



“KEC International Limited Q1 FY 2018 Earning  
Conference Call”

**August 02, 2017**



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

Ladies and gentlemen, good day, and welcome to the KEC International Limited Q1 FY 2018 Earning Conference Call. We have with us today from the management, Mr. Vimal Kejriwal – Managing Director and CEO; Mr. Rajeev Aggarwal – CFO. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing \* then 0 on your touchtone telephone.

I would now like to hand the conference over to Mr. Vimal Kejriwal. Thank you, and over to you, sir.

**Vimal Kejriwal:**

Thank you. Good evening to you all and welcome to the Q1 earnings call of KEC. We had a good quarter, with a YoY improvement on most of the parameters, such as EBITDA, PAT, revenue etc. The EBITDA margins have grown to 9.3%, as against 8.4% in Q1 last year. The interest costs have come down by 12% over last year. Our tax rates for the quarter has also declined to 34% against 42% in the corresponding quarter. Consequently, the PBT margins have improved by 5.1% as against 3%, and PAT margins are at 3.3% as against 1.7% of the corresponding quarter. In percentage terms, the PBT and PAT have grown by 79% and 104%, respectively, over the corresponding quarter. Revenues have grown to Rs. 1,895 crores in Q1 from Rs. 1,785 crores, a growth of 6% despite the impact of GST rollout in the domestic business operations in the last two weeks of June. We expect the GST disturbance to continue in July, and actually, it's already been there, and also spillover in August for some time with both the existing revenues as well as the tenders in pipeline getting impacted slightly. The growth on revenue in Q1 was primarily driven by the T&D and the railway businesses. Revenue in the T&D business have grown by 13% in the quarter. Railway business continues on its growth trajectory with a growth in revenues of 129%. The customer profile of this business is being widened now to include PGCIL, RITES and IRCON, in addition to the existing RVNL and CORE. SAE revenues were below expectations as the dispatches for two large projects were on hold on account of certain issues at the client end. However, we continue to manufacture for these projects and expect the shortfall to be bridged in the next few quarters. We have become L1 in one more large EPC tender in Brazil. As mentioned earlier, we expect that the revenues from EPC business from Brazil will start ramping up from Q1 next year. In solar business, we expect that significant revenues from the large 130 megawatt project will flow in the later part of FY18. The civil vertical has commenced operations and we had some revenue accruals during the quarter. The civil business will look to secure one or two more orders during the year.

Coming to the order book, we had a strong order inflow for the quarter at Rs. 2,790 crores. If you recollect, international orders largely contributed to the Q4 order inflows. This trend has been reversed in Q1 FY18, with order inflows being contributed mainly by the domestic business. T&D constituted almost 75% of the order inflows, balance coming from SAE, cables and the civil business. The TBCB projects and substation orders from SEBs have contributed substantially with order inflows of T&D business. The domestic growth for solar business seems

mutated in terms of new order inflows during the year on account of change in the GST rates and other issues. In light of this development, we are now focusing more on the international markets in the solar area. During the quarter, we have received a large order for execution of 220 kV EHV cabling, including the supply of cables from our factory and the revenues from the same are expected to start flowing in from end of Q2. We ended the quarter with an order book position of 13,532 crores. Increased contribution by domestic orders in the current quarter has resulted in the order book being well balanced between international and domestic now.

Our net debt, as on 30th June, has increased marginally to 2,212 crores from 1,932 crores on 31<sup>st</sup> March, on account of increased inventory due to GST. We had a smooth rollout of GST on 1<sup>st</sup> July 2017. Several meetings with big clients had been conducted to smoothen the transition related issues on unexecuted parts of ongoing projects. We are still assessing the impact of GST as we continue to be in discussion with these clients, most of which are government entities and are taking some time to sort out the various issues. As we cross the transition phase, we expect GST to have a positive impact on the overall business operations of KEC going forward. With an order book of 13,532 crores and L1 of more than 4,500 crores. We are fairly confident that we will have a good FY18. I am happy to take your questions now. Thank you.

**Moderator:**

Thank you very much sir. Ladies and gentlemen, we will now begin with the question-and-answer session. First question is from the line of Renu Baid from IIFL. Please go ahead.

**Renu Baid:**

Getting back to the headwinds that you mentioned. First question is, if you can help us quantify what was the loss of sales from the domestic T&D market because of GST? And as you highlighted July-August is also likely to have similar impact. So does it mean any change in our annual guidance? And if you can just quantify little more on GST impact on numbers?

**Vimal Kejriwal:**

I don't think as of now we are seeing any change in the annual guidance, okay? We have been talking about 15% growth and we should be able to maintain the 15% growth what we talked about earlier. For the quarter, it's difficult to give a number because I know that we have cable stock and we also had to stop some dispatches of third parties because they were dispatching on excise duty and we would not have been able to bill the client by 30th June. So, most of the clients had very clearly said that either the material reaches you and you are able to bill or you hold on all the dispatches, so that there is no confusion on whether you are buying on excise and then billing us on GST. So, in order to have a flow back to back between GST to GST, many supplies which would have normally been in transit where all stopped to avoid any issues, okay? So, I don't have a number, but if you ask me, probably 100 crores or something would have been the ballpark figure. So, maybe we could have done revenues of another 5% or so more if GST would not have been there. To your second question, as I said, I don't see any number on any impact on the topline, on the overall growth numbers, okay? We are still assessing the accounting impact of it because the way the things have been worded, in Ind-AS we were including the excise and everything. Now, it will not be there. So, there may be some accounting impact which

we are still trying to understand and see how it gets worked out. But I think overall on the growth volumes and all that we are not seeing anything. As far as Q2 is concerned, since we are in touch with Power Grid and all other government clients and some of the states are taking their time because they need instructions from their finance ministry as to how they want to treat the existing contracts etc. So, some of them are, in a way, sort of holding back dispatch clearances and saying, let us wait so that there is no confusion later on, okay? So, to me I think the issue is probably more of, let us say, July and maybe mid of August or something, I do hope that everything gets cleared and we are able to maintain everything in September, but if not done, may there could be some marginal shift of revenue happening from Q2 to Q3. Overall, it won't impact the revenues, but it's only between a quarter to another quarter, there could be some impact if the state boards and all are not able to immediately resolve and give us clearances etc. And in solar also there has been some confusion on, solar panels are at 5% and some items are at 18, some are at 28. So, I think a lot of people are still reworking the numbers etc. So we do expect that some confusion will continue, maybe 15<sup>th</sup> August, I don't know, but definitely should get resolved within this month. So, hopefully, we should be able to make up most of it in September, if not then will be in October. But we are not worried about the year as such.

