September 07, 2020

KEI Industries Limited: Long term rating upgraded to [ICRA]A+ (Stable), short term rating reaffirmed at [ICRA]A1, medium term rating reaffirmed at MA+ (Stable)

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based -Term Loan	105.11	66.84	[ICRA]A+ (Stable); upgraded from [ICRA]A (Stable)
Fund-based - Working Capital Facilities	600.0	600.0	[ICRA]A+ (Stable); upgraded from [ICRA]A (Stable)
Non-fund Based - Working Capital Facilities	2460.0	2410.0	[ICRA]A1; reaffirmed
Unallocated bank limits	234.89	323.16	[ICRA]A+ (Stable)/A1; long term rating upgraded from [ICRA]A (Stable), short term rating reaffirmed
Total	**3400.0**	**3400.0**	
Commercial Paper	40.0	40.0	[ICRA]A1; reaffirmed
Fixed Deposits	50.0	50.0	MA+ (Stable); reaffirmed

**Instrument details are provided in Annexure-1*

Rationale

The upgrade in the rating factors in material reduction in KEI Industries Limited's (KEI) debt levels post the infusion of Rs. 500 crore of equity via Qualified Institutional Placement (QIP) issuance and corresponding improvement in leverage profile. Further, the company was proposing to incur a sizeable capex with the proceeds of the QIP which has been deferred amid the Covid-19 pandemic situation. This deferment of the capex has provided a liquidity buffer for the company as the current year capex is expected to be low. The ratings continue to factor in KEI Industries Limited's (KEI) steady operating and financial performance on the back of a 16% improvement in operating income (OI) in FY2020 driven by growth in major business segments and steady operating margins. While the sales and profit margins have witnessed a decline in current fiscal and are expected to remain lower than FY2020 levels, the company is expected to maintain a comfortable credit profile in light of reduced borrowings. Moreover, the order book position has also witnessed a decline to Rs. 3067 crore as on June 30, 2020 vis-à-vis more than Rs. 4700 crore as on May 2019, however, it continues to remain comfortable indicating adequate revenue visibility. The company has bid for new projects which are expected to result in improvement in the order book position towards the end of the fiscal.

KEI has consistently incurred capex to expand its manufacturing capacities, which has resulted in an increase in volumes and thus, year-on-year growth in sales. Further, the QIP issuance in January 2020 has resulted in substantial improvement in the leverage and coverage metrics as reflected by gearing of 0.25 times, TOL/TNW of 1.17 times, interest coverage of 3.84 times, Total debt/OPBDITA of 0.77 times and NCA/Total debt of 71% as on March 31, 2020. The company also had free cash balances of more than Rs. 100 crore as on March 31, 2020, which along with sizeable cushion in working capital limits (more than Rs. 400 crore on an average for the current fiscal thus far) translate into adequate liquidity position.

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 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. The sales and profit margins will witness a moderation in the current fiscal due to the ongoing pandemic situation. Further, the company has planned a sizeable greenfield expansion to enhance its manufacturing capacities, which is expected to start from FY2022. Notwithstanding this capex, the company is expected to have limited reliance on borrowings for such expansion. 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 healthy levels.

Key rating drivers

Credit strengths

Established relations with customers backed by experienced 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.

Strengthening of credit metrics with 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. With consistently steady accretion to reserves, the capital structure has been witnessing steady improvement. Moreover, post the QIP issuance, the leverage profile witnessed a marked improvement as reflected by gearing of 0.25 times and TOL/TNW of 1.17 times as on March 31, 2020. The other credit metrics also remained healthy as reflected by interest coverage of 3.84 times, debt/OPBDITA of 0.77 times, NCA/debt of 71% and DSCR of 1.92 times for FY2020. The credit metrics are expected to continue to remain healthy going forward.

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 64% of the total sales in FY2020, followed by a contribution of 17% by house wires and 16% by the EPC segment (excluding cable sale). The growth prospects remain healthy in each of these segments.

Comfortable order book position - KEI's order book position as of June 30, 2020 stood at around Rs. 3,067 crore and included pending orders worth around Rs. 1,152 crore for the EPC division. While the order book position has witnessed a decline as the company was not able to secure any major orders during the current fiscal, the order inflow is expected to improve going forward and nevertheless the order book position is still comfortable and 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 29% to the total sales in FY2020. As of June 30, 2020, the total dealer base stood at more than 1,650 (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 25% of the total sales were through domestic institutional clients, while exports comprised 18% of the total sales in FY2020. The EPC segment contributed 28% (including cable sale) of the total sales in FY2020, thereby providing a diversification to the sales channels.

Credit challenges

Operating margins remain rangebound - 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. While the margins stood at 10.2% in FY2020, the same are expected to witness a decline in FY2021 owing to decline in sales and resultant negative operating leverage.

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. 400 crore in its fund-based limits (on an average in the current fiscal), in addition to free cash of more than Rs. 100 crore as on March 31, 2020. Although, the company plans to undertake a sizeable capex, the same has been deferred to FY2022 and 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 and consistent improvement in sales and profit margins, while maintaining healthy credit metrics, leading to interest coverage of more than 7x on a sustained basis can lead to rating upgrade.

Negative triggers – Large debt funded capex and increase in working capital requirements resulting in increase in reliance on external debt resulting in increase in TOL/TNW beyond 1.2x. 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)

	FY2019	FY2020
Operating Income (Rs. crore)	4227	4884
PAT (Rs. crore)	182	255
OPBDIT/OI (%)	10.5%	10.2%
PAT/OI (%)	4.3%	5.2%
Total Outside Liabilities/TNW (times)	2.55	1.17
Total Debt/OPBDIT (times)	1.36	0.77
Interest coverage (times)	3.25	3.84

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

	Instrument	Rating (FY2021)				Rating History for the Past 3 Years			
		Type	Amount Rated	Amount Outstanding (Aug 10, 2020)	Current Rating	FY2020		FY2019	FY2018
					07-Sep-2020	19-Mar-2020	19-Jul-2019	30-Jul-2018	08-Sep-2017
1	Commercial Paper	Short Term	40.0	-	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A2+
2	Fixed Deposit	Medium Term	50.0	-	MA+ (Stable)	MA+ (Stable)	MA+ (Stable)	MA+ (Stable)	MA (Stable)
3	Term Loans	Long Term	66.84	66.84	[ICRA]A+ (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A- (Stable)
4	Cash Credit	Long Term	600.0	-	[ICRA]A+ (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A- (Stable)
5	Letter of Credit & Bank Guarantee	Short Term	2410.0	-	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A2+
6	Unallocated limits	Long term/ Short term	323.16	-	[ICRA]A+ (Stable)/ [ICRA]A1	[ICRA]A (Stable)/ [ICRA]A1	[ICRA]A (Stable)/ [ICRA]A1	[ICRA]A (Stable)/ [ICRA]A1	[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	50.0	MA+(Stable)
NA	Term Loan 1	Aug-19	8.60%	Sep-22	22.50	[ICRA]A+(Stable)
NA	Term Loan 2	Sep-17	4.4%	Sep-20	5.29	[ICRA]A+(Stable)
NA	Term Loan 3	Oct-17	3M Libor + 190 bps	Dec-22	39.05	[ICRA]A+(Stable)
NA	Fund Based CC	NA	NA	NA	600.0	[ICRA]A+(Stable)
NA	Non-fund Based Limits	NA	NA	NA	2410.0	[ICRA]A1
NA	Unallocated Limits	NA	NA	NA	323.16	[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.

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