



“KEC International Ltd. Q2 FY18 Results Conference Call”

November 06, 2017



**MANAGEMENT: MR. VIMAL KEJRIWAL -- MANAGING DIRECTOR & CEO, KEC INTERNATIONAL LIMITED
MR. RAJEEV AGGARWAL – CFO, KEC INTERNATIONAL LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to the KEC International Limited Q2 FY'18 Results Conference Call. We have with us today from the management, Mr. Vimal Kejriwal -- Managing Director and CEO; and Mr. Rajeev Aggarwal – CFO. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing ‘*’ then ‘0’ on your touchtone phone. Please note that this conference is being recorded. I am now glad to hand the conference over to Mr. Vimal Kejriwal. Thank you and over to you, sir.

Vimal Kejriwal: Thank you. Good evening and a warm welcome to the KEC Q2 Earnings Call.

At the outset, my apologies for the 10-minute delay as the board meeting went longer than what we had anticipated to be.

We have today announced our second quarter results and are happy to inform that we have achieved revenues of Rs.2132 crores for Q2 despite the GST impact. If we exclude the direct impact of GST from the revenues, then we would have achieved 5% growth over the corresponding quarter.

Our continued focus on improving the bottom line has shown good results with significant margin improvement. We achieved an EBITDA of Rs.216 crores to the growth of 17% over Q2 last year. In percentage terms, EBITDA margins have increased to 10.1% as against 8.7% in the corresponding quarter. On the back of improved EBITDA, our PBT margins and PAT margins have improved significantly; PBT to 6.4% against 4.7% and PAT to 4.2% Vs 3.1% over Q2 last year. PBT and PAT have grown by 36% and 37% respectively in absolute terms over the corresponding quarter.

Coming to the Revenues: The International T&D business has grown significantly in revenues whereas domestic T&D revenues showed some slowdown on account of GST due to delay in decision-making by some of our clients. Railways business continues its upward trend in revenues with the growth of around 80% over Q2 last year. We are happy that our Civil business has progressed well despite this being its first year of commercial operations with execution remaining on track; it has recorded revenues of Rs.32 crores in Q2 FY'18 and is PBT-positive. The Cables business has shown a reasonable growth of 5% over Q2 last year with the positive PBT this quarter.

We have transitioned successfully to GST in Q2. GST did have some impact on various facets of the business; tenders were delayed, deferred or went into rebidding due to lack of clarity on GST. Some of our businesses like Solar and Railways which were earlier exempt from taxes have been brought under GST rate of 18% and 12% respectively. Anomalies in the tax rate in the Solar sector have resulted in slowdown in the Indian Solar business and building our capabilities in the international market. Despite GST slowdown in India, we have already

achieved YTD order inflow of Rs.5,747 crores and expect the order inflows to pick up in the rest of the year. This includes the order inflows of Rs.1,931 crores which we announced on 26th October. The share of non-PGCIL orders in India have increased significantly while SAARC's contribution the order inflows have also gone up largely as compared to the corresponding YoY figures. SAE secured two large EPC orders from Brazil of Rs.791 crores. This is in line with what we had mentioned about the EPC growth in Brazil.

We are happy to make a special mention in our long-term credit rating now stands upgraded to AA minus from both CRISIL and Care. This is the highest ever rating in KEC's history.

Our BOT project in Rajasthan has achieved its physical completion in September 2017, almost four months ahead of the schedule completion. The line has been tested successfully and the COD is likely to be announced shortly.

There has been a transitional increase in the working capital requirements on account of GST. Our receivables excluding BOT receivables have increased by more than Rs.300 crores due to significant delay in raising invoices and delayed in collection of receivables with a few of the customers due to lack of clarity under GST. Working capital impact on Cable business increased AR and increased the inventories.

Due to delayed receipt of environmental clearance in Brazil in one of the projects have resulted in higher working capital for the quarter. We have however received the environmental clearance in Brazil and the dispatches have already started.

Our net debt including borrowings for the BOT project is at Rs.2,509 crores, up from Rs.1,932 crores in March. Our focus on interest cost reduction continues resulting in 5% reduction on absolute interest cost over the previous quarter despite the increase in the borrowing and receivables.

YTD order book has grown by 30% YoY and stands at Rs.14,013 crores. With the strong order book position and L1 position of Rs.4,000 crores plus, we are confident that we will achieve our targeted revenues and profitability for the full year.

I am happy to take your questions now. Thank you very much.

Moderator:

Thank you. Ladies and gentlemen, we will now begin the Question-and-Answer Session. We will take the first question from the line of Renu Baid from IIFL. Please go ahead.

Renu Baid:

Sir, just wanting to first understand a) on the demand side, you did mention that order flows domestic market has been non-power grid led. So are we broadly comfortable that this non-power grid driven order flows will sustain and improve and international market will also remain

firm, if you can share your highlight on the ordering environment and what is the kind of pickup that we expect there?

Vimal Kejriwal:

Renu, I hope you have got our 'Investor Presentation' which we just mailed, our domestic order inflow has been 65%. So in spite of power grid not being a major contributor, we have been able to sort of balance that out with the SEBs and private sector, we did get a large private sector order largely in case is India's history. So I think we are comfortable that way, we are also seeing some more orders being given by the private sector, but more than that I think the SEBs are continuing to sweat and out of our Rs.4000 crores L1, I do not have the exact number but there is a significant portion of that is from SEBs. I think on the India order book, we are pretty comfortable. The other element I would like to add on the India order book is also on the Railways front. I think we are quite happy with the Railways performance. So if you had the Railways piece. If you add the Railways piece, and the impending T&D orders, I think we are quite comfortable with our India business.

