



# “KEC International Limited Q4 FY-19 Earnings Conference Call”

**May 08, 2019**



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**Moderator:**

Ladies and gentlemen, good day and welcome to the KEC International Limited's Q4 FY19 Results Conference Call. We have with us today from the management Mr. Vimal Kejriwal – Managing Director & 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 for an 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 evening to all. And welcome you the Q4 FY19 earnings call. For full year FY19 revenues have crossed Rs.11,000 crores mark for the first time with a YOY revenue growth of 9%. EBITDA margin have grown to 10.5% from 10%. PBT and PAT have grown by 9.7% and 7.7% respectively with a PAT close to almost 500 crores. Interest as a percentage of sales stands at 2.8% for the whole year. Higher interest rates in India and globally partly contributed to the increase in interest expenses. With today's new order released 1,233 crores total order inflow for FY19 has now touched 1484 crores. We have a strong order book of Rs.20,307 crores with an L1 of (+3000) crores.

Coming to the Q4 financial performance, we have achieved a revenue growth of 5% year-on-year for Q4 FY19. The growth would have been higher but for some delays in environmental approvals in Brazil EPC projects and execution headwinds in some domestic private projects. We were expecting to start work on three EPC projects in Brazil in Q4 FY19 of which we will receive environmental approval for only one project. Execution of the second project has just commenced. And we expect the approval for third project any day. EBITDA margins for Q4 have increased from 10.1% last year to 10.4% this quarter. Our interest as percentage of sales for the quarter stands at 2.2% against 1.7 in Q4 last year. PBT and PAT margin stand at 7.9 and 5.2% respectively. On the business front our non-T&D business continued its growth trajectory with railways doubling its revenue for third consecutive year and reaching close to the 2000 crores mark. While civil achieving revenues of approximately 500 crores almost double of last year. Despite the larger contribution of non-T&D revenues to the overall revenues the improvement in our EBITDA margin from 10% in FY18 to 10.5 in FY19, mirror the improvement in non-T&D margins. Railways continued its growth with order inflows for the year crossing 3000 crores and a large order backlog of Rs.5000 crores. We are focusing on international DFCC, RRTS and Metros for expanding the business profile going forward. Civil vertical has expanded its client base to 17 clients in FY19 vis-à-vis 10 in FY18 as well as sub segments with addition of FMCG and select residential projects. We have started adding new verticals such as government, commercial, industrial projects, airports, metros, etc.

Cables business has achieved a good performance with revenue growth of 17% on account of higher share of VHV and exports. Our smart infra business has taken off well in its first year of operations with two orders from Maharashtra as master integrator. Though we face some client

stock approval related delays in –4:09 FY19 we have closed the year end revenues of 7306 crores and robust margin. We have a T&D order book of 15000 crores plus which gives us the confidence of achieving strong execution in FY20. The order book for international markets including SAE and SAARC has grown by 25% in FY19 over last year on account of uptake and inflows from Bangladesh, Africa and UAE. We are now seeing order pipeline of nearly 25,000 crores in the domestic T&D and railways including the bid submitted and to be submitted in the near future. Some of which have been differed due to the elections. We anticipate a stronger FY20 in terms of domestic order intake. As we have been discussing earlier, we have undertaken initiatives to reduce working capital such as collections from Saudi, sales of BOT assets, changes in vendor terms and expediting commercial closer of projects. We are happy to inform that the borrowing levels stand at Rs.1,845 crores as on 31<sup>st</sup> March 2019. As a result of the above initiatives as also on account of receipt of advances from some large international projects against the international T&D orders received in FY19.

This is a positive outcome for us in a time when liquidity is an issue across the country. Together with an order book and L1 of around and a total figure of 24,000 crores and a visible order of pipeline in T&D railways and civil as mentioned earlier. We expect our revenue growth of 15 to 20% in FY20. Thank you very much, happy to take questions now.

**Moderator:** Thank you very much sir. Ladies and gentlemen we will now begin with the question and answer session. The first question is from the line of Renu Baid from IIFL. Please go ahead.

**Renu Baid:** Sir few questions, first if we look at the overall in terms of the execution mix again growth clearly is driven by railway civil segment and T&D has remained pretty soft as it was indicated. So, as in given that we have some sticky projects and private TBCB guys which have more softer in the domestic market. What is your comfort level for next year in terms of growing by about 15% or so in the domestic business and railways, even railway revenue this year we have done higher than what we had targeted so does that taper off the growth that we were expecting next year or the targets of 23-2400 crores of revenues remained intact. So broadly how are we looking at the growth numbers in terms of revenue for next financial year and what could be the degree of confidence that we have or risk to these numbers?

**Vimal Kejriwal:** So one thing is Renu is overall we have indicated on 15 to 20% growth so I think that is where our confidence is high on the number because if you look at the order book of 20,000 crores and another 350,000 of L1 I think they are pretty comfortable and T&D by itself is 15000 crores plus. Coming to the railways we have done slightly more than what we have had wanted to do or indicated earlier because of the push on execution and I think we still stick to our 20-25% growth in railways by which we should be around 23-2400 in railways. Regarding sticky accounts we have one client which is a problem for us right now but it's a national importance project to me so, I think our numbers is around 400 odd crores of order book. I do not see too much of an issue it's a matter of whether it gets resolved in one quarter or two quarters hopefully

with whatever lenders and others have been telling us they are pretty hopeful that this should get resolved very quickly because it's a project which is the second line for the South-West interconnector and there is lot of (Inaudible) 8:54 from everyone including (Inaudible) 8:57, etc., to get this project going very quickly so coming back I do not think I am worried about our overall growth numbers whether 15% will come from domestic or not I do not know I don't have an answer for that directly. But I think overall T&D especially if you look at our international order book it has grown order intake from 1300 to 3000 crores this year I think overall T&D as a business should definitely grow by 15%.

**Renu Baid:** Okay. As in because essentially this year since the growth have slowed down the broad expectation was that next year we should be definitely towards the 20% and also the fact that you still give in guidance of 15 to 20% are you seeing some pockets of softness or you think there is a high likelihood that 20% kind of growth should be reasonably achievable?

