



“KEC International Limited  
Q3 FY '23 Results Conference Call”  
**February 01, 2023**



**MANAGEMENT: MR. VIMAL KEJRIWAL - MANAGING DIRECTOR AND  
CHIEF EXECUTIVE OFFICER – KEC INTERNATIONAL  
LIMITED  
MR. RAJEEV AGARWAL – CHIEF FINANCIAL OFFICER  
– KEC INTERNATIONAL LIMITED**



**Moderator:** Ladies and gentlemen, good morning, and welcome to the KEC International Limited Q3 FY '23 Results Conference Call. We have with us today from the management, Mr. Vimal Kejriwal, Managing Director and Chief Executive Officer; and Mr. Rajeev Agarwal, Chief Financial Officer.

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 star then zero on your touchtone phone. Please note that this conference is being recorded. Please note that this conference is being recorded.

I now hand the conference over to Mr. Vimal Kejriwal, Managing Director and Chief Executive Officer. Thank you, and over to you, Mr. Kejriwal.

**Vimal Kejriwal:** Good morning. I welcome you all to the Q3 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 the key strategic initiatives. We have achieved our revenues of INR 4,375 crores for the quarter, a robust growth of 31% vis-a-vis Q3 last year.

We are witnessing strong execution momentum across most of our businesses. The growth is backed by good performance in the T&D, Civil and Oil & Gas businesses. With this, our YTD nine months revenue stand at INR 11,757 crores, a healthy growth of 24% vis-a-vis nine months last year.

We continue to deploy several mechanization, automation and digitalization initiatives across projects and engineering, which has significantly helped us to improve productivity and quality of execution. We have delivered EBITDA margins of 4.6% for the quarter, a sequential improvement of 20 basis points vis-à-vis Q2 FY '23. The margins have been impacted primarily due to the execution of legacy projects with adverse commodity prices and the performance of the EPC projects in SAE Brazil. I'm pleased to share that we have completed the last EPC project in SAE Brazil in December '22.

During the quarter, we have secured significant orders of approximately INR 1,000 crores in SAE across Brazil, Mexico and US, including one of the largest power supply orders from a reputed developer in Brazil. With this, our order book and L1 in SAE has increased significantly to over INR 2,000 crores, comprising of orders for supply of towers, hardware and poles. The robust order book reaffirms our confidence of revival in the performance of SAE.

We have delivered PBT margin of 0.3% and a PAT margin of 0.4% for the quarter. We continue to witness a strong traction in the order intake with the orders announced yesterday of INR 1,131 crores, our YTD order intake now stands at INR 15,554 crores with the growth of 10%. The order intake has been largely contributed by our T&D, Civil and Railway businesses followed

by Cables and Oil & Gas. Most of these orders have been secured at current commodity costs. This gives us the confidence on the margin trajectory going ahead as these orders get in to execution.

The traction in order intake has enhanced our order book to INR 28,981 crores, including the orders secured in Q4 till date, a robust growth of 19% vis-à-vis last year. Additionally, we have an L1 position of over INR 6,000 crores diversified across businesses. With this, our order book plus L1 position stands at an all-time high of over INR 35,000 crores, which is largely divided equally between T&D and non-T&D businesses.

In a recent development, the Union Cabinet has approved the National Green Hydrogen Mission. This mission will result in development of green hydrogen production capacity of at least 5 million metric tons per annum with an associated renewable energy capacity addition of about 125 gigawatts in the country by 2030.

But the targets by 2030 are likely to bring INR 8 lakh crores investments and a significant increase in projects for solar, as well as the associated transmission lines and substations. Accordingly, we have started refocusing on the solar business and have secured our largest order to build a 500-megawatt solar PV power plant in India. This prestigious project will be executed over a period of 16 months.

Focus on cash flows and working capital stands unabated. The dedicated efforts we have brought down our working capital to 139 days as on 31st December '22, a reduction of 9 days against 30th September. Our debt level including acceptances continues to show a sequential improvement and at least INR 5,617 crores as on 31st December, a reduction of more than INR 300 crores against 30th September '22.

This is despite a sequential increase in revenue of over INR 300 crores. We have reduced our debt level, including acceptances consecutively for the last 2 quarters. The total reduction is INR 450 crores against 30th June '22. We are confident of a further improvement in the working capital in Q4.

