CareEdge RATINGS

KEI Industries Limited (Revised)

August 16, 2022

Ratings

Facilities	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	620.22 (Reduced from ₹636.11 crore)	**CARE AA; Stable (Double A; Outlook: Stable)**	Revised from CARE AA-; Stable (Double A Minus; Outlook: Stable)
Short-term bank facilities	2,629.78 (Enhanced from ₹2,613.89 crore)	**CARE A1+ (A One Plus)**	Reaffirmed
Total bank facilities	**3,250.00 (₹ Three thousand two hundred fifty crore only)**		
Fixed deposit	5.00	**CARE AA; Stable (Double A; Outlook: Stable)**	Revised from CARE AA-; Stable (Double A Minus; Outlook: Stable)
Total medium-term instruments	**5.00 (₹ Five crore only)**		
Commercial paper (Carved out) *	30.00	**CARE A1+ (A One Plus)**	Reaffirmed
Total short-term instruments	**30.00 (₹ Thirty crore only)**		

*Carved out of working capital facilities
Details of instruments/facilities in Annexure-1

Detailed rationale and key rating drivers

The revision in the long-term rating assigned to the bank facilities and instruments of KEI Industries Limited (KEI) considers the substantial growth in the company's scale of operations marked by higher total operating income (TOI) and increase in profits during FY22 (refers to the period April 1 to March 31) and Q1FY23 on y-o-y basis despite slight moderation in its gross margins caused by higher raw material prices. The ratings also factor improvement in its financial risk profile with significant and consistent reduction in net debt and resultant improvement in the debt coverage indicators and strengthening of liquidity position, supported by healthy operating profitability and lower gross current asset days. Going forward, CARE Ratings Limited (CARE Ratings) believes that KEI shall continue to strengthen its business risk profile with gradual improvement in the margins on the back of greater focus on higher margin and less working capital-intensive retail business and de-scaling of highly working capital-intensive engineering procurement and construction (EPC) business, which is expected to enable it to sustain its healthy return ratios. Moreover, leverage levels are expected to remain comfortable on the back of expectations of continued healthy cash flow generation and funding of capex through internal accruals without any reliance on debt. The ratings continue to derive strength from the experience of the promoters in the wire and cable industry, KEI's long track record of operations and established position in the industry with a diversified product portfolio. The ratings also factor in the company's diversified and reputed customer base, geographically well-distributed dealership network, adequate order book and the company's presence in the growing wires and cables industry.
The rating strengths are, however, tempered by KEI's working capital-intensive nature of operations, susceptibility of its profit before interest, lease rentals, depreciation and taxation (PBILDT) margin to adverse movement in the raw material prices and foreign currency fluctuation and competition in the wires and cable industry.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

- Significant growth in sales volumes, improvement in the PBILDT margin and return on capital employed (ROCE) above 25% on a sustained basis.
- Total debt/PBILDT below 0.50x on a sustained basis.
- Shortening of gross operating cycle to below 100 days on a sustained basis along with significant liquidity build-up.

Negative factors – Factors that could lead to negative rating action/downgrade:

- Moderation in the overall gearing to more than 0.50x on a gross debt basis.
- Decline in the PBILDT margin to less than 10% on a sustained basis.
- Elongation in the gross operating cycle beyond 180 days.

[1]Complete definitions of the ratings assigned are available at www.careedge.in and in other CARE publications.

Detailed description of the key rating drivers

Key rating strengths

Growth in scale of operations and profits: The TOI of KEI grew at a compounded annual growth rate (CAGR) of 17% during FY17-FY22, whereas it grew by nearly 37% in FY22 over FY21 on the back of growth in institutional as well as retail sales, while the exports remained largely stable. The demand from institutional sales picked up with opening of economy post COVID-19-induced pandemic, while increase in the retail sales has been supported by strengthening of its retail network. KEI's gross margins were impacted by around 375 bps during FY22 on y-o-y basis due to higher raw material prices. However, with significant growth in the scale and consequent benefit of operating leverage, the moderation in its PBILDT margin was restricted to only 84 bps on y-o-y basis and stood at 10.42% in FY22. Despite lower PBILDT margin, the profit after tax (PAT) margin in FY22 remained largely stable at 6.56% (PY: 6.52%) owing to lower interest costs. Furthermore, KEI's ROCE was at a healthy 23% (PY: 20%).