**Vimal Kejriwal:** I never said 20% to you at least I am saying, itself is an indication of the confidence. Up to 15% left it there.

**Renu Baid:** Okay. Sir but as in we were expecting that towards the end of the year we would see reduction in the overall debt plus acceptances, although that number still continues to be a bit sticky as a (+3000) cross so do we expect this improvement to come through given that the liquidity environment and the situations with NBFC side continue to remain sticky. So as in what would be the road map in terms of and given the fact that we are expecting 15-20% growth in the coming year, so how should we look at the debt levels for the company as a whole?

**Vimal Kejriwal:** I thought you will be happy with the number which we gave because against 3000 we had said that we should be doing 24-2500 crores of gross rate against that we are at 1800 crores. So, we have actually been able to bring down our debt by almost 1200 crores in Q4 that is on the debt number. Acceptance has not changed significantly so I am not saying that, that has changed. As far as interest is concerned I think we are talking about doing around 2.5% next year as against 2.8 this year. Against 2.8 of this year where we do expect that it should be 2.5 and hopefully if RBI and the US freight reduces the rate then maybe we can do better than that but as of today based on today's numbers we have been talking about this number.

**Renu Baid:** Right. And overall as you mentioned the L1 pipeline and the orders that we have submitted the bid pretty encouraging TBCB and all the renewable projects. So on the order inflow side except for railways where we have gone a bit soft the domestic momentum should be strong but how should we look at the export order portfolio for railways and solar where you were looking to expand our presence in non-Indian markets?

**Vimal Kejriwal:** For railways I will not say we have overall gone so finally we ended the year with around 3100 crores of orders okay. We were soft initially which is why we are lower than last year. But we are still comfortable. International I think we are seeing a lot more traction on Africa, middle

east started bouncing back. So, I think we are quite comfortable with what should happen in T&D plus Brazil also there are lot of orders yet to be finalized on the projects which has been won in the last two or three auctions. So we do expect that something more will also come out of Brazil.

**Moderator:** Thank you. The next question is from the line of Renjith Shivram from ICICI Securities. Please go ahead.

**Renjith Shivram:** Just wanted to get some idea on the order intake in FY20 what can be the kind of order, because last quarter also you mentioned there were lot of renewable related projects which were progressing so, what is the status of that and what kind of order intake overall we can expect in FY20?

**Vimal Kejriwal:** Renewables if am not wrong our total tender is around 13-14,000 crores which as 13-14,000 crores of projects have been approved by CEA of which some are on cost plus basis awarded to Power grid and the rest are on a TBCB mode. So the cost plus one I do not have the exact one roughly around 1500-2000 crores have already been quoted and not been opened because of the election issue so I think they should get opened in the near future. The TBCB projects the balance I will say 11-12,000 crores have also been floated, RFQs have been done, parties have been qualified, the RFP dates are I think in a week or two I am not sure whether it will happen that time or they may get postponed till the election results are over, but our view is that within the month of May all these tenders should be bid, that is on this. Apart from that there has been a large bunching of tenders in the states specially Tamil Nadu where the elections were there, where they have postponed all the tenders because of elections and I mentioned a figure of around 25,000 crores of tenders which have been quoted or under quoting, so to me let say from the tender issue quoted in March till May or middle of June almost 25,000 crores of tenders would be there in the system.

**Renjith Shivram:** Okay. So what kind of order intake can we expect in FY20?

**Vimal Kejriwal:** Order intake I presume we should be doing around 17-18,000 crores or something we are, this year we did 14,000 crores. Roughly if I take a 20% it would be another 3000 so 70,000 should be an ideal number.

**Renjith Shivram:** And of that how much will be from railways?

**Rajeev Aggarwal:** I do not have exact number but normally what we do is transmission should be around 70% of that, rest should get divided between railway, civil, etc but assuming that we do around 2400 in railways another maybe 3000 and odd should be from railways. Maybe 3.5 depending on what happens because right now there are around 15 or 17 tenders announced by the railways. But we will also have to wait and see with the new government coming in and who becomes the railway minister and what is their priority and etc. And a little bit cautious today till we start hearing

from the new ministers as to what they want to do. But I think 17 is a number which you can easily go with.

**Moderator:** Thank you. The next question is from the line of Swarnim Maheshwari from Edelweiss Securities. Please go ahead.

**Swarnim Maheshwari:** Sir couple of questions, first one on the domestic execution you have been kind of mentioning it for the last couple of quarters that there have been some sticky private sector projects in the domestic side, but I believe sir that is only to the account of about 400 crores when you look at our overall T&D domestic order backlog of about 7,500 crores. So are there any other projects where we are facing some delays or some execution challenges if you can spell it out?

**Vimal Kejriwal:** So basically we had two other projects from one more developer large in volumes that is why we never discussed them before. So we were expecting that they will get clear but they did not get clear in Q1, but they have been cleared now and work has started on that. So right now we just have one project which is I will say sticky.

**Swarnim Maheshwari:** Okay. And on the other government projects works is going as per schedule is it?

**Vimal Kejriwal:** So government project, I am not seeing any major issue happening. Obviously what is happened in the month of March and April is also with elections being announced and all that with all, I will say the police and all being busy with the elections etc. At places where we were using a help of district administration to get ROWs clear etc there could have been a marginal impact but I do not see any other major issue. I think only other point which I don't know it's very relevant or not is that power grid has been without full time CMB for some time so which has sort of impacted some pieces of power grid ordering as well as execution. Which with now with a new CMB being at least shortlisted I think that should be over now.

**Moderator:** Thank you. The next question is from the line of Ravi Swaminathan from Spark Capital. Please go ahead.

**Ravi Swaminathan:** I just wanted to know this 25,000 crores of bid pipeline that we have bid today in the domestic market what would have been the quantum say roughly last year, just wanted to know whether the opportunity size is same or kind of has it grown?

**Vimal Kejriwal:** Honestly, I do not have the numbers to compare it but, it's little bit more than normal because I have not seen 15000 crores of TBCB or renewables coming at one shot, similarly 5-6,000 from one or two FCBs at one point of time. It is a little bit of more of bunching because of the elections.

