March 19, 2020

KEI Industries Limited: Ratings reaffirmed; rated amount enhanced

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based -Term Loan	290.09	105.11	[ICRA]A (Stable); reaffirmed
Fund-based - Working Capital Facilities	550.0	600.0	[ICRA]A (Stable); reaffirmed
Non-fund Based - Working Capital Facilities	1860.0	2460.0	[ICRA]A1; reaffirmed
Unallocated bank limits	699.91	234.89	[ICRA]A (Stable)/A1; reaffirmed
Total	**3400.0**	**3400.0**	
Commercial Paper	40.0	40.0	[ICRA]A1; reaffirmed
Fixed Deposits	10.0	10.0	MA+ (Stable); reaffirmed
Fixed Deposits	0.0	40.0	MA+ (Stable); assigned

**Instrument details are provided in Annexure-1*

Rationale

The reaffirmation of ratings factors in KEI Industries Limited's (KEI) steady operating and financial performance on the back of a 22% increase in operating income (OI) in 9M FY2020 driven by growth in major business segments, steady operating margins, healthy order book position that provides adequate future revenue visibility, and comfortable liquidity position. Additionally, the company recently raised Rs. 500 crore of equity via Qualified Institutional Placement (QIP) issuance, which would result in improvement in capital structure and aid in debt reduction in the near term. The management proposes to deploy the proceeds of this QIP issuance for a large capex over the next two-three years to drive the long-term growth. KEI has been consistently incurring capex to expand its manufacturing capacities, which has resulted in an increase in volumes and thus, year-on-year growth in sales. This has translated into healthy cash generation, which has resulted in comfortable debt coverage indicators as reflected by interest coverage of 3.70 times, Total debt/OPBDITA of 1.77 times and NCA/Total debt of 32% in 9M FY2020. Further, the liquidity position of the company remains adequate as reflected by the cushion available in fund-based working capital limits and availability of free cash (around Rs. 60 crore as on December 31, 2019). The ratings also take into account the company's expansion of dealer network to grow retail sales of house wires and low-tension cables which, along with institutional sales, exports and EPC business provide diversity to the company's revenues. The ratings continue to favourably factor in KEI's experienced promoters, its long track record of operations, its well-entrenched market position in the cables and wires industry, its wide customer base and geographical presence, and its established relationships with a reputed clientele.

The ratings, however, remain constrained by KEI's moderate profitability due to intense competition in the EPC industry, and its long payment cycle in the EPC business, which result in build-up of receivables and elevated working capital cycle. Increase in scale of operations, along with sizeable capex planned in future to enhance its manufacturing capacities, would necessitate steady funding requirements for the company. However, these are not expected to result in a material increase in KEI's debt levels, especially post the recent equity infusion.

Moreover, the company's profitability remains exposed to adverse movements in raw material prices and unfavourable movement in foreign currency exchange rates. The wires and cables industry is intensely competitive, given the relatively low entry barriers and the presence of numerous players of various scales. This, along with the commoditised nature of the product, has led to moderate profitability. The EPC business is exposed to risks of delays in project execution, elongated payment cycle, and average credit profile of most clients.

The Stable outlook on the rating reflects ICRA's opinion that KEI will continue to grow its OI at a steady pace, driven by constant capacity addition in the cables business and growth in the EPC business. Further, ICRA does not expect the debt levels to increase materially, thereby keeping the debt coverage indicators at comfortable levels.

Key rating drivers

Credit strengths

Extensive experience of promoters in cables industry - Incorporated in 1968 as a partnership firm, the company has a track record of over five decades of operations in the cables industry. This has enabled it to establish strong relationships with reputed customers such as Power Grid Corporation of India, L&T Limited and Tata Power Limited.

Sizeable equity infusion – During January, KEI came out with a QIP issuance of Rs. 500 crore, which will result in substantial improvement in the capital structure of the company. The proceeds of the issuance have been used for debt reduction in the near term, while the company proposes to undertake a sizeable greenfield capex in the longer run.

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, instrumentation and control cables. Besides, the company is involved in EPC work in the power distribution space. Cables contributed around 63% of the total sales in 9M FY2020, followed by a contribution of 18% by house wires and 16% by the EPC segment. The growth prospects remain healthy in each of these segments.

Healthy order book position - KEI's order book position as of December 31, 2019 stood at more than Rs. 4,000 crore and included pending orders worth around Rs. 1,800 crore for the EPC division. This provides adequate revenue visibility going forward.

Extensive distribution network - KEI has been expanding its distribution network by adding dealers to capture retail sales, which contributed around 30% to the total sales in 9M FY2020. As of December 2019, the total dealer base stood at approximately 1,600 (up from around 1,450 in March 2019). Moreover, dealer sales provide twin benefits of better margins and relatively low working capital cycle. Apart from dealer sales, around 26% of the total sales were through domestic institutional clients, while exports comprised 18% of the total sales in 9M FY2020. The domestic EPC segment contributed 26% of the total sales in 9M FY2020, which included around 43% component as cable supply.

Healthy capital structure and comfortable debt protection indicators - With consistently steady accretion to reserves, the capital structure has remained heathy as reflected by gearing of 0.92 times as on December 31, 2019. Moreover, the same would further improve to an estimated 0.3 times as on March 31, 2020 post the equity infusion of Rs. 500 crore in January 2020. The debt coverage indicators remain comfortable as reflected by interest coverage of 3.70 times, debt/OPBDITA of 1.77 times, NCA/debt of 32% and DSCR of 1.89 times for 9MFY2020.

