KEI Industries Limited

September 19, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	600.00	CARE AA+; Stable	Revised from CARE AA; Positive
Short-term bank facilities	2,650.00	CARE A1+	Reaffirmed
Fixed deposit	5.00	CARE AA+; Stable	Revised from CARE AA; Positive
Commercial paper (Carved out)*	30.00	CARE A1+	Reaffirmed

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

Rationale and key rating drivers

Ratings revision for bank facilities and instruments of KEI Industries Limited (KEI) factor in the company's strengthening business risk profile as characterised by its growing scale of operations while maintaining profitability margins and robust demand from end-user industries, which is likely to support a healthy growth in scale of operations going forward. CARE Ratings Limited (CARE Ratings) envisages that KEI will be able to grow in mid-teens for the near-to-medium term, while gradually improving operating margins with changes in its product mix. The company's profitability is likely to benefit from factors such as enhanced geographical diversification for exports, improved operational efficiencies and increased contribution from high-margin segments. Ratings also draw strength from KEI's long track record of operations of over five decades and established position in the industry with a diversified product portfolio. The company's diversified and reputed customer base, geographically well-distributed dealership network, adequate order book, its presence in the growing wires and cables industry is supported by its experienced promoters. Ratings also factor in strong financial risk profile as reflected in strong capital structure and coverage indicators. Going forward, leverage levels are expected to moderate in the medium term due to ongoing capacity expansion, which will be partly debt funded but should remain comfortable considering expectations of continued healthy accretion of profits to net worth.

CARE Ratings also takes cognisance that the company has large greenfield expansion plans, to be funded through a mix of internal accruals, available liquidity and some debt close to ₹500-600 crore to tap growing demand from domestic and export markets. CARE Ratings believes that KEI should be able to commence this project in a timely manner and draw the envisaged benefits from the same which is critical for its overall credit risk profile.

The rating strengths are tempered by KEI's working capital intensive operations, susceptibility of its operating margin to adverse movement in raw material prices and foreign currency fluctuation, and competition in the wires and cable industry.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Significantly growing sales volumes, improving profit before interest, lease rentals, depreciation, and taxation (PBILDT) margin, maintaining its healthy return on capital employed (ROCE) on a sustained basis.
- Sustaining net debt/PBILDT below 0.20x
- Shortening gross operating cycle to below 100 days on a sustained basis and significant liquidity build-up.

Negative factors

- Deteriorating net debt/PBILDT above 1.00x on a sustained basis.
- Declining PBILDT margin to less than 10% on sustained basis
- Elongating gross operating cycle beyond 180 days on a sustained basis.

Analytical approach: Standalone

Outlook: Stable

The 'Stable' outlook reflects CARE's belief that KEI will continue to maintain its strong operational and financial performance as reflected in healthy growth in scale and stable operating profitability in the medium-to-long term, supported by its established position in the wires and cables industry and strong demand drivers in end-user industries.

[1]Complete definition of ratings assigned are available at www.careedge.in and other CARE Ratings Limited's publications.

Detailed description of key rating drivers:

Key strengths

Increasing share of retail sales supported by growing dealer network and reducing EPC business

Due to high competition and long working capital cycle, KEI has curtailed its engineering, procurement and construction (EPC) business and simultaneously increased share of retail sales over the years, which is expected to result in continuous improvement in operating profitability margin and collection period. The share of retail sales in its revenue mix improved significantly from 29% in FY20 to 47% in FY24, while the share of EPC business declined from 16% to 7% in the same period. Retail sales further grown to 52.65% in Q1FY25. Cumulatively, these steps have enabled the company to reduce its gross operating cycle from 159 days in FY20 to 129 days in FY24. KEI has plans to further increase the share of retail sales to 50% of its revenue in next one-two years as dealer sales provide the twin benefits of better margins and is also relatively working capital efficient. The company has strengthened its dealership network having 2,015 dealers as on June 30, 2024 (PY: 1,925 dealers as on March 31, 2023) with over 15,000 retailors in its network reflecting its growing retail footprints.

