Bucking the trend

KEC International is targeting $2 billion in the next three to four years

Harsh Goenka wants his flagship company, KEC International, to reach the $2 billion mark. Of course, to achieve this would mean consolidating the current businesses of transmission, telecom and distribution, by taking them to newer geographies.

The company is already busy going where no one else is willing to tread. Essentially in the business of setting up transmission towers for power, KEC can work just about anywhere – rivers, seas, mountains, sub-zero snowfields, snow-clad mountains, forests, gorges, deserts, cities, villages, amidst dust storms, in war-torn regions, militancy-affected areas or wildlife-prone regions. For instance, a transmission tower that the company wanted to erect in Afghanistan had to be situated in a gorge. However, the conductor couldn't touch any part of the gorge, lest it short-circuited. The company's design team used the help of IIT (Powai) to help design a unique tower where the conductor was just attached to the tower.

PHOTOS: SANJAY BORADE

Goenka: aiming high

Ramesh Chandak, MD and CEO, KEC International, cites another example of a project the company undertook in Iraq recently, which had to be completed in six months; under normal circumstances the same project would have taken the company two years to complete. Everything, except water, went from Mumbai by 35 charter flights. "The electricity line was very important to them," says Chandak. "They matched the number of soldiers to the number of people on site to protect us. Initially, people were scared; we all get driven by what we read in the newspapers, which is not necessarily true," he says.

Another of KEC's clients, Abu Dhabi Transmission and Despatch Co. (Transco), had to provide electric power to Yas Island to facilitate the massive construction work ahead of the Formula 1 Grand Prix motor race, to be held in November 2009. The client sees this as a very prestigious event. The construction of 35 km of 400kV and 3 km of 132kV overhead line (OHL) packages were awarded to KEC on a turnkey basis, based on its track record for timely delivery of large and difficult projects globally.

It wasn't smooth sailing. The completion period for the project was extremely tight. The 132kV OHL portion of the Bahiya-Yas Island 132kV mobile grid was to be completed in six months from the date of award (June 2007), while the 400kV OHL portion of Taweelah-Yas Island was to be completed within 12 months from the date of award. Generally, the completion period of such projects ranges from 18 to 24 months. As the route was crossing the Yas Island Main Channel, two elevated terminal platforms were designed, manufactured and installed, in order to facilitate the 132kV underground cable sealing ends and surge arrestors. However, since 50 per cent of the 400kV OHL route was passing through active cultivated farms, there was a delay in getting the necessary route approval. In fact, some of the right of way problems at some locations got cleared almost nine months after the contract was awarded, thereby considerably reducing the time available to complete the project. And the OHL route in Taweelah was modified during end of April 2008, i.e. 10 months after the contract was awarded to KEC.

Besides, the OHL route in Yas Island was under the control of the developers, Al Dar, and KEC had to follow the rules and regulations of Al Dar, in conjunction with the stringent Transco rules and regulations. Also, the scarcity and rising cost of construction equipment and materials, such as cement and steel, was the highest ever during this period.

Based on its previous experience in the Emirates, the company foresaw the potential issues that could hamper progress, and took appropriate actions, especially with respect to the mobilisation of resources. Even though 50 per cent of the line route was pending for approval, considering the importance of the project, KEC undertook advance mobilisation and detailed planning and consequently, manufactured and supplied the transmission towers and other required items such as conductors, insulators, etc. without waiting for the route approval. In fact, according to Lahmeyer International, consultants to the project, "KEC was faced with an extremely difficult working environment throughout the OHL route, which could not have been overcome without its pro-active response and team work attitude."

