

August 31, 2023

KEI Industries Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund based - Term Loan	20.22	-	-
Fund based - Working Capital Facilities	600.00	600.00	[ICRA]AA (Stable); reaffirmed
Non-fund based -Working Capital Facilities	2,610.00	2,610.00	[ICRA]A1+; reaffirmed
Unallocated Bank Limits	229.78	250.00	[ICRA]AA (Stable)/ [ICRA]A1+; reaffirmed
Total	3460.0	3460.0	
Commercial Paper	40.00	40.00	[ICRA]A1+; reaffirmed
Fixed Deposit	50.00	50.00	[ICRA]AA (Stable); reaffirmed

*Instrument details are provided in Annexure-I

Rationale

The reaffirmation in the ratings for the debt programme of KEI Industries Limited (KEI) considers a likely sustenance of the healthy financial performance of the company during FY2024-FY2025, driven by favourable demand drivers in various end user industries such as power generation, transmission and distribution, railways, real estate, among others 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, steel, cement and real estate, including housing demand, under the GoI's initiative of 'Housing for All'. KEI has lined up a significant capex of ~Rs. 800-1000 crore over the next three years, likely to be funded by internal accruals, to tap the growing market size while increasing its share in the retail segment. 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.

Driven by such robust demand prospects and likely significant capacity expansion planned over the medium term, ICRA expects the company to report revenue growth of ~15-20% YoY per annum over FY2024-FY2026. ICRA expects the financial risk profile of the Group to remain comfortable, reflected by a conservative capital structure (net debt free as on June 30, 2023), strong debt coverage indicators and a healthy return on capital employed (ROCE) of ~24-26%, given the favourable long-term demand outlook for wires and cables with increasing penetration. Moreover, to boost its retail sales, KEI has increased its distribution network to over 1,925 dealers pan India as on June 30, 2023 (Mar 31, 2022: ~1,800), in addition to increasing its employee strength.

The operating margin is also expected to be maintained at around ~10-11%, resulting in a healthy cash generation and further strengthening of coverage metrics in the near-to-medium term, after significant improvement witnessed over FY2022-FY2023. KEI's total debt (including channel finance with recourse, acceptances and lease liabilities) declined to Rs. 381 crore as on March 31, 2023 (PY: Rs. 654 crore), and KEI became net debt free (net cash of Rs 155 crore as on Mar 31, 2023), with no term loans outstanding. Consequently, KEI's finance cost declined in FY2023 with lower average working capital utilisation during the year. Lower debt levels along with strong net-worth kept gearing at comfortable position of 0.15 times as on March 31, 2023 (PY: 0.31 times). Moreover, with improved OPBIDA levels in FY2023, coverages improved with total debt/OPBIDA at

0.54 times (PY: 1.12 times), interest coverage at 20.3 times (PY: 14.5 times). Gross debt (including acceptances and excluding lease liabilities) declined QoQ to Rs 281 crore as on June 30, 2023, from Rs 354 crore as on Mar 31, 2023.

However, the ratings remain constrained by KEI's moderate profit margin profile due 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 in FY2022, KEI's margins 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. The profitability also remains exposed to the unfavourable movement in foreign currency exchange rates.

The Stable outlook on the rating reflects ICRA's opinion that KEI will continue to report steady revenue growth, driven by constant capacity addition as well as healthy demand prospects. Further, ICRA does not expect the debt levels to increase materially, thereby keeping the debt coverage indicators at healthy levels.

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 EPC business to ~6-7% of revenues in light of low margin profile of new orders, high competitive intensity and elongated working capital. However, 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. In the last fiscal, the company forayed into ESP & communication cables, further diversifying its product profile. Cables contributed to ~63% of the total sales in FY2023, followed by ~27% from house wires, ~6% from the EPC segment (excluding cable) and the balance 4% 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 ~44% to the total sales in FY2023 (PY: ~41%) and ~43% in Q1 FY2024. As on June 30, 2023, the total dealer base stood at around 1,925 (PY: 1,800 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 35.34% of the revenues contributed by north, followed by 29.35% from west, 19.16% from south and the balance 16.15% from east (PY: ~15%) in FY2023.

Apart from dealer sales, ~46% of the total sales were through domestic institutional clients (including EHV segment), while exports comprised ~10% of the total sales in FY2023. Within 56% institutional sales, the EPC segment (excluding cable sale) contributed ~6% of the total sales in FY2023, providing a diversification to the sales channels. Going forward, the contribution from retail sales is expected to increase to ~50% over the medium term, while EPC's contribution in the revenue mix is likely to be stable or lower.

Improving scale with healthy demand prospects – KEI's operating income (OI) grew around 21% in FY2023 to Rs. 6,911 crore on account of a 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 Govt's initiative of Housing for All. ICRA expects the company to report revenue growth of 15-20% YoY per annum over FY2024-FY2026. The revenue growth from FY2025 onwards will be primarily led by a likely increase in manufacturing capacities which are planned to be commissioned by the end of FY2024 in addition to a healthy market size as well as market share improvement by then.