Our interest cost stands at 3.4% for the quarter as a percentage of sales. The interest costs were higher, owing to the steep increase in interest rates, both in SAE Brazil as well as in India and the elevated debt levels.

Now coming to the specific businesses. Our core T&D business has delivered stellar growth of 40% for the quarter vis-à-vis Q3 last year. The growth has been delivered on the back of a robust execution across both domestic and international markets.

The T&D business has significantly expanded its order book with strong order inflows of over INR 7,000 crores across India, Middle East, Africa and Americas. In India, the business has secured its maiden orders in the strategic segment of HVDC terminal station from a leading



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private player. KEC is the first EPC company in India to secure an order of this scale in this segment.

The business has also diversified its customer base to include non-utility clients with 2 orders for GIS substation projects from a reputed power generating company and a leading refinery PSU in India. In international T&D, we continue to expand our presence with multiple order wins in key markets. We have also consolidated our leadership position in the Middle East market by re-entering Kuwait and securing large interconnection orders in Brazil.

The overall tender pipeline in T&D continues to remain strong both in domestic and international markets, given the push for renewables and requirements for new transmission lines, substations and underground cabling. The outlook in Middle East remains positive, especially in Saudi and Abu Dhabi.

Coming to Railways, this business has achieved a revenue of INR 897 crores for the quarter. I am pleased to share that the business has secured YTD order inflows of INR 2,900 crores, a healthy growth of 1.8x vis-à-vis last year. These include orders in conventional OHE and composite projects, as well as orders in new areas of speed upgradation, technologically enabled areas of metros and emerging areas of TCAS (Train Collision Avoidance System), under Kawach which aims to enhance safety of Indian Railways with the world-class technology. We are witnessing an increase in competition, especially in the conventional segment with the entry of road EPC players and Tier 2, Tier 3 EPC contractors.

Our Civil business has delivered another quarter of strong performance with revenues of INR 845 crores, an impressive growth of 75% over Q3 last year. The growth has been delivered on the back of robust execution in water pipelines, metro, industrial and residential projects. The Civil business continues to deliver consistently on the order intake front and has secured YTD orders of INR 4,800 crores.

During the quarter, the business strengthened its presence with significant order wins in the water pipeline, industrial and data center segments. We are pleased that our foray in the data center is -- reaping results, and we are now executing four data center projects across India.

The uptick in order intake has significantly enhanced the order book plus L1 to ~INR 11,000 crores, comprising of 20 EPC projects across segments from marquee clients. The business outlook continues to remain healthy, largely driven by the improvement in private consumption and government capex. We are confident that this business will continue to be the key growth driver for us going forward.

In Oil & Gas pipelines, the business has delivered revenues of INR 159 crores for the quarter with a growth of over 2x vis-à-vis Q3 last year. The business has a strong order book plus L1 of over INR 900 crores comprising of government and private players. We are confident of scaling up this business both in India as well as in the overseas market.



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Our Cable business achieved revenues of INR 368 crores for the quarter. The business continues to deliver well on the order booking front with good traction from domestic, as well as export markets. The business is also progressing well with the development of 10 new products this year, of which 4 products have been commercialized already. We are in the process of further enhancing the backward integration and augmenting the production capacity of LT and telecom cables by adding a few balancing equipment's.

In ESG, we continue to take several measures to transform our operations in a sustainable manner. Installation of solar energy capacity at our manufacturing plants is one of the key strategic actions to increase renewable energy usage through in-house generation and reduce greenhouse gas emissions.

During the quarter, we have installed solar roof-top at our Dubai plant in addition to the existing rooftops at our Nagpur and Jaipur plants. With this, 20% of our total power requirements will be catered through solar energy.

I'm glad to share that KEC has been recognized as one of the best construction companies of the year and the reputed Construction Times Awards 2023 for our best-in-class project management practices, new-age engineering solutions and strong focus on quality and safety. Moreover, we have also won the best metro rail project for safety and innovation for our Kochi Metro project and the best Railway project of the year award for the Hubli-Tinaighat Railway Electrification Project.

Overall, I understand that some concerns have been expressed on our margins and interest costs for the quarter. However, I would like to highlight that we have delivered on the following fronts as mentioned earlier.

We had increased our revenue guidance for the full year from 15% to 20% last time. With the growth of 31% year-on-year in Q3, we are confident of exceeding the targets of 20% growth. In SAE, we have closed our last EPC project this quarter, and are confident of a revival in the performance from Q4 onwards. We had conveyed that our margins will start showing a sequential improvement from Q3 onwards, and we have delivered an increase of 20 basis points.