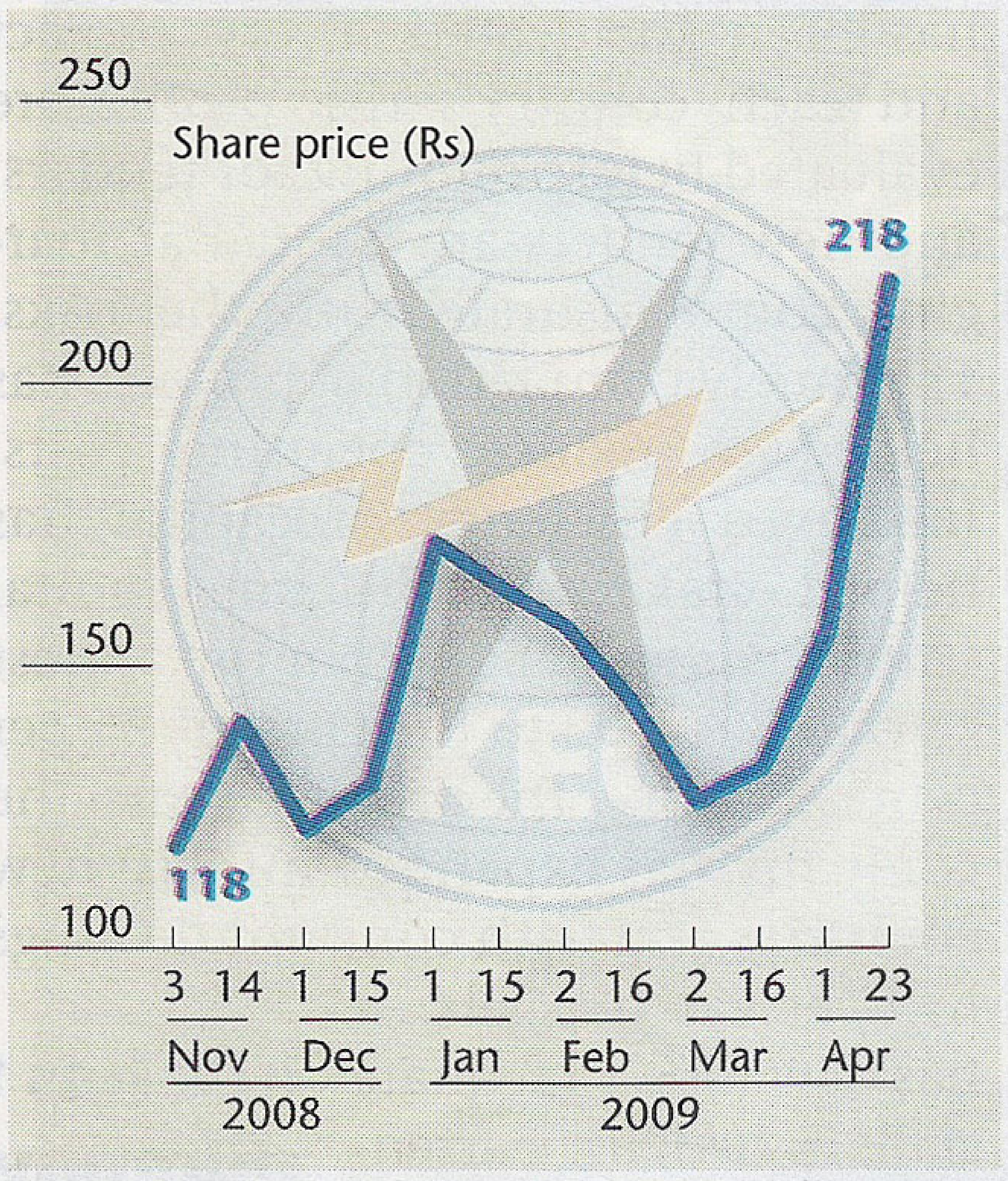
It is this project management ability that has put KEC ahead. Hence, even amidst the slowdown, KEC boasts of a good order book position. It recently bagged two big orders worth Rs291 crore from Power Grid Corporation of India Ltd. According to Chandak, in the past two months, the company's order book in the domestic market has increased by Rs1,200 crore by winning various orders from Power Grid, Rajiv Gandhi Grameen Vidhyootikaran Yojana and the Indian Railways.

Under RPG umbrella

The Mumbai-based Kamani family established KEC, originally known as Kamani Engineering Corporation, in 1945, for manufacturing, enamelling and trading hollowware insulators. In 1950, the company set up a fabrication plant in Mumbai in collaboration with Foures, France, for supplying to the Bhakra Nangal Dam project and transmission projects. In 1982, due to the harsh times that the Kamani family was facing, the company was put up for auction by the Maharashtra government to recover the dues the company owed it. It was purely instinct that made chairman Harsh Goenka bid for it and KEC came within the RPG group fold.

"KEC International was, at the time, in 1982, a small family-run business that was in ruins," says Goenka. "It had been consistently making losses and finally had to be run by the financial institutions themselves as a survival effort. The management of the company had drifted into a highly bureaucratic style of functioning and nothing moved. Instinct told me there was more to this business. It was in a prime segment of the infrastructure space – power lines. Let aside the business

Having pitched in, I had to run with it, and I was reasonably sure I would not let it go without a fight – Goenka



prospect, it was a national need." In addition, the company was stuck with a highly militant union. In 1984, the company's name was changed to KEC.

