



# “KEC International Limited Q1 FY-21 Earnings Conference Call”

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**Moderator:** Ladies and gentlemen, good day and welcome to the KEC International Limited Q1 FY21 Earnings 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 phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Vimal Kejriwal. Thank you and over to you, Mr. Kejriwal.

**Vimal Kejriwal:** Thank you. Good morning. I welcome you all to the Q1 Earnings Call of KEC. I hope that you and your family are safe and healthy. Let me start with the brief update on operations during this pandemic.

I'm pleased to inform you that all our manufacturing units are now operating at pre-COVID levels of production and work has resumed that almost all our 220 plus project sites across businesses barring one or two due to localized lockdowns. With concerted efforts in the recent months, our labor strength at sites has also increased substantially. We are now operating with over 80% of our workforce from the earlier level of 50% in the early stages of lockdown.

Safeguarding the health and well-being of the direct and contractual employees has always been the foremost priority for us. We took several steps on this front at the manufacturing units and project sites such as deploying rapid action task force and emergency response plans, deploying COVID marshals across project sites for stricter compliance of SOPs, daily tracking of safety norms through our digital safety app Raksha developed in house, conducting thermal scanning of employees at regular intervals daily, providing PPEs to all workmen, developing isolation centers for new workers who are being inducted at the site, regular sanitization of work base etc. among others.

The company under the aegis of RPG Foundation was formed to lend support to help the migrant workers, daily wage earners and the lesser privileged communities which were deeply impacted by the crisis. The company prepared and distributed over 75,000 food packets through its staff canteen at its plant location in Jaipur, Jabalpur and Nagpur. The company also donated protective gears to healthcare professionals and police personals in addition to providing Corona sample collection booth to administration in Nagpur, Jaipur and Aurangabad.

I would now like to brief you about the company's performance during Q1 FY21. The execution ramp-up across all project sites is reflected in the month-on-month increase in revenues across businesses. Our month of April was most impacted due to the pandemic however revenues of May '20 and June '20 have been better marginally as compared to the corresponding months of last year. We have started deploying a number of mechanizations, automation and digitalization initiatives across projects to improve productivity and quality of execution with reduced manpower availability. We have achieved revenues of about 2207 crores for the quarter vis-à-vis 2412 in the Q1 last year. Despite the significant issues faced in the early part of Q1, we have

been able to deliver an EBITDA margin of 8.8% for the quarter. The margins have been impacted largely on account of cost overruns caused by slowdown in the execution of EPC projects in Brazil due to localized restrictions into COVID19 and also low capacity utilization during the initial stages of lockdown. We have been able to achieve PBT and PAT margins at 4.4% and 3.2% respectively. Our YTD order inflow stands at 1931 crores including the recently released order inflow of 1192 crores. The orders have been largely contributed by T&D business. The order intake shows a growth of 73% over YTD last year. We have a strong order book of 19,682 crores as on 30<sup>th</sup> June, additionally we have an L1 position of around 5000 crores, majorly from our international T&D business.

Coming to the specific businesses; our core T&D business has witnessed a progressive ramp up across all project sites in domestic as well as international locations. Most of the international projects are operating near pre-COVID level productivity except in SAE Brazil where the pandemic spread is quite widespread in some of the provinces where our projects are located. This has resulted in a slowdown in the execution of the three transmission lines projects. Further the steep depreciation of the Brazilian Real over the last year has also impacted the revenues post-translation. We have also commenced work on our new EPC project in Brazil. During the quarter revenues of SAARC were impacted due to localized lockdowns and closure of borders between India and Bangladesh, Nepal. As far as the Essel project is concerned we understand that the lenders have already clinched a deal with another party and is awaiting final approval from CERC which is expected very shortly.

Despite the lockdown our Railway business has been successfully maintaining revenues at the same level as the corresponding quarter. The business clocked revenues in excess of 500 crores for the quarter, demonstrating a fast and consistent ramp-up across project sites over the last three months. I'm also happy to share that in line with our growth strategy the railway business in addition to its existing offerings of conventional OHE, composite and civil works have started bidding in new technologically enabled areas in metros such as OHE third rail power supply, ballast less tracks, signaling & telecommunication etc.

Our Civil business registered a robust growth in revenues backed by execution of the three metro projects. The business is also recently secured its second order from Kochi Metro. The robust order book of over Rs. 2600 crores along with the smooth ramp-up of the metro projects reaffirm our confidence of this business being one of the key growth drivers for us going forward. We are very pleased with a physical progress achieved in all our metro Civil projects. The business continues to bid for opportunities in warehouses, defence, water pipelines, urban infra and select industrial and residential segments.

Cable business has witnessed a muted quarter due to lower order intake and loss of production dispatches due to COVID19. Post commercialization of three new products for Railways last year, the business continues its strategic focus on development of new products. The business plans to commercialize additional products in FY21 for railways as well as for exports in

addition to augmenting capacities for Railway contract and capillary conductor. We expect a good growth in revenues of the business through these products. The execution of the existing orders both in the solar and smart infra are on track. Additionally, we are L1 in a Defence package in the smart infra business.