**Renu Baid:** Sure. Sir, second question, if we see despite meaningful decline, as you mentioned, in the domestic T&D space, our margins actually improved and even SAE margins were sitting on a higher base for last year. So if you can help us understand which segments, are we seeing a meaningful turnaround in the profitability for cables, solar as well as railways and how did the margin expansion drive continue?

**Vimal Kejriwal:** I think, the basic margin expansion which happened was on the domestic T&D business, okay? That is where there was a basic improvement I will say, SAE obviously has been improving, cables was not a great performance for this particular quarter I will say. Solar, revenue is very small. So the basic impact which has come is from the India T&D and as well as SAE.

**Renu Baid:** So, T&D margins would have been in teens, 12...

**Vimal Kejriwal:** This quarter, they were in teens, Yes.

**Renu Baid:** And does that change our margin guidance for the entire year? Because this is on a depressed revenue base, so in the second half if we expect pickup in sales then, do we see any upside to our margin guidance of 9% to 9.5% levels?

**Vimal Kejriwal:** I would still reserve any change in that because I still want to understand GST and all that, okay? Because although there should be a positive impact, but if one or two clients try to take an advanced opinion and all that, so I'll just hold on to that. This quarter we had 9.3, so till now I'll prefer to stick to between 9% and 9.5%.

- Renu Baid:** Sure. And sir, if I can ask just one more question. On SAE you did mention that sales were deferred and we continued production. So if you can highlight little more on how the performance there is likely to pan out and any specific reasons why these delays in supplies were there?
- Vimal Kejriwal:** No, the supplies were held back because there was some issue on the environment clearance of a particular site, which one of our clients had not received. So, we continued to manufacture and he has continued to pay, okay? So, it was only an issue of accounting where things were not dispatched, we did not account it as a revenue. So, to me there is no issue on that. Hopefully, the client is expected to receive the clearance this month. And once he receives clearance, then the chunk should come up. But as far as SAE is concerned, whatever is our target for the year, we are very confident that they will achieve the numbers. And hopefully, there should be an improvement in the PBT.
- Moderator:** Thank you. We take the next question from the line of Ravi Swaminathan from Spark Capital. Please go ahead.
- Ravi Swaminathan:** Sir, we have seen the L1 position has seen a strong build up. Currently it's around 4,500 crores compared to last year, and it was around 3,000 crores. Which are the segments from which we are seeing strong inquiry levels which are coming up and what would be the kind of pipeline that we are looking at in terms of bids?
- Vimal Kejriwal:** So, largely the entire L1 is from the T&D piece, because cables you normally don't have an L1, because cable is a commodity, so you straight away get orders. In railways, right now we do not have too much of L1. So, I think it's roughly 250 crores or 275 crores or something with the L1 in railways. So, it's mostly, I'll say, 95%-98% is T&D, large part of is now international because the entire India piece got converted into an order book in this quarter and international we have orders L1 from Afghanistan, Bangladesh and UAE, etc, from all these countries, and some part is also in Africa, so that is what it is.
- Ravi Swaminathan:** Okay. Sir, and in terms of railways, you had mentioned that IRCON, etc, they are bidding. Sir, is it kind of sustainable over next two years to three years? I mean in the sense that will it expand further from the current base, is there so much amount of scope there with railways?
- Vimal Kejriwal:** The idea of getting 3 more, I'll say executing agencies was that only because the railways realized that between RVNL and CORE, they are not able to cope up with the speed at which railways want to give out projects and execute projects. That is the precise reason why they have now roped in 3 more agencies. And as far as I recollect, both PGCIL and RITES have already come out with tenders. PGCIL has in fact already awarded some tenders to parties. We have also bid for some of them. RITES also has already quoted a tender, and we have bid for the RITES issue. IRCON, I think the tenders are coming out now. They already announced the tenders. I am not sure whether we have bid for in IRCON, but I think the bidding is going to happen very shortly.

**Ravi Swaminathan:** Okay. And the ticket size of these orders would be typically in the range of 150 crores, 200 crores?

**Vimal Kejriwal:** Some of them are 400 plus, couple of them from Power Grid are more than 400. Some of them are 200. So, the size is varying from 200 to 400 from these ones, but there are some orders from IRCON and all that, RVNL, which are more than 500-600-700 crores.

**Ravi Swaminathan:** Okay. Understood. And sir, in terms of numbers, our interest costs have fallen considerably while debt levels have slightly inched up. Have our cost of debt come down further? And what would be your target as a percentage of sales of interest cost that would be?

**Vimal Kejriwal:** So, one thing is that debt corresponding quarter has come down. Okay. When we say the debt has gone up, it's basically between 31<sup>st</sup> March to now, that is one thing. The second thing is, the interest percentage is down to 3.3 and we do expect it to go down further. If you recollect, in last year, we were at 2.9%. So our target is very clearly that it should go down further. This time because the revenue was slightly less, the number although it is lower than last year, it's still higher than what we would have loved it to be. And now, hopefully, with today's RBI cut and all that, we do expect that something should pass on. And I think the other thing, Ravi, which is there is that, with the consistent performance which we have had, we do expect that the ratings should improve now and that should help us in cutting down the interest cost further.

