KEC International Limited (Revised)
September 30, 2020

Ratings

Facilities	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 Facilities	17,000.00 (Rs. Seventeen Thousand Crore Only)		

Detailed Rationale& Key Rating Drivers
The reaffirmation of ratings assigned to the bank facilities of KEC International Limited (KEC) continues to derive strength from its dominant market position in power transmission and distribution segment, strong project execution capabilities, having 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 in FY2020 (refers to the period from April 01 to March 31) characterized by growth in revenues and stable profitability margins. Furthermore, the ratings continue to factor in the long track record in the Engineering, Procurement and Construction business coupled with extensive experience of the promoters.
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 along with inherent risk or challenges involved in execution of large-sized orders.

Rating Sensitivities:
Positive Factors:
- Significant improvement in gross current asset days on a sustained basis while improving scale of operations and profitability margins.
- Improvement in working capital management or infusion of funds resulting into overall gearing falling below 0.5 X.

Negative Factors:
- Higher than envisaged debt either due to large debt funded capex or stretch in the working capital cycle resulting into weakening of financial risk profile.
- Decline in PBILDT margin below 9% leading to fall in cash accruals on a sustained basis.

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,

[1]*Complete 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 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, 2020 stood healthy at Rs.19,682 crore which is around 1.64x the consolidated net sales of FY20, to be executed over a period of next 12-18 months, thereby providing near to medium term revenue visibility for the company. The company has order intake of around Rs.12,160 crore in FY20 and around Rs.1,931 crore in Q1FY21 respectively. Besides, the company had additional L1 orders of around Rs.4,818 crore as on June 30 2020.
The order book is geographically well diversified as around 64% orders are from the domestic market while the balance orders are for the international market. As on June 30, 2020, order book position is spread across T&D (51%), Railways (28%), Civil (14%) while Solar/Smart Infra/SAE and others contributing remaining 7%. The said order book as a multiple of consolidated net sales of FY20 for T&D, Railways and Civil Business is at 0.84x, 0.46x and 0.23x respectively (The order book as on June 30, 2019 as a multiple of consolidated net sales of FY19 for the same stood at 1.23x, 0.44x and 0.04x respectively).

Wider geographical reach backed by presence in multiple segments within EPC industry
The company has established its footprint in over 100 countries through various subsidiaries and joint ventures with major reach in countries such as Middle East, Africa, Americas, and South East Asia. During FY20, around 49% of the revenue is generated outside India (mainly Middle East, SAARC nations – 36% followed by Americas (US, Brazil and Mexico) – 13%). During Q1FY21, the share of revenue from domestic market stood at 64% while from international markets stood at 36%. The operations of the company are also well diversified across the globe with its seven manufacturing facilities spread across India (5), Brazil (1) and Mexico (1).
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. KEC derived around 63% of revenues from T&D segment, followed by railways contributing around 22%, cable (~11%), Civil (~3%), Smart infra and solar (~1%). The company further anticipates that the proportion of revenue accruing from the T&D, 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 of the company improved from Rs.11,172.90 crore during FY19 to Rs.12,087.65 crore during FY20 registering y-o-y growth of 8.19%. The growth is revenue is aided by brisk execution of the projects. Having operating in highly competitive and working capital intensive industry, the company could sustain its PBILDT and PAT margins at 11.05% and 4.68% respectively during FY20 as compared to 11.14% and 4.35% respectively during FY19.
In tandem with total operating income, the GCA levels of the company also increased from Rs.618.04 crore during FY19 to Rs.652.04 crore during FY20, registering y-o-y growth of 5.50%.
During Q1FY21, the total operating income of the company stood at Rs.2,213.67 crore with PBILDT of Rs.201.79 crore, PAT of Rs.70.80 crore and Gross cash accruals of Rs.96.20 crore.

Future prospects of the industry
The long-term demand outlook for the domestic power transmission infrastructure as well as for railway and oil and gas pipeline industry is expected to be favourable as the Indian government continues to exert significant thrust on these sectors. Huge investments have been planned and massive network interconnectivity is envisaged, with focus on affordability and reliability, including substantial outlays by the state sector for expanding the intra-state transmission infrastructure, in addition to PGCIL’s annual capital outlay. Amidst all these developments, on the ground level, issues related to smooth and timely project execution are quite dominant

which include challenges such as Right of Way (RoW), land acquisition, environmental and forest clearances, end users (like power plants) not being ready, etc., impacting the project completion timelines. The Indian government envisages addition of 105,580 CKMs of transmission lines and 292,000 MVA of transformation capacity addition between 2017-2022, necessitating a humongous investment to the tune of Rs.260,000 crore. This is expected to result in reasonable opportunities for players like KEC. Apart from the domestic markets, power infrastructure development is also gaining pace in Middle East and North Africa (MENA) and Commonwealth of Independent States (CIS) regions. Substantial investments have been planned in the transmission sector due to largely underdeveloped power infrastructure and increased power generation in the region. Further, the Indian government has also envisaged expenditure of around Rs.1.48 lakh crore towards its plans for doubling 18,000 km of the railway network and achieving 100% electrification for the entire railway network by FY2021-22.

Key Rating Weaknesses

Working capital intensive nature of business

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 retention money being held up by clients till the end of till the completion of defect liability period (12 months from the end of project), an inherent norm in the Transmission and Distribution industry. The average collection period (including retention money and unbilled revenues) has remained high at 238 days (FY19: 240 days) as sizeable retention money is blocked in completed projects till the end of performance guarantee period. Further, gross current asset (GCA) days continued to remain high at 324 days (P.Y.320 days) during FY20 owing to higher receivables and other current assets. Nevertheless, the company derives flexibility to fund working capital requirement through advances from customers and creditors. The company is having payable days of around 164 days (P.Y.:171 days) and inventory holding period of around 25 days (P.Y.:24 days) thereby keeping the operating cycle close to around 100 days.
Going forward, extent of improvement in current asset days through realization of debtors is key rating monitorable.

