



# “KEC International Limited Q4 FY18 Earnings Conference Call”

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**MANAGEMENT: MR. VIMAL KEJRIWAL-MANAGING DIRECTOR &  
CEO, KEC INTERNATIONAL LIMITED  
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**Moderator:**

Ladies and Gentlemen good day and welcome to the KEC International Limited Q4 FY18 Earnings 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 and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal the operator by pressing “\*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Vimal Kejriwal. Thank you and over to you sir.

**Vimal Kejriwal:**

Good morning to all of you and thank you for your interest in KEC. I am very pleased to inform you that we have closed the year with a solid growth across revenue profitability and order intake. We achieved significant landmark our revenue has crossed 10,000 crores and our EBITDA has crossed 1,000 crores for the first time. If you look at the overall growth a revenue for the year has grown by 15.3% and if you make it comparable with GST then it is almost a 21% growth. EBITDA with 1,000 crore has a growth of 23% and the EBITDA margin are at 10% vis-à-vis 9.3 last year. PBT and PAT have shown significant improvement on both growth and margin parameters on the back of reduced interest cost to revenue, lower depreciation and lower tax rate. PBT at 690 crores has gone up by 49% at a margin of 6.8% whereas PAT stands at 460 crores with a growth of 51% and a margin of 4.6%.

Coming to Q4 we have achieved a revenue of 3664 crores with a growth of 27% EBITDA of 370 crore a growth of 23% and EBITDA margin of 10.1%. PBT for the quarter was 289 crores year-on-year growth of 39% and PBT margin of 7.9%. We have achieved a PAT of 196 crores a growth of 35%. We have witnessed a strong growth in the order intake during the last year with total order intake of Rs. 1598 crores almost 22% higher year-on-year. If we consider GST impact the growth is higher. Our order book at the end of March 2018 is 17,298 crores. We have yesterday also declared order of 1392 crores after considering that I think our order book is now close to 18,000 and odd and L1 of 1500 crores. The railway growth story in order intake continue with almost 67% of our new orders coming in from the railways yesterday.

On the balance sheet front, we have achieved a net debt reduction of over 390 crores this is significant considering the 15% revenue growth. Our net debt as of 31st March stands at 1538 crores versus 1932 crores on March 17. Net working capital days is reduced to 93 days against 108 days and improvement of 15 days. We have also taken a resolution for issuance of NCD of 500 crores primarily for substituting working capital borrowing with an intent of reducing the interest cost since we are generally seeing the interest cost going up. On the business front FY18 revenue growth was primarily lead by T&D contributing around 11%. We expect the T&D business to continue to grow especially on the back of orders SEBs SAARC and Brazil. Railways and civil have also been strong growth drivers adding to the incremental revenue growth.

Railways continue to explore trajectory with revenue almost dropping to almost 844 crores. Similarly, civil business has achieved turnover of 268 crores in the first year of operations with a positive PBT and cash flow. The capability building exercise for the railways and civil businesses will enable their expansion in additional markets or verticals. We are confident of scaling up these businesses to be a significant part of KEC overall business mix from this year onwards. Solar has achieved on track execution of the APGENCO project with a quarterly revenue of 189 crores. New order intake from India continues to remain muted on the solar front on account of tax rate anomalies. We are evaluating opportunities in International market especially the MENA region and are hopeful that some of these opportunities may fructify in the current financial year.

Revenues from cables were impacted slightly in Q4 on account of the Silvassa facility which was lease facility being consolidated into a Vadodara facility the same has been completed by end March 2018 and production has started in Vadodara for the LT products. However, revenues from cables are expected to be on track in FY19 with increased focus on exports and EHVA markets. With each of our business for a firm footing we are looking at a similar growth in topline next year with operating leverages building up in business like railways and civil. We expect EBITDA margins to be on the same line as FY18. Thank you very much. I am happy to take your questions now.

**Moderator:** We will begin the question and answer session. We have the first question from the line of Bhalchandra Shinde from Anand Rathi. Please go ahead.

**Bhalchandra Shinde:** If you can guide on FY19 how we expect us to do on the sales growth margins and order inflows?

**Vimal Kejriwal:** So Bhalchandra as I mentioned in the speech we expect sales growth of around 15% although the order book has been more than that we have a couple of orders which are for a longer duration for execution. So, keeping that in mind we would prefer to have a conservative guideline on the sales growth. Margins we have grown from 9.3% to 10% this year and we do expect to maintain a similar margin right now because of the volatility on the commodity prices just want to be on the conservative side on the margin also. So to me 15% on turnover and continuation of the 10% margin is what we would like to guide today.

**Bhalchandra Shinde:** Sir on the order book side if we can compare on execution cycle as you mention it is slightly longer how much will be execution cycle as compared to earlier?

**Vimal Kejriwal:** See execution cycle is similar 15 to 18 months what I mentioned was that a couple of orders which are for a longer duration. So those order we will not see too much of execution especially in Brazil and one or two SAARC countries where the order execution cycle. They are very planned order given much in advance. Some of them are going to next 2 or 3 years which is the reason why we talked about 15% growth. There is no change in the normal cycles for most of the orders.

**Bhalchandra Shinde:** One book keeping question our depreciation cost is lower any specific reason on full year basis?

**Vimal Kejriwal:** I think the only reason is that we have a lot of what we call HPC or whatever the full form basically the equipment which we depreciate over 3 years in our transmission business and last two years we have not invested too much in that for the depreciation itself came down significantly because there is no other reason for that.

**Bhalchandra Shinde:** Our operating cash flows if we see the implied operating cash flows last year was really very good for us. We generated around 1700 crores kind of operating cash flow. This year relatively it was lower any specific reason means it comes out to implied of around 800 crores.

**Vimal Kejriwal:** To me there are basically I will say two reasons one is there is a slight change in the nature of business with SEBs coming up. Some of them are slightly slow pay master that is one piece. Second piece is that because of the commodity volatility there has been a significant increase in the inventory which we are holding otherwise if you look at our net working capital, etc., the number of days has gone down significantly.

**Moderator:** The next question is from Charanjit Singh from B&K Securities. Please go ahead.

**Charanjit Singh:** Sir my question is pertaining to we have delivered a very strong top line growth, but our margins have remained at around 10% level, so I am just trying to understand here the kind of operating leverage we could have what is the kind of segmental EBITDA margin in different businesses which you have delivered in this quarter and how do we see thus going forward playing out the operating leverage part is not getting paid out in the business still despite showing a very strong growth in the quarter.