**Ravi Swaminathan:** Got it sir. And this renewable ordering of say 12-13,000 crores how sustainable it is over a 2 to 3-year period. Can we expect similar numbers of magnitude of awards to happen or can it go up because why I am asking is see currently solar some execution of solar projects have halted

because of their challenges with the developers over there, that is what we are hearing. So can it have an impact on transmission capacity addition related to that?

**Vimal Kejriwal:**

I do not think I have an answer for it, but last when we had heard the MNRE secretary talking and all. Apparently, there has been some decisions made that irrespective of what is happening whether there are delay in solar plants. They would like to go ahead and implement the transmission systems that is what I heard last around two or three weeks back. To me these projects will come because they have reached at a stage where pulling back is difficult and most of them are with very tight schedules of 15 months, 18 months in fact there was a big debate in the government whether we should be given on TBCB or given on nomination to power grid because I think lot of people are very skeptical whether the private sector can actually do a financial closer and complete the projects within a period of 15 months which power grid can do. So to me, these are critical projects most of them are originating from basically from Bhadla Rajasthan where lot of solar projects have already been awarded so I do not think these projects will get delayed on a account of delay in the solar plants.

**Ravi Swaminathan:**

Got it sir. And in international market we have seen very good growth Bangladesh, etc. Any other geography which seems to be emerging as a growth driver going forward, you mentioned Brazil as one but are there any other regions which are coming up in terms of transmission spend?

**Vimal Kejriwal:**

On area we have started seeing traction is middle east specially UAE in fact in the last one year we would have got almost 1000 crores of orders in UAE and we are seeing some more but the difference is that most of them are related to oil fields so they are not orders which are as such normal power line order most of them are where they are so I think with the oil prices going up or whatever is the reason, I think they are spending money on oil fields. We have also started slowly seeing orders coming, tenders coming in from Saudi, although we are not winning them because we are pretty conservative after what has happened in Saudi. Other place where we are seeing some orders coming in is in fast East specially Malaysia and Thailand there are quite a few orders, tenders which are in the pipeline some of them have been announced to be bid in the next month or so. Africa has always been a good hunting ground for us and we are seeing continuous tenders coming in specially from West Africa.

**Ravi Swaminathan:**

Got it sir. And my last question is on the cost of funds how much would it have increased say this year compared to last year and is there any chance of it going down you had mentioned external factor but internally in terms of rating upgrade or say something of that sort can we bring it down internal mix change, etc.

**Rajeev Aggarwal:**

The intro states from the last year has gone up by almost 50 to 70 basis point. Both on the LIBOR side and on the MCLR of various tanks.

- Moderator:** Thank you. The next question is from the line of Jonas Bhutta from PhillipCapital. Please go ahead.
- Jonas Bhutta:** Sir firstly if you can elaborate on how should we look at margins for next year given that you have achieved a descent 10.5 this year and from where would that come in and I would presume that as execution in SAE picks up should we build in higher margin there, so if you can throw some light on the margin front firstly.
- Vimal Kejriwal:** I think margins we are right now expecting the margins to improve significant we have been at 10.5 while we are happy if we are able to maintain 10.5 we have been looking more between 10 to 10.5, honestly where will end up but I think what you should also look at is we have guided for an improvement in the interest cost. So there will be at least from 2.9 to 2.5 so 0.4% should actually come in from interest cost so which would impact our PBT and the PAT.
- Jonas Bhutta:** Sir just a book keeping question wanted to understand this new line item in our balance sheet call contract assets and contract liabilities. What is this pertaining to and how should one analyze this?
- Vimal Kejriwal:** That comprises of four numbers, one is basically the unbilled, the second is the AS 7 impact. This was earlier coming at a financial asset, it was coming under financial asset so whether the -25:17 number, so if you want more details probably Mita can give you but it is basically a part of the debtors which has been, so then there is also there is a corresponding liability which has been created for A7 somewhere below in the liability side.
- Jonas Bhutta:** Sort of net of this amount and added to receivables to make it a more like-to-like comparison or that would be the wrong way or seeing it?
- Vimal Kejriwal:** It's a right way of doing it because this is actually receivables.
- Moderator:** Thank you. The next question is from the line of Inderjit Bhatia from Macquarie. Please go ahead.
- Inderjit Bhatia:** My first question is on revenue side you are talking about 15 to 20% kind of growth. Is the dependence much more on international or domestic to kind of get us to this number. So if you could just try to kind of break up in terms of with geography could drive the bulk of the growth that would be helpful.
- Vimal Kejriwal:** In T&D it would be international okay. So, but for the other businesses obviously railways and civil and smart infra it is India which is driving the growth. T&D would be and if you look at the regions it would be, one would definitely be SAARC primarily I will say Bangladesh and Afghanistan these are two countries which will drive. Brazil we do expect to have a significant increase almost 30 to 40% in our revenues from what we have done this year. And then the third



region would be Africa because we have got large number of orders in Africa this year, execution has started some of the projects which had been stuck on account of lenders issues and all the doors have been cleared largely and then I had mentioned about two projects one was in – Nicaragua, Papua new Guinea which we had won last year. So there the execution has started so these will contribute but primarily I will say SAARC should be one big contributor to revenue this year.

**Inderjit Bhatia:**

Okay. Now coming to order inflows you have kind of talking about close to 20% kind of growth. If I look at on the T&D side again there seems to be lot of dependence on all the solar kind of orders coming through. And we have seen that for various reasons this sector has remained kind of have been troubled in the last I would say 12 months or so. So what gives us confidence that we should be able to kind of get this kind of strong growth on the T&D side and another thing is on the railway anyways you are not building too much but how much is left in terms of the electrification ordering?

**Vimal Kejriwal:**

So let me answer the electrification that is a easier answer. So we have around 30,000 kilometers yet to be done and the next years target which I think the railway ministry has told us is 10,700 kilometers. I do not know officially what are they going to announce but in our review meeting they have told us that they want to do 10,700 so that is the number they have and for the next two years they wanted to do another equally 10,000 each so 30,000 is when they want to finish this.

**Inderjit Bhatia:**

How much they were able to award in FY19?