Renu Baid:

But would you have any ballpark number in mind from the SEB space, because a lot of investors these days are a bit conscious that power grid has been declining in terms of ordering, so that could have headwinds for the sector?

Vimal Kejriwal:

Today if you look at the India order book is almost equally divided; my SEB is roughly around 32% and the balance is between power grid and the private sector. We are L1 in power grid for some more orders. So it is not that we are not getting orders. But I think the values are coming down because power grid again is going into reverse, some way of three-way tie-ups and all that which is creating some concern. But I think overall India business we are happy with what is happening.

Renu Baid:

Sir, secondly, if we see overall for the first half because of GST and also the execution timelines, there has been approximately just 4% growth in revenue. So for the full year do you think the guidance would now be 10-15% range or 20% still is achievable number with the 10% kind of margin profile?

Vimal Kejriwal:

We had talked around 10-15% growth. At least on volume it is definitely doable. Because when I said that with GST our revenues would have grown by 5%, that does not take into account the delay in revenues accrual, many of our orders got postponed from June, July to September, October and all that. So normally that revenue should have happened in Q2. To me, overall if you look at the GST impact, probably there will be 3-4% revenue impact or maybe 5% on the India business. I am not seeing a very great impact, maybe you would have done probably (+15%) or something, we may be slightly on the wrong side of 15%, but I think we are still very comfortable that 10-15% is achievable.

Renu Baid:

But then whatever is the delay because of GST will be compensated in the third and fourth quarter meaningfully though impact on the annual numbers that you would have been expecting?

- Vimal Kejriwal:** Third quarter I am not sure because orders are now coming in. Revenues from some of them may or may not be possible in the third quarter but I think fourth quarter we will definitely compensate because although we have seen orders going back, but most of the tenders being canceled, rebid or being delayed, but at the end of it, most of them are being awarded.
- Renu Baid:** No sir, I was referring to the execution. Even if we would have seen execution impacted because of delays or deferment, that will be more than compensated in the second half, so no impact on the annual execution timeline that you are expecting?
- Vimal Kejriwal:** Should not be. That is our effort which is why I said that instead of doing (+15%) we may do (-15%). I am not seeing a major impact if you ask me, maybe a percentage here or there.
- Renu Baid:** Sir, on the interest side, we think the interest to sales of 2.7, 2.5 will continue to improve the second half, we do not see any increase in working capital post-GST?
- Vimal Kejriwal:** I do not know whether it will improve or not but I do not think we should go beyond 2.7.
- Renu Baid:** GST will not have an increase in the working capital intensity of our domestic business?
- Vimal Kejriwal:** It is happening a little bit basically on cables and all where duty is 2% so we are ending up paying 28% till we collect from the customers and all that, not in the long-term.
- Moderator:** Thank you. The next question is from the line of Renjith Shivram from ICICI Securities. Please go ahead.
- Renjith Shivram:** Just wanted to understand the SAE business like how is it shaping up and you have mentioned that you have got a big order there. So what kind of growth and margins can we expect from SAE for this year?
- Vimal Kejriwal:** SAE on an average has been doing around Rs.1000 crores of turnover, I will say give or take 5% here or there. This year also I expect them to do a similar turnover. If you have been hearing on our earlier conference calls, what we have been saying is that we are very bullish about the EPC, we just announced two more orders, but the cycle time of execution of our SAE is slightly longer because there the environmental clearances are taken after the orders are given. So the revenue from these orders we were earlier expecting in probably Q1 but I think it will go to Q2 or Q3 next year. So from next year onwards, we will start seeing a significant ramp up happening in the SAE revenues.
- Renjith Shivram:** In terms of commodity prices, they have gone up. So do we expect some margin challenges because of that going ahead?

Vimal Kejriwal: I do not think so because this quarter also the commodities were quite high. Commodity prices are almost at its peak if you look at the numbers today. I think all the challenges are more or less taken care of. So I do not think I am seeing a major challenge on this.

Renjith Shivram: Sir, we are seeing our mix changing from PGCIL to an SEB-heavy perspective. So do we see working capital getting impacted because of this change in our customer, SEBs in terms of receivables, are they more compared to PGCIL or how is it like, should we assume that the receivable days will be more for them?

Vimal Kejriwal: It is difficult to give a general answer to this because there are SEBs like if it is sales in West Bengal where the payments are probably as a counter than power grid, there are others like Tamil Nadu where they have a formal queue and every mill goes in the Q&A base for the queue, and all those things are known when you are quoting. The impact of this sometimes would happen is that your receivables may go up slightly for let us say a job in Tamil Nadu as against a job in Karnataka, maybe a couple of days here and there, but at the PBT level we will definitely make up because we are aware when Tamil Nadu makes a payment versus Karnataka making a payment and all these costs get factored into our numbers where we are tendering. So the impact of this probably in some of these cases the EBITDA maybe slightly higher and the interest cost maybe higher. But I am not seeing a major impact of that.

Renjith Shivram: In terms of Railways, what kind of revenues are we looking at this year and also in terms of order intake, we were very bullish in the last call?

Vimal Kejriwal: We are still bullish. Revenue last year I think we did around Rs.450 crores or something odd, this year we have been targeting to do around Rs.800 crores. So with GST probably we will knock off around 4, 5% of the revenue because there is a 12% GST now on Railways. I think anything between Rs.750-800 crores would be doable for Railways.

