



“KEC International Limited Q1 FY'17 Results
Conference Call”

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LIMITED
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Moderator:

Ladies and Gentlemen, Good Day and Welcome to the KEC International Limited Q1 FY'17 Results Conference Call. We have with us today from the management, Mr. Vimal Kejriwal -- Managing Director and CEO; and Mr. Rajeev Aggarwal -- CFO.

As a reminder, all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. If you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Vimal Kejriwal. Thank you and over to you, Mr. Kejriwal!

Vimal Kejriwal:

Thank you. Good evening to you all and thank you for your continued interest in KEC. My apologies for holding you back so late because we finished our Board Meeting then we had our AGM so, we could not hold the conference earlier.

I am pleased to inform you that we continue to deliver on the profitability front with EBITDA margins being maintained in the range of FY'17 targets.

A quick snapshot of the results is that, the net revenue for the quarter Rs. 1,785 crores decline of 7% Y-o-Y. EBITDA for the quarter was Rs. 149.6 crores increase of 6.3%. Profit after-tax for the quarter stands at Rs. 31 crores as against Rs. 16.9 crores corresponding quarter last year an increase of 83.4%. EBITDA margin a percentage stands at 8.4% against 7.3% in Q1. You will recall that the last year for the whole year EBITDA margin of 8%. We also declared new orders of Rs. 649 crores.

With this, our total order intake in the Q1 stands at Rs. 2,825 crores thus, continuing the stock order intake momentum for the last year. Our current book is at Rs. 10,403 crores and we have an L1 position which is in excess of Rs. 3,600 crores.

Our order intake in railways business for the current financial year has increased to Rs. 432 crores, which reinforces our belief that railways will drive the engine of growth for our infrastructure business. Likewise, we expect an upsurge in our solar business as well.

We successfully completed our migration to IndAS for the June quarter and we have reported IndAS compliant profit and loss numbers for both the current and the corresponding quarter last year. We have provided a summary of the major changes which impacted the financials through our Investor PPT in Stock Exchange filings for the quarter.

On the revenue front, we continue to see the impact of soft commodity prices as compared to the corresponding quarter of last year prices of commodity like steel and copper continue to be around 20% less as compared to the corresponding period last year, this is directly affecting the top-line in the cables and the transmission business.

We also continue to see delays in conversion of some of the large orders in SAARC and India region which has led to the revenue from the same being deferred to future quarters.

On the international front, the east Asia Pacific region continues to get promising area for growth, we have opened our office in Indonesia managed by a very senior person and efforts have started to fructify with a significant L1 status in that region.

In the Middle East specially in Saudi Arabia. We witness our shift in the tendering schedule with some tender being postponed 2016. However, with the oil prices stabilizing and the continued focus on Middle Eastern countries to reduce their dependency on oil sales and start selling more value added products. We are seeing tendering schedule returning to normalcy. In fact our tender actually being advanced by Saudi this week.

With a large order in Abu Dhabi and L1 position in Egypt our geographical spread in MENA has significantly improved. We have close to 20 projects under execution in Saudi Arabia and around 50% of these projects are slated for completion in the next few quarters, this provides us an opportunity to release the significant amount of retention receivables because you may recall that we have almost 20% retention in Saudi. There is a greater focus on completion of these projects on the current quarter and the next quarter and significant amount of resources have been deployed in completion of these projects and invoicing of the retention. This has somehow impacted a little bit of our revenue from other projects in Saudi.

Our strong order book at Rs. 10,400 crores plus along with robust L1 pipeline of Rs. 600 crores give us reasonable visibility and confidence for the year ahead. Thank you.

I am happy to take your 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 Aditya Mongia from Kotak Securities. Please go ahead.

Aditya Mongia: So, the first question which I had was more on the interest cost and the number you have put in the quarter being close to about Rs. 71 crores, so, was there any one-off in this number because this is almost 4% of sales level which was not seen in the past few quarters?

Vimal Kejriwal: I think Aditya the basic reason for the 4% is let us say lower turnover, okay. There is no other specific reason for the interest cost to go up because the turnover decline so, most of the loans or borrowings are not something which will immediately come down. Second, smaller reason is that the LIBOR has been growing up, I think it has gone up by 50 basis points during the quarter. Although it does not have a significant impact but there is some minor impact. I do not think we are right now worried about this our borrowings are virtually in the same level as in March. And once the turnover grows up which we expected to do then the interest cost will you know as a percentage will start coming down again.

Aditya Mongia: Sure, sir. A little question is that in the presentation it talks about certain more payables being converted into debt so, if there are quantum that you would want to share something which has happened 1Q?

Vimal Kejriwal: I think the problem what we have Aditya is that we although we have been able to restate the P&L numbers for 31st March as well as 30th June as per IndAS and all. We are still not being able to close to the opening balance sheet because of our overseas operations in subsidiaries because that requires a lot of valuation to be done and opening reserves to be adjusted. So we are not in a position to give you the opening numbers as per the revised. But overall, I do not think the number as such if you look at like-to-like the borrowings are virtually at the same level may be Rs. 50 crores here and there.