We have brought down our net debt, including acceptances by more than INR 450 crores in the last 2 quarters against our guidance of INR 500 crores for the full year. This is despite the 9-month revenue of 24% Y-o-Y, and we are very confident that we will be able to achieve our INR 500 crores target for debt reduction.

With the traction in orders, we have built our highest ever order book plus L1 of over INR 35,000 crores. The outlook remains robust across most of our businesses with a tender pipeline of over INR 1,11,000 crores. This gives us confidence in delivering a continued good growth in the quarters to come with an improvement in the margin trajectory going forward. Thank you very much. I'm now open to questions.

- Moderator:** We have the first question from the line of Parikshit Kandpal from HDFC Securities.
- Parikshit Kandpal:** Congratulations on a decent quarter and the reduction in debt. So, my first question is on the margin. So, if you can highlight in this quarter how much was the EBITDA contribution from SAE? That's my first question.
- Vimal Kejriwal:** I think our SAE, we had a loss of around INR 50 crores on EBITDA.
- Parikshit Kandpal:** INR 50 crores loss. If I reconfirm the console on the standalone numbers, we're INR 20 crores EBITDA positive -- EBITDA is there. So how that happened?
- Vimal Kejriwal:** So, I think that's one of the reasons why there are some questions on the standalone margin. What is happening, Parikshit is that, we have got three or four other subsidiaries, which are 100% owned by us. So, we have 1 in Dubai, we have a factory in Dubai. We have a Dubai LLC. We have -- as per local laws, for Malaysia also we need a subsidiary.
- So, these subsidiaries in the last few quarters have started a lot of asset business and margins. So, when you look at standalone versus consol, it's not just SAE, it's also these and also, our Oil & Gas which we acquired is again 100% subsidiary. So, all these four or five results are now getting -- coming through the consol part of it, which is why there is -- you are not able to directly reconcile that numbers from what I told you.
- Parikshit Kandpal:** The second question is on the standalone. Now it seems to be improving and fourth quarter it will come back already breakeven. But on the standalone, we have reported almost all-time low margins of 4.7%. So, it has been like last quarter, it was 6.2%, before that 8.2%, and 7.3%. And earlier it used to be 9% to 10%. Why a sharp reduction in the standalone margins. If you can highlight any pain points of segment or any one-off during this quarter that has led to such sharp depth in the margin? And whether going ahead, how do we look at the margin in the standalone segment in the coming quarters, like fourth quarter?
- Vimal Kejriwal:** Parikshit, there are two basic reasons for that. One is what I mentioned earlier, where quite a few of the new T&D orders, especially in Abu Dhabi and some of our tower supply orders and also largely profitable order in Malaysia are through the subsidiary. So some part of that has gone into the subsidy. So that's one reason, okay? Going forward, I think we have to start looking at consol probably more than this because these -- especially the Middle East subsidiaries will be -- will continue to do a lot more business.
- Second part is, if you remember, we have been discussing about 5% of our order book is from legacy projects. And during the quarter, we have had a fairly decent execution, I'd say in some of the legacy projects, especially because the commodity prices are going down and then there was some resolution of power grid on the TBCB projects, which were under the GIB hold. So we did do a lot more revenue to close the older projects. So that's the reason why the numbers have come down. And the numbers are primarily on the T&D side which are lower.

**Parikshit Kandpal:** So how do we read the margins from the fourth quarter on the standalone business and you have to increase despite the subsidiaries in the Middle East so the embedded margins in the current order book. So if you can just give some sense whether this is the bottom of the margins? Or how do we see it for next few quarters from India business system?

**Vimal Kejriwal:** So Parikshit, I will respond on the consol. I don't have the standalone numbers for Q4 and all that. But as we have said that the margins got -- I'll say, bottomed out in Q2. Q3, we would have loved to see a higher margin, but that's what we have been able to deliver because of the commodity at 4.6%. We are very clear that the margins will show an uptrend going -- continue to show up trend. I don't -- I'll not be able to give exact numbers, but I think at least 75 to 100 basis points improvement should happen in Q4. And then obviously, further improvements will happen in FY '24.