Renjith Shivram: For the first half how much is the order intake from Railways?

Vimal Kejriwal: Rs.136 crores. Let me explain one thing, what Railways did was because GST was coming, they actually did not tender out anything. Most of the tendering of Railways have happened post-June. I think if I am not wrong, I have almost Rs.7000 crores of bids which have already been put in the Railways. So we are quite hopeful that in November and December you will see that a large number of Railways tenders being awarded.

Renjith Shivram: So what kind of the order intake in Railways can we expect for the full year – will it be Rs.1,000 crores kind of a range or will it be lower than that?

Vimal Kejriwal: Our target is Rs.2000 crores. I think today we are pretty confident as of now that we should be able to achieve it with the number of tenders which have already been quoted and the number of tenders which are to be quoted now. I think if you are hearing the statements of Piyush Goyal,

he has now been trying to say that the Railways electrification which was a five year target, now he wants to do it in three years instead of 4,000 Kms he wants to do 8,000 Kms, etc., So I think we are clearly seeing a renewed focus on tendering out. I think we are pretty confident about what we are talking right now on the order intake.

Renjith Shivram:

The overall order intake what is our target in terms of growth for the full year?

Vimal Kejriwal:

I do not have exact number, but should be around Rs.13,000-14,000 crores.

Moderator:

Thank you. The next question is from the line of H R Gala from Finvest Advisors. Please go ahead.

H R Gala:

Sir, just wanted to know as far as the Power Grid Corporation is concerned, what are the major factors that are impacting them to go fast on raising the orders?

Vimal Kejriwal:

It is not a question of impacting on the release of orders. Basically what had happened was that, most of the projects which they are getting were earlier nominated, now they have to bid and take them and somewhere in the last five or six months we saw there was a lull in the TBCB tenders being decided, which is where they got into a problem and I t now they are L1 in one or two projects, so I think those orders should come out now, there are some other tenders on TBCB where bidding is now expected to happen in the next probably four to six weeks, so that will start coming in. The other thing what Power Grid has done and they have now issued tenders which they have tied up with some states like UP and Bihar where they are now going to execute the projects on a consultancy basis for these states. Already we are seeing tenders from Bihar out in the market if you look at the Power Grid website. I think shortly they will also come from UP. It will technically be a Power Grid risk, was the Power Grid tender, Power Grid will be making the payment to you, but the **(Inaudible) 18:03** would be executed in the state. I think with these happening, they are so tied up with Odisha if I am not mistaken. We will slowly start seeing a lot of tenders coming out from Power Grid at the state level.

H R Gala:

How are our margins in PGCIL orders now as compared to the private players?

Vimal Kejriwal:

It is difficult to give a straight answer because margins will depend upon order-to-order, I will not be able to make a generalization saying that private is higher or PGCIL is higher, so it can vary.

H R Gala:

But we must have some sort of threshold limit that we may not go for an order if it is below certain hurdle rate?

Vimal Kejriwal:

Generally we follow those limits but there what also happens is that in many cases it was strategic where you may decide to do lower also. It is difficult to generalize anything. But on

average if you look at our margins we are now doing 10%, so you can always assume a benchmark saying my average margin should be 10%.

- H R Gala:** Can you give the breakup of how much was the International and Domestic revenue in H1?
- Vimal Kejriwal:** I do not have it right now, maybe you can just speak to Mita later on.
- Moderator:** Thank you. The next question is from the line of Deepak Agarwal from Elara Capital. Please go ahead.
- Deepak Agarwal:** Sir, my first question is can you help us understand how is the recovery from Saudi Arabia in terms of payments that has been stopped because you are quite upbeat that this year there should be material reduction in the money that you can expect from Saudi Arabia?
- Vimal Kejriwal:** Deepak, let me put this way that all our bills which are currently approved, every single bill has been paid. So we do not have any current outstandings in Saudi Arabia. As we have done a lot of jobs, lot of projects are getting completed, so their retention bills are now getting raised, so I think that money will start coming in now. But I think today we are significantly better I will say in comfort level than what we were in the last call. At that time we had delays in payment of current bills and all that.
- Deepak Agarwal:** What has been current outstanding as of now of the current receivables?
- Vimal Kejriwal:** It will be around Rs.1500 crores or so.
- Deepak Agarwal:** How do you see the ordering panning out specifically from SEB for FY'19-20 perspective, -- do you see a slight pickup in the CAPEX by various transco? Also how is our Civil business shaping up going forward?
- Vimal Kejriwal:** Civil business is doing very well and today we have I think our order book... I do not know exactly but roughly around Rs.400 crores is the order book on Civil and every ones we are getting some orders. So I think we are pretty happy with what they have done. Coming to the SEB, earlier we were seeing lot of orders only coming in from the south, but as I just now said that the Power Grid tying up with Bihar and UP and the focus on those states on development, we are clearly seeing a lot more orders coming out from those two states and also recently we have seen Gujarat coming out with lot of tenders. If you ask me FY'19, FY'19 should be better than FY'18 in terms of the CAPEX spending of the SEBs.
- Deepak Agarwal:** How has been the Cables business performance for the balance of this year because the segment was significantly impacted due to the higher GST?

