KEC International Limited

October 03, 2017

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities (Fund Based)	1600.00	**CARE AA-; Stable [Double A Minus; Outlook: Stable]**	**Revised from CARE A+; Stable(Single A Plus; Outlook: Stable)**
Long-term/Short-term Bank Facilities (Non-Fund Based)	10400.00	**CARE AA-; Stable / CARE A1+ [Double A Minus; Outlook: Stable/A One Plus)**	**Long-term rating: Revised from CARE A+; Stable(Single A Plus; Outlook: Stable) Short-term rating: Reaffirmed**
Total Facilities	**12000.00 (Rs. Twelve thousand crore only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale& Key Rating Drivers

The revision in the ratings assigned to the bank facilities of KEC International Limited (KEC) factor in sustained improvement in profitability and debt coverage indicators driven by internal efficiencies as well as improvement in margin profile of businesses like Railways and the SAE Tower business. The revision in the ratings is also on account of strong and diversified order book position.

The ratings also continue to derive strength from KEC's dominant market position in power transmission and distribution segment and strong and experienced parentage (part of RPG-Harsh Goenka group). The ratings also factor in KEC's strong project execution capabilities in power transmission segment, geographically and sectorally diversified order-book yielding revenue visibility in the medium to long term.

The rating strengths are however tempered by high working-capital intensity associated with the nature of the business, increasing quantum of provisions/write offs of debtors and 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, a part of RPG-Harsh Goenka Group, majorly undertakes EPC projects for power transmission and distribution systems and is one of the largest players in India. Apart from power transmission and distribution business, the company has forayed into railway projects, manufacturing of cables, solar projects and civil construction. In FY17, on a consolidated level, around 50% of net sales were derived from outside India.

RPG Group, established in 1979, consists of more than fifteen companies managing diverse business interests in automotive tyres, infrastructure, information technology, pharmaceuticals, plantations and power ancillaries. The group is 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).

Strong and diversified order book position

As on June 30, 2017, KEC's total order book position stood at Rs.13,532 crore which is 1.6 times net sales (consolidated) of FY17 to be executed over a period of 12 to 18 months. Out of the total order book, 54% is from domestic clients and balance 46% is for contracts to be executed outside India. During FY17, the order intake across verticals showed a substantial increase of around 42% y-o-y basis which resulted in closing order book growth by 35% y-o-y. During the Q4FY17, international orders largely contributed to the order inflows. This trend has been reversed in Q1 FY18 with order inflows mainly contributed by the domestic market. This has resulted in the order book being well balanced between domestic and international markets. Also, as on June 30, 2017, the company has a L1 position of more than Rs.4500 crore. Largely, the entire L1 position is from the T&D business (95%-98%) with orders expected to be received from the international market namely Afghanistan, Bangladesh, UAE and Africa. The strong order book provides revenue visibility in the short to medium term.

Diversified geographical and segmental presence

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

The company has its presence in 63 countries across the globe through various subsidiaries and joint ventures with major reach in countries including Middle East, Africa, Americas, and South East Asia. It has eight manufacturing facilities spread across the globe (five for tower manufacturing in India and abroad, and three in India for cable manufacturing). Further, the company is scaling up solar and railway segments to diversify the business and insulate the company from any significant adverse fluctuation in revenue. In Q1FY18, the company has also begun undertaking civil construction business and has secured three tenders close to Rs.225 crore.

Segment-wise revenue composition (consolidated financials)

Particulars	Gross sales mix (%)		
	FY15	FY16 (*)	FY17
Transmission and distribution (excluding SAE)	77%	74%	69%
SAE Towers group	9%	10%	11%
Cables	11%	12%	12%
Railways	2%	2%	5%
Water	2%	1%	1%
Solar	0.10%	1%	2%
Total	**100%**	**100%**	**100%**

*Revenue composition for FY 16 has been restated as per IND AS.

Sustained improvement in profitability margins

Total revenue remained muted in FY17 owing to decline in commodity prices thereby affecting the top-line in cable and transmission business, delay in conversion of few large sized L1 orders, impact of demonetisation on various ancillary support industries as well as strong appreciation of rupee against dollar.

However, PBILDT increased by 18% y-o-y to Rs.136 crore. PBDIT margins improved by 150 basis points to 10.75% from 9.24% in FY16. The margin improvement was primarily driven by internal efficiencies and improvements in margin profile of businesses like Railways and the Company's wholly owned subsidiary, SAE Towers. Gross cash accruals improved from Rs.277 crore in FY16 to Rs. 458 crore in FY17 on the back of improved profitability. KEC registered healthy profitability during Q1FY18 as well. During Q1FY18, KEC registered total income of Rs.1905 crore as against Rs. 1790 crore in Q1FY17 and profitability margins of 9.77% as against 8.66% in Q1FY17.