**Moderator:** The next question is from the line of Vivek Ramakrishnan from DSP Investment Managers.

**Vivek Ramakrishnan:** This is Vivek Ramakrishnan. I've got two questions. One is, sir, you had mentioned current prices of commodities. And if you see even aluminum prices have gone up recently from the bottom 2,250 to 2,600. So what is the comfort band that we can take in aluminum prices for your order book, is the first question? I mean, I'm just using aluminum as a reference commodity.

The second question is the order inflow in Q3. We thought it was lower than what we have seen in previous quarters. Are there some delayed orders which will come through in Q4 and hence boosted the order book? Those are my two questions, sir.

**Vimal Kejriwal:** I think on the second question, we are L1 in some large orders. And unfortunately, they got delayed in the sense that we were expecting them by 31st, but they have got delayed. So maybe we should see the conversion happening very quickly. So there's no, I'd say, delay or anything that way. I think like Q4 end, we should be looking at the numbers we have been talking about INR 18,000 crores to INR 20,000 crores of order intake. I think we are on line to achieve those numbers. Okay. Sorry, what the first question?

**Vivek Ramakrishnan:** Sir, the first question was on aluminum prices in terms of...

**Vimal Kejriwal:** So Vivek, largely we are hedged on aluminum when -- on the new orders whenever we got them we have already hedged out this. I think a very small portion on the legacy orders is still open because those projects are, in a way, still not fully cleared from the client. And we can't take supplies, etcetera. So a very -- a small portion of it is open, which I think, hopefully, if we get clearances would get closed either in Q4 or maybe in Q1, but the numbers are nothing to worry about.

**Vivek Ramakrishnan:** That's why you're saying that the margins will improve a little more in Q4 and then a lot more in Q1. That's why you're projecting the trend.

**Vimal Kejriwal:** Hopefully, by Q4, most of these things will get close if we get our clearances or we will provide for it. And then it will go into Q1 and all that, we should start with -- I'd say virtually a clean slate.

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

**Renu Baid:** First question back on profitability. So if you look at the stand-alone business, reported EBITDA margins at 4.6% or approximately EBITDA slightly INR 180 crores. And theoretically, if we assume that the non-T&D, ex-Oil & Gas, which is mostly India-centric could have made average 8% EBITDA margin. So this is hardly INR 10 crores, INR 20 crores of EBITDA that has been contributed by the rest of the T&D business, domestic. So what kind of losses are we seeing for sort of large central sector projects with your legacy projects? If you can help to provide some insight -- give us input in terms of when do we see these losses from these domestic T&D tapering out?

And also sequentially, you did mention that the margins 20 basis point improvement, it is almost flattish. I'm not sure to what extent we should look at as a multiple improvement. So 4Q also you're guiding just a 100 basis point margin expansion. So apart from SAE, which was breakeven from next quarter, some more inputs in terms of the loss-making domestic projects, and what kind of turnaround are we expecting? And what is the value of these projects still remaining in the backlog, which will be agreed in the next 2 quarters?

**Vimal Kejriwal:** So Renu, first of all, I never said notable improvement in performance. What we had said and what we have said is that from Q3 onwards, the tide will turn and we'll start seeing the change in the trajectory and which is what I alluded when I said that it's gone up by 20 basis points. So as I said earlier, I think in our view, the bottom has been touched and now you will see an improvement. So that's putting the word right.

So the second piece is that, you are right, more or less on saying that the T&D margins have been very poor for the quarter, okay? And we are very clear that we had some orders, especially on the TBCB side, and also, if you remember, the old Essel order, which was taken over by Adani for the fixed price product. So those two orders have been, I'd say, the primary contributors.

And third, now that the logistic costs have come down, but because of the large increase, our international business is doing at least a 50% turnover higher than last year. We did incur a large logistic cost. T&D deposits have now come down to back to normal or even -- actually below normal growth of our tender estimates now. So to me, the execution of TBCB projects, especially on the steel side, now almost -- actually on the legacy side, our steel orders are actually 0. We have almost executed everything on the steel side, maybe a couple of thousand tonnes here and there, which are not clear by the client is spending to be clear. So which is why we are expecting Q4 to start picking up. There are some small legacy orders, which are there, which we want to close, which is why Q4 we have a sort of a guarded optimism.



**Renu Baid:** Got it. So as and one done with Q4, T&D, which is the core business, almost 50% of revenues, do we see margins? When do we see the margins coming back to at least 9% to 10% level, which used to be the normalized or some normalized margins for the segment. Should this happen in '24, late '24 or '25?