Vimal Kejriwal: Balance half should be better than what we had done already. Our EHV order book is full, XT is full. I think we had done a lot of work on the order book side. Today we are fairly comfortable with what Cables is doing. I think the margins should improve a little bit from what we have today.

Moderator: Thank you. The next question is from the line of Bharat Sheth from Quest Investments. Please go ahead.

Bharat Sheth: Sir, if we really have to take a longer plan, 13th plan is about to get over in one year, so 14th plan work must have begun as well as SEBs, overall whatever was say order in place, which was setting in 13th plan vis-à-vis 14th how do we see really pie increasing, not for PGCIL but including TBCB and all?

Vimal Kejriwal: Overall Bharat bhai, if you look at the government talk of power for all and when they are saying power for all saying that each house should have a connection, not just a village end and today if you look at the per capita consumption of thousand in India, very clearly the demand for power and obviously the demand for transmission will go up. We were doing some calculations on the electrical vehicles, etc., and if the government goes ahead with what they are saying that ensuring every vehicle is electric by 2030 or so, that could actually raise demand for power by 35 GW, in fact, these numbers going around, but that is the talk which is happening, plus if you hear Piyush Goyal about saving 10,000 crores from electrification of the entire Railways network, clearly, we are seeing that the demand for power is going to continue to grow significantly in India as well as obviously the other markets like SAARC and Africa what we are seeing. We are very positive about the demand growth going forward.

Bharat Sheth: As you rightly said that PGCIL is taking on Bihar as well as UP and I understand they are talking for a few more states. So if that really starts earlier where we were not buying, how do we really see that is increasing for ourselves?

Vimal Kejriwal: Because if you look at UP, UP, we were hardly there, now with Power Grid tying up with UP and Power Grid coming up with the new tenders for UP or for Bihar, very clearly the pie will expand.

Bharat Sheth: Any color how many states you are currently in a talk without naming the states?

Vimal Kejriwal: I can name the states also. They have already issued tenders for Bihar, they are about to issue for UP, Odisha they already have some arrangement, I am not sure the exact nature, entire Northeast, Jammu & Kashmir, everywhere they have been issuing tenders for the states. So that is where they are on the state side.

Bharat Sheth: Recently, they also announced that they are foraying into Brazil also. Since we have substantial presence, how can play it out for us?

- Vimal Kejriwal:** Brazil is the market we have been very bullish as per EPC. In the last auction I think Sterlite won a couple of jobs, now let us see Power Grid also win and obviously Power Grid wins, they will come to us because we are the only Indian EPC there.
- Bharat Sheth:** Even Sterlite jobs also we have won or it has gone to someone else?
- Vimal Kejriwal:** Sterlite had not come to us, no.
- Bharat Sheth:** On Railways side, other than exactly electrification and track laying, how big is the opportunity?
- Vimal Kejriwal:** Railways if you look at this year's target of Rs.1,35,000 crores, out of that I can actually address Rs.55,000 crores if I want to address the entire market. What we are doing right now, some of the DFCC and all that which is half of that a number. But if I want to do really expand fast, I can actually address the full Rs.55,000 crores. To me the opportunity of Railways is as big as what you saw in Sagarmala and all that, Rs.1,25,000, 1,30,000 crores every year.
- Bharat Sheth:** One question for Rajeev. How do we see tax rate for the full year?
- Rajeev Aggarwal:** Definitely this quarter has been impacted largely by the GST wherein some working capital related debt has gone up, but we expect this number to go down in the next Q3 and Q4, so I am expecting the net debt should be probably around Rs.2000 crores or so by end of March. Tax should be at around 34-35% what currently we are providing.
- Moderator:** Thank you. The next question is from the line of Meet Chande from Equirus Securities. Please go ahead.
- Meet Chande:** Sir, basically what we have seen is that the net debt has actually gone up while the interest cost sort of as a percentage of sales also have come down. So what is the current interest rate we are paying and how has this changed over the past one year?
- Rajeev Aggarwal:** Current interest rate we are paying is around 7.5% or so and last one year there has been some saving on account of our rating has gone up, that interest rates generally in the market have come down. So almost 1% saving is there compared to the last year and that is why you are seeing that in the current quarter despite the working capital challenges, our interest cost has really gone down. So that is largely due to the rating improvement and also due to generally interest rates are being lower compared to the last year.
- Meet Chande:** How is the current debt being split between rupee and foreign currency?
- Rajeev Aggarwal:** It is generally about 50:50. 50% of the domestic debt is also largely in terms of the commercial paper debt that we did in the market and foreign currency debt is close to 50% which is largely in the form of ECGC and buyers credit.