Coming to the financial position; our net debt as on 30<sup>th</sup> June 2020 stands at 2388 crores which is within our targeted average borrowing levels of 2500 crores for the year. Our concerted efforts in bringing down the interest cost, is reflected in the consistent improvement in the interest cost both in absolute terms as well as percentage to sales. We have refinanced, repaid some of our high cost debt and replaced them with lower-cost debt. Further we continue to maintain our foreign currency borrowing mix of around 60%. These steps have resulted in the interest costs coming down as a percentage of sales to 3% vis-à-vis 3.3% last year and the reduction of 17% in absolute terms.

The overall tender pipeline continues to remain strong across most of the businesses. However quite a few tenders especially in the domestic market have been postponed. It is only a matter of time that these tenders are bid out and awarded. In case of railway the tenders which are postponed in early Q1 have already been bid out and we expect them to be awarded by Q2-Q3. In case of domestic T&D, the issue related to the restriction on neighboring countries by the government has been clarified and necessary amendments in the bidding processes have just been issued for the bids submitted earlier for the Green Energy Corridor Phase 2. The revised bidding process is expected to conclude in Q3 now. We continue to see significant traction in tendering activities internationally specially in Middle East and Africa.

Our recently acquired transmission tower manufacturing facility in Dubai is expected to start commercial production towards the end of this quarter. We have already received approvals from some of the international clients and the supplies are expected to commence in the near future. With the uptick in tendering activities across the MENA region we are well placed to leverage this facility and reestablish the MENA region as a significant driver for growth. With the ramp-up in almost all the project sites across businesses and an order book plus L1 of over 24,500 crores we are confident of delivering a good performance in the balance three quarters of this financial year. Thank you very much. I'm happy to take your questions now. Thank you.

**Moderator:**

Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. We take the first question from the line of Ravi Swaminathan from Spark Capital.

**Ravi Swaminathan:**

With respect to the order pipeline in terms of both domestic and international market and Power, T&D and also the Railway business. How it is currently vis-à-vis how it was last year, if you can give a broad overview? You had mentioned that some of the Railway orders were postponed in Q1 and they are back, so just wanted to get a sense on pipeline, magnitude of orders which are there in the pipeline.

**Vimal Kejriwal:**

The Railway business has got—I will say—a fairly long pipeline. As of today, if I have to look at it in the next one month I have to bid around 10,000 crores of tenders apart from what we have already bid. Unfortunately, in Q1 most of the tenders got postponed but a large part of them have already been bid. I think we have got almost 20-25 tenders which have been bid and which are waiting for the opening of the results and award. So as far as the Railways are concerned, I think we are pretty happy with what is happening on the tender pipeline. Awards are getting bit delayed but I think there are huge pipeline, both in conventional Railway as well as in metro related Railway project like track laying, signaling etc.

Coming to T&D on the international front I think there is a large pipeline, especially MENA, parts of Far East and also Bangladesh. India T&D is a matter of concern as of today because all the Green Energy corridor which we had talked about last time which we had already bid, we had bid almost 40 projects in Q1, all of them will have to be re-bid now post the government restrictions on neighboring countries etc. because the Ministry of Power has just issued a clarification on how they will treat all that, based on that Power Grid has just come out with a clarification I think yesterday or today or day before on how the bids have to be restructured and what needs to be taken into account etc. So our view is that bids are right now due in this month itself August and post that the TVCB bids will happen, so which is why I said that hopefully we should see some action in Q2 if not in Q2 then in at least in Q3 we should see most of these tender is getting awarded post this clarification. SEBs are a little bit slow. There have been some tenders which have been bid out, couple of them have been awarded but not too much action. So India T&D I will say a bit slow, rest of all other places we are pretty happy with the tender pipeline.

**Ravi Swaminathan:**

And with respect to the payment scenario etc. obviously first couple of months post lockdown it may have got impacted. Has it got resorted to almost normalcy with respect to guys like SEBs etc. or are they still in delay mode if you can give an idea?

**Vimal Kejriwal:**

So Ravi, we have not seen any delay on part of the government payments. That is why when you look at my borrowing figures and in fact my collections for this quarter have been higher than the last quarter in spite of a 9% de-growth in revenue. To me we have got zero complaints on the collections front. Initially there were some hiccups on the private sector but I think now we are very happy even with the way the private sector has chipped in both on the civil side and also on our TBCB where we have got a couple of private clients.

So I think we are overall very happy. Obviously April, initially we had some hiccups because the clients had to get used to digital invoicing, digital payments etc. where earlier they used to check physical papers, so it did take one or two weeks for people to get used to how to handle digital papers and invoices and material acceptance reports etc. But now I think the processes completely streamlined and we are pretty happy with what is happening on the collection front, not only in India but even globally also we have seen lot of money is coming in specifically from

Middle East including Saudi, Dubai and also some of African countries. Overall, we are pretty happy with the cash flows.