Improved leverage and coverage metrics – KEI's total debt (including channel finance with recourse, acceptances and lease liabilities) declined to Rs. 381 crore as on March 31, 2023 (PY: Rs. 654 crore), and KEI became net debt free (net cash of Rs 155 crore as on Mar 31, 2023), with no term loans outstanding. Consequently, KEI's finance cost declined in FY2023 with lower average working capital utilisation during the year. Lower debt levels along with strong net-worth kept gearing at comfortable position of 0.15 times as on March 31, 2023 (PY: 0.31 times). Moreover, with improved OPBIDTA levels in FY2023, coverages improved with total debt/OPBIDA at 0.54 times (PY: 1.12 times), interest coverage at 20.3 times (PY: 14.5 times). Gross debt (including acceptances and excluding lease liabilities) declined QoQ to Rs 281 crore as on June 30, 2023, from Rs 354 crore as on Mar 31, 2023 (net cash declined to Rs 24 crore as on June 30, 2023 vs Rs 183 crore as on Mar 31, 2023) and the interest cover stood at 19.9 times in Q1 FY2024.

ICRA expects the leverage and coverage indicators to remain healthy and improve over the medium term further on the back of likely healthy operating profits, lower working capital cycle with increasing contribution of retail sales to total revenues and thus lower gearing levels.

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 FY2023, while KEI's OPM remained stable at 10.2% against 10.2% in FY2022 and 10.9% in FY2021, 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 FY2024 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 retail sales through dealer network are also revised every 15 days. Moreover, KEI's net margins increased to 6.9% in FY2023 from 6.6% in FY2022 due to lower finance cost. 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 from the last fiscal, as indicated by NWC/OI of 24% in FY2023 (28% in FY2022 and 33% in FY2021). While the debtor days reduced further in FY2023 to 74 days (90 days in FY2022 and 119 days in FY2021) with the increasing proportion of retail sales and reduction of EPC business, the company deliberately reduced its creditor days to some extent to save on finance cost (LC charges) to 53 days in FY2023 (61 days in FY2022 and 97 days in FY2021). Going forward, the NWC/OI is expected at FY2023 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 payable as its imports of metal are higher than its exports and have payables in terms of foreign currency loans. KEI generally does not hedge its exposure, and hence its profitability remains vulnerable to the sharp movements in foreign currency rates.

Liquidity position: Adequate

The company's liquidity profile is strong with the presence of cash balance of Rs. 305 crore as on June 30, 2023 in addition to healthy operational cash flows. Further, it has average cushion in drawing power of over Rs. ~1000 crore over April 2022 to June 2023 (though sanctioned cash credit limits are Rs. 600 crore which remained largely unutilised). KEI had nil term debt repayment obligations as on Mar 31, 2023 as well as June 30, 2023. ICRA also notes KEI's proposed capex of ~Rs. 800-1000 crore towards greenfield and brownfield capacity expansion plans largely for LT, HT and EHV cables, over the next three years to be funded from internal accruals entirely.

Rating sensitivities

Positive factors – The ratings may be upgraded if the company is able to reduce its working capital requirements and consistently improve its sales and profit margins while maintaining liquidity and strengthening the ROCE above 25% on a sustained basis.

Negative factors – The ratings may be downgraded if there is a large debt-funded capex and higher working capital requirements, which will increase the reliance on external debt 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 trigger a downgrade.

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 FY2023. 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
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 Silvassa and Bhiwadi plants during FY2024. 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	FY2022	FY2023
Operating income	5,725	6,911
PAT	376	477
OPBDIT/OI	10.2%	10.2%
PAT/OI	6.6%	6.9%
Total outside liabilities/Tangible net worth (times)	0.7	0.5
Total debt/OPBDIT (times)	1.12	0.54
Interest coverage (times)	14.5	20.3

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

Instrument	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years				
		Amount rated (Rs. crore)	Amount outstanding as of Aug 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023		Date & rating in FY2022	Date & rating in FY2021
				Aug 31, 2023	Aug 25, 2022	Jun 02, 2022	Sep 21, 2021	Sep 07, 2020
1 Fund based - Term loan	Long term	-	-	-	[ICRA]AA (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]A+ (Stable)
2 Fund based - Working Capital Facilities	Long term	600.00	-	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]A+ (Stable)
3 Non-fund based - Working Capital Facilities	Short term	2,610.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1
4 Unallocated Limits	Long term/ Short term	250.00	-	[ICRA]AA (Stable)/ [ICRA]A1+	[ICRA]AA (Stable)/ [ICRA]A1+	[ICRA]AA- (Stable)/ [ICRA]A1+	[ICRA]AA- (Stable)/ [ICRA]A1+	[ICRA]A+ (Stable)/ [ICRA]A1
5 Commercial Paper	Short term	40.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1
6 Fixed Deposit	Long term	50.00	-	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA- (Stable)	MAA- (Stable)	MA+ (Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund based - Working Capital Facilities	Simple
Non-fund based -Working Capital Facilities	Very Simple
Unallocated Limits	NA
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 (Stable)
NA	Non-fund based - Working Capital Facilities	NA	NA	NA	2,610.00	[ICRA]A1+
NA	Unallocated Limits	NA	NA	NA	250.00	[ICRA]AA (Stable)/ [ICRA]A1+
Yet to be placed	Commercial Paper	NA	NA	NA	40.00	[ICRA]A1+
Yet to be placed	Fixed Deposit	NA	NA	NA	50.00	[ICRA]AA (Stable)

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

ANALYST CONTACTS

Sabyasachi Majumdar

+91 124 4545 304

sabyasachi@icraindia.com

Anupama Arora

+91 124 4545 303

anupama@icraindia.com

Rohan Rustagi

+91 124 4545 383

rohan.rustagi1@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar

+91 22 6114 3406

shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860

communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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For more information, visit www.icra.in

ICRA Limited



Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



Branches



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