**Vimal Kejriwal:** So Renu, to me, it should be around Q2 or something of FY '24, okay? Because I think the legacy order should get over in Q4, maybe there may be a little bit spillover here or there, which is why I'm a little bit guarded on Q1. But I think from Q2 onwards, we do see that the T&D margins should start getting back completed to our normal margins.

**Renu Baid:** And on the SAE, now that the EPC project is done, we have a fair share of new tower supply orders with us. Is that business now looking back at mid-single-digit kind of EBITDA margins. And do we expect any compensation from customers after project closures?

**Vimal Kejriwal:** So those discussions are going on. I'm not very hopeful of getting too much money, okay? So I don't see that much will come in. Whatever has been almost commercially closed also. So that is why Q3 we had slightly higher than what we would have loved to have as EBITDA losses. Coming back to your question on the SAE margins, our expectation is that Q4 we will definitely have an operating margin between SAE, Mexico and Brazil put together. Hopefully, both of them should be positive. Otherwise, at least on the totality, we definitely see that the numbers would be clearly positive.

I'm not sure whether PBT would be positive because our interest cost right now are high. We are working on the refinancing of the Brazil loans, which I think is happening. I mean a large part of it should get refinanced in this quarter, which will bring down the interest cost going forward. So I think from Q1 onwards, I will keep my fingers crossed. Should we give some PBT positive in Q1? Maybe. But Q2 onwards, I think we should start seeing PBT positive in SAE also.

**Renu Baid:** Sure. And lastly, on the debt numbers, what is the year-end net debt number finally expected or some INR 3,000 crores, given that INR 500 crores reduction is targeted? And on the cash flows, what are the progress on cash flows from Afghanistan and railway projects which were stuck for last 1 year. Have those projects started to move? And how do we look at the cash flows improving for the business?

**Vimal Kejriwal:** I'll let Rajeev answer but just on principles, I think railway projects have started moving and cash flow has started coming in, which is why you're seeing a reduction. Afghanistan, we have not got a single rupee or dollar till now. But we do expect and we had earlier said in Q4, we should be getting maybe INR 200 crores, I don't know the exact number, but we -- I think as a benchmark, maybe you can take that INR 200 crores figure that we should get around INR 200 crores in this quarter. Maybe, Rajeev, do you want to answer on those?

**Rajeev Agarwal:** So basically, on the debt side, I'm expecting probably further reduction of about INR 300-odd crores at least in the Q4 also, okay? So from the current level of INR 5,600 crores, I expect the

debt should go down to maybe INR 5,300 crores or maybe INR 5,200 crores, something in that region. And that reduction will happen -- because we are expecting further revenue growth of maybe 20%, 25% in Q4 also. So debt will -- debt reduction will take our NWC down to maybe about somewhere between 125 to 130 days. So that's a target change we are working on for debt reduction. And that will give us a substantial debt reduction because for the full year the growth of the revenue itself will be about the 20% plus. So with a 20% plus kind of a revenue growth, which will be absolute terms will be about almost INR 3,000 crores. And with that, the debt reduction of almost INR 800 crores is what we are targeting for the full year.

**Vimal Kejriwal:** So let me just put in a different fashion. To me, we had thought we'll go to INR 5,000 crores or something as this, but because the revenue growth is slightly more than what we had projected, that may have an impact of INR 100 crores, INR 200 crores in terms of the absolute debt. But the NWC which has come down -- will come down further. So there is clearly -- there will -- there is an efficiency effort on collecting more.

**Renu Baid:** Right. And what is the average cost of capital for the domestic debt?

**Rajeev Agarwal:** Right now, Renu, it is between, let's say, 7% to 8%. Some of the debt from the banking side is it coming at about 7%, 7.5%, and CP market is also moving in a similar fashion.

**Moderator:** The next question is from the line of Saket Kapoor from Kapoor & Company.

**Saket Kapoor:** Sir, if you could give us the breakup -- how has the forex split in terms of the finance cost for this quarter as well as for the 9 months? The forex impact?

**Vimal Kejriwal:** So Saket, I don't have exact. I think around INR 30 crores or so has been the overall number for 9 months. INR 30 crores positive.

**Saket Kapoor:** INR 30 crores positive. Okay, sir. So the 9-month finance cost is INR 377 million, this has an inbuilt profit of INR 30 crores.