Adequate liquidity position – The liquidity position has remained comfortable with the presence of adequate cushion of around Rs. 200 crore available in the fund based limits. Moreover, the company also had free cash of around Rs. 60 crore as on December 31, 2019 which supports its liquidity position.

Credit challenges

Operating margins remain rangebound despite profitability improvement in FY2019 - The operating margins remained rangebound between 10.0% and 10.5% in the last few years, which has been on account of intense competition in the cables industry and company's focus on healthy turnover growth. In 9MFY2020, the margins remained steady at 10.4% and are expected to remain at these levels only.

Receivable cycle remains elevated, results in relatively high working capital cycle - The receivable cycle for the company remains high, largely on account of the elongated payment cycle in the EPC division. This elevates KEI's working capital cycle and keeps the working capital requirements high, especially when the company is growing at healthy pace.

Exposure to raw material price movements - KEI is impacted by adverse movement in raw material prices. However, the low raw material holding period and some ability to pass on the raw material price change, limits the risk. This is also reflected by the fact that the operating profitability has not witnessed any sharp movements in the past.

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 sharp movements in foreign currency rates.

Liquidity position - Adequate

The company's liquidity profile remains **adequate** with the presence of cushion of around Rs. 200 crore in its fund-based limits, in addition to free cash of around Rs. 60 crore as on December 31, 2019. Moreover, with the recent equity infusion, the company has prepaid some of its long-term debt, thereby easing the repayment burden going forward. Although, the company plans to undertake a sizeable capex with the proceeds of the equity issue, it would be phased out over a period of 18-24 months and is expected to be executed without any sizeable increase in debt levels.

Rating sensitivities

Positive triggers – Significant reduction in working capital requirements leading to Total outside liabilities/Net worth of less than 1x and interest coverage of more than 5x on a sustained basis can lead to rating upgrade.

Negative triggers – Large debt-funded capex and increase in working capital requirements resulting in an increase in reliance on external debt, in turn leading to TOL/TNW beyond 1.5x. Further, decline in operating income and margins on sustained basis can also impact the rating.

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 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 specialty cables, house wires and stainless-steel wires. The manufacturing facilities of the company are located in Bhiwadi, Chopanki, Pathredi, Silvassa and Chinchpada. In addition, the company is involved in EPC work for electrification including cables laying, setting up of transformers, separating feeder and last mile connection.

Key financial indicators (audited)

	FY2018	FY2019
Operating Income (Rs. crore)	3458.8	4227.0
PAT (Rs. crore)	144.6	181.9
OPBDIT/OI (%)	9.8%	10.5%
RoCE (%)	22.9%	29.3%
Total Outside Liabilities/TNW (times)	2.67	2.55
Total Debt/OPBDIT (times)	2.49	1.36
Interest coverage (times)	3.04	3.25
DSCR (times)	1.21	1.56

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

	Instrument	Rating (FY2020)					Rating History for the Past 3 Years			
		Type	Amount Rated	Amount Outstanding (Feb 14, 2020)	Current Rating	Earlier Rating	FY2019	FY2018	FY2017	
					19-Mar-2020	19-Jul-2019	30-Jul-2018	08-Sep-2017	16-Aug-2016	11-Jul-2016
1	Commercial Paper	Short Term	40.0	-	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A2+	[ICRA]A2+	-
2	Fixed Deposit	Medium Term	10.0	-	MA+ (Stable)	MA+ (Stable)	MA+ (Stable)	MA (Stable)	MA (Stable)	-
3	Fixed Deposit	Medium Term	40.0	-	MA+ (Stable)	-	-	-	-	-
4	Term Loans	Long Term	105.11	105.11	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)
5	Cash Credit	Long Term	600.0	-	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)
6	Letter of Credit & Bank Guarantee	Short Term	2460.0	-	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+
7	Unallocated limits	Long term/ Short term	234.89	-	[ICRA]A (Stable)/ [ICRA]A1	[ICRA]A (Stable)/ [ICRA]A1	[ICRA]A (Stable)/ [ICRA]A1	[ICRA]A- (Stable)/ [ICRA]A2+	[ICRA]A- (Stable)/ [ICRA]A2+	[ICRA]A- (Stable)/ [ICRA]A2+

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Commercial Paper	NA	NA	NA	40.0	[ICRA]A1
NA	Fixed Deposit	NA	NA	NA	10.0	MA+(Stable)
NA	Fixed Deposit	NA	NA	NA	40.0	MA+(Stable)
NA	Term Loan 1	Mar-19	8.90%	Jun-24	10.00	[ICRA]A(Stable)
NA	Term Loan 2	Sep-17	4.4%	Sep-20	15.17	[ICRA]A(Stable)
NA	Term Loan 3	Oct-17	2.68%	Dec-22	43.07	[ICRA]A(Stable)
NA	Term Loan 4	Aug-19	9.00%	Sep-22	27.50	[ICRA]A(Stable)
NA	Term Loan 5	Dec-19	8.90%	Dec-23	9.37	[ICRA]A(Stable)
NA	Fund Based CC	NA	NA	NA	600.0	[ICRA]A(Stable)
NA	Non-fund Based Limits	NA	NA	NA	2460.0	[ICRA]A1
NA	Unallocated Limits	NA	NA	NA	234.89	[ICRA]A(Stable)/ [ICRA]A1

Source: KEI Industries Limited

Annexure-2: 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.

For more information, visit www.icra.in

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