**Vimal Kejriwal:**

I do not know the award figure but they have done a close to 5,500 off actual electrification. I honestly do not have the figure how much they have awarded, I can check and let you know later on but the completion is 5,500. Against their target of initially it was 8000 but then they have scaled it down to 6,000 so again they have done 5,500. Coming to your question on T&D, I think what I had mentioned about solar was when we talked about what is the current order or tender pipeline so that is where it is today. I think what we have to keep in mind is that with whatever has happened on power for all, whatever is happening on EV charging, etc apart from your normal growth these are the factors which will lead to significant growth and if you look at last year we have hardly seen any projects coming on the state side. Amount of investment and orders which we used to get from state last year for whatever reason we did not see too much reading by states which we have now started seeing whether it is Tamil Nadu, whether it is Karnataka, whether it was AP still has a lot of tenders now storm or cyclone is there probably it will get postponed, it's happening in Jharkhand, Gujarat is coming out with very large tenders, so suddenly we are seeing that whatever should have been done last year from the state is getting bunched and all that would come this year and none of them has to do anything with solar. Solar is basically what is coming out today on the TBCB side and part of power grid.

**Moderator:** Thank you. The next question is from the line of Bhumika Nair from IDFC Securities. Please go ahead.

**Bhumika Nair:** Sir on the railway side we have definitely seen good traction in terms of execution as well as our order backlog and we are looking at some significant growth going forward as well, but just wanted to check on how the working capital cycle in railways is moving considering that they have fairly weak financials and operating ratios have risen quite sharply so are we worried on receivables and the working capital cycle out there if you can just comment on that aspect?

**Vimal Kejriwal:** So moment of working capital and railways continues to be a worry but not on account of receivables. We have not had any delay in payments from receivables, I do not know what is happening from the operating ratios and all that but I think they have allocation for capital. So CAPEX and all that we hardly see any delay happening in railways in fact we are a bumper year on collection on railways this year also. So, I do not see an major issue on that side but the problem in railway has always been on the payable side where there were large number of small player so you ended up paying them in cash slowly their situation is getting sorted out many of the larger players have started coming in this industry seeing the volumes. So we are slowly seeing an improvement in the payable days. But in any case overall the networking capital of railways is pretty descent. I think it's slightly better than T&D I do not have the exact number but it's better than the T&D networking capital.

**Bhumika Nair:** Okay. And railway margins would now be similar to T&D or will there still be a gap between?

**Vimal Kejriwal:** There is still a gap because we have not yet reached the T&D margins but I think it's improving we are pretty close to that number but I think what is happening is probably T&D is doing slightly better so the gap we are still not able to fill it.

**Bhumika Nair:** Understood. Sir, my second question is on the working capital we have seen an improvement on a Q-o-Q basis. If you could just quantify what we have received from Saudi and what is the outstanding amount and the second part is, it seems you have restated the payable numbers of last year so is that understanding correct on a Y-o-Y basis the advances numbers have been restated? Acceptances sorry, earlier I think it was 2000 crores which the PPT today is saying about 1300 odd crores.

**Vimal Kejriwal:** Bhumika what has happened is that if you have heard that earlier question on the unbilled and AF7, etc. So similarly there has been a restatement in the liability side also. So you have to probably add the two figures together to arrive at that number. And you would ask one more question.

**Bhumika Nair:** On the Saudi received.

- Vimal Kejriwal:** Saudi I think for the year we got around 1000 crores in all, I think Q4 was roughly 450 crores was what we got in Q4 and we have been getting some money even now also we have got some money post Q4 also. So, I think we are now pretty comfortable with our situation in Saudi because what has also happened is that many of our other bills and all that, the projects have got completed I have been advancing in the system at a pretty good pace. So, I think that in the next couple of months we should get at least another 200-300 crores from Saudi.
- Moderator:** Thank you. The next question is from the line of Abhineet Anand from SBICAP Securities. Please go ahead.
- Abhineet Anand:** First on Brazil you did mention about some delay in execution because of the clearances. Can you just throw some more light on the tendering part there?
- Vimal Kejriwal:** Tendering, what I had said on tendering was that on the last two or three auctions some projects have still not been awarded by the developers and we are in discussion with them. So that is when I said that there was a good chance of improving the order intake from Brazil. The next auction in Brazil is now due in December so that we will have to wait and watch what happens in December and who wins the new tender. Existing ones are under execution and so we are hopeful that Brazil will show a significant growth, I was telling earlier we should have 30 to 40% growth in Brazil this year.
- Abhineet Anand:** That is you saying from the inflow perspective?
- Vimal Kejriwal:** No, I am saying from the revenue perspective.
- Abhineet Anand:** Okay. Secondly civil has done as a new business that you have started and 500 odd crores for this year. So how do you see that panning out over the next two, three years?
- Vimal Kejriwal:** Abhineet the way we are looking at civil is the way we were looking at railways earlier. And so for us civil is let say two years behind railways in terms of revenue. So, when we are looking at 500 this year we want to make it 1000 in this year FY20 and maybe 2000 FY21 and mainly 4000 after that, that is the way we are looking at the growth panning out.
- Moderator:** Thank you. The next question is a follow up from the line of Renjith Shivram from ICICI Securities. Please go ahead.
- Renjith Shivram:** Just if you can help us like there were changes in the balance sheet so if in a like-to-like basis how will be the debt plus acceptances stacking up it will be helpful for us on understanding basis.
- Vimal Kejriwal:** Numbers are there in the investor presentation, debt plus acceptance we have given in this but it's more or less similar. It is roughly around 3000 crores.