**Moderator:** The next question is from the line of Renu Baid from IIFL.

**Renu Baid:** I have three questions, first if you can help was just put through some numbers on how was the overall domestic and international T&D sales split across in the current quarter though the overall transmission sales itself declined by 8% to 9%, how was the split between domestic and international?

**Vimal Kejriwal:** More or less the split is even. It's not a very different number. I think domestic went down slightly higher than international. I'm not exactly aware but I think the domestic was around 10%-11% and international was 6%-7%, so not very different.

**Renu Baid:** So the question is, if you can quantify the order inflow pipeline across the segments in value terms and specifically on the Railway segment, recently there was a circular which was moved internally across key zonal offices to put most of the project awards in abeyance on the Railways except for certain safety related jobs, so what would be the impact of this in terms of this in terms of project award? So optically the pipeline might look healthy, tendering activity might be on but do you see the project awards from Indian Railways could take a setback or a difficult push down?

**Vimal Kejriwal:** Coming to your first question; very difficult to exactly quantify but as far as I remember the total bids which we have put in till now is roughly around overall businesses around 25,000-30,000 crores which are waiting, opening or award. And another 30,000 crores are bids which we have to put them in the next two months, broad numbers across all our businesses. Coming specifically to railways, I have seen that circular and post that circular we have had discussions with all our large clients which would include RVNL, Core and all other zonal railways etc. Their view is that notwithstanding what has been written in the circular and if you also hear what the Railway Minister has been talking about saying, even yesterday he said that instead of 2024 we will start the Delhi-Mumbai within 2023 and all that. The amount of push we are seeing from the execution of railway projects and also on the award is continuing in the similar manner as before. We have had specific discussions with the railway authorities, people who matter and people who are awarding the projects and all of them have said that there will be no impact. This circular would basically impact many things, the beautification of stations and lot of other things which are nice to have but not necessary. So that is a feeling which we are getting and clearly what has also been happening is that whatever bids we are doing and whatever bids are due, we are not seeing postponement of it. There are at least I would say 5 or 6 large bids for electrification which are happening in the last next one month, there are at least 5 or 6 bids for composite and system projects.

So clearly, we are not seeing any slackness in the tender pipeline but I will still repeat that and awards of projects have not been happening. L1s, they are now started opening tenders and

negotiations or discussions are being starting on timelines etc. So, I do hope that from this month onwards which is what we are talking we thought came in August itself that towards should start happening in Railways. But to repeat there is no slackness on the tender pipeline.

**Renu Baid:** And the last follow up to this would be, broadly for the current financial year given the way scenario is domestically in India and international markets, what would be your likely guidance for order inflows for FY20?

**Vimal Kejriwal:** Honestly very difficult to give today. I honestly will not be able to give any guidance on order intake or revenue because we will have to still wait and see. As I said Railways, there is so much tendering is happening. Let's wait and see how the order awards and all that happen. But as I said earlier in my earlier part of the speech we have almost 24,000 crores of order book plus L1. So, we are comfortable for at least the next 18 months. Even if we don't get any orders but I think considering the huge pipeline which we have I am very confident that ordering will start happening. But as of today honestly will be very premature for us to talk about numbers.

**Moderator:** The next question is from the line of Varun Ginodia from Ambit Capital.

**Varun Ginodia:** My question is a follow up on Green Energy Corridor, given they are going to go for re-bidding now. You see any impact on your margins because the cost for solar modules and solar panels are going to increase or the generators, so that might impact your margins per se. So, do you see any change in margin profile for Green Energy Corridor packages going forward?

**Vimal Kejriwal:** So Varun, I have got nothing to do with the solar module price increase and all that. What we are bidding is for simple transmission lines and substations which are being bid out as TBCB by REC, in fact the re-bid is good for all of us in a way although it has postponed the order intake because when we had quoted and these are all normally when we quote for TBCB even in Power Grid they are fixed price contracts unlike normal power grid contracts where there is a price escalation etc. So, since we had quoted and now it's almost I think three months when we quoted, the prices of all the metals and all have gone up significantly. So hopefully the re-bid will at least help us in maintaining margins which would have been under pressure with our metal price hike. Cost profile for the bid will change and I don't see how the solar market will impact these bids.

**Varun Ginodia:** So you don't see any impact on Green Energy Corridor packages or on the margin profile for EPC players from higher prices for solar panels or modules?

**Vimal Kejriwal:** No, they are two different people. One is the person who is putting up the solar plant which would be bid out and let's say people like ReNew or Azure whoever it is and this part is what is being run by the transmission service providers which would be Power Grid or a Adani or Sterlite or it may be. There are two different set of people. The cost lines are very-very different.

