



“KEC International Limited
Q2 FY ‘23 Earnings Conference Call”
November 08, 2022



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LIMITED
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Moderator: Ladies and gentlemen. Good day, and welcome to the KEC International Limited Q2 FY '23 Results Conference Call. We have with us today from the management, Mr. Vimal Kejriwal, Managing Director and CEO and Mr. Rajeev Aggarwal, CFO. As a reminder, all participant line 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 star then zero on your touchtone phone and I now hand the conference over to Mr. Vimal Kejriwal. Thank you, and over to you, Mr. Kejriwal.

Vimal Kejriwal: Thank you, Rutuja. Good morning to everyone. I welcome you all to the Q2 earnings call of KEC. Let me start with an update on the overall performance for the quarter and thereafter talk about each of the respective businesses and key strategic initiatives. We have achieved revenues of INR 4,064 crores for the quarter, with a strong consolidated growth of 13% and stand-alone growth of 11% vis-a-vis Q2 last year.

The growth was delivered by good performances across most of our businesses. The growth could have been higher, but for extended monsoon in certain parts of India. We have delivered an EBITDA margin of 6.2% at the stand-alone level and 4.4% at the consol level for the quarter. The margins continue to be impacted primarily due to elevated logistics costs (which are now coming down), execution of legacy projects with adverse commodity prices, and cost for completion of the last EPC project in SAE Brazil.

We have significantly reduced our commodity exposures in legacy projects to less than 5% of our order book. In Brazil, I'm pleased to share that we have largely completed the last EPC project last month and expect it to be commissioned within this quarter. With this, our order book in SAE of almost INR 1,100 crores does not have any EPC project and comprise of orders for supply of towers, hardwares and poles.

We are confident of a revival in the performance of SAE from Q4 onwards. Furthermore, with a strong order book in North America, the Mexico factory is well loaded for H2. Considering the performance of Brazil, we have adopted a prudent approach and made a provision for impairment of INR 76 crores during the quarter in the stand-alone financials. However, this has no impact on the consolidated financials.

Excluding the impact of exceptional items, we have delivered a PBT margin of 3.1% and PAT margin of 2.7% on a standalone level. Our consol PBT margins are at 0.7% and PAT margins at 1.4%. We continue to have good traction in orders. Our YTD order intake stands at INR 10,465 crores, with a strong growth of 25%. The largest contributor in the order intake has been our T&D, Civil and railway businesses followed by cables and oil and gas. Most of these orders have been secured at elevated/ current commodity costs. This gives us a confidence of an improvement in the margin trajectory going ahead as these orders get into execution.

The traction in order intake has expanded our order book to an all-time high of INR 27,569 crores including the orders secured in Q3 to date. Additionally, we have a large L1 position of



over INR 6,500 crores diversified across businesses. With this, our order book stands at a record level of INR 34,000 crores. Our tenders under evaluation and in pipeline stand at over INR 1,10,000 crores. Our debt level including acceptances has started improving and has reached INR 5,919 crores as on 30th September, a reduction of more than INR 150 crores against Q1 FY '23.

We expect the improvement in working capital in the second half of the financial year and are committed to reduce the debt levels going forward. Our interest cost stands at 3.1% for the quarter as a percentage of sales. The interest cost is slightly higher owing to the steep increase in the interest rates globally, especially in SA Brazil and the elevated debt levels.

Now coming to the specific businesses. Our core T&D business has delivered a growth for the quarter despite the various headwinds. The growth has been delivered on the back of strong execution, especially in the international market. The T&D business has significantly expanded its order book with strong order inflows of INR 3,775 crores across India, Middle East, Africa and the Americas. In India, the business has secured its second prestigious order to construct our 400 kV digital substation for PGCIL in addition to the first 765 kV digital substation in India secured last quarter. Moreover, the business has bagged two more large transmission in orders from PGCIL. The business has also diversified its clientele with an order to construct a large GIS substation from a reputed power-generating company in India. The business has also secured multiple orders in the international markets, especially in the Middle East. We have successfully leveraged our Dubai facilities to significantly enhance business in the Middle East. Our order book and L1 positions in the Middle East has now expanded to over INR 4,000 crores, a growth of ~2 times vis-a-vis last year.

The overall tender pipeline in T&D continues to be strong both in domestic and international markets. Additionally, the business has a large L1 pipeline of over INR 3,000 crores, contributed largely by international orders. Our railway business has achieved a revenue of over INR 850 crores for the quarter. I'm pleased to share that the business has secured YTD order inflows of ~INR 2,500 crores, a healthy growth of almost two times vis-a-vis last year. These include orders in the conventional OHE and composite projects as well as orders in the new areas of speed upgradation and technologically enabled areas of metros.

During the quarter, the business has also successfully expanded its presence with two prestigious orders in the emerging areas of TCAS (Train Collision Avoidance System) under 'Kavach', which aims to enhance safety of the Indian railways with world-class technology. We are witnessing an improved visibility of tendering activity across segments and are confident of securing a larger share of orders in the coming months. The railway tender pipeline continues to remain healthy across conventional, technologically enabled emerging areas as well as international opportunities with sustained focus on execution, strong tender pipeline and an order book plus L1 of over INR 7,500 crores, we are certain that railways will contribute significantly to our growth going forward.



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Our Civil business continues to be on a high-growth trajectory as it clocked revenues of INR 740 crores for the quarter with an impressive growth of 65% vis-a-vis Q2 last year. The honorable Prime Minister Shri. Modi has inaugurated the prestigious Phase I extension of Kochi Metro KEC's first metro rail project wherein the viaduct and stations were delivered by our Civil business and the ballasts tracks were laid by our railway business. This project is set to make local travel more convenient and ease lives of thousands of commuters. We are also working on Phase 2 of the Kochi Metro, which shall be completed in the near future.

The Civil business continues to deliver consistently on the order intake front and has secured YTD orders of over INR 3,000 crores, a strong growth of 25% vis-a-vis last year. During the year, the business has strengthened its presence with significant orders in the water pipelines, public spaces, industrial and data center segments.