- Renjith Shivram:** No, but you told there has been some changes from because of AS7.
- Vimal Kejriwal:** That is a different issue that is the way it is presented in the accounts, but in the investor presentation for the sake of understanding we have taken out the numbers and all the investment number and all have been given there saying this was the borrowing, this was acceptance, for like to like numbers have been given there.
- Renjith Shivram:** Okay. And what will be the total receivables and the receivable days currently is that the one which is given in the balance sheet is that the one or will there be any addition to that?
- Rajeev Aggarwal:** In the balance sheet we will have to read the trade receivable and the contract assets put together. So this is how the total number of receivable and that includes the AS7 number also so we will have to exclude the AS7 close to about 7000.
- Renjith Shivram:** So if you can help us with the trade receivables and the receivables in contract assets what will be the total number?
- Vimal Kejriwal:** Renjith my suggestion would be speak to Mital get all the details but broadly what Rajeev is saying that number is around 7000 crores.
- Moderator:** Thank you very much. The next question is from the line of Saket Kapoor from Kapoor Companies. Please go ahead.
- Saket Kapoor:** Sir firstly as I heard you correctly whatever the changes will get in terms of the rating upgrade that will add to the bottom line in terms of the interest to sale going down by 0.4 bps?
- Vimal Kejriwal:** I did not say about rating upgrade. What I had said today was that, if RBI and US Fed is favorable to us and if the interest rate goes down then we may have some benefit and the second thing, the 0.4% what you are talking that was the actual for this year versus the budgeted what we are saying for next year. We are talking about achieving 2.5 next year versus 2.9 of this year. So 0.4 improvement is in interest cost.
- Saket Kapoor:** Okay. That is on terms if RBI cut rates?
- Vimal Kejriwal:** No, that is without that.
- Saket Kapoor:** Okay. We are working with 2.5 as per today's environment.
- Vimal Kejriwal:** In a sense that yes, you can check in the environment but when we did a 2.5 we did look at what could be the possible interest scenario and all and based on that although we are not priced at deep cut, etc but normally what is happening we have thought about it.

- Saket Kapoor:** So according to that we can keep a minimum of 5% base for PAT margin for next year.
- Vimal Kejriwal:** You can check that, I told you EBITDA and interest.
- Saket Kapoor:** Okay. How are you looking for the cable business performing, going forward and if you could give some more color on it?
- Vimal Kejriwal:** Cable has done well this year. We had a 17% rise in turnover and our best profitability ever achieved by cable business. We are also seeing a lot of order inflows happening specially from the export market and on the EHV front. But as we have storms and all like we had in Orissa so states are now realizing that at least in all the coastal districts they would like to convert all their distribution lines into cables, etc. Clearly Andhra Pradesh is looking at it, many other state Tamil Nadu is talking about it. So there is lot of work in cables, so I think we are pretty positive. Secondly last year we have moved our Silvassa factory into Baroda because there was a least premise and now that factory has fully settled started giving that moment is giving us more production and more grip and I think cost efficiency because it's operating from one plant. So, I think we are pretty positive about the way cable business is behaving.
- Saket Kapoor:** Sir what kind of growth we can get.
- Vimal Kejriwal:** Let me answer you Saket. I do not think we are expecting too much growth because it's ultimately a production-based revenue. Unless and until I put in more money in the capital expenditure and expand the capacity, whatever change will happen will only happen with a better product mix. Let say I am able to sell more copper and stop aluminum cable then the values can go up. Otherwise cables are, I have not seen too much of increase in the revenues, what we have been talking about is how do we improve the profitability.
- Saket Kapoor:** Utilization will be maximum only.
- Vimal Kejriwal:** Yes, thank you.
- Moderator:** Thank you. Next question is a follow up from the line of Swarnim Maheshwari from Edelweiss Securities. Please go ahead.
- Swarnim Maheshwari:** Sir looking at the notes to account point number 10, where there is this old legal dispute in South Africa. I just wanted to understand what is our share in the JV?
- Vimal Kejriwal:** Our share is 50%.
- Swarnim Maheshwari:** It is about 50%?
- Vimal Kejriwal:** It is 50%.

- Swarnim Maheshwari:** Okay. Sir secondly in this quarter any FOREX gain or loss?
- Vimal Kejriwal:** FOREX gain is in every quarter. So we have a FOREX gain, I think it's from 10 I don't have the exact number but broadly we have talked about on 50-60 crores for the nine months. 40 crores, so I think we should be at a net after netting of all the impact and all that probably 60-70 crores would be the gain for the whole year.
- Swarnim Maheshwari:** 60-70 crores for the whole year?
- Vimal Kejriwal:** Yes.
- Moderator:** Thank you. The next question is a follow up from the line of Jonas Bhutta from Phillip Capital. Please go ahead.
- Jonas Bhutta:** Sir just following up on Swarnim's question. Sir so the implied FOREX gain in Q4 is 30 crores as in if you said nine months it was 40 crores and now it's about 60 crores so roughly 20 crores?
- Vimal Kejriwal:** It could be somewhere in that ball park.
- Jonas Bhutta:** Okay. The second question was a bulk of our improvement in working capital also came from payables which sort of you gone into vendor financing mode in the first half and that partly sort of you recouped. So now we are back at the Q4 18 levels, for the following years do you expect they have given that liquidity constrains may sustain for some more time you will have to again resort to sort of funding your vendors if you are targeting like a 15-20% growth in FY20 sales that is my first question.
- Vimal Kejriwal:** One thing you should keep in mind is that a significant improvement of working capital has happened because of receivables from Saudi as well as BOT sale. And I think we close around 15-16 projects commercial, lot of retention and other moneys have come in so that is one thing which is I will say permanent improvement. Vendor financing would depend upon what happens in the market. We now have stabilized everything so I am not seeing that you will be doing additional vendor financing a particular level has been achieved so I think that is where we will be other thing what is happening is that many of these vendors now they have been operating with us regularly we are also seeing banks willing to give them fund directly. Because banks are also looking for good credit after all that what is happening so we have also seen that some of our vendors whom we were financing backed by our orders and all that they have not started direct financing because what our target outlook is that you take some of our larger vendors, some sort of financing into banking channel.
- Jonas Bhutta:** Okay. Sir quickly on a maintenance question sir, the order book that we have put out in the presentation of 20,300 odd crores so is that as of March 31<sup>st</sup> or it includes the 1200 crores orders that we have announced today?

