KEI Industries Limited

October 04, 2019

Ratings

Facility	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank facilities – Term Loan	212.53	CARE A; Stable (Single A; Outlook: Stable)	Reaffirmed
Long-term Bank facilities – Cash Credit	600.00 (Enhanced from 550.00)	CARE A; Stable (Single A; Outlook: Stable)	Reaffirmed
Short-term Bank facilities (Non-Fund Based)	2410.00 (Enhanced from 1910.00)	CARE A1 (A one)	Reaffirmed
Total	**3,222.53 (Rupees Three thousand two hundred twenty two crore and fifty three lacs only)**		
Commercial Paper	30.00	CARE A1 (A one)	Reaffirmed
Fixed Deposit	5.00	CARE A (FD); Stable (Single A (Fixed Deposit); Outlook: Stable)	Reaffirmed

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation in the ratings assigned to the bank facilities of KEI Industries Limited (KEI) takes into account comfortable financial risk profile driven by strong growth in operating income in all its business segments and healthy profitability leading to overall improvement in the capital structure and coverage indicators. Further, ratings continue to derive strength from the experience of its promoters, its long track record of operations and its established position in the cable industry, 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 leveraged capital structure, working capital-intensive nature of operations, inherent risks associated with the exposure to volatility in raw material prices and competition in the cable industry.

Going forward, the ability of the company to achieve sustainable growth in sales and profitability by focusing on high profit yielding segments, while managing its working capital requirements, improving capital structure, and timely completion of expansion project as envisaged would be the key rating sensitivities.

Detailed Description of Key Rating Drivers

Key Rating Strengths

Experienced promoters and long track of operations of KEI

Mr Anil Gupta, the promoter and the current Chairman and Managing Director, has been associated with the cable industry for over four decades. 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 and Silvassa, with aggregate installed capacity of 109,600 kms for cables, 6 million kg stainless steel wires and 817,000 kms winding, flexible and house wires per annum, as on March 31, 2019.

Diversified and reputed clientele

KEI has wide sectoral and geographical diversification and caters to a majority of core industries including power, oil refineries, railways, automobiles, cement, steel, fertilizers, textiles, and real estate. Its clientele also includes blue chip companies. KEI is a pre-qualified supplier and has approvals from large number of corporates as well as public sector undertakings. The company has increased its international presence by 17% growth in exports during FY19 and has been continuously stepping-up its international footprints (with presence in 45 countries). During FY19, exports of Rs. 532.00 crore accounted for around 13% of net sales.

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 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. The company also has a presence in EPC and turkey solutions segment for infrastructure projects. The company's focus on EHV is aligned with the government's focus to use mainly underground cabling across the country to reduce the transmission losses which also yields better margins as compared with the other cables and remains relatively less competitive. KEI's presence across diverse products and geographies enables it to cater to a wide range of customer requirements across.

Strong order book position and dealership network provides revenue visibility
KEI has an order book of Rs. 4,416.94 crore as on August 31, 2019 which includes 36.15% orders in cables division (including exports executable over 3-4 months), 15.43% orders in the EHV cables division (executable over 6-9 months) and 48.42% orders from EPC division (executable over 18-24 months). The 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. Apart from the order book based revenue, the company has a strong dealership network of 1450 dealers as on March 31, 2019 across India that has been instrumental in growth of retail segment growth. The Company has aggressively added dealers and distributors across the country, especially in tier 1 and tier 2 cities. It has added around 166 new dealers/ distributors in FY19.

Consistent improvement in financial and operational performance
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 profit. The accretion of profit is on account of consistent improvement in profitability and healthy cash accrual being ploughed back into the business.
The total operating income for the company improved by 22.77% in Q1FY20 to Rs. 1086.55 crore from Rs. 885.03 crore in Q1FY19. The improvement in total operating income is on account of improvement in revenue by all the product segments.

Liquidity; Adequate
The overall operating cycle of the company has improved from 117 days in FY18 to 110 days in FY19. This is on account of improvement in collection period to 90 days in FY19 from 96 days in FY18. The collection period for the company are usually higher due to growing EPC business wherein the payments are realized in 3 months' time. The average working capital utilization for the company remained at 60.49% for the 12 months ending August, 2019. The company has free cash and bank balance of Rs. 195.34 crore out of which free cash and bank balance stood at Rs. 22.07 crore.

Key Rating Weakness

Volatility in raw material prices
The company's business is highly raw material intensive with raw materials forming about 72-78% 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 short term working capital loans 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.

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 being 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 Ltd 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.

Prospects
The demand of KEI's products, viz, power cables, control and instrumentation cables, is largely derived from various end-user industries, such as power, steel, cement, among others. The demand from the end-user industries is showing healthy growth especially from the government sector, given the mandate for strengthening power infrastructure pan India. However, the Indian cable industry is highly fragmented with a large number of cable producers with numerous unorganized players leading to pressure on prices and limited ability to pass on increase in raw material prices, especially in the tender-based business. KEI being in existence for over five decades in the cable industry has proven-product quality standards, which, to an extent, gives comfort. However, KEI's prospects shall largely depend on its ability to achieve growth in sales and profitability as per envisaged levels while managing its working capital requirements and capital structure.

Analytical approach: Standalone

Applicable Criteria
- Criteria on assigning 'outlook' and 'credit watch'
- CARE's Policy on Default Recognition
- CARE's criteria for Short Term Instruments
- Rating Methodology-Manufacturing Companies
- CARE's methodology for financial ratios (Non-Financial sector)

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. 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

Rating History (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	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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Commercial Paper	ST	30.00	CARE A1	-	1)CARE A1; Stable (25-Sep-18)	1)CARE A2+ (18-Sep-17)	1)CARE A2+ (01-Aug-16)
2.	Fund-based - LT-Term Loan	LT	212.53	CARE A; Stable	-	1)CARE A; Stable (07-Jan-19) 2)CARE A; Stable (25-Sep-18)	1)CARE A-; Positive (18-Sep-17)	1)CARE A- (01-Aug-16)
3.	Non-fund-based-Short Term	ST	2410.00	CARE A1	-	1)CARE A1 (07-Jan-19) 2)CARE A1; Stable (25-Sep-18)	1)CARE A2+ (18-Sep-17)	1)CARE A2+ (01-Aug-16)
4.	Fund-based - LT-Cash Credit	LT	600.00	CARE A; Stable	-	1)CARE A; Stable (07-Jan-19) 2)CARE A; Stable (25-Sep-18)	1)CARE A-; Positive (18-Sep-17)	1)CARE A- (01-Aug-16)
5.	Fixed Deposit	LT	5.00	CARE A (FD); Stable	-	1)CARE A (FD); Stable (25-Sep-18)	1)CARE A- (FD); Positive (18-Sep-17)	1)CARE A- (FD) (01-Aug-16)

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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