- Meet Chande:** Sir basically right now we have seen the EBITDA margins have come to around 10.1% and I am sure there is some contribution happening over here because of the changing mix in the business. So going ahead, what kind of steady EBITDA margin can we see over the next couple of years that you would be stabilizing at?
- Rajeev Aggarwal:** We are expecting the EBITDA margin to continue around 10%.
- Moderator:** Thank you. The next question is from the line of Sachin Kasera from Lucky Investment Managers. Please go ahead.
- Sachin Kasera:** Just one question on Railways. You mentioned that the new minister has mentioned that he wants to shrink the target from five to three years. Firstly, do you think that is something which is achievable and does it mean that our expectation from Railways order inflow can go up? Secondly, you mentioned that there are some parts of Railways today which you are not addressing, you have the capability. So if you could also throw light on your plans on addressing that part of that segment?
- Vimal Kejriwal:** So on electrification target it is possible to achieve, because clearly the way we have executing projects we have clearly seen that the timeline for execution can be speeded up if the Railways cooperate with you in terms of giving you blocks, etc., This year to give you a number, out of the 4000 TKM, KEC will be doing better more than 1,000 Kms for the Railways, 25% of the entire railway electrification even now is being done by KEC, in fact, Railways have come back to us asking to do more for some other projects also. So in my view, it is doable if they are awarded in a timely manner, and also the department let us say, cooperate and ensuring that adequate time blocks are given because you have to understand one thing, in doing electrification, you are doing on a running line, the times are there, the trains are running and all that. So they will have to give you blocks of one hour, two hour, three hours so that you can go and do some work on the track. If they give 10-10 minutes block then the work will not happen. That is the expectation, but to me the electrification target is doable.
- Sachin Kasera:** Are you looking to address which you mentioned today you are not addressing in case of Railways?
- Vimal Kejriwal:** I think the other segments are basically if you look at it DFCC in a large manner and I think DFCC we already quoted one tender, it is not that we are going very gung-ho on that, but we are there and we are talking about in a way we are doing it. So I think clearly you will start seeing that we are getting into some other sectors.
- Sachin Kasera:** Second question regarding the Civil segment. How is the traction building up there – are you seeing some big order inflow happening and bidding going there?

- Vimal Kejriwal:** We are not seeing huge amount of Civil jobs coming in because there is hardly any industrial investments happening, but I think we are seeing enough for us, we are happy with what we are doing Rs.400 crores order book in the first we are pretty okay with it. For me whatever want to do, I am getting enough orders, in the sense, that I am seeing enough pipeline for myself.
- Sachin Kasera:** One last question on the SAE. We recently won large EPC order. So some more are in the pipeline or next quarter only will come in the FY'19?
- Vimal Kejriwal:** Difficult to say because there were auctions which had happened earlier where tenders have not been awarded as yet by the developers, that is one part, then in December, there is a very large auction happening, so we will definitely be participating with some of the developers and hopefully we back the right horse, we may get some tenders, we may be bigger there. I am not very sure whether they would be able to sign the orders before March or not, but we will definitely have an L1 position.
- Sachin Kasera:** Sir, as far as the tendering activity in Middle East have we seen any improvement because crude is now stabilized more or less in 50-55 band, a little better than what it was a year and year and a half?
- Vimal Kejriwal:** Let me put it this way, we are seeing improvement in countries like Jordan, Egypt. Abu Dhabi is coming out with some, Saudi, there is a long list of tenders which they have issued, the tendering is not yet happening, they are doing one or two tenders in a month which is too less, but they have a huge amount of lines which they want to do, they have power shortage, their tenders which are out in the market, I do not know when they will start actually taking bids for all of them, but the fact that they have cleared all the outstanding payments clearly means that the money which is being allotted to the Saudi client sheikh by the government is increasing. So I think we are hopeful that may be in a month or so, we should start seeing the tenders actually getting submitted.
- Sachin Kasera:** One last question to Mr. Rajeev. With the rating upgrade that we have got, do you see that there is further scope to reduce the rate of interest in FY'19 we could see interest as a percentage of sales trending down further?
- Rajeev Aggarwal:** I do not know much about the interest rate because we are already raising funds which are almost at around 7% or so. So there could be some scope on the reduction, but more than that actually what we expect the interest reduction to come from is improvement of a working capital cycle.
- Moderator:** Thank you. We will take the next question from the line of Abhineet Anand from SBI CAP Securities. Please go ahead.
- Abhineet Anand:** I just want to have what is our aspiration in Civil for the next three years? I understand that we have Rs.400 crores of order book in the current year.

- Vimal Kejriwal:** I think three years down the line it should probably be around Rs.1,000 crores.
- Abhineet Anand:** Is there similar strategy in terms of rupee crores something for the Railways part as well?
- Vimal Kejriwal:** Railways should at least be Rs.2,000 crores.
- Abhineet Anand:** In terms of margin, you did mention that 10% should continue. In that sense we already have Cables and SAE which are below that 10% margin. So are we clocking like 11-12% in the base T&D business?
- Vimal Kejriwal:** SAE is not below 10%, I think it is around that number only, maybe 50 basis points here or there, clearly with the large EPC orders which they are getting there, their overheads will get spread more evenly, so I do see SAE being in the range. Cables still been a problem. So that is where it is still 5% to 6%. It is very far off and it is around 8% to 9% of our business. So the impact of Cables would probably be 0.2%-0.3% on the margins. So overall obviously we are doing more than 10%. that is why on an average, we are at 10.1%.
- Abhineet Anand:** For the full year, we would probably hit the 10% margin mark?
- Vimal Kejriwal:** I do not know, we are keeping our fingers crossed, let us see what happens, we are at 9.7% for the half year if GST now does not impact us further. You have to understand one more thing is that the revenues have got impacted by GST. If you look at the corollary of that is my margins are appearing better than what they are at least by 0.1%, 0.2% because had I done my 5% or 7% extra on that, my margins would have been slightly lower than what they appear.
- Abhineet Anand:** What is our CAPEX plan for '18 and '19?
- Vimal Kejriwal:** On an average I think we should be spending between Rs.100 crores to Rs.125 crores or so.
- Moderator:** Thank you. We will take the next question from the line of Ravi Swaminathan from Spark Capital. Please go ahead.
- Ravi Swaminathan:** Sir, we have seen good margin expansion in spite of your commodity prices going up. It is more of a structural question. Three years ago, when your input costs were higher, margins were much lower, but now currently in spite of input cost going up we have been able to sustain margins. Is it because of the fact that the quantum of orders which are there in the market are so large that in spite of competition being there, we are able to get better pricing in the market or how is it?
- Vimal Kejriwal:** The margins are going up on account of two or three reasons -- One of the reasons is that we have been very particular about what orders we pick up which is why although competition is growing very fast, we are not growing fast in terms of revenue. For us profit probably is more important than the top line. So our base level of margins at which we are getting orders is

