August 23, 2024

KEI Industries Limited: Ratings reaffirmed; outlook on long-term rating revised to Positive; rated amount enhanced; FD rating withdrawn

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term-cash credit-fund based	600.00	600.00	[ICRA]AA (Positive); Reaffirmed and with Change in Outlook from Stable
Fixed deposit	50.00	0.00	[ICRA]AA (Positive); Reaffirmed with Change in Outlook from Stable and simultaneously Withdrawn
Short term-others-non fund based	2610.00	2610.00	[ICRA]A1+; Reaffirmed
Commercial paper	40.00	40.00	[ICRA]A1+; Reaffirmed
Long term-Fund based-Term Loans	0.00	600.00	[ICRA]AA (Positive); Assigned
Long term / short term-unallocated-unallocated	250.00	0.00	-
Total	**3550.0**	**3850.0**	

**Instrument details are provided in Annexure-I*

Rationale

The outlook revision to Positive factors in ICRA's expectations of consistent improvement in KEI Industries Limited's (KEI) scale of operations driven by regular capacity additions and favourable demand drivers in various end user industries, while maintaining its profit margin profile. ICRA notes that the company's products are witnessing robust demand from various end-user industries that are benefitting from government infrastructure development activities, including urban and rural electrification, solar power projects, tunneling and ventilation projects on highways as well as railway and metro rail projects. Additionally, private capex is currently at healthy levels across sectors such as renewable energy, data centers, steel, cement and real estate, including housing demand, under the GoI's initiative of 'Housing for All'. Driven by favourable demand prospects and likely capacity expansion planned over the medium term, ICRA expects the company to report revenue growth of ~13-16% YoY per annum over the near to medium term. Further, the ratings continue to favourably consider the company's presence spanning over five decades, its well-entrenched market position in the cables and wires industry, its wide customer base and geographical presence, besides its established relationships with a reputed clientele.

KEI has well diversified revenue profile spread across ~2000 institutional customers and retail sales via a distribution network of around 2,000 dealers pan India. The operating margins are also expected to be maintained at around ~10-10.5%, translating into healthy cash generation.

KEI has lined up a significant capex of ~Rs. ~1,600 crore over FY2025-FY2026, likely to be funded largely by internal accruals and available cash balances with reliance on debt to be around Rs. ~500-600 crore, to tap the growing domestic market size and increasing export opportunities, while increasing its share in the retail segment. KEI's total debt (including channel finance with recourse, acceptances and lease liabilities) increased to Rs. 672 crore as on March 31, 2024 (PY: Rs. 381 crore) largely due to higher acceptances, and KEI remained net debt free (net cash of Rs 28 crore as on Mar 31, 2024), with no term loans outstanding. Lower debt levels along with strong net-worth kept gearing at comfortable position of 0.21 times as on March 31, 2024 as well as on June 30, 2024 (0.15 times as on March 31, 2023). Interest coverage also remained stable at 19.1 times in FY2024 (20.3 times in FY2023).While the debt addition for the planned capex is likely to result in some moderation in the debt metrics in FY2025, the overall credit profile is expected to remain comfortable.

However, the ratings remain constrained by KEI's high capex intensity for the near term, susceptibility of profit margins to the adverse movements in raw material prices and foreign currency fluctuation and intense competition in the wires and cable industry, which limits its pricing power to an extent. However, despite the commodity headwinds witnessed in the past, KEI's margins have remained protected on account of a partial natural hedge as the company maintains an inventory for 2-2.5 months and passes on majority of the raw material price hikes to customers. Also, KEI's working capital intensity remained elevated, although the same has been improving steadily.

ICRA has reaffirmed and simultaneously withdrawn the rating assigned to fixed deposit programme at the company's request as no amount is outstanding against the rated instrument. This is in accordance with ICRA's policy on the withdrawal of credit ratings.

Key rating drivers and their description

Credit strengths

Established relations with customers and increasing penetration with focus on retail segment – With over five decades of operations, the company has established strong relationships with reputed customers across sectors, such as Dangote Oil Refining Company Ltd, various private and public transmission utilities, L&T, various EPC contractors, etc. While KEI's management forayed into the EPC segment as a forward integration initiative in past, it is now limiting its LT/HT EPC business to ~3-4% of revenues in light of elongated working capital cycle. However, EHV EPC segment will continue to remain a focused segment (~3-4% of FY2024 revenues) as cables supply component of the order value is significantly higher in EHV EPC vis-à-vis LT/HT EPC. Further, the management focus is towards increasing its market share in the better-margin and low-working capital-intensive retail segment while growing its institutional and export business in line with the pace of industry growth.