**Vimal Kejriwal:** So to me the answer is lying in what you are talking about the segmental revenue, etc., I do not think we can discuss right now because here basically we have had a lot of revenues coming in from railways and civil and which we have always been maintaining that they will take their own time to reach the T&D levels finally, but if you also appreciate that with a revenue of almost 3600 crores we have still been able to maintain the 10% margin for the quarter we are at 10.1%. For me it is as pretty decent margin levels in spite of revenues coming in from railways, civil etcetera. To me the margin levels will continue at similar level at least for some time but we are very confident that like we grow at 15% in this year we should be able to grow at 15% next year also. The impact which we will start seeing if you look at these numbers also the PAT growth and all is more than the EBITDA growth in mostly for the year also if we look at. There is some of the leverage which you see will be on items which are below the line which would be like your interest, etc., that is one thing we should also come in.

**Charanjit Singh:** What are the underlying margins for railways and civil right now and when do we see they improving significantly to the T&D levels?

**Vimal Kejriwal:** So to me as I said earlier at a project levels most of the margins could still converge but since the capacity cost are still very high in these businesses because if you look at our railways revenues we went from 200 to 400 to 800 and next year we again expect it to double it so the amount of capability and equipments and all which you are buying there or building capability is significantly high. So, at project levels are say probably the difference may be 100 basis points or so for railways civil is slightly lower than that because we are in the first year of business and we need to establish ourselves, but the volumes are pretty low that we just did 250 cores. So the margins per se do not impact, but there is some marginal impact of it 0.1%, 0.2% in the overall EBITDA I will say.

**Charanjit Singh:** One important point which you mentioned in terms of capability building and railways see what we are seeing there is a change in a policy from going from 100% electrification to maybe lower electrification while we are you know on the process of maybe building capabilities and if there is policy shift how do we see that in the railways electrification front

**Vimal Kejriwal:** To me I will not say there is a shift in the policy what people are now talking about is that we should prioritize and first electrify routes which are more densely populated in terms of the number of drills on those routes. Earlier the target was that we will electrify every single kilometer even if there is one train running or no train running on it. Now one thing we want to calculate the cost benefit and first electrify those routes which have a heavy density of diesel traffic. That is why if you look at our order release for this month also out of 1400 crores this 67% is railways close to 1000 crores and there is a huge backlog of tendering which is still happening. So, I do not think we are looking at right now a shift which will take you through which will slow down the growth it is just the reprioritizing and now hopefully with Piyush Goyal also taking over as Finance Minister he will probably do something more than what Arun Jaitley was doing.

**Moderator:** The next question is from the line of Renu Baid from IIFL Wealth. Please go ahead.

**Renu Baid:** So the first question essentially is looking at the borrowings and the leverage that we have had so now if we are expecting growth to continue in these mid teen levels for us, would it fair to assume that the leverage will remain at least flat if not decline and what would be the target is interest to sales for FY19 for us?

**Vimal Kejriwal:** So interest to sales was 2.4 per year actually was 1.8 for the quarter, but 2.4 for the year. So I think we are looking at probably going down to 2.25, 2.3. I do not think you should go up it is 2.4 this year we wanted to take it to 2.25, but I think we are wait and watch how the interest and that is one of the reasons why we are also seeing if we can issue some NCD which maybe at a slightly lower rate for the CPA market is now touching 7.5, 7.6.

**Renu Baid:** If we actually exercise the NCDs and raise funds through NCD do we actually see the interest to sales coming down compared to FY18 levels?

**Vimal Kejriwal:** Ideally, fairly come down because we are still talking about the 15% growth. So I do expect that it should come down but we are just being a little bit cautious because of the uncertainty on the interest rate scenario right now. See the Europe has been closed, foreign funding has become expensive dollar is weakening so the premium rates are changing the LIBOR has gone up. So overall, we have seen that the interest rate scenario is becoming a less benign so because of this I do not think Rajeev is so confident of taking down to 2.25, but I think my view is that personally we should be able to improve from the current 2.4.

**Renu Baid:** So essentially with better working capital overall the leverage should be within the targeted level that we have spoken about.

**Vimal Kejriwal:** Yes it should definitely be.

**Renu Baid:** Second would be of civil segment though you did in brief mentioned that we are PBT positive with cash flows, can you help us elaborate how are we looking at growth coming in at FY19-20 for this segment some targeted numbers and which are the new segments in which we are looking to enter because as of now we were targeting only in the core building and factory segment. So how has been the outlook for this business for us?

**Vimal Kejriwal:** For us this year we did around 450 crores roughly in terms of revenue although our budget was much lower. Next year FY19 we expect it to at least double we already have an order book for that. We are keeping our expectations slightly on the lower side of civil because we would like to ensure that the margins are not sort of compromise and we can also get with good client otherwise we are seeing is problem if you get caught with wrong clients. As far as vertices are concerned right now we are focused on industrial more on factories than building. We are doing a couple of building which are again associated with factories. Moving forward we clearly are looking at doing some building work we are negotiating right now with the couple of very reputed builders to start doing some work for them. We should also be looking at affordable housing because if you look at the number which we are talking about is 3 lakh crores is what is announcement in the budget on affordable housing. So we are looking at doing some EPC for some of the large state government project and maybe now some of the reputed private builders are coming into the sector. So affordable housing would be the next area where you would be looking into.

**Renu Baid:** But would we have any targeted margins especially on the building segment of the business that there should be a minimum threshold?

**Vimal Kejriwal:** Minimum threshold is always there. The advantage we have in civil is that although we may go for lower margins, but because the working capital cycle there is very different at least till now it has been very different even if we are at a lower margin cycle, but when you go to the I will say the PBT and all that the margins there are different from the other industries the PBT

numbers are much or I will say the difference between EBITDA and PBT in civil is virtually zero.

**Renu Baid:** Sir my last question what is the kind of CAPEX that we are targeting for FY19 and would we see significant scale up in the stringing equipment another construction capabilities as we have the order book growing now?

**Vimal Kejriwal:** We should be spending around I will say across 200 crores on CAPEX last year we spend around 150 crores which include a large part of our ERP build up which shifted to SAP S/4HANA so there was quite a large chunk in that. So with all that happening I think 200 crores is a good number to take care of what we require.

