

KEC International Limited (Revised)

October 05, 2021
Ratings

Facilities/Instruments	Amount (Rs. 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 (Rs. Seventeen Thousand Crore Only)		

Details of instruments/facilities in Annexure-1
Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of KEC International Limited (KEC) continues to derive strength from its dominant market position in Engineering, Procurement and Construction business in power transmission and distribution segment, extensive experience of promoters, strong project execution capabilities, healthy and diversified order book position catering to multiple sectors and having presence across varied geographies thereby yielding revenue visibility in the near to medium term. The ratings also factor in the steady operating performance during FY21 (refers to the period from April 01 to March 31) characterized by growth in total operating income although profitability margins moderated marginally during the period.

The rating strengths, are however, tempered by working-capital intensive nature of business, modest debt protection metrics, operations being exposed to variability in commodity prices & foreign exchange fluctuation risk and intense competition in the sector.

Rating Sensitivities

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

- ✓ Significant improvement in average collection days on a sustained basis while improving scale of operations and profitability margins
- ✓ 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
- ✗ Significant underperformance of SAE Brazil leading to decline in PBILDT margin below 7% and thereby lower cash accruals during the year during FY22.

Detailed description of the key rating drivers
Key Rating Strengths
Well established business and experienced management

KEC was founded in early 1940s and became a part of RPG Group in early 1980s. The company is majorly involved in Engineering, Procurement, and Construction (EPC) work for power transmission & distribution systems and is one of the largest players in India. The company has also increased its presence into railway projects,

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

manufacturing of cables for power, telecom, solar and railways, renewable sector (solar) projects, civil construction and into Smart Infrastructure business.

RPG group, established in 1979 by Dr. R. P. Goenka, is one of India's leading business conglomerates managing more than fifteen companies having diverse business interests in infrastructure, tyre, information technology, pharmaceuticals, energy products and plantations. The group is presently spearheaded by Mr. Harsh V Goenka, Chairman of KEC. The overall operations of KEC are managed by Mr. Vimal Kejriwal (Managing Director & CEO of KEC). Thus, KEC, the flagship company of the RPG group, benefits from the group's strong reputation and the promoters' longstanding relationships with key stakeholders.

Healthy and diversified order book position

KEC's total order book position as on June 30, 2021 stood healthy at Rs.20,434 crore which is around 1.56x the consolidated net sales of FY21, to be executed over a period of next 24-36 months, thereby providing near to medium term revenue visibility for the company. Besides, the company had additional L1 orders of ~Rs.6000 crore as on June 30, 2021.

The order book is geographically well diversified as around 63% of orders are from the domestic market while the balance orders are for the international market. As on June 30, 2021, order book position is spread across T&D (49%), Railways (24%), Civil (19%) while Solar/Smart Infra/SAE and others contributed remaining 8%. In the domestic order book, T&D contributed about 17% while Non-T&D business contributed 46%.

Wider geographical reach backed by presence in multiple segments within EPC industry

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 FY21, around 41% of the revenue is generated outside India (mainly Middle East, SAARC nations – 33% followed by America (the USA, Brazil and Mexico) – 8%).

The company is scaling up its railways infrastructure and civil business segment to diversify its business and insulate against any significant adverse fluctuation in revenue. During FY21, KEC derived around 58% of revenue from T&D segment, followed by railways contributing around 26%, Civil (~8%), Cables (~6%) and Smart infra and solar (~1%). The company further anticipates that the proportion of revenue accruing from the railway and civil business will increase in the years going forward while maintaining the operating margin.

Improvement in total operating income coupled with stable profitability margins

The total operating income (consolidated) of the company registered a y-o-y growth of 8.60% during FY21, despite the impact of covid pandemic. The geographically diversified order book with presence in domestic & global markets has enabled the company to maintain the revenue growth. The PBILDT margin of the company declined from 11.05% during FY20 to 9.48% during FY21 on account of higher input prices and disruptions in Brazilian operations due to Covid. The PAT margin of the company declined from 4.68% during FY20 to 4.21% during FY21.

The financial performance during Q1FY22 has improved at a standalone level with growth in revenue (23%) and profit levels. At a consolidated level, while revenue has grown by 15%, PBILDT has reduced by 20% due to disruption in Brazilian operations. In Brazil, the pandemic has impacted the economy and availability of steel. Also, localized lockdowns resulted in issues with respect to availability of manpower. The Govt. of Brazil did not allow the company to invoke force majeure. The aforementioned reasons have resulted in significant time and cost overrun in many EPC projects in Brazil thereby impacting the margins of the company at consolidated level. The company reported operating loss of about Rs.75-80 crore during Q1FY22 from Brazilian operations.

