KEI Industries Limited

August 14, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities (Working capital limits)	600.00	CARE AA; Positive	Reaffirmed; Outlook revised from Stable
Short-term bank facilities (Working Capital Limits)	2,650.00 (Enhanced from 2,629.78)	CARE A1+	Reaffirmed
Long-term bank facilities (Term loans)	-	-	Withdrawn #
Fixed deposit	5.00	CARE AA; Positive	Reaffirmed; Outlook revised from Stable
Commercial Paper (Carved out)*	30.00	CARE A1+	Reaffirmed

**Carved out of working capital facilities; # The company has fully repaid the rated term loans. Taking cognizance of the same, CARE Ratings Limited (CARE Ratings) has withdrawn the rating assigned to term loan facilities.*

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities and instruments of KEI Industries Limited (KEI) continue to derive strength from KEI's long track record of operations and established position in the industry with a diversified product portfolio, the company's diversified and reputed customer base, geographically well-distributed dealership network, adequate order book, company's presence in the growing wires and cables industry supported by its experienced promoters. The ratings also factor in the consistent growth in the company's scale of operations marked by increasing total operating income (TOI) and profitability with largely stable operating margins, improvement in its financial risk profile with significant and consistent reduction in net debt and resultant improvement in the debt coverage indicators and strengthening of liquidity. Moreover, leverage levels are expected to remain comfortable on the back of expectations of continued healthy accretion of profits to net worth and funding of capex through internal accruals without any reliance on debt.

The rating strengths are, however, tempered by KEI's working capital-intensive nature of operations, susceptibility of its operating margin to adverse movement in the raw material prices and foreign currency fluctuation and competition in the wires and cable industry.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Significant growth in sales volumes, improvement in the PBILDT margin while maintaining its healthy return on capital employed (ROCE) on a sustained basis
- Shortening of gross operating cycle to below 100 days on a sustained basis along with significant liquidity build-up
- Sustaining net debt/PBILDT below 0.50x

Negative factors

- Deterioration in overall gearing to more than 0.50x on a net debt basis
- Decline in PBILDT margin to less than 10% on sustained basis
- Elongation in gross operating cycle of the company beyond 180 days on a sustained basis

Analytical approach: Standalone

Outlook: Positive

The revision in outlook factors in steady improvement in the operational and financial performance as reflected in healthy growth in scale, stable operating profitability and healthy return ratios over the last five years ended FY23. Positive outlook also reflects CARE Ratings Limited's (CARE Ratings') expectation of continued healthy growth in total operating income and profitability over the medium term while maintaining net debt free status and heathy return ratios. The outlook may be revised to 'Stable' if its total operating income and profitability remain lower than envisaged.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Detailed description of the key rating drivers:

Key strengths

Long track record of operations: KEI has over five decades of track record in the cable and wires business with established relationship with vendors and customers, thus providing stability to its business operations. Moreover, Anil Gupta, the promoter of KEI, has been associated with the cable industry for over four decades, and has extensive experience in the manufacturing of cables. The top management comprises experienced professionals. With Akshit Diviaj Gupta handling the retail business and EPC projects of the company, the second generation is also involved in the business.

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. 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. Its 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.

Diversified and reputed customer base: KEI has wide sectoral and geographical diversification with its presence across over 50 countries and caters to majority of core industries, including power, oil refineries, railways, automobiles, cement, steel, fertilizers, textiles and real estate. Domestically, KEI's retail sales were fairly diversified with north, south, east and west regions contributing 35%, 19%, 16%, 30% of its sales, respectively, in FY23 (refers to period April 1 to March 31). During FY23, exports accounted for nearly 10% of the total income (PY: 10%). Furthermore, KEI has a diversified customer base, as the top 10 customers contribute only 15% of the total sales (PY: 22%).

Reducing EPC business with increasing share of retail sales supported by growing dealer network: Due to high competition and long working capital cycle, KEI has curtailed EPC business and simultaneously increased share of retail sales, which is expected to result in improvement in operating profitability margin and collection period. The share of retail sales in its revenue mix has improved significantly from 29% in FY20 to 45% in Q1FY24, while the share of EPC business has declined from 16% to 6% during the same period. Cumulatively, these steps have enabled the company to reduce its gross operating cycle from 164 days in FY22 to 140 days in FY23. KEI has plans to further increase the share of retail sales to 50% of its revenue by end-FY25, which is expected to be supported by increasing dealer network in a growing industry. The company has strengthened its dealership network having 1,925 dealers as on June 30, 2023 (PY: 1,800 dealers) with more than 15,000 retailors in its network reflecting its growing retail footprints.

