



“KEC International Limited Q2 FY-21 Earnings Conference Call”

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Moderator:

Ladies and gentlemen, good day and welcome to the KEC International Limited Q2 FY21 Results Conference Call. As a reminder, all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” then “0” on your touchtone phones. I now hand the conference over to Mr. Vimal Kejriwal. Thank you and over to you sir.

Vimal Kejriwal:

Thank you Stanford. Good morning to everyone. I welcome you all to the Q2 earnings call of KEC. I hope that you and your family are safe and healthy. As we continue our operations during this pandemic, I am pleased to share that we have now recovered on all fronts. Barring few localized issues that arise at some project sites occasionally. Coming to the performance for the quarter, we have achieved revenues of Rs.3258 crores with a robust growth of 16% vis-à-vis Q2 last year, and a growth of 48% sequentially, despite Q2 being a monsoon quarter. This is a result of our concerted efforts towards accelerated ramp up in execution, increasing labor strength and deployment of mechanization, automation and digitalization initiatives, to improve productivity and quality of execution with reduced manpower. We have delivered an EBITDA margin of 9% for the quarter. The margins are slightly lower primarily due to the continued extra cost being incurred on account of COVID-19 precautions, relatively faster ramp up of railway and civil projects in comparison to T&D projects, especially international and steep depreciation of the Brazilian Real along with the pandemic spread, leading to a significant cost escalations in Brazil.

We have achieved a PBT margin of 6% and a PAT margin of 4.4% for the quarter, primarily on the back of significant reduction in interest cost and optimization in tax costs. Our YTD order inflows stand at Rs.4366 crores a growth of 16% over YTD last year. Our core T&D business has substantially contributed to the order inflows this year, especially from the international market. We have a strong order book of Rs.19,515 crores as on 30th September. Additionally, we have an L1 position of Rs.3500 crore again majorly from our international T&D business.

Now, coming to the specific businesses. Despite the intermittent issues due to localized restrictions, excessive rainfall in some regions and reduced labor strength initially during the quarter our T&D business as well as SAE towers have been successful in maintaining revenues at the same level as the corresponding quarter. In SAE Brazil the pandemic is now coming under control and operations are getting stabilized. This is being reflected in the progressive ramp up in execution of three EPC projects with one project slated to be completed within this quarter. We have also commenced work on a new EPC project in Brazil. However, the pandemic and the steep depreciation of the currency has resulted in significant cost escalations impacting the margins. As far as Essel project is concerned, the deal is in place between the lenders, and another developer and is awaiting final approval from CERC for the change in the developer. As you're aware, there has been a recent Supreme Court judgment which has put a spanner in the working of CERC, so as soon as that is resolved, we do expect the CERC order to be out.

Our railway business has clocked a revenue of over Rs.800 crores for the quarter with a robust growth of 45% vis-à-vis Q2 last year, demonstrating a fast and consistent ramp up across project sites. I'm also happy to share that in-line with our strategy to diversify new segments in the railways, the business has secured the first order for a metro electrification project which marks our entry into the technologically enabled areas of urban infra. We continue to bid for opportunities in other non-civil areas in metros such as power supply, third rail, ballast less tracks, S&T, etc. With the continued thrust on execution and in order book plus L1 of over Rs.5300 crores we remain confident that railways will continue its revenue growth trajectory for this year and the next year also.

Our civil business has registered a robust growth in revenues of over four times vis-à-vis Q2 last year backed by execution of that DMRC and Kochi Metro projects. The business has also commenced work on the second project of Kochi Metro, which was secured recently. We are pleased with the physical progress achieved in all our Metro projects. In-line with our strategy to scale up business with addition of new sub segments for growth, we have been successful with breakthrough orders in the FGD and warehouse space in addition to L1 positions in chemicals, and water pipeline segments. We continue to bid for opportunities in warehouses, data centers, defense, water pipelines, airports, oil and gas pipelines, hydrocarbon, urban infrastructure and select industrial and residential segments. With a robust order book plus L1 of over Rs.3000 cores, along with the smooth execution of the metro and other projects, we are confident of the civil business becoming one of the major growth drivers for us going forward.

Despite the muted industry scenario, our cables business has maintained the revenue at the same level in the corresponding quarter. In-line with the strategic focus on development of new products, the business is on track to commercialize a few products in the second half of the year. Further, augmentation of the capacities of railway catenary conductor and signaling cables is underway. We expect a reasonable growth in revenues of the business through these new products and expanded capacity going forward. The execution of the existing order both in the solar and smart infer are on track. Additionally, the smart infra business has secured new orders in defense, which is expanded up against the defense sector from the current civil projects to technologically advanced smart infra projects.

Our net debt as on 30th September 2020 stands at Rs.2425 crores, which is within our targeted average borrowing levels of 2500 crore for the year. With concerted efforts we have brought down our interest costs consistently for the last few quarters, both in absolute terms as well as percentage to sales, our interest cost for the quarter as percentage of sales has been brought down to 2.1%, which is a reduction of 80 basis points, vis-à-vis last year and a reduction of 18% in absolute terms.

The overall tender pipeline continues to remain strong across most of the businesses. We continue to see significant traction in the tendering activity internationally, especially in the Middle East and Africa. In case of domestic T&D the revised bidding of green energy corridor

projects phase two tenders is in advanced stage with developers expected to submit their proposal within this month. In fact, some of the bids are to be submitted next week unless extended. The bidding process is expected to be concluded in Q3. In case of railways, the tendering activity has started picking up Q2 onwards however, we are still witnessing a delay in awards.

I'm also pleased to share that our recently acquired transmission power manufacturing facility in Dubai has started commercial production. We have already received a few orders for tower supplies from other EPCs as well as approvals from some of our existing international clients for tower supplies. The dispatches from the Dubai factory have started from yesterday.

With operation largely normalized and an order book plus L1 around 23,000 crores, we are confident of delivering a good performance in the second half of the year. Thank you very much. Stanford, we are happy to take questions now.

Moderator: Thank you very much sir. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Jonas Bhutta from Phillip Capital. Please go ahead.

