KEC INTERNATIONAL LTD.
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September 19, 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 e-mail today viz. September 19, 2024, has communicated the revision of the credit ratings to the Company's Banking facilities and assignment of new rating as under:

Facilities	**Amount (Rs. crore)**	**Rating**	**Rating Action**
Long Term Bank Facilities	3,000.00	CARE A+; Stable	Downgraded from CARE AA-; Negative
Long Term / Short Term Bank Facilities	15,500.00	CARE A+; Stable / CARE A1+	Long term rating downgraded from CARE AA- ; Outlook revised from Negative and short term rating re-affirmed
Non - Convertible Debentures	500.00	CARE A+; Stable	Assigned

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

Suraj
Prakash
Eksambekar

Digitally signed by Suraj Prakash Eksambekar
DN: c=IN, o=Personal, title=6448, pseudonym=f20ae75b5f2744c687bb56ac6c19e0c0, 2.5.4.20=fc233348b26d6ecd2f5a2788d7c0c463ac4bae590a232be085a86d8b00867e55, postalCode=411038, st=Maharashtra, serialNumber=c2ced9cd165fb98f3b2b287e364a993851fdbbedda982ce8affa3c5f33f97b4d, cn=Suraj Prakash Eksambekar
Date: 2024.09.19 23:38:26 +05'30'

(Suraj Eksambekar)
Company Secretary and Compliance Officer

Encl : as above

KEC International Limited

September 19, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	3,000.00	CARE A+; Stable	Downgraded from CARE AA-; Negative
Long Term / Short Term Bank Facilities	15,500.00	CARE A+; Stable / CARE A1+	LT rating downgraded from CARE AA-; Outlook revised from Negative and ST rating reaffirmed
Non Convertible Debentures	500.00	CARE A+; Stable	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The revision in the ratings assigned to bank facilities and instruments of KEC International Limited (KEC) considers lower-than-envisaged recovery in its gross current assets in FY24 (refers to April 01 to March 31) and Q1FY25 (refers to April 01 to June 30) leading to prolonged elongation of gross current asset days (GCA), continued reliance on working capital borrowings including short term debt and leveraged capital structure. Adjusted total outside liabilities to tangible net worth (TOL/TNW) steadily deteriorated from 3.57x as on March 31, 2022, to 4.27x as on March 31, 2024. Furthermore, higher debt levels and moderate profitability led to steady deterioration in debt coverage indicators. Interest coverage ratio steadily declined from 3.44x in FY21 to 1.71x in FY24. KEC plans to raise equity in the near term, of which, ~₹1000 crore shall be utilised towards growth capital for reduction of debt thereby improving its leveraged capital structure and liquidity position. Long-term fund-raising plan including issuance of Non-convertible debentures (NCDs) of ~₹500 crore is expected to improve the capital structure and also mitigate the roll over risk associated with short term debt. Going forward, improvement in the profitability and rationalising elongated current asset days are critical for improving debt coverage indicators.

Nevertheless, the ratings continue to derive strength from the company's dominant market position of the engineering, procurement and construction (EPC) business in the power transmission and distribution (T&D) segment, extensive experience of promoters, financial flexibility available being a part of the RPG group, strong project execution capabilities and robust order book position, which is diversified across multiple sectors and geographies. Ratings factor in the significant addition of orders in Q1FY25 post slender moderation in FY24 leading to strong order book position providing revenue visibility in the near-to-medium term.

Ratings consider consistent growth in scale of operations over the years, supported by healthy execution of orders. While KEC continues to derive ~50% of its revenue from the non-T&D segment, it is gradually reducing its presence in the railway segment to focus on other areas, particularly civil infrastructure projects. There has been a gradual improvement in consolidated profit before interest, lease rentals, depreciation, and taxation (PBILDT) margins from 5.48% in FY23 to 6.82% in FY24, driven by the turnaround in SAE Brazil operations and completion of majority legacy projects. With expected completion of remaining legacy projects by Q2FY25 and execution of T&D orders with better margins, overall PBILDT margin is anticipated to remain ~8% in FY25, which is key rating sensitivity.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Significantly improvement in gross current asset days and improvement in profitability leading to TOL/TNW of less than 3x and interest coverage of ~3x on a sustained basis.