Aditya Mongia: Right, sir. Sir, one question on SAE towers the Annual Report talks about the capital infusion which has taken place last year of about \$10 million. Just to want to check that the Annual Report also talks about a fairly large position of debt which is due to be paid which is \$16 million, would there be any other requirement for capital infusion into SAE tower this year on account of this?

Vimal Kejriwal: I do not think there will be requirement, if you recall that last year SAE had the year before they had a huge loss and so, the cash flows had to be infused in that company, this year they are already FY'16 they have been positive, FY'17 obviously you are seeing the standalone and the consolidated numbers, so you can clearly see that they have turnaround and made a decent profit this quarter. So I do not foresee any fresh capital infusion or loans to be made to SAE.

Aditya Mongia: And guidance for tax rates, that is my last question.

Vimal Kejriwal: The tax rate has come down already if you look at my standalone financial, the tax rate is the normal at 34%-35%. It is only in the consolidated financial that tax rate is looking slightly higher because of the certain disallowances with respect to the income file under the income tax and on the balance sheet because there is always we have depreciating more in the Income Tax Act we have been depreciating more in the income tax then in the books. So books depreciation is more than the Income Tax depreciation that is why disallowances which is creating some high expense to be paid.

Aditya Mongia: And sir deferred tax?

Vimal Kejriwal: And deferred tax because as you will notice that in current quarter because of the IndAS impact our Saudi joint venture operations have moved from the consolidated financial to the standalone financial. So earlier, we were not required to make any deferred tax provision on that. Now since these financials are getting consolidated with a standalone so, we are required to make a deferred tax provision on the undistributed earnings of the joint venture.

Aditya Mongia: So this number is going to normalize incrementally or how should we see it?

Vimal Kejriwal: That number is it is a normal increase but you know going forward as we improve our profits for the subsequent quarter, I think this overall tax percentage should come down below 40%.

Moderator: Thank you. We have the next question from the line of Ravi Swaminathan from Spark Capital. Please go ahead.

Ravi Swaminathan: Sir, we had mentioned that there has been there is decline in commodity prices which has impacted quarter numbers. Year-on-year there has been a decline. This phenomenon has been observed over the past four quarters. Can we start assuming that the commodity prices stay stable from here going forward over the next few quarters whatever volume growth that we see would be the revenue growth and that we will be seeing?

Vimal Kejriwal: See when you look at commodity prices falling. There are a couple of impacts, one is specially in the cables which is normally and a cost plus so, straight away when you look at the business size business break up which you have given and all that very clearly in the cable business. There is the downfall of Rs. 50 crores - Rs. 60 crores what is the number on that. So second piece is on clearly on the price variable contracts so, the third thing what happens is even in contracts. Second piece is on clearly on the price variable contracts so that is a good sign, the third thing what happens is even in contracts in the international market which have fixed price what happens is that when you are quoting a tender and the prices are more, you quote based on those lower prices so, whatever contracts we would have got let us say in the last three quarters most of them would have base on a low commodity price so, for the next few quarters although they are clearly hedged back to back so, there is no profitability impact but on the revenue impact there would continue to be some impact on the revenue for the older contracts but whatever new contracts which we are now bidding and getting they are now, now their commodity prices are going up as aluminum has gone up to 1,650 and odd. So newer contract which we will start securing now will have a I will say higher revenue per unit of per tonne and all that. So may be for a couple of quarter we will still see but very clearly we also have a volume growth.

Ravi Swaminathan: Okay. So what would be the kind of overall growth for the year when would we targeting?

Vimal Kejriwal: We have generally been talking about a 30% growth and that is what we are confident that with our current book which as I share of 10,400 crores in L1 of 3600 we should be able to maintain a 10% growth in spite of the commodity prices and all that.

Ravi Swaminathan: Okay. And what is your view on the solar project, you had mentioned that railways and solar would be key growth drivers apart from the regulatory and the orders? Railways have seen very good growth. Solar this quarter the execution has been slightly low on the lower side so, you expect larger order coming up going forward, can we see revenue surprise from that sense?