**Renu Baid:** Sir largely both SAE as well as India, right?

**Vimal Kejriwal:** Absolutely.

**Moderator:** The next question is from the line of Bhoomika from IDFC. Please go ahead with the question.

**Bhoomika:** Sir last two years we have seen very strong order intake across all kinds of segments now what is the outlook in terms of order growth that you are seeing into FY19 on fairly high base that you have seen in the current year?

**Vimal Kejriwal:** Bhoomika we would still prefer like to do around 15%-20% growth on the order book especially on the transmission side because we now have a pretty decent order book in terms of railways, civil, etc., last year we have been in the international transmission, so we were now focusing a lot to see how can we grow that order book. So, if you want to number probably around 20% growth is what we will be looking for in the order book?

**Bhoomika:** Sir more qualitatively because PGCIL CAPEX is kind of slowing down and so from international markets how are things which countries are you seeing the order intake coming in from?

**Vimal Kejriwal:** One thing is that if you look at our India order intake it has improved significantly. So although PGCIL has slowed down, but then the orders are coming from the private sector ultimately that was the intention of the government to move this. Secondly I am not sure how is it going to pan out because last week PGCIL has again sign an MOU with the government to spend 25000 crores of CAPEX for FY19. I do not know what it would translate into transmission and distribution, etc., so we have to just wait and watch because they were trying to do a lot with the states. Coming to international I think we are very clearly seeing MENA slowly inching back. We have orders right now from Oman, Egypt, Jordan, Abu Dhabi and some of the other countries we have bid. So to me MENA is going to again become a focus region for us. Second region we can see is Africa where this year we did not do very well, but we do expect that there are lot of

I will say tenders in the pipelines, so we expect a lot of orders to come in from Africa. So with the focus would be these two in international and the third case would be Brazil where there is auction happening in the last week of June it is a large auction and the Brazil government has announced a clear calendar for two auctions every years so we do expect that Brazil will become significant contributor to our order book.

**Bhoomika:** If you see given that we have a fairly strong order backlog and revenue will pick up next year. Given the headwind in terms of raw material that we have seen has also growth largely coming in from segments like railways and civil where order backlog has been built up fairly well. Do you think what is the proportion of a fixed price versus escalation based orders and what is the risk to these 10% level margins given the headwinds in raw material price.

**Vimal Kejriwal:** So if you look at railways and civil and India T&D most of them are not fixed price they have a pass around commodity. So I do not think we are worried about all these things railway, civil as well as India T&D and internationally also many of the projects like what are funded by ADB, etc., have a pass through on commodities. The major item where there is no pass through in international fortunately unfortunately we did not get too many orders international last year. So because of that the impact on commodity for us is going to be very low wherever we are unhedged normally we are hedged right now I do not we are very worried about it a proportion I do not have exact number to tell you but the proportion of fixed price contracts for us is pretty low.

**Bhoomika:** And the revenue mixed changed towards the railways and civil which are have relatively lower margins?

**Vimal Kejriwal:** As I said that for civil and all the PBT would be better at the project level yes, but if you look at between the two put together I will say we did around 1100 crores, so it is around 10.5% margin share.

**Moderator:** The next question is from Kunal Sheth from Prabhudas Lilladher. Please go ahead.

**Kunal Sheth:** Just wanted to get some sense on how is the competitive intensity panning out both in domestic and international market especially on the T&D side?

**Vimal Kejriwal:** So the competitive intensity internationally is clearly increasing which is why you are seeing lower order inflow and lower tender pipeline and as earlier participant asked about power grid order is slowing down, what we are saying that is that many of the players in India were only playing in the domestic market are also trying to get into international market. There has been I will say some increase in the international market. Domestic market I have not seen too much increase the same players are there as before some of them have disappeared as you have seen the names NCLT list etcetera. I am not too much worried about India. International has been a little bit cause of worry because new players were coming we are going to understand the



international market and sometimes do quote ridiculous prices but then it is a cycle. I think over a period of time once we lose some money they will come back to normal rates.

**Kunal Sheth:** We have some issues in our Afghan order are we seeing any disruption there in terms of execution?

**Vimal Kejriwal:** So clearly there is some disruption right now we are right now executing one single project other we have an order book which will start executing now. So right now, with the current problem which you are having the execution on that project has been stopped till the issue gets resolved so that a 100 crores order book for us right now on that project. So, there will be some revenue disruption but to me it is right now very, very marginal.

**Kunal Sheth:** So overall the order book from there is only 100 crores.

**Vimal Kejriwal:** I said right now the revenue for the project which is disrupted is 100 crores other projects are not yet on the revenue curve they will start we just got a couple of projects where the work is going to start and that work will start in as per the normal course.

**Kunal Sheth:** What will be our overall size of order book there?

**Vimal Kejriwal:** It would be around 10% to 12% of our entire order book.

**Moderator:** The next question is from Sachin Kasera from Lucky Investment Managers. Please go ahead.

**Sachin Kasera:** Sir first question is regarding the quarterly number if I see your raw material and erection subcontinent cost that is mode of significantly vis-à-vis the last year March quarter and also the other expenditure is lower by almost 100 crore if you could just elaborate little bit on this what exactly has happened here?

**Vimal Kejriwal:** Sachin the problem with these numbers is that it depends upon the way we are executing projects. I had probably explained it earlier that if I am doing a job with a subcontractor and subcontractor with material then what happens is that every single cost will be built by him including travel cost or visa cost and water equipment and everything else. I have lower material if I am doing a job I am buying my cement steel I am sending my workers, I have my mobilization cost, immobilization cost. So what happens is that depending upon the nature of the contract of which country or where we are doing these number change within themselves. So it is very difficult to actually compare them over quarters. I would suggest that we should not do that it will not match every quarter they will change upon the nature of the contract, but that is the biggest problem we also are not able to control it, but that is the way this business is being run.

**Sachin Kasera:** Sir this reason for other expense be lower by 100 crores were there certain provisions write off last year same quarter which are not there this quarter if you could just throw some light?

