

India

IPO Details

Issue Opens	September 13, 2023
Issue Closes	September 15, 2023
Total Issue Size	Rs 19.6 bn
Fresh Issue	Rs 1.8 bn
OFS	Rs 17.8 bn
Price Band	Rs 983-1,035
Face Value	Rs 5
Employee Discount	Rs 98 per share
Implied Market Capitalisation	Rs 117 bn

RR Kabel

IPO - Subscribe

- RR Kabel is the fifth-largest C&W company in India with a 5% market share, growing revenue/EBITDA/PAT at a CAGR of 31%/16%/16% over FY20-23.
- We expect revenue/EBITDA/PAT CAGR of 16%/33%/36% over FY23-26F led by capacity expansion, higher domestic sales growth and higher margins.
- At the upper price band of Rs1,035, the implied P/E is 32x FY25F EPS vs. Polycab/KEI at 43/32x. We find the risk-reward ratio favourable. Subscribe.

Established player in the C&W industry in India

RR Kabel is one of the leading companies in the Indian consumer electrical industry [into cables and wires (C&W) and fast-moving electrical goods (FMEG)], with an operating history of over 20 years in India. RR Kabel commands a 5% (C&W India sales: Rs37bn – FY23) market share in the C&W industry, making it the fifth-largest domestic player at the end of FY23. The company is the largest C&W exporter (FY23: Rs13bn) from India with a market share of 9%. RR Kabel has five manufacturing facilities (C&W: 2, FMEG: 3) across India with 100% of C&W products and about one-third of FMEG products manufactured in-house. RR Kabel has one of the largest networks comprising ~300k electricians connected through 3,405 distributors, 3,656 dealers and ~115k retailers at the end of Jun 2023.

Highest share of B2C mix in the C&W industry

RR Kabel had the highest share of B2C sales (more wires vs. cables) at 70%+ in the C&W segment in FY23 vs. 30-40% in the case of Polycab and KEI Industries (KEI). The C&W revenue of Rs50bn was 89% (C&W capacity utilization: ~65%) of the total revenue that included housing wires, industrial wires, power cables and special cables in FY23. The FMEG segment's revenue of Rs6.4bn accounted for the remaining 11% of the total revenue and includes products like fans (50% of the segment's sales), lighting (35%) and appliances (15%). The company primarily sells its FMEG products under the 'RR' and 'Luminous Fans and Lights' brands in India. As regards its input costs, nearly 75% of the raw material (mostly copper/aluminum) is sourced domestically from Hindalco and Sterlite Industries. Advertisement and business promotion expenses stood at 1.5% of FY23 sales.

IPO details

The IPO price band is Rs983-1,035. At the upper band, the total issue size is estimated at Rs19.6bn comprising a fresh issue of equity shares of Rs1.8bn and offer for sale by the promoters (Rs4.5bn) and TPG Asia (Rs13.3bn). This implies a market cap of Rs117bn.

Rationale to subscribe for the IPO

At the upper price band of Rs1,035, the implied P/E is 32x FY25F EPS vs. Polycab/KEI at 43x/32x, respectively, based on our estimates. We like the longevity in the business, size and scale, B2C mix, scope to improve margins and healthy cash flow growth going ahead. We expect revenue/EBITDA/PAT CAGR of 16%/33%/36%, respectively, over FY23-26F. We recommend subscribing to the IPO, given C&W industry demand tailwinds and a healthy OCF growth over FY23-26F. Downside risks: Volatile input costs & continuous losses in the FMEG segment.

Analyst(s)



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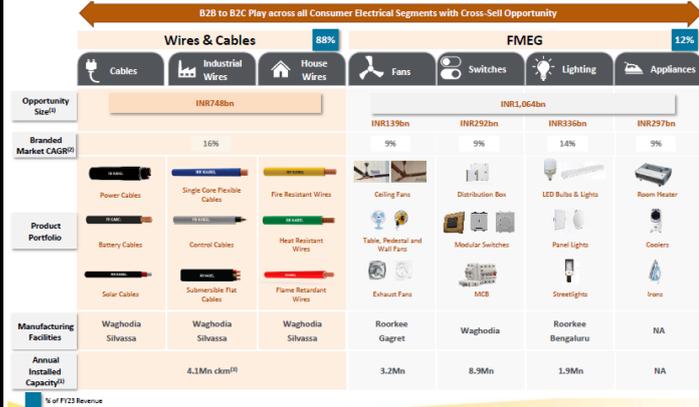
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Financial Summary

