KEI Industries Limited

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KEI/BSE/2022-23 **Date: 23.08.2022**

The Manager,
BSE Limited
Listing Division,
Phiroze Jeejeebhoy Towers,
Dalal Street, Mumbai- 400 001.

Sub: Intimation of Credit Rating(s) pursuant to Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015

Dear Sir / Madam,

This is to inform you that **ICRA Limited** has **upgraded** the Long Term Bank Facilities ratings & reaffirmed Short Term Bank Facilities/ Debt Instruments ratings of the Company as under:

Instrument Type	Rating / Outlook	Rating Definition
Long Term Bank Facilities	**[ICRA] AA (Stable)**	Instruments with this rating are considered to have high degree of safety regarding timely servicing of financial obligations. Such instruments carry very low credit risk.
Fixed Deposit	**[ICRA] AA (Stable)**	Instruments with this rating are considered to have high degree of safety regarding timely servicing of financial obligations. Such instruments carry very low credit risk.
Short Term Bank Facilities / Commercial Paper	**[ICRA] A1+**	Instruments with this rating are considered to have very strong degree of safety regarding timely payment of financial obligations. Such instruments carry lowest credit risk.

This is for the information of the exchange and the members.

Thanking you,

Yours truly,
For KEI INDUSTRIES LIMITED

For KEI INDUSTRIES LIMITED
ANIL GUPTA
Chairman-cum-Managing Director

(ANIL GUPTA)
Chairman-cum-Managing Director

CC:

The National Stock Exchange of India Ltd. **Listing Division, Exchange Plaza, Plot No. C/1, G Block, Bandra Kurla Complex, Bandra (E), Mumbai – 400 051**	**The Calcutta Stock Exchange Ltd.** **The Senior Manager, Listing Division, 7, Lyons Range, Kolkata-700001**

August 26, 2022

KEI Industries Limited: Long term rating upgraded to [ICRA]AA (Stable), short-term rating reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund based - Term loan	39.36	20.22	[ICRA]AA (Stable); upgraded from [ICRA]AA- (Stable)
Fund based - Working Capital Facilities	600.00	600.00	[ICRA]AA (Stable); upgraded from [ICRA]AA- (Stable)
Non-fund based -Working Capital Facilities	2410.00	2610.00	[ICRA]A1+; reaffirmed and assigned for enhanced limits
Unallocated Bank Limits	350.64	229.78	[ICRA]AA (Stable)/ [ICRA]A1+; LT rating upgraded from [ICRA]AA- (Stable) and ST rating reaffirmed
Total	**3400.0**	**3460.0**	
Commercial Paper	40.00	40.00	[ICRA]A1+; reaffirmed
Fixed Deposit	50.00	50.00	[ICRA]AA (Stable); upgraded from [ICRA]AA- (Stable)

**Instrument details are provided in Annexure-1*

Rationale

The upgrade in ratings for the debt programme of KEI Industries Limited (KEI) considers the strong domestic demand growth prospects of wires and cables in various end-user segments benefitting from both government infrastructure development activities as well as private capex. Thus, increase in scale as well as likely change in revenue mix in favour of higher-margin and low-working capital-intensive retail business resulting in healthy expansion of operating profits as well as reducing gross working capital cycle in the medium term would allow debt protection metrics to strengthen further. The company is witnessing robust demand from urban and rural electrification, refinery expansion and upgradation, solar power projects, tunneling and ventilation projects on highways as well as railways and metro rail projects in addition to capacity expansion in renewable energy, steel, cement and real estate including housing sector.

Additionally, KEI is amidst of significant capex of ~Rs. 800 crore over the next three-four years, likely to be funded by internal accruals, to tap the increasing market size while increasing its share in retail market segment. Driven by robust demand prospects and likely capacity expansion over medium term, ICRA expects the company to report OI growth of 15%-20% YoY per annum over FY2023-FY2025. Further, while the total debt of the company slightly increased to Rs. 355 crore as on March 31, 2022 (PY: Rs. 333 crore), it became net debt free (PY: net debt of Rs. 115 crore).

The ratings continue to factor in KEI's diversified product profile, which encompasses a wide range of cables (low tension, high tension and extra high voltage), along with house wires, instrumentation and control cables. During the previous fiscal, the company has also forayed into electrical submersible pump (ESP) & Communication Cable thus further diversifying its product profile. Moreover, to boost its retail sales, KEI has increased its distribution network to 1,800 dealers pan India (PY: ~1650) in addition to increase in employee strength which is further planned to expand. Moreover, its order book of Rs. 2,714 crore as of July 2022, provides comfortable medium-term revenue visibility, as the cable orders have an execution tenure of three to four months. Most of the current order book is contributed by domestic cables at 52%, followed by EPC at 32%, EHV at 13%, while exports constituted 3%. 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.