**Varun Ginodia:** My point was the higher cost that the generator level won't flow down to the bottom of the ecosystem; we don't see that happen because for him the cost of putting up a plant is going to go up if there are duties.

**Vimal Kejriwal:** So, Varun it may impact the solar EPC cost, not the transmission EPC cost.

**Varun Ginodia:** And the second question, your net debt is steady quarter-on-quarter, is there some amount of this which is being paid from receivables during 4Q, so if we adjust for that net debt could have been higher on a like to like basis. So is there anything of that sort playing out in 1Q wherein some payments from 4Q we got in 1Q and because of that net debt is steady despite higher working capital in 1Q.

**Rajeev Aggarwal:** I don't think that anything of that sort has happened, rather in fact something from the Q4 has come in Q1, we have got collection in the Q1 whatever was pending so that has helped us to maintain our working capital and there is a very focused attention on the working capital and collection from the customer. And that is really helping us to maintain our net debt and also there is a constant focus on reducing the cost of borrowing. So that is helping us reduce the interest cost for the company.

**Moderator:** The next question is from the line of Renjith Sivaram from ICICI Securities.

**Renjith Sivaram:** If we look at the new course of action as the mode of anti-China which is building up, so we also had some tie-up with Chinese players for EPC contracts. So what risks do you see in search of such agreements, will you have to revisit those things, would that impact our future also?

**Vimal Kejriwal:** So Renjith we do have some tie-ups with Chinese, not significant but our understanding with all our clients have been that on all the existing contracts which are already in place, there should not be any impact. Coming to the future part of it, there would be some realignment as I said the power grid and all have reissued tenders. So even if we had our tie-ups with Chinese for some of the projects, those tie-ups will now have to be revisited. Any case India T&D right now is not looking very great. There could be some marginal impact but let me also clarify that our tie-ups were basically been on the substation front with some of the GIS supply but we have also been tying up with other people including into Korea and Japan and all that. So, it's a question of realigning priorities which will happen with all the players. Apart from the three large OEM manufacturers who have the technology and who are also bidding for the GIS contracts in India, all others were basically Chinese, Koreans and Japanese. Since there will be a fresh bidding whenever we have Chinese tie-up I think we did have with one or two tenders, we will realign them with other people. So I don't foresee a significant impact. There could be one or two tenders here and there but nothing major. Nothing to worry about us as such.

**Renjith Sivaram:** Was there any impact of FOREX in the quarter in terms of FOREX gain or losses?



- Rajeev Aggarwal:** The FOREX gain during the quarter was not really significant. It was about Rs. 10-12 crores during the quarter only.
- Renjith Sivaram:** Just on the execution, was there any good amount of projects there in the threshold limit and that has moved the threshold that helped us to show a better than expected execution or you see that it's an overall good performance?
- Vimal Kejriwal:** I think it's an overall good performance, so it is not some specific projects. But as I said earlier, we are pretty happy with our say civil metro execution which is moving very fast because those are large projects and revenues are pretty good from them. Also international is doing very well, both in UAE as well as in the Far East has picked up. Overall I think everywhere it has been good, so I will not take up specific projects, no.
- Moderator:** The next question is from the line of Swarnim Maheshwari from Edelweiss Securities.
- Swarnim Maheshwari:** Two set of questions, first is you did mention about the deploying various mechanization and digitalization initiatives to improve the productivity. If you can just throw some light over here what exactly are we trying to do and some sort of a cost benefit analysis overhead, are you trying to reduce our workforce or how that will be pan out, what are you exactly trying to do? That's the first question.
- Vimal Kejriwal:** So Swarnim very difficult to give a number today. So, mechanization and automation etc. we had been pushing for a long time. We have been successful to an extent but generally there have been lot of resistance at the field level 'ki itne saal se hum aise hi kar rahe hai, ye machine kyun lagani hai, nahi karni hai'. But now that when we had a scenario where the workforce went down from 30,000 to 15,000, most of the people then realized that we will have to do mechanization. So, in a way it was a sort of a Godsent opportunity, so unfortunate we were able to push through a lot of mechanization efforts and also which was acceptable with the clients. See, the problem what I have seen in many cases is that if I want to use the ready-mix concrete, I've seen railway clients coming back and saying I want to check the mixing at the site. So there was also a lot of resistance not only from our side but also from the client side on many items of mechanization etc. which because of this COVID situation with lot of manpower going down and logistic challenges and all that we suddenly found that both our site people as well as the client were becoming very happy with whatever could give them more output. So, mechanization is happening at the project site. We are also pushing a lot of automation and digitalization in the factories etc. And also, specifically on the safety side like we have put in some apps whereby social distancing can be measured. If you are not PPE it can get measured. We are putting in some robotic warnings on tracks etc. so if the train is coming there is a robotic morning so that the people can go away from the tracks. Lot of work is happening on that. On the railway side on the foundation etc. even on the overhead wiring lot of mechanization is taking place. Other thing what we have to keep in mind is that most of the metro railway civil projects give you an advance for CAPEX, interest-free advance. So, some of our capital expenditure, we are going to

finance through an interest-free loan for 2 to 3 years by these people that will also help us in meeting our targets. Numbers and saving are very difficult, but I think our target is that we do try to improve productivity at least by 20%. That's a target which we are looking at.