During Q1FY23, the TOI of KEI further grew by 54% over Q1FY22 on the back of growth in institutional sales, retail sales and exports. Despite moderation in its PBILDT margin in Q1FY23 by 102 bps on y-o-y basis due to higher raw material prices, the PAT margin remained largely stable at 6.61% (PY: 6.58%) owing to lower interest costs.

Improvement in the financial risk profile: The capital structure of the company marked by overall gearing ratio improved from 0.37x as on March 31, 2021 to 0.14x as on June 30, 2022, backed by repayment of term loans and lower working capital borrowings aided by healthy operating cash flows. Moreover, with improvement in profitability, debt coverage indicators marked by interest coverage ratio and total debt to PBILDT improved in FY22 and continued to remain comfortable at 15.21x (PY: 8.44x) and 1.09x (PY: 1.39x), respectively. The total debt/PBILDT further improved to 0.49x in Q1FY23 (on annualised basis) and is expected to remain below unity during FY23. Going forward, KEI is expected to generate healthy cash accruals, which would be majorly utilised towards capex as well as incremental working capital requirements. Hence, the leverage profile of the company is expected to remain comfortable in the medium term.

Experienced promoters with long track record of operations: Anil Gupta, the promoter of KEI, has been associated with the cable industry for over four decades, and has extensive experience in the manufacturing of cables. The top management comprises experienced professionals. With Akshit Diviaj Gupta handling the retail business and EPC projects of the company, the second generation is also involved in the business. Moreover, KEI has over five decades of track record in the cable and wires business with established relationship with vendors and customers, thus providing stability to its business operations.

Diversified product portfolio: KEI's cable division has a wide range of products (portfolio of over 400 products), including power cables (comprises low tension [LT], high tension [HT] and extra high voltage [EHV] power cables) up to and including 400 kV grade, control and instrumentation cables, rubber cables, winding, flexible and house wires, specialty cables, submersible cables, OVC/poly-wrapped winding wires and stainless-steel wires. KEI has a technical collaboration with BruggKabel AG, Switzerland, for the manufacturing of EHV cables. BruggKabel is involved in the manufacturing of high-voltage/extra-high-voltage cables up to 550-kV voltage grade. KEI also has a presence in EPC and turnkey solutions segment for infrastructure projects. Its presence across diverse products and geographies enables it to cater to a wide range of customer requirements across sectors and provides insulation from slowdown in any sector or product segment.

Diversified and reputed customer base: KEI has wide sectoral and geographical diversification with its presence across over 50 countries and caters to majority of core industries, including power, oil refineries, railways, automobiles, cement, steel, fertilizers, textiles, and real estate. KEI is a pre-qualified supplier and has approvals from large number of corporates as well as public sector undertakings. Domestically, KEI's retail sales were fairly diversified with north, south, east, and west regions contributing 36%, 18%, 15%, 31% of its sales, respectively, in FY22. During FY22, exports accounted for nearly 10% of the total income (PY: 14%). Furthermore, KEI has a diversified customer base, as top 10 customers contribute only 20%-25% of the total sales.

Reducing EPC business with increasing share of retail sales supported by growing dealer network: Due to high competition and long working capital cycle, KEI has curtailed EPC business and simultaneously increased share of retail sales, which is expected to result in improvement in operating profitability margin and collection period. The share of retail sales in its revenue mix has improved significantly from 29% in FY20 to 42% in Q1FY23, while the share of EPC business has declined from 16% to 5% during the same period. Cumulatively, these steps have enabled the company to reduce its gross operating cycle from 201 days in FY21 to 155 days in FY22. KEI has plans to further increase the share of retail sales to 50% of its revenue by end-FY24, which is expected to be supported by increasing dealer network in a growing industry.

The company has strengthened its dealership network having 1,800 dealers as on June 30, 2022 (PY: 1,650+ dealers) with more than 9,000 retailors in its network reflecting its growing retail footprints.

