

KEI Industries Limited (Revised)

January 7, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	793.08 (enhanced from 513.59)	CARE A; Stable [Single A; Outlook: Stable]	Reaffirmed
Short-term Bank Facilities	1910 (enhanced from 890.00)	CARE A1 [A One]	Reaffirmed
Total Facilities	2703.08		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings of KEI Industries Ltd (KEI) takes into account the 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 draw comfort from the experience of its promoters, its long track record of operations, KEI's 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 the key rating drivers**Key Rating Strengths**

Consistent improvement in financial and operational performance: The total operating income of the company registered a growth of around 31% in FY18 (refers to the period from April 1 to March 31) to reach Rs.3468.10 crore (from Rs.2638.19 crore from FY17). The growth in revenue was primarily driven by retail (40%), Institutional segment (25%) and exports (21%). The company's key focus area has been the retail segment which has also witnessed steady growth in its dealer base 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. The revenue booked under EPC segment comprised most of the projects under IPDS and DDUGJY schemes. The company has already executed some projects under these schemes in the state of Uttar Pradesh in FY18. Currently KEI is executing projects under these schemes in Jammu and Kashmir and Gujarat. During FY18, the PBILDT margin, however declined to 10.04% from 10.61% in FY17 mainly due to the expansion phase which entails higher advertisement and higher operational overheads for new marketing and representative offices in new geographies. However, the decline in PBILDT margin has been compensated by reduction in interest expense from Rs.124.43 crore in FY17 to Rs. 111.30 crore in FY18 leading to an improvement in the PAT margin from 3.56% in FY17 to 4.17% in FY18.

The debt profile of the company comprises Term loans, fixed deposits and working capital borrowing (in form of WC DL, buyer's credit, factoring and bills discounting). The overall gearing (including acceptances) has improved from 2.32x as on March 31, 2017 to 1.93x as on March 31, 2018 and 1.72x in H12019. The overall operating cycle of the company has increased from 123 days in FY17 to 139 days in FY18 on account of growing EPC business wherein the payments are realized in 3 months' time and also increase in retention money at the time of completion of project. Further in FY18 higher revenue was booked in March 2018 (Rs.1030 crore in March 2018 as compared with Rs.794 crore in March 2017) leading to relatively higher receivable level from 117 days in FY17 to 137 days in FY18. Further the company report a PAT of Rs.73.55 crore on turnover of Rs. 1880.69 crore in H1FY19 as against PAT of Rs. 55.98 crore on turnover of Rs. 1539.72 crore in H1FY18. The company does not have any capex plans in the short to medium term.

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 96,000 kms for cables, 6 million kg stainless steel

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

wires and 677,000 kms winding, flexible and house wires per annum, as on March 31, 2018. Further the company has the capacity of manufacturing EHV cables up to 400 kV.

Strong order book and wide dealership network: KEI's order book stood at Rs.3272 crore as on August 31, 2018 which includes 43% orders in cables division (including exports executable over 3-4 months), 19% orders in the EHV cables division (executable over 6-9 months) and 38% orders from EPC division (executable over 18-24 months). The entire order book includes EPC contracts under the IPDS/DDUGJY schemes of various states. These projects are centrally funded through PFC and REC. The purpose of the scheme is to strengthen the power transmission and distribution network in the urban areas with replacement of overhead cables by underground cabling. KEI with its in-house cable manufacturing is well positioned to benefit from the projects under this scheme. The company's dealership network has grown to 1,302 dealers as on June 30, 2018 across India (from 1147 dealers as on March 31, 2017) that has propelled growth in the retail segment.

Diversified product portfolio and clientele: KEI's cable division has a wide range of products (portfolio of over 400 products), including power cables -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. Furthermore, KEI has wide sectoral and geographical diversification with 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.

Liquidity

The company's free cash and cash equivalents stood at Rs.67.79 crore as on March 31, 2019 and cash and bank balance of Rs.44.12 crore as on September 30, 2018. Further the company has consistently generated healthy cash accruals in excess of Rs.100 crore for the past 2 years.

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. In Union budget 2018-19, Rs.5.97 lakh crore has been allocated for development of infrastructure, Bharatmala project has been approved to provide seamless connectivity between interior and backward areas, railways budget pegged at more than Rs.1 lakh crore are all growth drivers for infrastructure development which is likely to drive growth for Indian cables and wires industry.

Key Rating Weaknesses

Leveraged capital structure: The company's overall debt level has remained high (overall gearing at 1.93 times as on March 31, 2018) over the years due to factors like capex funding and refinancing of high cost debt. Further the total debt to GCA stood high at 6.40x as on March 31, 2018. There is no major capex envisaged in the near term except a new manufacturing plant for LT/HT (phase-II) power and control cables in Pathredi, Rajasthan at a total cost of Rs.85 crore which is being funded through term loan of Rs.60.00 crores and balance Rs. 25.00 crores from internal accruals. The phase-I of the project has already been commissioned in the May 2018 and the phase-II is expected to be completed during Q1FY20.

Working capital intensive operations: The company's operations are working capital intensive in nature on account of high collection period of about 2.5-3 months as the realization of payments for EPC projects takes relatively longer time, and high inventory period due to variety of products being manufactured. The operating cycle during FY18 has increased from 123 days in FY17 to 139 days in FY18 due to increasing contribution from EPC segment, higher retention money and large portion of revenue booked in March 2018 (Rs.1030 crore) leading to high collection period and overall operating cycle.

Volatility in raw material prices: 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, outstanding ECBs (in form of buyer's credit) and short term working capital loans which have natural hedge from sizeable export revenues

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](#)

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.