Jonas Bhutta: My first question was on the tender pipeline, and how you expect that to fructify given that you have a pretty strong L1 position plus what we've already declared in the first half. Now, are you in a position to sort of guide us in terms of what could be the year end in flow and where would that come from because a lot of your FY22 growth, or second half of FY22 growth depends on the orders that you win over the next four, five months sir, so that is the first question.

Vimal Kejriwal: So Jonas, if you look at the numbers which we just talked about, we have order book L1 of 23,000 crores as on 30th. September. To me, even if I don't get a single new order, we have enough of order book in our backlog to take care of FY22 at least next six quarters, seven quarters I do not expect any issue even if we don't get any orders that's point number one. Point number two is, we have quoted roughly around 30,000 crores of orders in the last few months, some of which have been opened, some of which are yet to be opened or awarded. And in the next I'll say two months or so, we have to quote another 25,000 crores of orders. I don't think we are right now worried about the future of what will happen in let's say H2 or FY22 or H1 of FY23 because we have a backlog and we have a tender pipeline. And the other point is that, if you look at that tender pipeline, the tender pipeline is virtually across businesses, whether it is international T&D or railways, domestic T&D, not too much, but in international again Africa, Middle East and SAARC. SAARC is another big player, with almost 5000 crores of tenders would be quoted in the next two months. So, we are pretty comfortable with what is happening, the only discomfort which we have is that the order awards have been slightly slow. Which is why although we have a 16% growth in the order book, we would have love to have more.

Jonas Bhutta: Okay. Sir my second question was on SAE, now the backlog for that business is down to almost 500 crores odd and just wanted to understand how are you looking at that business from a one

to two year perspective do you have large orders in the pipeline that can help, drive order book for that business in the near term?

Vimal Kejriwal:

So we have, if I'm not mistaken, three or four L1, four L1 orders in SAE, which are right now under negotiation. So we do expect that probably within this quarter, or maybe first week of January, because December they are virtually shut down, if they're able to conclude before that they will have them before this or we'll have them after that. But most of these orders are for execution in Q1 FY22. So, I don't think we are too much worried about this, but the other thing is that with what's happening in the Brazil market, as I talked about earlier, there is a huge amount of volatility in the metal prices and other prices in the market there. So, we have also been very cautious in looking at and negotiating new orders, that is one of the reasons I'll say we deliberately slowed down because there was too much after the Vale dam burst, the market has been very, very volatile in terms of commodity, in terms of transportation, in terms of labor, government, etc. So, we had deliberately slowed down, the market is now stabilizing, which is why we restarted negotiation. And we should be getting a concluding a few orders. Maybe the next two or three months or maybe even to one month.

Jonas Bhutta:

Got it and just if I can squeeze in one more because you commented on the raw material prices, there was in the PPT also you sort of alluded to the thing where raw material prices. Was that comment more from SAE perspective or it was totally from KEC perspective, because we've seen gross margin decline even in KEC on the console basis or even on the standalone basis of almost 200 to 250 basis points. So, just wanted your view on how you see raw material prices now impacting as because steel prices are going up?

Vimal Kejriwal:

So the comment was for an overall business, but I don't think except for SAE we have seen any significant impact of the metal prices on our results. What we are talking about is, as we have been mentioning, we are generally hedged, but there are items like steel and all that which don't get hedged but which we had bought for some time. But the steel prices continue to be I'll say, firm they are not going up now. In fact, we did see some reduction now happening. But that's a challenge which we see, as far as other metal prices are concerned, we are generally okay except in our cable business. In a cable business, the basic problem is that people are waiting for the prices to come down before giving orders, which is the reason why the cable business has been flat because all the other EPCs and everyone's has been waiting saying copper will come down, aluminum will come down, we'll buy cables later on. So that's one business which has been impacted. The other way I'll say is that, the opportunity of making more money by some play with a metal price is between the time you quoted the tender and by the time you get award and by the time you supply. Right now that opportunity is not there and so one of the reasons why our margins are slightly lower has also been the lower margins on the international T&D because of lower revenues also and the primary reason was that because of the COVID people were not able to travel. So whoever was there was there, who were not there was not there. So because of which the execution came down and that impacted the margin. So, I will not read too much on the market impact of commodities except in Brazil.

- Jonas Bhutta:** So, it was more of a sales mix issue in this quarter?
- Vimal Kejriwal:** Yes.
- Moderator:** Thank you. The next question is from the line of Priyankar Biswas from Nomura. Please go ahead.
- Priyankar Biswas:** So the first point is the execution that you have done for the first half, it's almost like up 5%. Whereas, I would say that other let's say infrastructure companies are struggling to even let's say be flattish. So, what exactly are the productivity measures that the company has taken, productivity cost wise, whatever measures that the company has taken, can you please elaborate on that and how it has helped. So, to get a sense.
- Vimal Kejriwal:** Let me put it in a very manner. First of all, our businesses are de-risked, we have got T&D, we have got T&D India, we have got international, then we have SAE, railways, civil, if you look at the primary growth drivers for the quarter, they have been railways, and they have been civil, those are the two primary growth drivers. T&D has been more or less flat, but that's when you look at the way the numbers have grown up. Railways, we have really gone all out specially for the OHE and also some parts of the composite projects, where the new tracks were to be laid and all that and in that we have done a lot of work on mechanization and on digitalization, in some of the items where we have introduced mechanization and some forms of digitalization with the help of an international consultant, we have been able to reduce or let's say, let me put it positive, we have been able to increase productivity by probably two times or three times, I'm saying two times or three times. So, let's say in a block if I could do 10 kilometers now we are able to do 25 kilometers in the block. So, that's part of digitalization, in mechanization as you may be aware, Indian railway has been traditionally been much, much more labor oriented. Even if you want to do a foundation, they would have expected you to do it manually with the help of a *favda* (spade) and all that stuff. Now, we have been able to push through and say we will use excavators we will use other equipment and all that and we've been able to get those approvals and all those things. So some very fundamental things, so the entire thrust on mechanization and digitalization has really helped us in ensuring that even with lower manpower, we have been able to maintain productivity.
- The third piece for us is as a company, we have a very high level of focus on project execution, if you look at our culture pillar, of course culture pillar is delivery focus. So not withstanding whatever was happening in terms of let's say COVID, people not being there supplier not being there, we really spent a huge amount of effort on ensuring that our physical progress continues. And in some ways, we are also lucky that in our international market, in SAARC market, etc. We had a lot of people who were already available at the sites to work for many companies, that was not a challenge for us because we had resources already available in most of the places, the only challenge we are facing in international market is the new projects which we have got and

where we did not have people we are now sending people. So, mechanization, digitalization and a lot of advanced planning has helped us in maintaining our growth on focus on execution.

