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Well connected.
KEI is under Technical Collaboration Agreement with BRUGG to manufacture EHV cables up to 400kV

KEI Industries Limited

Registered and Corporate Office: D-90, Okhla Industrial Area, Phase-1, New Delhi- 110020 **CIN:** L74899DL1992PLC051527
Tel.: +91-11-26818840/8642/0242, Email: info@kei-ind.com Website: www.kei-ind.com

KEI/BSE/2024-25 **Date: 07.06.2024**
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 **India Ratings and Research Private Limited** has **affirmed the ratings with Positive Outlook** for the Company's Debt Instruments as under:

Instrument Type	Rating / Outlook	Remarks
Long Term Bank Facilities (Working Capital) / Debt Instruments.	IND AA/Positive	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(Working Capital) /Commercial Paper (CP)	IND 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 your information.

Thanking you,
Yours truly,
For KEI INDUSTRIES LIMITED

For KEI INDUSTRIES LIMITED
(Kishore Kunal)
VP (Corporate Finance) & Company Secretary

(KISHORE KUNAL)
VP (Corporate Finance) & Company Secretary

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**

AWARDED Superbrands 2023-24

India Ratings & Research

A Fitch Group Company

India Ratings Affirms KEI Industries's Bank Facilities at 'IND AA'/Positive; CPs at 'IND A1+'; Rates Additional Limits

Jun 07, 2024 | Cables - Electricals

India Ratings and Research (Ind-Ra) has taken the following rating actions on KEI Industries Limited's (KEI) bank facilities:

Details of Instruments

Instrument Type	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (million)	Rating assigned along with Outlook/Watch	Rating Action
Fund-based/non-fund-based working capital facilities	-	-	-	INR32,100	IND AA/Positive/ IND A1+	Affirmed
Commercial paper*	-	-	-	INR1,000	IND A1+	Affirmed
Proposed term loan	-	-	-	INR2,500	IND AA/Positive	Affirmed
Proposed term loan	-	-	-	INR3,500	IND AA/Positive	Assigned

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

Analytical Approach

Ind-Ra continues to take a standalone view of KEI to arrive at the ratings.

Detailed Rationale of the Rating Action

The Positive Outlook reflects a continuous improvement in KEI's operational performance in FY24, leading to steady credit metrices, and the likelihood of the same sustaining in the medium term. Furthermore, Ind-Ra believes the company's large ongoing capex, which is being funded through a mix of debt and internal accruals, along with its recently competed capex, is likely to lead to better than its five-year CAGR revenue growth over the next three-to-four years. In FY25, the company's profitability is likely to improve, driven by likely enhanced geographical diversification for exports, an improvement in operational efficiencies and increased contribution from high-margin segments.

The ratings reflect sustained healthy credit metrices, supported by an improvement in the scale of operations and profitability in FY24, and Ind-Ra expects the metrices to moderate slightly over FY25-FY26 but remain comfortable despite the ongoing debt-funded capex for increasing its capacities of different cable segments. Ind-Ra expects its already completed brownfield capex and those which are to be completed in 1QFY25 towards capacity additions of house wires and low voltage (LV) cables to improve profitability over FY25-FY26, with a gradual shift in the sales mix to high margin exports, where the major products are low voltage, medium voltage, and extra high voltage cables. KEI is also incurring capex to increase the capacities of the export products, which would be completed in FY26, would improve its overall profitability in the medium term.

