KEC International Limited
August 10, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	2,400.00	**CARE AA-; Stable (Double A Minus; Outlook: Stable)**	**Reaffirmed**
Long-term / Short-term bank facilities	14,600.00	**CARE AA-; Stable / CARE A1+ (Double A Minus; Outlook: Stable/ A One Plus)**	**Reaffirmed**
Total bank facilities	**17,000.00 (₹ Seventeen thousand crore only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The ratings assigned to the bank facilities of KEC International Limited (KEC) continue to derive strength from its dominant market position in Engineering, Procurement and Construction (EPC) business in the power transmission and distribution (T&D) segment, extensive experience of the promoters, financial flexibility available being a part of the RPG group, strong project-execution capabilities, robust order book position diversified across multiple sectors and geographies providing revenue visibility in the medium term, low fixed repayment obligations and comfortable liquidity position. The ratings factor in significant order book addition during the last one year thereby resulting in reduction in share of contracts secured on basis of lower commodity prices of 2020. This along with the overall softening of commodity prices in 2022, closure of legacy projects under the Brazilian subsidiary, SAE Towers and pick up in pace of project execution is expected to result in improvement in the profit before interest, lease, depreciation and tax (PBILDT) margins from H2FY23 onwards (FY refers to the period April 01 to March 31) on a consolidated basis. The project execution has picked up in Q1FY23 vis-à-vis last year with the company reporting revenue growth of 31% on a y-o-y basis, post a modest performance reported in FY22.

The rating strengths, are however, tempered by the moderation in the PBILDT margins (on a consolidated basis) during FY22 & Q1FY23 and elevated debt level, to finance the heightened working capital requirement as well as loss in overseas subsidiary. Consequently, debt coverage metrics have witnessed moderation. The working capital position is expected to improve from the second half of the fiscal which would eventually enable rationalisation of debt level and the same remains a key monitorable.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Improvement in average collection days along with continued growth in sale of operations
- Improvement in overall gearing below 1.0x and/or TOL/TNW less than 2.0x.

Negative Rating Factors - Factors that could lead to negative rating action/downgrade:

- Increased debt and/or further stretch in the working capital cycle impacting the financial and liquidity position
- Continued underperformance of SAE Brazil and/or slowdown in other projects resulting in PBILDT margin lower than 7% on continued basis

Detailed description of the key rating drivers

Key rating strengths

Well-established business and experienced management

KEC was incorporated in 1945 and became a part of the RPG Group in early 1980s. The company is majorly involved in EPC work for power T&D systems and is one of the largest players in India in this segment. The company has also increased its presence into railway projects, manufacturing of cables for power, telecom, civil construction and is also into Oil & Gas Pipeline business.

The RPG group, established in 1979 by Dr. R. P. Goenka, is one of India's leading business conglomerates managing more than 15 companies having diverse business interests in infrastructure, tyre, information technology, pharmaceuticals, energy products and plantations. KEC benefits from the group's strong reputation, access to capital market and financial flexibility derived.

The group is, presently, spearheaded by Harsh V Goenka, Chairman of KEC. The overall operations of KEC are managed by Vimal Kejriwal (Managing Director & CEO of KEC).

Robust and diversified order book position

The order book position of KEC stood at ₹23,720 crore as on June 30, 2022 which provides revenue visibility approximately for the next two years. Besides, the company had L1 orders of ₹Rs.6,300 crore as on June 30, 2022. The company has added orders close to ₹18,000 crore in FY22. KEC has presence in the domestic and international market with close to 66% orders in India and the balance spread across countries viz Saudi Arabia, Bangladesh, Oman, UAE, Georgia etc. In the international

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

market, the company does not secure projects directly from the respective Governments and all the contracts are backed by presence of multilateral funding agencies such as Exim Bank of India, Japan International Cooperation Agency, Islamic Development Bank, OPEC Fund for International Development etc. Given the strong presence in the T&D segment of KEC in the country, the orders from the segment constitute around 41% of its order book. The balance work is spread across Civil construction (32%), Railway projects (16%) and Cables/Smart Infra/Oil & Gas/SAE (11%)