The cables division has been the major contributor to revenues constituting around 61% of KEI's net sales in FY18; EPC division contributed 19%, while House wire (16%) and Stainless Steel wires division (4%) contributed the balance.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	2638.19	3468.10
PBILDT	279.82	348.19
PAT	93.83	144.56
Overall gearing (times)	2.32	1.93
Interest coverage (times)	2.25	3.13

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

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.

Analyst Contact:

Name: Mr Gaurav Dixit

Tel: 011-45333235

Email: gaurav.dixit@careratings.com

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

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.

Disclaimer

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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	243.08	CARE A; Stable
Non-fund-based-Short Term	-	-	-	1910.00	CARE A1; Stable
Fund-based - LT-Cash Credit	-	-	-	550.00	CARE A; Stable

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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Commercial Paper	ST	30.00	CARE A1; Stable	1)CARE A1; Stable (25-Sep-18)	1)CARE A2+ (18-Sep-17)	1)CARE A2+ (01-Aug-16)	1)CARE A3+ (10-Jul-15)
2.	Fund-based - LT-Term Loan	LT	243.08	CARE A; Stable	1)CARE A; Stable (25-Sep-18)	1)CARE A-; Positive (18-Sep-17)	1)CARE A- (01-Aug-16)	1)CARE BBB+ (10-Jul-15)
3.	Non-fund-based-Short Term	ST	1910.00	CARE A1	1)CARE A1; Stable (25-Sep-18)	1)CARE A2+ (18-Sep-17)	1)CARE A2+ (01-Aug-16)	1)CARE A3+ (10-Jul-15)
4.	Fund-based - LT-Cash Credit	LT	550.00	CARE A; Stable	1)CARE A; Stable (25-Sep-18)	1)CARE A-; Positive (18-Sep-17)	1)CARE A- (01-Aug-16)	1)CARE BBB+ (10-Jul-15)
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)	1)CARE BBB+ (FD) (10-Jul-15)

CONTACT**Head Office Mumbai**

Ms. Meenal Sikchi
 Cell: + 9198190 09839
 E-mail: meenal.sikchi@careratings.com

Mr. Ankur Sachdeva
 Cell: + 9198196 98985
 E-mail: ankur.sachdeva@careratings.com

Ms. Rashmi Narvankar
 Cell: + 9199675 70636
 E-mail: rashmi.narvankar@careratings.com

Mr. Saikat Roy
 Cell: + 9198209 98779
 E-mail: saikat.roy@careratings.com

CARE Ratings Limited**(Formerly known as Credit Analysis & Research Ltd.)**

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022
 Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com

AHMEDABAD

Mr. Deepak Prajapati
 32, Titanium, Prahaladnagar Corporate Road,
 Satellite, Ahmedabad - 380 015
 Cell: +91-9099028864
 Tel: +91-79-4026 5656
 E-mail: deepak.prajapati@careratings.com

JAIPUR

Mr. Nikhil Soni
 304, Pashupati Akshat Heights, Plot No. D-91,
 Madho Singh Road, Near Collectorate Circle,
 Bani Park, Jaipur - 302 016.
 Cell: +91 – 95490 33222
 Tel: +91-141-402 0213 / 14
 E-mail: nikhil.soni@careratings.com

BENGALURU

Mr. V Pradeep Kumar
 Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
 No. 30, M.G. Road, Bangalore - 560 001.
 Cell: +91 98407 54521
 Tel: +91-80-4115 0445, 4165 4529
 Email: pradeep.kumar@careratings.com

KOLKATA

Ms. Priti Agarwal
 3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
 10A, Shakespeare Sarani, Kolkata - 700 071.
 Cell: +91-98319 67110
 Tel: +91-33- 4018 1600
 E-mail: priti.agarwal@careratings.com

CHANDIGARH

Mr. Anand Jha
 SCF No. 54-55,
 First Floor, Phase 11,
 Sector 65, Mohali - 160062
 Chandigarh
 Cell: +91 85111-53511/99251-42264
 Tel: +91-0172-490-4000/01
 Email: anand.jha@careratings.com

NEW DELHI

Ms. Swati Agrawal
 13th Floor, E-1 Block, Videocon Tower,
 Jhandewalan Extension, New Delhi - 110 055.
 Cell: +91-98117 45677
 Tel: +91-11-4533 3200
 E-mail: swati.agrawal@careratings.com

CHENNAI

Mr. V Pradeep Kumar
 Unit No. O-509/C, Spencer Plaza, 5th Floor,
 No. 769, Anna Salai, Chennai - 600 002.
 Cell: +91 98407 54521
 Tel: +91-44-2849 7812 / 0811
 Email: pradeep.kumar@careratings.com

PUNE

Mr. Pratim Banerjee
 9th Floor, Pride Kumar Senate,
 Plot No. 970, Bhamburda, Senapati Bapat Road,
 Shivaji Nagar, Pune - 411 015.
 Cell: +91-98361 07331
 Tel: +91-20- 4000 9000
 E-mail: pratim.banerjee@careratings.com

COIMBATORE

Mr. V Pradeep Kumar
 T-3, 3rd Floor, Manchester Square
 Puliakulam Road, Coimbatore - 641 037.
 Tel: +91-422-4332399 / 4502399
 Email: pradeep.kumar@careratings.com

CIN - L67190MH1993PLC071691

HYDERABAD

Mr. Ramesh Bob
 401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
 Hyderabad - 500 029.
 Cell : + 91 90520 00521
 Tel: +91-40-4010 2030
 E-mail: ramesh.bob@careratings.com