- Vimal Kejriwal:** Very clearly there will be an improvement in the revenue. We are a planning to have almost, anyhow railway targets are almost three times of what we have done last year. What is happening is that right now we focusing on mid-tier segment as we call it which is somewhere 10 megawatts to 30 megawatts - 40 megawatts and we have still not been sort of supplying modules etc., So our contract sizes have been from Rs. 32 crores to Rs. 60 crores etc. Recently we did bid for NTPC project which is including modules and that is giving us some more confidence so, sharp upturn in the solar revenue will come in once we start actively bidding of the larger projects. With the smaller projects I think we are confident that we will have a clear growth of may be Rs. 300 crores - Rs. 350 crores should be our revenue for the year.
- Ravi Swaminathan:** Okay, understood. And on SAE towers what would have been the growth this quarter and we had also seen considerably when did we see the orders from geographies did we see this time and what was the EBITDA margin for SAE?
- Vimal Kejriwal:** SAE tower I do not have the exact number but roughly around 40% growth in the revenue and profit obviously that was negative last year so, they have turnaround and the EBITDA margins compare similar to our transmission that is between 8% to 10% on the orders.
- Ravi Swaminathan:** Okay. Because last year full year it is around 5% that is what I believe. So that will not...
- Rajeev Aggarwal:** 5%?
- Vimal Kejriwal:** Last full year our EBITDA margin in SAE business was about 5% now, as Vimal has replied it is closer to our T&D margin of 8% to 10%. So, it has clearly improved the performance in the SAE business.
- Ravi Swaminathan:** Okay. And what would be the inflow that we got? I think we have got sizeable inflows in this quarter
- Vimal Kejriwal:** It is roughly around Rs. 200 crores.
- Ravi Swaminathan:** Sir, I believe around Rs. 650 crores of inflows...
- Vimal Kejriwal:** Ravi, let me just come back to you on the numbers.
- Ravi Swaminathan:** Sure, sir. And my last question what is the debt level currently, and the acceptance level.
- Vimal Kejriwal:** That Ravi what is happening on the debt levels is that we are virtually on the same levels as last year and as I was explaining to someone before you since the IndAS balance sheets and all have to be done we will not be able to give you a number straight away because I do not have a competitive number for March balance sheet, okay. But suffice to say the debts would have gone up by Rs. 50 hundred crores only.

- Moderator:** Thank you. We have the next question from the line of Sandip Jabuani from Narnolia Securities. Please go ahead
- Sandip Jabuani:** I just wanted to ask SAE EBITDA margin, I just miss this can you give it?
- Rajeev Aggarwal:** It is roughly around 9.4%-9.5%.
- Sandip Jabuani:** Okay, thank you, sir. And secondly sir, can you sort of provide revenue break up sir?
- Rajeev Aggarwal:** We have given, have not you got the chart, it is there in the Investor Relations Presentation.
- Moderator:** Thank you. We have the next question from the line of Bhoomika Nair from IDFC. Please go ahead.
- Bhoomika Nair:** Sir, just wanted to check on you said at the starting of the call that the lower commodity prices have impacted the revenue growth. So, what would have been the impact of the lower commodity prices on the revenue line?
- Vimal Kejriwal:** I do not have the exact number but roughly maybe Rs. 100 crores - Rs. 150 crores.
- Bhoomika Nair:** Okay. Now, so you are saying that we will still maintain despite the weak 1Q because of the lower commodity prices and slow execution that we will be able to still maintain the 10% kind of revenue growth. Now, typically 2Q is relatively weak because of the monsoon and particularly in this year execution may be an issue because of monsoon. So that means in the second-half you will be seeing a very robust growth, is that what we are looking at?
- Vimal Kejriwal:** See, Bhoomika there are a couple of things may be slightly different from earlier, one is what is happening is that the order sizes we becoming larger, okay. And also we are doing a lot of work now in substations, etc., in many cases there are single items of let us say equipment on a transformer or a reactor or a GIS this where individual values run into Rs. 150 crores Rs. 150 crores for one item. So one item gets delayed let us client is not cleared so, the inspection gets delayed or the manufacturer delayed it. So, that one item can actually make the 7% de-growth which I am showing had a GIS equipment gone, we would have had zero de-growth so, that is one piece which is now clearly changing which is where and the second piece is that I do not think that my Q2 there will be range for all that stuff but I think we have a fairly decent international order book and then we got an Abu Dhabi order you saw the number 570 last quarter. So, I think we are quite hopeful that international performance would compensate for if there is let us say a reduction or a delay in the Indian execution. But I think we are pretty confident and every year if you see Q4 always accounts almost 40% of the revenues. So that log side is always there unfortunately in this business, we are not able to help it. But based on the numbers and all that order book etc., I think at least today we are pretty-pretty confident that whatever 10% we have been talking about should be very clearly there.

Bhoomika Nair: Okay. So in that sense I mean quarter-on-quarter at least one should start now seeing that growth momentum kind of picking up the base effect of the falling commodity prices would now already be there.

Vimal Kejriwal: Yes, and I think the other thing is that if you look at our order book, we have got almost 2,800 crores of orders coming in whereas our revenue was Rs. 1,700 and Rs. 1,985 or something. So, clearly the order intake is more than the execution, so we will also start seeing the impact of that also.

Bhoomika Nair: Okay. Sir, on the other aspect was if you look at there is obviously because of the IndAS in 1Q 2016 there a sharp drop not at the EBITDA line but because of depreciation and tax, you have seen profitability falling quite dramatically from the earlier accounting norm. Would we have a similar number for FY'16 what would have been the impact on profitability?

Vimal Kejriwal: For the whole year?

Bhoomika Nair: For the whole year.

Vimal Kejriwal: Bhoomika, right now we do not have that number, we worked out you know for the June quarter, we are in the process of finalizing these numbers, auditors are really working on that. I think we will be having these numbers before September.

