KEI Industries Limited (Revised)
August 30, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings[1]	Rating Action
Long-term Bank Facilities	636.11 (Reduced from 812.53)	CARE AA-; Stable (Double A Minus; Outlook: Stable)	Revised from CARE A+; Stable (Single A Plus; Outlook: Stable)
Short-term Bank Facilities	2,613.89 (Enhanced from 2,410.00)	CARE A1+ (A One Plus)	Revised from CARE A1 (A One)
Total Bank Facilities	**3,250.00 (Rs. Three thousand two hundred fifty crore only)**		
Fixed Deposit	5.00	CARE AA- (FD); Stable [Double A Minus (Fixed Deposit); Outlook: Stable]	Revised from CARE A+ (FD); Stable [Single A Plus (Fixed Deposit); Outlook: Stable]
Total Medium-term Instruments	**5.00 (Rs. Five crore only)**		
Commercial Paper (Carved out) *	30.00	CARE A1+ (A One Plus)	Revised from CARE A1 (A One)
Total Short-term Instruments	**30.00 (Rs. Thirty crore only)**		

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

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the bank facilities and debt instruments of KEI Industries Limited (KEI) takes into account improvement in the company's profitability margins during FY21 (refers to the period April 1 to March 31) which has sustained during Q1FY22 (refers to the period April 1 to June 30), which coupled with sizable reduction in finance costs have resulted in healthier cash accruals. The revision in the ratings also factor in sustained reduction in the company's debt levels thereby leading to improvement in the capital structure and debt metrics and a better liquidity position. Going forward, CARE Ratings believes that KEI will report gradual improvement in margins and return ratios on the back of greater focus on high margin and less working capital-intensive retail business and descaling of highly working capital-intensive turnkey projects business. Moreover, leverage levels are expected to improve further on the back expectations of healthy profitability and cash flow generation and funding of capex through internal accruals. The ratings continue to derive strength from the experience of the company's promoters in the wire and cable industry, KEI's long track record of operations and established position in the cable industry with diversified product range. The ratings also factor in the company's diversified and reputed customer base and adequate order book position. These rating strengths are, however, partially offset by the working capital-intensive nature of operations, inherent risks associated with the exposure to volatility in raw material prices and competition in the cable industry.

Rating Sensitivities

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

- Increase in the total operating income over Rs.6,000 crore with improvement in PBILDT margin above 13% on sustained basis
- Improvement in overall gearing below 0.20x and total debt to PBILDT below 1.2x on sustained basis
- Shortening of operating cycle to below 90 days

Negative Factors: (Factors that could lead to negative rating action/downgrade)

- Moderation in overall gearing to more than 0.5x
- Decline in PBILDT margin of less than 10%
- Elongation in operating cycle of the company beyond 150 days

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

Detailed description of the key rating drivers

Key Rating Strengths

Consistent improvement in profitability margins: The PBILDT margin of the company registered an improvement of 121 bps and was reported at 11.40% in FY21 owing to cost-optimisation initiatives and passing through of commodity price inflation to the customers. The PAT margin of the company also improved to 6.51% as compared with 5.19% the previous year owing to lower interest costs as majority of the term debt was paid off in Q4FY20. However, the total income of the company registered a decline of 14% to Rs.4,199 crore in FY21 as compared with Rs.4,884 crore in FY20 owing to the impact of COVID-19. The decline in income was led by lower sales in institutional segment and exports as demand moderated. KEI has reported higher total income of Rs.1,020.34 crore in Q1FY22 (Q1FY21: Rs.753.92 crore) with a PBILDT margin of 11.42% (Q1FY21: 10.73%).

Experienced promoters and long-track record of operations: Mr Anil Gupta, the promoter, has been associated with the cable industry for over four decades, and has extensive experience in the manufacturing of cables. The top management consists of experienced professionals, and KEI has also included the second generation in the business with Mr Akshit Diviaj Gupta handling the retail business and projects of the company. KEI has been engaged in the cable and wires business since 1968 and currently has manufacturing units in Bhiwadi, Chopanki and Pathredi (three in Rajasthan), Rakholi and Chinchpada (two in Dadar & Nagar Haveli).