	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue (Rsm)	43,859	55,992	65,569	76,314	88,185
Operating EBITDA (Rsm)	3,033	3,224	4,426	5,991	7,540
Net Profit (Rsm)	2,140	1,899	2,677	3,694	4,740
Core EPS (Rs)	19.2	17.1	23.7	32.6	41.9
Core EPS Growth	57.8%	(11.2%)	38.6%	38.0%	28.3%
DPS (Rs)	2.5	4.5	2.5	2.5	2.5
EV/EBITDA (x)	2.4	1.8	(0.6)	(0.5)	(0.7)
ROE	29.2%	20.7%	18.6%	18.1%	19.5%

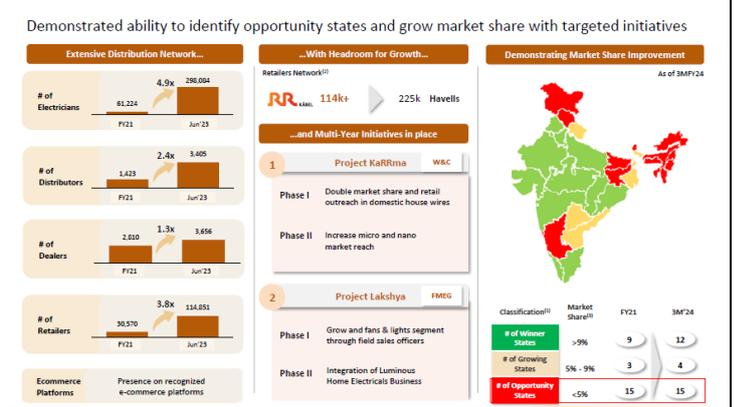
SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Product presence across the electricals segment



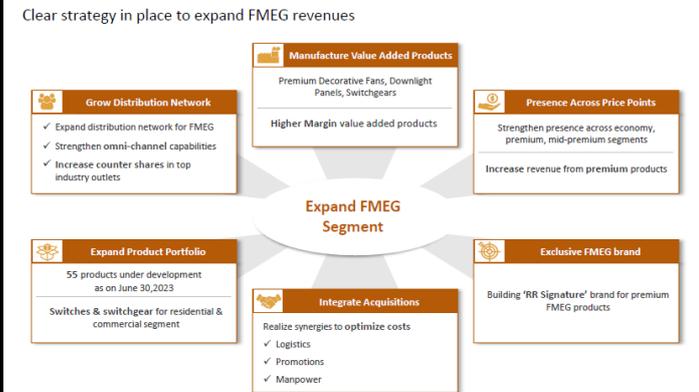
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Figure 2: Evolving market reach in India



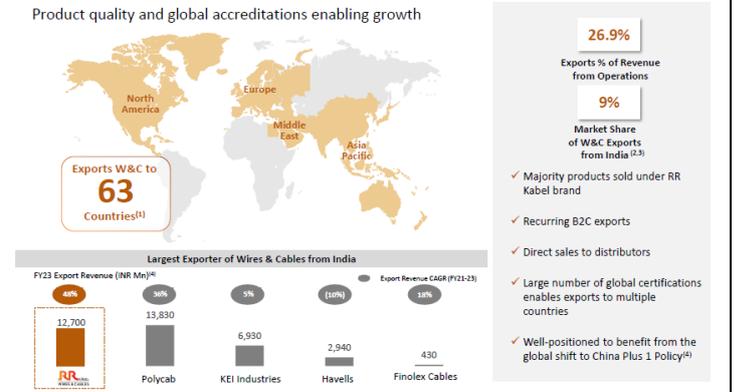
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Figure 3: FMEG segment's growth strategy



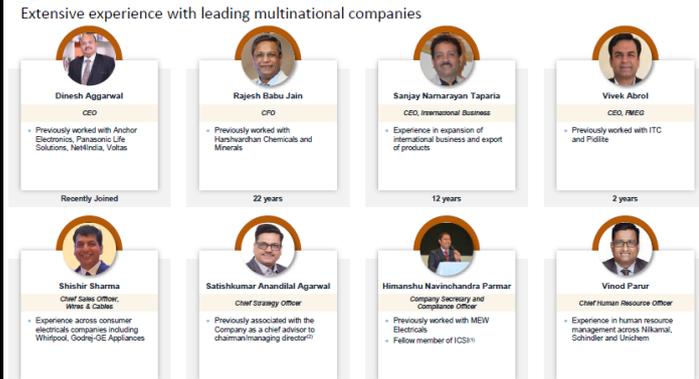
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Figure 4: Highest market share in C&W exports from India