- Vimal Kejriwal:** It includes as we have very clearly said that.
- Jonas Bhutta:** Can we get that as of March sir, just from a book keeping perspective.
- Vimal Kejriwal:** This is as of March 31<sup>st</sup> the final number.
- Jonas Bhutta:** So the 1200 crores orders inflow that we declared today you have accounted for in Q4 itself?
- Vimal Kejriwal:** Yes, those are Q4 orders but now a days with the highland figure going longer and all that so we decided not to give it in the middle so these are for FY19 only.
- Moderator:** Thank you. The next question is from the line of Girish Raj from Quest Investments. Please go ahead.
- Girish Raj:** The FOREX gain of 60 to 70 crores what was this number previous year sir, what it a loss then?
- Vimal Kejriwal:** It was 8 to 10 crores negative.
- Girish Raj:** Okay. So in this like sir also you said that railway margin inching up and we are keeping our overall margin at 10 to 10.5%, can you give some more color as to why?
- Vimal Kejriwal:** What?
- Girish Raj:** Sir the margin guidance you have maintained 10 to 10.5% for FY20. You also said that railway margin is inching up and T&D margin is getting better. So, in this scenario we have already achieved 10.5% can you give more color as to why we are maintaining at 10.5?
- Vimal Kejriwal:** We do not require more than that because the order intake if you look at is not as great as we would have loved to take it. So there is some pressure somewhere on the overall this, other thing is as of today we are seeing commodity price has been very-very volatile everyday aluminum and copper have been moving up and down. Steel we do not know so, I think some way or the other we are not very comfortable that we will be right now based on today's order book and margins whether we will be able to improve it or not looks a bit dicey today. Maybe when we talk after Q1 or Q2 we should be able to give you a better number.
- Girish Raj:** Okay. One more question on the green transmission cable the norm that was got by the power ministry, I read your view but if this has to come what will be the impact on our overall?
- Vimal Kejriwal:** It will not bother us because we make both lead and aluminum. So for us it does not makes a difference whether if ministry mandates that we don't have to use lead and we have to use aluminum then we will use aluminum. They asked me what is better for you, I said lead is also okay with us.

- Girish Raj:** Okay. But sir as per competitive advantage terms how are we placed compared to the strongest player?
- Vimal Kejriwal:** It does not matter because cable is sold on cost. Secondly, my cable's head is telling me that it is also based on application you cannot just take a general one and say that it should be completely aluminum. If one producer likes it so he is making others happy by saying to make it aluminum, that is not the way things work out.
- Moderator:** Thank you. The next question is from the line of Deepak Narnolia from Birla Sunlife Insurance. Please go ahead.
- Deepak Narnolia:** Sir I had few couple of questions. One is the growth guidance which you have given 15 to 20% but at the same time you have said that railway would grow by 20 to 25% and T&D you have said that 15% kind of growth and Brazil you are saying 30-40% growth, so in that context your guidance looks very conservative?
- Vimal Kejriwal:** So Deepak when we said 15% T&D that included SIS also so you will not be able to add on it that you have 15 there and another 40 there, when we said T&D 15% that included SIS part of T&D also.
- Deepak Narnolia:** Okay, so that is one and another 25% growth in railway so upper side of the guidance looks more reasonable.
- Vimal Kejriwal:** That you have to decide.
- Deepak Narnolia:** Okay. And sir second thing is the interest cost guidance you have given is 2.5% of the sales?
- Vimal Kejriwal:** Yes.
- Deepak Narnolia:** So which is the reduction from your 2.8% I think this year.
- Vimal Kejriwal:** 2.8%.
- Deepak Narnolia:** So from where this reduction you are thinking?
- Vimal Kejriwal:** There will be two things, one will be 20% growth so lot of interest is fixed also. So my entire interest is not working capital only number one.
- Deepak Narnolia:** In that also you are getting leverage?
- Vimal Kejriwal:** Yes. Number two, somewhere when the team will work and when efficiently people will collect, thirdly we have Saudi and all where we do not have too much of fresh exposure right now so



that money will come in. So there will be a part of it will come from collections, part of it is coming from our borrowing mix which is improving towards we have cautiously this is my international order book increasing, my FOREX borrowing is going up so the interest cost that way will also come down. So there are 4 to 5 factors including which it will be formed.

**Deepak Narnolia:** Okay sir. And if you allow one more thing, relating to debt only this debt reduction there is lot of confusion I see because of the reclassification although I have got my answer from Rajeev question, but still I wanted to ensure that the reduction of 1200 crores is due to cash only and not due to reclassification?

**Vimal Kejriwal:** This is cash reduction you are right.

**Deepak Narnolia:** Sir how much is your collection from BOT sale and Saudi Arabia if you can tell something in that?

**Vimal Kejriwal:** We got total value of BOT as 227 crores from that loan was transferred and equity value of 57 crores came to us which has gone to the loan repayment so total debt has reduced by 227 crores.

**Deepak Narnolia:** That is at console level?

**Vimal Kejriwal:** Yes. Second this is in Saudi we have got around 1000 crores of collection. So overall we have gone into debt reduction only at some or the other way, debt might be in Saudi or when dividend came in India that time we did debt reduction in India so you are seeing it. And thirdly which I had said and I will again repeat that we had lot of orders in the international market which have interest free advances so a lot of advances did come in March. So all this got bundled together so in March lot of our debt reduction took place.

**Deepak Narnolia:** So major reduction is from Saudi collection 1000 crores in one quarter?

**Vimal Kejriwal:** No, I did not say one quarter, I said in Q4 it was roughly 400 crores and for the whole year it was 1000 crores.

**Deepak Narnolia:** Okay, in Q4 4000 crores came in?

**Vimal Kejriwal:** Yes.

**Moderator:** Thank you. The next question is from the line of Kunal Sheth from Batlivala and Karani Securities. Please go ahead.

**Kunal Sheth:** I just wanted to check with you sir this debt plus acceptances number, where do we see at the end of next year, what are our targets for this year sir?