Buying KEC was a diversification into an unknown area for RPG on two counts – the group was not into infrastructure, and it had not gained competencies in project execution capabilities back then. "This was the other dimension in an already risky proposition," says Goenka. "Having pitched in, I had to run with it, and I was reasonably sure I would not let it go without a fight," he adds.

Phase one of rebuilding the company was getting the organisation in place. The best of managerial talent was brought in and a truce was struck with the labour unions. Secondly, the scale of operations was small in the pre-liberalisation era. The group's banking relations were tapped to get major lenders to support the revival and build financial capability. The third step was the major task of operational efficiencies. With operations spreading to newer geographies, controls too, needed to be strengthened. It was slow, but steady growth. "We began to feel the pulse of the business. It was exciting to see the potential," says Goenka.

By the end of year one, Goenka knew he had something precious in his hands. In order to strengthen domestic operations, the group acquired SAE India, a division of ABB. This became one of the turning points in the transmission venture. After acquiring SAE, which became RPG Transmission, the combined size was beginning to have its effect and clients recognised its strength and efficiencies. Operations did well in the mid to late 1990s. That was followed by a few years of intense challenges. A lot of rationalisation had to be done on the labour cost front. There were also problems of mounting receivables. However, by 2003, those issues were tackled, and sales grew from just over Rs500 crore to Rs3,000 crore today.

The merger of RPG Transmission and KEC in 2007 has given the company substantial strength in scale. Today, with a total staff strength of 2,600 permanent employees and around 7,500 contract employees, the combined entity is present in over 40 countries. It has three manufacturing plants in India, supplying 2.2 million metric tonnes of towers, and has constructed over 60,000 km of transmission lines. The order book position is close to Rs5,000 crore. KEC has diversified into distribution and rural electrification projects, as well as railway projects. It also has a presence in optical fibre cable installations, supply and installation of telecom towers, hotline stringing and providing services such as satellite/GPRS surveys.

While the original company was only into transmission, under the RPG umbrella, KEC has diversified into power distribution, sub-station, railway electrification and telecom. On the power side, it manufactures and sets up transmission towers, sub-stations, and distribution and design services. KEC has been doing the electrification for the Railways since 1961. In 2007, group company RPG Transmission merged with NITEL (National Information Technologies Ltd), a small group company (which were later merged into KEC), marking KEC's entry into the telecom sector.

A number of policy and strategy decisions over the past eight years have helped improve performance and boost growth. Each of the businesses – power, railways and telecom – have been restructured into strategic business units. Financial discipline has been inculcated. Every project and each country's risk profile are evaluated before quoting for tenders, and new tenders are quoted at margins commensurate with the risks. The timely completion of projects has helped to reduce operating costs. Improved efficiency of capital has helped take return on capital employed (ROCE) up from the almost zero in 2001-02 to the current 25 per cent. Also, over the past five years, the company has expanded into 10 new countries and with constant dealings in overseas markets, it has developed adequate skills in hedging currencies and commodities.

Since the company does not have a consumer-related product portfolio, not many people, besides those in the financial market, know KEC or its numbers. Diversification over the past five years has helped sales grow at a compounded annual rate of 25 per cent from Rs826 crore (financial year 2003-04) to Rs2,814 crore (FY08). Profit after tax has seen the same growth rate from Rs24 crore to Rs172 crore. According to an India Infoline report, the key drivers behind this robust growth were rising opportunities in international markets, as well as fresh investments undertaken in the domestic power sector.

The revenue for nine months ended 31 December 2008 stood at Rs2,293 crore. Net profit for the same period was Rs68 crore. However, results for the fiscal years 2008 and 2009 are not comparable as RPG Transmission and NITEL were merged into the company during FY08.

At least 60 per cent of the company's turnover comes from overseas projects. It was as far back as 1960 that KEC received its first international order from New Zealand. Over the years, the company has worked in 40 different countries from Afghanistan to Zambia, but has made its mark in the Middle East. After receiving its first order from the UAE 12 years ago, the company has bagged repeated orders from Transco, Abu Dhabi Water & Electricity Authority and Abu Dhabi Co. for Oil Operations due to its project management skills, on-time deliverability and cost deliverability.

KEC has the largest manpower of any transmission company globally – Chandak

According to Chandak, KEC has the largest manpower of any transmission company globally. At least 2,000 to 3,000 people from the company are always working outside the country, in 8 to 10 different countries, at any given point. According to a report by India Infoline, KEC's share of international revenue was as high as 88 per cent till four years ago. Focus on the domestic market increased post FY04, when the government's investments in the power sector picked up.