Negative factors

- Continued stretch on GCA days and inordinate delay in funds raising plans.
- Inability to improve consolidated PBILDT margins above 7.5%

Analytical approach: Consolidated.

In its analysis, CARE Ratings Limited (CARE Ratings) has considered consolidated business and financial risk profile of KEC and its subsidiaries, as entities are linked through a parent-subsidiary relationship and collectively have management, business and financial linkages. Entities consolidated are listed under Annexure-6.

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

Outlook: Stable

The Stable outlook assigned to KEC reflects that the company's operating income and profitability will be well-supported by its healthy order book position and strong execution capabilities. Expected improvement in GCA days shall lead to consequent rationalisation of debt levels.

Detailed description of key rating drivers:

Key Strengths

Well-established business and experienced management

KEC was incorporated in 1945 and became part of the RPG Group in early 1980s. The company is majorly involved in EPC work for power T&D systems and is one of the largest players in India in this segment. The company also increased its presence in civil construction, railway projects, manufacturing cables for power, telecom, and Oil & Gas Pipeline business.

Established in 1979 by Dr R. P. Goenka, the RPG group is one of India's leading business conglomerates managing over 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 nil pledge of shares by the promoters.

Presently, the group is spearheaded by Harsh V Goenka, Chairman of KEC. KEC's overall operations are managed by Vimal Kejriwal (Managing Director and CEO of KEC).

Robust and diversified order book position

KEC's order book position stood at ₹32,715 crore as on June 30, 2024, which is 1.64x of FY24 total operating income (TOI) and provides revenue visibility for approximately next two years. Besides, the company had L1 orders of more than ₹9,000 crore. Post slender moderation in orders inflow in FY24 at ₹18,102 crore, the company bagged robust orders till August 2024 of ~₹11,000 crore. KEC has presence in the domestic and the international market with 74% orders in India and the balance spread across countries, Saudi Arabia, the USA, the UAE, and Bangladesh, among others.

Given KEC's strong presence in the T&D segment, orders from the segment (including towers) constitute ~51% of its order book. The balance work is spread across civil construction (31%), railway projects (10%) and cables/smart infra/oil & gas/others (8%). In the international market, majority 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, among others, which mitigates geo-political risk to an extent. Furthermore, favourable outlook of T&D sector augurs well for revenue visibility of KEC in the medium term.

Due to the high working capital intensity and milestone-based payment mechanism, the company had been gradually reducing its exposure to railway segment which was 24% as on March 31, 2021, while focusing on Civil and T&D projects. This resulted in increase of share of Civil projects from 16% as on March 31, 2021, to 31% as on June 30, 2024.

Wider geographical reach with diversified revenue

The company has established its footprint in over 70 countries through subsidiaries and joint ventures (JV) with major reach in countries, such as the 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% in FY21 to 23% in Q1FY25, while contribution of railways had reduced from 25% in FY21 to 10% in Q1FY25.

In FY24, the non-T&D segment revenue contribution was distributed among Civil works (21%), railways (15%), Cables (8%), Oil & Gas (3%) and Solar/others (2%).

T&D segment witnessed high orders inflow, the contribution of which is expected to remain above 50% of the order book. Demonstrated execution capability, large scale of operations and dominant position in T&D segment augur well for KEC's growth prospects given the favourable sector outlook.

Growing scale of operation despite moderate profitability

KEC reported consistent growth in the scale of operation over the years backed by steady order inflow and healthy execution on a y-o-y basis. In FY24, the company reported y-o-y growth of 15% in the TOI due to strong execution in T&D segment followed by Civil. In Q1FY25, it reported y-o-y growth of 6% to ₹4,512 crore. Growth is impacted due to acute shortage of manpower in civil segment and continued pressure on the supply chain in few materials. KEC has undertaken certain measures to address such issues including automation, providing more amenities to the workforce, etc.