**Ravi Swaminathan:** What would be your blended cost of debt, sir?

**Vimal Kejriwal:** Rajeev?

**Rajeev Aggarwal:** So, average cost of debt, Ravi, currently is about 7%.

**Ravi Swaminathan:** And last year it could have been how much?

**Rajeev Aggarwal:** Last year would be about 7.5% or so. So, roughly 50 basis point reduction on the debt cost.

**Ravi Swaminathan:** Okay. And can we take the steady state tax rate at 35% for the year?

**Vimal Kejriwal:** Yes. I think, we have been saying that, it should be around 35%.

**Rajeev Aggarwal:** It should be around 35%.

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

**Bhalchandra Shinde:** Regarding order book, actually wanted to know, our order book growth has been really good at around 30%. But if you can throw some light on the execution cycle, has it been stayed same

segment wise or it has slightly increased? Because if our execution cycle is same, then it should reflect on the sales growth also over a period of time. So, because of those reasons I actually wanted to know.

**Vimal Kejriwal:** So, Bhalchandra, what is happening is, railways I think is the easier one, probably the cycle is coming down, okay? So which is why we are projecting that we should be touching between 750 crores to 800 crores of revenue this year. As far as transmission is concerned, it's generally been 18 to 24 months, that is the way it is. I think the problem area for us in terms of execution is in SAE, especially in Brazil and all, the time frame for execution is pretty long. From the day a TBCB project is awarded, the developer has got 5 years to complete the project because of environment and other reasons. So, we clearly see that SAE order book is not something which is executable in 12 months to 18 months as against our normal order book which will get executed around that time. I think that is the only comment I would say in terms of the execution cycle. But overall for most of the T&D, I think the execution cycle remains between 18 months to 24 months, more towards 18 then the 24.

**Bhalchandra Shinde:** Okay. Sir, if at all, as you said in SAE, the execution cycles elongates. So how much cost overruns we usually built up when we execute or when we take the order in SAE?

**Vimal Kejriwal:** No, there is no cost overrun built-up, because we are aware of the execution cycle when we have taken the order. So all the costs related to the elongated cycle are part of that, of the quotation when we do. It's automatically built-up in your quoting. If I know that the orders would have been 24 months versus 18 months, then your entire overheads and fixed costs, etc. and the salary etc., would then be factored in for 24 months rather than 18 months.

**Bhalchandra Shinde:** So it won't affect our margins even if it elongates?

**Vimal Kejriwal:** No. It will only affect our margin if I have bid for 18 months and then I take 36 months to complete the project, then I have a problem on overhead absorptions and all that. Otherwise, in the normal course, even if it is 36 months as original, it is the same thing, okay?

**Bhalchandra Shinde:** But even if it is not our fault and if it is a fault of customer in SAE, still we have to bear the cost or it's like we can pass on...?

**Vimal Kejriwal:** Client is client no. There are clients who will not give, there are clients who will give you, so it depends. And then what happens is, when we bid we know which client is going to pay, which client is not going to pay me. And sometimes we will bill contingencies for a client, we may not bill contingencies for other clients, because we know that that client will pay me. We decide after seeing the history of the client whether he gives or no, so we will do accordingly.

**Moderator:** Thank you. Next question is from the line of Bhoomika Nair from IDFC Securities. Please go ahead.

**Bhoomika Nair:** Sir on SAE, we have a 1,200 crores order backlog and if the elongation is there in terms of execution timeline, will there be a drop in terms of revenue for SAE segment in the current year?

**Vimal Kejriwal:** No, it will not. We are very clear because what happens is that, this run rate includes some part of EPC, rest is still supply orders. So when I said elongation, it was more related to the EPC orders, okay? And apart from that, what we have not given is we have a large L1 in SAE also, okay? So some part of orders will still come in there which will also get executed during the year. So I don't think we are worried about what will happen in SAE for the year. Elongation is something which is factored in when we did our budgeting. And when we talked about a 15% growth, this elongation is already factored in that.

**Bhoomika Nair:** So in that essence, it will be more second half heavy in terms of revenues for SAE?

**Vimal Kejriwal:** So, it could probably be more Q4 heavy in a way, but since we have got lot of stock which we have build up for the project which we could not dispatch, that dispatch will start now August end, so it will either go in September, otherwise if it moves into Q3 then it will be Q3, but I think Q4 could be the heaviest.

**Bhoomika Nair:** Right. Sir, the other thing is in terms of solar, you mentioned I think at the end of last year that we are looking at a significant growth that will come in the current year. And I think if I am not wrong, you mentioned something that because GST is not clear, how things will pan out, and we are looking at some international orders etc. So, if you can just elaborate what is happening now under the revised things, how are things looking out there?

**Vimal Kejriwal:** So one think is that, the growth during the year will definitely happen, because we have got existing orders. So whatever we talked about the growth for the year, it doesn't get impacted by what's happening today. When I mentioned that that was more from the future angle, because see two things have happened. One is, most of the solar projects were, actually there were no taxes on that, most of them, like solar panels were free of taxes. Now we have got a 5% duty on it, GST on it, sorry. So the problem is that, for the project as a whole there is an 18% GST, for panels and invertors and transformers and all that, they have put 5% duty. Cables have got 28% duty. So there is a huge confusion going on right now between the developers and the Discoms and all that as to how the PPAs will be realized, because most of the PPAs have a pass through clause for taxes. So I think there is an issue going on between the developers and the Discoms, also the end customer, which could be a Genco or a Discom as to how do they account for this. So that is one. So, till that gets settled, the new projects may be on a back burner for some time. The second piece which is happening is that, I think you have been reading everyday that like UP Government has gone to court and there are other states which are not buying as per PPA. So that is in a way impacting fresh announcements, etc. So, somewhere what we are seeing is that, probably for the next quarter or two there may be a lull in the solar projects, then it will settle down and then it will restart. In the meanwhile, we could also start seeing some traction



happening in the Middle East and Africa. So we said, let us sort of, I'll not use the word defocus, but let us go slow little bit on the India's piece and let us focus more on the international, because India I have an order book, I'll have revenue coming up in India this year. So, we said, let us try and build up at least a base in international. So that was what I had actually meant when I said that I want to focus on international.