The business is now executing eight prestigious projects in the water pipeline segment aggregating to over INR 2,500 crores on the Jal Jeevan Mission of the government. The uptick in order intake has significantly enhanced the order book L1 to INR 9,500 crores comprising of turnkey EPC projects across segments of market clients. With an uptick in government spending across segments and a resurgence in the private capex in the industrial and reality sector, we are confident that this business will continue to be a key growth driver for us going forward.

We are pleased that our foray into data centers is doing well, and we recently secured our third order in the segment. In oil and gas pipelines, the business has demonstrated very good performance post acquisition of KEC per infrastructure last year in October 21. The business delivered revenue of INR 81 crores and secured new orders of INR 280 crores for composite works of an oil terminal station and laying off cross-country pipeline during the quarter. The business has a strong order book plus L1 of over INR 900 crores comprising government and private players. We are confident of significantly scaling up the business, both in India as well as overseas.

Our cable business actual revenues of INR 390 crores and grew by 9% vis-a-vis Q2 last year. I'm happy to share that the business has achieved its highest ever revenues and profitability in H1. The business is also progressing well with the development of five new products, of which three products have been successfully commercialized.

Coming on to strategic initiatives. We remain committed on delivering profitable growth through focused diversification, expanding international reach in our non-T&D business and strengthening the balance sheet through sustained cash flow generation. Additionally, we are making good progress in our twofold transformational program on world-class engineering and civil execution excellence in collaboration with the global consultants. The objective of this program is to expand our business horizons, improve engineering-led wins and enhanced profitability. The key deliverables of the program, including specializing new engineering solutions or optimizing cost and resource consumption, reimagining processes to improve productivity and implementing digital solutions to crash the project cycle time. We have already



started witnessing benefits of this program wherein we have expanded our footprint into diverse technology-intensive and enduring-led EPC projects in railways and civil.

We continue to deploy several mechanization, automation and digitalization initiatives across projects which has significantly helped to improve productivity and quality of execution. In ESG, we continue to take several measures to transform our operations in a sustainable manner. One of the key measures is the installation of induction furnaces and usage of natural and LPG gas at our transmission power plants in India and Dubai to lower carbon emissions, resulting in a saving of 24,000 liters of fossil fuel every month.

I'm also delighted to share that KEC has been recognized as one of the India's best managed companies by Deloitte for the second time in a row. The unique distinction is a testament of our strong focus on sustainability and governance. Overall, we are pleased with our consistent growth in revenues, traction in order intake and improving working capital scenario despite a challenging environment.

We have significantly reduced our exposure to legacy projects and have commenced execution of projects which are secured based on current poverty prices and logistics costs. This augurs well for us and gives us confidence of a sequential improvement in the margins in the quarters to come. On a concluding note, I would like to convey that the outlook remains robust across most of our businesses. Based on our traction in order intake, record order book plus L1 of over INR 34,000 crores and a strong tender pipeline, we are now increasing our revenue growth targets from the earlier 15% to 20% for the whole year. Thank you very much. I'm now open to your questions.

Moderator:

The first question is from the line of Bhoomika Nair from Dam Capital.

Bhoomika Nair:

Sir, just if you can give an update on how the working capital is panning out. I think we were looking at some easing of the working capital and release of funds from Afghanistan, and also other areas of Railways. If you can just give an update on what is the status of this state?

Vimal Kejriwal:

So Bhoomika, we are broadly in line with what we were talking about saying there will be improvement starting from Q3, and we should hopefully see a bump up around significant improvement happening in Q4. So I think that's in line. We have reduced around INR 150 crores. We would have loved to reduce more, but I think that's where we are.

Afghanistan is somewhere where we have still not received cash, but we are in active dialogue with all the three multilaterals. We do expect that before the end of the year, I'll say at least 30% to 40% of the outstandings should get realized either from the multilaterals or from against our ECGC claims. So, I think one if we will definitely see some light happening in the near future. There's also a lot of pressure on restarting some of these projects because some of them are of strategic importance to World Bank as well as some of the countries participating. So we'll keep our fingers crossed. The Embassy has recently opened and Visas are now getting issued. So I think in Q4, we will definitely see a positive movement in Afghanistan.

Bhoomika Nair: So the other aspect is on order intake, right? In the first half, we've seen a fairly strong order intake of INR 10,000 crores, you probably touch close to INR 20,000 crores in the current year. How is the outlook across segments looking at maintaining this momentum in the next few years? If you can just talk about the bid pipeline across T&D, railway, civil, the three key segments for us?

Vimal Kejriwal: So our pipeline in Civil is obviously very strong, okay, across residential, and now we are seeing industrial and public spaces. Metro is slightly weak. We have not seen major announcements of new metro. So whatever is coming is from the existing projects of Chennai and Delhi and Mumbai. But not all new. But overall, there's a huge pipeline of tenders in Civil. As far as T&D is concerned, international pipeline is very strong, especially from the Middle East, especially from Middle East and also, I see from Far East, we are seeing some tenders coming out in Thailand, Indonesia, sorry, Malaysia, etc. So that is going on. Africa is also slightly coming up now. Last quarter, we had said that were very disappointing. But I think off-late we started seeing some tenders coming out, particularly in East Africa, I will say.

India, I think T&D tenders are coming out consistently, especially from Power Grid and also the TBCB tenders. There has been some slowdown in award because of the GIB issue is still not resolved. I think there's a hearing in the end of November. So once that gets resolved all the tenders which are stuck in Rajasthan, should start coming out. Gujarat is already out and some tenders in Maharashtra and Karnataka should be awarded now.

So I think India, I'll say we have a decent tender of pipeline, but we are lucky that we have already won four and, maybe I think five or six projects already in this year, okay. And we are L1 in couple of them more. So I think for us, in both India and international, will do very well. And the last part is SAE, where we have a strong order book as well as the large L1s in SAE. So I think we will also see a good traction on the SAE order intake in the next half.