Modest debt coverage indicators albeit improving gearing levels

Despite increase in debt owing to higher dependence on working capital borrowings, the overall gearing (including acceptances and mobilisation advances) of the company though has improved from 2.00x as on March 31, 2019 to 1.87x as on March 31, 2020, on account of plough back of profits to reserves; yet it remained at moderate levels. The company's debt protection metrics remained modest with total outside liabilities to tangible net worth remained high at 3.65x as on March 31 2020 compared to 3.88x as on March 31 2019. PBILDT interest coverage of the company improved marginally from 3.13x during FY19 to 3.32x during FY20 on account of improvement in PBILDT levels from Rs.1,245.19 crore during FY19 to Rs.1,336.27 crore during FY20. The other debt coverage indicator, total debt to GCA remained modest at 7.76x during FY20 (7.50x during FY19). Going forward, the management expects to improve the capital structure with reduction in debt and improvement in working capital management through realization of retention money. The same shall remain a key rating monitorable.

Volatility in commodity prices and currency rates may affect the financial profile of KEC albeit corrective measures taken by the management

Out of the total outstanding order book position, 64% of orders are from the domestic market while the balance orders are from the international market predominantly from SAARC, Middle East & Africa and Americas. Generally, orders in India and largely SAARC have a price variation clause and accordingly the exposure of the company towards volatility of key raw material price is limited. The orders to be executed in the international market are generally fixed price in nature. Volatility in the prices of base metals namely Copper, Aluminium, Steel, Zinc and Lead would impact the profitability margins of the company. KEC accordingly enters into OTC derivative contracts to hedge against the said price 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.) and foreign currency borrowings. The remaining exposure is generally hedged by entering into forward foreign exchange contracts.

Impact of Covid on operations of the company:
COVID-19 pandemic and subsequent lockdowns in the country has resulted in disruption in the operations of the company. The company started operations from May 2020 onwards with 50% labour force and increased to 70% labour force from June 2020 onwards. As a result there was de-growth of about 9% in revenue during Q1FY21. Due to the 10 days of lockdown in March 2020, as per the management, the company's revenue and collection were deferred by Rs.500.00 crore and Rs.300.00 crore respectively. However, the operations of the company in Africa and Middle East are business as usual during March 2020 as well. The operations were impacted in Brazil and Mexico but the contribution from such countries as a proportion to overall revenues is minimal. The company faced issues with labour availability; however, the same has gradually resolved.

Liquidity: Adequate
Adequate liquidity characterized by healthy accruals and moderate cash and liquid investments of Rs.261.38 crore as on June 30, 2020, supported by above unity current ratio. Its unutilized bank lines of Rs.1,008 crore as on June 30, 2020 are more than adequate to meet its incremental working capital needs. Further, the company has prepaid NCD to the tune of Rs.137.51 crore during May 2020 and there is no NCD amount outstanding as on June 30, 2020. The company has availed moratorium option for interest expenses of working capital limits of three banks during March-May 2020, obligation amounting to less than Rs.10.00 crore. However, the same were cleared during Q1FY21.

Analytical approach: Consolidated. The consolidated financial statements of the group have been considered for analytical purposes owing to financial and operational linkages between the parent and subsidiaries, common management and fungible cash flows.

Applicable Criteria
Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
CARE's Policy on Default Recognition
Rating Methodology-Consolidation and Factoring Linkages in Ratings
Criteria for Short Term Instruments
Rating Methodology-Construction Sector
Financial ratios – Non-Financial 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 (i.e. Smart Cities, Communication, Smart Mobility and Smart Utilities) 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, 48,000 MTPA manufacturing capacity for Railway structures and 12,000 MTPA manufacturing capacity for Solar structures. 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 South East 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 65% to the top line of company. The company has its presence in over 100 countries across the globe.

Brief Financials (Rs. crore) – Consol.	FY19 (A)	FY20 (A)
Total operating income	11,172.90	12,087.65
PBILDT	1,245.19	1,336.27

PAT	495.77	565.52
Overall gearing (times)	2.00	1.87
PBILDT Interest coverage (times)	3.13	3.32

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

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	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	-	-	-	14,600.00	CARE AA-; Stable / CARE A1+
Fund-based - LT-Cash Credit	-	-	-	2,400.00	CARE AA-; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Non-fund-based - LT/ ST-BG/LC	LT/ST	14,600.00	CARE AA-; Stable / CARE A1+	-	1)CARE AA-; Stable / CARE A1+ (09-Oct-19)	1)CARE AA-; Stable / CARE A1+ (01-Aug-18)	1)CARE AA-; Stable / CARE A1+ (03-Oct-17)
2.	Fund-based - LT-Cash Credit	LT	2,400.00	CARE AA-; Stable	-	1)CARE AA-; Stable (09-Oct-19)	1)CARE AA-; Stable (01-Aug-18)	1)CARE AA-; Stable (03-Oct-17)

Annexure-3: Detailed explanation of covenants of the rated facilities:

Working Capital Bank Facilities	Detailed Explanation
A. Financial Covenants	
i. Repayment of bank facility	On demand
B. Non-Financial Covenants	
i. Promoter shareholding	Company to maintain 33% of promoter shareholding as clear i.e. not pledged to any Bank/NBFC/Institution

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

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

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. 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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