**Bhoomika Nair:** Okay. Sir, just lastly, what is the status of the Saudi retention receivables? I mean how much have we received if any?

**Vimal Kejriwal:** Saudi, I don't have the exact breakup of how much and what was retention, but we did receive around 300 crores till date this financial year, okay? That much money has come in and we expect some more money to come in. Retention, I don't have the breakup, whether we have got any retentions or not, but Rs. 300 crore cash has come that much I know.

**Bhoomika Nair:** And how much would be balance now, which is yet to come in the current year broadly?

**Vimal Kejriwal:** The total AR which we have would be probably around 1,000 crores something, it's slightly more than 1,000 crores.

**Bhoomika Nair:** Okay. So of which a part of it can come in the rest of the year?

**Vimal Kejriwal:** Definitely, part of it will definitely come in. We have invoices pending and we expect it to come any time. So I'll only say that we are seeing a little bit easing of payment positions and all that. And in one of our projects there, they also went ahead and paid advances. So, we are clearly seeing that they are improving somewhere in the payment.

**Moderator:** Thank you. The next question is from the line of Sachin Kasera from Lucky Investment Managers. Please go ahead.

**Sachin Kasera:** Sir, in the Q1 we have not got any major order from railways and the L1 doesn't also have any major orders. What is the type of order inflows, sir, we are looking in that case from railways in financial year '18?

**Vimal Kejriwal:** See, railway my budget is 2000 crores, okay. We are already L1 in some orders, some has come I think we should get some orders in probably hopefully this month itself, okay? There are lots of tenders which we have quoted and hopefully, some of them we should get them now. So, in Q2 it should come but I think because of GST what is happening in most of the tenders, people who have quoted below GST and have not opened the tenders, those clients want to re-tender them because they want a new GST, some of them who have opened them are now wondering what to do in GST, which is what I said in July, August there could be a little bit of lull in the order announcements and all that. But I think overall, on the railway front, we are very hopeful and very confident of improving our order intakes substantially.

**Sachin Kasera:** Sir, because of the GST confusion, you think there could be some impact on our some of the L1 orders also which may have to again go for re-bid and all that or at least on L1 we see don't see that type of check?

**Vimal Kejriwal:** See, when these tenders were quoted, let us say, before 1<sup>st</sup> July, in most of them, I think in all of them there is a clause that they will be adjusted for the new taxes. So, technically these guys should have done that way, okay? But I am still not very clear. Maybe somebody may come back and say that we want to come back and re-tender something, we do not know. But the number, out of my 4,700, such tenders will probably be less than 10% of that. Otherwise, most of them, as I had said earlier, most of them are from the international market. India L1s are pretty low this month, okay? So whatever tender going to happen, it will be from India itself. so I don't think we are that much very concerned. What I was saying was that, the ordering and all may get slightly pushed back, okay?

**Sachin Kasera:** Sir, my second question is regarding, it's an accounting question. Last year, if we see annual report, there is 197 crores which have been provided towards bad debts and loans and advances. So two parts to that, one was it uniformly provided across all four quarters? And secondly, how much do you see this number for the current year? Is the entirely done and this number should come down substantially this year?

**Vimal Kejriwal:** So, last year, I don't think it was provided uniformly. As and when it happens is what we normally do. Q4 is always higher, because we have some policies of some timeline policies where, if an AR is outstanding for more than a particular period that gets provided at the end of the financial year. Last year, we had one major write-off in South Africa, okay, because we had a joint venture which went bad and so we decided to provide some piece of that, which is the reason why the bad debt number was higher last year. I don't think we expect that to happen during the current year. If you read the note 63 in our balance sheet, I think it has got some details on that.

**Sachin Kasera:** Sure. Sir, then what's a normal number for a company like us, it should be like 0.5% of sales or 1% of sales on a normal financial basis?

**Vimal Kejriwal:** It is very difficult to say because what happens one contract goes wrong somewhere what client treats. See normally, we are pretty conservative in the way we account for it, so it should not happen sometime a claim gets disallow something else happens. But I think, 0.5% to 1% is a fair number. I think it should not be more than 1%, okay in a normal business. But 0.5% to 1% could be a standard way.

**Sachin Kasera:** And sir, has the working capital sort of normalized or do you think that should normalize by Q4, the spike that you have seen in Q1?

- Vimal Kejriwal:** I think in Q3 it will get normal. In Q2 a little bit of GST issue is there though not much difference is there only Rs. 200 crores to Rs. 300 crore difference is there. In fact, my debtors have come down, okay? If you look at my debtors, debtors' days have come down by six days. It's only that, because what I said, in GST some material has not been dispatched so that inventory has gone up, that is why the working capital is slightly adverse, otherwise with the debtors coming down, the working capital is actually improving.
- Sachin Kasera:** Sure. Sir any progress on any large EPC projects in SAE you are looking at that doesn't potentially approve, anything on that?
- Vimal Kejriwal:** So as I said that during the quarter we are L1 in one more EPC project. In our order book there is one EPC project already, we were L1 in one more, so we have got two large L1s in the SAE EPC portfolio.
- Moderator:** Thank you. Our next question is from the line of Aditya Mongia from Kotak Securities. Please go ahead.
- Aditya Mongia:** Sir, I recall, the last time that we met, you were talking about this one risk which was Saudi Arabia in terms of the concentration, which is now is likely over. As you see the next one to two years, what is the key risk for KEC that you are focusing on now?
- Vimal Kejriwal:** I think the biggest risk still continues to be the AR in Saudi Arabia. Although now the concentration risk in terms of order book and revenue has come down significantly, but as I was mentioning earlier, we have more than 1,000 crores of AR. Although the client has been paying money, but I think to me that continues still to be one of the largest risk. Second risk I'll still say is probably the PGCIL ordering. We are still not seeing the PGCIL ordering ramping up, okay? Although PGCIL keeps on talking about 24,000 and 25,000, but if you look at the number of orders which we are actually issuing, it's still something which we are worried about. Although we have been able to make it up with the private sector orders, but to me effectively to take out PGCIL and add the TBCB orders therein, my order book on that piece probably goes back to where it was including PGCIL. But overall, since we are used to working with PGCIL, not seeing too many tenders from PGCIL is causing us a little bit of a concern. Otherwise, I think we are generally pretty happy with everything. We are not seeing any major risk elements anywhere. The commodity prices do remain a little bit on the higher side, but which overall is good for me, because in most cases we have a pass through and that should add to my top line.
- Aditya Mongia:** Okay. So from a margin perspective, would you consider, let us say, commodity competition and any other factors, which can create spoil sport for our territory which has otherwise been improving every year?
- Vimal Kejriwal:** No. What I said at the start is that we still maintain what we want to do is between 9% and 9.5% and all these things have been factored in, because this is mainly coming in from our existing