Growth in scale of operations and profitability and further increase in capacities to support business growth

KEI's total operating income (TOI) grew at a compounded annual growth rate (CAGR) of 14% in FY20-FY24, while it grew by ~17% in FY24 over FY23 supported by 19% growth in retail sales and 58% growth in exports sales and over 7% growth in institutional sales. KEI received clearance for some of its products in the US markets and started exporting to the US from January 2023. PBILDT margin improved marginally and stood at 10.40% (PY: 10.29%) considering higher retail and exports sales. With growth in TOI and improved PBILDT margin, profit after taxes (PAT) margin improved to 7.17% in FY24 from 6.90% in FY23. With increasing focus of KEI on growing retail sales and steady curtailment of lower margin EPC business, PBILDT margin of KEI is expected to improve by nearly 25-30 bps every year in the medium term. KEI's ROCE has remained healthy at ~26.92% in FY24 (PY: 25.55%), which is likely to slightly moderate considering planned capex but remain healthy in the range of 20-23% in the medium term.

In Q1FY25, KEI's TOI further grew by 16% on a y-o-y basis on the back of growth in institutional sales, retail sales and exports. PBILDT margin remained stable at around 10.41%. Currently, the company is operating at almost optimum capacity utilisation level of over 90% across all segments. Hence, KEI is planning to do a greenfield expansion in its cable manufacturing capacity (LT, HT and EHV) at Sanand, Gujarat with a capex of around ₹1700-1800 crore, which is to be funded from ₹500-600 crore of debt and balance through internal accruals and available liquidity. The company has already spent ~₹200 crore in FY24 and plans to spend further ₹900-1000 crore in FY25 to start Phase -I of the project by the end of this financial year. The company will incur another ₹500-600 crore in FY26 on this project to complete the project by Q3FY26. The company has commenced its brownfield expansion in Q2FY25 by incurring ₹125 crore funded through internal accruals at its Pathredi plant, which will enable it to generate additional ₹800-900 crore of revenue. the company has also planned small brownfield expansion at Chinchpada with an outlay of ₹65 crore, which is expected to be incurred in next 3-4 months. These capex plans are likely to provide additional capacity to grow its TOI at the annual rate of 12-15% in the medium term.

The company is witnessing robust demand for its products from end-user industries such as renewable power generation, telecommunication, infrastructure projects including National Infrastructure Pipeline and metro railways, and enhancement of manufacturing capacities supported by Production-Linked Incentive (PLI) scheme among others.

CARE Ratings believe that KEI will significantly benefit from this capex once it is completed, and will enable KEI to grow at 12-15% in the next 3-4 years and KEI will gradually improve its operating profitability by focusing more on higher share from export and retail sales.

Strong financial risk profile

The company's capital structure marked by overall gearing ratio remains strong at 0.21x as on March 31, 2024 (PY: 0.15x). Debt coverage indicators marked by interest coverage ratio and total debt to PBILDT continued to remain comfortable at 19.23x (PY: 20.75x) and 0.80x (PY: 0.54x). Slight moderation was considering increase in letter of credit (LC) backed creditors. KEI is net debt free as on March 31, 2024. The company's net debt to PBILDT stood at 0.12x as on June 30, 2024. Going forward, the company is expected to generate healthy cash accruals, majorly utilised towards capex and incremental working capital requirements. The company has plans to take term debt of ₹600 crore in FY25 to fund its greenfield capex planned at Sanand, Gujarat, which shall moderate the capital structure and leverage indictors temporarily to some extent for a year but this is expected to gradually start improving once the project is completed and cash flows from the new project starting accruing. Even after considering incoming debt for the project, the company's leverage and coverage ratios are expected to remain comfortable and net det to PBILDT shall remain below unity.

Healthy order book position providing medium-term revenue visibility

KEI had an order book of ₹3,700 crore as on May 30, 2024, which includes 70% orders in the cables division (including exports, to be executed in 3-4 months), 10% orders in the EHV cables division (to be executed in 12-15 months) and 20% orders from the EPC division (to be executed in ~18 months). Outstanding healthy order book provides a very good revenue visibility to KEI. Apart from this, the company is executing retail orders when received.