probably higher than what the rest of the world is doing today at least my direct competitors do, that is #1. #2 is we have been talking about a lot of improvements which we have done on the operations side for the last few quarters and we have been completing most of my projects on schedule or ahead of schedule which is what is adding to the margin level. Then you come to commodity, etc., if you look at steel, in transmission project steel contributes around 15% to 16% of my overall cost. So even if it goes up by Rs.3,000, Rs.4,000, Rs.5,000, we are talking about margin impact of 1% on the overall numbers. Other thing is that many of my orders even including SEB, etc., have a price variation clause. So in many cases, the increase in commodity gets captured in and through the PV. Three years back I do not know what sort of break-up we had of the orders. If there were more fixed price orders, then the commodity increase would have hit us. If there were less fixed price orders then it would not. So today I think we had a better mix probably. I am not sure exactly what has happened but these margin numbers are after the full impact of the increased commodity.

Ravi Swaminathan: As a corollary say over the next one to two years, if our fixed cost of employees and other costs, etc., do not increase in pace with our revenue growth, is there a possibility that margin can expand by say 100 bps from current levels?

Vimal Kejriwal: I honestly do not know, but yes, if the revenue goes up and with our focus on ensuring that we get profitable orders, we would really with the growth in revenue margins should also expand in terms of percentages, that is a whole idea of growing.

Moderator Thank you. We will take the next question from the line of Darshika Khemka from Edelweiss. Please go ahead.

Participant: Two set of questions; first is sir if you just see on the T&D side, what was the proportion of the international revenues ex-SAE?

Vimal Kejriwal: I do not have the exact number, but it is more or less equal I will say.

Participant: I was just trying to understand even International would have declined in this quarter, is it?

Vimal Kejriwal: International has gone up in this quarter, that is what I said at the start.

Participant: Sir, because our Domestic revenues has kind of impacted were on 4.5% and overall T&D has also declined by 4.5%?

Vimal Kejriwal: Yes, not Southasia, not India.

Participant: I was just trying to do the math. So I was just not able to understand that even we would have grown in International or not?

Vimal Kejriwal: Maths is very clear. Overall has declined. I told you that Southasia, we had a decline, India, we had a decline, I started saying the international has grown, if you want exact numbers then you should talk to Mita later on what has happened between the businesses, but very clearly, India has declined because of the GST issue because orders were delayed, revenues were delayed and international definitely grows significantly which is why we were able to grow slightly.

Participant: Secondly, what percentage of our order book is has a price variation clause?

Vimal Kejriwal: I do not have that number, but I will say power grid and some of the SEBs and even some of the privates, I do not want to hazard a guess but probably at least 20%, could probably be more than that also, I do not have a number honestly because many of our orders in the private have it, some of the SEBs also have it. But I think let me explain to you since you are raising this question again is that when we are bidding for orders which are with firm price also, it is clearly built in a cushion on the expected price rise. If the price rise is a completely out of the whack, it completely goes off, then we have a problem. But if the price rise is normal, let us say 5%, 10%, what is the expectation in the market, then those things are generally as always factored into our tender price.

Participant: Sir, in our fixed cost prices, so we would hedge for our commodity as well as FOREX, both?

Vimal Kejriwal: Generally, yes, except for steel where hedging is bit of a challenge, we do not have hedges available for steel, but for aluminum, copper and FOREX would generally be hedged, yes.

Moderator: Thank you. We will take the next question from the line of Bhoomika Nair from IDFC Securities. Please go ahead.

Bhoomika Nair: Sir, on Railways, just wanted two or three things; we are looking at a very strong traction there whether be it in terms of order inflow of Rs.2,000 crores and the addressable opportunities also fairly large. How are our margins? How is competition like because every second company that we speak to is looking at the Railways segment, just wanted to understand that aspect?

Vimal Kejriwal: Competition I will say in electrification is probably lower than other areas, electrification is a very specialized job. When you look at composite contracts, also it is low, but when you look at pure civil, let us say building a new line without electrification or without anything, then you find a lot of road contractors and lot of the Hyderabad-based companies coming in and quoting. On a Civil job, I will say the competition is much higher, but if it is the job involving electrification, traction, sub-stations, other related activities, signaling and telecom, etc., then the competition is relatively limited I will say.

Bhoomika Nair: So in Railways you would be clocking similar like 10% kind of margins?

Vimal Kejriwal: I will not say we are clocking similar because what has happened is that if you heard my earlier replies, we are looking at expanding our Railways portfolio and the number significantly. So what we have done is we have built a large capability. So right now my overheads are more than what I want the current projects can support. So at a project margin level, we will probably be at the same as T&D. But when you come down to the PBT and all that because the overall allocation and all is higher, and at the moment their net numbers would be lower than T&D, but I think it is a matter of time, maybe my Q4 and they should get the same levels as we have been.

Bhoomika Nair: Obviously, as the scale goes up next year it will definitely be...?