order book where we are very clear what sort of margins we'll get on orders. So I don't think we right now are worried about it.

**Aditya Mongia:** Okay. Sir the next question was more on getting a sense of how much contribution these new ventures of yours or let us say business that are just coming up can make to the otherwise mainstay T&D business? So you are talking about substation in solar on the international side, and let us say ramping up of civil and railways on the domestic side. Can these lead to a material contribution to the mainstay business in this year and next year?

**Vimal Kejriwal:** This year railway should as I said do around 750 crores to 800 crores. So if you take, let us say, a hypothetical turnover of 10,000 crores, then it becomes 8%. I do not know what we will do, maybe we'll do around 200 crores, okay? So between the 2 of them, it will become 10% solar, I am not sure, but maybe another 400 crores, 500 crores, including all 3 it becomes 15%. So they will contribute around 15% of our business and cables another 10%. So, the balance 75% if I include SAE is T&D.

**Aditya Mongia:** Within that would substation become a fairly large number over time, because now international also is getting revenues for you?

**Vimal Kejriwal:** So substation for T&D would roughly be around 20% of the T&D revenue, okay? And it may probably go up a little bit, but I think it would probably remain between 20%, 25% or 30% of the T&D revenue, because with Brazil revenues going up, Brazil, right now we have only in T&D. So, the denominator will move, because of the Brazil piece. So I think we'll be happy around 25%.

**Aditya Mongia:** Sure sir. So those are the questions. Just the debt number, if you can let me know would be good sir, for this quarter and year?

**Vimal Kejriwal:** Debt number it is there in the investor presentation.

**Rajeev Aggarwal:** It's roughly about 2,200 crores.

**Vimal Kejriwal:** 2,200 crores or something.

**Rajeev Aggarwal:** At the consol level.

**Vimal Kejriwal:** Yes. Versus 1,980 or something like that. So it's gone up by around 200 and odd crores.

**Moderator:** Thank you. The next question is from the line of Nitin Arora from Aviva Life Insurance. Please go ahead.

**Nitin Arora:** This was asked regarding the railway bids. So, we saw few bids which got opened in the last 2-3 months, we lost also one good bid in Khurja-Pilkhani, the DFC projects. So, can you state few more bids which got opened and we lost some of the bids, because of that?

**Vimal Kejriwal:** I think others have not yet been decided, expect one bid in Power Grid, which I think went to a competitor. Others, not yet been decided, there are all 3 have been opened, some of them will go for reverse auction, etc, some of them are under consideration. So, I don't think except one bid which went to a competitor from Power Grid, I don't think any other bid has been decided this quarter. Not that I can recollect, okay? Although prices have been opened, but they are still not been awarded, they are still under discussion on GST, non-GST, even railways. And then there are issues whether they are how much percentage above estimates, should they go for rebid and all that. So, that is all going on. So that is why I said that railway has not awarded much, except that one job.

**Nitin Arora:** Sir, then my question was that have you seen more of the competitive intensity increasing? Because when we see players like GR, Oriental, the way they are bidding today, have you seen some competitive intensity increasing and any risk to losing out some orders because our focus is still on margins, rather than the orders?

**Vimal Kejriwal:** I think, if we lose out for margins we'll lose out for margins. We are very clear on that. We are still not very revenue focused as of today. I think when you mentioned names -- so the names which you have mentioned are primary those who are in the civil business.

**Nitin Arora:** Absolutely.

**Vimal Kejriwal:** So, honestly, civil is not something which we are looking at very focused manner. We look at either a pure OHE or a civil job which has an OHE, which is called in technical parlance in a composite job. So, we have been looking at composite jobs and we have been winning them and we have been winning them OHE. Pure civil, as you rightly said, Khurja was the first one, or a large one which we have bid. And I think I am very happy with the results, because we did bid for the first time for such a large project and we lost it marginally, so I am very happy.

**Nitin Arora:** Got it. Sir, what was our share in that when we do a JV with LRBCL?

**Vimal Kejriwal:** I don't have the numbers readily. Maybe later on we can ask them and get the numbers.

**Nitin Arora:** Okay. And sir just last question from my side. You've been talking about the GST disruption. Sir, assuming the Power Grid is still a large chunk in our order book, what we were thinking that the supplies, assuming the tax rate, let us say, on the product supply has increased or let us say, for on a whole EPC going up to 18 to 28, what you were thinking the government authority should have passed the bill very quickly, because they have to show their own purchases and they would not account at a higher tax rate, if they could do it before June at a lower tax rate and

that would be easy for you to certify a bill at lower tax rate and international any which ways there should be any impact of GST. So, what you stated a 100 crores number is ideally from which segment? Just my last question is that?