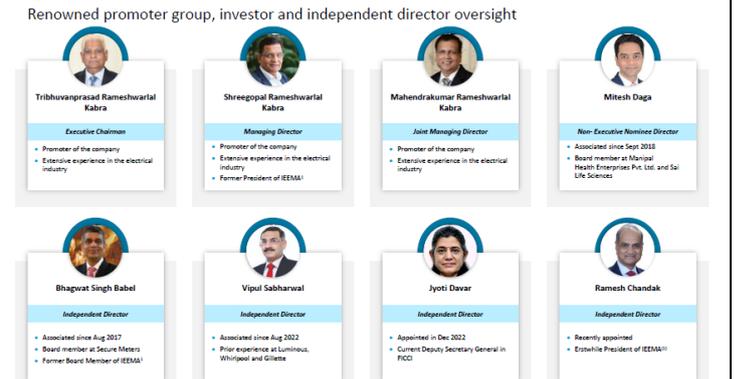
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Figure 5: Professional management team



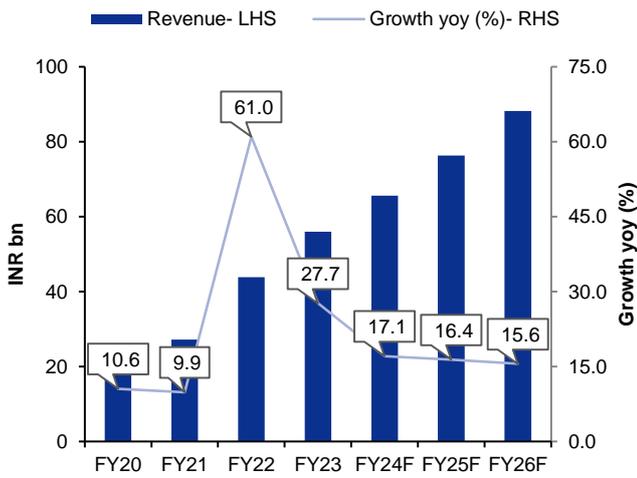
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Figure 6: Board of directors



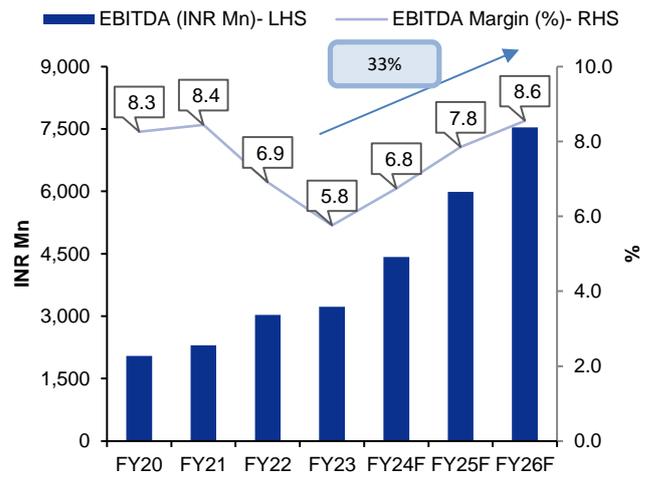
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Figure 7: Revenue and revenue growth



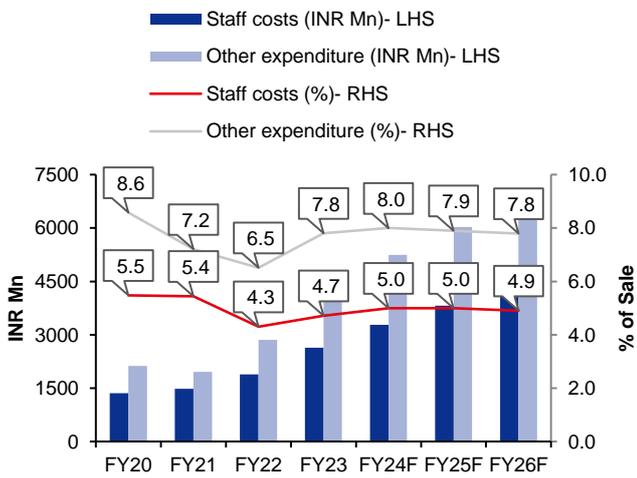
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Figure 8: EBITDA and EBITDA margin