**Swarnim Maheshwari:** The target that we are looking at is 20% on the subcontracting cost, is it?

**Vimal Kejriwal:** It is not only on subcontracting cost, it could be also other things like what it would also do is fast track projects. If I have to do a foundation manually it may take me 3 days, if I do it through an excavator or a bobcat it may be done in one day. So, these costs will also ultimately translate into faster execution also. So, it's not just labor cost it would also be lot of other related overhead and other costs also.

**Swarnim Maheshwari:** So, it will actually result in the speedier execution?

**Vimal Kejriwal:** Absolutely.

**Swarnim Maheshwari:** The second question is on SAE, so you did mention that there are still mass labor constraints over there in Brazil, so how is the situation over there? Like in India and other parts of the geographies, we have seen some execution ramp-up already starting currently from July onwards but how the situation over there in SAE?

**Vimal Kejriwal:** So execution is happening. We have got as I said three old projects which were under execution and our fourth new project has just started. So, execution is improving, in fact one of them we should be completing in the next two months. But the problem what is happening there is we are running into contractual cost overruns etc. because unfortunately Brazil has not declared a sort of national force majeure like what India and many other countries have done. So, because of which the developers are not getting a time extension and because of which we have to fight with them on giving time extensions and cost overruns etc. Unfortunately, the Brazilian government has sort of closed their eyes and said there is no problem, so no contract shall be touched because of that. So, because of that whatever costs we incurred during this quarter on account of COVID and the extra cost have all been put into the quarter. We have made claims with the clients and all that as and when the claims come they will start getting reflected in the books. But because contractually there is a problem in that country we have booked all the cost.

**Swarnim Maheshwari:** Will it be a fair assessment that 160 bps of decline in margins for the quarter, of course some part of it is because of the negative uplift but the other reason would be because of these cost overruns which happened contractual cost overruns which happened in SAE.

**Vimal Kejriwal:** I will say you are largely right; a large part of the contractual decline would be on account of SAE. So whatever else happened in India and all that with whatever cost savings we talked about and productivity improvement, a large part of the India margins have been recovered.

**Moderator:** The next question is from the line of Parikshit Kandpal from HDFC Securities.

**Parikshit Kandpal:** Just on the civil space, so we have almost 2600-2700 crores of order book, so you highlighted some of the opportunities in metro segment and residential buildings. So besides that, this being a very highly scalable opportunity in the civil side, so what are the other segments you're looking to ramp up to basically counterbalance some of the segments where the ordering is not so encouraging?

**Vimal Kejriwal:** So Parikshit if you look at the recent announcements which we had, one is we got our first order in the warehousing space, so clearly with COVID and all that we are clearly seeing that the logistics area is one area where lot of ordering would happen. The second is we are very clearly seeing is Defence civil, we are focusing on Defence civil. That's our second piece. On the residential we are looking at some very select clients. So that is the third piece. Fourth is on the metro rail civil like we just got one Kochi Metro order extension of what we were doing. We have bid for some of the other projects. I think those are the areas where we are looking and last one is water pipelines. There are large projects now coming for water system improvement, basically pipelines from the source of the water till outside the city, etc. So those are large projects which are coming up in Orissa, Gujarat, Rajasthan, MP, so those are the other area which we are looking at in civil.

**Parikshit Kandpal:** And the order book doubled, is there any internal target of doubling this or increasing it to 30% of the shares in next 2 years, 3 years because this is one segment which can really have a very huge scalability from the Indian context.

**Vimal Kejriwal:** I completely agree with you. We had a bad last year. This year we should have at least 300% to 400% increase in the revenue for civil as compared to last year. Order book we are already at 2600, so that's almost 17%-18% of our or say 14% of my order book. Clearly, we are looking at civil order book going up. But I think today the problem what I'm saying is that the industrial order intake has slowed down and residential although we are bidding for very select ones, we are very careful. So, the large pieces would come from your metro, civil, the pipelines and also there are very large projects coming up in the oil and gas now. So if you look at the HURL refinery and other pieces, so I think one area where we just started bidding is oil and gas and we are seeing large amounts of money is being spent by the public sector, refineries as well as the gas companies etc. on the oil and gas infrastructure. That's going to be a large area going forward for us.

**Parikshit Kandpal:** Just on this Green Energy Corridor, you said that there could be this re-bidding, may also realign the supply chain of solar module within India, large alliance with the domestic manufacturing. So, your TBCB order will also be dependent on how quickly the generation company gets the supply chain in order. So, do you think any chance even if this ordering happens in Q2 or Q3, do you think there is enough capacity in India which could basically help you being forgetting the TBCB ordering on timeline of 2Q and 3Q?

