



“KEC International Limited Q3 FY18 Results
Conference Call”

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**MANAGEMENT: MR. VIMAL KEJRIWAL – MANAGING DIRECTOR AND
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Moderator:

Ladies and gentlemen, good day and welcome to KEC International Limited Q3 FY18 Results Conference Call. From the management of KEC international Limited, we have with us today 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 ‘*’ followed by ‘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:

Good evening and a very warm welcome to all of you on the Q3 earnings call of KEC. We have today announced our third quarter results. Revenue is at 2,405 crores with a growth of 22% over the corresponding quarter last year. However, revenue figures are strictly not comparable as the last year revenue was inclusive of excise duty and other taxes which are not a part of the current quarter revenue due to GST. So, effectively the growth is actually more than the 22% what we have announced. Our thrust on improvement of the bottom-line continues which is reflected in our EBITDA, PBT and PAT growth. We have achieved an EBITDA of 244 crores with a growth of 34% over the corresponding quarter. Our EBITDA margins have increased to 10.2% from 9.2%. On the back of improved EBITDA reduction in interest as a percentage of revenue and reduction in effective tax rates our PBT and PAT margins have improved significantly. PBT at 7% vis-à-vis 5.1% and PAT at 4.6% vis-à-vis 3.2% over Q3 last year. PBT and PAT have grown by 68% and 79% respectively.

GST impact is settling down with business project execution in T&D, railways and cables getting back on track. Solar business continues to remain impacted with anomalies in various taxation policies of the government. On the revenue front both international and domestic T&D revenues have grown significantly over the corresponding quarter resulting in an overall T&D growth of over 23%. Railways business continued its upward trend with revenues almost doubling over Q3 last year. Our civil business is well on growth path with Q3 revenues at Rs. 62 crores which are significantly above our internal estimates. Cables business has recorded a flat revenue due to high GST rate of 28% almost still mid Q3. Now with the GST rates lower we expect cable business to be back on track in terms of revenues. Today we have also announced orders of 2,035 crores of which over 85% is contributed by our railway business.

Our current order books stand at 17,148 crores with an L1 of Rs. 4,000 crores plus. Order inflows are gaining momentum with YTD order inflows of Rs. 11,300 crores which is 35% higher over YTD figures last year. This includes the total order inflows of 3,130 crores which have been announced post December 31st. We have received significant orders from SAARC and railways during the quarter. YTD order inflows for railways stands at Rs. 2,668 crores. The order intake for railways is expected to exceed Rs. 3,500 crores this financial year. We have de-risked our MENA exposure by adding projects from other countries such as Abu Dhabi and Oman during the quarter. We also continued diversified portfolio of T&D offerings by increasing the share of

substation business with YTD order inflows of Rs. 830 crores from substation projects. The YTD order inflow for civil business is 440 crores plus resulting in a strong traction for the business.

The COD for our BOT project in Rajasthan has been declared with effective 04 December 2017. It had exceeded physical completion in September 2017 almost 4 months ahead of the scheduled completion. ICRA has upgrade our long-term grade rating to AA minus in line with CRISIL and CARE. Interest cost as a percentage of revenues has decreased from 3% to 2.5% this quarter. Our net debt including borrowings for BOT project as on 31st December 2017 is Rs, 2,668 crores versus 2,530 crores as on 31st December 2016. We expect the borrowings level as on 31st March 2018 to be in line with what was in March 2017. With our 10% revenue growth for 9 months and close to 10% EBITDA margins. We are confident that we will achieve our targeted revenue and profitability growth for the full year.

Thank you very much. We are now open to questions.

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, my first question is, yes the closing backlog has been pretty strong 35% growth. So how do we see 6 months down the line when these orders start getting converted to revenues, do we see the revenue run rate now finally getting back in high teens 15%-20% range for us or do you think there could be issues with respect to the execution timeline of the recent order?

Vimal Kejriwal: So Renu, I do not see a major issue in 15% or may be even reaching 20% growth next year. And I think as you rightly said there are some orders in these which are not meant for execution immediately in 2018-2019. So, some of them as we have been talking about earlier our Brazil and then we have got some more tower supply orders which will actually happen probably starting end of calendar year 2018 or early 2019. So, I will say almost 2 and a half thousand crores of orders of this 17,000 crores backlog, effectively convert into revenues only next year that is 2019-2020 not 2018-2019. But even if you minus that I think we have a decent order book of let's say 14.5 plus 4,000 L1.