Key Rating Weaknesses

Modest debt coverage indicators albeit improving gearing levels

The overall gearing of the company continues to remain moderate although improved from 1.87x as on March 31, 2021 to 1.51x as on March 31, 2020 on account of lower utilization of fund based limits and plough back of profits

to reserves. TOL/TNW has also been improving over the last three years and the debt coverage metrics have been satisfactory.

Impact of input price fluctuation, dependence on sub-contracting and foreign exchange fluctuation risk

The materials consumed comprises steel, zinc, copper, aluminum, transformers, conductor, cables, panel board, switch control boards etc. which are procured from Government approved vendors. Raw material expenses constituted one of the major cost element with composition of ~58% (on an average) to the total cost of sales. Volatility in the prices of base metals can impact the profitability margins of the company. The sub-contracting expenses have also been the major contributor to cost of sales. The proportion of same to the total cost of sales has increased marginally to ~20% during FY21 (~18% during FY20). The company sub-contracts part of the project which includes procurement of raw materials, mobilization of labour and completion of works.

KEC enters into derivative contracts to hedge against the foreign exchange fluctuation risk. Having its footprints in the international market exposes the company to foreign exchange fluctuation risks. Its exposure to currency fluctuations are hedged to a certain extent by natural hedge (through payments made for raw materials imported, vendor payments made overseas etc.). The remaining exposure is generally hedged by entering into forward foreign exchange contracts.

Stretched collection period although remained stable during FY21

The nature of KEC International Limited's business is highly working capital intensive, largely due to milestone based payment terms in almost all its contracts as well as high retention money. The average collection period of the company continues to remain high at 261 days during FY21 (FY20: 260 days). Nevertheless, the company derives flexibility to fund working capital requirement through comfortable levels of unutilized bank limits, advances from customers and creditors. The operating cycle was close to around 120 days during FY21.

The company has debtors outstanding to the tune of Rs.568 crore for projects executed in Afghanistan. Given the political unrest in the country, the debtors are expected to remain stuck in the near term. Any impact of same on the financial position would be a key monitorable.

Liquidity: Strong

Strong liquidity characterized by healthy accruals and moderate cash balance of ~Rs.315 crore as on June 30, 2021 (Rs.261.38 crore as on June 30, 2020), supported by above unity current ratio as on March 31, 2021. Its unutilized fund-based limits of Rs.578.00 crore as on July 31, 2021 are more than adequate to meet its incremental working capital needs.

Analytical approach: Consolidated. CARE 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-subsidary 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](#)

[Rating Methodology-Consolidation](#)

[CARE's Policy on Default Recognition](#)

[Financial ratios - Non-Financial Sector](#)

[Criteria for Short Term Instruments](#)

[Rating Methodology-Construction Sector](#)

[Liquidity Analysis of Non-Financial Sector Entities](#)

About the Company

KEC International Limited is a part of RPG group. The company is a global engineering, procurement and construction (EPC) major in the field of power transmission & distribution 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 seven manufacturing facilities spread across India (5), Brazil (1) and Mexico (1) which includes 2 cable manufacturing facilities located in India. The company has one of the largest globally operated tower manufacturing capacity of 3,12,200 MTPA, Railway structures manufacturing capacity of 48,000 MTPA and solar structures manufacturing capacity of 12,000 MTPA. KEC has established its footprint in various countries across the globe through various subsidiaries and joint ventures with major reach in countries including Middle East, Africa, Latin America, and Southeast Asia amongst other geographies. EPC work in the field of power transmission towers, power transmission lines and tower testing services in India and abroad contributes 58% to the top line of company. The company has its presence in over 70 countries across the globe.

Brief Financials (Rs. crore) (Consolidated)	FY20 (A)	FY21 (A)
Total operating income	12,092.61	13,132.59
PBILDT	1,336.27	1,244.81
PAT	565.52	552.72
Overall gearing (times)	1.87	1.51
Interest coverage (times)	3.32	3.45

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: 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 (Rs. 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 of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Non-fund-based - LT/ ST-BG/LC	LT/ST*	14600.00	CARE AA-; Stable / CARE A1+	-	1)CARE AA-; Stable / CARE A1+ (30-Sep-20)	1)CARE AA-; Stable / CARE A1+ (09-Oct-19)	1)CARE AA-; Stable / CARE A1+ (01-Aug-18)
2	Fund-based - LT-Cash Credit	LT	2400.00	CARE AA-; Stable	-	1)CARE AA-; Stable (30-Sep-20)	1)CARE AA-; Stable (09-Oct-19)	1)CARE AA-; Stable (01-Aug-18)

* Long Term / Short Term

Annexure-3: Detailed explanation of covenants of the rated instrument / 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[Click here to view Bank Lender Details](#)**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
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

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

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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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