- Vimal Kejriwal:** To me there are two reasons one is lower write off that she is right the second reason is that earlier entire service tax was getting debited as a cost. Now with GST coming what is happening is that GST is not part of your revenues and not part of your cost whatever extra GST you collect from the customer and you pay it off as a liability, so it is now on your balance sheet side rather than on your P&L. Service tax used to be a P&L item for us. So, what has happened is that because the service tax is not got converted to GST and it has become a non-P&L item earlier the GST or the service tax was part of the revenue and part of expenses which is a basic reason why you see this other expenses going down.
- Sachin Kasera:** How much will be one off because of the slower provision is this a large number or small number?
- Vimal Kejriwal:** we will talk later on we will share the number
- Sachin Kasera:** My second question was you mentioned that the project level the railway margins are now almost at par with the T&D business but because of the overhead it is lower, so what level of revenue do you think even the after corporate overhead also the margin and railway be closer to the T&D level.
- Vimal Kejriwal:** I think the way we are looking at our numbers are from 844 let say growing doubling, etc., probably I will say end of second quarter or third quarter or so we should be coming in line with those numbers.
- Sachin Kasera:** So FY20 we should definitely be at par with the T&D?
- Vimal Kejriwal:** Right now, it looks like that yes.
- Sachin Kasera:** And the same would be the case with civil also sir?
- Vimal Kejriwal:** Civil I am not sure because civil is right now a very small business they are just 250 crores so civil should take more time to reach those numbers because civil again like railways we are building large capabilities. So, unless civil reach to the 1000 crore or something in numbers I am saying is right now getting into the same league as T&D.
- Sachin Kasera:** SCE what has been the profitability performance revenue up by 2.5% for the full year how has the SCE performed on the profitability front in the current year?
- Vimal Kejriwal:** They have done pretty well they have done similar lines as last year and as I have been saying that now that we have got lot of EPC orders which will start executing in Q4 or so FY20 is the year when we have been talking about SAE really taking off in terms of revenue growth and hopefully the margin growth also.

- Moderator:** Next question is from Jay Shah from OHM Portfolio. Please go ahead.
- Jay Shah:** My question is would revenue makes change because of say Brazil, T&D and when would Brazil, T&D revenues start kicking into our numbers?
- Vimal Kejriwal:** So right now Brazil, T&D is there in our numbers I do not have the exact amount probably 600, 700 crores is the numbers from Brazil T&D. Large part of it right now is supplies there was one or two contracts from EPC, but we have an order book of close to I think 1200 crore or 1500 is the exact number of EPC in Brazil and that revenues on both projects will start probably in Q3 and then as I said there is an auction happening we do expect to win some more projects so the EPC revenue from Brazil will start going up from probably Q4 also significantly.
- Jay Shah:** I was actually referring to these large auctions like the first bid that Sterlite Optical win actually has won in the next auction, so when would that translate into revenues for us as and when we receive the order.
- Vimal Kejriwal:** First of all Sterlite did not win the first bid they had won two bid in the earlier auction so this was a third win and see that the difference here is in Brazil they allow you 5 years to build a line from the date you win the auction and. They take also two years to give environmental approvals in other required approvals. So generally, what happens is from the auction date the revenues will kick in for an EPC contract are not before 18 to 24 months which is why I am saying that I have a order book and I do not have revenues coming in third quarter or fourth quarter. These projects were auctioned out almost one and half years back which is why even earlier when someone ask me a question saying with an order book of like that while talking about 15% revenue growth. We had said very clearly that there are some orders which will translate into revenue later on that is a big difference in the way Brazil is operating versus we will see other projects other countries where once you set up revenues kicks in immediately in places like Brazil because they have extended the terms from 3 years to 5 years the execution cycle starts a bit late.
- Jay Shah:** Secondly on Saudi receivables can you provide a status and given the way the oil prices are behaving would you see a resurgence in Saudi orders and would we participate?
- Vimal Kejriwal:** So I will answer on second question and Rajeev can answer on the receivables. We have not yet been a significant increase in the tendering activities of South East there are a huge number of tenders which are being shown the website, but they are getting deferred. Honestly as I said earlier in other countries in middle east we are seeing resurgence I will not say resurgence, but tenders coming one by one Saudi still far away, but Saudi needs a power infrastructure. To me it is a matter of time whether 3 months 6 months they start bidding out huge number of tenders. Coming to receivables we are in good position maybe Rajeev can give some more details.

- Rajeev:** So on the receivable front actually last year we had a good collection from Saudi. We have collected overall close to about 1400 crores including roughly about 300 crores on account of retention and that has resulted into our overall exposure in terms of the ER has gone down significantly. Now when we compared to the last year overall ER exposure is close to about 1100 crores against 1400 crores at the beginning of the last year.
- Jay Shah:** Okay and when would these be received in terms of time table?
- Rajeev:** Currently we have some more projects which are going on so this year we expect a further reduction to happen in the overall ER collection.
- Moderator:** We move to the next question. The next question is from Ankit Babel from Subhkam Ventures.
- Ankit Babel:** Sir I have two questions your net working capital has reduced significantly now standing at 93 days just wanted to understand is there any further room for improvement in FY19 and if yes how much?
- Vimal Kejriwal:** So right now, we are not seeing a significant room for improvements our targets had been to bring it down to below 100 we are already at 93 and as you are hearing the nature of business with stakes going up. I am honestly not very sure whether we have room for improving it too much. Obviously, the question to reduce it further but what we can do I have our own doubt we can improve it significantly maybe few days here and there will always happen.
- Ankit Babel:** But this could be maintained at least?
- Vimal Kejriwal:** Definitely.
- Ankit Babel:** Second question there has been a sharp decline in depreciation in Q4 FY18 as a whole what was the reason sir?
- Vimal Kejriwal:** I think I explained it earlier what is happening is that we have some items which are sort of consumables in the entire T&D which are depreciated over 3 years and since we had not bought too many of them in the last one or two years they were not available for depreciation last year which is why it has gone down there is no other significance in that.
- Moderator:** Next question is from Jitendra Gupta from Money Control. Please go ahead.
- Jitendra Gupta:** My question is answered.
- Moderator:** The next question is from Charanjit Singh from B&K Securites. Please go ahead.