**Vimal Kejriwal:** Parikshit what is happening is that CERC or CEA has taken a very clear-cut call that irrespective of what happens on the solar side we would like the lines to be ready. So, if you look at these tenders which have been issued, most of them have a completion timeline of 12 to 13 months. So, there is a very clear-cut call within the government saying we need to have the transmission systems which are lines as well as substations ready irrespective of what is happening on the solar side or the capacity of modules or other things. So, I'm very confident that once this tendering happens, the execution would happen pretty quickly.

**Parikshit Kandpal:** So, the cost reduction in this quarter, so what part of this is sustainable and what will come back, both on the fixed cost and the variable side?

**Vimal Kejriwal:** To me what is sustainable would be whatever we are doing on the labor productivity increase through the mechanization etc. that is a clearly a long-term one. Some part would be on the administrative and SGNA, whatever you want to call it because with the last 4.5-5 months of work from home we are also seeing that a large part of the workforce, engineering teams and other teams which can now operate from home. So, lot of travel costs, lot of office accommodation cost and other cost related to that could probably become a long-term sustainable. Third sustainable cost reduction would be on the interest side where we have taken very sharp targets and all and that is happening very well. So, I think these are three areas where we clearly see that cost reduction would be sustainable.

**Moderator:** The next question is from the line of Bhoomika Nair from IDFC Securities.

**Bhoomika Nair:** You spoke about civil; you spoke about the Green Energy Corridor. Just wanted to get some better color on the international order intake where I think T&D ordering can be quite decent. Can you just please just elaborate on that aspect?

**Vimal Kejriwal:** As far as international T&D is concerned, right now we are seeing a good traction. First of all, and it's surprising to us is the Middle East - Saudi, Dubai, Abu Dhabi, Oman, four countries where in we are clearly seeing a lot of tenders which have been bid or will be bid now. So that is one part of it. North Africa we have seen Morocco. Morocco is a new country where we have just been L1 in couple of projects. So, Morocco has come out with huge transmission and substation plants and then West Africa. So, these are the three regions which we see, fourth one coming closer home is on Bangladesh where we are seeing a large number of tenders; most of them are financed by Government of India. So, they are going ahead and fifth one is the Thailand, Malaysia and now Philippines. These are the areas where we are seeing quite a large traction in either the tenders which we have quoted or a tender pipeline. In fact, I will say to an extent that the amount of L1, if you look at our L1 which we talked about close to 5000 crores; large part of it is almost everything is from the international T&D market.

**Bhoomika Nair:** So basically why, I mean I understand in these challenging environments, we don't want to give a guidance in terms of the intake because you don't know about the finalization. But broadly we have seen descent intake trajectory in terms of international T&D, the domestic green energy

related orders or civil and railways. Would that be a fair assessment in a sense that will drive our order intake for the current year?

**Vimal Kejriwal:**

So you are right, let me put it this way. The largest orders should come in from railways, then there would be international T&D, civil, then between SAARC and India. That would be the size; even in SAE we have got L1s for a long time. These are projects which are from Sterlite, which are not yet formally converted into orders although we have LOAs and all that. So that could be another number but the size wise if you look at it, it should start that way, Railways and international and civil, South Asia etc.

**Bhoomika Nair:**

Here if you can also throw some color on competition because we have few areas of ordering activity. Are we seeing an increased level of competition and how is that potentially impacting both working capital and margin? And my last would also be you spoke earlier about mechanization and automation. Does that only help in terms of after execution or is there some long-term sustainable cost savings and that can help?

**Vimal Kejriwal:**

If you look at mechanization there would definitely be lost long-term cost savings, no question about it. We are very clear on that, that it's not just faster execution, there would clearly be cost savings because it's also related to quality, it's related to time. So now with COVID19 happening the entire manner in which you keep labor, their housing, their protection, their health measures and all that; huge amount of cost saving would happen through mechanization. Very-very clear, sustainable cost savings will be there, I am very clear on that part. Sorry I lost your first two questions, what were they?

**Bhoomika Nair:**

On competition.

**Vimal Kejriwal:**

Yeah, competition I will say on the initial part of the civil and railways, we did see a competition going up because of, I will say the slowdown in NHAI ordering. Now that NHAI has started giving orders; many of the civil contractors who are primarily road contractors who had tried to move into railways etc., I think that we are now seeing coming out, going back to the roads rather than stepping into railways. As far as the other places are concerned the impact of COVID has been pretty significant on many of the smaller players. So overall we are not seeing any major increase in competition and correspondingly no major impact on margins.

**Moderator:**

The next question is from the line of Ajinkya Bhat from Macquarie.

**Ajinkya Bhat:**

My first question is regarding your working capital. Your presentation mentioned 132 days of working capital versus March 2020 presentation mentioning 119 days. Is it predominantly because of manufacturing activity that progressed while project sites were still under lockdown during 1Q? And could you throw some light on that whether this working capital can then come down in the coming quarters as you dispatch and supply and install all these manufactured structures at the project sites?

