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India Ratings Assigns KEI Industries' Debt 'IND AA-'/Stable & CP at 'IND A1+

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India Ratings and Research (Ind-Ra) has assigned ratings to KEI industries Limited's (KEI) debt instruments as follows:

Instrument Type	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (million)	Rating/Outlook	Rating Action
Fund / non-fund-based working capital facilities	-	-	-	INR30,100	IND AA-/Stable/IND A1+	Assigned
Term loans	-	-	March 2023	INR900	IND AA-/Stable	Assigned
Commercial paper*	-	-	-	INR1,000	IND A1+	Assigned

*yet to be issued, to be fully carved out of working capital limits

KEY RATING DRIVERS

Well-diversified, Healthy Business Profile: KEI's revenues are well diversified with cables, wires, engineering, procurement and construction (EPC) and stainless steel contributing around 62%, 22%, 13% and 3% to the total sales in FY21. KEI is a growing player in the Indian cable and wire (CW) industry with a reasonable market share of about 5% in retail and 12% in institutional along with 25% domestic market share in the oligopolistic 400EHV cable segment. KEI has a complete range of wire and cable products for institutional as well as retail segment of customers. Furthermore, KEI has forward integration in EPC mostly for government projects in power distribution and transmission.

Amid the COVID-19 led challenging economic environment, KEI's revenue fell 15% yoy to INR41.8 billion in FY21 led by a 40% yoy reduction in EPC business and a 17% yoy decline in cables, though revenue in the wires segment grew 7% yoy. KEI's sales are also well diversified among institutional customers across diverse industry sectors, retail network and export customers, contributing 52% and 34% and 14%, respectively, to the FY21 revenue. KEI's retail network is well distributed in zones and cities with North, West, South and East India contributing 37%, 28%, 20% and 15%, respectively, to the total sales in FY21.

Increased Retail Focus, Reducing EPC Business: KEI's ratings factor in the increasing proportion of high-margin and efficient working capital cycle retail business of about 50% in the medium term (FY21: around 30%), while the long working capital cycle institutional business particularly EPC (excluding cables) would reduce consistently below 10% (around 11%). It should help the company to enhance its overall profitability margins and working capital efficiency.

Ind-Ra shall monitor these developments and any material change from the expected trajectory of business segment contributions would warrant a review of the ratings. The management has demonstrated a focus on growing the superior cash flow from operations margin dealer-based retail products and contain its EPC business to enhance its competitive intensity. In this context, it reduced its overall inventory and debtors by INR1 billion and INR0.2 billion, respectively, in FY21. KEI's dealer network sales increased to 34% ion FY21 (FY20: 29%) while the EPC business's (excluding cables) contribution reduced to around 11% of overall revenues (around 15%).

Resilient Operating Margins: KEI's margins are healthy and stable (FY21: 11%; FY20: 10.2%; FY19: 10.5%), despite volatile business cycles and raw material price due to price fluctuations in metal, plastic and rubber components. This has been achieved with market and end-user industry diversification along with prudent inventory management. The company builds its raw material inventory back to back against final orders, in case price variation clauses are not available in the contracts. In the retail segment, inventory is supplied just in time to dealers, with each depot/warehouses keeping a minimal inventory of not more than 15 days. Retail and exports segment earn 12%-14% margins while institutional sales margin profile is around 10%. With KEI's larger focus on the high-margin retail segment, the overall EBITDA margin is likely to pick up gradually to around 12% over the next five years from the average 10% in the last five years. KEI effectively protected its margins at 10.5% in 1HFY21 despite lockdowns by cutting its fixed costs with cost-saving initiatives curtailing its employee costs, advertisement and promotional expenses and other establishment expenses.

Prudent Capex Execution, Funded with Equity: KEI's capex strategy is prudent and growth centric, with annual capex plans of around INR2.0 billion being funded completely from internal accruals to support 15% revenue CAGR growth. KEI's capacity in cables and wires is more than sufficient for 15% revenue growth yoy in the next two to three years. KEI had deferred its earlier plan of greenfield expansion of about INR5 billion considering the COVID-19 outbreak in FY21, and expects it to start from 2HFY22. The company incurred modest capex of about INR440 million in FY21. The ratings factor in the management stance to have no reliance on debt for its expansion plans of about INR 7 billion in the medium term and these would be executed phase wise over three to four years using internal accruals. Any significant alteration from Ind-Ra's assumptions on the size and funding of capex would necessitate a review of the ratings.