Renu Baid: Sir, second question is if you look at our SAE business as in there also the growth has been pretty steady, I mean pretty strong 40% plus growth Y-o-Y and with growth outlook improving what is the perception of this business? Should we expect better growth and business opportunity from Brazil as and which has been there with respect to end market, to what extend can we tap that market through EPC business as well?

Vimal Kejriwal: So, Renu there will clearly be a better growth happening in SAE. There is no doubt about it and this is what we have been saying for a long time. But as I said the orders of SAE which is almost, I think 1,400 crores if I am not mistaken of EPC would not executing probably maybe

somewhere around November, December of something like that. So, most of the revenues would start accruing either in Q4 of this year when I say this year next year 2018-2019 or 2019-2020. But going forward with the amount of business which is there our expectation is that at least \$ 5 billion of T&D contracts, BOT business have to be awarded every year and with our focus on EPC we are clearly saying that going forward with the growth in Brazil specially has to be much higher than what we had till now.

Renu Baid:

And sir my last question again on the non-T&D portion here. Civil side as in we have been fairly cautious and conservative on this business but quarter-in-quarter this has done much better than what we were expecting internally as well. So, if you can just elaborate a little more on how do you see this business scaling up as in this year next year and which are the key end markets in which we are getting through orders in this and how is the margin profile panning up for this business?

Vimal Kejriwal:

So, if you look at the end markets, right now we are in two segments of the market. One segment is the factory piece where we are building factories for let's say plants for some cement companies, we are doing one for a tyre company, we are doing 5 projects for an automobile company. So, there are various parts where we are doing including our paint shop and towers and Silos, etc. That is one segment which we are clearly in. The second main segment which we are addressing today is residential buildings, etc. link to the plants. So let's say we are doing across close to 100 crores residential colony for one of the cement companies. We are doing housing colony for one of the major metal and mining company in Rajasthan. So, right now these are the two major segments and an associated plan civil work like I am doing a huge road work projects for one of the plants where we are building the entire roads in our factory more than 60 crores-70 crores of value. So, those are the segments we are there right now. The other 3 or 4 segments we should look at one would clearly be residential not obviously the high-end ones but somewhere like what you have in Bangalore and all let's say it want to take names or prestige or something like that okay. So, that is one end where we want to look at doing EPC. The second end would probably be affordable housing, all the way not done anything right now on that. But that is on our radar going forward that may be in a couple of months or something we start looking at EPC for affordable housing. And the third piece would probably be something on the defense civil, which will again be housing and all that. Defense has been spending lot of money on building housing putting up let's say residential accommodation and the borders and all. So, I think that is probably the third area where we are looking at. I think this would broadly be the area for the civil business.

Renu Baid:

Sir my last question, if I can, can you help us understand little how has been the operating performance for the civil SAE as well as for our cable business broadly this quarter?

Vimal Kejriwal:

So, largely if you look at, I think let's say cables and civil the margins will probably be little bit lower than the transmission T&D. Cables historically has not been making that much money.

Civil, the reason the margins are slightly lower is because we are investing a lot in the capability building and CAPEX, etc. So, take a pure project level margins, civil margins would probably be equivalent to what we are doing in T&D but because investment and all, so those numbers are coming down slightly.

Renu Baid: So about 6%-7% kind of margins currently?

Vimal Kejriwal: Yes, EBITDA would be probably be higher than that, okay at least around that much. It not more than that. SAE has been doing, I will say reasonably well it is not that they are not making money right now. Mexico has always been a slight problem for us but the EBITDA levels for SAE are almost on the normal transmission levels. I do not have the exact numbers and they almost touching double digit.

Renu Baid: And Rail business, sir?

Vimal Kejriwal: Rail is slightly, still slightly lower than T&D because we knew that these orders are coming, so we have built up a huge amount of man power and other things. So, the next year what will happen is that all this overhead will get absorbed by our next year's revenue. This year we are not expecting to do more than 750 crores-800 crores of revenue although we have already built capability for doing much more than that. So again, I will give the same answer that at a project level I think our margins are virtually similar but when we are putting in our capability lead overheads for this year that is impacting the final margin. But I will still say that we are pretty happy with that margin because with that margin also we have been able to declare a 10.2% EBITDA.

Renu Baid: So, next year that means there is enough room for margin to improve as the revenue execution improve?

Vimal Kejriwal: I hope so.

Moderator: Thank you. We will take the next question from the line of Aditya Mongia from Kotak Securities. Please go ahead.