Priyankar Biswas: So sir based on measure, so it seems a lot of this is sustainable going forward. So can you just give us some highlights, like what do you expect to let say the second half to be, let's say how much growth eventually you are seeing for let's say FY21?

Vimal Kejriwal: So today, I don't want to stick my neck out and give a number let me be very open. However, we are very confident that with an order book and where we are, we will definitely have a good performance, unless a second round of COVID comes and hits you. If that happens, nobody can say what will happen, but the way things are there, if you look at our numbers. We had an 8% or some sort of de-growth in first quarter, we have a 16% growth in second quarter, you can just extrapolate and see where we will be. For H1 we have a 5% overall growth as against most of the companies, we are very, very confident of what we can achieve in terms of growth and all. But right now, because of COVID, I just want to hold myself back and not give a number, but I can give you an assurance that execution will do very well in the coming half.

Priyankar Biswas: And so sir the last question, you had highlighted that there was this margin impacts, especially from SAE due to this commodities fluctuations and a lot of disruptions over there. Now, if SAE was not there in the mix, or maybe it had performed normally. So what KEC has been in the second quarter be able to match up to the run rates of margins like 10%, 10.5% possibly, if those impacts are not there?

Vimal Kejriwal: Maybe, it should be possible maybe.

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

Renu Baid: Sir, few questions from my side first to understand a little bit more as you did mention on railway side the various cost saving measures and mechanization, automation that have done, we were also working with the consultant to drive improvement in margins. So, would we be in a position to quantify what has been the kind of margin improvement or gains so far or anticipated by the end of the year and the EPC segment for us?

Vimal Kejriwal: Yes, Renu. The margins are in the benchmark of what we were saying that we will be close to double digit, we would have crossed double digit which we are touched in March end. But because of the COVID impact and the costs which are there, you need to understand one thing is that, many of these COVID issues are right now, a matter of contract now, whether the customer will pay, not pay, what happens, will he pay the cost for the extended stay, force majeure. So, there are a lot of issues are going on with various customers. Some of them are agreeing to reimburse some costs who all are not paying, lot of things will happen so a part the margin would also depend upon how the contractual issues pan out. So, had the COVID and all not happened, we would have definitely been on double digit in railways, we would have actually touched exit of 2020 which is what we had promised. So, railways is doing well and even for us,

even civil is now doing well. Especially on the urban infra side, both our DMRC projects and the two projects with Kochi and the RRTS project. All the five projects are doing very well in terms of execution, which is another reason why we had a significant growth in the revenues. A large part of the growth in our revenues for Q2 has also been contributed by the urban infra sector.

Renu Baid:

Sir that means, now in second half the core T&D execution has also picked up while rail civil we continue to do well. So in the second half, can we now expect the operating margin to be back to 10, 10.5% at least 10% large for the company as a whole in second half or you think there could be cost headwinds continuing?

Vimal Kejriwal:

To me, I am not, I don't think I'm too much worried about cost headwinds. It will also depend upon the mix of the businesses now we are already at 41%, 42% on non-T&D and clearly non-T&D is still below two double digit when you look at railways, civil cables and all of them put together. So, it would depend upon how quickly my international T&D is able to ramp up specially on the new projects which we have secured. If my T&D business goes back to let's say, 50% or 60% of my turnover or something like that, then we should be heading for those sort of numbers, if it's more than T&D, civil and railways do that, then we may have some challenge on the numbers. I am not very apprehensive about margins. To me, it's a question of being 25, 50 basis points. We are out there, whether we will cross 10 or whether we will not cross 10 I don't think, I'm too much worried about it. If you also at our interest cost and all the interest savings have been continuing and the way the interest costs are going down further, I do expect that we should see, and especially because Q3, Q4 we do have a much higher revenue in any case. By interest we will get spread over a much larger revenue. So, I am very sure that Q3, Q4, we should also have a reasonable improvement on the interest cost, the overall interest costs for the year should probably go down below we are at 2.1 already now.

Renu Baid:

Right, got it. The second would be overall there was a good improvement in the operating cash flows also. But how is the environment with respect to payment cycle from customers, now that specially in second half as you are looking to ramp up execution, do you think working capital will be able to keep pace and payment from government customers across rail and other businesses will keep pace?

Vimal Kejriwal:

So, we are very happy with what has happened on the working capital cycles, especially on the receivable side, we were able to collect a lot of money, especially on the railways side, where not only we got a lot of cash, but we got 400, 500 crore of bank guarantees also back, which was not technically based on what the government of India guidelines have come. So, we have not seen any headwind on the collections, across I'll say including the private clients in civil which is surprising, I was surprised we had thought that we will face some headwinds there, but we have not faced. So, on the cash flow side, we are pretty comfortable also the working capital apart from what is happening on the client side, banks are flushed with funds and are willing to

look at giving money at a reasonably lower margin, our overall cost now is less than 5%. Maybe Rajeev, if you want to add something on this?

Rajeev Aggarwal:

Because of the surplus liquidity in the system, basically the banks are now willing to offer short term money three months, six months even up to one year. So, at a lower rate even in fact below their respective MCLR. So, earlier the banks for a long period of time last three, four years banks are not willing to lend anything below MCLR which now at last three months suddenly we have seen that banks are coming on their own that why don't you take, what rate would you like to take and this is happening because of the surplus liquidity in the system, the CP market has virtually crashed, but people as a AAA rated, they're borrowing at 3.5% or so, so now they are seeing that they can get slightly better rate from companies like KEC where we are at AA, so they are offering maybe at 30, 40 basis points, 50 basis point higher than what they are lending at AAA, anything which they are able to get higher. So, there it is improving their banks margin. So, now, they are actually giving us money below MCLR, which is quite a strange phenomenon which I have not seen at least in the last five years.