- Charanjit Singh:** We have also talked about the SAARC region as an opportunity so if you can highlight more about how is the opportunity size and the competition and the terms of contract in the SAARC region
- Vimal Kejriwal:** Generally, SAARC maybe only two projects which are funded by multilaterals so there is a lot of money flowing into countries like Bangladesh, Nepal, etc., from ADB, World Bank, JICA, etc. So opportunity is very large in these countries we have a revenue of around 800-odd this year from SAARC and we do expect around 30%, 40% growth happening growth in that for FY19.
- Charanjit Singh:** Sir in the state transmission side how is the pipeline looking like you see that the state transmission company's CAPEX can grow in this fiscal FY19 or it could be overall flat, how is the outlook for that?
- Vimal Kejriwal:** To me it should grow because some of the states like UP, Rajasthan where there is a prime need for building infrastructure had not been spending money they all been talking about it. So I think UP is now getting it back together, Rajasthan I am not sure whether it has happened right now or after the elections then states like Orissa, Jharkhand is spending a lot of money. So to me the addressable pie for us is definitely increasing other states which I probably like to add is Bihar. It is whether the overall numbers increase or not but then I think the addressable pie is clearly increasing.
- Moderator:** The next question is from Anup Agarwal from Cogencis. Please go ahead.
- Anup Agarwal:** Sir I just wanted to know what are the amount of orders that you are going to pitch for next quarter and thereafter any estimates that you have, and which are the prominent ones remains there?
- Vimal Kejriwal:** So generally, our success rates are 1 out of 6, 1 out of 7 and all. We will have to do the arithmetic to understand that if I have to do a 20% order book growth say 15000 and to 20% so 18000 crore maybe for the year we will probably be pitching for 1 lakh crore and then get at around that much number.
- Anup Agarwal:** And you expect a 20% growth in order book in the financial year current financial year?
- Vimal Kejriwal:** 15% growth in top line so order book will have to grow around that number.
- Moderator:** The next question is from the line of Abhijith Vara from Sundaram Mutual Fund. Please go ahead.
- Abhijith Vara:** Sir my first question is on the civil division, you are mentioning that you are looking to double the business from the current revenues of 260 crores, but the order book is only 340 crores so I

wanted to check whether the orders are really short gestation, so you can win the orders during the year and execute that was the first question.

**Vimal Kejriwal:** So Abhijith if you look at the order intake which we have announced yesterday we have got around I think around 200 crores of orders in the civil business and if you add that I think we are already at roughly around 500 crores of order book for the year which is enough for my target when I want to double my revenue that is number one. Number two you are very right that gestation period in civil is pretty less ordering from 6 months to 9 months and all. So which is why if you look at our last year we started the business last year, but we already clocked the revenues of 250 crores. So most of them are orders which were booked and build during the same year. So I think that answers the question on civil.

**Abhijith Vara:** Second question is on the receivables I agree that net working capital is quite under control, but receivables they stand about 5000-odd crores sheer mind-boggling number I wanted to understand the aging of receivables how much can be the reduction and receivables as such in the coming years what are the aspirations?

**Rajeev Aggarwal:** As Vimal mentioned that our order book and execution in state electricity board are increasing so that is leading to some increase in the receivable recycle because that is state electricity board some of state electricity boards the payment cycle is little longer, but that is a normal phenomena, we should be really looking at a net working capital where we are aligning the payment to our vendors clearly with our receivable from the customers. So that is where we are looking to control our net working capital.

**Abhijith Vara:** Just one follow up you might be incurring higher working capital interest cost on this longer receivables would that be built in to your EBITDA margin when you are bidding for this state electricity projects?

**Rajeev Aggarwal:** EBITDA margin does not include the interest cost, but yes when we are booting a tender in these electricity boards we are factoring the higher interest cost because we clearly know that what is the payment cycle and accordingly that is factor in the tender cost.

**Moderator:** The next question is from the line of Devang Patel from Crest Wealth. Please go ahead.

**Devang Patel:** I just wanted a sense of the domestic T&D business how the order of growth was in the last year and what kind of growth are you looking at for the next year?

**Vimal Kejriwal:** So last year we had a pretty decent growth in the domestic T&D market, we had bagged orders from private sector as well as SEBs, but let me also clarify one thing is that if you look at our last year Power Grid order intake we are almost similar to what was the year before. There is a general feeling that Power Grid orders are reducing, etc., which maybe a fact, but if I look at my number we were (+1000) slightly above right now, last year we ended up at 900 odd so. I think

we had less than a 100 crore which is in the order intake from Power Grid. I will not say about the degrowth in the orders we also have L1 from Power Grid. So in that way I think domestic otherwise has been doing well we have some L1s right now 1500 crore, most of the L1 are from transmission right now.

**Devang Patel:** How were the SEBs and private sector orders?

**Vimal Kejriwal:** If you look at volume they are pretty good and in private sector what also happens is that it is not a tender process, so you do get a premium for your quality and your fast track execution or for your design capability. So I think we are pretty happy with the margins on both SEBs and private sector.

**Devang Patel:** The whole domestic T&D piece put together, would it have a double-digit growth in orders next year while you are looking at 20% growth overall with the domestic T&D business also grow in double digits.

**Vimal Kejriwal:** No question about it. It has been growing and it will grow I think we are pretty confident about the growth in the domestic T&D.

**Devang Patel:** How were the margins in the T&D space some qualitative color you can give? Are they stable, is there scope for improvement further from these levels?

**Vimal Kejriwal:** Devang if you have been hearing the call we have been talking about slightly lower margins on railways and civil and other businesses and we have been maintain a 10% EBITDA margins, so the higher margins are obviously coming from the T&D sector. I think we are pretty happy with the margins at the T&D sector I do not know I can say that they are growing very easily or not, but the margins are there where they were.

**Devang Patel:** Lastly, on the working capital cycle now it has gone down also thanks to payable, but we see a sharp 47% increase in trade payable on a Y-O-Y basis it is much higher than the revenue, is there anything exceptional in this, would that normalize, or will it stay here?

**Vimal Kejriwal:** I think as Rajeev explained earlier with some of the orders coming in from SEBs where the payments terms are different from the normal payment terms in many of the cases we are having back-to-back payments with vendors let say if I want to buy a transformer and if the client wants to pay me after the commissioning of the transformer, we would have a similar payment term with a vendor which is why you will see both the debtors and creditors going up. So these are more aligned to the nature of the payment terms of the contract rather than a change in a policies.

**Moderator:** The next question is from Aditya Mongia from Kotak Securities. Please go ahead.

**Aditya Mongia:** Two questions from my side. Firstly, wanted to focus on the T&D segment especially the margins, I understand that there is interest cost which is going up and there are raw material prices also going up, but that should be the issue for all players so do you think considering where competitive intensity is these cost can be passed on.