Bhoomika Nair: Okay. Sir, the second thing was on Saudi, you mentioned that we will be completing a lot of projects in the next three quarters - four quarters and completion of a lot of orders out there. So what kind of orders will what the orders are getting completed and what is the kind of retention money that can get released from the same?

Vimal Kejriwal: I think in this quarter we completed four projects or five projects, we are completing some I think another four or five within this quarter hopefully. So with these numbers coming in my estimate is that we should be in a position to bill around Rs. 500 crores of money. The way it happens is probably Rs. 250 crores of that, 10% of that should come in within three months so, once you complete they will charge you at commission rate, check it all the stuff and their own cycle time for payments so, in three months we should be getting around Rs. 250 crores in another three months around Rs. 250 that is broadly so, Rs. 500 crores should get released probably in the next two quarters max three quarters if not. So by March hopefully, we should have entire Rs. 500 crores of retention back to with us.

Bhoomika Nair: Okay. The other thing was if I just look at the order backlog break-up particularly in terms of cables just to contribute almost 5% of the order backlog has gone down to 1% if I see the chart. So, any reason for the sharp drop even on both on a Y-o-Y or a Q-o-Q basis?

Vimal Kejriwal: I think the basic reason for the drop in cables is that we had a quite a few EHV cabling orders sitting there and in this June we were able to execute most of them. That is the basic reason,

otherwise cables as business generally have been having roughly I will say around Rs. 120 crores of orders only. So 1.5% is a standard number for cable because the turnover is around Rs. 80 crores - Rs. 90 crores per month. So normally we have around one and half months - two months of orders.

Bhoomika Nair: Okay. And sir lastly, on SAE if you can just obviously there has been a very sharp improvement in profitability so; I would assume even on PAT level it is profitable?

Vimal Kejriwal: Definitely, I think one of the reasons why we have extra tax cost we have provided taxes in SAE also.

Bhoomika Nair: Okay. And the how is the market looking in terms of overall in terms if you could just throw some light on in flows and...

Vimal Kejriwal: You are talking about SAE or KEC?

Bhoomika Nair: Sir, both.

Vimal Kejriwal: Let me put it this way, today if you look at the tenders to be quoted in the next two months or so, we have got around Rs. 25,000 crores of tenders to be quoted, okay but Rs. 15,000 is in MENA, Rs. 5,00 - Rs. 7,000 is between East Asia and Africa and India I am giving a very low figure but it is above Rs. 5,000 because I am not including the entire TBCB jobs which are in a way in negotiating the orders. So, I am not including them in the tenders but if you get one order from Sterlite or Adani and all that all each of them is Rs. 600 - Rs. 700 crores. What we are very clearly seeing if you pick of India piece is Power Grid is really slowing down, we have to see too many orders or tenders floated by Power Grid but I think they are getting compensated by the state boards very-very clearly both on the transmission side as well as on the substation side. So clearly I think our order book will keep on shifting more and more towards the SEBs we were focusing on four or five of them. Now we have extended our focus and started looking at couple more of them let us say. So that is what is happening.

Bhoomika Nair: Great, sir. And just lastly on SAE if you could just talk on outlook in terms of both Mexico and Brazil?

Vimal Kejriwal: See, Brazil obviously is doing very well, it is on the top of the world today probably 18 months or 24 months of order book is there and fairly profitable order book, okay. Mexico still is not in the sense that not doing great, okay, I would still be happy to see more orders there but we still have I think orders for the whole year now. So for the year I do not think we should be doing any less margins and what we are doing in T&D in India.

Moderator: Thank you. We have the next question from the line of Salil Utagi from Systematix Sharess. Please go ahead

- Salil Utagi:** Just wanted to have your comments on railway business, I current order backlog is around Rs. 950 crores and turnover for this year Rs. 750 crores. So what could be the execution period for this order backlog and how big this segment can be in next two years to three years?
- Vimal Kejriwal:** No, from where you got Salil I do not know. But order book and all is right.
- Salil Utagi:** Turnover.
- Vimal Kejriwal:** From where you got 750?
- Salil Utagi:** 70.
- Vimal Kejriwal:** Okay. I heard 750, I was wondering from where is this Rs. 750.
- Salil Utagi:** No, 70.
- Vimal Kejriwal:** So I think we are pretty bullish on this and hopefully we are targeting for at least Rs. 1,000 crores of orders this year in railways. 400 we got, in 300-350 L1 is there. 800 I think I should once all my L1s get converted. And we have also bid on a few project and there are more tenders in the pipeline. So I think railways should allow into well as well as revenues in our concern I think last year we have turn around Rs. 200 crores and hopefully we should do at least double of that this year.
- Salil Utagi:** Okay. What could be the optimal size of this segment? Can it tough Rs. 1,000 in next few years.
- Vimal Kejriwal:** We have to touch; we are very clear. If you will ask me in the next three years, it should at least be Rs. 2,000 crores that is what we are looking at.
- Salil Utagi:** Rs. 2,000 crores?
- Vimal Kejriwal:** Yeah.
- Salil Utagi:** Okay. And what could be the margins in this business?
- Vimal Kejriwal:** Margins I will say that are slightly lower the T&D but what is happening and because of mainly because of overheads and all that how that the volumes are increasing and once we cross this Rs. 500 crores - Rs. 600 crores turnover, I do expect that the margins would be in-line with our T&D business.
- Salil Utagi:** So these orders are mainly electrification orders or even laying off the tracks and all?