Renu Baid:

That's good for us for working capital intensive businesses like ours. Sir, my last question is on the export incentive side, especially if you look at the MEIS incentive has been withdrawn so though for us technically, we were just about 1% odd of revenue, but approximately our EBITDA is used to be close to 10% so are we looking at any likely impact on our margin also coming in from these export incentives and in this particular quarter have we recognized or stated any provision for MEIS related incentives as well?

Vimal Kejriwal:

So Renu the provisions are automatic because the MEIS is booked once you export and what you expect to get. So obviously what has happened in this quarter, whatever shipments have taken place overseas are booked at the revised rates or nil rates if you want to say that. So, there is clearly an impact of MEIS in the numbers, I don't have the exact number but it would be probably be around maybe 10 crores or 5, 10 crores it is not significant but there has been an impact. There will be an impact in Q3 also, because the new scheme which government has notified and all is coming only effective from 1st January. So Q3 we will definitely have an impact of 10, 15 crores I am very clear on that piece, but those are small things which keep on happening. So, I don't think it's something which will significantly impact the numbers and also for us what has happened is that, with our Dubai plant commission now, it's now becoming easier for us to decide what to make in Dubai and what to make in India, because earlier India was getting a 3% MEIS benefit, now with that benefit not being there in many places what we have started doing is that, India off take is now getting more consumed in India and we are slowly pushing that for intentional off take gets pushed to Dubai. But yes, there is some impact and as far as the new scheme is concerned, we feel that overall there could probably be an impact of 1%, 1.5% for the international tower supplies and all that, what we continue to do from India once the new scheme comes in. Let us wait and see because the new scheme also provides for let say offset of lot of duties which are not offset in MEIS, so we will have to wait and see how

it works out but our gut feeling or back of the envelope calculations have been that there could be a 1%, 1.5% out of MEIS was 3%, you probably get 1.5% or 2% under this scheme.

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

Swarnim: Sir two set of questions, sir first one on the margin, I am sorry to really harp on this again. Just wanted to understand this better this 150 bps margin drop this is a temporary blip and is this on account of just the project mix or there is some something to do with the railways or the civil businesses being a low margin business over here and what is it really?

Vimal Kejriwal: So Swarnim long term, our margin will certainly be +10%., There is no discussion on that, from my side, I'm very clear that the margin drop is a blip, mainly because of the COVID cost, what has happened. And also, as I told about what happened in SAE and all that, otherwise if you look at our non T&D margins have gone up by almost 200 basis points from the earlier quarters. So, I don't think we are worried about what will happen to our margins, quarter here and there may always be there, for the long term trajectory, and our long term and numbers will continue at what we were talking earlier also. So maybe as people have been saying ignore FY21 on the margin front and all that, you start again with FY22, you'll find the growth continuing the way we were we are continuing both on revenue as well as margins.

Swarnim: Correct, got it sir. Sir, second thing so we have seen successfully that the non-T&D portion is now almost about 40%, which used to be about 25%, 30%. Now, so where do you see over the next few years, because civil is going to be one of the major drivers and we have been bidding a lot of civil related businesses. So, how do you see this the non T&D share to move up over the next two to three years.

Vimal Kejriwal: So, this year we are around 41 or something, we should end up the year between 45, 46% that's the way we are looking at it, notwithstanding the fact that most of our order intake this year and our L1 is from T&D, but those execution will now start so maybe Q4 it will pickup but going forward I still feel that it will probably be around 45%, 50% so half of it would be T&D, half of it would be non T&D for a year or two, but later on we clearly see that railways and civil will grow. T&D obviously is not growing at the same pace especially because of the base, the base of Rs. 8000 crores and all that as compared to a base of Rs. 2,500 core, a base of Rs. 1,000 crores. We have to also look at that number itself saying that the base is so large that a growth of 20%, 25% on that base is very difficult but like Civil this quarter has grown four times, or railway has grown 45% because the bases are small. So they will continue to grow at a much faster speed and when you combine let's say railways and civil together the growth will definitely out number in percentage terms the T&D but the T&D base is high, so to us our target is that it should be around 50% and to me what is also happening is with the margins going up in both businesses, we are now not worried or constrained saying we don't want to exceed it

above 30% or 40%, they are delivering the growth, they are delivering the margins. So, we will not put an artificial barrier to say we don't want to exceed it.

Swarnim: Correct. So, in the non T&D business overall, the margins are of course converging with the T&D part. But, the question is, is the working capital leverage also broadly the same with that of T&D or is that a bit higher?

Vimal Kejriwal: So, working capital is as I'll say more or less similar, in fact railway is probably on the net basis is slightly better, the ROCEs are significantly higher, it's a little bit of a different combination, but it doesn't impact our numbers significantly. If you look at the working capital, if you look at our this quarter numbers also. The numbers have not been impacted adversely on the working capital or on the interest cost with 41% being non T&D. So, I don't think it is very, very different virtually on the similar lines.

Moderator: Thank you. The next question is from the line of Ajinkya Bhat from Macquarie. Please go ahead.

Ajinkya Bhat: Sir two questions, the first one is you spoke about improving margins in the non-T&D businesses. So could you give us an indication of where is the current margin level of both railways and civil business is because I remember when you started railways, initially you built up the capabilities and then as the business ramped up, obviously your margins would have gone up. Is that the case with civil as well and how much do you need to ramp it up from today's levels in order to reach your benchmark margin in civil?

