

**Rating: Subscribe for Listing gain**

### Issue Offer

**Fresh Issue of 1,739,131 Equity shares aggregating upto INR 1,800 mn and Offer for sale of 17,236,808 Equity shares (INR 17,840 mn) aggregating up to INR 19,640.1mn**

#### Issue Summary

Price Band (INR)	983-1,035
Face Value (INR)	5
Implied Market Cap (INR Mn)	1,16,756.3
Market Lot	14
Issue Opens on	13 <sup>th</sup> Sep, 2023
Issue Close on	15 <sup>th</sup> Sep, 2023
No. of share pre-issue	95,696,296
No. of share post issue	97,435,426
Listing	NSE, BSE

#### Issue Break-up (%)

QIB Portion	≤ 50%
NIB Portion	≥ 15%
Retail Portion	≥ 35%

#### Book Running Lead Managers

JM Financial Ltd
Axis Capital Ltd
HSBC Securities Ltd
Citigroup Global Markets Ltd

#### Registrar

Link Intime India Pvt. Ltd.

#### Shareholding Pattern

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

#### Objects of the issue

- Repayment of outstanding borrowings
- General corporate purpose

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**Bhaumik Salian**

**R R Kabel Ltd** is one of the foremost companies in the Indian consumer electrical sector. The company is the 5<sup>th</sup> largest in the wires and cables market in India having ~5% market share by value. The company operates within two primary segments: 1) Wires and Cables, encompassing a range of products such as house wires, industrial wires, power cables, and special cables; and 2) Fast Moving Electrical Goods (FMEG), which includes fans, lighting, switches, and appliances. R R Kabel was the first company in India to introduce innovations such as Low Smoke Zero Halogen (LSOH) insulation technology for their wires and cables products, as well as heat-resistant and flame-retardant Unilay core technology products. The company has an expansive nationwide distribution network, with 3,450 distributors, 3,656 dealers, and 114,851 retailers under their umbrella as of June 30, 2023. Furthermore, on the international front, the company has established a presence through 10 distributors, reaching customers in 63 countries where its products have found a market. The company has 2 integrated manufacturing facilities in Waghodia, Gujarat, and Silvassa, Daman, and Diu for wires, cables, and switches production. Additionally, they have 3 manufacturing facilities in Roorkee, Bengaluru, and Gagret (Himachal Pradesh), for FMEG products.

#### Investment Rationale

##### **Diverse Product Portfolio and adapting to Global Trends in the Electrical Industry:**

The company offers a diverse portfolio of products across various categories, enabling them to capitalize on cross-selling opportunities. Within the wires and cables segment, the product range includes 'Firex LSOH,' 'Superex,' 'Unilay,' and medium and high-voltage power cables, as well as control cables. Additionally, the company produces a variety of specialized cables that can be tailored to meet specific customer requirements. The company has also proactively invested in aligning with global trends, thus enhancing capacity to meet the increasing demand for products such as cables designed for use by telecom operators expanding into 5G technology, electric vehicle (EV) charging cables, smart fans, and designer lighting solutions.

##### **Strong Manufacturing Capability and In-House RM Production:**

The company operates 5 integrated manufacturing facilities, namely the Waghodia Facility, Silvassa Facility, Roorkee Facility, Bengaluru Facility, and Gagret Facility, all strategically located in India. The Waghodia Facility stands as one of India's largest consumer electrical manufacturing hubs with an annual production capacity of 2.1 million CKM of wires and cables and having backward integration by producing key raw materials, like PVC compound, LSOH compound, XLPE compound, and solar cable compound, in-house at Waghodia and Silvassa Facilities.

##### **Strategic Growth Initiatives Positioning for FMEG Market Dominance:**

The company is strategically focused on manufacturing high-margin FMEG products, including premium decorative fans and downlight panels, across various price segments. It has obtained licensing rights for the 'Luminous Fans and Lights' brand for premium FMEG offerings. The company also plans to establish the 'RR Signature' brand for premium FMEG products, which will replace the 'Luminous Fans and Lights' brand by FY24. The company is actively enhancing its customer value proposition by expanding its FMEG product portfolio and has 55 new products in the pipeline for both residential and commercial segments.

##### **Valuation and View:**

RR Kabel is an emerging player and has a 12% market share in wires and an 8% market share in wires and cables combined. The capex is expected around INR 5bn in the next 2 years and the capex mix for wires and switches is 95:5 respectively. Post, capex additional incremental revenue is expected around INR 30bn per annum going forward. The company sales were strong in the West and North, further focusing on 15 states where market share is less than 1%. The company will reduce debt through IPO proceeds and this would reduce finance costs and improve the bottom line. The company is strategically focused on expanding its product portfolio within the FMEG segment, with a robust pipeline, and is expected to be profitable in the next year. At the upper band of INR 1,035, the issue is valued at a PE of 60.6x based on FY23 EPS. We are recommending "Subscribe for Listing gain" for this Issue.

Particulars (INR Mn)	FY21	FY22	FY23
Revenue from operations	27,239	43,859	55,992
EBITDA	2,301	3,032	3,223
EBITDA Margin %	8.4%	6.9%	5.8%
EBIT	2,074	3,034	2,971
PBT	1,814	2,844	2,560
PAT	1,354	2,139	1,899
PAT Margin %	5.0%	4.9%	3.4%
EPS (INR)	12.19	19.26	17.09

Source: Company Reports, Arianth Capital Research

### R R Kabel Plant Visit Note

#### **Plant**

- In the Vaghodia Plant, the company is manufacturing Copper Wire, Wire Cables and PVC compounds, Switches, and Switch gears.
- The plant is running 3 shifts per day and the alternative Saturday is a holiday.
- The company measures 60 types of losses in the plant to improve efficiency.

