KEC INTERNATIONAL LTD.
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January 04, 2024

National Stock Exchange of India Limited
Exchange Plaza,
Bandra Kurla Complex,
Bandra (East), Mumbai 400 051

Symbol: KEC

BSE Limited
Phiroze Jeejeebhoy Towers,
Dalal Street, Fort,
Mumbai – 400 001

Scrip Code: 532714

Dear Sir/Madam,

Sub: Credit Rating – Intimation under Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015

Pursuant to Regulation 30 read with Para A, Part A of Schedule III of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, we hereby inform you that CARE Ratings Ltd., a Rating Agency vide its email dated January 03, 2024, received at 8:07 p.m. by the Company, has reaffirmed the credit ratings to the Company's Bank facilities with a change in outlook as under:

Facilities	Amount (Rs. crore)	Rating	Rating Action
Long Term Bank Facilities	3,000.00	CARE AA-; Negative (Double A Minus, Outlook: Negative)	Reaffirmed; Outlook revised from Stable
Long Term / Short Term Bank Facilities	15,500.00	CARE AA-; Negative (Double A Minus, Outlook: Negative) CARE A1+ (A One Plus)	Reaffirmed; Outlook revised from Stable
Total	**18,500.00**		

The report received from CARE Ratings Ltd. is enclosed herewith.

This disclosure is also being uploaded on the website of the Company at www.kecrpg.com

The above is for your information and records.

Thanking you,
For KEC International Limited

Amit Kumar Gupta

Digitally signed by Amit Kumar Gupta
DN: c=IN, o=Personal, title=7875, pseudonym=d30e6db65d0a41f2b9a52198e78bf149, 2.5.4.20=b7e8678b2d6b381cb8f4761d9cbb4338253df2c8e93e8fcf768f8e86438a00a1, postalCode=400705, st=Maharashtra, serialNumber=de9bbd80d8994e4be9f0dd2399144eba7e782d70287df6aad1994f0b522fa08a, cn=Amit Kumar Gupta
Date: 2024.01.04 16:13:53 +05'30'

Amit Kumar Gupta
Company Secretary and Compliance Officer
Encl: As above

KEC International Limited
January 03, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	3,000.00	CARE AA-; Negative	Reaffirmed; Outlook revised from Stable
Long Term / Short Term Bank Facilities	15,500.00	CARE AA-; Negative / CARE A1+	Reaffirmed; Outlook revised from Stable

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 the dominant market position of the company 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 which is diversified across multiple sectors and geographies providing revenue visibility in the medium term and absence of major long term debt.

The ratings factor in the significant order book addition of around ₹33,000 crore during the FY23-H1FY24 thereby providing revenue visibility for approx. 2 years. This along with the overall softening of commodity prices, gradual closure of legacy projects, steady improvement in Brazilian subsidiary, SAE Towers during Q3FY23-H1FY24 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. SAE Brazil had reported positive PBILDT levels during past three quarters ending Sept. 2023 with positive profit before tax (PBT) during H1FY24. Supply component of towers constitute around 12% of order book which also augur well for the improvement in profitability in the near term.

The ratings strengths, however, are tempered by heightened working capital intensity with prolonged extension in the Gross Current Asset (GCA) days which led to higher debt levels as on September 30, 2023. While there has been improvement in the profitability during H1FY24, high debt levels led to steady moderation in debt coverage metrics. Interest coverage moderated from 3.44 times in FY21 (refers period from April 1 to March 31) to 1.50 times in H1FY24; however it is expected to improve to around 3 times in the medium term. Total Outside Liabilities /Tangible Networth (TOL/TNW) is also expected to be around 4 times as on March 31, 2024 as compared to 3.23 times as on March 31, 2021. Going forward, improvement in profitability and rationalization of debt levels shall be crucial for reinstating TOL/TNW and interest coverage to FY21 levels. In view of above, the outlook on the rating has been revised to Negative. Fructification of the recovery plans within the timelines envisaged, materialization of GCA days reduction and improvement in debt coverage may result in revision in outlook to Stable.

While the company was able to recover significant portion of debtors in Afghanistan during H1FY24, debtor built up from railways resulted in continuation of elevated debt levels as on Sept. 30, 2023 (vis-à-vis Sept. 30, 2022). Significant portion of outstanding debtors as on March 31, 2023 and September 30, 2023 comprises of unbilled revenue with large portion pertaining to railway segment. The company has reduced its exposure in the railway segment (revenue contribution reducing from 28% in FY22 to 18% in H1FY24) with shift in focus to Transmission & Distribution (T&D) and civil segment wherein the cashflow movement is faster. Going forward, these segments are expected to add to the net cashflows and reduce the working capital debt. KEC also expects realization of stretched current assets from T&D, Civil and railways segment, during Q4FY24 which is expected to aid liquidity. CARE Ratings expects significant reduction in current asset levels in the near term thereby aiding liquidity profile. Any deviation in the same shall be rating sensitivity.