Vimal Kejriwal: Ajinkya we will not be able to give you exact numbers like this, but let me tell you that way. That railways, we had touched the double-digit margin at the end of last financial year. Right now we are slightly lower because of the COVID related costs and we have to build quarters, you have to do a lot of other things for workers and there are a lot of other cost which are getting incurred. You have to get workers, you are sending buses, you're hiring planes and all that. So there have been a large number of cost, which is why the numbers have come down slightly. But our target is again very clear that they have to go back to double digit. Civil again fortunately we entered the market at a time when many civil companies are in a bad shape. So the margins are looking up, I'll say to be the way I look at it is civil, let's say around six or eight quarters behind railways, we have to follow the same trajectory as what railways followed, which we will follow in civil. This year, we'll end up civil with 1400, 1500 crores of revenue and railways will be +3500 and all that, which was what railways was two years back, that's the model which we are following and my view is that civil also should start touching double digit maybe by the end of for next year or something, next year close that's the way we are looking at it.

Ajinkya Bhat: Okay, understood. And my second question is, could you just throw some light on the significant increase that you have seen in contract assets in 1H so, is it that your revenue composition has changed let's say there was a higher share of tower supply revenue, which may not get billed to the government until these structures are repaired is that the reason for this increase in contract

assets and then would that essentially impact the overall working capital levels or cash flow conversion for this year?

Vimal Kejriwal: So there is some impact of the business mix specially railways, railways have a very different form of billing, etc. So, there's a large chunk of billing which happens on milestone based, so that is a reason why you see that contract assets going up, they are primarily railways.

Moderator: Thank you. The next question is from the line of Vikas Singh from Aurum Capital. Please go ahead.

Vikas Singh: Sir, you already talked about the payment situation in India. I have one question specifically to Saudi Arabia and Middle East market and the question is, what kind of exposure we have to these markets right now and how's the payment situation there?

Vimal Kejriwal: So, I don't have the AR number but we have an order book of close to 2000 crores there. That's because we just announced an Oman order of almost close to 900 crores so the order book has gone up significantly. As far as the payment which is concerned, Saudi is completely normal we don't have one Saudi Riyal of outstanding money in that country, nothing zero. Other countries, Dubai, Abu Dhabi, Jordan, Oman I don't think we have anything which is due and not paid, so as far as Middle East is concerned, we are very happy with the performance on the collection front.

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

Ravi Swaminathan: Sir two questions, one is on the railway segment for the past couple of years, the order inflow run rate has been like around 3000 crores, 3000, 3500 crores has the end market expanded so that can we grow at a much faster pace than this kind of inflow run rate, are we addressing new categories in the railway stage?

Vimal Kejriwal: So, Ravi if you look at the order book today, of my order book of +5000 crore roughly two third is non OHE, when we started our business it was all electrification. Then we went into composite, then we went into pure civil of the railway, railways tracks and all that. Today, a large part of our bidding is happening on Metro non civil in the railways, which is whether it is track laying, ballast less tracks or third rail or power supply. So, we just got a first order also in OHE in one of the metro stations. So, to me very clearly the entire gamut where we are playing has changed significantly from first OHE to composite then to a pure place civil in the conventional place. Now, what we have done is, we have added the metro sector to it. So, large bidding is happening on the metro sector, the third piece which will come out and which has started coming up is going to be the international market, whether it is some countries in SAARC, whether it is an Africa, whether it is in some pieces of Middle East or even East Asia Pacific or CIS, there are countries where we have large presence in T&D and there are opportunities there. So right now, there is nothing in my order book plus L1 on the international

market in Railways. But, maybe the quarter, two quarters or three quarters we will definitely start seeing some order L1 from international also. So, I don't think we are at all apprehensive about let's say, the availability of market in railways for this sort of growth, which we are planning.

Ravi Swaminathan: Okay, but this over electrification, jobs, etc. are they still at the same pace at which they are ordering used to be couple of years ago is the government awarding same kilometers or more kilometers as of now?

Vimal Kejriwal: So as of now they are awarding probably more than before, because there's always a backlog of the earlier work. But what has changed Ravi is that they've stopped giving smaller orders now, the entire ordering of electrification has shifted to EPC where the contractor is supposed to take the call on the quantities, so from a BOQ base, it has gone to lumpsum where the contract sizes are in that we had last year announced almost close to 1000 crore job which we got and we have bid for some very, very large projects in this OHE EPC, but there has been some delay on the award.

Ravi Swaminathan: Got it sir. And with respect to civil so last year we had ramped up phenomenally from 700 crore of order inflow the previous year to 2700 crores. Where are we, over the next two to three years what kind of magnitude of order inflow we can see, can we see 15%, 20% CAGR in the civil segment order inflow alone?

Vimal Kejriwal: 100%. No question about it because as I said, this year we'll probably do 13, 14, 1500 crore of revenue, next year probably we should do at least a 50% growth on it. So, the civil order book has to grow, whether it will grow by 25% or 30% or 14% I do not know but, civil is something where you can keep on adding, like I was saying earlier we added chemical industry, we added warehousing, we are L1 in a couple of water pipeline projects so civil the canvas is very wide, whatever you think that there is something good you can go and last year there is international also not infra but there are other projects in international which are available which are Government of India funded, etc. So, there are enough numbers available on the civil side in the order book.

Moderator: Thank you. The next question is from the line of Sunil Shah from Turtle Star Portfolios. Please go ahead.

Sunil Shah: Sir, I have some different type of a question in terms of the startup in New Zealand, which has been successful in doing wireless transmission of power. So, is there anything which is really a possibility about such a thing which will happen over a long period of time if you could make us understand more about the technological evolution and transmission of power, the risks which are there because this is completely something which is really different from the way, power has been transmitted over decades?