Bhoomika Nair: Sir, is it possible to quantify bid pipeline within T&D, what is it looking like both in India and international?

Vimal Kejriwal: I don't have the numbers right now. Maybe you can talk to Abhishek later on, but it should be around INR 25,000 crores - INR 30,000 crores, okay.

Bhoomika Nair: Sure. Sir, lastly on SAE, I know this quarter, we'll complete the last project. So what will be the level of loss that it will come off to versus the INR 60 crores, INR 70 crores that we've been making on a quarterly basis at EBITDA?

Vimal Kejriwal: Unfortunately, I don't have the numbers. If we knew what we are losing would have provided for that and closed accounts. We will commission the project this quarter, I think by November or December. So, by that time, all our various claims and all that commercial issues which are going on with the client, that should also get completed. Brazil the advantage is that normally, they also complete all the commercial pieces.

So this quarter, Bhoomika, we will complete the entire EPC, including the commercials and all that. So whatever is going to happen, I don't know what will happen, that those will get accounted for in this quarter. But I do presume that there will be reasonably lower than what has come in Q1 and Q2. I don't expect losses or anything up to that order. There will be some numbers depending upon how the claims pan out, okay, but we do expect that they'll be reasonably lower than what has hit us in Q1 and Q2.

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

Parikshit Kandpal: So my question is, if I see the business right now, so we are having the headwinds of high interest rates, which has started getting reflected on a higher debt level, value-added interest cost of almost INR 127 crores this quarter. And then second thing is, while we see some improvement happening from the SAE, and we expect to improve our margins, our standalone margins have actually maybe at all-time lows now. Just wanted to understand from you, what's happening on the standalone business, why has the margins come off during this quarter? And then seeing some more pressure headwinds standalone business given that we are out of the commodity factor where the price was corrected, but our margins are now compressed?

Vimal Kejriwal: Parikshit, standalone, I think there are a couple of reasons for standalone being where they are. So one is while the prices have come off, the impact of that will start coming in now. We have committed costs on raw materials, bookings have been done and we have legacy projects. So that is still continuing. What has also happened and why I'll say this quarter, it got a little bit aggressive in terms of numbers and all that is because the prices started coming down, we also fast track the execution of some of our projects, which normally we would have kept, do it easily. What happened was that there are projects where we could have waited till Q4 and all that for execution and gradually spread over the losses. But since steel came down from INR 72,000 to INR 56,000 and INR 55,000, we did decide that it's better to cut our losses and execute those projects.

Similarly on international front also, when we were seeing that logistic costs etcetera, were not coming down, since it is not coming down or it had come down to a certain level. We did, I'll say fast track some of our legacy and loss-making projects which we had earlier thought that we will spread it over maybe H2 or maybe going over Q1. Okay. So that's one thing which has sort of, you know, put a little bit of extra pressure on the standalone.

Secondly, I think in Q2 there were excessive rainfall which sort of, I'll say, push down our revenues for the quarter in India, especially. Had that not happened, we would have probably done 11% growth in standalone is not enough. We could have done easily 20%. So because of that, there was some leverage which has come and hit us both on interest and also on opex cost.

Third is that we have now got a large order intake at current and maybe sometimes at a better pricing also. So all those orders are now under design and execution and we will start revenues accruing from that maybe at Q3 or maybe at least in Q4.

The fourth piece what I would like to add is that you have seen results of many of the cable and conductor companies and all that. Now with metal prices as far as coming down, all of them are under tremendous pressure to supply. So we are also running in a supply constraint in some of the places where the already prices have come down. But we are not actually able to supply the material because the factories of all the conductor manufacturers are full. So I think these are a few reasons. And I think the last reason I would like to say is you will also start seeing the numbers of standalone versus the consol being different now because we now have our Dubai factory. We also have our Dubai EPC LLC where all our UAE and other jobs are now getting executed under that LLC which will come under the consol rather than standalone. So you may going forward also see some changes in the consol versus standalone, especially on the T&D sector. I hope I've answered all your questions Parikshit.

Parikshit Kandpal: Yes. So second question is around the profitability. So between the sale and the standalone, so how do you see the margins coming back to that high single digits? Why do you expect your own sales given the current order book and the pace of commodity prices and the factors we mentioned just now, so how do we revert back to that with our high-quality technology service? So we can get some sense and color on that?

Vimal Kejriwal: So to me, Parikshit, Q4, we should start seeing at least a breakeven in SAE. Q3, I'm not sure. I don't want to commit or stick my neck out. But Q4, definitely we should start seeing a breakeven in SAE. And by Q4, I'll say largely, except maybe one order or maybe two orders where we have an issue where we are not able to commence execution. Most of our legacy projects should get completed in terms of material supply. There could be closure issue and all that. So from I think Q1 onwards we should start seeing margins heading towards the high single digit.

Parikshit Kandpal: And what about standalone, sir?

Vimal Kejriwal: I think the problem will continue to be on standalone also because as I said some of the orders which we have on TBCB and all that are in standalone. So we will have to wait and see how it pans out. But maybe you may have Q1 could be again still single high digit even for standalone. Maybe Q2 onwards we may see some changes.

Parikshit Kandpal: Just lastly sir, if you can give us the segmental breakup of debt between T&D and non-T&D. So how much should be the distribution there?

Vimal Kejriwal: The revenue was 49% or you are looking at what distribution?

Parikshit Kandpal: Debt, debt numbers between the T&D and all that.

Vimal Kejriwal: Debt, I don't think we have and I don't think we give it in that fashion but I don't even have it right now. Maybe you can talk to Abhishek later on, maybe get a better idea.

Moderator: Thank you. The next question is from the line of Ashish Shah from Centrum Broking.