Wider geographical reach with diversified revenue
The company has established its footprint in over 70 countries through various subsidiaries and joint ventures with major reach in countries such as Middle East, Africa, America, and Southeast Asia. During FY22, around 68% of the revenue was generated from domestic orders and the balance from the international projects. The company although continues to derive almost 50% of revenue from the T&D segment, it is gradually increasing its presence in other segments particularly civil infrastructure projects and railway work orders. As a result, the share of non-T&D segment has been increasing from 32% in FY20 to almost 50% in FY22. During FY22, the non-T&D segment revenue contribution was distributed amongst railway works (28%), Civil (around14%), Cables (around 6%) and Smart infra/solar/oil & gas (around 2%).

Liquidity: Strong
The liquidity position remains comfortable with low debt repayment obligation and sufficient cash accruals generated to adequately cover the fixed debt repayment liabilities (₹100 crore approximately for FY23). The average fund-based working capital utilisation was around 73% for the last 12 months ended April 2022. KEC also had cash balance of around ₹229 crore as on June 30, 2022.

Key Rating Weaknesses
Moderation in performance during FY22 and Q1FY23
The financial performance during FY22 was impacted due to slowdown in work execution in few projects and more so due to the impact of steep rise in commodity prices which against fixed-price nature of contracts/lower price escalation impacted the operating profit. This along with losses in the subsidiary; SAE Towers, Brazil, due to non-recovery of fixed costs with slowdown in work execution on account of heavy rainfall, high input cost (material and labour) and rise in interest rates, pulled down the consolidated performance. The PBILDT margin (consolidated) reduced from 9.45% in FY21 to 7.24% in FY22. While the standalone PBILDT margin also witnessed reduction of 151 bps during the period, the fall was sharper on a consolidated basis.
The PBILDT margin reduced further to 5.30% in Q1FY23 with continued loss in Brazil as well as other challenges emanating from global economic environment viz. rise in shipping freights and spike in interest rates in Brazil. Thus, despite revenue growth of 31% during Q1FY23 (on a y-o-y basis), the profitability remained subdued. However, the EPC work order in Brazil is almost completed and hence no major loss from the same is expected from H2FY23 onwards. Any higher-than-envisaged and/or prolonged impact of the underperformance of the overseas subsidiary on the financial/liquidity profile of KEC would be important from credit perspective.

Increased working capital intensity and debt level
The nature of KEC's business is working capital intensive, largely due to milestone-based payment terms and high retention money component. The working capital intensity has increased with (i) reduction in cash accruals generated, (ii) back-ended payment terms/elongated milestone achievement associated with railway projects undertaken & under execution and (iii) receivables stuck in project executed in Afghanistan due to country-specific issues. The operating cycle has elongated from 118 days in FY21 to 130 days in FY22. As a result of the heighted working capital intensity, the debt level has also elevated with major borrowing towards working capital funding.
While the cash accrual and railway recoveries are expected to improve post Q2FY23, the timelines on recovery from the Afghanistan project may get extended. The company has net debtors outstanding to the tune of ₹231 crore as on March 31, 2022 for projects executed in Afghanistan. The company is in active talks with various stakeholders and expects revival of its projects which were funded by World Bank and Asian Development Bank.
Any further elongation in the working capital cycle due to non-fructification of the working capital management plans as envisaged and/or slow progress on overseas work orders due to global economic slowdown would be key monitorable.

Analytical approach: Consolidated. CARE Ratings Limited (CARE Ratings) in its analysis has considered the consolidated business and financial risk profile of KEC and its subsidiaries as the entities are linked through a parent-subsidiary relationship and collectively have management, business & financial linkages. The list of entities consolidated is presented in Annexure-6.