**Vimal Kejriwal:**

It's both from cables as well as, I'll say, primarily from substation section because there are equipments involved and there are equipments which would have been in transit. So, if you take a transformer or a reactor maybe a 100 crores single item, I didn't want it to be in transit because then ABB or Siemens would have billed me at ED and then I would have had a problem in billing it on GST to Power Grid. We really didn't want to get into that. So, some places we deliberately kept it on hold because Power Grid or any other government entity, unless the material is in my store I cannot invoice them. So, as far as your first question on, ideally they should have done, yes, ideally they should have done, but they all have their networks and all that, and to me they did not want to be seeing sort of playing with the government taxes. So none of them in a way accelerated their procurement to avoid taxes. The second piece is I think somewhere you mentioned 28, 28 is not the correct data. EPC is still 18. So, all our contracts are getting taxed at 18. Let me also say that today before that also when we were paying excise and VAT, etc, CST, etc, most of our contracts had a 15% tax rate in any case. So, it's not a significant increase for either Power Grid or for anyone else when it goes up from 15 to 18, okay? This is a question of how they restructure the contract and what happens, etc, which is where they are taking the time. So, I am not seeing a significant impact in terms of cost or anything, but the contracts will have to be restructured, some of the duties were on cost, now they shift on revenue. So, I think that is where they are all taking their own sweet time to do it.

**Moderator:**

Thank you. Next question is from the line of Charanjit Singh from B&K Securities. Please go ahead.

**Charanjit Singh:**

Sir, actually wanted to check on the railways front specifically, in terms of once the contract is awarded, the preparedness of railways, in terms of land acquisition and other clearances, how has been the track record for these tenders which we are getting? On an industry level, have we seen certain issues which could have cropped up in the execution front?

**Vimal Kejriwal:**

I don't think we have seen land acquisition as an issue. That issue normally will arise when it is a fresh or a new line. Generally what we have seen till now, most of the tenders have still been for doubling and tripling of existing lines, and on electrifying the existing non-electrified routes. So, normally, railways since they have the adjacent land already when they build a single track also, I have not come across this issue as is. I think that the basic problem in railways that is slightly different is that if you are electrifying a route with heavy traffic, then getting the time to work per day is an issue. Like I will give you an example. We are working on the Pune route, which is probably the country's most heavy and there they will give me 5 minutes every hour you work five minutes and stop it and again work for five minutes and then stop it. There are other routes which we are right now doing in Amethi and all that, where there is two trains

passing in a day then you have to stop the work for half an hour other nine hours you can work. So, this is what we look at rather than looking at right of way and all that. So, as of now, I don't think we have seen anything which is significantly impacting the progress if the railways want to progress fast.

**Charanjit Singh:** Okay. And sir, on the substation business, if you can highlight like how we are looking at scaling up that business in terms of maybe the state Transcos also, how the packaged orders will be placed out and till what KVA ranges for which we are prequalified and go ahead and execute these orders?

**Vimal Kejriwal:** See, if you look at what we have done, I have done till 1,150 kV also. So, prequalification will depend upon, each client has a different set of prequalification. So I can do 765 in Power Grid, I may not be able to do 400 in Gujarat, because that might put some other qualifications, saying, you should have been doing for 10 years, or you should have had 10 substations. So, it's an individual client issue. Otherwise, technically, we have done the highest rating substations. So to me, if it's fair PQ, I see no reason why we cannot get qualified. And what was the second question?

**Charanjit Singh:** Sir, the last question from my side is on the international front, so in the L1 order book also, we have quite a lot of international orders which are there in the pipeline. So till when do you see that the state Transcos in the domestic market will continue to see a slower growth in the order flow and may be it start picking in FY19 or?

**Vimal Kejriwal:** I do not know why you are saying that states may slowdown. There is no slowdown in states. I think the only issue is because of GST we are seeing some tenders being held back and getting re-tendered and all that. Otherwise, states like Tamil Nadu, Karnataka, Andhra, I think Orissa, West Bengal and UP, have been coming out with tenders consistently. So we are not seeing, in fact, if you look at my orders intake for this year also, we had 3 substation projects from Karnataka, okay? And even our L1 today has got at least I think we have got 3 or 4 L1s, right now from the states. So, I am not seeing a slowdown happening in the state level. No.

**Charanjit Singh:** Okay. And sir, on the international front, is it that we are getting the Exim Bank financing, which has been one of the success factors. Like what is driving this strong traction in the international front?

**Vimal Kejriwal:** Exim Bank financing has not been a success factor. I think till now we have done 2 or maybe 3 projects with Exim Bank financing, okay? So, all the projects which we are getting are funded either by the client or by multi-laterals.

**Moderator:** Thank you. Next question is from the line of Amber Singhania from AMSEC. Please go ahead.

- Amber Singhania:** Sir, as you mentioned that PGCIL has slowed down a bit in terms of tendering this year so far. And SEB, you just mentioned that couple of states are giving tenders or picking up as such. Is it possible for you to just quantify a bit, what kind of pipeline is there from the states roughly in the coming 2-3 quarters?
- Vimal Kejriwal:** I don't think I can give you it on the phone, maybe you just speak to Meeta, she will give it you separately, but I can just tell you that it's a huge pipeline.
- Amber Singhania:** As we are hearing a lot that states are saying they will be doing a lot of CAPEX, but nothing much has been given in terms of award. Is it true or we are seeing a good traction coming in, in terms of concrete orders coming in from the states?
- Vimal Kejriwal:** See, as far as, I can see my numbers, on the numbers which were announced, the 2,700 crores, of which, let us say, India was around 2,000 crores, from that probably around 700 crores have come from the states, in Q1. And I have significant L1 positions again in states. So, I am a bit surprised when people tell you that, states are not awarding. We are very happy with the awards from the states.
- Amber Singhania:** Right. And sir, also on the private side that TBCB orders last year totaled around, roughly, 10,000 crores plus of tendering has been done towards BOT owners. Is everything has come in terms of execution tendering, and award, or what is the status there?
- Vimal Kejriwal:** I think some tendering is still pending. I think one or two large projects. One was won by, so they will do their own EPC, so it will not come out in the market. Others I think some of them have been awarded. We have got our fair share of it. And I think there was one or two large projects, which are still not been tendered out. So, those should probably get decided, I think, in this quarter.
- Amber Singhania:** Okay. Sir, coming back to on the GST part, you mentioned that, yes, some revenue has been delayed because of GST and client deciding how things are panning out. But apart from that, is there any other impact on our margin per se, which can come in because earlier the service tax was lower, and now with GST this tax will be higher? So will we be able to pass it on completely, if not, will there be any lag effect which can impact on our margins per se?
- Vimal Kejriwal:** I don't have an honest answer to this. The service tax was earlier 15, it has become 18. But then let me give you an example of that, earlier the taxes on cement were not passed on, only 40% were being passed on. Now, the entire 18% on cement can be set off against this. So overall numbers, if you look at the cost and what we will recover from the client, I am not seeing any major issue on that, okay? I think the problem what we are looking at is the client should treat this fairly and sort it out, which all the clients have told us that they will do it. So I cannot see much of an impact if it will be there it could be Rs. 10 crore to 15 crores, which is neither here, nor there, okay? But going forward, long term, we are very clearly seeing a positive impact