Ashish Shah: So first question is on the Afghanistan execution. So you did mention that there are some indications that you may start the work on some of the projects there. But now it's been some

time that you had got those projects, a lot of things have happened in between. So is there any talk of renegotiating the value of the order so that your margins are protected? Because then we don't want that SAE kind of a situation again. So I'm just getting your thoughts on that.

Vimal Kejriwal:

Ashish, there is a clear, I will not use the word renegotiation, but there are clear discussions happening on cost of completion and the cost of maintenance. So let me put it this way, we already have around, I don't have the number, but 30, 40 local employees who are there at site, maintaining the stores and maintaining the work which has been done. So hopefully there is no deterioration in the work which has been done. So all these costs which we are incurring, and also additional cost with the influx of time are under discussion with the client. So definitely when we restart, we will definitely have better numbers available.

And I think even if, let me go to the extreme, even if there's nothing happening there in terms of cost negotiation and all that, most of these projects are high double digit numbers and all that, 15, 20%, 25% and all that. So we don't see, in fact, as and when we start, in fact, I should have added that when I answered the previous question saying why your standalone numbers are lower as compared to last quarter, because last time we had Afghanistan in the execution, where the margins were higher. That was another reason.

The other piece is that, Ashish, most of these projects, material has been supplied, I think, probably 90%, 95%. So all the costs which are now to be incurred are on the local execution cost, which in our view, considering the local scenario prevailing with the security having significantly improved vis-a-vis the earlier era. I will not say it is very good, but it is vis-a-vis the earlier era. We do expect that the execution cost may actually turn out to be beneficial rather than adverse. But we are very clear that there will be a settlement arrived at on the cost incurred to be incurred and all that before the projects restart. And that should take care of all our concerns.

Ashish Shah:

So if I may ask, what is the outstanding backlog there in Afghanistan now, at this point?

Vimal Kejriwal:

I think it's around INR 600 crores or INR 500 crores. Roughly around INR 500 crores. I don't know the exact number, but it's in that ballpark. INR 500 crores to INR 600 crores.

Ashish Shah:

That's fine. So second question, and I think the last one, is on the interest cost. So traditionally, we have been guiding interest as a certain percentage of the revenue. Obviously, 2% and all seems a little difficult now. But for this year, what would be your guidance for the interest cost? Would we expect the run rate to increase even further because the rates are still increasing or this is the stable level that you will look out?

Vimal Kejriwal:

To me, Ashish, I'll probably stick my neck out here and say that we expect it to come down, as a percentage of revenue, because what is also going to happen is that we just said that we'll grow at 20% to look at our numbers for Q3 and Q4. If we are growing at 20%, our revenues will grow also significantly. So as a percentage of revenues, we expect them to come down by maybe by 20 basis points or something, maybe 2.8 or 2.9 or something like that. We are targeting 2.75, but

I don't know where we'll reach. But I think 2.8 or something should be a safe number to assume for the year as a whole.

Moderator: Thank you. The next question is from the line of Sandip Sabharwal from Asksandipsabharwal.com.

Sandip Sabharwal: So I've been tracking the company, as you know, for many, many years. So I think this is the second cycle in which we are seeing that because of interest cost, the profit pool for the shareholders actually has come down sharply and in a rising interest rate environment given the kind of debt you have, although you are guiding for a lower interest cost to revenue, that might become tougher and tougher to achieve. So are there any levers for you to actually be generating free cash flow and reducing this debt? Because there was one cycle when debt went up and then these guys worked very hard, it came down and then again now it's going up.

Vimal Kejriwal: Sandeep, a very valid question and thank you for your continued interest. So there are a few things which are going to happen. One is Brazil, the interest rates went up significantly. We do expect that with a stable environment, which is coming in there. And we have seen the commodity other prices stabilizing in Brazil and other costs also.

We think that the interest rates will start coming down there. We are also refinancing some of our debt in Brazil at a lower cost through some of the development banks. So that's one part of it. The second part of it is that with a lot of volatility in the supply chain, our inventories have gone up by almost INR 300 crores over March okay? And we do expect that with all the suppliers, especially of steel and other metals for stabilizing, we will start getting back to our normal inventory. So maybe INR 200 crores, INR 300 crores of cash would get released from our inventories.

Third piece is that last time we had discussed about GST, where on all our railway and civil contracts, now we are able to charge 18% GST, which is also the input GST except for cement. So we have started seeing a release of our GST locked up in our refund already I think INR 40 crores, INR 50 crores has come back to us, and we expect another INR 200 crores or INR 250 crores number to get released by the end of March.

So overall, if you look at all these things, maybe INR 600 crores, INR 700 crores of numbers. from the debt should come down, even if we continue to be efficient on our DSO and AR, okay? We are working on the debt, on the receivables, etcetera. So I do presume that some numbers will come out. So when I said that interest costs will come down, there were, I'll say, two or three different factors to it. One was that we expect the overall borrowings to come down. Second was that we expect our revenues to go up. And third is we do expect that we should be able to collect a lot of money, especially on the railways and some of the transmission projects which are now nearing completion and which have a higher retention value. So we should become more efficient in our debtors.

Sandip Sabharwal: Sure, that will be great. The second part was that although diversification of the revenue, like you've done it very well like you're calling railways, civil and other segments. So from a pure

transmission company, you're a very diversified in engineering company now. But has that impacted in some way the entire bidding process of projects, your ability to actually predict what kind of margins you will make out of them and that has actually hurt the near-term performance? Or do you think that you are able to manage that?

Vimal Kejriwal:

I don't see any concern of that. In fact, to me, that has been actually on the other side, where it has made us much more predictable. Sandip the problem what we have been having is what has happened on the commodity prices or basically on COVID account, okay? You know the commodity has hit the roof and all that. And because of COVID during that point of time to protect revenues, we had taken a few orders in, I'll say, in the period of around August, September, August to December 2020, when our tender pipelines were very poor -- and those orders got delayed. So that is what has hit the numbers and all that. I don't see any structural change. In fact, right now, the margins on my non-T&D business are significantly higher than T&D because T&Ds been hit by fixed price contracts, which are now getting over.