Aditya Mongia: I will come to my questions, to the first question, was on the working capital, I think that is one metric which is not improved meaningfully while others has shown good improvement. Is there a sense that you can give us some how the fairly high levels of working capital can be brought down from where they are today?

Vimal Kejriwal: So, Aditya what is happening that if you compare December to December, I think we are pretty okay with the numbers. If you are comparing December to March, then we have a problem. We have added around 700 crores-800 crores of working capital and there are I can give 3 or 4 reasons, but I think primary reason was Saudi, where we had a back log of collections and

unfortunately for us in the last couple of weeks in January we have been able to get a large amount of money from Saudi. So, we are seeing that piece getting sorted out. Then we have couple of large projects in the north east of India, which are actually Power Grid projects, but which are funded by Ministry of Power. And I think they had some process issue and all that, so that money did not come from the government to Power Grid and which they could not pay to us so, which they are now paying now. So, that is to me was the second reason, nothing to worry about. The third reason is obviously GST, where when cables at 28% GST we had a lot of ARs then there have been some other related issues where some of the clients have still been taking their own time being government to sort out pre and post GST. Although as I said operations are regularized but payments, etc. and I will say the last reason was be a large amount of advance which was supposed to come in December did not come in, came in January. So, there are 3 or 4 factors which have led to this increase but I think we are pretty confident that whatever working capital improvement we had shown in March we should able to stick to the same this year also.

Aditya Mongia:

So, why I ask this question was that at 10% kind of a buildup margin level that is reasonably good the growth is that possible to see actually a decline in borrowings happening over?

Vimal Kejriwal:

Not immediately. The reason is very simple is that one is we are putting some money in CAPEX for both civil and railways, number one. Number two is that the base for railways and all is very small, and railways also have the cycle of 200 days -220 days. So, once the revenue is increasing, I think initially we may have some increase happening on the working capital which will try to sort it out with our efficiency but effective decrease in the actual amount of working capital, I see it difficult right now honestly. But as a percentage of revenue it will keep up going down.

Aditya Mongia:

So, the other question I had was on the outlook for order inflows now obviously already announced about 1105 crores add to that the L1 pipeline, you were talking about a number which is for 13,000 crores-14,000 crores-15,000 crores for this year. Now when one thinks to do how to grow this number incrementally it would be useful if we could get your perspective as to which all areas maybe railways outside India or other sectors can do reasonably well for you for you to be growing on that base?

Vimal Kejriwal:

So, the first item as you rightly said is the railways. We are clearly with the railway allocation increasing from 135 to 149 and with lot of plans being announced for electrification and doubling and tripling. Very clearly railway is one item, one area where we are seeing our growth happening. Second as Renu was talking civil is another piece where although the volumes may not be very high but incrementally it will do well. Third area we are seeing is SAARC where there are some huge tenders to be bid out in the next few months, pretty large tenders to be bid out in Bangladesh and other countries. Fourth obviously is Africa, where we are seeing few large interconnection projects being finalized and being awarded and fifth I was say is that the Middle East market is settling down finally, with crude whatever number 60-65-70 we are seeing some of the countries they are coming out. We got one job in Abu Dhabi they have come out with

more new tenders Saudi we are seeing the tender flow starting other countries also. So, Middle East which was one of our largest markets and which had been slowing down in terms of ordering intake, we are seeing that happening. And I think lastly, I will say Brazil because the last two auctions or last three auctions have happened and the EPCs for those auctions are now getting finalized. So, that could be large growth driver for us. Apart obviously from India which is our main driver in T&D. We are continuing to see more and more state spending happening on the T&D infrastructure.

Aditya Mongia: So, just to put in other way even though domestic T&D something that you list out on if that does not grow as well as let's say mid to a single digit. The overall opportunity which is available both in outside India is good enough for possibly a double-digit kind of growth happening on a consistent basis?

Vimal Kejriwal: I think we are very clear that the India growth will also happen. We are not given that number but if you look at our internal numbers, I think India we had at least a double-digit growth even in this quarter in the T&D business. I think we are getting a little bit colored by the PGCIL orders ordering coming down but to me there are enough orders from other players to replace the PGCIL. But let me also tell you one thing, if you look at our India order book today even today 49% of my India order book is from PGCIL in transmission.

Moderator: Thank you. We will take the next question from the line of Abhishek Jain from Vallum Capital Advisors. Please go ahead.

Abhishek Jain: Is Saudi Arabia revivals will be there, then you would be entering into that market again since you have exited the same?

