KEC International Limited (Revised)

October 09, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating	Rating Action
Long-term Bank Facilities (Fund-based)	2,400 (enhanced from 1,800)	CARE AA-; Stable [Double A Minus; Outlook: Stable]	Reaffirmed
Long-term/Short-term Bank Facilities (Non-fund-based)	14,600 (enhanced from 11,200)	CARE AA-; Stable / CARE A1+ [Double A Minus; Outlook: Stable/A One Plus)	Reaffirmed
Total Facilities	17,000 (Rupees Seventeen thousand crore only)		

Details of facilities in Annexure-1

Detailed Rationale& Key Rating Drivers

The reaffirmation in the ratings assigned to the bank facilities of KEC International Limited (KEC) continues to factor in the long track record of the company coupled with extensive experience of the promoters and parentage of RPG group. The ratings also factor in the company's dominant market position in power transmission and distribution segment, strong project execution capabilities, healthy and diversified order book position catering to various segments having presence across multiple geographies thereby leading to a strong foothold in the EPC business globally. Growth in revenues coupled with stable profitability margins and improvement in capital structure/debt coverage indicators are also factored into the ratings.
The rating strengths are however tempered by working-capital intensive nature of business, operations being exposed to variability in currency rates and commodity prices along with inherent risk involved in execution of large-sized orders.

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. 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 and is one of the largest players in India . It has diversified into railway infrastructure, manufacturing of cables (for power, telecom, solar), 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.
RPG group, established by Dr R P Goenka, is one of India's leading business conglomerates with a turnover of Rs.23,000 crore. It consists of more than fifteen companies managing 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 and the overall operations of KEC are managed by Mr Vimal Kejriwal (Managing Director of KEC).

Healthy and diversified order book position

KEC's total order book position as on June 30, 2019 stood at Rs.19,016 crore which is around 1.45x the consolidated net sales of FY19 (refers to the period April 01 to March 31) thereby providing short to medium term revenue visibility to the company. Out of the total order book position, 49% orders are from the domestic market while the balance orders are from the international markets. International order book is predominantly from SAARC (24%), Middle East & Africa (24%) and Americas (20%).

Order book position as on 31.03.2019 as a multiple of consolidated net sales of FY19 for T&D (including SAE towers), Railways and Civil Business is comfortable at 1.27x, 0.48x and 0.05x respectively, however Solar, Smart Infra and for Cable business remained lean at 0.5x. In cable business, company has consolidated Silvassa plant operations with Vadodara plant to improve operational efficiencies in the business. In cable business, company has bagged new orders worth of Rs. 368 crores during Q1FY20.

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 FY19, around 42% of the revenue is generated outside India (mainly Middle East – 14%, SAARC – 13% Americas (US, Brazil and Mexico) – 9%). 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 itself against any significant adverse fluctuation in revenue. The company caters to various segments as during FY19, KEC derived around 58% of revenues from T&D segment, followed by railways contributing around 17%, SAE business approximately 9%, cable 11%, civil about 5%, and remaining 3% from solar business. 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.

Growth in revenues coupled with stable profitability margins

During FY19, on a consolidated basis, KEC’s total operating income grew by 10.68% to Rs.11,172 crore from Rs.10,094 crore achieved during FY18 mainly on account of improvement in project executions in the Railway Infrastructure & Civil business. Revenues from Railway infrastructure and Civil Business almost doubled to Rs.1,918 crore and Rs.498 crore in FY19 as compared to Rs.844 crore and Rs.268 crore respectively earned during FY18. PBILDT margins has remained stable at 11.14% in FY19 as compared to 11.22% Consequently, PAT margin also remained stable at 4.35% in FY19 as compared to 4.56% in FY18.

Improvement in capital structure and debt coverage indicators; yet remains at moderate levels

The overall gearing (including acceptances and mobilisation advances) has improved from 2.65 times as on March 31, 2018 to 1.99 times as on March 31, 2019 mainly due to reduction in acceptance by 37% from Rs.2,076 crore as on March 31, 2018 to Rs.1,199 crore and reduction in borrowing by Rs.170 crore on account of divestment of entire stake in BOT project- KEC Bikaner Sikar Transmission Private Limited to Adani Transmission Ltd. However, Mobilization advance and working capital borrowings have increased by 32% from Rs.1,208 crore to Rs.1,598 crore and by 28% from Rs.901 crore to Rs.1,156 crore respectively.

PBILDT interest coverage has remained stable at 3.13x in FY19 as compared to 3.38 times in FY18. However, due to decrease in total debt during FY19, total debt/GCA improved to 4.92 times in FY19 as compared to 6.98 times in FY18.

