

KEI Industries Limited

May 19, 2020

Rating

	Ratings ¹	Remarks
Corporate Governance Rating	CGR 3+ (Three Plus)	Reaffirmed

Rating Rationale

The corporate governance rating of KEI Industries Ltd (KEI) continues to reflect the overall compliance with statutory and regulatory requirements, satisfactory Board composition and performance monitoring by the management, clearly identifiable ownership pattern with well-defined organization structure, extensive Management Information Systems (MIS) within the company and prudent disclosures to shareholders.

However, there is scope of improvement in areas such as split in position of Chairman and Managing Director, and performance monitoring by the Board.

Detailed description of the key rating drivers

Board composition and committees: KEI's Board of Directors consisted of ten members as on Dec 31, 2019, three Executive and seven Non-executive Directors. All the directors on the board are well-qualified and eminent professionals with rich experience in business and expertise in their respective fields. The appointment of Mrs. Shalini Gupta (appointed by BoD as Additional director for a period of 5 (Five) years w.e.f. February 18, 2019 to February 17, 2024) was ratified with shareholders' approval at the 27th AGM of the company. Also, the resolutions for re-appointment of Mrs. Akshit Diviaj Gupta as Director and of Mr. Vijay Bhushan as Independent Director were approved at the AGM. KEI had six board committees.

Board functioning: There were six Board Meetings held during the year ended March 31, 2019. The board meetings are generally held in Delhi, where the registered office of KEI is located. The company makes consistent efforts to acquaint the Board with the overall business performance. However, scope exists for increasing the level of participation of independent directors in formulation of business goals, policies and improving strategic oversight.

Ownership structure: KEI's shareholding structure is transparent, with major shareholders being clearly identifiable with the promoters holding 40.50% stake as on March 31, 2020. Private corporate bodies hold a small percentage of shares individually. There are no apparent cross holdings.

Organizational structure and management information systems: KEI has a clear organization structure with well-defined roles and responsibilities. The quality of MIS generated within the organization is commensurate with the size of the company. The Internal Auditor reports directly to the Audit Committee. KEI has also adopted a Code of Conduct for Directors and Senior Management which is available on www.kei-ind.com. Also, KEI has 'Whistle Blower Policy' in place for employees to report to the management concerns about unethical behavior, accrual or suspected fraud or violation of the company's code of conduct.

Shareholder relationship: KEI's Registrar and Share Transfer Agent (RTA) is M/s MAS Services Ltd. The company has an appropriate web site in place www.kei-ind.com with provision for receiving investors' response/feedback. KEI's website gives details of its corporate profile, Board of Directors, clients, financials (Annual as well as Quarterly), and products range and has sufficient information for a shareholder or a prospective investor.

Adequate disclosure and transparency: KEI adheres to the accounting policies and practices as specified by the Institute of Chartered Accountants of India (ICAI). There have been no qualifications in the audit report related to accounts of FY19.

Financial prudence: The total operating income of the company registered a growth of around 22.21% in FY19 to reach Rs. 4226.96 crore (from Rs. 3458.80 crore from FY18). The growth in overall revenue was driven by increase in revenue from the retail business (contributing around 33.00% of overall revenue in FY19) due to increase in dealer network from 1284 in FY18 to 1450 in FY19. The growth in retail segment is also contributed by increase spending on Advertisement and promotions. The growth in company's retail network is due to growth in dealers across the country and brand awareness through aggressive advertising campaigns through multiple media – print, audio, digital and social media. KEI has built competencies in EPC division which has led to strong growth in EPC order book. During FY19, the PBILDT margin improved to 10.46% from 9.78% in FY18 on account of stabilization of expansion phase which entailed higher advertisement and operational overheads in FY18.

The overall gearing (including acceptances) for the company improved to 1.54x as on March 31, 2019 as compared with 1.79x as on March 31, 2018. The improvement in overall gearing is on account of improvement in net-worth due to accretion of

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

profit. The accretion of profit is on account of consistent improvement in profitability and healthy cash accrual being ploughed back into the business.

Statutory and regulatory compliance: KEI is overall compliant with regulations of SEBI (LODR), Regulations 2015 and other statutory and regulatory requirements. KEI is an ISO 9001:2000, ISO 9001:2008, OHSAS 18001:2007 and OHSAS 14001:2004 certified company.

Analytical Approach: Not Applicable

Applicable Criteria: Not Applicable

About the Company

KEI was incorporated in 1968 as a partnership firm, Krishna Electrical Industries, with the 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).

KEI is engaged in manufacturing wide variety of cables including low tension (LT), high tension (HT) & extra high voltage (EHV) power cables ranging from 66kV/ 110kV/132kV/ 220kV (expanded up to 400kV), control & instrumentation cables, rubber cables, winding wires and Stainless Steel (SS) wires. The company also has presence in Engineering Procurement and Contracting (EPC) and turkey solutions segment for infrastructure projects. KEI is among the leading suppliers of cables to national & international EPC companies, PSUs & infrastructure sector and power companies in India. The cable segment has been the major contributor to revenues constituting around 54% of KEI's net sales in FY18; EPC division contributed around 25%, while SS wires and house wire division contributed the balance 21% in FY18.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	3458.80	4226.96
PBILDT	348.39	442.22
PAT	144.56	181.87
Overall gearing (times)	1.79	1.54
Interest coverage (times)	3.04	3.25

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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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