Vimal Kejriwal: Absolutely and that is the idea.

Bhoomika Nair: Sir, in terms of order inflows, you gave some good color on how domestic SEBs and SAE will look at. Also, if you could give some color on how international markets are looking like in terms of likely order inflows not only from the next second half but also from a little more medium-term perspective?

Vimal Kejriwal: International to me Middle East will bounce back any time with coil price above 60 because the need for power flow especially in Saudi, Egypt, Jordan and Abu Dhabi is pretty high. So it is a matter of time that they again become 15% to 20% of my revenues. I do not think we have any doubt about it. Africa is looking very good today and I think we will see a significant growth coming out of Africa probably in Q4 and Q1 because there are a lot of tenders which are being floated around, large interconnection projects are being talked about, being done, so I think Africa would be the second large piece. SAE continues to be large, but I think we already have a large order book, so I am not very sure that I want to take too many out of this SAE now.

Bhoomika Nair: But do you think this traction in terms of order inflow should continue for even next year as well, so there is that much visibility, that much work is going on to see the continued order intake for the next few years?

Vimal Kejriwal: Very clearly what may happen if you heard the entire conference is that there may be shift in like more SEBs coming in. I think the other pieces which are not covered is SAARC. There is a lot of development happening in Afghanistan, Bangladesh, Nepal, etc., and we are clearly seeing SAARC contributing much more than what it has ever done before. Even this year I think we should be doing close to Rs.1,000 crores of revenue in SAARC itself. So whatever may not happen in India, my view is it will happen. But if it does not happen, then we have clearly hedged our risks very well, so I am not worried about it.

Moderator: Thank you. We will take the next question from the line of Sabyasachi Mukherjee from India Nivesh Securities. Please go ahead.

- Sabyasachi Mukherjee:** This is more of an accounting question. From Q2 onwards we see that the excise duty is zero and revenue is net of GST. What is the GST amount?
- Rajeev Aggarwal:** Basically when we do a comparison, last year we had about Rs.50 crores of excise duty in the Q2 revenue which is not there currently in the revenue for Q2 primarily. This is on account of excise duty plus if you include some other taxes which are part of cost, finally part of revenue, that would be another Rs. 45 crores to Rs.50 crores, approximately, Rs.90 crores to Rs.100 crores is not in revenue in Q2.
- Sabyasachi Mukherjee:** Basically the number reported in the revenue that is net figure and if we were to take the gross, add around Rs.90 crores?
- Rajeev Aggarwal:** Just to give you indicative idea.
- Vimal Kejriwal:** If there is no GST, and if you have done on the older accounting, our revenues would have been higher by Rs.100 crores.
- Moderator:** Thank you. We will take the next question from the line of Abhineet Anand from SBICAP Securities. Please go ahead.
- Abhineet Anand:** This order inflow for this current year, where do we see that – did you say somewhere around Rs.13,000-14,000 crores?
- Vimal Kejriwal:** Yes, you are right.
- Moderator:** Thank you. We will take the next question from the line of Amber Singhania from Asian Market Securities. Please go ahead.
- Amber Singhania:** Just a couple of things; when you are targeting the order inflow of Rs.13,000-14,000 crores, are we also eyeing on the TBCB orders which are coming from Telangana and all which is bid by PGCIL or are we purely looking at EPC here?
- Vimal Kejriwal:** This will include the EPC of the TBCB also.
- Amber Singhania:** But we are not bidding any TBCB on our own, right?
- Vimal Kejriwal:** We just finished one, as of now we are not very keen to bid other in the sense that we have been thinking of doing probably one more of a smaller size may be Rs.200 crores, Rs.300 crores or Rs.400 crores, I do not think we have aggressive plans.
- Amber Singhania:** Not more intention towards the asset ownership side as such?

- Vimal Kejriwal:** Rs.13,000 crores does not include anything from our own TBCB.
- Amber Singhania:** Secondly, you mentioned earlier you are targeting roughly around Rs.2,000 crores of net debt by this year-end. Could you also throw some light on the longer-term horizon maybe two, three years time what is your internal thought process towards the debt reduction plan?
- Rajeev Aggarwal:** Basically when we look at debt, what will look at is what is the ratio of debt-to-EBITDA. The EBITDA will also grow in the next two, three years. Last year, we closed at debt-EBITDA of about 2.1. So our efforts would be to bring the debt-EBITDA down below maybe 1.5, 1.7 level than a couple of years.
- Amber Singhania:** Your comfortable level will be 1.5x?
- Rajeev Aggarwal:** 2.1 was last year, so this year we would certainly like to improve below 2.1, and in couple of years, we should see improvement in debt-EBITDA.
- Moderator:** Thank you. The next question is from the line of Bharat Sheth from Quest Investments. Please go ahead.
- Bharat Sheth:** On SEB side, GST-related issue now has been resolved and tendering has started because I believe PGCIL we are two PSE, so SEB was delayed,, so that part how do we see?
- Vimal Kejriwal:** Let me put it this way, Bharat bhai. Some of the SEBs have started issuing out orders, in our last order release we had included at least one large SEB order, there are some others where approvals are in the process, it has been a slow process, let me honest with you, they have taken their own time to cancel and issue tenders further. If you ask me an honest answer, I think the impact on the bidding will still continue may be at least till Q3.
- Bharat Sheth:** Sir, on the SEB side, whether a large part of tender business that we are expecting is on transmission line or substation side?
- Vimal Kejriwal:** Actually, if you look at honestly, it is more on the substation side because we have not seen a major spend on substation happening from SEBs. Now with all the HVDC and all this large line power upgrading everything to 765 and 800, SEBs have not done the upgradation of their network. Clearly, SEBs have to upgrade their substation and when you see going forward in the next two or three quarters, you would see large orders being awarded by some of the SEBs in terms of 765 kV lines and substations of 500 kV, etc., So clearly Power Grid went from 220 to 400 to 800. We are seeing most of the SEBs also upgrading their network for much higher voltage.