Vimal Kejriwal: No, I do not know who gave the information that we have exited the same. We are not exited the Saudi market. We still have at least 7 or 8 ongoing projects there, right now and we are still bidding in Saudi. So, there is no exit in that market, it is a very large market and we clearly see lot of opportunities in that market.

Abhishek Jain: And civil construction order book how you see going forward next two year?

Vimal Kejriwal: So, in year one, we now have an order book of close to 500 - 450 or whatever is the number, okay. So clearly, I do not have any guess right now, but I do hope that it will double at least next year.

Moderator: Thank you. We will take the next question from the line of Jonas Bhutta from Phillip Capital. Please go ahead.

Jonas Bhutta: Sir, couple of questions. Sir, if you can just sort of highlight broad or color the L1 position of about 4,000 crores into segmentalize it maybe is it T&D heavy now post this large railway order and if yes then is it India or out of India?

Vimal Kejriwal: So, I will say part of it I will not be able to give exact numbers but there are railway orders which is why I said that we have got 2,600 crores of orders that we should cross 3,500 crores in this financial year. So, there is a significant amount of railway orders in this and then we have India also and international. So, I think we have all three phases, but I will say largely it is more India driven then international.

Jonas Bhutta: Sir and now that you have almost in 1,800 crores backlog for railways, would you sort of hazard a guess of what kind of topline you can do next year and are these 1,800 crores worth of order that you won in the current quarter likely to start contributing next year itself or they are slightly longest gestation?

Vimal Kejriwal: One thing is that I do not know the 1,800 crores number is the orders released today. Our backlog is much more than that because this year we have got 2,600 crores of orders already and we had a backlog of more than 1,000 crores last year. So, our backlog in railways should at least be 4,000 if not more by this year end. As far as the revenue is concerned what happens normally is the electrification orders which are roughly one third of this or 40% of these orders will get executed faster but we also have large civil orders. We generally will take at least 3 years for the full execution. So, I think that is the way we are looking but as I have been saying earlier we expect to double our revenues every year. So, this year we should do 750-800, I do not know where we will end up. So, next year we should be ending up somewhere in the range of 1,500 crores-1,600 crores.

Jonas Bhutta: And sir lastly, in this quarter we have done about 10.7% margins on the standalone piece and given that you highlighted earlier in the call the kind of margin levers that are still available for you for maybe going forward. But with raw material prices sort of inching up and would you again sort of look at more like a flattish margin scenario for F19 or would you still want to sort of give a guidance of growth?

Vimal Kejriwal: I would definitely want the margin to grow. I honestly do not know we are working on numbers, but I do expect that there should be at least a 50-basis point increase in our margin next year.

Jonas Bhutta: On a consol basis?

Vimal Kejriwal: On a consol basis, yes.

Moderator: Thank you. We will take the next question from the line of Sachin Kasera from Lucky Investment Managers. Please go ahead.

Sachin Kasera: Sir, just with the traction that we have seen now in Q3, what is your sense of the full year growth for FY18?

Vimal Kejriwal: FY18 we are always been saying between 10 to 15 but actually we had said 15 earlier but after GST came in the topline may get little bit hit. Physical volume, so I think we will definitely grow 15%. At the end I think we will probably, I honestly, I cannot, I do not have an answer to you but we should be between 10 to 15.

Sachin Kasera: Second sir, regarding working capital you did mention that because of railway proportion going up and railways little higher working capital the working capital in terms of number of days will go up. So, from 140 you said will normalize by March. So, what is it that we should look at end of March in terms of number of days, 140 come down to at least 120-125?

Rajeev Aggarwal: So, I think we had last year around 120 odd days of since outstanding. So, we should be back to debt in March and our borrowing level largely got Vimal said it. Borrowing levels as of March 2018 should be at the same number as we had in March 2017. So, close to about 2,004.

Sachin Kasera: And in terms of the interest rates per se I believe there we are more or less better, you see with rating improving further there are some further scope to reduce your rate of interest in finance charges.

Rajeev Aggarwal: So, I do not think that we are already at sub-6 kind of an interest rate on the average borrowing cost for KEC International and with the little bit of firming up of the rates both in the international market and in the domestic market. So, I do not expect the ratio further go down but our effort is to reduce the interest cost as a percentage to revenue and that you would have seen that we have been this quarter we have reduced 2.5% of the sales. So, our target next year would be to work out the interest cost as a percentage to sales to something around 2.5% to 2.7%.