**Vimal Kejriwal:** So Ajinkya you are right. First part is completely right that it's because of the manufacturing impact. On the second part what has happened is that the first month we hardly had any production, any procurement or anything. So if you look at the breakup between debt and acceptances, acceptances went down significantly because of entire procurement went out which is a basic impact which you see on the net working capital etc. because the creditors have come down because the entire procurement activity has got postponed. So the impact is not because of receivables but the impact is more on the payable side where the overall payables came down because the level of activity has gone down and we are very clear that the numbers will come back to what we have been talking earlier.

**Ajinkya Bhat:** And second question is on the raw material cost. So obviously compared to your 4Q FY20, your operating expenses as a percentage of sales have come down from 72% in 4Q to about 69% in 1Q. So are you seeing any benefit on the raw material cost over there? Do you think that they will stay benign in the coming few quarters?

**Vimal Kejriwal:** So last quarter had been benign. July onwards the prices have started going up. The steel companies which is our basically a large raw material for us, are have been trying to use all sorts of measures to try to push the prices up whether it is import control or countervailing duties or whatever else, the anti-dumping duties etc. So every month they do try to push it up then it again comes down because there is not much of demand. We do see some attempt happening there; maybe Q2 may see some marginal rise in prices also because of logistic issues. Cement companies are not working full, so logistically supply is becoming a bit of a problem but to me they are very-very marginal, very marginal but Q1 was clearly benign and Q2 will not be benign but I don't see any significant impact on the pricing, no.

**Ajinkya Bhat:** What would be your split of fixed-price contracts versus variable price contracts, where you can pass on all these material cost and labor costs changes?

**Vimal Kejriwal:** I don't have it readily but nowadays the price variation clauses are being coming down. The major contracts are mainly from India and Bangladesh. I don't have a number honestly, maybe Abhishek can give it to you later on but it is not very high but that is in transmission. But if you look at our metro projects etc. surprisingly most of the civil and railway sorry, I need to correct myself. Most of the railway and civil contracts have a price variation clause. So, the non-T&D has a price variation, in T&D since share of power grid and all is coming down, the price variation percentage will grow.

**Moderator:** The next question is from the line of Aniket Babel from Subhkam Venture.

**Aniket Babel:** Two questions; first was, what was the guidance on the interest cost I missed as a percentage of sales for this year?

**Vimal Kejriwal:** We have not given any guidance as of now on any of the numbers, no.

**Ankit Babel:** But you feel that your current run rate of around 65-70 crores would continue for the next 3 quarters in the interest cost?

**Rajeev Aggarwal:** So basically, it will depend on the ramp up rate of the execution, so by and large we are actually trying to control the overall net working capital days as a whole. So that number will remain under check but it is difficult to say that with the revenue going up, the interest cost will remain constant. Number will definitely come down compared to the last year but it is difficult to give a guidance on this.

**Ankit Babel:** So, in absolute terms the interest cost is expected to come down on a YOY basis but exact you wouldn't like to comment on it right now?

**Rajeev Aggarwal:** Yeah, absolutely.

**Ankit Babel:** Second question was you eluded a lot of things on cost savings, improving productivity, controlling interest cost etc. So, if we take a 2-3 year call from here, is it fair to assume that your margins will improve by another 100-200 basis points on your current levels of around 10.5%-11%. I mean I am ignoring the current margins but the historical margins have been in the range of 10.5%. So, with all these things happening the way you are expecting you feel that structurally the margins of your company would shift towards the 11%-12% kind of a range?

**Vimal Kejriwal:** Ankit very difficult to answer that question. I wish I could say yes straightaway to that answer. The problem what we can see is right now we discussed about order intake, we discussed about tender pipelines. So, we will have to wait and watch and see how the entire thing pans out. If the market keeps on growing, what you are saying is something which we will definitely target saying that with all our cost control and other things the margin should go up but let's say for some reason the tender pipeline does not materialize, orders don't come in, then the competition can go up. So, at the moment I think it's a little difficult. Maybe by Q3 end or something by which time the order intake and the tender pipelines would be much more firm than what they are today; we can talk about it but yes you are right the directionally we are looking at how do we reduce the cost and all that. Other thing what I would like to point out is what Rajeev said is that we are trying to see that below the EBITDA line also how do we control cost. Our tax rates have improved, tax compliance; tax rate if you look at is come down by almost 1.5% I think. We are also looking at interest cost also. So one part is that how much of money you can make at EBITDA level, second is that what are the costs below the EBITDA level which can be optimized. So we do hope that we can improve it but we will probably have a better talk at the end of Q3 on this numbers.

**Ankit Babel:** So just a follow-up; so suppose if you succeed in reducing the cost. So will you keep in the company or will you pass it on?