Diversified product portfolio supporting its healthy business profile
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 Cable division contributed ~62% in total revenue while housing and stainless steel wire contributed ~29% and 3% respectively in FY24. KEI has a technical collaboration with BruggKabel AG, Switzerland, for manufacturing EHV cables. BruggKabel is involved in manufacturing 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, which contributed 7% in total revenue in FY24. Its presence across diverse products and geographies, tailormade products for institutional sales and strong penetration towards retail sales enables it to cater to a wide range of customer requirements across sectors and provides insulation from slowdown in sector or product segments, which is expected to continue going forward.

Diversified and reputed customer base
KEI has wide sectoral and geographical diversification with its presence across over 60 countries and caters to majority core industries, including power, oil refineries, railways, automobiles, cement, steel, fertilizers, textiles and real estate. Domestically, KEI's retail sales were fairly diversified with north, south, east and west regions contributing 39%, 18%, 17%, 26% of its sales, respectively, in FY24 (refers to April 01 to March 31). In FY24, exports accounted for ~13% of the total income (PY: 10%). KEI has a diversified customer base, as top five customers contribute only 12% of total sales (PY: 12%).

Long track record of operations
KEI has over five decades of track record in the cable and wires business with established relationship with vendors and customers, providing stability to its business 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. The second generation is also involved in the business as Akshit Diviaj Gupta is handling the company's retail business and EPC projects.

Liquidity: Adequate
KEI has adequate liquidity profile. Average utilisation of fund-based limits stood Nil for 12-month ended June 2024, while non fund-based limit utilisation stood at ~49% in the same period, which provide cushion to the company's liquidity profile. KEI had a free cash and bank balance of ₹695 crore as on March 31, 2024, and ₹599 crore as on June 30, 2024, which will be utilised in the ongoing capex. Capacity expansion plans in FY25-FY26 entails capex of nearly ₹1700-1800 crore, which is expected to be funded by term debt of ₹600 crore (tied up) and balance through internal accruals and available liquidity. KEI's cash flow from operations, unutilised working capital limits and available liquidity in the form of cash and liquid investments are sufficient to support expansion projects and routine capex and incremental working capital requirements. The company did not have long-term debts as on fiscal 2024 end. There are no long-term obligations that KEI has for FY25 and repayments for new loan shall start from FY26 only. Cash flow from operations improved in FY24 and stood at ₹532 crore (PY: 492 crore) considering improvement in profitability.

Key weaknesses
Working capital-intensive operations though improving
KEI's operations are working capital intensive, considering 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. The company's gross operating cycle improved to 129 days in FY24 compared to 201 days in FY21. However, KEI's operations remain working capital intensive. Payable days stood at 44 days in FY24 (PY: 44 days) due to higher cash purchases and receivable days improved to 65 days in FY24 (PY: 73 days), because of which, net operating cycle stood at 85 days in FY24 (PY: 95 days). CARE Ratings expects working capital cycle to remain at the similar levels in the medium term, supported by low share of the EPC business and timely release of retention money.

Volatility in raw material prices and competitive nature of industry
KEI's business is highly raw material intensive, with raw materials forming ~75% of the total operating costs. Main raw materials used are copper, stainless-steel strips and rods, G.I. wires, PVC & DOP and aluminium with purchases backed by LCs or cash. Orders generally have a mix of variable and fixed-price contracts. The company maintains 2-2.5 months' inventory, where pricing is already fixed. Since most orders are executed within three months' time, the company is insulated against adverse raw material

movement to a large extent. 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 (over 60%) from the cable business. Orders are from across user industries, mainly from the power and infrastructure sector. Delays/deferrals of operational expenditure by companies in these sectors might adversely impact the company's operational performance and its consequently prospects. Business environment in the cable industry is competitive due to presence of organised and unorganised players. With the company's established position in the cables business, the risk is mitigated to a large extent. Having been in the cable industry for over five decades, KEI 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 since it takes between 4-8 years for a new player to qualify.