Vimal Kejriwal: I think Sachin what is talked about finance cost may go down slightly with the rating improvement, okay, not the interest cost because globally also it is going up. So, our mix is about dollars and this one everything is going up. So, looks difficult on the rate right now.

Sachin Kasera: Sir, one last question regarding the T&D business in India you did mention that you are seeing lot of traction in the non-Power Grid. So, if you could just highlight which states are you seeing larger opportunities? We keep hearing that UP some very large tenders could get floated so if you could give some sense on that?

Vimal Kejriwal: So, traction is still in the south, right now. Still Tamil Nadu, Karnataka, Andhra Pradesh, and Telangana. To me those are the four states where you see a large traction. UP, honestly, we have not seen much traction. There are jobs coming out off and on, I will say but nothing which is exciting us more than UP, I think Bihar is coming out with more jobs. So, what is happening

Sachin is that with Power Grid orders, what Power Grid is doing is that they are making joint ventures with some of the states. So, I think Bihar they already have a Bihar Grid where they are working with a state grid. UP I think that is the discussion which is going on, may Power Grid should answer better. But they are in discussion with UP where they will do a JV and then the projects will get floated by this JV. I think because of this delay the JV, the projects UP are not coming up so much. Other states where we are seeing some projects happening is Orissa and West Bengal, West Bengal may announce an order. Today's order I had order from West Bengal. So we are seeing something happening once in a while there. Jharkhand is another state where large orders can come in. We are keeping our fingers crossed they have got large plans because of that not being developed so much. So, I think Jharkhand, Bihar, UP should be three and may be Orissa.

Sachin Kasera: Sir, just one question on railways. With the type of increase we are seeing in terms of ordering inflow does competition still remain a little rational and margins are healthy, or you are starting to some signs where competition is going up, new entrance are coming in some of the orders getting bit at little lower margins?

Vimal Kejriwal: See, what has happened Sachin fortunately for us is that you have Bharatmala and other Malas and all that so most of the competition which was coming from the road players again getting diverted back to the roads. Right now, there isn't any significant change in the competitive scenario in the last few months and we do not expect it to change too much. The other thing also happening is that with values is going up, the size of the contracts are going up which means the PQ requirements, the working capital requirements are going up. So honestly, I do not think at least for the next few months or next few quarters we will see any major change in the competitive scenario.

Sachin Kasera: You see for FY19 order inflow in railways should sustain on maybe slightly better than FY18 as of now what is your sense?

Vimal Kejriwal: Has to be.

Sachin Kasera: And just last question sir, on overseas you had mentioned that you could look in terms of taking some of the existing business is overseas other than T&D. So, any progress on that and if you could give us some sense?

Vimal Kejriwal: I think the first business if you probably go overseas is going to railways because it is quite synergetic, and we have done couple of projects in railways already. We have done one in Turkmenistan, one in Kenya, one in Malaysia, so 3 projects we have already done outside India. There are a few opportunities in SAARC and Middle East and Africa and also in CIS. So, I think they are looking at that probably that could be the first business to go out.

Sachin Kasera: So, FY19 we could see some order inflow or it would be more like FY20, FY21 sort of?

Vimal Kejriwal: FY19 and I think one more area which I forgot to mention of solar. Nothing is happening in India, I think our focus on solar is now completely 100% outside India right now till government sorts out the GST and the custom duty and other issues. So, I think clearly in FY18-19 we should definitely get at least one or two large orders in solar and when we are clearly seeing traction happening in both Middle East and Africa and a little bit on the SAARC region for solar. So, railways and solar should be two businesses where we should get some orders next year outside India.

Moderator: Thank you. We will take the next question from the line of Deepak Agarwal from Elara Capital. Please go ahead.

Deepak Agarwal: Sir, my first question is among the states that you mentioned Jharkhand, West Bengal, Orissa and all which are the new states have been some orders. How do you see the competition, is it the same like all there in southern states and also the margin level expectation that you can expect from some of this new incremental sale when you enter?

Vimal Kejriwal: The problem what we are saying in these states is these states till now issuing very small tenders, small value and I will say second grade and third grade level of companies in terms of size and all that. Our aim is to go bigger, we honestly do not know what would be the PQ requirements how they will be? If they are going to learn from the Southern states I presume that they will have pretty tight PQ requirements, especially in Bihar and UP where Power Grid is also involved. I do expect pretty stringent PQ requirements. As of today, the PQ requirements are pretty relaxed but as I said that they were very small projects. Once they started ...