Moderator:

The next question is from the line of Priyankar Biswas from Nomura.

Priyankar Biswas:

So my first question to you is, like last time, if you can give us some colour on the non-T&D margins. So if I recall, last time you had probably highlighted that in railways and civil probably you are already closer to 10% level. So what is the status now? And as far as collections are concerned, so this railway, how much is owed to us right now? And when do we see those money starting flowing in, like possibly some time lines?

Vimal Kejriwal:

So Priyankar, our margins continue in the same manner, okay? We are still not exactly double digit, but we are pretty close to that in both railways and civil. As far as railways is concerned, I don't have the exact number of AR and all that. But I can tell you one thing that we have collected either equal to or more than our revenue for the half year. So the AR numbers in terms of overall has come down in railways, not to the extent we have wanted it to come down, but it has come down. And some of the money I think are stuck in are in a couple of projects, which were on EPC mode and all that. And I think those projects will get over in this quarter. So hopefully, by Q4, all the money on these two or three projects which are large projects will get released. So Q4 should see a significant improvement in the railway AR and DSO performance.

Priyankar Biswas:

Since you have given increased revenue guidance. So similarly, your order inflows have been quite strong. So what is the expectation for order inflows now because it has been quite trending also in FY '23 what would you suggest would be the order inflow growth that you would expect?

Vimal Kejriwal:

So Prinyankar, we have been looking around Rs. 18,000 to 20,000 crores. Let's see where can we reach finally. We are already at INR 10,000 and odd. We have 6,500 of L1. Hopefully, these L1 get converted, then we should be at 17,000 in any case, plus we have bid for a lot more projects. So I'll say in the band of 18,000 to 20,000 is what we are targeting for.

Priyankar Biswas:

I have one more thing that I observed here is that the rise in debt for both the consol and the standalone seems to be almost similar, almost like almost to a net debt increase of almost INR 1,000 crores each. So is it like that we are essentially borrowing at the standalone level and

funding the SAE losses to avoid interest payments out there or some sort of mechanism like that being done?

Vimal Kejriwal: I think I'll ask Rajeev to touch base with you later on to understand it exactly. There will obviously be some borrowing at the standalone level into -- and funded by way of equity. We've hardly given any loans to the subsidiaries. Whatever has been given has been by way of equity.

But we do expect that the loans in the subsidiary will now start going up because the balance sheets will now start improving. So then they should be able to borrow on their own and there will be no need for us to raise money in the standalone and fund them. But obviously, the standalone has got a better balance sheet. So the cost of raising funds in the standalone are obviously better. So if there is a mechanism, we will see how to best optimize the interest costs. But right now, we are not giving loans to them, no.

Priyankar Biswas: So in equity infusion. So in that sense that corresponding rise in debt in standalone could probably be due to equity intrusions into the would that be the right way to see.

Vimal Kejriwal: That is the right way of looking at it, and that is also the reason why we had taken an impairment because we had given the equity for the equity investments in the companies have gone up, okay?

Priyankar Biswas: And sir, the last question from my side, like at your absolute borrowing level, let's say, X of SAE, so what is the rate of interest that you are getting on the debt, I mean, excluding SAE? And how would it compare let say, similarly last year. So I just want to understand the rate of increase of interest on the core business?

Vimal Kejriwal: I think it's around 7%, okay?

Rajeev Aggarwal: From last year to 200 basis points.

Vimal Kejriwal: From last year to 200 basis points Rajiv is saying, from last year, okay?

Priyankar Biswas: Up 200 bps effectively.

Rajeev Aggarwal: Whatever is the increase in the interest cost this year, roughly about INR 100 crore interest has precisely INR 90 crores 50% on account by interest rate rise and 50% is on account of the additional volume of borrowing that has been raised during this period. So that 200 basis point interest rates have risen and that is across the board. If you look at the way the RBI has increased their repo rate and all that, so that is exactly reflecting into the borrowing because most of our borrowings are short term in nature, they are for working capital purposes. So it translates immediately into your borrowing numbers.

Moderator: The next question is from the line of Amish Kanani from JM Financial Services.

Amish Kanani: Sir, I just wanted to understand with less than 5% of our order book, the slow moving and low margins. Can we assume that the balance order book is more like high single digit or maybe

EBITDA margin between 8% to 10%. And is it possible to give us the average execution cycle across what is of the order book, which is outstanding at the moment?

Vimal Kejriwal: I mean I'm not very clear on your first part, but let me first answer the second part. Our average order book would range from 12 months to 18 months and some of them are 20, but civil would have longer, especially the water pipelines and the metro projects and all that. But average T&D is now slowly coming down to between 12 to 18 months.

Most of the T&D projects are actually now 15 months, okay? Civil, industrial would be probably be less than 12 months. Residential would extend because it's normally large, large townships, etcetera. So they'll start from 12 to 24 months. I say average, you can take around 18 months, on the ballpark? And what was the first part? I think voice is not clear.

Amish Kanani: Sir, barring the 5% order book which you mentioned, slow-moving and you know and you also mentioned that Brazil there is no EPC, it's all no products or tower business. Can we assume that now our outstanding order book as we execute will be more like 8% to 10% EBITDA margin, sir?

Vimal Kejriwal: 100% Yes. Absolutely.

Amish Kanani: And sir, we have recently seen the headline of Brazil changing, there was outcome of the election. The question is, so the losses that we have made, are we taking it as a part of normal business or we are going to outline them, saying that we have incurred a loss which we may go and say that there are some claims that they need to give. Given that power is very, very critical, we have seen always, power utilities are always given some special treatment. If you stop order, the politicians also get affected. In the context, are we going back to them and saying that you need to compensate us or else you will not go again? Something like that?