Adequate order book position providing medium-term revenue visibility: KEI had an order book of ₹2,741 crore as on June 30, 2022, which includes 55% orders in the cables division (including exports, to be executed over 3-4 months), 13% orders in the EHV cables division (to be executed over 9-12 months), and 32% orders from the EPC division (to be executed in 24 months).

Liquidity: Strong

KEI has strong liquidity marked by current ratio of 2.23x as on March 31, 2022, and healthy cash flow from operations. KEI generated gross cash accruals (GCA) of ₹432 crore during FY22 (FY21: ₹329 crore). Moreover, the company has low term debt repayment obligation of ₹20 crore in FY23 as against the envisaged cash accruals of more than ₹500 crore. The average utilisation of its fund-based working capital limits also stood low at around 19% for the trailing 12 months ended June 2022, while the non-fund-based limit utilisation stood at around 44% during the same period. KEI had free cash and bank balance of ₹360 crore as on March 31, 2022. As on June 30, 2022, fund-based working capital utilisation remained NIL and cash and bank balance stood at ₹172 crore. Capacity expansion plans during FY23-FY26 entails capex of nearly ₹200 crore per annum, which is expected to be funded entirely by internal accruals.

Key rating weaknesses

Working capital-intensive nature of operations: KEI's operations are working capital intensive in nature on account of high collection period associated with the EPC projects which take 2-3 years to finalise. The realisation in the EPC projects is based on milestones achieved and around 10% retention money is released post successful completion of the project. Despite significant reduction in its gross operating cycle to 155 days during FY22, KEI's operations remain inherently working capital intensive. Moreover, payable days stood at 53 days in FY22 (PY: 92 days) due to higher cash purchases because of which the net operating cycle stood at 102 days in FY22 (PY: 109 days).

Volatility in raw material prices and competitive nature of industry: KEI's business is highly raw material intensive with raw materials forming around 80% of the total operating costs. The main raw materials used are copper, stainless-steel strips and rods, G.I. wires, PVC & DOP and aluminium with the purchases backed by LCs or cash. The orders generally have a mix of both variable as well as fixed-price contracts. The company at any point in time always maintains 2-2.5 months' inventory where pricing is already fixed. Since most of the orders are executed within three months, the company is insulated against adverse raw material movement to some extent. Moreover, KEI's forex risk is largely mitigated with natural hedge. KEI generally does not hedge its exposure, and hence its profitability remains vulnerable to sharp movements in foreign currency rates, but it generally benefits from rupee depreciation.

KEI continues to derive majority of its revenue from the cable business. The orders are from various user industries albeit mainly from the power and infrastructure sector. Any delay/deferral of operational expenditure by these companies might adversely impact the operational performance and consequently prospects of the company. Furthermore, business environment in the cable industry is competitive due to presence of organised and unorganised players. However, with the company's established position in the cables business, the risk is mitigated to a large extent. KEI, having been in existence for over five decades in the cable industry, has proven product quality standards for supply of niche cable products. The company has an advantage of manufacturing EHV cables and cater to growing demand in this segment. This creates a huge entry barrier as a new player will take anywhere between 4 and 8 years to qualify.

Industry prospects

Indian wire and cable market, which stood at USD 8.5-9 billion in FY21 is expected to grow by over 10% per annum in medium term. The demand is expected to be driven by factors such as the growth in renewable power generation, the expansion and revamping of infrastructure, increasing investments in metro railways, enhancement of manufacturing capacities supported by Production-Linked Incentive (PLI) scheme, etc. The growing energy demand in India propelled by sustained economic growth and urbanisation has also bolstered the renewable energy development sector. With this, the need for strengthening of transmission and distribution sector has accentuated to reduce transmission losses. The government's focus on power for all, rural electrification and improving infrastructure has increased the demand for cables and wires. KEI is one the leading brands in wires and cable industry and has the third-highest customer base in the industry. Furthermore, the market share of unorganised sector has registered a declining trend in the past few years.