List of Key Rating Drivers

Strengths

- Increased retail focus; modest share of engineering, procurement, and construction (EPC) business
- Increased capacities to support business growth
- Comfortable credit metrics
- Resilient operating margins
- Improvement in working capital cycle
- Well-diversified, healthy business profile
- Strong order book position and marketing network

Weaknesses

- Inherent business risks
- Competition risks

Detailed Description of Key Rating Drivers

Increased Retail Focus; Modest Share of EPC Business: KEI's revenue increased 17% yoy to INR81,041 million in FY24, led by growth of 26% yoy in the winding and house wire segment and 14% yoy in the cable segment. Although its revenue from the EPC segment increased 39% yoy, its revenue contribution was modest at around 7% in FY24 (FY23: 6%). The ratings factor in the likely increase in the revenue share of the retail business, which offers high margins and has an efficient working capital cycle, to about 50% in the medium term (FY24: 47%; FY23: 46%; FY22: 40%). Meanwhile, Ind-Ra expects the contribution of the institutional business, particularly EPC (excluding cables) that has a long working capital cycle to remain at the similar levels in FY25 (FY24: 7%; FY23: 6%; FY22: 7%). Ind-Ra expects KEI's likely change in mix towards the high-margin retail segment to help the company 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 is focusing on growing its dealer-based retail products and containing its EPC business to enhance its competitive intensity. KEI's dealer network sales increased to 47% in FY24 (FY23: 46%; FY22: 40%) while the EPC business's (excluding cables) contribution remained steady at around 7% of overall revenue (6%; 7%).

Increased Capacities to Support Business Growth: KEI increased its house wires and LV cables capacity at its Chinchpada facility by incurring INR800 million-850 million during FY23-FY24 that was completed in 4QFY24. Additionally, the company looks to complete the capex for capacity addition of LV cables worth INR1,100 million-1,250 million at Pathredi by 1QFY25. Ind-Ra expects incremental capacities at Pathredi to support primarily export demand. Both these projects were funded entirely through its internal accruals. Further, the ongoing greenfield capex of INR17,000 million-18,000 million at Sanand (Ahmedabad, Gujarat) is likely to be funded through a mix of debt and accruals. Around INR2,000 million of this was incurred in FY24, a major part of INR9,000 million-10,000 million would be incurred in FY25 and the balance INR5,000 milllion-6,000 million in FY26. This capex is towards the expansion of LV capacity, medium voltage and extra high voltage (EHV) cables. The progress of the project on timelines and the debt requirement for the project and its impact on the credit metrices will be a key monitorable.

Comfortable Credit Metrics: KEI has comfortable credit metrics with its net adjusted leverage (net debt/operating EBITDA) including channel financing recourse and letter of credit (LC) acceptances remaining less than unity in FY24

(FY23: negative 0.18). The gross interest coverage ratio (operating EBITDA/gross interest) was also comfortable at 19.1x in FY24 (FY23: 20.4x), mainly due to the company having no long-term debt on books and sustained improvement in operating performance. Although the planned debt-funded capex shall lead to an increase in the net adjusted leverage in FY26, the same shall remain below unity, and hence would be comfortable. FY27 onwards, as the cash accrual from the incremental capacities flow in, the net adjusted leverage is likely to improve gradually. Any significant impact on the credit metrices driven by the debt-funded capex over FY25-FY26 shall be a key rating monitorable.

Resilient Operating Margins: Despite volatile business cycles and raw material prices due to price fluctuations in metal, plastic, and rubber components, KEI's margins have been healthy and stable (FY24: 10.3%; FY23: 10.2%; FY22: 10.3%), backed by market and end-user industry diversification and 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/warehouse keeping a minimal inventory of not more than 15 days. The retail and exports segments earn around 11% margins, while institutional sales record margins of around 10%. Given the steady share of raw material cost at 75% of the revenue in FY24 (FY23: 75%; FY22: 74%), KEI's margins were around 10.3%, with a lower expense-to-sales ratio, backed by improved operational efficiency.

With KEI's larger focus on the high-margin retail segment and likely increase in exports, the overall EBITDA margin is likely to sustain at around 11% in FY25. However, in the medium term, the EBITDA margins are likely to be 11%-12% due to the company generating more than 60% of the revenue from its high-margin segments (retail and exports) and better fixed-cost absorption on higher economies of scale.