Vimal Kejriwal: So Amish, what has happened is that as far as the government is concerned, we don't deal with government directly. We are contractors to the developers there. We have gone back to our client and whenever, whatever was possible, except for the last order which we are now -- right now completing, all the orders have been commercially negotiated and closed. Part of the losses have been reimbursed, part has not been reimbursed. Because unfortunately Brazil did not declare COVID as a force majeure. So because of which your legal recourse was very-very poor because your clients also did not get a legal recourse. So which is where you got caught into what the President said that it is a flu and a sneeze and all that. So we got caught very badly in that.

I don't think we have any way of recouping that. But what we have been discussing with the local governments and the Brazilian Authorities is how do we bring the business back on track and all that. And so I think there are some talks happening and I think we expect that there will be some benefits which will be passed on in terms of sales tax, etcetera. to the businesses. But that would be for the future business. It will not be on the past. Whatever has been accounted will be, has been now accounted and will be closed. We do not see any reports from the government or anyone on the past losses.

- Moderator:** The next question is from the line of Vivek Ramakrishnan from the DSP Mutual Fund.
- Vivek Ramakrishnan:** So I'm just trying to understand, to further nuance the working capital cycle, you said that there were certain one-offs which were due to supply chain constraints and certain one-offs which were because of the way, let's say, the Railway order was tendered and that extended the working capital cycle. Now going forward, given that we are approaching some kind of normalcy in the world, do you expect these one-offs to come out and the INR 600 crores that you are guiding towards in terms of reduction in debt. And the second question is, given the fact that you have seen this, how would you look at working capital cycle and the interest cost going forward in terms of the future contracts? Would it be more short-tail in nature or would be still have any contracts which are long-tail like we have right now? Thank you, sir.
- Rajeev Aggarwal:** Basically, there are many reasons for the increase in the working capital over the last one, 1.5 years. So obviously if you look at the broader reasons, one is Railways, there is a change in the structure of some of the projects. They were EPC projects which required us to complete the milestones or achieve the milestones before we could have built. As against the BOQ order that we were earlier getting.
- So on the BOQ order, generally when you supply the material, you get paid immediately on that. But as against that, in the EPC project, because these are design and build projects, so you achieve a certain milestone. For example, 50 kilometers of the overhead electrification you have completed, only then you can bill. So those type of orders actually require certain additional working capital, and that is where the working capital in the Railway business increase.
- A few other reasons, like GST, I mentioned in the previous call also the GST in civil and Railway business which is a large business and they have grown very well over the last two, three years. They were having an inverted duty structure wherein our entire input was coming at 18% GST whereas the output GST was 12%. So that led to a huge accumulation of close to about INR 400 crores, INR 500 crores in the GST account.
- Luckily, the good sense prevailed and the GST has been reversed and increased to 18% for these Railway and civil projects. So now our accumulation has stopped and now we are able to recoup some of the GST balances. So now the GST balances have started going down. So already let's say last two, three months since the new rates have been implemented, we have reduced close to about INR 50 crores against our accumulation. And our expectation is that by year end, we should be able to reduce about INR 200 crores to INR 300 crores on the GST account.
- The third piece was, as Vimal mentioned just a while ago, that because of the lot of supply chain bottlenecks which we faced during the COVID period time and the price fluctuation which was happening, so we accumulated some of the inventories at site because our working site should not get impacted with the non-availability of the material. So that also led to some increase in the inventory levels, which is about INR 200 crores, INR 300 crores. That should normalize in the remaining H2 level. We expect another INR 200 crores, INR 300 crores, which should go down.

Fourth item is Afghanistan, which, again, Vimal has guided, and we are in active dialogue with the multilateral funding agencies. And we do expect that there will be some reduction. My sense is about INR 200 crores or INR 400 crores, we should be able to collect by Q4. It could be depending on whatever discussions are going on and they have accepted our position and they are in the process of settling. So we are quite confident that some reduction will happen at least INR 150 crores, INR 200 crores should happen from Afghanistan also.

So there are various actually items on which we are currently working, and on an overall basis we are quite hopeful that we should be able to reduce the overall debt level from the current level by at least INR 500 crores to INR 700 crores. So that should happen and then remaining normalization should happen in the next financial year. So my sense is that we should by next financial year, FY '23, FY '24, we should come back to 100 days or 110 days of NWC which used to be there about two years back. So that is how we are working very-very in a focused manner to reduce our borrowings on debt. And debt should be the normalized working capital is 100, 110 days of NWC.

Moderator: Thank you. The next question is from the line of Jayesh Shah from OHM Portfolio Equi Research.

Jayesh Shah: Kejriwalji, first of all big congratulations for the big transition that we have seen in KEC from a T&D company to a powerhouse of execution and projects across Rail and adding other engines of growth in the domestic business. While this is very impressive and I think this alone leads the case for re-rating, my worry is more on the international business and when you look at the big picture, how do you look at controlling the risks on the international business? For instance, we have seen the SAE example for the last two times, so based on this experience write-offs, what are the lessons that we learn? How do we control the risks here and the amount of losses and working capital?

And especially given the geopolitical situation where we don't know about country, currency risks, are we better off focusing more in India? So my question is, is there any informal cap that you would put on the order book business? And over time, isn't it possible to grow the domestic business much more than focus on international business. And lastly, I would say that if you listen to all the calls, the focus from all the analysts and investors is more on controlling working capital and debt rather than growth for growth's sake. So I think these are the large big picture questions I have concerning your strategy vision that I wanted to ask and get your view. Thank you.

Vimal Kejriwal: Jayesh bhai, first of all, thank you very much for your compliments. And secondly, it looks like you were sitting in my board meeting because these were the exact discussions which we were having in our board yesterday saying, should we control this? Should we do that? We are seriously looking at all that has happened. SAE to me is like a bit of an aberration because we really got hit by like your Parkinson's or whatever has to go wrong went wrong in that country for whatever reason. We don't have any excuses and all that. I can only say that it just deserves an apology that we were not able to control the losses.