**Vimal Kejriwal:** So it would depend, Ankit, on what happens with competition. If competition is also able to reduce it and if they start passing on in the tender then I will also have to pass it on because we

are in the L1 business. If the competition decides that we will not pass it on and we will try to improve the margins then the margins will go up for everyone. If competition is not able to follow my numbers or follow my cost cutting and they continue at a higher cost level, which is very difficult. Ultimately people see what others are doing and catch up may be with a lag. It would depend upon how the industry behaves. Initially if we are ahead of the curve in terms of cost cutting, we could see probably some improvement in either margins or improvement in the order intake because I would be able to bid better. It is very difficult today to talk about whether margins will go up or the order intake will go up.

**Moderator:** The next question is from the line of Amber Singhania from Asian Market Securities.

**Amber Singhania:** Just one question from my side is as you mentioned that there have been some cost issues on the ongoing projects which has impacted the margin this quarter. So are we done away with all those extra costs and going forward we can expect the normal margins coming in or those projects may further have some issues going forward like in the Brazil and all you mentioned? How should we look at the coming margins?

**Vimal Kejriwal:** So Amber primarily we talked about Brazil. What I said in India also we had the cost increases on many projects, our factory was shut-off for a full one-month. So we were paying salaries and all that but in India we were in a way able to recover that through cost controls, client claims and whatever else you want to call it. Brazil is still in a flux, so we will have to wait and watch what happens. Going forward there will continue to be some impact but I don't see any significant impact unless there is a significant relapse of COVID. If you have a wave 2 or something and there is a large lockdown, large shutdowns etc. then there is a different issue. If there are no large lockdowns and if we continue the way we are continuing in opening up and all that then I don't see a major impact. There could be a marginal impact obviously in Q2 but going forward by the time we reach Q3 and Q4 and all that we should be back to normal. As I said it is all subject to what happens on the COVID front but otherwise I think the cost are now coming under control.

**Moderator:** The next question is from the line of Bharat Sheth from Quest Investment.

**Bharat Sheth:** Just I have one question. On the Indian T&D space from a mid-term point of view, structurally earlier thermal power were announcing which used to take around 4-5 years to come up and simultaneously T&D projects were announced and so which also can come up match the line. Now thermal is going down substantially whereas solar is increasing where T&D may take, a solar plant can come up in 6-9 months or 12 months to 15 months whereas T&D because of ROA, RoW issue or which takes some..... So how structurally the business alignment will change?

**Vimal Kejriwal:** So Bharat bhai what will happen is if you look at the current projects which power grid has bid out or REC level.... Let's look at TBCB projects which REC has bid out the Green Energy one which we are talking about; most of them have got 15 months for the development to complete



the project. So clearly when the developer bids out the EPC, he also looks at which companies can complete the projects in 12 months and 10 months for us. So in a way it is good for us saying that there are very few companies which will come back and stick their neck out and say 'ki main transmission line ya submission 12 mahine main khatam kar dunga' and which we could clearly see when we are taking up these projects, that's number one.

Number two, what we are also now seeing that with this sort of tight timelines and all that, many of the bankers specially in case of private projects are coming into the picture and saying we want you to give the award only to large companies who can complete the project, who have the working capital limits etc. So recently we have clearly seen in all the TBCB projects only large contractors have got the award, that's the second part. The third part which we have seen is that both CERC and CEA now have been coming out saying that even if the solar projects are getting delayed please go and build the lines first because of exactly what you said that the lines may get delayed, the solar may not get delayed. So which is other thing which is happening that there is a lot of push from the government that even if there is some redundancy please go ahead and build lines even if there is a delay in solar. These are the three things which we are seeing. The fourth thing which will come out is what we talked about more mechanization etc. to ensure faster buildup of lines and the fifth thing I will say would be more happening on the design of transmission lines which will become much more modular, 'ye existing tower ko laga do, existing module ko laga do', so that that lines can be built much faster. I can see these 4 or 5 structural changes which will happen in the transmission sector very clearly.

**Bharat Sheth:** Will there be any technological, I mean within this transmission because solar does not operate round-the-clock like thermal operates, so additionally some kind of power voltage fluctuation and additional thing also may be required or which can take place...?

**Vimal Kejriwal:** Yes Bharat bhai there is a talk going on. If you look at recent TBCB tenders in substations, in some of them they have got some more technical upgradation of SVC etc. where they are asking for, lot of things on voltage stabilizer etc. but that's not on the transmission side, that's on the substation side. There are changes happening, yes.

**Moderator:** Thank you. Ladies and gentlemen that was the last question for today. I would now like to hand the conference over to the management for their closing comments. Over to you Mr. Vimal Kejriwal.

**Vimal Kejriwal:** Thank you Janice and thank you everyone for your continued interest in KEC. Thank you, stay safe.

**Moderator:** Thank you. On behalf of KEC International that concludes this conference. Thank you all for joining, you may now disconnect your lines.