**Vimal Kejriwal:** It doesn't go in the finance costs. It goes into other income basically. Other expenditures, sorry. So Saket, this is part of other expenditure. It is good foreign exchange, gain or loss. And this is a gain of INR 30 crores. This is actually getting clubbed in the other expenditures.

**Saket Kapoor:** Okay, sir. Sir, we also acquired one company for -- this was in the laying of pipes. What is the update on the same? How is the order booking and what is the performance?

**Vimal Kejriwal:** I think you must have joined late I said we had a revenue of around INR 159 crores. Our order book plus L1 is around INR 900 crores. If we look at its revenue, it is more than 75%-80% per year.

**Saket Kapoor:** Right, sir. And sir, how is the outlook of the cable business? How is the traction of EHV?

- Vimal Kejriwal:** Marginal decline this year. What has happened is that, with the volatility in the commodity prices, copper and aluminum, and since copper went very high, we did see some of the buyers staying out. We will wait for some more time until copper stabilizes. In demand we are seeing a volatility because of the metal prices. There is no issue in the basic demand. EHV has been sold a little less in the last 2-3 quarters. But now there is a lot of demand. So in the future, EHV will work well.
- Saket Kapoor:** What will be the total pie of the revenue of the EHV, sir?
- Vimal Kejriwal:** Normally, EHV is almost 25% to 30%, assume 30%.
- Saket Kapoor:** And about order booking, sir?
- Vimal Kejriwal:** It will remain same
- Saket Kapoor:** One question on SAE. How much has SAE bleed in the last nine months? How will it be funded.
- Vimal Kejriwal:** It will be from unsold loan. From wherever it might be, loan from here and there, equity base or, ultimately it will go in debt fund, whether it will remain in that book or parent book, right now, it will be funded from there itself. As there is the subsidiary, equity is lying out there, which goes from our end, right? Right now, it is not required. Because this time, loss has stopped.
- Saket Kapoor:** Please tell me the bleed number for nine months?
- Vimal Kejriwal:** Please come later, Abhishek will inform you later.
- Moderator:** The next question is from the line of Priyankar Biswas from Nomura Financial Advisory.
- Priyankar Biswas:** My first question -- like you have spoken about this, probably the margins, how it would go on a trajectory. So, what I'm trying to understand is, if you have to guess, what can be broadly be the 1H FY '24 margin in your view? And also, parallelly with that, what is the current non-T&D EBITDA margin?
- Vimal Kejriwal:** Very difficult to give you a 1H number right now, okay? But as I said that we do expect around 70 to 100 basis point increase in Q4. And Q1, it's difficult right now, maybe I don't know whether we can take a similar increase or something that that's what we should be looking at. 1H Q2 is right now difficult to see, but as I was telling Renu earlier that Q2 onwards we should start getting T&D margins back to normal.
- We will wait and watch but. I do expect that quarter-on-quarter there will be an improvement till probably Q3 or so where we reach that margin. So, to me, you have March, then -- sorry, you were Q3, Q4, then you have Q1, Q2. I think each one of them, you will definitely see an improvement happening in the margin quarter-on-quarter sequentially.



**Priyankar Biswas:** So if I extrapolate that, so maybe would it be fair to say that at least by 3Q FY '23 or 4Q FY '23, something around that, you should be broadly at around 9% to 10% exit rate. Would that be a fair assessment?

**Vimal Kejriwal:** Q4 exit, I think we should be on target, what we are saying.

**Priyankar Biswas:** As a just asking a broader question. Can you help us with the share of private orders in your book at the present? And what are the key corporates that we have exposure to?

**Vimal Kejriwal:** I don't have it directly right now, very soon. But our private orders are where our private orders would be in SAE mainly. In India, we will have in Civil, we'll have private orders, okay? In T&D, we have taken a little bit but not much. So I don't think in T&D, we have any major piece of private orders. It would mainly be in Civil, and we'll have one or two small orders in railways, not big orders, but on the port side and all that, port connectivity, etcetera, we have got one or two smaller orders. So, it will not be very high in terms of, I'll say, non-civil. Civil maybe is basically more on the residential and industrial.

**Priyankar Biswas:** Sir, just continuing just on the working capital side of things. So, I remember that there were some large retention money with railways based on the last couple of calls. So, what is the status of that? And do we see that leading to some sort of a working capital improvement, let's say, next quarter-of-the-quarter after that?