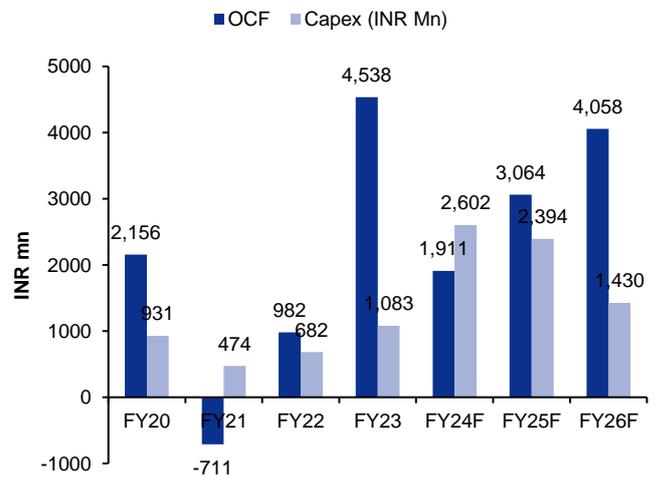
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Figure 9: Operating Expenses



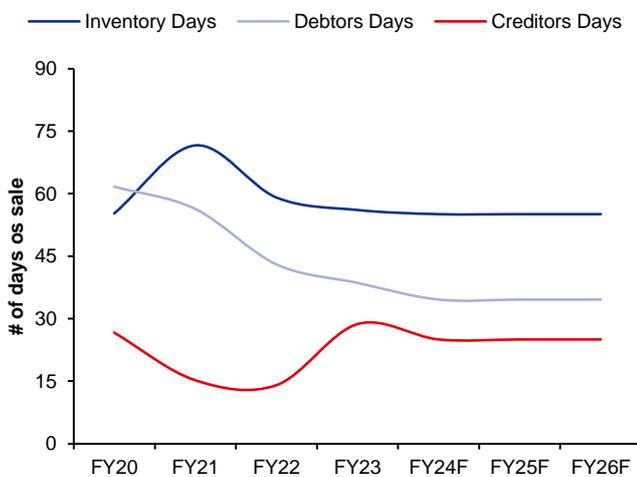
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Figure 10: OCF and capex funding



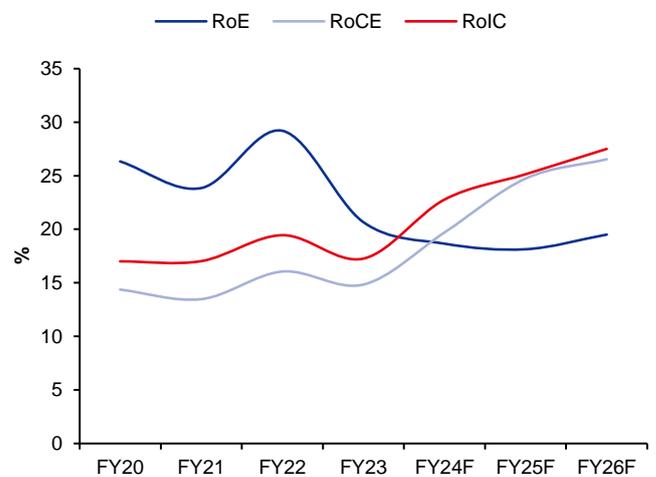
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 11: Core working capital



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 12: Return ratios



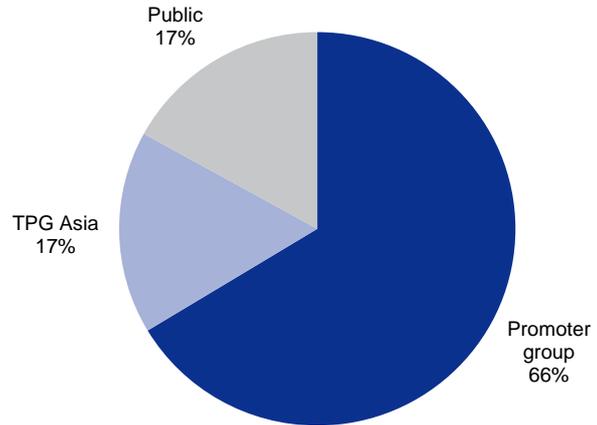
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Figure 13: Factory locations and products manufactured

Factory Unit	Product description
Waghodia, Gujarat	Wires and cables, PVC compound and switches, mainly for the export market
Silvassa, Daman and Diu	Wires and cables and PVC compound, mainly for the domestic market
Roorkee, Uttarakhand	Fans and lights
Bengaluru, Karnataka	Lights
Gagret, Himachal Pradesh	Fans

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 14: Pre-IPO shareholding pattern



SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS

Profit & Loss					
(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Net Revenues	43,859	55,992	65,569	76,314	88,185
Gross Profit	7,780	10,235	12,950	15,835	18,739
Operating EBITDA	3,033	3,224	4,426	5,991	7,540
Depreciation And Amortisation	(461)	(596)	(779)	(1,025)	(1,207)
Operating EBIT	2,572	2,627	3,647	4,965	6,333
Financial Income/(Expense)	(127)	(279)	(293)	(249)	(214)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	357	202	225	225	225
Profit Before Tax (pre-EI)	2,844	2,560	3,594	4,958	6,362
Exceptional Items					
Pre-tax Profit	2,844	2,560	3,594	4,958	6,362
Taxation	(704)	(661)	(916)	(1,264)	(1,622)
Exceptional Income - post-tax					
Profit After Tax	2,140	1,899	2,677	3,694	4,740
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	2,140	1,899	2,677	3,694	4,740
Recurring Net Profit	2,140	1,899	2,677	3,694	4,740
Fully Diluted Recurring Net Profit	2,140	1,899	2,677	3,694	4,740

Cash Flow					
(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
EBITDA	3,033	3,224	4,426	5,991	7,540
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(1,754)	1,534	(1,838)	(1,903)	(2,103)
(Incr)/Decr in Total Provisions					
Other Operating Cashflow	215	(21)	(53)	(7)	30
Net Interest (Paid)/Received	222	383	293	249	214
Tax Paid	(733)	(582)	(916)	(1,264)	(1,622)
Cashflow From Operations	982	4,538	1,911	3,064	4,058
Capex	(682)	(1,083)	(2,602)	(2,394)	(1,430)
Disposals Of FAs/subsidiaries	47	5	-	-	-
Acq. Of Subsidiaries/investments	(3)	(507)	1,849	-	-
Other Investing Cashflow	11	27	127	111	157
Cash Flow From Investing	(628)	(1,558)	(625)	(2,282)	(1,273)
Debt Raised/(repaid)	224	(64)	(1,750)	-	-
Proceeds From Issue Of Shares	-	-	2,070	-	-
Shares Repurchased					
Dividends Paid	(278)	(500)	(283)	(283)	(283)
Preferred Dividends					
Other Financing Cashflow	(222)	(355)	(421)	(360)	(370)
Cash Flow From Financing	(276)	(919)	(383)	(643)	(653)
Total Cash Generated	78	2,061	903	139	2,132
Free Cashflow To Equity	578	2,916	(464)	782	2,785
Free Cashflow To Firm	122	2,559	865	422	2,415

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Cash And Equivalents	2,178	3,660	2,714	2,853	4,985
Total Debtors	5,171	5,919	6,212	7,230	8,355
Inventories	7,096	8,602	9,893	11,515	13,306
Total Other Current Assets	801	1,280	1,796	2,091	2,416
Total Current Assets	15,248	19,461	20,616	23,690	29,063
Fixed Assets					
Total Investments	622	581	581	581	581
Intangible Assets					
Total Other Non-Current Assets	756	1,741	1,565	1,565	1,565
Total Non-current Assets	5,252	6,810	8,707	10,076	10,298
Short-term Debt	4,618	4,890	-	-	-
Current Portion of Long-Term Debt					
Total Creditors	1,687	4,401	4,491	5,227	6,040
Other Current Liabilities	796	1,623	1,796	2,091	2,416
Total Current Liabilities	7,100	10,914	6,287	7,318	8,456
Total Long-term Debt	593	269	-	-	-
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	187	808	808	808	808
Total Non-current Liabilities	780	1,076	808	808	808
Total Provisions	131	149	149	149	149
Total Liabilities	8,011	12,139	7,244	8,274	9,413
Shareholders Equity	12,495	14,197	18,671	22,083	26,540
Minority Interests					
Total Equity	12,495	14,197	18,671	22,083	26,540

Key Ratios					
	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue Growth	61%	28%	17%	16%	16%
Operating EBITDA Growth	32%	6%	37%	35%	26%
Operating EBITDA Margin	6.9%	5.8%	6.8%	7.8%	8.6%
Net Cash Per Share (Rs)	(27.3)	(13.5)	24.0	25.2	44.0
BVPS (Rs)	112.3	127.6	164.9	195.1	234.4
Gross Interest Cover	11.0	6.2	8.7	13.8	17.1
Effective Tax Rate	24.8%	25.8%	25.5%	25.5%	25.5%
Net Dividend Payout Ratio	9.8%	19.5%	7.9%	5.7%	4.4%
Accounts Receivables Days	39.0	36.1	33.8	32.1	32.3
Inventory Days	62.9	62.6	64.1	64.6	65.2
Accounts Payables Days	14.3	24.3	30.8	29.3	29.6
ROIC (%)	19.5%	17.3%	22.8%	25.2%	27.5%
ROCE (%)	16.0%	14.8%	19.7%	24.7%	26.5%
Return On Average Assets	15.8%	12.1%	14.0%	16.5%	18.0%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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