Diversified and reputed customer base: KEI has wide sectoral and geographical diversification with its presence in 45 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. The company also has export presence in around 45 countries. During FY21, exports accounted for around 14% of the total income as against 18% the previous year. The moderation was mainly on account of disruption caused in the export market due to COVID-19.

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. In the cables segment, 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. KEI's 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. Going forward, KEI has decided to de-scale the EPC business and limit the annual income from the segment to around Rs.500 crore meanwhile focusing on increasing retail sales which would result in improved margins and shorter realization periods.

Adequate order book position and marketing network: KEI has an order book of Rs.3,022 crore as on July 28, 2021 (Rs.2,954 crore as on July 31, 2020) which includes 45% orders in cables division (including exports, to be executed over 3-4 months), 17% orders in the EHV cables division (to be executed over 12-18 months) and 38% orders from EPC division (to be executed in about 24 months). The company has strengthened its dealership network which increased to 1650+ dealers as on March 31, 2021, across India that would be instrumental in growth of retail segment. The company has increased the size of retail team further by adding 150 people since March 2021 with a plan to add more people in next few months in line with its strategy to strengthen and grow its retail business.

Improvement in financial risk profile: The capital structure of the company remained comfortable with overall gearing at 0.37x as on March 31, 2021 (PY: 0.77x), registering an improvement over the previous year owing to reduced working capital borrowings and accretion of profits to reserves. The PBILDT interest coverage ratio also registered significant improvement and was reported at 8.57x in FY21 as compared with 3.85x with reduction in interest cost. The total debt to PBILDT also improved and was reported at 1.37x as on March 31, 2021, as against 2.32x the previous year. PBILDT interest coverage ratio improved to 10.20x in Q1FY22 as compared with 4.82x Q1FY21. Going forward, the company is expected to generate healthy cash accruals which would be majorly utilised towards capex as well as incremental working capital requirements, therefore, the debt levels are not expected to increase. Hence, the leverage ratios of the company are not expected to deteriorate in the medium term too.

Key rating weaknesses

Elongated working capital cycle: The company's operations are working capital intensive in nature on account of high collection period due to EPC projects undertaken which take 2-3 years to finalize. The realization in EPC projects is based on milestones achieved and around 10% retention money which is released post successful completion of the project. The operating cycle of the company has elongated to 140 days in FY21 (PY: 103 days) owing to increased collection period which elongated from 125 days in FY20 149 days in FY21 owing to higher trade receivables pending from EPC projects in proportion to total income which declined in FY21. The average inventory holding period also increased to 84 days in FY21 as against 68 days in FY20. However, the company was able to reduce absolute levels of inventories by Rs.95.56 crore as on March 2021 on a y-o-y basis.

Volatility in raw material prices and competitive nature of industry: The company'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 aluminum with the purchases backed by LCs or cash. The orders generally have a mix of both variable as well as fixed-price contracts, which limit the company's exposure to increase in the raw material costs for orders under execution. The company has price escalation clauses for large orders. 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. KEI continues to derive major revenue from cable business. These orders are from various user industries mainly power sector. Any delay/deferral of operational expenditure by these companies might adversely impact the operational performance and consequently prospects of the company. Furthermore, the cable industry with the presence of organized and unorganized players, the business environment is competitive. However, with the company's established position in cables business mitigates risks to a large extent.

Industry prospects

The electric wire and cable market in India is expected to grow by USD 1.65 billion between 2021 and 2025. The market 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, etc. 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 unorganized sector has registered a declining trend in past few years. 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 (apart from KEI, only one other company manufactures the same in India) 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. The growing energy demand in India propelled by sustained economic growth and urbanization 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. Early results of FY22 for wires and cables industry indicate a strong around 90% y-o-y growth in its sales revenues during the quarter ended June 2021.