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

- Continued stretch on working capital with delay in recovery of debtors resulting in weakening in GCA days.
- Inability to improve consolidated PBILDT margins above 7%

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

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 & financial linkages. The list of entities consolidated are presented as Annexure-VI.

Outlook: Negative

The GCA days are expected to improve in FY24 with recovery of past debtors, increased T&D and civil projects where cashflow realization is faster and reduced intake of new orders from the railway segment. The same is likely to reduce company's reliance on bank borrowings and improve debt coverage indicators going forward. However, fructification of the recovery plans within the timelines envisaged is critical and considering the same outlook on the long-term rating has been revised to negative. Materialization of GCA days reduction and improvement in debt coverage may result in revision in outlook to Stable.

Detailed description of the key rating drivers:

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 ₹31,320 crore as on Sept. 30, 2023, which provides revenue visibility approximately for the next two years. Besides, the company had L1 orders of around ₹4,000 crore as on Sept. 30, 2022. The company had added orders close to ₹33,000 crore during FY23 and H1FY24. KEC has presence in the domestic as well as the international market with close to 70% orders in India and the balance spread across countries, viz, Saudi Arabia, Bangladesh, Oman, UAE, etc.

In the international market, majority of 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, the orders from the segment constitute around 48% of its order book. The balance work is spread across civil construction (33%), railway projects (13%) and cables/smart infra/oil & gas/others (6%).

Due to the high competition and milestone-based payment mechanism, the company had been gradually reducing its exposure to railway segment (24% as on Mar. 31, 2021) while focusing on Civil projects. The same has resulted in increase of share of Civil projects from 16% as on Mar. 31, 2021 to 33% as on Sept. 30, 2023.

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. While the company continues to derive 50% of revenue from the non-T&D segment, it is gradually reducing its presence in Railway segment with focus on other segments particularly Civil Infrastructure projects. As a result, the share of Civil segment to total revenue increased from 8% during FY21 to 23% during H1FY24 while contribution of railways had reduced from 26% during FY21 to 18% during H1FY24.

During H1FY24, the non-T&D segment revenue contribution was distributed amongst Civil works (23%), railways (18%), Cables (9%), Oil & Gas (1%) and Solar/others (1%).

T&D segment has witnessed high orders inflow with contribution of same expected to remain above 55% of the order book, going forward. Demonstrated execution capability, large scale of operations and dominant position in T&D segment augur well for the growth prospects of KEC given the favourable sector outlook.

Growing scale of operation with gradual improvement in the margins

KEC has reported consistent growth in the scale of operation over the years backed by steady order inflow and robust execution on a y-o-y basis. During FY23, the company reported y-o-y growth of 25% in the total operating income with gradual improvement in the PBILDT margins during past three quarters. With the improvement in the Brazilian operations and completion of majority of legacy projects, the profitability margins of the company have reported consistent improvement over the past 3 quarters, from

5.77% in Q4FY23 to 7.17% in Q2FY24. KEC has also secured tower supply orders which comprise ~12% of the order book (as on Sept 30, 2023) and wherein the profitability is higher vis-à-vis EPC works. This shall also support the profitability going forward. During H1FY24, the company reported revenue of about Rs.8,800 crore with y-o-y growth of 18% and PBILDT and PAT margins of 6.93% and 1.12% respectively.

Key weaknesses

Heightened working capital intensity and elevated debt level

The GCA days continue to be elongated during FY23 (~320 days) and H1FY24 due to milestone-based payment terms in the railway segment and high component of unbilled revenue with billing pending for work certification/approval of contractual variation. Significant portion of outstanding debtors as on March 31, 2023 and September 30, 2023 comprises of unbilled revenue with large portion pertaining to railway segment.

While KEC has been able to recover large portion of pending receivable from Afghanistan and Tamil Nadu TRANSCO, lower than expected recovery from railways have impacted the working capital position. Further, back ended payment terms in metro projects and debtors pertaining to escalations, change of scope and contractual disputes has also led to lower than expected realization of current assets. KEC expects recoveries from such debtors and other realisations by March 2024 which would be crucial for the envisaged reduction in gross current assets. The company has reduced its exposure in the railway segment (revenue contribution reducing from 28% in FY22 to 18% in H1FY24) with shift in focus to Transmission & Distribution (T&D) and civil segment wherein the cashflow movement is faster. Going forward, these segments are expected to add to the net cashflows and reduce the working capital debt.

