KEC International Limited

March 15, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	2,400.00	CARE AA-; Stable	Reaffirmed
Long-term / Short-term bank facilities	14,600.00	CARE AA-; Stable / CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

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 the 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 also factor in the significant order book addition of around ₹15,500 crore during the 9MFY23 (refers to period April 01 to March 31) thereby resulting in reduction in the share of contracts secured on basis of lower commodity prices of 2020 and improved pace of execution with revenue growth of 24% during 9MFY23 on a y-o-y basis. This along with the overall softening of commodity prices, gradual closure of legacy projects, completion of loss incurring EPC project in Brazilian subsidiary, SAE Towers in December 2022 along with proposed refinancing of existing high cost debt in Brazil with lower cost debt and pick up in pace of project execution is expected to result in gradual improvement in the operating margin steadily (on a consolidated basis), going forward.

The working capital intensity is also expected to ease with conversion of unbilled revenue into debtors, pick up in realisation of debtors from Railway projects and recovery of sticky debtors in Afghanistan. CARE Ratings Limited (CARE Ratings) expects the working capital borrowing (including acceptance) to reduce by around ₹400-500 crore by end of March 2023 (as against December 2022 level) driven by reduction in the gross current asset days. Debt reduction amidst expected growth in the scale of operations is further expected to be continued in FY24 with strong focus on collection efficiency. Delay in rationalisation of debt levels while realising stretched current assets within time-bound manner shall be critical rating sensitivity.

The rating strengths are, however, tempered by the subdued margins during 9MFY23 and high leverage to finance the heightened working capital requirement as well as loss in overseas subsidiary. Consequently, debt coverage metrics have witnessed moderation. The company has undertaken steps to address the margin reduction, which is expected to be visible from next fiscal and hence key rating monitorable.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Significant improvement in average collection days along with continued growth in the scale of operations leading to total outside liabilities to tangible net worth (TOL/TNW) of less than 2x on a sustained basis.

Negative factors

- Non rationalisation of debt level as envisaged by end of fiscal 2023 and on yearly basis by September 2023.
- Inability to improve gross current asset days to around 300 days while realising stretched receivables.
- Inability to improve consolidated PBILDT margins above 7% beyond Q2FY23: CARE Ratings had earlier mentioned that continued underperformance in SAE Brazil and/or slowdown in other projects leading to consolidated PBILDT margins lower than 7% on continuing basis is a negative rating sensitivity. Consolidated PBILDT margins of KEC moderated to 5.6% during 9MFY23 due to losses from SAE Brazil and the impact of legacy projects secured at lower rates. However, consolidated PBILDT margins are expected to improve gradually to above 7% from second half of fiscal 2024 on the basis of reasons explained earlier.

Analytical approach: Consolidated. 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 and financial linkages. The list of entities consolidated is presented in Annexure-6.

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

Outlook: Stable

The stable outlook reflects continued dominant market position of the company, strong order book providing revenue visibility in the medium term and expected improvement in the working capital position, which would enable the company to maintain comfortable liquidity.

Key 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 the 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 with strong market capitalisation with negligible level of pledge of shares by the promoters.

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

Robust and diversified order book position

The order book position of KEC stood at ₹28,981 crore as on December 31, 2022, which provides revenue visibility approximately for the next two years. Besides, the company had L1 orders of around ₹6,000 crore as on December 31, 2022. The company has added orders close to ₹15,500 crore during 9MFY23. KEC has presence in the domestic as well as the international market with close to 67% orders in India and the balance spread across countries, viz, Saudi Arabia, Bangladesh, Oman, UAE, Georgia, etc. In the international 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 KEC's strong presence in the T&D segment in the country, the orders from the segment constitute around 40% of its order book. The balance work is spread across civil construction (28%), railway projects (17%) and cables/smart infra/oil & gas/SAE (15%).

Wider geographical reach with diversified revenue

The company has established its footprint in over 70 countries through various subsidiaries and joint ventures (JV) with major reach in countries, such as Middle East, Africa, America, and Southeast Asia. Although the company 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 9MFY23. The company has started focusing on the renewable sector, especially solar projects. However, on account of the issues faced in the past due to policy uncertainties over sourcing of solar modules, the company is focusing on solar projects excluding supply of modules. Apart from solar, the company has been focusing on Green Hydrogen power projects in India. During 9MFY23, the non-T&D segment revenue contribution was distributed amongst railway works (21%), Civil (19%), Cables (10%) and oil & gas (3%).

Growing scale of operation

KEC has reported consistent growth in the scale of operation over the years backed by steady order inflow on a y-o-y basis. While there was a stable growth in the revenue in FY22 due to COVID-19-related challenges, 9MFY23 has witnessed growth of about 24% on a consolidated level. The revenue growth as well as continuous order addition has enabled the company to manage its cashflow despite the impact of losses at subsidiary level.

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. The average fund-based working capital utilisation was around 80% for the last 12 months ended January 2023. The working capital is supported by enhanced limits of ₹1,500 crore. KEC also had cash balance of around ₹300 crore as on December 31, 2022.