Consistent growth in scale of operations and profitability: TOI of KEI grew at a compounded annual growth rate (CAGR) of 15% during FY19-FY23, while it grew by nearly 21% in FY23 over FY22 supported by 31% growth in retail sales and increase in exports sales. KEI got the clearance for some of its products in the US markets and started exporting to US from January 2023. PBILDT margin remained largely stable at 10.29% (PY: 10.42%) in FY23. With growth in TOI coupled with largely stable PBILDT margin, PAT margin improved to 6.90% (PY: 6.56%) in FY23. With increasing focus of KEI on growing retail sales along with steady curtailment of lower margin EPC business, PBILDT margin of KEI is expected to improve by nearly 25-30 bps every year in the medium term. Furthermore, KEI's ROCE has remained healthy at around 25.54% in FY23 (PY: 23.44%) and the same is likely to remain healthy in the range of 23-25% in the medium term.
During Q1FY24, TOI of KEI further grew by 14% on a y-o-y basis on the back of growth in institutional sales, retail sales and exports. PBILDT margin remained stable at around 10.44% while PAT margin remained at 6.76% in Q1FY24.
Currently, the company is operating at almost optimum capacity utilisation level. Hence, the company is expanding capacity of LT power cables at Silvassa plant with capex of around ₹45 crore which is expected to become operational in September 2023. Also, KEI is planning to incur capex of around ₹1,000 crore over FY24-FY26 on greenfield expansion for cable and wire capacity. The company has acquired the land of about 73 acres at Sanand, Gujarat for around ₹140 crore for this and the project is expected to become operational by Q4FY25. The company is also expanding its capacity at Bhiwadi (Pathredi) plant which is expected to be operational from Q1FY25. The entire capex is being funded through internal accruals. The said capex is likely to provide additional capacity to grow its TOI at the annual rate of 15-17% in the medium term.

Comfortable financial risk profile: The capital structure of the company marked by overall gearing ratio improved and remained comfortable at 0.15x as on March 31, 2023 and 0.10x as on June 30, 2023, backed by repayment of term loans and lower working capital borrowings aided by healthy operating cash flows. Going forward, KEI is expected to generate healthy

cash accruals, which would be majorly utilised towards capex as well as incremental working capital requirements. Hence, the leverage profile of the company is expected to remain comfortable in the medium term.
Moreover, with improvement in profitability, debt coverage indicators marked by PBILDT interest coverage ratio and total debt to PBILDT improved in FY23 and continued to remain comfortable at 20.79x (PY: 15.21x) and 0.53x (PY: 1.09x), respectively. The total debt/PBILDT further improved to 0.38x in Q1FY24 (on annualised basis) and is expected to remain below 0.50x in the medium term while KEI is expected to remain net debt free.

Healthy order book position providing medium-term revenue visibility: KEI had an order book of ₹3,568 crore as on March 31, 2023, which includes 50% orders in the cables division (including exports, to be executed over 3-4 months), 24% orders in the EHV cables division (to be executed over 12-15 months) and 26% orders from the EPC division (to be executed in about 18 months). Outstanding healthy order book provides a very good revenue visibility to KEI.

Liquidity: Strong

KEI has strong liquidity marked by current ratio of 2.83x as on March 31, 2023, and healthy cash flow from operations. KEI generated gross cash accruals (GCA) of ₹532 crore during FY23 (FY22: ₹432 crore). Moreover, the company does not have any scheduled term debt repayment obligations as it has repaid all term loans in FY23. The average utilisation of its fund-based working capital limits also stood negligible for the trailing 12 months ended June 2023, while the non-fund-based limit utilisation stood at around 45% during the same period. KEI had free cash and bank balance of ₹536 crore as on March 31, 2023 and ₹305 crore as on June 30, 2023. Capacity expansion plans during FY24-FY26 entails capex of nearly ₹300-350 crore per annum, which is expected to be funded entirely by internal accruals. Availability of sizable undrawn fund-based working capital limits, absence of term debt repayment obligation apart from available liquidity provides significant cushion to its liquidity.

Key weaknesses

Working capital-intensive nature of operations: KEI's operations are working capital intensive in nature on account of high collection period associated with the EPC projects which take 2-3 years to finalise. The realisation in the EPC projects is based on milestones achieved and around 10% retention money is released post successful completion of the project. Despite significant reduction in its gross operating cycle to 140 days during FY23, KEI's operations remain inherently working capital intensive. Moreover, payable days stood at 44 days in FY23 (PY: 53 days) due to higher cash purchases because of which the net operating cycle stood at 95 days in FY23 (PY: 102 days).

Volatility in raw material prices and competitive nature of industry: KEI's business is highly raw material intensive with raw materials forming around 75% of the total operating costs. The main raw materials used are copper, stainless steel strips and rods, G.I. wires, PVC & DOP and aluminium with the purchases backed by LCs or cash. The orders generally have a mix of both variable as well as fixed-price contracts. 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' time, the company is insulated against adverse raw material movement to a large extent. Moreover, KEI's forex risk is largely mitigated with natural hedge. KEI generally does not hedge its exposure, and hence its profitability remains vulnerable to sharp movements in foreign currency rates, but it generally benefits from rupee depreciation.
KEI continues to derive majority of its revenue from the cable business. The orders are from various user industries albeit mainly from the power and infrastructure sector. Any delay/deferral of operational expenditure by the companies in these sectors might adversely impact the operational performance and consequently prospects of the company. Furthermore, business environment in the cable industry is competitive due to presence of organised and unorganised players. However, with the company's established position in the cables business, the risk is mitigated to a large extent. 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 and cater to growing demand in this segment. This creates a huge entry barrier since it takes anywhere between four and eight years for a new player to qualify.

