mn	98.4
Crompton	Goa, Vadodra, Ahmednagar, Baddi (Himachal Pradesh), Chennai (Butterfly)	Fans	Mn	10.4
		Fans	-	NA
V-Guard	Coimatore, Kashipur, Kala Amb, Perundai, Roorkee, Sikkim, Haridwar	Wires & Cables	-	NA
		Switches & Switchgears	-	NA

**Valuation and views:** RR Kabel is looking to benefit from: i. Increasing market share in the Indian W&C and FMEG segment. ii. Key government initiatives to boost growth in the market. iii. China+1 strategy to bring new business to the company. iv. Largest consumer electrical manufacturing facilities in India. V. Fastest Growing Consumer Electrical Company among peers in India with a revenue CAGR of 43.4%. The company's total income increased by 27.11% to INR 56,33.64 crores for FY23 from INR 4,432.22 crores for FY22. However, the company's profit for the year decreased by 11.25% to INR 189.87 crores for FY23 from INR 213.94 crores for FY22. RR Kabel's ROE and ROCE were reported at 20.67% and 16.19% in FY23 compared to 29.19% and 18.61% in FY22. At the upper end of the price band, the P/E translates to ~54.47x on FY23 EPS

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Income Statement				Balance Sheet			
Y/E (INR mn)	FY21	FY22	FY23	Y/E (INR mn)	FY21	FY22	FY23
Revenue	27239.41	43859.36	55992.01	<b>Source of funds</b>			
Expenses:				Equity Share Capital	4391.10	4391.10	4630.34
Employee Cost	1405.42	1785.09	2546.38	Reserves	2355.38	3312.52	9553.99
Total Expenses	24917.41	40817.23	52761.54	Total Share holders funds	10466.31	12502.97	14196.90
EBITDA	253.24	353.73	357.70	Total Debt	4987.13	5202.06	5138.44
EBITDA Margin %	9.22	7.98	6.35	Current Liabilities	5779.88	7125.15	10995.76
Interest	291.09	242.49	428.11	Trade Payables	1135.03	1678.74	4401.29
Depreciation	447.50	460.85	596.28	Total Non-Current Liabilities	904.95	878.26	1143.51
Other Income	219.95	462.80	344.39	<b>Total Liabilities</b>	17151.14	20506.38	26336.16
PBT	1814.34	2843.57	2559.92	<b>Application of funds</b>			
PAT	1353.98	2139.35	1898.73	Fixed Assets	3994.13	3984.87	5171.55
EPS	12.18	19.22	17.07	Capital Work in Progress	66.81	423.10	435.80
				Cash and Bank	84.66	122.99	810.75
				Other current assets	135.78	139.96	150.65
				Inventory	5340.56	7096.21	8601.75
				Sundry Debtors	4203.64	5171.43	5918.69
				<b>Total Assets</b>	17151.14	20506.38	26336.16

Cash Flow				Key Ratios			
Y/E (INR cr)	FY21	FY22	FY23	Y/E (INR cr)	FY21	FY22	FY23
Profit Before Tax	1814.34	2843.57	2559.92	<b>Growth Ratio</b>			
Adjustment	730.21	625.05	1025.94	Net Sales Growth(%)	10.17	61.01	27.66
Changes In working Capital	-2836.59	-1754.30	1534.10	EBITDA Growth(%)	36.15	14.47	28.48
Cash Flow after changes in Working Capital	-292.04	1714.32	5119.96	PAT Growth(%)	70.65	18.96	37.89
Tax Paid	-418.52	-732.62	-582.47	<b>Margin Ratios</b>			
Cash From Operating Activities	-710.56	981.70	4537.49	Gross Profit	21.10	17.74	18.28
Cash Flow from Investing Activities	-58.81	-626.57	-3334.99	PBIDTM	9.33	7.99	6.38
Cash from Financing Activities	741.25	-316.10	-1015.15	EBITM	7.73	7.04	5.34
Net Cash Inflow / Outflow	-28.12	39.03	187.36	PBT	6.66	6.48	4.57
Opening Cash & Cash Equivalents	112.08	83.96	122.99	PAT	4.97	4.88	3.39
Closing Cash & Cash Equivalent	83.96	122.99	310.35	<b>Return Ratios</b>			
				ROA	8.31	11.36	8.11
				ROE	23.85	29.19	20.67
				ROCE	14.82	18.61	16.13
				<b>Turnover Ratios</b>			
				Asset Turnover(x)	1.67	2.33	2.39
				Inventory Turnover(x)	5.99	7.05	7.13
				Debtors Turnover(x)	6.49	9.36	10.10
				Fixed Asset Turnover (x)	5.13	7.59	8.15
				<b>Solvency Ratios</b>			
				Total Debt/Equity(x)	0.48	0.42	0.36
				Current Ratio(x)	2.16	2.14	1.77
				Quick Ratio(x)	1.23	1.14	0.99
				Interest Cover(x)	7.23	12.73	6.98

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