Improving capital structure and debt coverage indicators

The overall gearing ratio (including LC backed creditors) of the company improved significantly to 2.07 times as on March 31, 2017 as compared to 3.43 times as on March 31, 2016. The same is achieved by reducing the working capital borrowings by approx. 60% by utilising internal accruals of the company. Further, in view of reduction of interest and finance cost, PBILDT interest coverage improved to 2.79 times in FY17 from 2.14 times in FY16. Accordingly, the total debt/GCA also improved significantly to 6.69 times in FY17 from 14.50 times in FY16. The capital structure and debt coverage indicators are expected to improve further as on March 31, 2018 with improvement in financial performance and better working capital management.

Future prospects of the industry

The long-term demand outlook for domestic transmission and distribution industry is expected to be favourable due to the focus on reforms in transmission and distribution segment and investments lined up in the power generation sector to bridge the demand-supply gap. 6,855 ckm of transmission lines have been commissioned during 2017-18 (April –June 2017).This is 29.7% of the annual target of 23,086 ckm fixed for 2017-18. As on June 30, 2017, the total transmission capacity of the inter-regional links is 76,550 MW.

Key Rating Weaknesses

Working capital intensive operations albeit inherent to the nature of business

The nature of KEC International's business is highly working capital intensive.The average collection period in FY17 was 235 days as compared to 231 days in FY16.The company has been able to keep the average collection period under control by de-focusing from the Saudi Arabia business wherein retention rates are high at 20% and hurdles have been faced in recovering the long pending dues from the customers. During the Q1 FY18, there was an increase in inventory by Rs.155 crore since dispatches were kept on hold due to unclear GST effects. On the back of improvement in profitability

and faster execution of projects, working capital bank borrowings reduced to an average utilisation of 63% in FY17 as against an average of around 75% utilisation in FY16. Timely recoveries from customers and efficient working capital management remain crucial from credit perspective.

Increasing quantum of provisions/write offs of debtors
The quantum of bad debts written off in the books have increased from Rs. 161.94 crore in FY16 to Rs. 224.47 crore in FY17.This had majorly occurred due to a major write off in South Africa wherein concerns were faced in a joint venture and hence a partial amount (Rs. 76 crore) was written off in the books. No such major write offs are expected going forward.

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 (CIN No.: L45200MH2005PLC152061) is a part of RPG Harsh Goenka group and the promoter group holds 50.86% equity stake in the company as on March 31, 2017. The company is majorly involved in engineering procurement and construction (EPC) of power transmission and power systems in India and abroad. The company also undertakes railway electrification projects, manufacturing of cables, EPC work for renewable sector (solar) and construction of civil infrastructure. The Company's Water Business having a significant component of Civil and Structural Engineering was merged with the Civil Business w.e.f. April 01, 2017 with a view to drive further synergies and manage efficiencies. In Water, during the year, the Company closed most of its legacy projects and is currently focusing on complete integrated Water and Waste Water/Sewage Treatment projects.
In FY17, out of the total net sales in the company on a consolidated basis, around 80% is from power transmission and distribution EPC business (including 11% from SAE Towers group acquired), 12% from cable business and balance 8% from others which includes railways, water and renewables (solar).
Apart from India, the company is present in more than 63 countries outside India through various subsidiaries and joint ventures with major reach in countries including Middle East, Africa, Latin America, and South East Asia amongst other geographies.

(Rs. crore)

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	8521	8594
PBILDT	788	924
PAT	166	296
Overall gearing (including LC backed creditors) (times)	3.43	2.07
Interest coverage (times)	2.14	2.79

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

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.*

Analyst Contact:
Name: Sharmila Jain
Tel: 022 6754 3638
Email:sharmila.jain@careratings.com

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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	-	-	-	10400	CARE AA-; Stable / CARE A1+
Fund-based - LT-Cash Credit	-	-	-	1600	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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Non-fund-based - LT/ ST-BG/LC	LT/ST	10400.00	CARE AA-; Stable / CARE A1+	-	1)CARE A+; Stable / CARE A1+ (16-Dec-16) 2)CARE A+ / CARE A1+ (18-Oct-16)	1)CARE A1 (19-Oct-15)	1)CARE A1 (10-Nov-14) 2)CARE A1 (22-Aug-14) 3)CARE A1 (04-Apr-14)
2.	Fund-based - LT-Cash Credit	LT	1600.00	CARE AA-; Stable	-	1)CARE A+; Stable (16-Dec-16) 2)CARE A+ (18-Oct-16)	1)CARE A+ (19-Oct-15)	1)CARE A+ (10-Nov-14) 2)CARE A+ (22-Aug-14) 3)CARE A+