Bharat Sheth: We are talking that once GST pull back will see some kind of cost saving because of you are saying logistic cost and all, so do we expect that kind of help in next year and get ahead of 50 bps go into our margin?

Vimal Kejriwal: The problem is that what I get, my competitor also gets. So passes the tender. Now, I think we will have an additional margin coming out of GST and all that. Everyone is doing it. In every new tender, you factor that it. The difference would probably be is that I have about three factories in three different states and all that. You can probably get some benefit out of your transportership cost and logistics, etc., whereas again someone else who is only in one state, his cost may be higher than my cost, because now with the taxes being equalized, it is only the transportation cost which will play a role in determining whether you can take any extra money or not.

Moderator: Thank you. We will take the next question from the like of Mehul Mehta from Sharekhan Ltd. Please go ahead.

Mehul Mehta: This is with regard to order inflows. Last year FY'17 we had about 42% increase in terms of order inflows and at the time of I think like Q4 concall you had guided for order inflows to remain flattish kind of on the FY'17 basis. So if we look at your guidance of Rs.13,500 crores as average if I take, it makes about like second half growth of about 15%. So are we confident of that and what has changed to that guidance?

Vimal Kejriwal: I think the basic reason why we are looking at these numbers are because of GST, the first half was pretty poor although we had Rs.6,000 crores of orders being announced, but honestly, we should have got more than that. So we do expect that some bunching up and I now talked about some of the Railways or tenders which all held back, some of the SEBs where orders have not been released. So we do expect that there should be reasonable amount of bunching up and based on that we should be getting some more orders. I think that the Brazil one also was a significant amount. I do not think we are expecting this much to come from Brazil. So that is adding to our expectation of doing better than what we said earlier.

Mehul Mehta: First half like what we have achieved despite GST headwinds, that is what gives you confidence that in second half can be further better?

Vimal Kejriwal: So second half even if I do Rs.6,000 crores, I will be Rs.12,000 crores if I do the same amount. That is why I said we should be doing around Rs.12,000 crores to Rs.13,000 crores.

Mehul Mehta: So guidance remains about Rs.12,000-13,000 crores?

Vimal Kejriwal: Yes.

Mehul Mehta: You said our market share is about 25% in terms of Railways Electrification orders. Who would be the other major players in terms of market share? Are we the biggest or like who would be the biggest on that part?

Vimal Kejriwal: Clearly by 25%, we are the biggest. There are a lot of small players like Bright Power and (**Semacle**) 57:56 and then there is Kalpataru doing some odd jobs and then EMC does something and off and on we see L&T coming in if the tenders are large. So there are in a way I will say 5, 6, 7 players.

Moderator: Thank you. We will take the next question from the Jonas Bhutta from PhillipCapital. Please go ahead.

Jonas Bhutta: Just two questions; what is our year-end sales target for SAE – will it be flat because even for flat, then the asking rate in the second half is quite high? I understand that you have got the enviro clearance and execution could pick up, but still the asking rate is quite high.

Vimal Kejriwal: We have been talking around Rs.1,000 crores, so we have clocked around Rs.400 crores already, so I think we should be able to do the balance. Maybe if not Rs.1000 crores, maybe Rs.950 crores or so. I think right now we are still hopeful of doing Rs.1,000 crores.

Jonas Bhutta: On the receivables, I do not know whether I got the number, right. You said the Saudi retention amount is Rs.1500 crores?

Vimal Kejriwal: No, I did not say that. What I said was the total receivable amount. It is actually Rs.1300 crores, less than Rs.1400 crores. That time I had given approximate number, but actual number is less than Rs.1500 crores and that is the total receivables, not just retention because we are doing it on behalf of current projects, so the current receivable also is their part of that.

Jonas Bhutta: Of which, retention would be about Rs.500-odd crores?

Vimal Kejriwal: Yes, I think your figures are absolutely right.

Jonas Bhutta: That sir would get released over the next two years because there has been some scope changes at least last time you had sort of highlighted?

Vimal Kejriwal: Some of this Rs.500 crores is for projects which were completed now, so we are hopeful that by let us say end of Q3 itself we should getting some money coming out, so maybe half of it or slightly less than half of it should come within this financial year.

Moderator: Thank you. We will take the next question from the line of Jaikant Kasturi from Dolat Capital. Please go ahead.

- Jaikant Kastturi:** I just wanted to know the two large orders of the SAE Brazil one, what was the orders worth?
- Vimal Kejriwal:** I think roughly around Rs.800 crores.
- Moderator:** Thank you. As there are no further questions from the participants, I now hand the conference over to Mr. Vimal Kejriwal for closing comments.
- Vimal Kejriwal:** I think I would just like to say thank you to everyone for your continued interest. Thank you so much.
- Moderator:** Thank you. Ladies and gentlemen, on behalf of KEC International that concludes this conference call for today. Thank you for joining us and you may now disconnect your lines.