**Vimal Kejriwal:** So Priyankar, it was not actually retention -- what has happened -- it was not actually retention money. What happens in a railways is that, with the new concept of EPC projects, they are more milestone-based payments. So, in some cases, since milestones have not been achieved as per the contract, the payments have been held back, and those payments are coming.

So, when Rajeev talked about an improvement in the numbers for working capital, a part of that was on the back of -- expecting that we will get our railway money. It is normalizing. If you want this -- this is a direct question, if you're asking, it's normalizing. So, I think by end of Q4 we should expect that the railway receivables will be normalized.

**Priyankar Biswas:** And just a last question, if I may squeeze in. Like last quarter, I think 5% of the order book was roughly legacies what you had highlighted. So, what would be the similar number now, like, from 5%, what it is down to probably?

**Vimal Kejriwal:** I don't have the exact number, but it has got lowered by 1% because we have done a lot of execution out of that, so maybe 3% to 4%.

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

**Amish Kanani:** Congrats on a good execution though it's coming at a low profit. Sir, two questions. One, sir, your L1 is now a little bit higher in our order book. So if you can give us some flavor of -- is it one order which is chunky? Is it government private? And are you looking at growing its own?



Or is it the nature of the biz that we have one L1 converts into order book and then other L1 comes into picture, some flavor there.

And overall, INR 1.1 lakh crores of pipeline. Any indication of what could be the win rate? And any early indication of what could be the order book accretion for next year or this year's base of INR 18,00 crores, INR 20,000 crores, sir?

**Vimal Kejriwal:**

So, Amish, most of the L1s are from government, okay? There are one or two large orders in that. We do expect that they will get converted into orders in maybe a week or two weeks or three weeks. So I think within February we do expect that a large chunk of this will -- L1 will get converted into earning to orders. So that's one part.

As far as order intake is concerned, as I said that we are expecting, they are already at INR 15,000 crores plus. And I think with these tenders getting converted into orders, we should be around INR 18,000 crores, INR 19,000 crores or so. Assuming that there will be a revenue growth of 15% next year, we do expect that our order intake target next year should be at least INR 22,000 crores or INR 23,000 crores. We have not yet frozen our numbers. I think the budget making exercise is going on, but will definitely be INR 20,000 crores plus. I don't know exactly what numbers will come out from various businesses. As per my maths, it will be INR 22,000 crores, INR 23,000 crores.

**Amish Kanani:**

Yes. Sir, the question was, are we having the profitable orders, which we want to win or maybe we'll kind of contain ourselves and focus on may be lower orders but very profitable orders, that was the context in which I was saying, the numbers will evolve in...

**Vimal Kejriwal:**

I mean, Amish, you're very right, which is why I said that once we start receiving numbers from businesses we will decide, what need to do, or not to do. I think towards -- very clearly the focus is not on revenue growth, okay? That's your question. That's my answer. It's not on revenue growth. We will look at continuing to see how do we improve the profit margins on the orders. We will definitely not take orders where the margins are lower. I think we are very clear in our thought process on that.

**Amish Kanani:**

And sir, second, if I analyze the current quarter's interest cost of INR 150 crores and average the last quarter's debt including acceptance in this quarter, our interest cost goes to more like near 11%, 11.75%, something like that. And you did mention our domestic interest cost is 7% to 8%. So if you can give us some flavor of whether the rest of the cost is all Brazil or domestic versus non domestic interest cost? And are we looking at significant lowering of interest cost on a blended basis. So say, 11% -- and particularly in the context of rising interest costs?

**Vimal Kejriwal:**

Amish, I think what is there in the interest cost is also interest on customer advances. There are a lot of customers which are -- as per the guidance, they are now -- all the government companies have been mandating to charge interest on advances. So that's one element which is there.

The second is the element on acceptances, which is there, where there are interest costs. So to me, if you look at our inventory, what is going to happen is that, our interest as a percentage of revenue will definitely go down in Q4. One is because the revenue is going to be very high. I think -- let's see what happens -- there the reference -- meeting today also and then RBI, what happens on the interest cost that would we decide.

Third piece is that with the dollar strengthening, the premium rates have been going down. So a little bit mix of our borrowings -- with more forex borrowings, which has at least 200 basis points, 300 basis points advantage. So somewhere we do expect that our interest cost as a percentage of revenue will come down. And I think overall also in terms of the interest rates when we're talking about 7.5%, 8% and all that, the average interest rate may down slightly. I don't see it going down significantly because the market mix will go up, but we may be able to optimize it slightly.