Deepak Agarwal: Small as in you will put around 100 crores kind of value, kind of thing?

Vimal Kejriwal: 50 and less.

Deepak Agarwal: And my second question, now we are doing absolutely amazing on railways. So now and with this kind of a revise guidance that you are giving, do you see that the margin that your trajectory that you see in the railways field can possibly touch or even be higher than the transmission business in 2 years' timeframe?

Vimal Kejriwal: So, Deepak one is I have not changed my guidance of Railways, we have always been saying that we will do 750-800 and next year will do double. So that is what we have been saying. And we knew very clearly that this order, we will need such an order book for maintain that revenues, so that is where we are. The margin levels will definitely will go up as I said that today our margin levels are factoring a large capability build up. So next year if we are able to do a 1,500 crores – 1,600 crores of revenue, very clearly the margins will go up.

Moderator: Thank you. We will take the next question from the line of Sanjay Doshi from Reliance Mutual Fund. Please go ahead.

Sanjay Doshi: Sir, looking at the company overall, we are finally looking in a good growth phase of double digit on topline and outlook for various segments also look very strong. I want your comments on what kind of measures are we taking on risk management or project management capabilities, given that we are going into larger geographies like SAARC and Brazil.

Vimal Kejriwal: So, first of all Sanjay we have a very, I would say an exhaustive risk metrics through which every project which we are tendering has to go through. Whether, it is for an existing client or for a new client. So that is one clear for us, mandate is there and especially when you are doing for a new client or a new geography it is done much more stringently. So I think that one piece very clearly and that risk metrics obviously takes into account the history of the client, the political issues and is there any extremism in that country, then what is happening on the metals. So I think we have basically whatever can go wrong in a project is factor into the risk metrics to understand and then evaluate whether that particular project is worth quoting or not. Many times, the risk factor may be very high but then that will get factor into the margins which we quote, so that we are able to mitigate the risks.

Sanjay Doshi: So is there a success rate or hit rates very different in new geographies that we are entering, is it much more conservative?

Vimal Kejriwal: Not necessarily, because it is not we are very conservative because most of these things are available to everyone else but yes there can be some conservatism especially with related to I will say commodities and these things. That is why if you look at our international growth, we have been slowing down the international because we have been little bit more particular about what country and where to grow.

Sanjay Doshi: And lastly sir, what kind of operating leverage do we see, even the mixes also changing but now if we move towards the comfortable level of say 13,000 crores-14,000 crores topline from current 10,000. Do you see there is a huge operating leverage in the business?

Vimal Kejriwal: There will be operating leverages there is no question about it. And I think difficult to answer with in terms of numbers and all that because what is also happening is that with civil and railways which are new businesses which are expanding. We are actually spending a lot of I will say money on building those capabilities. So to some extent that operating leverages are getting, in a way little bit negated but very clearly when I said earlier that we should have at least a 50 basis point increase in margins. That was a reflection of that only.

Moderator: Thank you. We will take the next question from the line of Karan Rathod from ICICI Securities. Please go ahead.

Karan Rathod: Just a couple of questions from my side. Firstly, the North-East opportunity in T&D and Railways, could you just throw some light on that?

- Vimal Kejriwal:** I do not have numbers for North-East separately, but I can tell you one thing that most of our L1s today in Power Grid are all in North-East. Basically Arunachal Pradesh, Sikkim, Assam are where the projects are coming up. Even in Railways, I am doing a project right now in Guwahati a 300 crores project right now also in Assam. So very clearly, we are seeing lot of opportunities coming out both in T&D and in railways and probably also in civil. That is an area where we are clearly saying we think that there are lot of defense spending would happen on civil in that area.
- Karan Rathod:** So you mentioned during your comment on working capital there was some process issue because of working capital got stretch for some project in the North-East. So do you see that as a one-off or do you see that as a persistent issue from that area?
- Vimal Kejriwal:** This remains a one-off case but in North-East I do not know what will happen because what happens is most of this place the lines are not very commercially viable then we put in this way. So what happen is there when Power Grid is building these lines most of the time we depend upon funding from Government of India because at the end of the day Power Grid also has to make its money. So in couple of cases we have seen that there is some lag between those spending and the reimbursement from government. We have seen that happening in one or two projects, we have taken that with Power Grid and Power Grid has taken it up with the government of India. So I think it should get resolved going forward.
- Karan Rathod:** And sir on the railways order book out of your 3,600 crores that you have currently how many would you say would be in the short cycle side?
- Vimal Kejriwal:** I think Rs. 1000-1500 crores would be something which are when I say short at least 12 months to 18 months, okay our civil is obviously 3 years generally.
- Karan Rathod:** And sir, on the civil order book what would be your target order book for the end of this year?
- Vimal Kejriwal:** This year we should be closing probably around 400 or something because we got 450 crores hopefully we should get a couple of more orders this year and we should have a revenue of close to 150. So anywhere between I think 400 to 550-600 should be the order book.
- Karan Rathod:** And sir just last question, you mentioned the number for your L1 order book, could you just repeat it for me?
- Vimal Kejriwal:** Above 4,000 crores.
- Karan Rathod:** Above 4,000 crores L1 order book right sir out of which major part is in India.
- Vimal Kejriwal:** I will say almost 70% is in India.

