KEI Industries Limited

September 15, 2020

Ratings

Facilities	Amount (Rs. cr)	Rating[1]	Rating Action
Long-term Bank Facilities	812.53	**CARE A+; Stable (Single A Plus; Outlook: Stable)**	Revised from CARE A; Stable (Single A; Outlook: Stable)
Short-term Bank Facilities	2,410.00	**CARE A1 (A One)**	Reaffirmed
Total Facilities	**3,222.53 (Rupees Three thousand two hundred twenty two crore and fifty three Lakh Only)**		
Commercial Paper	30	**CARE A1 (A One)**	Reaffirmed
Fixed Deposits	5	**CARE A+ (FD); Stable [Single A Plus (Fixed Deposit); Outlook: Stable]**	Revised from CARE A (FD); Stable [Single A (Fixed Deposit); Outlook: Stable]

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the long term rating assigned to the bank facilities of KEI Industries Limited (KEI) takes into account improvement in the company's financial risk profile in FY20 (refers to the period between April 01, 2019 to March 31, 2020) marked by strong growth in operating income in all its business segments and healthy profitability and improvement in the capital structure with successful raising of money through Qualified Institutional Placement (QIP) and debt coverage indicators. Furthermore, the ratings continue to derive strength from the experience of the company's promoters, its long track record of operations and its established position in the cable industry, its wide product range, its diversified and reputed clientele, strong order book position and technological tie-up for extra-high voltage (EHV) cables.

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

- Increase in total operating income with improvement in profitability margins marked by PBILDT margin of more than 13% on sustained basis.
- Improvement in capital structure with overall gearing of less than 0.20x on sustained basis.
- Consistent improvement in working capital with operating cycle of less than 90 days on sustained basis

Negative Factors

- High reliance on debt due to large debt-funded capex in future and increase in working capital borrowings leading to moderation in overall gearing of more than 1x.
- Decline in profitability margins marked by PBILDT margin and PAT margin of less than 8% and 3% respectively.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters and long-track record of operations of KEI

Mr Anil Gupta, the promoter, has been associated with the cable industry for over four decades, and has extensive experience in manufacturing of cables. The top management consists of experienced professionals and KEI has put in place succession planning for critical functions viz. marketing and production. KEI has been engaged in the cable and wires business since 1968. Over the years, KEI has expanded its installed capacity at its units in Bhiwadi(Rajasthan), Chopanki-(Rajasthan, Pathredi (Rajasthan) and, Silvassa (Dadar & Nagar Haveli) Chinchpada (Dadar & Nagar Haveli), with an aggregate installed capacity of 125,100 kms for cables, 6.6 million kg stainless steel wires and 1,117,000 km winding, flexible and house wires per annum, as on March 31, 2020.

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

Diversified and reputed customer base

KEI has wide sectoral and geographical diversification with its presence in 45 countries and caters to a 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 like Larsen &Toubro Limited, Madhyanchal Vidyut Vitaran Nigam Limited, GE T&D India Limited and Gujarat Energy Transmission Corporation Limited, among others. The company has increased its international presence by 64% growth in exports during FY20 and has been continuously expanding its international presence. During FY20, exports of Rs. 899 cr accounted for around 18% of TOI (Rs.532 cr in FY19).

Diversified product portfolio

KEI's cable division has a wide range of products (portfolio of over 400 products), including power cables (comprises of 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 continues to have a technical collaboration with BruggKabel AG, Switzerland for the manufacturing of EHV cables. BruggKabel is involved in manufacturing of high voltage/extra-high voltage cables up to 550 kV voltage grade. The company 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 any operational risk, in the event of slowdown in any sector or product segment.

Strong order book position and dealership network provides revenue visibility

KEI has an order book of Rs. 2,954 cr as on July 31, 2020, 42% of which are from cables division (including exports executable over 3-4 months), 21% from EHV cables division (executable over 9-12 months) and 37% orders from EPC division (executable over 12-15 months). The entire order book includes EPC contracts under the IPDS (Integrated Power Development Scheme – Strengthening of sub-transmission and distribution network in Urban areas) and DDUGJY (Deen Dayal Upadhyaya Gram Jyoti Yojana – Government of India scheme to provide continuous power supply to rural India) schemes of various states. These projects are centrally funded through PFC and REC. Apart from the order book based revenue, the company has a strong dealership network of 1,668 dealers as on March 31, 2020 across India that has been instrumental in growth of retail segment growth.

With the augmentation of EHV line from 220 kV to 400 kV during FY17, the company is positioned to participate in large utility tenders and further boost EPC business which consumes a significant chunk of EHV, HT and LT cables.

Successful raising of funds through QIP and consistent improvement in financial and operational performance

The total operating income of the company registered a growth of around 15.55% in FY20 to reach Rs. 4,884.27 cr (from Rs.4,226.96 cr in FY19). The growth in overall revenue was driven by increase in revenue from the company's export business (contributing around 18% of overall revenue in FY20), on the back of the execution of an export order of a refinery company in Nigeria worth Rs. 340 cr.

During FY20, the PBILDT margin moderated slightly to 10.16% from 10.46% in FY19 on account of higher expenditure on advertisement and operational overheads coupled with change in share of product mix. The company has large product portfolio having varied margins. The change in share of product mix also has having impact on profitability margins.

During the FY20, the company has raised an amount of Rs. 500 Cr through QIP. The Net proceeds of the QIP have been utilized for repayment or prepayment of debt, meeting working capital requirements and general corporate purposes. The overall gearing (including acceptances) for the company improved to 0.76x as on March 31, 2020 as compared with 1.54x as on March 31, 2019. The debt coverage indicators like PBILDT/interest and total debt/GCA improved further and stood at 3.84x and 3.81x respectively.