because in many places, we are seeing, like our plant was in Jabalpur, there was an entry tax for steel coming into Jabalpur. Those have been removed and others. So at many places there will be a positive impact on, let us say, on the raw material and other side, which is what we are working on. Some of it obviously will get passed on as part of anti-profiteering to the clients and everything. But I think, overall, I am not seeing any impact, which will worry me on the margins. Topline yes, because topline, since the entire GST will go out of the topline, there could be some marginal impact on the topline growth on the domestic piece, you know.

**Amber Singhania:** Okay. And just sir, lastly from my side, we last time mentioned about entering into the civil construction space also, and so what is things happening on that part, any progress on any order front or pipeline if you can share? And also are we looking to Metro also as our opportunity and what is the status there?

**Vimal Kejriwal:** So as far as civil is concerned, we have roughly 225 crores of orders in hand with us, so the execution is going on. We have bid for one or two more projects, and hopefully, we'll get some more projects. Right now, we are not doing very large projects. So, I think this year, our turnover should be probably around 200 crores or so. As far as Metro is concerned, we are not bidding for Metro. That is part of my railway business, not part of my civil business. But we have bid for a large DFCC project.

**Moderator:** Thank you. Next question is from the line of Vikram Rawat from PhillipCapital. Please go ahead.

**Vikram Rawat:** Yes. Sir, I have a couple of questions on the SAE side, despite the sales has gone down, the gross margin has been improved from the 44% to 70% around. So what was the reason for that? And second thing is the interest cost has jumped from almost 13 crores to 16.5 crores, on the SAE front?

**Vimal Kejriwal:** I didn't understand, 44 to 70?

**Vikram Rawat:** Yes. 44% to 70% the gross margin, the derived gross margin basically consol minus standalone?

**Vimal Kejriwal:** You cannot do it that way because that is not the way. Consol minus standalone I have BOOT projects and other things are also there. So that is not the right way of doing the margin. The margin in SAE is not, let me put it this way, the project level margins would be around 10%-12% only, they cannot be more than that. So, you have to understand the difference between the two items.

**Vikram Rawat:** Okay. So, probably that will have also led to jump in the interest cost also?

**Vimal Kejriwal:** Yes.

- Moderator:** Thank you. Next question is from the line of Harshit Kapadia from Elara Capital. Please go ahead.
- Harshit Kapadia:** We have seen that new state government being changed in UP and we have seen also in Bihar. So, are we seeing newer states, are we looking to enter into these states because the Transco CAPEX in these states would be a bigger element as high as could be in Tamil Nadu or Karnataka, or if you can also give us size on how much would be the Transco side for these states as well?
- Vimal Kejriwal:** So, Harshit, as far as Bihar and UP are concerned, Bihar we were already quoting earlier. We actually are doing one project for Bihar, okay? And I think we are generally quite happy with the execution there happening. As far as UP is concerned, we have quoted for a few projects after the new government has taken over. Before the newer government, we had not quoted for the last 10 years. And I think we are fairly positive, but I think in UP what we are now seeing is the PPA being renegotiated and all that. Probably UP will take some time to settle and start coming out with large projects. Right now they are testing the water with smaller projects, okay? But definitely UP will come out with some large projects and we will be there to bid for them. I don't have the sizes right now, but maybe, as I said that if you talk to Meeta, maybe she can give you some numbers later on about each state and all that.
- Harshit Kapadia:** Okay. That would help. And sir just one more question on railways? Sir, since 3 more entities have been enrolled to increase the pace of execution, so have seen that the competition will also see such kind of increase and are you looking at the realization being real in terms of per unit kilometer for these project being lower or how would you look at it?
- Vimal Kejriwal:** Competition will increase when work will come and profit will come and revenue will be visible then competition will definitely start coming. As of now, we are not seeing too much increase in competition, okay? So let us see how it pans out.
- Harshit Kapadia:** And sir, would you be able to tell us what are the internal target, what PGCIL and IRCON are taking how much kind of kilometers that they want to execute per year or something, that would help us in getting the...?
- Vimal Kejriwal:** I don't think I have those numbers. PGCIL has announced few days back because maybe we can talk about it later on. There was an MoU which was signed by PGCIL with the Indian Railways. I don't have that number with me, but it was a public number. They had given out a number that we would give this much kilometer. I think around a month or two months back it was signed and announced.
- Moderator:** Thank you. Your next question is from the line of Meet Chandan from Equirus Securities. Please go ahead.