While there are other domestic players in the transmission EPC market, competition is somewhat regional: Jyoti Structures and Kalpataru Power. According to K.R. Thakur, MD, Jyoti Structures, in terms of capacities and qualification, while all three companies are at similar levels, KEC is much older, larger in terms of revenue and has a larger share of the overseas business.

The challenge is in the nature of the job. For one, KEC's work essentially involves designing and putting up transmission towers in different parts of the world. This is different from exporting a product to foreign shores in a ship container. Instead, the company has to physically go to the location and establish contact.

KEC's strengths lie in its designing

Financials (Rs crore)

	2003-04	2004-05	2005-06	2006-07	2007-08
Net sales	826	1,236	1,727	2,041	2,814
EBITDA	86	125	163	253	355
PAT	25	39	49	105	172

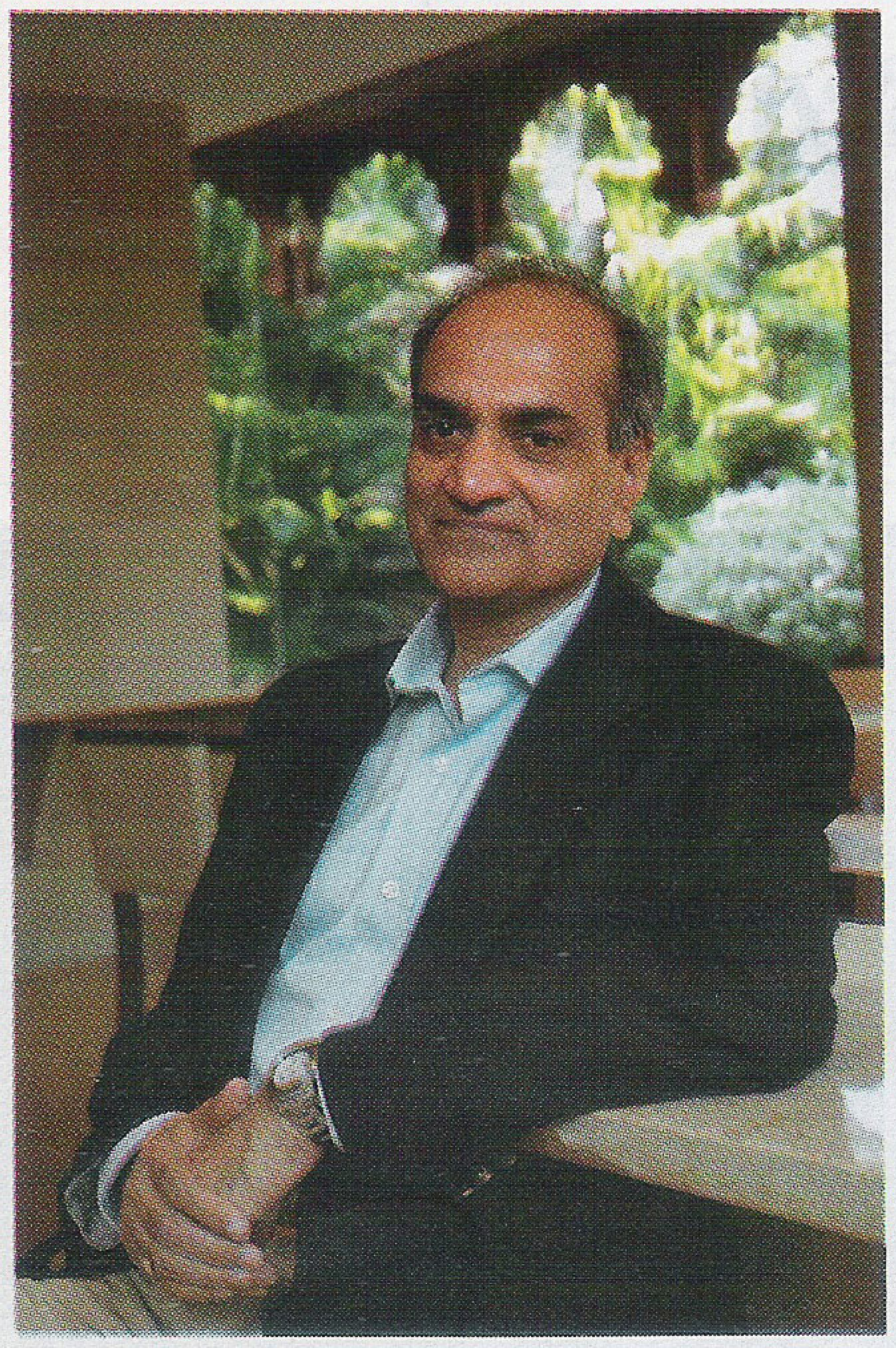
capabilities, low cost and pre-qualification. Various factors need to be taken into consideration when designing a tower – the wind, soil condition and the weight the tower will carry. The weight of the wind, rain or snow has to be factored in to calculate the weight that will come on the conductor.