Liquidity: Adequate

KEI has healthy liquidity position with projected GCA of Rs.421.60 crore in FY21 against low repayment obligation of Rs.19.58 crore. The company reported a current ratio of 2.14x as on March 31, 2021. It has capex plan of around of Rs.125 crore in FY22 which is the initial stage of capex for the next 4 years and involves purchase of land for the capacity expansion. The capex will be funded from internal accruals. The utilization of fund-based limits stood low at around 8% for the last 12 month ended June 2021 while non-fund-based limit utilization stood at around 60%. KEI had a free cash and bank balance of Rs.158.28 crore as on June 30, 2021.

Analytical approach: Standalone

Applicable criteria

CARE's Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
CARE's methodology for Short-term Instruments
CARE's methodology for Manufacturing Companies
Financial ratios – Non-Financial Sector
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 Industries Limited (KEI). The company is engaged in manufacturing wide variety of cables including low tension (LT), high tension (HT) and extra high voltage (EHV) 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 engineering procurement and construction (EPC) and turn-key solutions segment for infrastructure projects. KEI has manufacturing units in Bhiwadi, Chopanki and Pathredi (3 in Rajasthan), Rakholi and Chinchpada (2 in Silvassa, Dadar & Nagar Haveli), with an aggregate installed capacity of 128,600 kms for cables, 7.2 million kg stainless steel wires and 1,117,000 km winding, flexible and house wires per annum, as on March 31, 2021.

Brief Financials (Rs. cr)	FY20 (A)	FY21 (A)
Total operating income	4884.27	4199.51
PBILDT	497.82	478.70
PAT	253.41	273.31
Overall gearing (times)	0.77	0.37
Interest coverage (times)	3.85	8.57

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	September 2022	36.11	CARE AA-; Stable
Non-fund-based-Short Term	-	-	-	2613.89	CARE A1+
Fund-based - LT-Cash Credit	-	-	-	600.00	CARE AA-; Stable
Fixed Deposit	-	-	-	5.00	CARE AA- (FD); Stable
Commercial Paper-Commercial Paper (Carved out)	-	-	-	30.00	CARE A1+

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Commercial Paper-Commercial Paper (Carved out)	ST	30.00	CARE A1+	-	1)CARE A1 (15-Sep-20)	1)CARE A1 (04-Oct-19)	1)CARE A1; Stable (25-Sep-18)
2.	Fund-based - LT-Term Loan	LT	36.11	CARE AA-; Stable	-	1)CARE A+; Stable (15-Sep-20)	1)CARE A; Stable (04-Oct-19)	1)CARE A; Stable (07-Jan-19) 2)CARE A; Stable (25-Sep-18)
3.	Non-fund-based-Short Term	ST	2613.89	CARE A1+	-	1)CARE A1 (15-Sep-20)	1)CARE A1 (04-Oct-19)	1)CARE A1 (07-Jan-19)

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
								2)CARE A1; Stable (25-Sep-18)
4.	Fund-based - LT-Cash Credit	LT	600.00	CARE AA-; Stable	-	1)CARE A+; Stable (15-Sep-20)	1)CARE A; Stable (04-Oct-19)	1)CARE A; Stable (07-Jan-19) 2)CARE A; Stable (25-Sep-18)
5.	Fixed Deposit	LT	5.00	CARE AA- (FD); Stable	-	1)CARE A+ (FD); Stable (15-Sep-20)	1)CARE A (FD); Stable (04-Oct-19)	1)CARE A (FD); Stable (25-Sep-18)

Annexure 3: Detailed explanation of covenants of the rated instrument / facilities: NA

Annexure 4: Complexity level of various instruments rated for this Company

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.	Fund-based - LT-Term Loan	Simple
5.	Non-fund-based-Short Term	Simple

Annexure 5: Bank Lender Details

Click here to view Bank Lender Details

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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