Environment, social, and governance (ESG) risks

Environment: The company is increasing use of renewable energy to reduce carbon footprint and ensuring zero discharge facility at all units. The company has recycled 3053.65 MT of PVC Scrap in FY24. The company is also planting trees around their facilities and using steel drum instead of wooden drum to conserve natural resources. KEI continues to increase its investments towards meeting regulatory standards and reduce environmental risk.

Social: The company ensures healthy and safe environment for the employees and product end-users. The company also provides ESG related training to employees, to ensure ESG compliance across the value chain. Thus, social risk of the company remains low and does not materially affect its credit profile.

Governance: The company is managed by professional board of directors, who have extensive experience in industry. The Board comprises 12 Directors including two women directors. Independent Directors are over 50% of the total number of Directors. There is audit committee, nomination and remuneration committee, stakeholders relationship committee; risk management committee, which reduces governance risk.

Applicable criteria

Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Financial Ratios – Non financial Sector
Service Sector Companies
Short Term Instruments

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Industrials	Capital Goods	Industrial Products	Cables - Electricals

KEI was incorporated in 1968 as a partnership firm, Krishna Electrical Industries, with prime business of manufacturing cables and wires. In 1992, the firm became a public limited company under the name 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 Dadra and Nagar Haveli), with an aggregate annual installed capacity of 1,70,200 kms for cables, 9 million kg of stainless steel wires and 18,18,400 km of winding, flexible and house wires as on March 31, 2024.

Brief Financials (₹ crore)	FY23 (A)	FY24 (A)	Q1FY25 (UA)
Total operating income	6,914.84	8,109.60	2060.50
PBILDT	710.79	843.59	214.57
PAT	477.38	581.05	150.25
Overall gearing (times)	0.15	0.21	0.21
Interest coverage (times)	20.75	19.23	15.15

A: Audited UA: Unaudited; Note: these are latest available financial results

CareEdge RATINGS

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
Commercial Paper-Commercial Paper (Carved out)		Proposed	NA	NA	30.00	CARE A1+
Fixed Deposit		Proposed	NA	NA	5.00	CARE AA+; Stable
Fund-based - LT-Cash Credit		-	-	-	600.00	CARE AA+; Stable
Non-fund-based-Short Term		-	-	-	2650.00	CARE A1+

Annexure-2: Rating history for 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 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	Commercial Paper-Commercial Paper (Carved out)	ST	30.00	CARE A1+	-	1)CARE A1+ (14-Aug-23)	1)CARE A1+ (16-Aug-22)	1)CARE A1+ (30-Aug-21)
2	Fund-based - LT-Term Loan	LT	-	-	-	1)Withdrawn (14-Aug-23)	1)CARE AA; Stable (16-Aug-22)	1)CARE AA-; Stable (30-Aug-21)
3	Non-fund-based-Short Term	ST	2650.00	CARE A1+	-	1)CARE A1+ (14-Aug-23)	1)CARE A1+ (16-Aug-22)	1)CARE A1+ (30-Aug-21)
4	Fund-based - LT-Cash Credit	LT	600.00	CARE AA+; Stable	-	1)CARE AA; Positive (14-Aug-23)	1)CARE AA; Stable (16-Aug-22)	1)CARE AA-; Stable (30-Aug-21)
5	Fixed Deposit	LT	5.00	CARE AA+; Stable	-	1)CARE AA; Positive (14-Aug-23)	1)CARE AA; Stable (16-Aug-22) 2)CARE AA-; Stable (22-Jun-22)	1)CARE AA- (FD); Stable (30-Aug-21)

LT: Long term; ST: Short term

Annexure-3: Detailed explanation of covenants of rated instruments/facilities: Not applicable

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Commercial Paper-Commercial Paper (Carved out)	Simple
2	Fixed Deposit	Simple
3	Fund-based - LT-Cash Credit	Simple
4	Non-fund-based-Short Term	Simple

Annexure-5: Lender details

To view lender-wise details of bank facilities please click here

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

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About us:
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