But let me tell you another thing, Jayesh bhai is that we are running almost 290 projects. And at any given point of time, five, six, seven, eight projects will always, or maybe more than that, can always go wrong. Brazil, we learned our lesson saying we have analyzed what all have gone wrong and what you need to do to take care of such things going forward, not just in Brazil, overall.

Your point on international is something which keeps on cropping up again-and-again. We have an international I think order book of close to maybe INR 5,000 crores or something right now on the EPC side between basically in India. And generally if you look at our history except for the last two COVID years, international has always made more money than India, always. I repeat that. And we do expect that if we put in our proper checks and balances, we will be able to go back to that point of time.

On the other hand, if you look at India, basically Railway and civil is right now only India. T&D if you look at it, probably I think maybe 30%, 40% is India, rest of that is international. We always keep on sort of debating, weighing, looking at it saying that should we expand here, should we not expand. We have a lot of risk metrics, which we look at when we go to a new country and look at how is the credit rating of that country, what is the exchange control there, what has been the performance, what is the IMF rating for that country, what is the ECGC rating for that country, all that work is done.

So typically if you look at it, Brazil was more of an execution issue, I'll say, wrong tendering, wrong cost taken somewhere. But otherwise we ensure that we have multilateral funding. Even in Brazil, in spite of all the losses, we got paid all the money from the clients and all that. So the major issue is political stability, currency issue, legal system. So all that is looked into account and the way execution can be done. But your points are well taken. And we are seriously debating on some of those points which you have raised.

Jayesh Shah:

Yes, I think, you guys understand the business very well. We take an outsider view and a very short-term view. The only thought I would leave with you is that international business for KEC is supposed to have at least one and a half times the margins of the domestic business, given the political and the currency risk. So, I would actually look at it as a filter rather than just be happy about international business having higher margins than domestic. and of course, happy, if you can control the working capital and receivables, then that's a big, big plus from a risk management perspective. But I'm sure since you are debating, you would find appropriate solutions here.

Vimal Kejriwal:

I'm happy you mentioned 1.5 times. My international head is on the call, and I hope he takes the note.

Jayesh Shah:

Yes, I'm happy to pester him more if you need.

Moderator:

Thank you. The next question is from the line of Bharat Sheth from Quest Investment Advisors.

Bharat Sheth:

Sir, just to get some flavor from say, two, three years perspective, So if you can bifurcate our T&D business, international and domestic as well as other business, railway and civil as well as cable. So how in all business, we see the visibility for next three, four years pipeline in T&D, you gave INR 25,000 crores of pipeline, but between, say, domestic and international. And last couple of years in domestic T&D were really going down. So now which -- where the visibility looks to be a little better. So how do we see this thing playing out and -- then the overall project cycle of all these different verticals, how many months really, like T&D, you said is a 16, 12 to 18 months, so different -- and working capital environment in all these verticals?

Vimal Kejriwal:

Bharat bhai, lot of questions. So let me start with T&D. -- sorry, cable is the easier one. Cable, our share is 4% to 5%. So cables market can grow depending upon our capacity to manufacture. Right now, we are probably operating at 70%, 60%, 70%. We are trying to improve the capacity utilization. And we also put in some money moment. So cables will definitely grow by 10%, 15%, as I said, constrained by our manufacturing capabilities. And it will go, it is doing well. We are happy with the performance. The ROCE is pretty high there. Although the EBITDA is not very great but we are doing well. As far as T&D is concerned, I'll tell you the joker in the pack in T&D is your green hydrogen.

If you look at what our honorable prime minister is talking about, 5 million tons and all that, and even if you achieve 50%, 60% of that by 2030, we are talking about some 300 gigawatts of renewable capacity to be added in the next six, seven years. That's the requirement for meeting the requirement of the target of the green hydrogen for India.

If that sort of numbers happen, or all the big daddies have jumped into green hydrogen, if they start putting in that sort of money, there will be a huge requirement for renewables and obviously then to transmit the power generated by these renewables. So we have to keep our fingers crossed and wait and watch, seeing how does this piece develops going forward.

So one is the opportunity in doing a solar EPC or a wind EPC and all that. That is one part of it. But the major part of it is that how will the power generated by these renewables get transmitted? Because, you know, it is easier for them to transmit power than, you know, more ammonia or green hydrogen and all that. So, you know, power transmission is easier than any other transmission that way. So I do expect that the T&D piece out of green hydrogen would be very, very large if the government is really serious about achieving the targets which have been laid out by the government. So that's one big joker in the whole in the whole pack. If some part of that is happening, then T&D will really move to a next level.

And the second part here is that we have never seen shortage of power in India except for the last one year, which means the power demand is somewhere going up. So that is also leading to some incremental T&D orders which are coming in, but I still not say that's great. The major order will come in now from the green hydrogen and also, if you look at the last few years, solar and all has not done very well.

Now that we have capacities coming up in India for module manufacturing and other things, we do expect that solar generation will go up apart from the green hydrogen piece of it. And which

once the issues in Rajasthan and other places get cleared, we do expect that there will be some more orders coming out on the green energy corridor, which is what orders will come to us.

So the T&D will depend upon how the renewables, you know, pan out, both for normal requirement of power to meet our COP 27 or whatever requirements you want to say and also for the green hydrogen. So we are actually very bullish right now in the coming years, not today, but maybe in a year or two on the India T&D piece and also probably on the solar EPC piece. Have I answered your question, Bharat bhai?

Bharat Sheth:

Yes, largely. Of course, I mean, there are so many ifs and buts, but it's fair. And international?

Vimal Kejriwal:

International right now if you look at there is basically I can see three different markets which are there. One is clearly Middle East which is really growing very fast. Whether it is Abu Dhabi, whether it is Dubai, whether it is Oman or whether it is Saudi, very clearly, or even Kuwait, sorry. So you know these are the four or five countries where we are seeing a lot of demand coming up. You know, and all the oil money seems to be getting invested in some good assets being built up in these countries.