During Q1FY20, the total operating income declined significantly from Rs. 1,081.36 cr in Q1FY20 to Rs. 745.31 cr in Q1FY21 (y-o-y variation of ~31%). The decrease in TOI is primarily due to restriction of business activities caused due to COVID-19 pandemic during the current quarter.

Elongated working capital cycle

The company's operations are working capital intensive in nature on account of high collection period of around 2.5-3 months due to large institutional sales along with high inventory period due to variety of products being manufactured. The creditors are generally in the range of 60-90 days backed by LC for large contracts. The overall operating cycle of the company has elongated from 110 days in FY19 to 121 days in FY20. This is on account of higher inventory days of 64 days in FY20 from 59 days in FY19 as the products were not dispatched against the orders due to lockdown imposed by the Government of India. The collection period for the company is usually higher on account of growing institutional sales wherein the payments are realized in about 3 months. Further in EPC business, the retention money (10% of the project value) is realized in five to six months' time resulting in high collection period.

Volatility in raw material prices and competitive nature of industry
The company's business is highly raw material intensive with raw materials forming about 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 mostly backed by LC/BG. The orders generally have a mix of both variable as well as fixed-price contracts, which limit the ability of the company to entirely pass on any increase in the raw material costs for orders under execution. KEI has limited forex exposure on account of import of raw material and ECB which have natural hedge from sizeable export revenues.
The company has price escalation clauses for large orders and three-month price validity clause for smaller projects to mitigate the risk. The company at any point in time always maintains two to two and a half months inventory where pricing is already fixed and normally the cable order booking is not more than three months. Since most of the orders are executed within three months, company is insulated against adverse raw material movement to some extent and also exports provide natural hedge between the inventory and the orders booked.
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. Further, in the cable industry with the presence of organised and unorganised players the business environment is competitive. However, with company's established position in cables business mitigates it to larger extent.

Improving industry prospects
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. However, KEI, having been in existence for over five decades in the cable industry, has proven product quality standards for supply of niche cable products and KEI has an advantage of manufacturing EHV cables (apart from KEI universal cables 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.

Liquidity:
Adequate: The current ratio for the company stood at 1.65x as on March 31, 2020 as compared with 1.24x as on March 31, 2019. Furthermore, the company utilizes low cost bank borrowing in the form of working capital demand loan and bill discounting to meet its working capital gap as compared with cash credit. The overall operating cycle of the company has elongated from 110 days in FY19 to 121 days in FY20. This is on account of higher inventory days of 64 days in FY20 from 59 days in FY19 as the products were not dispatched against the orders due to lockdown imposed by the Government of India. The collection period for the company is usually higher on account of growing institutional sales wherein the payments are realized in about 3 months. Further in EPC business, the retention money (10% of the project value) is realized in five to six months' time resulting in high collection period.
The average working capital utilization for the company remained at 43% for the 12 months ending June, 2020. The company has cash and bank balance of Rs. 109.73 cr as on June 30, 2020. Further, the company is not expected to do any capacity enhancement except regular maintenance capex in near future and additional generation of free cash accruals against the limited obligation would provide liquidity cushion to the company.

Analytical approach: Standalone

Applicable criteria
Criteria on assigning 'outlook' and 'credit watch'
CARE's Policy on Default Recognition
Criteria for Short-term Instruments
CARE's methodology for financial ratios (Non-Financial Sector)
Rating Methodology- Service Sector Companies
CARE's Methodology for manufacturing 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 (expanded up to 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.

Brief Financials (Rs. cr)	FY19 (A)	FY20 (A)
Total operating income	4,226.96	4,884.27
PBILDT	442.22	496.04
PAT	181.87	255.10
Overall gearing (times)	1.54	0.76
Interest coverage (times)	3.25	3.84

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	-	-	Sep 2022	212.53	CARE A+; Stable
Non-fund-based-Short Term	-	-	-	2410.00	CARE A1
Fund-based - LT-Cash Credit	-	-	-	600.00	CARE A+; Stable
Fixed Deposit	-	-	-	5.00	CARE A+ (FD); Stable
Commercial Paper	-	-	-	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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Commercial Paper	ST	30.00	CARE A1	-	1)CARE A1 (04-Oct-19)	1)CARE A1; Stable (25-Sep-18)	1)CARE A2+ (18-Sep-17)
2.	Fund-based - LT-Term Loan	LT	212.53	CARE A+; Stable	-	1)CARE A; Stable (04-Oct-19)	1)CARE A; Stable (07-Jan-19) 2)CARE A; Stable (25-Sep-18)	1)CARE A-; Positive (18-Sep-17)
3.	Non-fund-based-Short Term	ST	2410.00	CARE A1	-	1)CARE A1 (04-Oct-19)	1)CARE A1 (07-Jan-19) 2)CARE A1; Stable (25-Sep-18)	1)CARE A2+ (18-Sep-17)
4.	Fund-based - LT-Cash Credit	LT	600.00	CARE A+; Stable	-	1)CARE A; Stable (04-Oct-19)	1)CARE A; Stable (07-Jan-19) 2)CARE A; Stable (25-Sep-18)	1)CARE A-; Positive (18-Sep-17)
5.	Fixed Deposit	LT	5.00	CARE A+ (FD); Stable	-	1)CARE A (FD); Stable (04-Oct-19)	1)CARE A (FD); Stable (25-Sep-18)	1)CARE A- (FD); Positive (18-Sep-17)

Annexure 3: Complexity level of various instruments rated for this Company

Sr. No.	Name of the Instrument	Complexity Level
1.	Commercial Paper	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

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:
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