- Vimal Kejriwal:** We have got a mix of the orders, okay, one which we have announced today is electrification but the one which we announced earlier Rs. 317 was a composite order which included laying off tracks, building of stations, level crossings and all that. So we do both the jobs right now.
- Salil Utagi:** Okay. So what could be our market share in this business?
- Vimal Kejriwal:** Right now it is quite good because and when I say market share it is order that I am quoting, so there probably we are getting one out of four, or one out of three I will say so it will be around 25%.
- Salil Utagi:** Okay. Sir, on this substation part in T&D business what is our order backlog right now?
- Vimal Kejriwal:** I do not think we have the separate number but you can ask Rohit later on. But ballpark we have Rs. 1,500 crores, it will probably at least Rs. 2,000 crores.
- Moderator:** Thank you. We have the next question from the line of Sandeep Baid from Quest Investments. Please go ahead.
- Sandeep Baid:** Sir, some of the News Papers have reported that state SEBs have been resisting center coordinating the tender for them.
- Vimal Kejriwal:** What you are talking about Sandeep, is on the distribution side under the UDAY scheme there was a proposal that the Center would finalize the orders and rates and all that for the various items to be used for the last mile connection by the Center and those orders were to be then passed on the state and state was supposed to place orders with the same parties at the same rate.
- Sandeep Baid:** Okay. So you are saying that you are not in that segment so, it is not impacting you.
- Vimal Kejriwal:** We are not in that states, so some of the states obviously do not like the idea of giving up their authority on their rights on fixing up of suppliers and prices. Some of the states have been resisting that.
- Sandeep Baid:** Okay. But it is not impacting us sir?
- Vimal Kejriwal:** No, we are not in that field at all.
- Sandeep Baid:** Right. Sir, second you mentioned that a lot of orders are getting completed in Saudi. So, by end of FY'17 where do we see our trade receivables at the end of FY'16, we were at about Rs. 4,500 crores.
- Rajeev Aggarwal:** See, Sandeep, I do not think that there will be definitely some improvement on the receivable side but at the same time as we are expecting our growth in the overall business at about 10%

or so, there could be some improvement in the working capital but they will not be significant change in the amount of the receivable that we will carry as at the end of March 2017.

Sandeep Baid: But as a percentage of sales you see it coming down?

Rajeev Aggarwal: Yeah, we will see definitely the DSO should be coming down by 2017, but in the absolute numbers I think they should be more or less pretty much the same which are there probably as of 31st of March, 2016 despite increasing in the turnover.

Sandeep Baid: Okay. And therefore, I guess assume that the debt level will be similar to what we have to take?

Rajeev Aggarwal: Absolutely.

Sandeep Baid: Right. And lastly, Rajeev in the Annual Report we saw write off of about Rs. 140 odd crores, against bad debts and loans and advances. So if you can throw some light on what exactly is that?

Rajeev Aggarwal: So basically you know we have a board approved policy of writing-off such receivables which are due for more than five years that in as a good governance of which would you know as a prudent accounting policy we have been doing that and apart from that there was one substation business where we had some dispute on the price variation with one of the customer in Afghanistan because we are doing a lot of business in Afghanistan and in order to maintain our relationship with the customer he has settled for a lower amount with the customer, the amount has been received and the surplus amount which was outstanding in our books has been provided for in the month of March itself.

Sandeep Baid: How much was that?

Rajeev Aggarwal: So that amount off-hand I cannot tell you but that was some, it was a good amount so probably you know that impacted the bad debts.

Sandeep Baid: Right. And have you taken any write-off in the first quarter as well in this quarter as well?

Vimak Kejriwal: There will always be some write-off, I do not think there is anything significant increase in the first quarter.

Moderator: Thank you. We have the next question from the line of Swarnim Maheswari from Edelweiss. Please go ahead.

Swarnim Maheswari: Sir, what was the volume growth in Q1 actually?