Diversified product mix – Over the years, KEI has developed capabilities to manufacture a wide range of cables (low tension, high tension and extra high voltage) along with house wires, stainless steel wires, instrumentation and control cables. Cables contributed to ~60% of the total sales in FY2024, followed by ~29% from house wires, ~7% from the EPC segment (excluding cable) and the balance 3% from stainless steel wires. The growth prospects remain healthy in each of these segments, while the company has taken a strategic decision to scale down the EPC business.

Extensive distribution network – KEI has been expanding its distribution network by adding dealers to capture retail sales, which contributed ~47% to the total sales in FY2024 (PY: ~46%). As on March 31, 2024, the total dealer base stood at around 1,990 (PY: 1,900 dealers). Moreover, the company is currently focusing on further increasing its retail presence, as dealer sales provide the twin benefits of better margins and relatively low working capital cycle. In line with the same, KEI plans to further increase its employee and dealer base, going forward. Its retail network is spread across India with 39% of the revenues contributed by north, followed by 26% from west, 18% from south and the balance 17% from east, in FY2024.

Apart from dealer sales, ~40% of the total sales were through domestic institutional clients (including EHV segment), while exports comprised ~13% of the total sales in FY2024. Within ~53% institutional sales, the EPC segment (excluding cable sale) contributed ~7% of the total sales in FY2024, providing a diversification to the sales channels. Going forward, the contribution from retail sales is expected to increase to ~50% over FY2025-FY2026, while EPC's contribution in the revenue mix is likely to be stable, largely driven by EHV EPC revenues.

Improving scale with healthy demand prospects – KEI's operating income (OI) grew around 17% in FY2024 to Rs. 8,104 crore on account of increased demand for wires and cables in various end-user segments. KEI has been focusing on improving both its retail and institutional sales, in line with which the company has increased its workforce and distribution network in addition to capacity enhancement. The company is witnessing robust demand for its products from various end-user industries that are benefitting from government infrastructure development activities, including urban and rural electrification, refinery expansion and upgradation, solar power projects, tunneling and ventilation projects on highways, as well as railway and metro rail projects.

Additionally, private capex is currently at healthy levels across sectors such as renewable energy, steel, cement and real estate, including housing demand, under the GoI's initiative of Housing for All. ICRA expects the company to report revenue growth of ~13-16% YoY per annum over FY2025-FY2027. The revenue growth from FY2026 onwards will be primarily led by a likely increase in capacities post the greenfield expansion planned at Sanand (Gujarat) which is expected to be commissioned by the end of FY2025 in addition to a healthy market size as well as market share improvement.

Healthy leverage and coverage metrics; some moderation expected over the medium term – KEI's total debt (including channel finance with recourse, acceptances and lease liabilities) increased to Rs. 672 crore as on March 31, 2024 (PY: Rs. 381 crore) largely due to higher acceptances, and KEI remained net debt free (net cash of Rs 28 crore as on Mar 31, 2024), with no term loans outstanding. Fresh term loans of Rs. 600 crore have been sanctioned in FY2025, of which Rs. ~110 crore has been drawn down till mid-August 2024 (Rs. ~50 crore till June-2024). Total net borrowings increased to Rs. 70 crore (excluding lease liabilities) as on June-2024.

Consequently, KEI's finance cost increased in FY2024 to Rs. 44 crore from Rs. 35 crore in FY2023 largely due to higher NFB limits utilization in line with business growth. Despite higher debt levels but strong net-worth, gearing remained comfortable at 0.21 times as on March 31, 2024 (PY: 0.15 times). Higher interest cost was partially offset with higher OPBIDTA levels leading to healthy coverage indicators as well. Total gross debt/OPBIDA stood at 0.80 times (PY: 0.54 times), interest coverage at 19.1 times (PY: 20.3 times). ICRA expects the leverage and coverage indicators to remain heathy but deteriorate to some extent over the medium term on the back of part debt-funded capex for Sanand greenfield expansion project.

Credit challenges

Operating margins remain range-bound – The company's OPM remained range-bound within 9-11% over the last decade on account of intense competition in the cables industry and focus on healthy turnover growth. In FY2024, while KEI's OPM remained stable at 10.3% against 10.2% in FY2023 as well as FY2022, the margins remained protected as majority of the raw material price hikes were passed on to customers. The growing proportion of retail sales and increasing scale benefits also protected the margins, which are expected to pick up slightly in FY2025 with lower expected volatility in input prices. The company naturally hedges the input price risk by virtue of holding an inventory of ~2.5 months for the institutional segment against ~3 months of pending orders which supports its margins. Prices for retails sales through dealer network are also revised every 15 days. Moreover, KEI's net margins increased to 7.2% in FY2024 from 6.9% in FY2023. Further, with KEI's larger focus on the high-margin retail segment, the overall operating profit margin is likely to sustain at ~10.0-11.0%.