Applicable Criteria
Criteria on assigning 'Outlook' and 'credit watch' to Credit Ratings
CARE's Policy on Default Recognition
Rating Methodology: Consolidation
Rating Methodology: Construction
Financial Ratios - Non-financial Sector
Liquidity Analysis of Non-financial Sector Entities
Criteria for short-term Instruments

About the Company

KEC is a part of the RPG group. The company is a global EPC major in the field of power T&D systems. It has also diversified into railway infrastructure, manufacturing of cables (for power, telecom, solar and railways), civil construction with a focus on the construction of industrial plants, warehouses, residential and commercial complexes, as well as Smart Infrastructure and renewable sector (solar) projects. The operations of the company are well diversified across the globe with its eight manufacturing facilities spread across India (5) and one each in UAE, Brazil and Mexico. The company has one of the largest globally-operated tower manufacturing capacities of 3,62,200 MTPA, Railway structures manufacturing capacity of 48,000 MTPA and solar structures manufacturing capacity of 12,000 MTPA.

Brief Financials (₹ crore)	FY21 (A)	FY22 (A)	Q1FY23 (U/A)
Total operating income	13,128	13,822	3326
PBILDT	1,240	1,001	176
PAT	553	332	31
Overall gearing (times)	1.51	1.90	1.74*
Interest coverage (times)	3.44	2.43	1.76

A: Audited; U/A: Un-audited; *Net debt basis

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure-4

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Non-fund-based - LT/ ST-BG/LC	-	-	-	-	14600.00	CARE AA-; Stable / CARE A1+
Fund-based - LT-Cash Credit	-	-	-	-	2400.00	CARE AA-; Stable

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Non-fund-based - LT/ ST-BG/LC	LT/ST*	14600.00	CARE AA-; Stable / CARE A1+	-	1)CARE AA-; Stable / CARE A1+ (05-Oct-21)	1)CARE AA-; Stable / CARE A1+ (30-Sep-20)	1)CARE AA-; Stable / CARE A1+ (09-Oct-19)
2	Fund-based - LT-Cash credit	LT	2400.00	CARE AA-; Stable	-	1)CARE AA-; Stable (05-Oct-21)	1)CARE AA-; Stable (30-Sep-20)	1)CARE AA-; Stable (09-Oct-19)

*Long term/Short term

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities: Not applicable

Annexure-4: Complexity level of various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Non-fund-based - LT/ ST-BG/LC	Simple

Annexure-5: Bank lender details for this company

To view the lender-wise details of bank facilities please click here

Annexure 6: List of entities consolidated:

Direct Subsidiaries
RPG Transmission Nigeria Limited
KEC Global FZ–LLC–Ras UL Khaimah
KEC Towers LLC
KEC Investment Holdings, Mauritius
KEC Global Mauritius
KEC International (Malaysia) SDN BHD
KEC Power India Private Limited
KEC Spur Infrastructure Private Limited (Acquired on October 13, 2021) (formerly known as Spur Infrastructure Private Limited)
Indirect Subsidiaries
SAE Towers Holdings LLC
SAE Towers Brazil Subsidiary Company LLC
SAE Towers Mexico Subsidiary Holding Company LLC
SAE Towers Mexico S de RL de CV
SAE Towers Brazil Torres de Transmission Ltd.
SAE Prestadora de Servicios Mexico, S de RL de CV
SAE Towers Ltd
SAE Engenharia E Construcao Ltd
KEC Engineering & Construction Services, S de RL de CV
KEC EPC LLC (w.e.f October 06, 2021)

Note on complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

Contact us

Media contact
Name: Mradul Mishra
Phone: +91-22-6754 3596
E-mail: mradul.mishra@careedge.in

Analyst contact
Name: Puja Jalan
Phone: 9160001511
E-mail: puja.jalan@careedge.in

Relationship contact
Name: Saikat Roy
Phone: +91-98209 98779
E-mail: saikat.roy@careedge.in

About us:
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