**Vimal Kejriwal:** I think Aditya I said earlier also that in India most of the contract I will say every contract there is a pass on clause. To me for the India T&D and largely for the SAARC T&D we have no major issue on the commodity prices, etc., being passed on to the customer. We are not worried about it and I also would like to again clarify that we are not talking about margins being under pressure in T&D. I do not I ever made that statement if I made let me clarify that we are happy with our margins. What I said is that there may not be a significant growth in the margins.

**Aditya Mongia:** Second thing is I want to focus on the way the return profile has improved for the company norm as I see at this point in time you broadly making ROEs which are in the mid 20-right now possibly at decade high levels. There has been volatility which has been seen in return ratios for the company do you think this time things can be different, and one can sustain these levels? And related question is that if one can sustain them does it mean that your debt level should be flattish or not growing at least in line with say it from here on?

**Rajeev Aggarwal:** Very clearly, we are seeing our debt level to be will not at least grow from here whatever we will try to do is to reduce the debt level further but given the growth debt we are aiming at 15% kind of a revenue growth. So that will also require some addition working capital. What we are factoring in when we are giving you a guidance so overall debt level should be closer to the existing level or maybe slightly lower.

**Aditya Mongia:** Just one question if I may you talked about subcontracting increasing in the quarter gone by, just wanted to get a sense on a full year basis for FY18 a bit heavy on subcontracting side if you could share some quantum over there?

**Vimal Kejriwal:** Aditya it is very difficult to say that. As I said earlier depends upon what contracts you have been in and how do you execute them which country so if I win a contract probably in Abu Dhabi I am a subcontract if I have been in some other country I may take my own people and do it. So right now, it is very difficult to give an answer which line item of the P&L will change.

**Aditya Mongia:** But overall levels are comfortable in Y-O-Y it is not a very high-level of subcontracting is what you would suggest?

**Rajeev Aggarwal:** But just to add if you look at our overall number also my number subcontracting peice as a percentage of the revenue has not changed significantly. It was in the ballpark of 20% compared to the last year.



- Vimal Kejriwal:** Let me add one more thing, I do not think we have to worry about subcontracting because those are variable expenses instead of adding to my own people, adding fixed cost and all that it depends upon how you want to execute the contract.
- Aditya Mongia:** No sir I was just trying to clarify that when I am seeing return levels being where they are, maybe the quantum of subcontracting has a role to play in the quantum of ROEs being high. It was just that it is a risk to let say a margin assumption going forward because maybe subcontracting is going to levels which are not comfortable that is what I was just trying to clarify.
- Vimal Kejriwal:** I do not think that will be there.
- Moderator:** The next question is from Ankit Soni from Karvy Stock Broking. Please go ahead.
- Ankit Soni:** On the outlook part if you can give some idea on order book pipeline which is that for the entire engineering business how is it from the PGCIL in state side and private side?
- Vimal Kejriwal:** As we said earlier that the state side should be going up. PGCIL I am not very sure, but for us we should be adding the PGCIL and the private sector together because the private sector business is what is coming out of the PGCIL mainly. So you should add more of that to look to look at let say what we call interstate transmission and state-wise with electricity for all and everything happening very clearly we are seeing a lot more interest coming in the states.
- Ankit Soni:** So we will be looking for major order inflow from the state side.
- Vimal Kejriwal:** I said it would be from states in any case it will increase but we also see is between the Power Grid and the private sector the numbers remain where they are sometime Power Grid goes up sometimes the private sector goes up.
- Ankit Soni:** On the Engineering business which you are doing I would just like to have a view on competitive intensity in terms of orders from PGCIL and the private parties, so how is the competitive intensity over there?
- Vimal Kejriwal:** What has happened now is that most of the players want quality EPC players what is also happening is with many projects being incomplete and many contractors getting into financial trouble most of the banks who were financing the private sector insisting that you should have a good contractor on whom the banks can bank for completing the project. We are clearly seeing the intensity of competition at least in private sector is going down because they have been forced by the banks to pick up the only AA grade contractors.
- Ankit Soni:** Due to this TBCB projects, how is it impacting our business is there any impact on them?

- Vimal Kejriwal:** I just explained Ankit that the business is between Power Grid and TBCB players was the whole pie depends upon with which orders to whom, so the pie keeps on changing between the two players.
- Moderator:** The next question is from Mayuri Yadav from Equentis. Please go ahead.
- Mayuri Yadav:** Your net working capital reduction from 108 days to 93 days is quite impressive, what I wanted to understand is how much is this attributable to increasing contribution from railways and civil or is there any difference between the working capital cycle for normal T&D and railways and civil?
- Vimal Kejriwal:** Mayuri there is no major difference in the working cycles of this. I think if you have been following us we have lot of money stuck in Saudi, etc., and some of the orders which we got had large advances also there are various factors which go into the net working capital apart from the efficiency of collecting. I do not think our different businesses have too much of a different working capital cycle.
- Mayuri Yadav:** Because increasingly you will see railways and civil contributing more to your revenue, so it would be a right assumption to make that as you had earlier guided in the call as well that 95 days sort of NWC days is what we can look at going forward as well. So despite increasing contribution from the other segments will that trend be maintained still?
- Vimal Kejriwal:** Railways to me a better play master than T&D.
- Mayuri Yadav:** That is what I assume.
- Vimal Kejriwal:** The AR for railways is much lower than the T&D AR. Working capital is also lower and also what is also happening in the railways is that there is too much of pressure on completing project last night I got a call from one of the CMDs of Railway company I want the project to be done by March. I said we will try and see what happens, but the contract it is due after 2 years after March so 26-month project they want to be done in 8 months and 9 months. So what is happening is that if that continues obviously the working capital cycle will improve because we will executing faster, collecting faster, lower retentions. So more of railway business will improve the working capital.
- Mayuri Yadav:** Sir as you were mentioning there are some retention money that we receive from Saudi Arabia from where you think the call itself mentioned about some 300 crores that has been received, so is it for the entire year my question is in FY18 how much of retention money from Saudi Arabia have you received and what is pending from there?
- Vimal Kejriwal:** First we have received around 300 crores I do not have the exact pending figures because what happens is whatever projects we completed during the year will also add to the retention. It does

not mean that the retention which was earlier forwarded has become zero because we have added one more project we had add almost close to 800 crores of revenue from Saudi during the year. So when Rajeev was explaining the figures and you people may not have understand that we have actually reduced the number exposure a lot because we also add the revenue for the year. It was not that it was a constant figure and we have only reduced by 400. We have 800 crores of revenue to add that and effectively we have collected more than a 1000 crore.