However, the ratings remain constrained by KEI's moderate profit margin profile due to adverse movement in the raw material prices and foreign currency fluctuation and intense competition in the wires and cable industry, which limits its pricing power to an extent, in addition to the company's focus on healthy turnover growth. However, despite commodity headwinds in FY2022, KEI's margins remained protected on account of partial natural hedge with the company maintaining inventory for 2-2.5 months in addition to passing of majority of raw material price hikes to customers. Also, KEI's working capital intensity remained at elevated levels. Moreover, KEI's profitability remains exposed to 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 such as Delhi Transco Ltd., L&T Limited and Tata Power Limited as well as vendors which provide operations stability. While KEI's management forayed into the EPC segment as a forward integration initiative in past; currently, it is focusing on reducing its EPC segment given low margin profile of new orders, highly competitive intensity and elongated working capital. However, the company is directing its efforts on increasing its market share in 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 has also forayed into ESP & Communication Cable thus further diversifying its product profile. Cables contributed ~64% of the total sales in FY2022, followed by a contribution of ~26% from house wires, ~7% from the EPC segment (excluding cable) and 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 EPC business given low margin profile of new orders, highly competitive intensity and elongated working capital cycle.

Extensive distribution network – KEI has been expanding its distribution network by adding dealers to capture retail sales, which contributed ~41% to the total sales in FY2022 (PY: 34%) and ~42% in Q1 FY2023. As on June 30, 2022, the total dealer base stood at around 1,800 (PY: 1,650 dealers). Moreover, the company is currently focusing on further increasing its retail presence, as dealer sales provide twin benefits of better margins and relatively low working capital cycle. In line with the same, KEI plans to further increase its employee as well as dealers base going forward. Its retail network is spread across India with 36% of revenues contributed by north followed by 31% from west, 18% from south and the balance 15% from east in FY2022.

Apart from dealer sales, ~44% of the total sales were through domestic institutional clients (including EHV segment), while exports comprised ~10% of the total sales in FY2022. The EPC segment contributed ~7% (excluding cable sale) of the total sales in FY2022, thereby providing a diversification to the sales channels. Going forward, the contribution from retail sales is expected to increase over 50% over medium term while EPC's contribution in revenue mix is likely to lower down.

Improving scale with healthy demand prospects – KEI's OI has witnessed a strong growth of around 37% in FY2022 to Rs. 5,725 crore partially on account of lower base while majority growth was backed by increased demand of 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 as well as distribution network in addition to capacity enhancement. The company is witnessing robust demand for its products from various end-user industries 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 railways and metro rail projects, among others. Additionally, private capex is currently at healthy levels across sectors such as renewable energy, steel, cement and real estate including housing demand under GoI's initiative of 'Housing for All'. ICRA expects the company to report OI growth of 15%-20% YoY per annum over FY2023-FY2025. The OI growth from FY2025 onwards is primarily expected on account of likely increase in manufacturing capacities which are planned to be commissioned by end of FY2024 in addition to healthy market size as well as share improvement by then.

Improved leverage and coverage metrics – While the total debt of the company slightly increased to Rs. 355 crore as on March 31, 2022 (PY: Rs. 333 crore), it became net debt free (PY: net debt of Rs. 115 crore). Further, KEI's finance cost lowered in FY2022 on the back of lower average working capital utilisation during the year as well as reduction in LC charges with lower availment of LC backed credit. Lower debt levels along with strong net-worth kept gearing at robust position of 0.2 times as on March 31, 2022 (PY: 0.2 times). Moreover, with improved OPBIDTA levels in FY2022, coverages improved with total debt/OPBIDA at 0.6 times (PY: 0.7 times), interest coverage at 14.5 times (PY: 7.9 times). Further, interest cover improved to 17.4 times in Q1 FY2023. ICRA expects leverage and coverage indicators to remain heathy and improve over medium term further on the back of likely healthy operating profits, lower gross working capital cycle with increasing contribution of retail sales in total revenues and thus lower debt levels.

Credit challenges

Operating margins remain rangebound – The company's OPM remained rangebound within 9%-11% over the last decade on account of intense competition in the cables industry and its focus on healthy turnover growth. In FY2022, while KEI's OPM has declined to 10.3% as against 10.9% in FY2021 on account of normalisaton of expenses of pre-covid level and sharp fluctuation in input costs, the margins remained protected with passing of majority of raw material price hikes to customers with increasing proportion of retail sales in addition to increasing scale benefits. The company naturally hedges the input price risk by virtue of holding inventory of 2-2.5 months which supports its margins. Moreover, despite some moderation in operating profit margins, KEI's net margins has increased to 6.6% in FY2022 as against 6.4% in FY2021 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% over the medium term.

Elevated working capital intensity – KEI's working capital intensity though improved from last fiscal as indicated by NWC/OI of 28% in FY2022 (PY: 33%), it remained at elevated levels. While the debtor days reduced significantly in FY2022 to 90 days (PY: 119 days) with increasing proportion of retail sales and reduction of EPC business, the company deliberately reduced its creditors days to save on finance cost (LC charges) to 61 days in FY2022 (PY: 97 days). Going forward, NWC/OI is expected at similar to FY2022 levels with increasing scale of operations, release of retention money and likely further reduction of creditor days despite having benefits of improving retail sales in the mix.