Vimal Kejriwal:

Sunil, wireless transmission of power is being talked about at least for the last two decades. I've been in this industry for 18 years now and since I joined from that time onward there is a talk, people have been experimenting with it. But still on an experimental stage where someone is claiming that I have done it or whatever kilometer you have done it. There are there still a lot of questions attached to it saying is it viable over a longer distance, larger volumes the biggest question which has been attached to wireless transmission has been the health issue. People are worried even when power flows through wires saying that it's going through wires so there will be radiation and all, people have been very worried even for wire transmission. When it comes to wireless transmission, there are huge questions being raised on that saying that, how much unsafe it would be also so there are a lot of things which are going around it, to me whether it is possible or not, I cannot give you an answer. I have no idea about it, whether it was in today's world, technology has changed a lot of things. This can also become a reality of life tomorrow. But this has been there for a very long, long time; today, because of social media, this particular instance got very well publicized, more viral but the same thing has been talked about at least as I said about 20 years, I've been hearing it. Without any movement happening and I said primarily because of health concerns also, primarily people are saying that if electricity starts getting transmitted wirelessly and all that there would be huge radiation and we do not know what will happen and all, so technology will always come, technology will always change. But when it will come and what will happen, I can't give an answer today.

Sunil Shah:

And sir, this has been there for as you're saying couple of decades. So it's not something which is new, and something revolutionary, it just evolve over a period of time. So thanks for this clarification. Sir one more question which I have is, if I can get some quantification on the railway electrification opportunity, or in terms of kilometers and value wise over the next say three to five years, plus the railway electrification how serious they are in terms of implementing the target.

Vimal Kejriwal:

As far as I know the total electrification target was around 32-33,000 kilometers. They claim to have been awarded around 24,000 and around 20,000 has been electrified. Every year they have been awarding around 6000 kilometers. And if the award is along with the conductor and catenary, it would be around 1 crore per kilometer. So broadly if you see it's a market of 6000 crore. Now, this market is for the trunk routes and all, now there is a talk saying we will also electrify all the side routes and we want the entire network to be electrified. All the new lines which they are planning to bid should also be electrified so, whether this opportunity will end in three years or will continue after that is a guess work today. But looking at that, that's where we have said we are reducing our dependence significantly on this segment of the market.

Sunil Shah:

And we are moving to the metro piece which you primarily mentioned about. Sir if I can have one more question and this is again something outstanding, the transmission tower, the scraps can it be recycled from the galvanized steel which is used is that recyclable and if so is that cheaper for us to get that or on what price would that be available?

Vimal Kejriwal:

So, Sunil it is recyclable, we do sell scrap from our factory which sells at around 60% of the original costs. So that is one profit, but what people do is they scrap off the Zinc and the Zinc is used and the steel is sold off. As far as we are concerned, we don't even buy from electric arc furnace. Our entire steel is what from primary producers like SAIL and JSPL and JSW, we don't even go to any other market to buy steel. So, there is a big difference in what we do and what some of the other players have been doing, we just don't go into that market. That market would be at least Rs.4,000-Rs.5,000 cheaper per tonne. There are people who do it but are we very clear and if you look at the power grid norms and all that, they insist that you should buy only from primary steel producers.

Moderator:

Thank you. The next question is from the line of Harshit Patel from Equirus. Please go ahead.

Harshit Patel:

Sir my first question would be, could you give us an outlook on what kind of solar capacity additions happening in the country, so sir if it slows down materially over a slightly longer period, which is I think presently the case. So then won't it be a risk to our green energy corridor orders?

Vimal Kejriwal:

Maybe, see green energy corridor order as far as I am concerned is from either Power Grid or from Adani or from Sterlite or whoever it is. So my client is that, that's number one. Number two, if you look at the various statements being issued by CERC, CEA, and everyone where the government has and even the MNRE Secretaries and all that, they have been very clear saying irrespective of the progress on what happens on the largest solar parts, we are going to go ahead and build the transmission line, because what has happened is that many of the large solar players have gone and talk to the ministry, or talk to the Prime Minister saying because transmission line is not made so we are not making solar park. So, the government has taken a very clear cut position that all the large solar parks which they have planed at MNRE level, I am not talking about the state level, I am talking about the central and at SECI level and NTPC and all that, there they have very clearly taken a decision that as soon as they finalize the park, approvals and all that they will go ahead and award the lines. So that is a very clear statement. So, I do not see any risk to our lines once the parks are finalized and bid out. Secondly, I don't depend upon the solar park players for my money. I'm a contractor, my client is Power Grid, or my client is Adani or someone else and that's, where it is.

Harshit Patel:

Sir just a follow up on the SAE Brazil, so sir there we had a couple of orders from Sterlite, which were not converted into confirmed orders, because they were trying to sell out the projects. So is there any update over there?

Vimal Kejriwal:

So we had a few orders from them. So one of them was already sold out to French party which is now under execution, I mentioned that we have started from a new that is one of the Sterlite orders, which Sterlite had sold, so we are now executing it further with the new party. We have two more orders from Sterlite which are right now in my L1 position of SAE and there now I understand that Sterlite wants to start implementing those orders. I don't know whether they

want to sell or they don't want to sell but they are right now negotiating to start those orders. So, what I was talking about saying that some of our orders may be converted, some of our L1s will get converted into orders include at least one order from Sterlite which we expect to get converted into an order book.

Moderator: Thank you. The next question is from the line of Nita Shah from Quest Investments, Please go ahead.

Nita Shah: I have one question like, on domestic T&D where do you see the growth coming from like what is the TBCB pipeline which is currently ongoing in, or the entire FY21 and 20 if you could give a picture on how is it panning out to be?

Vimal Kejriwal: So, currently there are 10 or 12,000 crores of tenders which are under bidding, hopefully they will be bid this month, some of the bids are due on 10th and 11th of this month, okay. So if they don't get extended you will see a large number of tenders getting bid out next week. And if they get bid out next week, then the award should normally they take around six weeks to award, so before the end of the quarter the developer should have it announced and awarded. If it is Power Grid, where it has already signed agreements with many of the EPC players, then the EPC players will also get their award very quickly. If it is the private sector maybe it may take another two, three weeks more so in case if the private guys win the award the EPC should be done by January or so, if it is Power Grid hopefully by December end or so we should have orders in the industry.

Nita Shah: Okay, and from the state do you think any other traction coming?

Vimal Kejriwal: So, state we have seen some traction happening from usually states are Karnataka, Tamil Nadu, we are now seeing Andhra now talking about some orders there are some orders coming out of Northeast Assam, etc. West Bengal has been regularly giving, then Orissa and Rajasthan now. So, these are the six or seven states where we are seeing a decent traction, not very good, but decent I'll say.