Industry prospects

Indian wire and cable market is expected to grow at around 10-11% per annum in the medium term. Sectors like Power, Railways, Infrastructure, Oil & Gas, Telecom, Real Estate, Renewables, Defence, Automobiles, etc. are the largest demand drivers for the industry. The organised players command major share of the market, at around 70%. Furthermore, the market share of the unorganised players has registered a declining trend in the past few years.
The growing energy demand in India propelled by sustained economic growth and urbanisation 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. Government initiatives like National Infrastructure Pipeline (NIP),

Jawaharlal Nehru National Urban Renewal Mission (JNNURM), Pradhan Mantri Awas Yojana (PMAY) is likely to drive demand for the wire and cable industry. KEI is one the leading brands in wires and cable industry and has the third-highest customer base in the industry.

Environment, social, and governance (ESG) risks

	Risk factors
Environmental	▪ Company is increasing use of renewable energy to reduce carbon footprint and ensuring zero discharge facility at all the units (like using natural gas against diesel and furnace oil in boiler). ▪ All the major raw materials of the company are recyclable except XLPE compound. Company recycle PVC compound in-house to make PVC fillers which are then used in laying process of HT cables. Rest of the raw materials are sold to authorised recyclers. ▪ Company is planting tree around their facilities and using steel drum instead of wooden drum in order to conserve natural resources.
Social	▪ Ensuring healthy and safe environment for the employees and product end users. ▪ Company provides ESG related training to the employees to ensure ESG compliance across the value chain.
Governance	▪ The company is managed by professional board of directors who have extensive experience in industry. The Board comprises of 10 Directors including 2 woman directors. The independent Directors are more than 50% of the total number of Directors. ▪ There is audit committee, nomination and remuneration committee, stakeholders' relationship committee; risk management committee.

Applicable criteria

Policy on default recognition
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Manufacturing Companies
Service Sector Companies
Policy on Withdrawal of Ratings

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Industrials	Capital Goods	Industrial Products	Cables - Electricals

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. The company is engaged in manufacturing wide variety of 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 EPC and turnkey solutions segment for infrastructure projects. KEI has manufacturing units in Bhiwadi, Chopanki and Pathredi (three in Rajasthan), Rakholi and Chinchpada (two in Dadra and Nagar Haveli), with an aggregate annual installed capacity of 154,000 kms for cables, 9 million kg of stainless steel wires and 1,332,000 km of winding, flexible and house wires as on March 31, 2023.

Brief Financials (₹ crore)	FY22 (A)	FY23 (A)	Q1FY24(UA)
Total operating income	5,736	6,919	1,791
PBILDT	598	712	187
PAT	376	477	121
Overall gearing (times)	0.31	0.15	0.10
Interest coverage (times)	15.21	20.79	20.77

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	-	600.00	CARE AA; Positive
Fund-based - LT-Term Loan	-	-	-	December 2022	0.00	Withdrawn
Non-fund-based-Short Term	-	-	-	-	2,650.00	CARE A1+
Commercial Paper-Commercial Paper (Carved out)	- ^	- ^	- ^	7 - 364 days	30.00	CARE A1+
Fixed Deposit	- ^	- ^	- ^	- ^	5.00	CARE AA; Positive

^ Not Applicable as the same is not placed.

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/ Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Commercial Paper-Commercial Paper (Carved out)	ST	30.00	CARE A1+	-	1)CARE A1+ (16-Aug-22)	1)CARE A1+ (30-Aug-21)	1)CARE A1 (15-Sep-20)
2	Fund-based - LT-Term Loan	LT	-	-	-	1)CARE AA; Stable (16-Aug-22)	1)CARE AA-; Stable (30-Aug-21)	1)CARE A+; Stable (15-Sep-20)
3	Non-fund-based-Short Term	ST	2650.00	CARE A1+	-	1)CARE A1+ (16-Aug-22)	1)CARE A1+ (30-Aug-21)	1)CARE A1 (15-Sep-20)
4	Fund-based - LT-Cash Credit	LT	600.00	CARE AA; Positive	-	1)CARE AA; Stable (16-Aug-22)	1)CARE AA-; Stable (30-Aug-21)	1)CARE A+; Stable (15-Sep-20)
5	Fixed Deposit	LT	5.00	CARE AA; Positive	-	1)CARE AA; Stable (16-Aug-22) 2)CARE AA-; Stable (22-Jun-22)	1)CARE AA- (FD); Stable (30-Aug-21)	1)CARE A+ (FD); Stable (15-Sep-20)

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not Applicable

Annexure-4: Complexity level of the various instruments rated

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: Lender details

To view the lender wise details of bank facilities please click here

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About us:
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