- Vimal Kejriwal:** To me with a 25 or if it's a 20% growth if it happens as the way we are looking at it and our today's debt number I think is slightly suppressed we got a lot of money which is more than what we were budgeting for. So, I think the debt number should probably be closer to 2500 or so for at the end of next year. Average should be near to 2500 next year.
- Kunal Sheth:** Which is at 1800 crores currently right sir?
- Vimal Kejriwal:** The 1845 number that should I think be around 2500 on an average. Acceptance will be the same here. I do not see any major change in the acceptance, levels should remain at the same level.
- Moderator:** Thank you. The next question is from the line of Harshit Patel from Equirus Securities. Please go ahead.
- Harshit Patel:** I had just one question. Sir if you can give us the breakup of PGCIL, SEBs and private players in our domestic T&D order book then that would be very helpful.
- Vimal Kejriwal:** I do not have the number now, I will share it later. But PGCIL is roughly around 1000 crores. I do not have the exact number right now but maybe if you will speak to Mita she will give it to you.
- Moderator:** Thank you. Next question is from the line of Umesh Patel from TCG Asset Management. Please go ahead.
- Umesh Patel:** Sir just a follow up question on interest rate expenses, as you mentioned that the next year the interest expense as a percentage of sales will come down to 2.5 versus 2.9 in current year but, if I calculate you know assuming that 15% growth rate on your top line then your interest expense in absolute term will remain same around 320 crores for the next year. So, I am just wondering whether the absolute interest expense will come down or it will remain around current level?
- Vimal Kejriwal:** Absolute number because our turnover increase is what we are guiding at 15 to 20%, our even if the interest amount remains at the same level and Vimal has just guided it for a average borrowing level close to about 2500 crores. So, our interest cost will come down to 2.5% based on that. So, when we are guiding to the investor on 2.5% interest cost to sales we are considering our borrowing level at about 2500 crores average for the year.
- Umesh Patel:** Okay. So on 2500 crores your cost of debt comes at around 13.2 something right?
- Vimal Kejriwal:** Interest of acceptance if also there so you have to add 1000 crores plus some of the advances are also interest bearing. But if we think we will divide our interest with that, then that is not the way it works.

- Umesh Patel:** Yes, but in these year your cost of debt has increased by 50 to 70 bps both in leaver as well as domestic right?
- Vimal Kejriwal:** Yes, more or less yes.
- Umesh Patel:** So hedging cost is how much?
- Rajeev Aggarwal:** There is no hedging cost there is a net **(Inaudible) 57.20** that we have earned during the year.
- Umesh Patel:** Sorry can you comment again?
- Vimal Kejriwal:** What happens is that we do our hedging on a net basis. But there is labels, the borrowings are netted off against that. We do not pay premium on payables we normally receive it on the net receivables. That is on the region side you are little bit on the, when you look at the FOREX numbers of gains and all that. From that angle if I increase my dollar borrowing, etc then plus cost will go down but then my net premium inflow will come down. Some portion of my interest increase for this year should actually be attributed and adjusted from the 60-70 crores of FOREX which we talked about.
- Moderator:** Thank you. The next question is from the line of Ankit Soni from Karvy Stock Broking. Please go ahead.
- Ankit Soni:** One thing I would like know is like what is the balance Saudi receivables which are to be there and segregating in the current and retention receivables?
- Vimal Kejriwal:** So the total outstanding is roughly around 700 and odd crores.
- Ankit Soni:** Okay. And segregating it into retention what it would be?
- Vimal Kejriwal:** I don't have the number but most of the retentions have got paid now, maybe 100-200 crores, 300 crores sorry.
- Ankit Soni:** Okay, 300 crores. And second question is on the line of your sticky project which is there. So can you just give me an exposure number to that like in terms of pending order book and receivables?
- Vimal Kejriwal:** Order book will be roughly around 450 crores, receivable is on 145 crores.
- Ankit Soni:** Okay, 450 crores then we are not looking any for write-offs or something like this?

**Vimal Kejriwal:** No, it's too early for the write off also I don't know if you heard me what I said that it's a national importance project. We have done 85% of the legal work on it. So, I am not at all seeing anywhere, any possibility of write off.

**Moderator:** Thank you. Next question is from the line of Rita Tahilramani from Invesco Mutual Fund. Please go ahead.

**Rita Tahilramani:** Most of my questions have been answered. Just an extension to Ravi's question. Since we are looking at a debt of almost 2500 crores hence forward what could be the broad cost debt since most of your fixed payment debt you say will get into the repayment mode?

**Vimal Kejriwal:** Rita our average cost is around 7%. Based on today's mix we decide to change it in the mix for FOREX funding.

**Rita Tahilramani:** Okay. And do you see that inching downwards in next year?

**Vimal Kejriwal:** Not in today's scenario unless as I said RBI reduces the rates or in terms of Fed rates go down. Because we have around 35-40% of our borrowings which are in foreign currency. So if the LIBOR rate goes down we will definitely have a benefit of it.

**Moderator:** Thank you. Next question is from the line of Sandeep Baid from Quest Investments. Please go ahead.

**Sandeep Baid:** Just wanted further clarification on the FOREX gain of 60-70 crores. So like you said that we our dollar inflows are more than our dollar outflows right? Dollar outflows will be primary on account of the debt that we have while the dollar inflow will be on account of the receivables?

**Vimal Kejriwal:** No, it does not happen like this Sandeep. We have huge dollar outflows on account of supplying also. In my foreign projects we normally buy from outside.

**Sandeep Baid:** I agree with you, but overall net we receive dollar not on net basis?

**Vimal Kejriwal:** Yes completely agree.

**Sandeep Baid:** So the FOREX gain that we talking off is the forward premium on the hedging that we would e doing is that the FOREX gain or it's something else?

**Vimal Kejriwal:** One part is that. Okay, so there will be I cannot tell you right now but there will be three or four different items which contribute to it, one is obviously the premium whenever we sell forward for a particular period depending upon when we expect to receive. It is definitely a FOREX premium. Second is whenever even if it's some un-hedged portion is there which comes in then if the rates are different from what is there in the books that could be there. There could be three

or four other items in which if you want some detail speak to Mita but broadly premium would be large part of it.

**Sandeep Baid:** Right, so if premium will be the large part of it then this FOREX income should be a sustainable income, because normally you will be selling dollars at a premium only. The premium rate may vary but you will be selling dollars at premium only right?

**Vimal Kejriwal:** Depending on how much international business does.

**Sandeep Baid:** Right. So if your net inflow is there for dollars you will making some money there right?

**Vimal Kejriwal:** One more thing which Rajeev was just now tell me is the MTM impact also, because we have large receivables also so that provides an MTM impact every quarter, so that also goes into this. So at the end third part is the translation loses or gains. So let's take my Brazil, we will just translate Brazil there is no net inflow happening there. So if the Brazilian currency has depreciated or appreciated it impacts my rupee balance sheet. So there was another item which goes into this numbers. So that is why I said four or five items which go into this number.