Highly competitive intensity – The cable industry is inherently competitive with presence of multiple large established players such as Havells India Limited, Polycab India Limited, Finolex Cables Limited, V Guard Industries Limited, RR Kable 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 sharp movements in foreign currency rates.

Liquidity position: Strong

The company's liquidity profile is strong with the presence of cash balance of over Rs. 170 crore as on June 30, 2022 in addition to healthy operational cash flows. Further, it has average cushion in drawing power of over Rs. 900 crore over April 2021 to June 2022 (though sanction working capital limits are Rs. 600 crore). KEI is expected to comfortably meet its term debt repayment obligations of ~Rs. 20 crore in FY2023. ICRA also notes KEI's proposed capex of ~Rs. 800 crore towards capacity expansion of LT, HT and EHV cables, of which the first phase is expected to operationalise by the end of FY2024. It plans to invest Rs. 150-250 per annum over the next four to five years towards this in addition to maintenance capex, which is planned to be incurred from its internal accruals.

Rating sensitivities

Positive factors – Significant reduction in working capital requirements and consistent improvement in sales and profit margins while maintaining liquidity and strengthening ROCE at above 25% on a sustained basis can lead to rating upgrade.

Negative factors – Large debt funded capex and increase in working capital requirements resulting in increase in reliance on external debt causing an increase in TOL/TNW beyond 1.0 times on sustained basis. Further, decline in operating income and margins on sustained basis and moderation in liquidity buffer can also trigger rating downgrade.

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 manufacturing facilities of the company are located in Bhiwadi, Chopanki, Pathredi, Silvassa and Chinchpada. KEI is in process of setting up a plant at Vadodara (Gujrat), likely to operationalise by end of FY2024. In addition, it is involved in EPC work for electrification including cables laying, setting up of transformers, separating feeder and last mile connection.

Key financial indicators

KEI Standalone	Audited	Audited
	FY2021	FY2022
Operating Income (Rs. crore)	4180	5725
PAT (Rs. crore)	270	376
OPBDIT/OI (%)	10.9%	10.3%
PAT/OI (%)	6.4%	6.6%
Total Outside Liabilities/Tangible Net Worth (times)	0.70	0.65
Total Debt/OPBDIT (times)	0.73	0.61
Interest Coverage (times)	7.93	14.53

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation
Source: Company, ICRA Research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Type	Current Rating (FY2023) Amount Rated (Rs. crore)	Amount Outstanding (Mar 31, 2022) (Rs. crore)	Date and Rating on Aug 22, 2022	Date and Rating on Jun 2, 2022	Chronology of Rating History for the past 3 years: Date and Rating in FY2022 Sep 21, 2021	Date and Rating in FY2021 Sep 07, 2020	Date and Rating in FY2020 Mar 19, 2020	Date and Rating in FY2020 Jul 19, 2019
1	Fund based - Term loan	Long term	20.22	20.22	[ICRA]AA (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]A+ (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)
2	Fund based - Working Capital Facilities	Long term	600.00	-	[ICRA]AA (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]A+ (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)
3	Non-fund based -Working Capital Facilities	Short term	2610.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1	[ICRA]A1	[ICRA]A1
4	Unallocated Limits	Long term/ Short term	229.78	-	[ICRA]AA (Stable)/ [ICRA]A1+	[ICRA]AA- (Stable)/ [ICRA]A1+	[ICRA]AA- (Stable)/ [ICRA]A1+	[ICRA]A+ (Stable)/ [ICRA]A1	[ICRA]A (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	[ICRA]A1
6	Fixed Deposit	Long term	50.00	-	[ICRA]AA (Stable)	[ICRA]AA- (Stable)	MAA-(Stable)	MA+(Stable)	MA+ (Stable)	MA+ (Stable)

Amount in Crores; Source: Company

Complexity level of the rated instrument

Instrument	Complexity Indicator
Fund based - Term loan	Simple
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, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
-	Fund Based – Term Loan	Oct 2017- Aug 2019	4.20%- 7.25%	Dec 2022- Sep 2022	20.22	[ICRA]AA (Stable)
-	Fund Based – Working Capital facilities	-	-	-	600.00	[ICRA]AA (Stable)
-	Non-fund based – Working Capital facilities	-	-	-	2610.00	[ICRA]A1+
-	Unallocated bank limits	-	-	-	229.78	[ICRA]AA (Stable)/ [ICRA]A1+
Yet to be placed	Commercial Paper	-	-	-	40.00	[ICRA]A1+
-	Fixed Deposit	-	-	-	50.00	[ICRA]AA (Stable)

Source: *Company*

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

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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