Elevated albeit improving working capital intensity – KEI's working capital intensity remained elevated, though it improved over last two fiscals, as indicated by NWC/OI of 21% in FY2024 (24% in FY2023 and 28% in FY2022). The debtor days reduced further in FY2024 to 68 days (74 days in FY2023 and 90 days in FY2022) with the increasing proportion of retail sales and reduction of EPC business, along with higher proportion of vendors being on-boarded for the vendor financing facility without recourse to KEI. Creditor days increased slightly to 60 days in FY2024 vis-à-vis 53 days in FY2023, thereby somewhat supporting working capital cycle. Going forward, the NWC/OI is expected at FY2024 levels or improve slightly, with the increasing scale of operations, and having benefits of improving retail sales in the mix.

High competitive intensity – The cable industry is inherently competitive with the presence of multiple large established players such as Havells India Limited, Polycab India Limited, Finolex Cables Limited, V Guard Industries Limited, RR Kabel Limited, etc., in addition to some competition from the unorganised sector. This limits KEI's pricing power, to an extent, especially in the retail segment, which is expected to drive its revenue growth over the medium term.

Exposure to fluctuations in foreign currency exchange rates – The company has net foreign currency receivables as its imports of metal have been lower than its exports for the past three fiscals over FY2022-FY2024. KEI generally does not hedge its exposure, and hence its profitability remains vulnerable to the sharp movements in foreign currency rates. Having said that, over the past four fiscals, there have been net forex gains due to net receivables exposure to USD.

Liquidity position: Adequate

The company's liquidity profile is **adequate** with the presence of cash balance of Rs. 599 crore as on June 30, 2024 in addition to healthy operational cash flows for funding proposed capex. Further, it has average cushion in drawing power of over Rs. ~1,100 crore over FY2024 (though sanctioned cash credit limits are Rs. 600 crore which remained largely unutilised). ICRA also notes KEI's proposed capex of ~Rs. 1,500-1,600 crore towards greenfield and brownfield capacity expansion plans largely for LT, HT and EHV cables, over FY2025-FY2026 to be funded largely from internal accruals entirely, and partly from proposed term loans of around Rs. ~500-600 crore.

Rating sensitivities

Positive factors – The ratings may be upgraded if the company is able to demonstrate ramp-up of production post the stabilization of greenfield capex, along with consistently reducing its working capital requirements and improving its sales and profit margins while maintaining liquidity on a sustained basis.

Negative factors – The ratings may be downgraded or the outlook may be revised to Stable, if there is higher than envisaged large debt-funded capex and higher working capital requirements, which will increase the reliance on external debt by higher than envisaged levels and push up the TOL/TNW beyond 1.0 times on a sustained basis. Further, a decline in the operating income and margins on a sustained basis and moderation in the liquidity buffer can also trigger a negative rating action.

ESG Risks

KEI is exposed to the risks arising from the tightening regulations on the environment and the safety front. These have necessitated the company to increase its investments towards meeting the evolving and the tighter regulatory standards. As per the disclosures made by KEI, all major raw materials are recyclable except XLPE compound. The company recycles PVC compound in house to make PVC fillers, which are then used in laying process of HT cables, while it sells other raw materials to authorized recyclers. Additionally, it conducts and reviews air emission test every half year. There were no pending show cause/ legal notices from CPCB/SPCB at the end of FY2024. Also, KEI has been able to mitigate the regulatory risks by demonstrating a sound operational track record.

KEI's success depends critically on seamless execution of its growth strategies by its capable and competent workforce. Failure to hire and retain talent pool having necessary competencies may impact the organizations' ability to maintain and expand its business operations, and consequently its profitability. However, as per disclosures made by KEI, its employee-friendly HR policies strive to create and maintain a safe, conducive and engaging work environment, while connecting individual efforts with the Company's long-term strategy and growth objectives. Further, customer satisfaction remains critical for KEI's successful operations and for ensuring the same it conducts surveys every year. Additionally, slowdown in infrastructure investments can lead to lower demand for cables and wires and thus lower sales, however, with KEI being highly diversified with respect to end-users as well as geography, this risk is mitigated to an extent. Therefore, while KEI remains exposed to the aforementioned social risk, it does not materially affect its credit profile as of now.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Policy on Withdrawal of Credit Rating
Parent/Group support	Not applicable
Consolidation/Standalone	Standalone