- Vimal Kejriwal:** I do not think we had a very significant volume growth in Q1 except in SAE towers, okay. In India I think the volumes were more or less flat, okay which is the reason when you had a commodity prices going down you did not make it up by higher leverages in Q1, okay.
- Swarnim Maheswari:** No, absolutely, sir because what I recollect is in H2 FY'16 we had sort of seen a 10% kind of volume growth still the revenues are flat and in this quarter if I were to adjust for this 1.5 million of revenues which was actually lost due to softer commodity prices. Your revenues were sort of flat on a Y-o-Y basis in Q1.
- Vimal Kejriwal:** Yeah.
- Swarnim Maheswari:** Correct. Sir, my second question, is you did mention that in the overall order intake basically the PGCIL's share has been coming off the SEB is going up. So going forward, do you really see that there could be some stretch on the debtors' part because typically the payment cycle of SEBs they are a bit stressed than PGCIL if I recollect it correct.
- Vimal Kejriwal:** Swarnim what happens is that the payment cycle for each of the SEB is different. There are very clearly many, some of them were better than PGCIL also.
- Swarnim Maheswari:** Okay. Which are those by the way?
- Vimal Kejriwal:** I will give an example Karnataka is there, West Bengal is there. they are better than PGCIL also. I have been saying Karnataka if you give bill before the 17th of November you get paid by 30th of the month, which PGCIL also does not do. Okay, West Bengal so, so many of them so on an average I do not think it will be an impact on the debtors but clearly what also happens is that because of our experience and whatever we hear in the market and all that, very clearly what are the payment terms of most of the SEBs. So we very clear that the SEB like Tamil Nadu will pay you after four months, so then the four months' cost gets build into the project cost.
- Swarnim Maheswari:** At the time of bidding itself.
- Vimal Kejriwal:** Okay. So there may be some impacts on that but what happens effectively the EBITDA will go up and interest cost will go up at the PBT level you still make the same money because that an extra interest cost has been provided for.
- Swarnim Maheswari:** Correct, okay. And sir, finally, anything on the REC project because we as a group we have not been participating in this control, so, you were still in the wait and watch mode over there?
- Vimal Kejriwal:** REC, you are talking about the TBCB projects?
- Swarnim Maheswari:** No, the rural electrification project.

- Vimal Kejriwal:** On the RE project we are I do not think we are still in a mood to participate because we are still not seeing light at the end of tunnel because we still have some more projects. We are still trying to close those projects and we know the sort of problems we are facing with the client and they are getting the money from REC, BMC for those funding and all that. so, I do not think today, we are in such a bad situation, we will start going for RE.
- Moderator:** Thank you. We have the next question from the line of Ambar Singhania from Asian Markets Securities. Please go ahead.
- Ambar Singhania:** Just one thing on the IndAS side, you have got line item #17 which is total comprehensive income, that has gone up to around Rs. 16 crores versus Rs. (-11) lakh last year. what exactly are the items comprising in this and how is the things going forward sir?
- Vimal Kejriwal:** I think Ambar what is happening is that, our SAE our entire investments and all are through a holding company and what happens since that holding company does not have any other business the translation currency as per IndAS is now concerned to be Indian rupee so, this is basically a notional loss which is there which otherwise was going to a foreign currency reserve directly. Now as per the new IndAS most of items which are going to reserves directly earlier are now routed through the total comprehensive income or OCI they call it. And effectively OCI is nothing but a reserve.
- Ambar Singhania:** So basically all the notional losses or gain in case of any foreign subsidiary will come under this then?
- Vimal Kejriwal:** There are many other things which are there. Basically all the translation losses which were earlier going to a foreign currency reserve directly without getting through the P&L account, now as per the new format it appears as an OCI item, okay and then goes into the reserves. OCI again goes back into the reserve. So it does not impact your PBT or in any manner. Unfortunately, it is appearing below PAT but I will say the nomenclature is slightly misleading, it is showing as income but actually it is reserve at all. So, TCI minus PBT is what is going to be in reserve. Whether it is income or loss, Rajeev is correcting me.
- Rajeev Aggarwal:** Yeah, so basically this year there has been a significant gain because of the Brazilian currency has improved compare to dollar with respect to the March number so, there say we are seeing a significant spurt in this number of Rs. 16 crores for the quarter and that is why this number this is a positive gains due to the translation which is again going back to the reserve. So, if there is any loss due to depreciation that also will be reflected here and we will go to the reserve. So ultimately, instead of taking it to the profit and loss account and impacting the profitability for the quarter period, it is going directly to the reserve account.
- Ambar Singhania:** Okay, fine, sir. Sir, secondly you mentioned that our volume is more or less flat in transmission SAE, however, the revenue has been down at around 14%-odd. Whereas I believe

out of the total sale that commodity segment would be hardly around 40% of the sales, 60% of the EPC and others, if I am not wrong.

Vimal Kejriwal: It is difficult to say that way because especially now that we are doing a large amount of substations also, or in substations the equipments will probably be 80%. So it is becoming a difficult to generalize that way. But let me put in this way probably half or more than half of the decline or this would be due to commodity and then there will be some part because as I told you in Saudi and all that we were focusing more on closure, etc., so, there would be some impact on the construction activities in that country specifically.

Ambar Singhania: Sir, and which region of orders or which type of orders are generally the fixed price contract in our order book as of now?

Vimal Kejriwal: Basically it would most of the international orders would be fixed price, number one and in India, in SEBs what happens is various SEBs follow various patterns like Tamil Nadu I think is a completely fixed price, Karnataka allows a variation on the steel price but does not allow I think on aluminum. So, all of them follow different policies but generally on steel it is variable in most of the contracts in India. Anything outside more or less except the let us say Indonesia is variable, okay.