**Mayuri Yadav:** Sir my last question is of the 10,000 crore of the domestic order book in the T&D segment, what will be the broad breakup between PGCIL, SEBs and private sector?

**Vimal Kejriwal:** Honestly, I do not have it right now.

**Moderator:** The next question is from Sachin Kasera from Lucky Investment Managers. Please go ahead.

**Sachin Kasera:** Just one question on margins you mentioned that most of the domestic orders have a pass through and you also indicated that you will have some operating leverage coming in because of the very high growth in civil and railways and also in T&D, despite that you are guiding for sort of similar margins so are we seeing some significant input cost side pressure on the international orders.

**Vimal Kejriwal:** Sachin that is not the case but what is happening is that because there is a large volatility right now in commodities as well as currencies. I really do not want to take a very aggressive stands maybe after a quarter or so when the markets stabilize then maybe we will be in a better position to see whether it will be 10 or 10.5 or 9.5, but to me I think 10 is a good guess maybe you look at aluminium once they announced the Rusal in one-week aluminium went up from Rs. 1950 to Rs. 2700. The commodity market right now is in a bit of a flux and you can see the currency also the way it is behaving it so I think we are taking a conservative call and maybe after 3 months or so we would be in a much better position to give you a better indication of where we will be.

**Sachin Kasera:** And just a follow up on this sir how are then we bidding for the new contracts, are we building it very conservative then numbers on commodity and currency now when you are bidding for fresh orders?

**Vimal Kejriwal:** I do not know whether the conservative is right or not but we do make estimates of what our supply chain team and what our advisors convey what should be this plus you also look at your overall portfolio and looking at where what is your asset side and what is your liability side, so we take into account all of them, but yes very clearly we do take into account some of the expected upsides in commodities and all that unlike some of our competitors so which is why if you look at our international order intake last year was much lower than other people so we are very conservative and that is why we are very happy with that.

**Sachin Kasera:** My second question was you had to indicate that you could also look to take the solar and the railways business out of India so if you could share us some progress on that front?

**Vimal Kejriwal:** Solar I did speak about it Sachin saying that we are looking at some countries in the MENA region where we are putting in bids. Couple of place we already put in bids there is a large market in MENA so we do hope that within this year we should get at least 1 if not two orders in the MENA region. Regions we are looking at some of the countries in the SAARC region and Africa region and again I hope that in railways at least we should again get one order in international market this year and the difference would be that in railways when you look at international orders they would be much larger than India because they would include like a lump-sum including supply of rails and sleepers everything is there. When you do a project in India half the items are supplied by the Indian Railways, so value of the contract is much lower than when you do internationally.

**Moderator:** The next question is from Deepak from Elara Capital. Please go ahead.

**Deepak:** Most of the questions are answered. I just have one question do you see now some changes in the state T&D payment cycle in the last 6 to 12 months is there any change as the proportion of business that we do with state T&D will continue to increase, so any perceptible change, any anecdotal evidence if you can share?

**Vimal Kejriwal:** Actually, if you ask me we do expect to improve the payment terms in some of the new states because most of the new projects what are looking at let say Jharkhand is funded by bank or Tamil Nadu is again funded by KfW so what happens Deepak is that wherever the projects are multilaterally funded the payment terms are sometimes even better than Power Grid. See when the projects are self-funded and you would be very careful with those projects where the payments can you know go on slightly delay, but even otherwise if the projects are KfW or REC the payments do happen reasonably so I am not expecting a very dramatic change in the payment cycle and especially because some of the newer states are now getting multilateral so the payment cycle may actually improve although we have been talking negatively about it but on the ground if we get orders by multilaterals then the cycles may improve. I will give you an example there is a tender in Jharkhand that has a 10% advance without interest Power Grid charges interest. So if I get a tender in Jharkhand my working capital and my interest cost will improve because I am not paying anything on the advance whereas in Power Grid I pay interest on advance.

**Sachin Kasera:** Secondly on the railway part as the business grows significantly do you see there will be expansion in the execution period because railways generally the electrification can take easily 2.5 to 3 years is that correct observation and by design then your revenue recognition cycles has more visibility in FY20.

- Vimal Kejriwal:** It is a very difficult question because what we are seeing is that on some of the projects there is a very fast-tracking projects. There are projects most of the time 36 months we have done on 8 months, 9 months that is a pressure. Then there are other projects where you cannot do it whatever you want to do so it to me it is very difficult to answer what would be there, but most of the contracts when they are awarded are from 18 to 36 months.
- Sachin Kasera:** So given the existing order book and the yesterday win that you have so even for FY20 we are very comfortable with almost 2000 crore top line from railways.
- Vimal Kejriwal:** I think my order book is around 5000 crores in railways. So our order book today will be close to 5000 crores. We did around 850 crores last year. This year we expect to probably double it is around 1500 crores, 1600 crores is what we will do. So even if I do 1,500-1,600 crores I still have 2500 crores or FY20 to be done even if I do not get a single order.
- Moderator:** The next question is from Salil Utagi from Edelweiss. Please go ahead.
- Salil Utagi:** Sir what is the outlook on the cables business are we looking to expand beyond 1000 crore mark?
- Vimal Kejriwal:** Salil last year we did around 1050 or something I do not have the exact number around that much number and if you have heard me earlier we have shut down our Silvassa facility and merged it into Vadodara and with merging we did some efficiencies, etc., so we do expect that this year we should have probably 20% growth in revenue on account of the debottlenecking and probably better machine operations, etc. So we should probably do around 1200 crores is my guess.
- Salil Utagi:** Sir are you looking to get into cables for railways as well?
- Vimal Kejriwal:** We already have the RDSO approval for that and hopefully within this month or next month the supply should start.
- Salil Utagi:** So what is the opportunity in that segment?
- Vimal Kejriwal:** It is difficult to guess to make the market is very large, but the problem is that it is just a metal play. There is not too much of value-added work which you do on it. So right now, we are cautious we want to first service our own projects, but there is enough demand and there are very small players, so we are already getting sort of feelers from other big players that will be able to supply to them or not. We will need to take a call if we decide to do it this business can be 500 crores or 600 crores a year and we have a capability to do it but we have not yet taken a call whether we want to do it for outside parties or not.
- Moderator:** Next question is from Girish Raj from Quest Investments. Please go ahead.