Liquidity Indicator- Adequate: During the 12 months ended April 2021, the company's monthly average utilisation of the fund-based limits was merely 12% and that of non-fund based limits was 62%. The unutilised fund-based and non-fund based working capital limits stood at INR5 billion and INR9 billion, respectively, at end-March 2021. The company's liquidity profile, capital structure and financial flexibility have considerably improved with an equity infusion of INR5 billion in March 2020. Moreover, KEI has a strong and well-diversified investor base both in terms of debt and equity. The company had healthy operational cash flows and cash position of around INR2 billion at end-March 2021.

However, its cash flow from operations were negative in FY20, led by increased working capital requirements of INR3 billion due to increased business and slow-moving EPC business debtors. The management expects to gradually recover its EPC debtors as the retention money is released as per the schedules. KEI's 45% debtors (INR6.2 billion) of INR13.5 billion are more than 180 days old, largely attributed to its EPC business which has retention money schedules as per project requirements. Around 85% of such debtors (INR5.4 billion) are for the EPC business where INR2.9 billion is retention money while the other INR2.4 billion are delayed debtors between 180-360 days. These long-outstanding payments would gradually reduce to about half as the EPC business has reduced over FY21-FY22, as per the management.

Comfortable Credit Metrics: The agency expects KEI's improving operating profitability coupled with reduced debt intensity would KEI to sustain its net adjusted leverage (net debt/operating EBITDA; including acceptances) and the interest coverage (operating EBITDA/gross interest) at around 1x (FY21: 1.3x, FY20: 2.4x, FY19: 2.8x) and 6x (3.8x; 3.3x), respectively. It has scheduled debt repayments of INR258 million for FY22 and INR200 million for FY23 with a debt service coverage ratio of over 4x.

Inherent Business Risks: KEI's major raw materials include copper, aluminium and poly vinyl chloride compound. While copper and aluminium constitute about 60% and 20% respectively of the raw materials consumed, poly vinyl chloride compound constitute the rest. The company mitigates raw material price volatility between procurement and selling by passing on the price variations by way of periodic adjustments of selling prices. KEI's forex risk are partially mitigated with natural hedging as the company has imports of INR12.9 billion against exports of INR9 billion, implying a net forex exposure of INR3.9 billion. KEI keeps minimal forward hedging positions so as to average out its gains or losses on the fluctuations on forex exposure

Competition Risks: KEI faces pricing pressure due to significant competition from both the organised and unorganised players specifically in its retail segment. However, given the overall pie has been growing fast and the company's vast experience of serving corporate customers with its diverse products, it has been able to grow swiftly in this segment. During FY21, unorganised sector players were grappling with liquidity and operating issues, leading to market share gains by organised players.

RATING SENSITIVITIES

Positive: Enhanced business profile with a larger scale of operations and strong market position in the high-margin business segments such as retail products and/or high value-added cables such as EHV segment, supporting a significant improvement in the overall profitability margins and working capital cycle while maintaining the credit metrics could lead to a positive rating action.

Negative: A significant increase in the net adjusted leverage (including acceptances) exceeding 2x on account of an increase in debt for any unexpected large capex or increased working capital requirements and/or deterioration in the margins, all on a sustained basis, could lead to a negative rating action.

COMPANY PROFILE

KEI started as a partnership firm under the name Krishna Electrical Industries in 1968 and later was converted into a public limited company in 1992. It is engaged in the business of manufacturing and marketing a large variety of cables and wires, such as low-tension, high-tension , EHV up to 400 kV, house wires and stainless steel wires catering to diverse industry and households.

KEI has five manufacturing facilities located in Bhiwadi, Chopanki, Pathredi (Rajasthan), Rakholi and Chinchpada (Silvassa). The company has also forward integrated into EPC services for power, distribution, transmission and sub-station projects.

FINANCIAL SUMMARY

Particulars	FY21	FY20
Revenue (INR billion)	41.8	48.9
Operating EBITDA (INR billion)	4.6	5.0
EBITDA margin (%)	11.0	10.2
Interest coverage (x)	7.8	3.9
Net adjusted leverage (x)	1.3	0.5
Source: KEI, Ind-Ra		

COMPLEXITY LEVEL OF INSTRUMENTS

Instrument Type	Complexity Indicator
Fund / non-fund working capital facilities	Low
Term loans	Low
Commercial paper	Low

For details on the complexity levels of the instruments, please visit https://www.indiaratings.co.in/complexity-indicators.

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Applicable Criteria

Corporate Rating Methodology
Short-Term Ratings Criteria for Non-Financial Corporates

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