Adhering to topography

To find a suitable location for a tower, a country's topographical map is looked at. Then the company uses Google Earth (the licensed version and not what you find on the Internet) to tower spot. A tower has to be designed according to the rock conditions, which differ from place to place. The height of trees and mountains also needs to be considered. However, certain changes may have occurred from the time the topographical map was prepared, i.e. new roads may have been constructed, or a river may have changed its course – Google Earth helps validate these changes. Prior to Google Earth, people had to physically go to the area and find a suitable spot for the tower; today only the final validation is done physically.

As each work contract is obtained against a bid, the challenge is to have operating efficiency and lower costs. Having operated in many different countries, KEC has the skill set to operate in different languages, and employs a translator whenever necessary. While 50 per cent of the task force at a site comprises Indians, the remaining are locals. In fact, according to Chandak, at KEC, you can find a person who is trained at every location, whether it is -40 degrees or +50 degrees. Due to the company's close relationship with its vendors, it can get better prices to lower costs.

Logistics is a challenge. For instance, for a project in Kazakhstan, the equipment is shipped from Mumbai to Xingang, China, from where it boards a train to Almati, Kazakhstan, and then by truck to the location. For a project that the company is currently working



Chandak: a not so bleak future

on in Afghanistan, since it is not possible to go through Pakistan, the equipment has been shipped to Bander Abas, Iran, from where it will go by train to Hairatan on the Iran-Afghan border, then by truck to the project site. Of course, one has to be careful of the Taliban areas.

According to Jyoti Structures' Thakur, there is no single factor that is key to being a successful player in the EPC transmission business. "Transmission line EPC contracts involve engineering, manufacture, procurement and construction. Skills needed to handle each of these specialised functions are essential. Also, most essential are project management skills for projects spread out in far-flung areas. You need very strong management information system (MIS) and control on logistics. And of course, money management. Not managing working capital cycle and cash flows can kill a company," he says.

I have increased my order book every month for the past eight months. So that's a positive sign – Chandak

According to Chandak, even the near term future doesn't look as bleak as it does for other sectors. He expects to continue growing at 15 to 20 per cent. "Today, we have a very good order book," he says. "With governments infusing funds in infrastructure projects, rather than bailing out private companies to come out of the economic turmoil, power will play a major role. That's why I'm not seeing a reduction in our order flows. So, as of today, it looks like I am bucking the trend, and business is not reduced. In fact, I have increased my order book every month for the past eight months. So that's a positive sign," says Chandak.

As of February 2009, the company's order book was at Rs5,055 crore, of which Rs3,052 crore was for international projects and Rs2,003 crore for projects in South Asia (opportunities in Bangladesh and Sri Lanka are limited; most of the orders are from India).

The power requirements of India are well documented. As for the 11th Five-Year Plan, there is a total planned capacity addition of 78,577 MW in the country. And the total plan outlay for transmission is Rs140,000 crore (Central Rs75,000 crore and states Rs65,000 crore). Besides, Power Grid is expected to float tenders of about Rs5,000 crore per annum. State utilities are coming up with investments in 400 kV transmission lines, and the ministry of power has awarded ultra mega power projects to private players.

Also, under the Rajiv Gandhi Grameen Vidhyootikaran Yojana, there should be power for all by the year 2012. An outlay of Rs24,000 crore by 2009 is planned for the first phase of the electrification of villages. An outlay of Rs16,000 crore has been earmarked for the second phase – electrification of all rural households – expected to be completed by 2012.

There is demand for an additional 150,000 telecom towers in the next three years to meet the capacity and coverage requirements. BSNL is also coming up with a large tender for setting up telecom infrastructure. As for the Railways, projects worth about Rs25,000 crore are expected to be executed. However, Chandak doesn't expect much to happen on this front till after the elections. At the current growth rate, Goenka may just meet his target.

◆ BHAKTI CHUGANEE