Analytical approach: Standalone

Applicable criteria

Criteria on assigning 'outlook' and 'credit watch' to credit ratings
CARE's policy on default recognition
Financial ratios – Non-financial sector
Criteria for short-term instruments
Rating methodology - Manufacturing companies
Rating methodology- Service sector companies
Liquidity analysis of non-financial sector entities

About the company

KEI was incorporated in 1968 as a partnership firm, Krishna Electrical Industries, with prime business activity of manufacturing of cables and wires. In 1992, the firm became a public limited company under the name of KEI. The company is engaged in manufacturing wide variety of power cables ranging from 66 kV/110 kV/132 kV/220 kV/400 kV, control and instrumentation cables, rubber cables, winding wires and stainless-steel wires. The company also has a presence in EPC and turnkey solutions segment for infrastructure projects. KEI has manufacturing units in Bhiwadi, Chopanki and Pathredi (three in Rajasthan), Rakholi and Chinchpada (two in Dadar and Nagar Haveli), with an aggregate annual installed capacity of 154,000 kms for cables, 9 million kg of stainless steel wires and 1,332,000 km of winding, flexible and house wires as on March 31, 2022.

Brief Financials (₹ crore)	FY21 (A)	FY22 (A)	Q1FY23 (UA)
Total operating income (TOI)	4,193	5,736	1,569
PBILDT	472	598	163
PAT	273	376	104
Overall gearing (times) ^	0.37	0.35	0.14
PBIDLT Interest coverage (times)	8.44	15.21	17.68

A: Audited; UA: Unaudited; ^ Including mobilisation advance availed by furnishing financial bank guarantee
Financials are classified as per CARE Ratings' standard

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure-4

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term loan		-	-	December 2022	20.22	CARE AA; Stable
Non-fund-based-Short term		-	-	-	2629.78	CARE A1+
Fund-based - LT-Cash credit		-	-	-	600.00	CARE AA; Stable
Fixed deposit		-	-	Not placed	5.00	CARE AA; Stable
Commercial paper-Commercial paper (Carved out)*	-	-	-	7-364 days	30.00	CARE A1+

*No outstanding

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/ Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Commercial paper-Commercial paper (Carved out)	ST	30.00	CARE A1+	-	1)CARE A1+ (30-Aug-21)	1)CARE A1 (15-Sep-20)	1)CARE A1 (04-Oct-19)
2	Fund-based - LT-Term loan	LT	20.22	CARE AA; Stable	-	1)CARE AA-; Stable (30-Aug-21)	1)CARE A+; Stable (15-Sep-20)	1)CARE A; Stable (04-Oct-19)
3	Non-fund-based-Short term	ST	2629.78	CARE A1+	-	1)CARE A1+ (30-Aug-21)	1)CARE A1 (15-Sep-20)	1)CARE A1 (04-Oct-19)
4	Fund-based - LT-Cash credit	LT	600.00	CARE AA; Stable	-	1)CARE AA-; Stable (30-Aug-21)	1)CARE A+; Stable (15-Sep-20)	1)CARE A; Stable (04-Oct-19)
5	Fixed deposit	LT	5.00	CARE AA; Stable	1)CARE AA-; Stable (22-Jun-22)	1)CARE AA- (FD); Stable (30-Aug-21)	1)CARE A+ (FD); Stable (15-Sep-20)	1)CARE A (FD); Stable (04-Oct-19)

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities

Name of the Instrument	Detailed explanation
A. Financial covenants	NA
I	
II	
B. Non-financial covenants	NA
I	
II	

Annexure-4: Complexity level of various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1	Commercial paper-Commercial paper (Carved out)	Simple
2	Fixed deposit	Simple
3	Fund-based - LT-Cash credit	Simple
4	Fund-based - LT-Term loan	Simple
5	Non-fund-based-Short term	Simple

Annexure-5: Bank lender details for this company

To view the lender wise details of bank facilities please **click here**

Note on complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

Contact us

Media contact
Name: Mradul Mishra
Phone: +91-22-6754 3596
E-mail: mradul.mishra@careedge.in

Analyst contact
Name: Ajay Kumar Dhaka
Phone: +91-11-4533 3200
E-mail: ajay.dhaka@careedge.in

Relationship contact
Name: Swati Agrawal
Phone: +91-11-4533 3200
E-mail: swati.agrawal@careedge.in

About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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