The other area where we are seeing a large demand is North America, especially United States. We never had a Mexico factory down with so many orders. Mexico always used to operate at 50%, 60% in the last two or three years. Right now we are looking at adding capacity there because we have got so many orders coming from that, what President Biden has talked about build back better and all that. So, and also with the, I think a few cyclones and all which hit them and many of the large cities are without power.

So America, especially United States is becoming a big market for us to supply of towers. We don't do EPC there, but the supply of towers is becoming a big market. And third to a smaller extent are markets like Thailand and Malaysia and fourth will be Bangladesh. So to me these are the four regions in international where we are seeing a lot of traction happening and we are generally familiar with these markets so we don't anticipate the problems which we've had in other countries when we take projects here.

In fact, let me also add one thing, but I realize that this year our international will grow by at least 30% to 40% as compared to the last year. And we have an order book for next year also. It will grow reasonably well.

Bharat Sheth:

Relatively lower than the domestic side. Margin is better?

Vimal Kejriwal:

Margin will now pick up because now these orders are at newer prices. So last two years have been difficult for international, because we had many fixed price orders which were taken at lower metal prices. Now the orders which we will start executing now are at higher metal prices. So we will start getting back to better margins in international now.

Bharat Sheth:

And working kept and remaining two, three piece, I mean solar EPC also has this railway and civil?

Vimal Kejriwal: Railway off late we are seeing a lot of tenders coming up for building up new lines, doubling, tripling, probably an election impact of 2024. I do not know, but because we earlier not seen so many orders for new lines. So that is doing very well. Plus all the civil works for Chennai Metro and Mumbai and all is getting over. So the electrical part is now coming in, laying of tracks, power supply, OHE.

So I think railways and also the speed up upgradation, sorry. The ministry is very keen to upgrade the speed on all the trunk routes and some of the major routes. So a lot of work is coming out in railways. We are also L1 in a couple of projects in railways in the international market. So I think railways will do well this year and also coming years we do see a decent growth in the railway piece.

Civil is doing very well in any case so I don't think I need to talk much about it. We should cross 4,000 crores of revenue this year and maybe at least 30%, 40% increase next year back on the back of our 9,000 plus crore order book in Civil.

Bharat Sheth: And competitive landscape if you can briefly touch upon in...

Vimal Kejriwal: So railways is becoming a little bit more competitive than before. I'll say a few months back the competition was lower but now we are seeing a little bit improvement, increase in the competitive intensity. Transmission for the larger orders, we don't see too much of competition. There are five six players but for sub stations the number of players are relatively lower. Civil, you can divide them. let's say between 500 crores below and 500 crores plus. So below 500 crores you'll have maybe five or six competitors in every tender or maybe even more sometimes. Above 500 crores you'll typically have three, four or maybe five players in competition. So competition I think is okay. I don't think it's become very intensive, very intense sorry, but it's generally okay.

Moderator: The next question is from the line of Vishal Biraia from Max Life.

Vishal Biraia: Vimalji, what is the extent of subcontracting that we do?

Vimal Kejriwal: Extent of subcontracting, See, basically, we hardly have people on our roles. Okay, except for the international market where visas and all are done by us. So sometimes some people work for us. But otherwise, largely, most of our projects are subcontracted, but there are various models of subcontracting, which we follow. -- sometimes it could be only a labor subcontracting, sometimes could be with material. Sometimes you could do a back-to-back subcontracting of a full unit and all that. So depending upon the type of project, the discussion with the client and the capability of subcontractors. It would follow a different model in each project. But most of our projects are typically subcontracted out in various forms.

Vishal Biraia: Sir, but if you consider with material and turnkey subcontracting, that proportion would be proposed of the total in India? -- in international?

Vimal Kejriwal: In India, generally, it will not be with materials. In India, it is generally a labor contract I've hardly seen any contract where we have given in India with material I don't think so. Sometimes in international market, when you're giving a piling contract, you may give him the shipment and all saying, we'll pay you per cubic meter of pile, etcetera. The major subcontracting happens in regions like Thailand, Malaysia, etcetera, where you have got large subcontractors who are capable of doing it.

So we Vishal, it depends upon the capability of the subcontractor rather than our willingness. I am happy to give it back to back, then I don't get into issues of material has been delayed or some other things happen or price increases, etcetera. So depending upon the capability of the subcontractor, we will decide to subcontract it. But I don't think -- as material put together material or that will hardly be more than -- no more than 10% or something where you are giving it with material, etcetera.

Vishal Biraia: In Middle East how would it be done?

Vimal Kejriwal: So Middle East what happens is that let's say you take a piling contractor. He will come and do the drilling and everything for you. You will supply him the concrete. Erection obviously is our tower so they only do this. Stringing is generally done by our own people. That's the most critical part for us so we do it ourselves. There are countries where let's say we look at a place like Dubai, where only approved subcontractors are allowed to do civil. So there you will offload the entire work to him sometimes including the supply and all that also.

Vishal Biraia: And the other question is, if you are able to break it up as to of the INR 27,000 crores - INR 28,000 crores worth of order books that we have, what proportion is fixed price to where?

Vimal Kejriwal: I don't have a right answer but a large part of I'll say international would be fixed price so maybe around 20% or so I'll say it's a wild guess maybe Abhishek can give you later on but I think it should not be more than 20% or something okay because why I'm saying that is most of our civil and railways are always with PV which is a large part of my order book in T&D also international also we have now a lot of orders which are with PV. India some parts are with PV. So I think max would be 20% or maybe even lower than that.

Moderator: Thank you. Ladies and gentlemen, this was the last question for today. I would now like to hand the conference over to Mr. Vimal Kejriwal for closing comments.

Vimal Kejriwal Thank you everyone for your interest. We are very clear with the current order book and what we have. I think we will have a significant improvement in our revenue and performances. Margins have been under pressure, but we do expect that from next quarter onwards, the margins will start showing an upward trend and should start normalizing towards Q1 side. Thank you very much. Thank you, everyone.

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