Ambar Singhania: So, sir in that case the increase in EBITDA margin which we have seen in last couple of quarters, can we say, a large portion is because of the international orders fixed price where the commodity prices have been fallen?

Vimal Kejriwal: Ambar, some part of it which is on the steel will be attributed to that but in aluminum what happens is we normally cover back to back aluminum, copper, etc., so we do not take a risk on either going up or going down. Steel because there is no perfect hedging mechanism available, what happens is that in steel you buy a two months or three months' stock all is there. So at any significant moment either upwards or downwards can have an impact but normally what happens is that when we are bidding for fixed price contracts, we always keep in mind what is the likely market scenario for steel and accordingly the prices are increased or decreased in the tenders to take care of its contingencies. But you are right that a part of the increase last year could be attributable to the fixed price supplies which we did in the international market because the steel really came off.

Ambar Singhania: Okay, fine. Sir, just last thing on the cable side, roughly what kind of capacity utilization we are seeing as of now and where exactly we are seeing the growth coming in the cable whether it is because of the higher KVA moving forward or the capacity utilization moving up?

Vimal Kejriwal: The capacity it will be difficult to describe because what happens is we make a variety of cables, we do EHV, **PGFY** we do, we do telecom, instrumentation, **LPHT** so, there is a huge variety of cables so, then it is difficult to describe. Average probably could be around 17% to 18% on an average I would say but the main growth area for where you can make money is

going to be EHV and telecom that was the two major areas where you make money and I do not have the numbers but the current quarter had a large amount of EHV in it. And now recently what we have seen is that MTNL and BSNL have come out with large orders for the telecom and the **PGFY 43.00** so, I think there should be an increase in these business these types of cable which are generally more profitable.

Ambar Singhania: So cable is still at around 5% margin EBITDA margin roughly?

Vimal Kejriwal: Yes.

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

Aditya Mongia: The first question was on the EBITDA margin which is a fairly good number in this quarter, if I were to just compare FY'16 versus FY'17 you would possibly be getting a 60 basis points- 70 basis points benefit from SAE towers now reporting a fairly high margin. On top of it there was a large write-off that you took last year which depressed our EBITDA margin possibly to another 100 basis points. I am just trying to kind of see whether one should be putting these two together and suggesting that margins could be closer to 9% average out for the full year?

Vimal Kejriwal: I will be very happy if we can do that. On the pricing there was write off confusion, write off you are talking about the whole year and to me I do not think 140 or 150 is slightly on the higher side. On an average a lot of things get written off every year you make customer claims, your settlements with them and all that and you provide all above five years, etc., okay. Maybe I don't have a number but I would my gut feeling would be at least Rs. 100 crores would be somewhere which is getting written off almost every year, okay. So that is one thing, your reasoning about the SAE, I do not know the exact number but yes, significant part of the improvement in the EBITDA margin has definitely come from SAE.

Aditya Mongia: Sure, so the second question was again related to the Annual Report, at least I see a trend of increasing amount of open USD dollar payables so, essentially just trying to get a sense whether we should be reading anything into this. Essentially there is a large payables exposure which is un-hedged and a smaller receivables portion which is un-hedged.

Rajeev Aggarwal: So, Aditya, are you talking of the hedging portion?

Aditya Mongia: No, I am talking about the open position right now, if I see that quantum all currencies combined on the payable side is about...

Vimal Kejriwal: Okay, I think let me explain. What is happening what the number which appears is completely a balance sheet number. So whatever assets and liabilities we have in the balance sheet on that day open position on that. What also happens is that there are so many other contingent assets

like you know today we are sitting in July end, next month I have to shift by a huge amounts of towers or something so receivables would come in next month or two months back but I would have already let us say purchase the aluminum or purchase the steel and all that. What happens is we go by the matching concept saying if we have incurred liabilities and if the assets for same would come in two months or three months for that then that gets accounted for at the time when we do the hedging obviously that does not appear in the books. We very clearly have a policy of almost 100% I would say hedging of our payables and receivables both.

Rajeev Aggarwal:

Aditya, just to add on what Vimal has said basically you will have to consider both on balance sheet and off balance sheet item, off balance sheet item I mean is that where we have the clear order book which is available which his unexecuted order book against which the material has not been shifted so as and when the material gets shift so that exposure will get converted into the on balance sheet item for the confirmed order. So we have to take into account both and after taking it not into account both on balance sheet and off balance sheet for the confirmed order then we hedge the net position, that is how the we have a policy and that is a board approved policy and as Vimal rightly put in that we have almost 99%-95% kind of a covered exposure. We don't believe in taking any positioning on the foreign current or on the commodity.

Aditya Mongia:

Sure. That clarifies just last question from my side. Would you able to provide us with the CAPEX that you are planning across segments over the period of next one to two years and the sense is I want to get is that given that there are strong growth prospects what are the kind of investment which is going to go in across the segments?