Moderator: Thank you. We will take the next question from the line of Hrishikesh Bhagat from LIC Mutual Fund. Please go ahead.

Hrishikesh Bhagat: Sir, you spoke about opportunity in Brazil. So this EPC packages in Brazil, do we have any pre-bid tie-up and will be this on negotiated basis or this will be L1 on the tendering?

Vimal Kejriwal: Generally, it is always on negotiated basis. This is after the let say our client has, as a developer has won the job and then he negotiates with the couple of EPC players. We did have some pre-bid tie-ups but unfortunately the guys with whom we have did not win the job, that always happens.

Hrishikesh Bhagat: So sir, if that guy with whom you have pre-bid tie-up if he does not win the order but that allows you to participate for EPC packages with other BOT players right?

Vimal Kejriwal: Generally yes, I will say.

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

Bhoomika Nair: Sir, sorry to just go on about this margins things, if you see the revenue mix is now starting to change particularly with the kind of intake that we have seen in civil and railways will start moving more towards these segments and as these segments have lower margins will we be able to show a margin improvement of 50 basis points that you are talking about? What will drive this improvement to that level?

Vimal Kejriwal: See Bhoomika, what will happen is that today the margins appear lower because of volumes there are less. I was telling will do probably 155-odd in civil and 800 in railways because of that the overheads absorption the margins appear less but if you look at the project level margins of these projects they will be more or less, I will say on T&D like may be 100 basis points here or there. So, once we grow these businesses and volumes start growing I do not foresee any major issue in these projects reaching the numbers what we are talking about.

Bhoomika Nair: And in terms of cables sir, what is the thought process there in terms of ramping up margin I think we have been trying to increase margins there for quite a while?

Vimal Kejriwal: So, in cables I think one thing what we have done is that we had 3 factories with us and one of the factories Silvassa we have now moved into Baroda and that factory was on a leased premises. So, we had extra cost and then with the movement we do expect that there would be some opportunity leveraging the scales of Baroda and some improvement in the processes. So, I think we will clearly see some benefit accrual out of that. Secondly, sometime back we had got a large 100 crores order for a 220 KV cabling jobs from Power Grid. So, that manufacturing is just getting over so that will give us a large PQ in 220 KV. Obviously, the margins in cabling, cables

are coming more from EHV and this will help us in bidding for more projects in that level. So that should definitely increase the margins.

Bhoomika Nair: And just one last thing in terms of SAE, I am sorry sir, joined late if you already answer this question in terms of outlook, in terms of intake and further revenue growth there?

Vimal Kejriwal: Basically, what we said about SAE was that we have 1,400 crores of EPC orders in SAE and most of them all will start kicking in November, December or so. So, the revenues for this year may not show a substantial uptick but 2019-2020 as we have been maintaining will show a large uptick. Other thing what we said was that for the last 2 or 3 auctions the EPCs are now getting decided. So, we do expect that we next year, we should also have a significant order inflow on more EPC jobs in Brazil.

Bhoomika Nair: And this EPC revenues in SAE would have similar strong margins that we have seen in the tower supplies as well because that is where SAE is being able to do some high double-digit kind of margins?

Vimal Kejriwal: Effectively I do not see a major difference in the margins. But I think what also happens is that these are all lump-sum turnkey jobs. So, the margins may be better there is profile also is there, your length may increase something else may happen or the other way around it may decrease and you may make more money. But generally, whatever we have done by now 8 projects in EPC in Brazil and we have been able to make decent money in all the projects.

Moderator: Thank you. The next question is from the line of Jitendra Gupta from Money Control. Please go ahead.