#### **Capacity**

- Copper Wires and Cables capacity stood at 4,800 tonnes per month and aluminum wires and cables capacity stood at 1,500 tonnes per month and utilization levels are around 65% which is optimum in the industry.
- Power cable capacity utilization is around 80%.
- The company has more than 18,000 SKUs in wires and cables.

#### **CAPEX**

- The capex is expected around INR 5bn for the next 2 years. Around 95% capex for wires and 5% for switches. Few facilities will be available between Sep-24 to Mar-25. Post capex, around INR 30bn (asset turn-6) incremental revenue is expected going forward.
- The company is focused on doubling the capacity for switches.
- The company has 260 acres of land and used 80-90 acres and further land is available for expansion.

#### **Margins**

- Wires and Cables margins are around 8.3%. Havells wires margins are 4% higher than R R Kabels wires.

#### **Region-wise sales**

- Sales are strong in the West and North and around 37% of sales are from the West, 25%-27% sales from the North, and the remaining from south and east regions.
- The company is targeting 15 states, where the market share is less than 1%.

#### **Working capital cycle**

- The average inventory day is around 45 days. The company has a benchmark of 3% of RM prices and price revision will be every 15-20 days to pass through to customers.
- Receivables days are around 37 days, Payables days are around 30 days and inventory days are around 57 days as of FY23.

#### **Wires and Cables**

- Wires and Cables mix 70:30. Power cables contribute 15% of cable revenue.
- In wires, the B2C and B2B mix is 70:30. B2C margins are higher than B2B.

#### **FMEG**

- FMEG business contributes 12% of sales. In FMEG, fans account for 48% of sales. Premium category fans account for around 20% of fan sales.
- In FMEG, In-house production contributes 35% and outsourcing around 65%. In-house production is expected to reach 40% going forward.
- In Fans, the company manufactures ceiling fans and outsources BLDC fans.
- Switchgear has started 2-3 months and manufacturing single mode and multimode switches.

**Volumes**

- Around 60% of volumes are from the Vaghodia plant and the remaining are from the Silvassa Plant.
- The volume growth is around 23% in FY23 and another growth is based on the realization of copper and aluminum prices.

**Channel financing**

- The channel financing stood at around 35%.

**Raw material procurement**

- The company is procuring copper from Hindalco and Sterlite. Around 75% of raw materials are domestically and the remaining 25% from Imports.
- The company is using 90% of copper and 10% of aluminium to make wires. Aluminium is mainly used for power cables.

**Exports**

- Around 25% of sales are from Exports. The company is mainly exporting wires and started cable exports. In exports, cable margins are higher than wires.
- The company exports to 58 countries. US exports started in 2020 and currently contribute 10% of sales.
- Exports are through Navsheva and Adani ports.

**Industry**

- Wires and cables market share is around 8% and Wires market share is around 12%.
- Wires market size stood at INR 600bn and Cables market market size stood at INR 200bn.

**Renewables Energy – Captive**

- In renewables, the plant has 1.2MW rooftop solar and 3.5MW wind energy. Around 54% of power generation is through installed capacity.

**Copper Wire–Making Process****RBD Section**

- In the copper wire-making process, 8mm copper wire is drawn to 1.8mm by Rod breakdown machines (RBD Section). 1.8mm wires further drawn to 0.235mm wires.
- There are two sections of 32 baskets of 0.235mm wires combined together to make the final wires (64 small wires combined).
- The 64-small wire combination is for flexibility. The maximum combination is around 120 and varies based on customer requirements.

**Insulation**

- In the Insulation phase, the wires are punched by the thermostatic or thermoplastic compound. The company has backward integration for PVC components for Punching of wires.
- In Insulation processes, insulation of wire speeds around 500 meters/min to 850 meters/min.
- One bundle accommodation size 80km. The company is making 3 to 5 bundles per day. The machines operate for around 7 hours per shift. The company is making around 210km wires/machine/shift. Around 19-20 insulation machines are there for copper.

**Aluminium Wire and Cable–Making Process**

- In the aluminium wire-making process, 9.5mm copper wire is drawn to 1.6mm by Rod breakdown machines (RBD Section). The maximum combination is 61 wires.
- Aluminium insulation time is around 30 meters/minute and 4 machines are there.
- A group of wires is combined together to make cables.

**Power Cables**

- In Power cables, the company extracts nitrogen from the environment for curing and cooling of special high-tension power cables.
- The company is currently manufacturing 33KV wires and cables and focused on 66KV and having a maximum capacity of 130KV.
- The power cable waiting period is around 30 days.

**Employee strength**

- The employee's strength is more than 2,200.
- The company has hired 300 extra sales personnel recently.

**Electrician network**

- Electricians are the biggest influencers for selling wires. The Electricians has grown from 25k to 3 lakh over the years. All the electrician's incentives are 100% digitalized.

**Labs**

- Around 7-8 labs are there in the plant. In laboratories, the company is doing multiple tests like oven-based testing, stress tests (polymer, metals), thermal stability tests, hot set conditions, chemical tests, etc.

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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