Vimal Kejriwal:

Broadly we have been planning to spend around Rs. 100 crores and that is the amount which we have spending ever year. A part of it I will say roughly 15% to 20% growth into our factories only on upgrading of equipments and machines and all that and buy some new technology equipment, etc., and around a Rs. 20 crores would on IT, security up gradation and other things and all that stuff and the balance is on equipment at the site. Normally what happens is let us say I got a job in Zambia, Zambia you get zero equipment so, we have to actually buy everything and take a car and crane and all that stuff. So the balance Rs. 50 crores - Rs. 60 crores would normally be on the equipments and all that generally purchase outside India.

Aditya Mongia:

Sure, sir do you see I mean any constraint to you not being able to grow as fast as the market if the market let us say were to grow by about 30% in the next two years is there a constraint say which you see may be on the manpower side on the project management side, which can constrain us from growing as much.?

Vimal Kejriwal:

I do not think we have ever felt the constraint of man power from being a business leader I think it is pretty easy for us to attract people. So I do not think looking at manpower constraint in a way. Secondly, since we are the largest in the field what also happens that many of the

vendors we buy almost 10% of their annual outputs so, I also do not see any constraint on the supply side also.

Moderator: Thank you. The next question is from the line of Pritesh Vora from Incedo. Please go ahead.

Pritesh Vora: Sir, you made a commentary that Power Grid orders little bit is slowing down. But the private guys are giving the orders? What is the market size on the private guys and what are the contract in the pipeline?

Vimal Kejriwal: I do not have the number right now but if you go to the PFC or REC you will get the numbers. But generally if you ask me today, in terms of values, the number will virtually be equal now between Power Grid and let us say the Adanis, Sterlite and Essel and all that but what has happened is that all the large projects are now coming under the TBCB category and what we are finding that for whatever reasons Power Grid has not been bidding very aggressively, Power Grid just one large project in Vemagiri and out of that we got a Rs. 600 crores order from Power Grid. Other orders they have not yet won. So to me unless and until Power Grid actually starts participating in these orders aggressively the pie for Power Grid would keep on shaking unless and until again they go back to the Ministry and make some changes in a way they are getting nomination of projects and all that. Today my understanding is that they get around Rs. 5,000 crores of projects on nomination which are projects which are urgent or no one wants to do it let us say in the NER or Jammu Kashmir or other regions and all that, power projects or solar where they wanted to a project in 12 months or 15 months, but obviously it is not feasible to be done under TBCB those are the sort of the projects which are coming to Power Grid on nomination basis. So until and unless all those things get changed and something happens, the Power Grid pie I am nothing seeing it right now growing.

Pritesh Vora: So, net-net sir, what can we say Adani, Sterlite and the Essar what can be the project pipeline out of these three players.

Vimal Kejriwal: I think if you look at today they have pipeline of at least Rs. 15,000 crores - Rs. 20,000 crores. Five or six projects as far as I know Sterlite had won Gurgaon project and they won the project in central India. Adani has got Warangal a couple of more project so, I think Adani has got three projects to be bid out Essel has got two or three of them so, I think now there are seven or eight projects which have been own by these parties under the TCBC which are straight to be awarded for EPC. I do not remember figure is how much but I think net-net it is Rs. 500,000 crores at least three.

Pritesh Vora: Okay. And generally these private guys are taking projects what is your understanding are they taking positive very low IRR or how they are bidding it?

Vimal Kejriwal: Honestly, I do not know what they are doing and how they are doing because I think the reason why I say their financing models are very different from what we have. Someone talks about to do in INVET, someone talks about something else, Adani goes and raises the Masala Bond. So

honestly we have no clue on their financing and all that but I will tell you one thing is that when we quote for them we make a similar margin as we make for other people.

Pritesh Vora: Right, there is no difference in margin?

Vimal Kejriwal: Yeah, so I do not know at what rate they have quoted so long as I make my margins.

Pritesh Vora: Okay. So compare I mean you take the same margin whether it is Power Grid or Adani for examples?

Vimal Kejriwal: The only difference I will say would be subject to the risk of the project, if I think that this project is easy to do and I will be able to do it faster I may do a little lower margin. If I think that project may get into difficulties and all that. Also happens the nature of the contract may be different like you know Adani will say I will do the ROW or Sterlite will say you do the ROW and all that so considering that what are the elements which are there in the contract and what are the risk associated with those the elements the margin will change but if you have a let us say a contract which is exactly same as the Power Grid or similar contract, the margins will obviously be the same.

Moderator: Thank you. Ladies and gentlemen, as there are no further questions from the participants, I would now like to hand the conference over to Mr. Vimal Kejriwal for closing comments. Thank you and over to you, sir.

Vimal Kejriwal: I just say that I would like to thank you again for staying so late and keeping your interest in KEC. Thank you very much. In case, if you have any other comments or any other questions specially on IndAS and other things because a lot of people called us for that separately, you can be in touch with Rohit and all that and if needed arises we can have a separate meeting or something where some of you all can come and discuss because that is a complex subject a lot of people have been asking about it. Thank you so much.

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