Nita Shah: Okay sir. And going forward, what would you give a guidance for the debt level and cash flow?

Vimal Kejriwal: Rajeev you want to answer this?

Rajeev Aggarwal: Basically, Nita as far as the cash flow and our borrowing, we have generally guided at with whatever growth that we are doing, we will be able to achieve these growth numbers with the existing working capital. So, we are obviously trying to squeeze the working capital further and bring NWC down to closer to 100-110 level. So, currently it is at about 130. So, we clearly believe that another 20% to 25% of the growth can be achieved with the current borrowing and the current overall working capital so, we don't need for the working capital. And this is quite evident from our numbers, if you look at we have been guiding the investor for past one, one and a half year that we will be operating within the 2,500 crore level of borrowing and we are

well within that. In fact, during the pandemic time also, we did not exceed those numbers and we have been able to collect, good amount of money from our customers and by and large our collections have been at the same level as last year. So, our entire focus has been on reducing the cost of borrowing and the interest cost and interest as a percentage for sales, which is quite evident if you look at the last two years, our interest cost as a percentage to sales has come down significantly, we were at about 3.5% or so and now for this quarter it's 2.1%. And by a large overall borrowing levels have also come down if you look at a slightly long term on the past three years, our borrowing levels have actually come down despite maybe 30% to 40% growth in the business.

Nita Shah: Actually I was asking you our further plans of reducing like below 2500 crores or something or any specific target for FY22-23?

Rajeev Aggarwal: Would be slightly difficult to give that guidance because if we are trying to achieve a growth of 15% to 20% then it is really difficult to reduce the borrowing level beyond 2,500. So, what we are trying to do that is what I'm saying that, we'll try to reduce the NWC days closer to 100, 110 days from the existing 130 days. So the interest costs will go down but probably I don't think that at least next 1, 1.5 years. I don't think that we can go down significantly below 2,500 crore of borrowing.

Nita Shah: Okay, And my last question would be like you said, you are implementing mechanization and digitalization and railways, do we plan any other segment where you are implementing this or any other cost efficiency matters which we can, which we will see in terms of productivity getting multiplied in such a manner?

Vimal Kejriwal: So, Nita we are implementing it across all the businesses. So, that time railway was getting discussed and all that we did mention about some items in railways. Similarly, we are discussing in other businesses as well, but the difference is that in transmission and in our civil business, especially in civil we are already very advanced in mechanization, etc. Transmission has been slightly slower than civil so, transmission would be the next area where we will implement and the third area is going to be on the supply chain side, especially on the operations in the factory and all that, There are a lot of low cost automation taking place, which will improve the productivity.

Nita Shah: Okay. So any specific CAPEX you have in mind for this exercise?

Vimal Kejriwal: Why don't you speak to Abhishek later he will talk to you on that, we have lot of cases we can discuss there.

Moderator: Thank you. The next question is from the line of Meet Parikh from B&K Securities. Please go ahead.

- Meet Parikh:** Sir I just wanted to know if you can quantify the margin which we compressed during the quarter by 150 bps can quantify it between the COVID and the other items?
- Vimal Kejriwal:** Very difficult, I don't have the numbers right now, it will largely be COVID except for some impact of SAE, so to me it would be COVID, it would be SAE and it would also be a little bit because of the mix okay, because clearly the non T&D pieces have gone up. So, there is some impact of that. So, there would be broadly three elements for it. And exact number probably you can speak to Abhishek, but as I said one is the COVID piece, one is the SAE piece, and the third is the aggregating the various businesses.
- Meet Parikh:** Okay. Sir and my second question would be, now as mix in this quarter, has that impacted the working capital to an extent or will it retract back in 3Q?
- Vimal Kejriwal:** Rajeev you want to answer this?
- Rajeev Aggarwal:** Vimal, I didn't understand the first portion can you please repeat that question?
- Meet Parikh:** Yes, so the mix has changed a bit in this quarter. So, has that impacted the working capital?
- Rajeev Aggarwal:** Not really, in fact as Vimal also mentioned earlier in the call, that in all the businesses, whether it is civil or railways, the working capital requirement is more or less in line. So in fact, I would say slightly, civil is slightly better railways and civil, they are slightly better than the T&D but, they are in the same ballpark. So, the growth in the non T&D which is taking place is not impacting my working capital at all.
- Moderator:** Thank you. The next question is from the line of Saket Kapoor from Kapoor Company. Please go ahead.
- Saket Kapoor:** Sir firstly correct me sir you told that interest cost as a percentage of sales will go below 2% for the second half that is what that endeavor is.
- Vimal Kejriwal:** Yes, for the year also.
- Saket Kapoor:** For the year also, so there will be good traction on that front. And sir on the MEIS front you told that there will be an impact of 15 to 20 crore to the bottom line due to the withdrawal for these H2 or the third and four quarter respectively?
- Vimal Kejriwal:** Yes, very broadly I said that would be the number, because it will depend upon how much dispatch and from where and all, there is definitely some impact in the third quarter, four quarter, it would depend upon how the new scheme comes in, what all taxes will come in that and not. Our expectation is that there would probably be a 1% loss in the new scheme and MEIS. But we will have to wait and see what government does and exactly what all taxes they take and what all they allow and what not, so difficult to say but we are expecting 1%, 1.5% should be

impacted. H1 has been impacted a bit because it stopped from September so in Q2 definitely in September there has been an impact.

Saket Kapoor: Sir can it be quantified?

Vimal Kejriwal: I don't have the numbers but, as per my it will be 4, 5 crores but it should be 4, 5 crore as per my calculation.

Saket Kapoor: Okay. Sir how are our products placed for this quarter generally FOREX do contribute, how has that part played?