There is healthy improvement in consolidated PBILDT margins in FY24 to 6.82% against 5.38% in FY23 though remain lower-than-envisaged. The improvement is considering turnaround in SAE Brazil operations and completion of majority legacy projects. The company's profitability margins reported consistent improvement in the last four quarters ended Q3FY24. However, there is slight moderation in margins in Q4FY24 and Q1FY25 considering issues in railways business margins and slow closure of balance legacy projects. Adjusted PBILDT margins (excluding arbitration income) in Q1FY25 stood at 6.4% against 6.67% in Q1FY24. As articulated by the management, with expected completion of balance legacy projects by Q2FY25 and execution of T&D orders bid with better margins, overall PBILDT margins is expected to reach ~8%. Hence, achievability of the consolidated PBILDT margins of ~8% will be key rating monitorable.

Key weaknesses

Sustained high working capital intensity

KEC's operations continued to remain working capital intensive marked by high adjusted GCA days. GCA days has been marginally improved in FY24 to 318 days (FY23: 326 days), which was significantly lower than earlier estimates of ~280 days. This is considering lower-than-envisaged recovery from slow moving receivables particularly in receivables from Afghanistan, Tamil Nadu TRANSCO, urban transportation debtors, railway debtors and debtors pertaining to escalations, change of scope and contractual disputes. There is high component of unbilled revenue, which was further increased in FY24 due to projects under execution from Civil segment. Significant portion of outstanding receivables (including unbilled revenue) as on March 31, 2024, pertains to the railway segment, where there has no major traction of recovery.

While KEC has been able to recover partial spill-over of envisaged recovery in Q1FY25, working capital intensity continues to be remained high with recovery fall short of earlier expectations even in Q1FY25. While there is a recovery in T&D segment, non-meaningful recovery in railways and urban transportation are prominent reasons for stretched current assets. KEC expects recoveries from such debtors and other realisations by December 2024, which would be crucial for the envisaged reduction in gross current assets. KEC has received past arrears of income tax of ~₹242 crore in July 2024 aiding its liquidity. The company reduced its exposure in the railway segment (revenue contribution reducing from 27% in FY22 to 15% in FY24 and 10% in Q1FY25) with shift in focus to T&D and civil segment, where cashflow movement is faster.

Moderate debt coverage indicators and leveraged capital structure

Continued working capital funding intensity, moderate profitability and heightened interest costs have together moderated debt coverage metrics. Adjusted TOL/TNW steadily deteriorated from 3.57x as on March 31, 2022, to 4.27x as on March 31, 2024. Higher debt levels and moderate profitability led to steady deterioration in debt coverage indicators. Interest coverage ratio steadily declined from 3.44x in FY21 to 1.71x in FY24 and 1.46x in Q1FY25. KEC plans to raise equity in the near term, of which, ~₹1000 crore shall be utilised towards growth capital for reduction of debt thereby improving its leveraged capital structure and liquidity position. Furthermore, NCD issuance of ~₹500 crore is planned to mitigate roll over risk with respect to short-term debt. KEC derives financial flexibility from market capitalisation of ~₹24,000 crore as on September 04, 2024, with 51.88% stake of promoters as on June 30, 2024. Entire promoters' shareholding is free from all encumbrances. Going forward, timely raising of funds and rationalisation of debt levels will be key rating monitorable.

Liquidity: Adequate

Liquidity remains adequate with low debt repayment obligation and sufficient cash accruals generated to adequately cover the fixed debt repayment liabilities. Average utilisation of working capital limits (Fund based + Non Fund based limits) was ~85% for 12-months ended June 30, 2024. The company also utilise short-term loans outside consortium limits, which exposes the company to roll over risk. However, the company is planning to raise NCDs of ₹500 crore, which will be utilised towards repayment of short-term debt, which will mitigate roll over risk to an extent. KEC has also applied for enhancement in working capital limits to meet needs for growing scale of operations amid high working capital intensity. KEC also had cash balance of around ₹269 crore as on June 30, 2024.