Weakening of debt coverage indicators and capital structure

The increased working capital funding requirement, modest profitability and rising interest rates have put together moderated the debt coverage metrics. The interest coverage ratio has gradually weakened from 3.44x in FY21 to 1.49x during H1FY24; albeit it is expected to improve to around 3 times in the medium term. The losses at SAE Brazil level over the past 3 years have adversely impacted the networth with TOL/TNW continuously rising from 3.23x as on March 31, 2021 to 4.22x in FY23. Going forward, improvement in profitability and rationalization of debt levels shall be crucial for reinstating TOL/TNW and interest coverage to FY21 levels. Nevertheless, KEC derives financial flexibility from market capitalization of more than Rs.15,000 crore as on Dec. 15, 2023 with ~52% stake of promoters as on Sept. 30, 2023. Moreover, entire shareholding of promoters is free from all encumbrances.

Liquidity: Adequate

The liquidity position remains adequate with low debt repayment obligation and sufficient cash accruals generated to adequately cover the fixed debt repayment liabilities. The average utilization of working capital limits was around 82% for the last 12 months ended Nov. 30, 2023. The company expects to realize significant amount of pending receivables during Q4FY24 which is expected to improve liquidity position and reduce its reliance on working capital borrowings. KEC has also applied for enhancement in working capital limits to meet any exigencies. KEC also had cash balance of around Rs.249 crore as on Sept 30, 2023.

Assumptions/Covenants: Not applicable

Environment, social, and governance (ESG) risks

KEC is exposed to the environmental risk emanating from the disruption 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 requiring 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 governed by independent board of directors, 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

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)-Consolidated	March 31, 2022 (A)	March 31, 2023 (A)	H1FY24 (U/A)
Total operating income	13,822	17,310	8,761
PBILDT	1,001	948	607
PAT	332	176	98
Overall gearing (times)	2.05	2.26	2.58
Interest coverage (times)	2.43	1.45	1.49

A: Audited U/A: Unaudited; Note: 'the above results are latest financial results available'

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: 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	-	-	-	-	3000.00	CARE AA-; Negative
Non-fund-based - LT/ ST-BG/LC	-	-	-	-	15500.00	CARE AA-; Negative/ 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 2023-2024	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
1	Non-fund-based - LT/ ST-BG/LC	LT/ST*	15500.00	CARE AA-; Negative/ CARE A1+	1)CARE AA-; Stable / CARE A1+ (06-Apr-23)	1)CARE AA-; Stable / CARE A1+ (15-Mar-23) 2)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)
2	Fund-based - LT-Cash Credit	LT	3000.00	CARE AA-; Negative	1)CARE AA-; Stable (06-Apr-23)	1)CARE AA-; Stable (15-Mar-23) 2)CARE AA-; Stable (10-Aug-22)	1)CARE AA-; Stable (05-Oct-21)	1)CARE AA-; Stable (30-Sep-20)

*Long term/Short term.

Annexure-3: Detailed explanation of 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	% ownership interest of KEC as on March 31, 2023
RPG Transmission Nigeria Limited	100
KEC Global FZ–LLC–Ras UL Khaimah (closed on March 08, 2023)	100
KEC Towers LLC	100
KEC Investment Holdings, Mauritius	100
KEC Global Mauritius	100
KEC International (Malaysia) SDN BHD	100
KEC Power India Private Limited	100
KEC Spur Infrastructure Private Limited	100
Indirect Subsidiaries	
SAE Towers Holdings LLC	100
SAE Towers Brazil Subsidiary Company LLC	100

Direct Subsidiaries	% ownership interest of KEC as on March 31, 2023
SAE Towers Mexico Subsidiary Holding Company LLC	100
SAE Towers Mexico S de RL de CV	100
SAE Towers Brazil Torres de Transmission Ltd.	100
SAE Prestadora de Servicios Mexico, S de RL de CV	100
SAE Towers Ltd	100
SAE Engenharia E Construcao Ltda (formerly known as SAE Engenharia E Construcao Ltda)	100
KEC Engineering & Construction Services, S de RL de CV	100
KEC EPC LLC (w.e.f October 06, 2021)	100

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

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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.

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