Vimal Kejriwal: FOREX this quarter has played a different role and why I'm saying that is, what we did was because our international order book was growing significantly we have borrowed a lot of money in foreign currency. So my overall mix in debt is now 60% is foreign currency and 40% rupee. So what happened, because of that is that I did not have too many dollars to sell in the forward market. Normally, because we match the liability of the loans with the receivables, so we did not sell too much foreign currency in the market because we have taken loans against that. Now what has happened is that the Indian rupee loan cost has come down, we are again switching back to the Indian rupee loans. So, next quarter onwards you will start seeing a lot of FOREX gain, but this quarter we had virtually zero FOREX gain. Rajeev, I don't know what the exact number.

Rajeev Aggarwal: Vimal you are right it was very meagre amount, maybe 4, Rs.5 crore only. But that's a valid point that now we are starting to sell more foreign currency for our future receivable from the international market rather than borrowing against that because my rupee cost of borrowing currently, which is less than 5% is not justifying the borrowing and the fund loans.

Saket Kapoor: And sir, there is a capital work in progress of 151 crore, what does it reflect about that?

Vimal Kejriwal: That would primarily be the Dubai plant, because that was capitalized in October.

Saket Kapoor: Okay, the entire amount?

Vimal Kejriwal: Yes.

Saket Kapoor: And last year sir we made an investment of 174 crore if I am not wrong in the KEC Investment Holding Mauritius. What was the attributable to sir?

Vimal Kejriwal: Rajeev, please tell that is Dubai only?

Rajeev Aggarwal: We sent out some money basically for acquisition of the Dubai plant 100 odd crore was remitted last year, so that is largely on account of the Dubai. There is no other acquisition that we have done.

Saket Kapoor: That is for Dubai one only sir, you also mentioned in your release investor presentation that civil secured breakthrough out orders in through flue gas desulfurization and warehouse space. So what is this flue gas desulfurization space relating with the power plant efficiency so what kind of?

Vimal Kejriwal: It is not for efficiency, it is basically there's a Supreme Court mandate that all the thermal power plants have to contain their sulfur content, what they release in the air. So every power plant has to set up a flue gas desulfurizing plant. All the thermal power plants. So this is what all of them are doing. Now, the Supreme Court has, the government has given them two more years to set it up. And so each of the thermal power plants will set it up. So we are not in the full business of this. But what we do is, we just do the civil work of it. So the mechanical work, this order has come from Thermax, if I'm not mistaken. So, it was a Thermax order, Thermax got the full order to set up the entire FGD and the civil job we have taken up from them.

Moderator: Thank you. We take the next question from the line of Parikshit Kandpal from HDFC Securities. Please go ahead.

Parikshit Kandpal: Yes, my question was on, so what kind of opportunity does KEC have in megaproject like high speed rail, because I didn't see our name figuring that for competitors have tied up before the project, so this being a very significant project and maybe we'll have some more coming in over the next few years. So what is our role their if at all if we have opportunity in this segments?

Vimal Kejriwal: So, as far as the current bids were concerned, they were bid quite some time back and at that time we were not very big in civil or we were not big in urban infra and to me secondly, those project sizes are beyond by capability as a civil company, I don't think I'm looking at getting or taking a single 8000 crore civil contract. Okay. So I am very clear, in civil we have been taking contracts we've been doing but we have a very clear risk profile of what we will do, what we will not do, number one. Number two, what we have seen is that all these projects, including the DFCC, which were awarded early of the same size and all that have all run into significant delays, significant cash flow issues, land acquisition and other issues and all that, considering the size of the tender I just didn't want to touch anything because if I dig a 7000 crore project, and then it gets stuck into let's say a land acquisition and it gets stuck, like today you know what is happening on the Aarey depot. So the Aarey depot starts somebody has to go somewhere and for a company like me, where the civil portfolio is not very large if you take some very large projects and if those projects can get stuck or the costs move up or down, it can take your company down. Okay, so my risk management does not permit me to take such large contracts either way, maybe we will even not even take it in transmission. Only if I take a 7 or 8,000 crore contract in order book of 20,000 crore. I don't think our risk will allow it to do us, that's too much of risk concentration in one contract.

Parikshit Kandpal: Second question was on the civil again sir. So we have 1500 this year and then moving to 5,000 crores of revenues, subsequent years, so we will have to fill in the order book about 10-15,000

crore backlog we have to build for that over the next three years. So what are the key segments which will fill in the civil order book, so what's your view also on the road segments, if you can also give some clarity on that, how are you going to fill the order book?

Vimal Kejriwal:

So Parikshit we are not on the road sector. So that is very clearly out. So, if you look at some from the volume angle, it would be the metro, civil would be a large portion. The second piece would be on the water pipelines. Not within the cities or within this but from the source from the intake well, to the outside the cities and all that. So water pipelines is the second one, when you look at volumes and all that, apart from that when you come it will be warehouses. It would be data centers, it would be some part of residential we work with two or three builders, developers only, some part of residential, it would be industrial, it would be hospitals we have bid for quite a few now hospitals, we have bid for a few airports. So there's a whole list of industries where we are picking and choosing and bidding and we have done a lot of work on auto and cement. I forgot, so cement and auto we were, cement would have built by now, eight or nine plants, we have been associated very closely with auto plants. So these are the areas where we look at it, we've just got our first order in the chemical industry because we felt that post COVID the chemical industry will start looking up so we started looking at it and we just got our first order in chemicals. That's the way we are looking at it, there would be some piece of international play but that will largely be government of India funded and all that stuff, okay. We don't want to go and do civil right now outside on our own with third-party risk and all that. So those are the broad areas if you look at it sorry, I forgot to mention hydrocarbons. There's a lot of work now happening on the hydrocarbon side, whether it be refineries, where it is petrochemicals, whether it is gas grids, which have been talked about. So there is a lot of work on the pipeline, on the infrastructure for refineries, for petro chemicals, that's another, that is going to be a large area also, like your urban infra the hydro carbons could become a large portfolio also.

Moderator:

Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to Mr. Vimal Kejriwal for closing comments.

Vimal Kejriwal:

Thank you, everyone, for those participating. I do see there are some more questions, but unfortunately we have to log off. If your questions remain unanswered, please talk to Abhishek and we will get back to you. Thank you so much. Thank you, everyone.

Rajeev Aggarwal:

Thank you.

Moderator:

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