**Moderator:** Thank you. Next question is from the line of Balachandra Shinde from Anand Rathi. Please go ahead.

**Balachandra Shinde:** Sorry, I joined in late. If you can give me the guidance on order inflows and what kind of a order book we are targeting for FY20?

**Vimal Kejriwal:** The order inflow we had said that we should be having our inflow around 17000 crores this year.

**Balachandra Shinde:** Okay. Sir basically from where we are saying is it a domestic order inflows we are seeing a uptake or international order inflows?

**Vimal Kejriwal:** This year it should be more in domestic because last year SEBs were pretty subdued okay, so my view is that SEBs we should have a lot more order inflow happening. Plus if you see power grid also last year hardly ordered anything. And with a new chairman coming in I hope that they will also pick up order but it's largely more on the SEBs than any other this in India piece.

**Balachandra Shinde:** And sir in green corridor do we see traction to gain bills because there lot of potentials have been talked about but nothing is happening as such so, do we see there any opportunity wise for us?

**Vimal Kejriwal:** In today date if you look at it there are almost 15000 crores of tenders which have been floated around. A part of them have already been bid, part of them are getting this month. So, if we have not postponed further then whether this month you will have at least 14 to 15,000 crores of tenders at least being decided some of them are direct power grid so they will get awarded directly. A large part of it is on the TBCB road so the developer will be awarded and since these

projects are within 15 to 18 months of completion, our presumption is that they will have to award the EPC also within a month otherwise project will not finish in 15 months. So my reading of situation is that within the month of let say June, max maybe July this entire 13-14,000 crores should be awarded.

- Balachandra Shinde:** So are we considering anything from that in current order inflow target or it's including that?
- Vimal Kejriwal:** Obviously that is part of the 17,000 crores we are talking about.
- Moderator:** Thank you. Next question is a follow up from the line of Saket Kapoor from Kapoor Companies. Please go ahead.
- Saket Kapoor:** Sir how will you explain this lower profit in terms of consolidation of accounts and the tax going up if we take the current tax figure? Sir, I give the number sir PBT for this console is 295, where in for the standalone it is 298 and the tax is 70 crores in the standalone and 81 crores for current, so how will you explain this sir, the higher tax payment on lower project?
- Vimal Kejriwal:** It is not a higher tax payment what happens is that when we are consolidating the account so we have still some acquisition loan which is outstanding and that loan is outstanding is the holding company in the US. So that interest comes non-tax detectable and that increases the effective tax rate for my overseas operations. So that is where it is otherwise for India tax rate is 34.5%.
- Saket Kapoor:** And sir what will you attribute this sluggish performance and the console level, why is it so that the turnover, the incremental turnover which is created on consolidation is not adding to the bottom line?
- Vimal Kejriwal:** I think we will have to check the numbers, how you are calculating that.
- Saket Kapoor:** Sir, I am talking about just from the revenue from operations sir.
- Vimal Kejriwal:** US operations which goes into the console rest of the things are coming in the standalone numbers.
- Saket Kapoor:** So what steps are we taking to make the US operation more profitable and why are they not contributing that was my question?
- Vimal Kejriwal:** Saket, I think we are little bit confuse about your questions and all that but clearly one thing is there is that the US operations are not today not as profitable as the India operations we have been talking about Mexico in the last all in the call saying that Mexico has not been doing well and now the order that are coming in. So we do expect that Mexico will also pickup.

**Saket Kapoor:** Right sir. Sir incase the currency appreciate so that would be translating into FOREX losses for us for the next year suppose our currency appreciate from here. Major part of FOREX profit has been accounted for this year in an environment of currency declining.

**Vimal Kejriwal:** So Saket what happens is that large portion of our future receivables also this year we have hatched so effectively there will be no loss on that account. The currency appreciation there will be a cost saving on lot of payables account because we have a corresponding liability for our vendors which are there in the books of account. So if the currency appreciates there will be corresponding gain on the liability whereas on the receivable sides there will be some loss. But receivable side largely for the next one year we have hedged except when we start getting the new orders for that as and when we receive the order we will hedge those accounts. And that was a situation precisely in first half of the last year. So, we have been getting those FOREX gain.

**Saket Kapoor:** Right. And lastly sir, for this year how is the execution planned managed we will have the first half to be linear one and the second to be heavier as the trend has been or do we see the execution because of some execution not taking place, not being built for the March quarter that will percolate to the June quarter?

**Vimal Kejriwal:** No, not like this. Not billed will come under unbilled, so it is not like that. After elections finish then it will kick in but I am not saying too much happening in terms of increase in revenue in Q1. Normally it does not happy like this because client's also word hard in Q4 and in Q1 they are also a bit lenient so this industry has always been that way. That H2, and not only H2 it's actually Q4 which is heavier so this time also you have seen 35% revenue has come from Q4. That has been historically coming that way only. I am not seeing a significant change happening in that.

**Saket Kapoor:** Okay. But traditional because of election this June month will be softer is what you want to say?

**Vimal Kejriwal:** No, I said it will not be much faster.

**Saket Kapoor:** Okay, growth will not be seen when compared last June to this June due to elections part.

**Vimal Kejriwal:** The growth which we said 15 to 20% obviously that growth has to come for the year. Now, in Q1 if you say it will be 15 or 25 I won't be able to tell you now but it will definitely grow because otherwise I will not achieve my 15-20%.

**Saket Kapoor:** That is right. I wanted to know things changing because of elections.

**Moderator:** Thank you. As there are no further questions, I now hand the conference over to Mr. Kejriwal for closing remarks. Over to you sir.



*KEC International Limited  
May 08, 2019*

**Vimal Kejriwal:**

Thank you very much for your continued interest in KEC. Thank you.

**Moderator:**

Thank you. Ladies and gentlemen, on behalf of KEC International, that concludes today's conference call. Thank you all for joining with us. And you may now disconnect your lines.