Improvement in Working Capital Cycle: Given low share of the EPC business, which has a relatively longer receivable cycle, the debtors were low and comprised mostly retention money. A decline in the receivable days to 68 in FY24 (FY23: 73; FY22: 89), driven by higher sales in the retail segment with lower working capital requirements led to a reduction in its net working capital cycle to 88 days (98; 116). The payable days increased marginally to 59 days in FY24 (FY23: 52; FY22: 64). Ind-Ra expects the working capital cycle to remain the similar levels in the medium term, supported by sustained low share of the EPC business and timely release of retention money.

Well-diversified, Healthy Business Profile: KEI's revenue profile is well diversified, with cables, wires, EPC, and stainless-steel segments contributing around 62%, 29%, 7% and 3%, respectively, to the total sales in FY24. KEI is a growing player in the Indian cable and wire industry, with a reasonable market share of 6%-7% in retail and 12%-13% in institutional. Furthermore, it has a domestic market share of 25% in the oligopolistic 400 EHV cable segment. KEI has a complete range of wire and cable products for institutional as well as retail customers. Furthermore, KEI has forward integration in EPC activities, mostly for government projects in the power distribution and transmission space.

The company's sales are also well diversified among institutional customers across diverse industries, retail network and export customers, contributing 40%, 47% and 13%, respectively, to its FY24 revenue. KEI's retail network is spread across zones and cities, with north, west, south and east India contributing 39%, 26%, 18% and 17%, respectively, to the total sales in FY24.

Strong Order Book Position and Marketing Network: As on 30 April 2024, KEI had an order book of INR35,310 million; 53% of the orders were from the cables division (FY23: 40%), 11% from the EHV cables division (24%), 22% from the EPC division (27%) and 15% from cable exports (9%). The company had a network of around 2,000 dealers as on 31 March 2024. KEI has hired additional marketing people from electrical and other fast-moving electric goods product background at different levels pan-India basis to grow its dealer and distribution segment.

Inherent Business Risks: KEI's main raw material includes copper, aluminium and poly vinyl chloride (PVC) compound. Copper and aluminium constitute about 52% and 21%, respectively, of the raw materials consumed; PVC compound constitutes 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. There is a lag effect of one month in the institutional segment, while prices are revised in 15 days in retail.

KEI's forex risk is partially mitigated by natural hedging as the company exports stood at around INR11,006 million in FY24 (FY23: INR7,128 million) against imports of around INR7,245 million (INR3,619 million), implying a net forex exposure.

Competition Risks: KEI faces pricing pressure due to significant competition from both organised and unorganised players, specifically in its retail segment. However, the overall pie has been growing fast, and this along with the company's vast experience of serving corporate customers with its diverse products has enabled it to grow swiftly in this segment.

Liquidity

Adequate: During the 12 months ended March 2024, the company's monthly average utilisation of the non-fund-based limits was merely around 45% and there was very less utilisation of the fund-based limits. The company has been minimally utilising its fund-based limits and has been funding its working capital requirements through internal accruals. The unutilised fund-based and non-fund based working capital limits stood at INR5,625 million and INR11,812 million, respectively, at end-March 2024. Moreover, KEI has a strong and well-diversified investor base, in terms of debt and equity. The company had healthy operational cash flows and a cash position of around INR6,661 million at FYE24 (FYE23: INR4,799 million). Its cash flow from operations improved significantly to INR5,903 million in FY24 (FY23: INR4,982 million) due to healthy EBITDA of INR8,375 million (INR7,062 million) and an improvement in working capital cycle. The company did not have long-term debt at FYE24.

As against the proposed term loan of INR6,000 million for the ongoing capex, KEI has already received sanctions from banks of INR6,800 million while the allocation of limits is pending at end-May 2024. Hence, 100% tie-up required for the capex over FY25-FY26 is already in place. The drawdown shall be as per fund requirement.