Jitendra Gupta: Sir, just wanted to understand you said that a large part of the Saudi money is being recovered in the month of January. So, after that what is the amount of money pending there?

Vimal Kejriwal: What I had basically said is that there was some overdues for December which came in. So, large part of the overdues have come in but on an average our ARN in Saudi has been around 1,000 crores.

Jitendra Gupta: So, it is 1,000 crores is still pending?

Vimal Kejriwal: We also have revenues of an equivalent amount there. So, although we are getting moneys regularly because we are looking in new projects, so ARN again keeps on building.

Jitendra Gupta: Why I was asking this that because you said that on a year-on-year basis debt will be more or less be same but working capital will increase. So I was thinking whether you are counting that money as working capital requirement?

- Vimal Kejriwal:** No, in Saudi I do not think we are now putting in more working capital because most of our projects have already been completed. So what is happening is that we will definitely have some reduction from Saudi because we have enough bills which are now getting approved. We do expect, we should have some more significant inflow from Saudi in this quarter.
- Moderator:** Thank you. We will take the next question from the line of Sandeep Baid from Quest investments. Please go ahead.
- Sandeep Baid:** Sir just wanted to understand how you are managing the steel price risk, you mentioned that you have orders in SAE which will be executed towards the end of 2018 and 2019. So how are we managing the steel price risk, and do you see that as a threat for our margins for 2019.
- Vimal Kejriwal:** So what happens Sandeep in Brazil is that there is an annual reset clause in all the contracts both for us with our client and for the steel manufacturers also. It is in a way generally done at the national level where they decide what has been the inflation and what should be the reset factor, etc. So as far as Brazil is concerned I do not think we are worried about the price increase because it will get automatically adjusted in both our purchase price as well as the sale price to the customer.
- Sandeep Baid:** And in general, given the increase in steel prices do you see that is the threat for you?
- Vimal Kejriwal:** I will not call it as threat, fortunately for us our international business has not been growing as much as our India business and most of the India business does have a price variation clause. So, for the India business it does see price increase in a way it is positive for us because the way the PV formula works with the increase in the steel price your margins also go up because there is some variation upwards in the margins also. The only threat we have is from the international projects where I do not think it is very large. So I do not think we are very worried about it.
- Moderator:** Thank you. The next question is from the line of Ravi Swaminathan from Spark Capital. Please go ahead.
- Ravi Swaminathan:** Sir, in international markets and countries like Africa, etc., do you still see traction or is it like I mean last year there was quite some noise from that region. Is there a possibility of growth from that base in Africa?
- Vimal Kejriwal:** Africa, I think this year we have done reasonably okay in terms of orders intake and all that. Again, next year what we are seeing is lot of inter-country, inter-connections are getting announced. The question is on funding, so at some places we are now seeing that the funding requirement is coming into the contractor where the contractor has to arrange funding and we are seeing large opportunities in that and fortunately for us Government of India is supporting that. So, EXIM bank and ECGC are more than open to fund such projects. To me we are clearly seeing a little bit of a change in the nature of contracts in Africa if you want to stick to large

value contracts. If you want to do small jobs of 10 million-15 million, I think there is enough opportunity is available.

Ravi Swaminathan: And sir you had mentioned earlier but in terms of international contracts what percentage of order book would be international contracts and what percentage of that would be fixed price contracts?

Vimal Kejriwal: International, generally are always fixed price and but when we look at international, so I think it is around 3,000-3,500 would be the international order book.

Ravi Swaminathan: So, that can be prone to risk in terms of input cost and all.

Vimal Kejriwal: Ravi, what happens is if you just take at steel component which is the one which were hedging is a little bit difficult. Steel in an international contract would be somewhere around 15% to 16%. So, even if the price goes up by 10% Rs. 3,000 or Rs. 4,000 what you are looking at is the 1%-1.5% on the overall contract value. So, it is not very significant in terms of value. What happens in India is because Power Grid wants to do supply conductor and insulators directly. In these contracts obviously, the towers become our large portion. But international since we are doing a lump sum contract the percentage of towers is pretty low. It can be 10% to 15% or sometimes 20%.

Moderator: Thank you. As there are no further questions from the participants, I now hand the conference over to Mr. Kejriwal for his closing comments.

Vimal Kejriwal: I think I would like to thank all of you for your continued interest in KEC. Thank you so much.

Moderator: Thank you. Ladies and gentlemen, on behalf of KEC International Limited that concludes this conference call for today. Thank you for joining us and you may now disconnect your lines.