Assumptions/Covenants: Not applicable

Environment, social, and governance (ESG) risks

KEC is exposed to environmental risks emanating from disruption of economic resources, while construction activities are under progress. Presence in the industrial segment may result in environmental pollution and ecological dislocation, requiring requisite regulatory approvals. KEC's business profile also has social impact with large labour force involvement, and hence, has associated occupational risk. 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, and carbon emission, among others.

Applicable criteria

Consolidation
Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Financial Ratios – Non financial Sector
Construction
Infrastructure Sector Ratings
Short Term Instruments

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Industrials	Construction	Construction	Civil construction

KEC is part of the RPG group. The company is a global EPC major in power T&D systems. It has also diversified in railway infrastructure, manufacturing cables (for power, telecom, solar and railways), civil construction with a focus on construction of industrial plants, warehouses, residential and commercial complexes, smart infrastructure, and renewable sector (solar) projects. The company's operations are well-diversified across the globe with its eight manufacturing facilities spread across India (5) and one each in the UAE, Brazil and Mexico. The company has one of the largest globally operated tower manufacturing capacities of 372,200 MTPA, Railway structures manufacturing capacity of 38,000 MTPA, 12,000 MTPA telecom tower manufacturing capacity and solar structures manufacturing capacity of 10,000 MTPA.

Brief Financials (₹ crore)-Consolidated	March 31, 2023 (A)	March 31, 2024 (A)	Q1FY25 (U/A)
Total operating income	17,310	19,920	4,512
PBILDT	948	1,359	313
PAT	176	347	88
Overall gearing (times)	2.26	2.11	2.17
Interest coverage (times)	1.45	1.71	1.59

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: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of 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 and Rating Outlook
Debentures-Non Convertible Debentures	Proposed	-	-	-	500.00	CARE A+; Stable
Fund-based - LT-Cash Credit		-	-	-	3000.00	CARE A+; Stable
Non-fund-based - LT/ ST-BG/LC		-	-	-	15500.00	CARE A+; Stable / CARE A1+

Annexure-2: Rating history for 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 2024-2025	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
1	Non-fund-based - LT/ ST-BG/LC	LT/ST	15500.00	CARE A+; Stable / CARE A1+	-	1)CARE AA-; Negative / CARE A1+ (03-Jan-24) 2)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)
2	Fund-based - LT-Cash Credit	LT	3000.00	CARE A+; Stable	-	1)CARE AA-; Negative (03-Jan-24) 2)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)
3	Debentures-Non Convertible Debentures	LT	500.00	CARE A+; Stable				

LT: Long term; LT/ST: Long term/Short term

Annexure-3: Detailed explanation of covenants of rated instruments/facilities: Not applicable

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Debentures-Non Convertible Debentures	Simple
2	Fund-based - LT-Cash Credit	Simple
3	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	Extent of consolidation	Rationale for consolidation
Direct Subsidiaries	Full	100% subsidiary
RPG Transmission Nigeria Limited	Full	100% subsidiary
KEC Towers LLC	Full	100% subsidiary
KEC Investment Holdings, Mauritius	Full	100% subsidiary
KEC International (Malaysia) SDN BHD	Full	100% subsidiary
KEC Power India Private Limited	Full	100% subsidiary
KEC Spur Infrastructure Private Limited	Full	100% subsidiary
Indirect Subsidiaries		
SAE Towers Holdings LLC	Full	100% subsidiary
SAE Towers Brazil Subsidiary Company LLC	Full	100% subsidiary
SAE Towers Mexico Subsidiary Holding Company LLC	Full	100% subsidiary
SAE Towers Mexico S de RL de CV	Full	100% subsidiary
SAE Towers Brazil Torres de Transmission Ltda	Full	100% subsidiary
SAE Prestadora de Servicios Mexico, S de RL de CV	Full	100% subsidiary
SAE Towers Ltd	Full	100% subsidiary
SAE Towers Construcao Ltda (formerly known as SAE Engenharia E Construcao Ltda)	Full	100% subsidiary
KEC Engineering & Construction Services, S de RL de CV	Full	100% subsidiary
KEC EPC LLC	Full	100% subsidiary

Note on complexity levels of rated instruments: CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for 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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