Also, the management expects to gradually recover its EPC debtors, with the retention money being released as per the schedules. Of KEI's total debtors of INR15,179 million at FYE24, the EPC business accounted for 40.4%, and of this, nearly 43% was only retention money.

Rating Sensitivities

Positive: Substantial progress in the ongoing capex as per the schedule, leading to an increase in the scale of operations, along with the improvement in the product/segment mix while maintaining the credit metrics could lead to a positive rating action.

Negative: Any cost/time over-run in the ongoing capex/ any incremental large debt-funded capex and/or significant deterioration in the profitability, leading to the adjusted net adjusted leverage exceeding 1.0x, all on a sustained basis, could lead to the Outlook being revised to Stable.

ESG Issues

ESG Factors Minimally Relevant to Rating: Unless otherwise disclosed in this section, the ESG issues are credit neutral or have only a minimal credit impact on KEI, due to either their nature or the way in which they are being managed by the entity. For more information on Ind-Ra's ESG Relevance Disclosures, please click here. For answers to frequently asked questions regarding ESG Relevance Disclosures and their impact on ratings, please click here.

About the Company

Incorporated in 1992, KEI (formerly Krishna Electrical Industries) manufactures and markets power cables - low tension, high tension and EHV, house wire, stainless steel wire catering sectors such as power, oil refineries, railways, automobiles, cement, steel, fertilizers, textile and real estate, among others. KEI has five manufacturing facilities located at Bhiwadi, Chopanki, Pathredi (Rajasthan), Rakholi and Chinchpada (Silvassa). KEI also has two plants for backward integration of PVC compound Harchandpur (Rajasthan) and Dapada (Dadra and Nagar Haveli and Daman and Diu). The company has forward integration in EPC services for power, distribution, transmission and sub-station projects.

KEY FINANCIAL INDICATORS

Particulars (in INR million)	FY24	FY23
Revenue	81,041	69,123
EBITDA	8,375	7,062
EBITDA (%)	10.3	10.2
Interest coverage ratio (x)	19.07	20.35
Net adjusted leverage (x)*	-0.03	-0.18
*Including LC acceptances and channel financing recourse		
Source: KEI, Ind-Ra		

Status of Non-Cooperation with previous rating agency

Not applicable

Rating History

Instrument Type	Current Rating/Outlook			Historical Rating/Outlook		
	Rating Type	Rated Limits (million)	Rating	8 June 2023	9 June 2022	18 June 2021
Fund-based / non-fund-based limits	Long-term/ Short-term	INR32,100	IND AA/Positive/ IND A1+	IND AA/Positive/ IND A1+	IND AA/Stable/ IND A1+	IND AA-/Stable/ IND A1+
Commercial papers	Short-term	INR1,000	IND A1+	IND A1+	IND A1+	IND A1+
Proposed term loan	Long-term	INR6,000	IND AA/Positive	IND AA/Positive	IND AA/Stable	-

Bank wise Facilities Details

Click here to see the details

Complexity Level of the Instruments

Instrument Type	Complexity Indicator
Fund-based/non-fund-based limits	Low
Commercial paper	Low
Proposed term loan	Low

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

CORRECTION IN PREVIOUS RATING ACTION COMMENTARY

Ind-Ra corrects the net adjusted leverage ratio to negative 0.18x from negative 0.02x in the rating action commentary published on 8 June 2023.

APPLICABLE CRITERIA

Evaluating Corporate Governance

Short-Term Ratings Criteria for Non-Financial Corporates

Corporate Rating Methodology

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Ind-Ra currently maintains coverage of corporate issuers, financial institutions (including banks and insurance companies), finance and leasing companies, managed funds, urban local bodies and project finance companies.

Headquartered in Mumbai, Ind-Ra has seven branch offices located in Ahmedabad, Bengaluru, Chennai, Delhi, Hyderabad, Kolkata and Pune. Ind-Ra is recognised by the Securities and Exchange Board of India, the Reserve Bank of India and National Housing Bank.

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