- Meet Chandan:** So sir, just wanted to ask on the cables business side, so what are the orders which have got on the cables business, mainly on the EHV side and what is the execution cycle for that?
- Vimal Kejriwal:** So cable basically we have got lot of multiple orders, but the biggest order we have is, we got one order from PGCIL, roughly around 100 crores plus, which is for a 220 kV cabling near Chandigarh. So, that is the biggest order. So, that we will do the cabling and the cable will be supplied from our Baroda factory. So that to us is a significant achievement in the cable business this quarter.
- Meet Chandan:** Okay. So, what is the execution cycle for that?
- Vimal Kejriwal:** It is a 12 months project. So most of the revenue will come this year.
- Meet Chandan:** Any plans to enter on the solar rooftop side, are we willing to enter into that?
- Rajeev Aggarwal:** Meet, but we are already doing solar roofs.
- Meet Chandan:** Okay. So I mean, you just mentioned in the solar EPC that there is some confusion due to GST?
- Vimal Kejriwal:** But those are all on the grid connected ones, where the solar plants are connected to the grid and when they have to supply and get the money from the Discoms and all that. Rooftop, as far as I know, all of them are for internal consumption. In that these issues are not there.
- Meet Chandan:** Okay. Got that. And sir, what are the major projects on the civil business side?
- Vimal Kejriwal:** We are doing 3 or 4 new projects right now, one is for a power factory somewhere in Gujarat and 2 in Karnataka. One for building a grinding unit for a cement company and our next one is for housing colony for a cement company, along with lot of civil work for a cement company. So we have got two cement and one power equipment.
- Moderator:** Sir, we move to the next question. That is from the line of Amber Singhania from AMSEC. Please go ahead.
- Amber Singhania:** Just a small bookkeeping question. On the depreciation side, we are seeing some dip on a quarter-to-quarter basis. Last quarter it was around 41 crores, now it is around 27 crores. So going forward, how it should be and what was the main reason why Q4 was so high? Sir, I believe it was because of Ind-AS or something else was there, you can just...?
- Rajeev Aggarwal:** So, Amber, basically last year, if you look at the depreciation, depreciation had increased and as we explained in the previous calls that it was due to the Ind-AS impact, wherein certain equipments which were categorized as consumables and were charged off to the revenue at the

time of purchase itself, they were being classified under the Ind-AS as plant and equipment. So, accordingly the depreciation charge went up and the considerable consumption went down.

**Amber Singhania:** Sir, so why it is coming so low this quarter? It is lower than Q1 last year also. And also the average of last year, full year we paid around 130 crores. So it is still 27 crores is lower than even one fourth of that on a pro rata basis.

**Rajeev Aggarwal:** See, the major part of the depreciation is coming from the stringing equipment, which are being charged off in 3 years' time frame. That 3-year life cycle we have now changed despite these equipment being classified as a plant and equipment under the Ind-AS. So those items which have been fully charged-off in the previous year depreciation of those equipment would not come in the Q1. And that is the reason probably this depreciation amount would have come down.

**Amber Singhania:** Okay. So for the full year FY18 what should be the fair assumption we should take, similar to last year's number or it should something higher than those?

**Rajeev Aggarwal:** Yes. There will be some addition definitely to that, because during the course of the year there is a plan to buy some additional stringing equipment based on the higher execution. So the depreciation charge would slightly go up, it should not go down.

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

**Sandeep Baid:** Sir, you mentioned that you are already doing solar rooftops. Now, EPC for grid connected solar is very different from solar rooftop. So I just wanted you to maybe elaborate a bit further on that. Do you have a separate team for that? How do you source business there?

**Vimal Kejriwal:** So, obviously, there is a separate team, because the volumes are different and the way you execute those projects are different. When I just now said that it is different, it was in the context of the problems which you are facing in the grid connected because of PPA issues and rate increase etc., lot of people are trying to renegotiate and do some things. So, in rooftop, because most of the cases, I will say almost 100% cases, it is for their own consumption, so all those issues are not there. The models are actually very different from each other.

**Sandeep Baid:** Right. How large is that rooftop business today?

**Vimal Kejriwal:** It must be around 20 crores - 25 crores. But I think the way things are looking up, I will probably not call it rooftop, it is what we call off grid business. So it could be rooftop, it could also be on the ground let us say if you have to put it on Airport, most of it will be on the ground rather than being on the rooftop only. So in a way you will have to combine rooftop and ground based, but these are what which are not connected to the grid. They are for their own consumption.

Basically, they are for their own consumption, you have to basically distinguish between grid and off-grid.

**Sandeep Baid:** Right. And the focus, sir, is more on the commercial side, or do you plan to get into the residential side also at some point in time?

**Vimal Kejriwal:** We don't plan residential, it's broadly commercial.

**Sandeep Baid:** Okay. And the second question was on cables, you mentioned that you are not very happy with the cable business this year or this quarter. One would have imagined that with GST rate going to 28% for cables, people would have pushed sales in this quarter and would have done better sales. In our case sales have actually come down, so what went wrong this quarter?

**Vimal Kejriwal:** So first of all, we didn't say that we are not happy. What we said was that, the performance was not as good as the last quarter. The number two was that, it was not a question of -- what happens is that, you have got large contracts from EPC companies also where you are supplying cables. And that is where, as I said earlier, that unless and until the material is reaching the site and they are able to bill it to the customer, most of them did not want to take the risk of the material being in transit. So most of them stayed back because their view was in ultimately after if you give at 28 then I will bill to the client at 28 in EPC. So people who could pass it on to others did not want to take the risk who has their own for their factory and all they bought by pushing whatever they had to buy. So, it became that way. So some people wanted it badly, as you rightly said, some people said, we don't care, don't do it right now, we don't want to get caught in transition. You send me after July 1<sup>st</sup>. So in fact, my view is that, although, I said that there is an impact on the sales in July and August, but on cables it meant in a reverse way. July will have one of the better sales than even June.

**Moderator:** Thank you. Ladies and gentlemen, this was the last question for today. I would now like to hand over the floor to Mr. Kejriwal for his closing comments. Over to you, sir.

**Vimal Kejriwal:** So, I would just like to say thank you to everyone for their continued interest. And we are very confident that we will deliver on our FY18 numbers, whatever we have talked about. Thank you so much.

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