Key weaknesses

Moderation in profitability margins during 9MFY23 albeit expected improvement in the medium term

The subsidiary operations in SAE Brazil have reported loss of USD 35.4 million during 9MFY23 due to loss-making EPC projects and elevated rate of interest on the local bank borrowings. This along with increase in the logistic cost for transportation of towers to African and Middle Eastern countries during H1FY23 and execution of legacy projects at adverse prices during Q3FY23 has pulled down the margins at consolidated level (by about 166 bps during 9MFY23 from FY22) to 5.58%.
However, it is expected that the PBILDT margin would steadily improve going forward with the completion of the last EPC project in Brazil during December 2022, refinancing of major portion of debt by the end of March 2023 in SAE Brazil, and reduced impact of contracts executed with uncovered cost escalation due to commodity price spike. The legacy projects form about 5% of the order book which would continue to impact the profit during Q4FY23/Q1FY24.
Any higher-than-envisaged and/or prolonged impact of the legacy projects and underperformance of the overseas subsidiary on PBILDT margins of KEC beyond Q2FY23 would be important from the credit perspective.

Increased working capital intensity and debt level; albeit gradual improvement expected in FY23 and FY24

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 the project executed in Afghanistan due to country-specific issues. As a result of the heighted working capital intensity, the debt level has also elevated with major borrowing towards working capital funding resulting in moderation of total debt/PBILDT to 7.76x during 9MFY23 (6.80x during FY22).
There has been traction in the sticky receivable in Afghanistan with recovery of around 40% of the net receivable from the project and balance also expected in Q1FY24.
With respect to pending receivables from railways, during 9MFY23, the company achieved milestones in few of the projects and billed the unbilled portion of close to ₹400 crore. The debtors have started realising from such projects which along with improved cash accrual in Q4FY23 is expected to enable the company to rationalise the debt level. Working capital debt is expected to reduce by about ₹400-500 crore by end of FY23 as against 9MFY23 level. Debt reduction is expected to be continued in FY24 with focus on collection efficiency. Non achievement of the same within the time-bound manner would be a rating sensitivity.

ESG

KEC is exposed to the environmental risk emanating from the distruption of economic resources while construction activities are under progress. Also, the presence in the industrial segment may result in environmental pollution and ecological dislocation thereby necessating requisite regulatory approvals. The business profile of KEC also has social impact with large labour force involvement and hence has associated occupational risk. The risk factors are mitigated by presence of well-established ESG framework by the company, which encompasses sustainable procurement, occupational healthy and safety, energy consumption, carbon emission, etc.

Applicable criteria

Policy on default recognition
Consolidation
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Construction
Infrastructure Sector Ratings
Policy on Withdrawal of Ratings

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Industrials	Construction	Construction	Civil Construction

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 362,200 MTPA, railway structures manufacturing capacity of 48,000 MTPA and solar structures manufacturing capacity of 12,000 MTPA.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	9MFY23 (U/A)
Total operating income	13,128	13,822	11,783
PBILDT	1,240	1,001	657
PAT	553	332	104
Overall gearing (times)	1.51	1.90	2.21
Interest coverage (times)	3.44	2.43	1.42

A: Audited; U/A: Un-audited

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 the covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of the various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

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

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+ (10-Aug-22)	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 (10-Aug-22)	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 the various instruments rated

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

Annexure-5: Lender details

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 the 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	Analytical Contacts
Name: Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in **Relationship Contact** Name: Saikat Roy Senior Director **CARE Ratings Limited** Phone: +91-22-6754 3404 E-mail: saikat.roy@careedge.in	Name: Rajashree Murkute Senior Director **CARE Ratings Limited** Phone: +91-22-6837 4474 E-mail: Rajashree.Murkute@careedge.in Name: Maulesh Desai Director **CARE Ratings Limited** Phone: +91-79-40265605 E-mail: Maulesh.Desai@careedge.in Name: Puja Jalan Associate Director **CARE Ratings Limited** Phone: +91-40-4010 2030 E-mail: puja.jalan@careedge.in

About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

Disclaimer:
The ratings issued by CARE Ratings are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse, or recall the concerned bank facilities or to buy, sell, or hold any security. These ratings do not convey suitability or price for the investor. The agency does not constitute an audit on the rated entity. CARE Ratings has based its ratings/outlook based on information obtained from reliable and credible sources. CARE Ratings does not, however, guarantee the accuracy, adequacy, or completeness of any information and is not responsible for any errors or omissions and the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE Ratings have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE Ratings or its subsidiaries/associates may also be involved with other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating/outlook assigned by CARE Ratings is, inter-alia, based on the capital deployed by the partners/proprietors and the current financial strength of the firm. The ratings/outlook may change in case of withdrawal of capital, or the unsecured loans brought in by the partners/proprietors in addition to the financial performance and other relevant factors. CARE Ratings is not responsible for any errors and states that it has no financial liability whatsoever to the users of the ratings of CARE Ratings. The ratings of CARE Ratings do not factor in any rating-related trigger clauses as per the terms of the facilities/instruments, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and triggered, the ratings may see volatility and sharp downgrades.

For the detailed Rationale Report and subscription information, please visit www.careedge.in