- Girish Raj:** Gross debt and acceptance number.
- Rajeev Aggarwal:** Right now we do not have the number so our net debt is close to about 1550 odd crore.
- Vimal Kejriwal:** You just mail us offline, we will give you the exact number of this thing okay.
- Moderator:** The next question is from Ashutosh Mehta from Edelweiss. Please go ahead.
- Swarnim:** Sir I just have one question how are we approaching the renewal business particularly the solar and do we intent to get into your wind EPC as well?
- Vimal Kejriwal:** We are only doing only EPC in renewable we are doing a large project right now in Andhra Pradesh 130 megawatt where we do not want to get into ownership if that is the question. We are doing in India right now and as I explained earlier we are now following in the least we have bid for a few projects. So I think our focus till the government policies in India stabilize and module prices stabilize we would like to do more work only in the international market in conjuncture with the couple of module players.
- Swarnim:** Sir are we also looking to add any transmission assets in a portfolio as a developer?
- Vimal Kejriwal:** See we have one asset which we have been talking about to see what to do with it. We may like to add maybe another asset, but not a large asset, but then idea is very clear that we will get rid of this one then we will add one and then develop and get rid of that. We are not looking at keeping assets in our book.
- Moderator:** The next question is from Aditya Ahluwalia from Invesco. Please go ahead.
- Aditya Ahluwalia:** You clarified on the call that 60% of the business there is India plus SAARC does not have an escalation clause and helps not much risks in commodity price increases, how about the remaining 40%?
- Vimal Kejriwal:** So what we said was that India and SAARC generally has an escalation outside India what we normally do is that as and when we get a project that is hedged immediately. So generally, I will say we do not have too much of an issue with the commodity pricing on my profitability. The risk is only on projects where I have bid, and we do not know whether we are winning, or we are not winning so you do not know whether you want to go and hedge it or not. The problem what we are facing with the commodity pricing today is on the pricing of our new tenders more than existing tenders because we are not very sure where the commodities would be and how the competition takes a call if you take a very conservative call you went up losing tenders. So when we talk about commodity pricing, etc., our worry is more on our future business than on what will happen on my current businesses.

**Aditya Ahluwalia:** When you bid at the moment if you bid today are you assuming the commodity price decline in your bid?

**Vimal Kejriwal:** The way the things are I do not want to guess the expert advice all of them are saying is that the commodity prices should decline because today if you look at steel, aluminium, zinc, copper all of them are record at high.

**Aditya Ahluwalia:** My question is that if you bid today for a contract what is your assumption implied in you bid?

**Vimal Kejriwal:** As a normal practice I do not think I would like to discuss too much of this year, but normally we do not take very aggressive views on the way the commodities would move. Generally, we would always take either a flat or increase.

**Aditya Ahluwalia:** As you the improvement in the margins in the last 2 years, 3 years and I think you sacrificed a little bit of top line FY17 did not grow even FY16 the top line did not grow and escalations even FY16 the top line did not grow as improvements in growth margins from raw material from 54% come down to like 48.5% of sales, will the sacrifice growth to maintain margins is the question going ahead it comes to it.

**Vimal Kejriwal:** What we did very clearly in the last '15, '16, '17, etc., was that we did focus a lot on how do we improve our margin and profitability and I think we are very happy with what we did that is how you could see margins going up significantly in the last two or three years once we reached our satisfactorily level where we felt that we have now built up a decent balance sheet, decent leverage, etc., then we did expand the way we want to look at it. The last year a large part of the growth is also coming from our non-T&D business if you look at railways, if you look at civil, etc., and little bit of an SAV which I will say T&D but it is not the core EPC T&D which will do in our normal markets. Those are the places where we started focusing on and where the growth has come from.

**Moderator:** The next question is from the line of Aditya Mongia from Kotak Securities. Please go ahead.

**Aditya Mongia:** Sir I just want to clarify so on the call I am slightly confused on the debt part because everyone was suggesting on the working capital front the way the mix is changing it should actually be benefiting you if that is the case why would there be a material debt build up from where we are today?

**Vimal Kejriwal:** We never said that debt will be build up I do not know how you have got that impression.

**Aditya Mongia:** Can debt levels be broadly maintained at so actually the numbers are just not matching because one way you are saying that interest cost as a percentage of sales will only improve marginally not by a whole lot which gives me a sense of debt levels are expected to go up because your top-line is going to grow at 18%, 15% in the next two years?

**Vimal Kejriwal:** Let me clarify both the points what I had said when we talk about the interest cost as a percentage of revenue we said that we would like it to go down to 2.25 from the current 2.4 but what we also said is that right now the interest rates are gone up by almost 80 to 100 basis points, so the increase what we are talking let say not so visible decline we are talking about is more to do with the interest rate increase than the debt increase and Rajeev also very clearly said that we are very hopeful of maintaining the debt levels at the same levels as today in spite of the projected increase of 15% revenue. So we are not talking about the debt levels going up or the interest cost going up both of them in absolute terms.

**Aditya Mongia:** Just to again make it completely clear now if interest rates the way they go up, should not we be assuming that this is the hard cost for all players then would eventually get passed on or do you think there is good competitive intensity in the sector in the T&D side right now?

**Vimal Kejriwal:** Interest cost will get passed on, but it will still appear in the balance sheet as a line-item so what would happen is the EBITDA margins may go up you may build a 0.5% extra the client does not pay me as reimbursement of interest he will still pay me through profitability. So we will see what happens, but to me it is a marginal play because talking about 2.4 becoming 2.3 or 2.25 the impact on margins is negligible I do not think it is a major play. It was a major play it was before the major play when our interest cost is to be 4% or 5% and it will come down to 2.4%. Now to me the improvements are going to be only marginal.

**Moderator:** Thank you very much. That was the last question I would like to hand the conference back to the management for any closing comments.

**Vimal Kejriwal:** I would like to thank you everyone for you continued interest. Thank you very much.

**Moderator:** Thank you very much on behalf of KEC International Limited that concludes this conference. Thank you for joining us ladies and gentlemen you may now disconnect your lines.