About the company

KEI Industries Limited (KEI) was incorporated in 1968, as a partnership firm, under the name Krishna Electrical Industries and started with manufacturing switch board cables. It was converted into a public limited company in 1992 and was listed on the stock exchanges in 1995. The company is involved in manufacturing low tension, high tension and extra high voltage cables, along with control and instrumentation and speciality cables, house wires and stainless-steel wires. The company's manufacturing facilities are at Bhiwadi, Chopanki, Pathredi, Silvassa and Chinchpada. KEI is setting up a plant in Sanand (Gujrat), which is likely to be operationalised by the end of FY2025, apart from brownfield capex being undertaken at the Chinchpada and Pathredi plants during FY2025. In addition, it is involved in EPC work for electrification, including laying cables, setting up transformers, separating feeders and last mile connection.

Key financial indicators (audited)

KEI Standalone	FY2023	FY2024
Operating income	6910.7	8104.1
PAT	477.4	581.1
OPBDIT/OI (%)	10.2%	10.3%
PAT/OI (%)	6.9%	7.2%
Total outside liabilities/Tangible net worth (times)	0.5	0.5
Total debt/OPBDIT (times)	0.54	0.80
Interest coverage (times)	20.3	19.1

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Current (FY2025)			Chronology of rating history for the past 3 years					
			FY2025	FY2024		FY2023		FY2022	
Instrument	Type	Amount Rated (Rs Crore)	23-AUG-2024	Date	Rating	Date	Rating	Date	Rating
Long term-cash credit-fund based	Long Term	600.00	[ICRA]AA (Positive)	31-AUG-2023	[ICRA]AA (Stable)	02-JUN-2022	[ICRA]AA- (Stable)	21-SEP-2021	[ICRA]AA- (Stable)
				-	-	25-AUG-2022	[ICRA]AA (Stable)	-	-
Fixed deposit	Long Term	0.00	[ICRA]AA (Positive); withdrawn	31-AUG-2023	[ICRA]AA (Stable)	02-JUN-2022	[ICRA]AA- (Stable)	21-SEP-2021	-
				-	-	25-AUG-2022	[ICRA]AA (Stable)	-	-
Short term-others-non fund based	Short Term	2610.00	[ICRA]A1+	31-AUG-2023	[ICRA]A1+	02-JUN-2022	[ICRA]A1+	21-SEP-2021	[ICRA]A1+
				-	-	25-AUG-2022	[ICRA]A1+	-	-
Commercial paper	Short Term	40.00	[ICRA]A1+	31-AUG-2023	[ICRA]A1+	02-JUN-2022	[ICRA]A1+	21-SEP-2021	[ICRA]A1+
				-	-	25-AUG-2022	[ICRA]A1+	-	-
Long term-term loan-fund based	Long Term	600.00	[ICRA]AA (Positive)	-	-	02-JUN-2022	[ICRA]AA- (Stable)	21-SEP-2021	[ICRA]AA- (Stable)
				-	-	25-AUG-2022	[ICRA]AA (Stable)	-	-
Long term / short term-unallocated-unallocated	Long Tem/Short Term	-	-	31-AUG-2023	[ICRA]AA (Stable)/[ICRA]A1+	02-JUN-2022	[ICRA]AA- (Stable)/[ICRA]A1+	21-SEP-2021	[ICRA]AA- (Stable)/[ICRA]A1+
				-	-	25-AUG-2022	[ICRA]AA (Stable)/[ICRA]A1+	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund based - Term loan	Simple
Fund based - Working Capital Facilities	Simple
Non-fund based -Working Capital Facilities	Very Simple
Commercial Paper	Very Simple
Fixed Deposit	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA’s website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Fund based - Working Capital Facilities**	NA	NA	NA	600.00	**[ICRA]AA (Positive)**
NA	**Long term-Fund based-Term Loans**	FY2025	~8%-9%	FY2029-FY2030	600.00	**[ICRA]AA (Positive)**
NA	**Non-fund based -Working Capital Facilities**	NA	NA	NA	2,610.00	**[ICRA]A1+**
Yet to be placed	**Commercial Paper**	NA	NA	NA	40.00	**[ICRA]A1+**
NA	**Fixed Deposit**	NA	NA	NA	50.00	**[ICRA]AA (Positive); withdrawn**

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis – Not Applicable

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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