Key Rating Weaknesses

Working capital intensive nature of business

The nature of KEC International’s business is highly working capital intensive. The average collection period improved to 144 days in FY19 as compared to 163 days in FY18. Normalization to historical levels was on account of reduction in trade receivables by Rs.220 crore due to sale of BOT asset and recovery of the long pending dues of Rs.300 crore from Saudi Arabia. Working capital cycle during FY19 was exceptionally lower at 16 days on account of higher collection and receipt of customer advances from international client during Q4FY19. However, due to increasing business exposure from State Electricity Boards (SEBs) wherein higher credit period is offered, the company has negotiated for a higher payment period with the concerned/mapped vendors, thus projected to maintain a lower net working capital cycle (around 25-30 days).

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 order book position of Rs.19,016 crore as on June 30, 2019, 49% orders are from the domestic market while the balance orders are from the international markets. International order book is predominantly from SAARC (24%), Middle East & Africa (24%) and Americas (20%). 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. More than 75% of the remaining exposure is hedged by entering into forward foreign exchange contracts.

Adequate Liquidity
KEC's liquidity position has improved due to impending collections from projects in Saudi Arabia and advances received from international projects. The company has cash and bank balances of Rs.215 crore as on June 30, 2019 as against Rs.189 crore as on March 31, 2019. Going forward, the company expects to generate cash accruals of around Rs.600 crore to Rs.700 crore which is expected to provide sufficient cushion to cover its term loan obligations in the near to medium term. Moreover, KEC's liquidity is marked by unutilised fund-based working capital limits to the extent of 37% on an average for the last twelve months ended August 31 2019 and further strengthened as the fund-based limits are now enhanced to around Rs.2,400 crore. This gives sufficient liquidity headroom for having access to funds in case of exigencies (if any). Besides, KEC also derives financial flexibility by virtue of being part of RPG Group.

Future prospects
In the backdrop of growing demand for power and capacity expansion, there remains a pressing need for transmission network augmentation. Timely implementation of transmission lines would be critical in the years to come. The sector will continue to transform and undergo radical changes. The Indian Government continues to exert significant thrust and has embarked on numerous initiatives towards the objective of providing free electricity connections to about 4 crore un-electrified households. All of these will result in the net increase in demand for power transmission towers.
The future prospects for the railways business is positive with the Government planning for network expansion as well as upgradation and modernisation of the existing infrastructure. The FY19-20 budget decoded ample opportunities such as increase in capital outlay from Rs. 1.32 lakh crore to Rs. 1.59 lakh crore for track renewal, gauge conversion work, doubling of track etc. This year, in line with the target to complete 100% electrification (33,000 km) of broad gauge tracks by FY22, the government is planning to commission ~7,000 km of electrification and modernisation of the signalling systems of the Indian Railways, all of which will present several opportunities for KEC.

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 to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Rating Methodology: Factoring Linkages in Ratings
Rating Methodology - Infrastructure Sector Ratings
Financial ratios – Non-Financial Sector

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), 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 the largest globally operated tower manufacturing capacity of 312,200 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 overseas branches, subsidiaries and joint ventures with major reach in countries including Middle East, Africa, Latin America, SAARC 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 the company.

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

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	10,094	11,173
PBILDT	1,132	1,245
PAT	460	486
Overall gearing (times)	2.02	1.31
Adj. Overall gearing (times)*	2.65	1.99
Interest coverage (times)	3.38	3.13

*A: Audited; *includes acceptances and mobilisation advances*

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Non-fund-based - LT/ ST-BG/LC	LT/ST	14600.00	CARE AA-; Stable / CARE A1+	-	1)CARE AA-; Stable / CARE A1+ (01-Aug-18)	1)CARE AA-; Stable / CARE A1+ (03-Oct-17)	1)CARE A+; Stable / CARE A1+ (16-Dec-16) 2)CARE A+ / CARE A1+ (18-Oct-16)
2.	Fund-based - LT-Cash Credit	LT	2400.00	CARE AA-; Stable	-	1)CARE AA-; Stable (01-Aug-18)	1)CARE AA-; Stable (03-Oct-17)	1)CARE A+; Stable (16-Dec-16) 2)CARE A+ (18-Oct-16)
3.	Fund-based - LT-Term Loan	LT	-	-	-	-	-	1)Withdrawn (16-Dec-16) 2)CARE A+ (18-Oct-16)
4.	Debentures-Non	LT	-	-	-	-	-	1)Withdrawn

	Convertible Debentures							(16-Dec-16) 2)CARE A+ (18-Oct-16)

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

Working Capital Bank Facilities	Detailed explanation
A. Financial Covenants	
I. Repayment of bank facility	On demand
II. Current Ratio	Current ratio to be maintained above 1.31 during FY20 at standalone financials level
II. Total Outside Liability to Adjusted Tangible Net worth	Total Outside Liability to Adjusted Tangible Net worth to be maintained below 3.51 at standalone financials level
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.

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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