								(04-Apr-14)
3.	Fund-based - LT-Term Loan	LT	-	-	-	1)Withdrawn (16-Dec-16) 2)CARE A+ (18-Oct-16)	1)CARE A+ (19-Oct-15)	1)CARE A+ (10-Nov-14) 2)CARE A+ (22-Aug-14) 3)CARE A+ (04-Apr-14)
4.	Commercial Paper	ST	-	-	-	-	-	1)Withdrawn (10-Nov-14) 2)CARE A1 (22-Aug-14) 3)CARE A1 (13-May-14)
5.	Debentures-Non Convertible Debentures	LT	-	-	-	1)Withdrawn (16-Dec-16) 2)CARE A+ (18-Oct-16)	1)CARE A+ (19-Oct-15)	1)CARE A+ (10-Nov-14) 2)CARE A+ (22-Aug-14)

CONTACT

Head Office Mumbai

Ms. MeenalSikchi
Cell: + 9198190 09839
E-mail: meenal.sikchi@careratings.com

Mr. AnkurSachdeva
Cell: + 9198196 98985
E-mail: ankur.sachdeva@careratings.com

Ms.RashmiNarvankar
Cell: + 9199675 70636
E-mail: rashmi.narvankar@careratings.com

Mr. Saikat Roy
Cell: + 9198209 98779
E-mail: saikat.roy@careratings.com

CARE Ratings Limited

(Formerly known as Credit Analysis & Research Ltd.)

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022
Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com

AHMEDABAD
Mr. Deepak Prajapati
32, Titanium, Prahaladnagar Corporate Road,
Satellite, Ahmedabad - 380 015
Cell: +91-9099028864
Tel: +91-79-4026 5656
E-mail: deepak.prajapati@careratings.com

BENGALURU
Mr. V Pradeep Kumar
Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
No. 30, M.G. Road, Bangalore - 560 001.
Cell: +91 98407 54521
Tel: +91-80-4115 0445, 4165 4529
Email: pradeep.kumar@careratings.com

CHANDIGARH
Mr. AnandJha
SCF No. 54-55,
First Floor, Phase 11,
Sector 65, Mohali - 160062
Chandigarh
Cell: +91 99888 05650
Tel: +91-172-5171 100 / 09
Email: anand.jha@careratings.com

CHENNAI
Mr. V Pradeep Kumar
Unit No. O-509/C, Spencer Plaza, 5th Floor,
No. 769, Anna Salai, Chennai - 600 002.
Cell: +91 98407 54521
Tel: +91-44-2849 7812 / 0811
Email: pradeep.kumar@careratings.com

COIMBATORE
Mr. V Pradeep Kumar
T-3, 3rd Floor, Manchester Square
Puliakulam Road, Coimbatore - 641 037.
Tel: +91-422-4332399 / 4502399
Email: pradeep.kumar@careratings.com

HYDERABAD
Mr. Ramesh Bob
401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
Hyderabad - 500 029.
Cell : + 91 90520 00521
Tel: +91-40-4010 2030
E-mail: ramesh.bob@careratings.com

JAIPUR
Mr. Nikhil Soni
304, PashupatiAkshatHeights, Plot No. D-91,
Madho Singh Road, NearCollectorateCircle,
Bani Park, Jaipur - 302 016.
Cell: +91 – 95490 33222
Tel: +91-141-402 0213 / 14
E-mail: nikhil.soni@careratings.com

KOLKATA
Ms. PritiAgarwal
3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
10A, Shakespeare Sarani, Kolkata - 700 071.
Cell: +91-98319 67110
Tel: +91-33- 4018 1600
E-mail: priti.agarwal@careratings.com

NEW DELHI
Ms. Swati Agrawal
13th Floor, E-1 Block, Videocon Tower,
Jhandewalan Extension, New Delhi - 110 055.
Cell: +91-98117 45677
Tel: +91-11-4533 3200
E-mail: swati.agrawal@careratings.com

PUNE
Mr.Pratim Banerjee
9th Floor, Pride KumarSenate,
Plot No. 970, Bhamburda, SenapatiBapat Road,
ShivajiNagar, Pune - 411 015.
Cell: +91-98361 07331
Tel: +91-20- 4000 9000
E-mail:pratim.banerjee@careratings.com

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