**Amish Kanani:** If you permit one last question on the green corridor, sir, a lot of expectations. So if you can give us some flavor of how big is the opportunity? Maybe today's budget also will outline some more details there. But how big is the opportunity? And are we looking at growth even from there?

**Vimal Kejriwal:** So there are two green corridors. I think there are a lot of tenders which are even open today as some of them are getting quoted, I think this week or next, okay? So there are quite a few tenders which are out open right now in Gujarat, a little bit in Karnataka and Rajasthan. So clearly, this year, we will see a lot of awards happening on the back of the green corridor. That's the current green corridor.

The second piece is what I had talked about green hydrogen and all that sort of projects are coming up in Gujarat and Rajasthan again. But for green hydrogen, which renewables have been set up. The renewable which we announced final 500 megawatt is coming up in Karnataka. So all those are -- and for that -- there will be further lines which will come up.

I think those lines, we have not yet seen coming up except for some lines in Gujarat, Howrah, we are seeing some tenders which have come up. Others will now come up. So I do expect that probably in H2, there will be a lot of tenders, which will come on the back of renewables for green hydrogen.

**Moderator:** The next question is from the line of Teena Virmani from Kotak Securities.

**Teena Virmani:** Part of my question is already answered. But one thing on the interest side. You mentioned that on the domestic, the average interest rate is around 7% to 8%. Can you specify how much of a debt at SAE level and what are the interest rates over there? And what kind of refinancing reduction -- benefits from the refinancing that you are expecting on the SAE side?

**Vimal Kejriwal:** So Teena, thanks for being there. I think our overall debt in SAE is around \$50 million, okay? And we are looking at refinancing a large part of it, and hopefully now that the EPC is behind us and the business starts turning profitable, we will also start getting better rates apart from the

refinancing also. Refinancing, we are expecting probably a reduction of 4% to 5%. That's what's going to happen on the ordering.

**Teena Virmani:** And what would be the current interest rate, we are in the range of 18%, 19% or...?

**Vimal Kejriwal:** Between 18% to 20%.

**Teena Virmani:** So it will come down to around 14% to 15%.

**Vimal Kejriwal:** I think, that's a 12%, 13% is what we are looking at.

**Teena Virmani:** And my second question is related to the legacy projects. You talked about that only 3% to 4% of the order book is around legacy project on the T&D side. So why are we so conservative in terms of margins for even 1H of FY '24. I mean, technically, this 3% to 4% of the entire order book, and they are all negative projects. So why can't we just complete it and get over with it and start focusing on the newer orders which are alternatively higher margins. So I mean, my question is more related to the margin improvement trajectory that ideally should come up for KEC FY '24 even from 1Q or 2Q onwards?

**Vimal Kejriwal:** I think, Teena, we are trying to do exactly what you are saying. We're trying to push the execution of newer projects and close the older projects. But at least two or three of these older projects are stuck up in the GIB issue in Rajasthan and they are getting cleared one-by-one by the court and Power Grid. In fact, this quarter, we should finish at least two of those projects in Rajasthan – green belt. So I think we are trying our level best to finish. And I think the other issue is that, all these delays and all are causing further escalations, and we are negotiating with the client and all that to get the escalations because the majority of the delay is not because of our sites. So that is going on.

So I think -- the other piece, which is there, Teena is that, today there is a lot of volatility -- even one of the earlier speakers also talked about saying aluminum has come back to USD 2600/MT. So I think somewhere we are also hedging our bets to ensure that we deliver on what we commit. Otherwise, we talk about today something and the numbers change differently, it becomes a problem. I would rather err on the side of conservatism rather than being aggressive.

**Teena Virmani:** So if we take off these projects which are stuck up because of GIB issue or even any further escalation also, apart from these orders from the existing order book, what could be the margin trajectory in the current scenario when commodity prices are relatively lower than actually when you would have bid for those projects?

**Vimal Kejriwal:** So Teena, our margins on order would vary from around 8% to 12%, 15%, or maybe upper, that will be higher also. But generally, margins would be around 8% to 10%, generally. For all of our orders which we are quoting, generally we quote on that sort of margin. So more or less, you can assume that way, okay?

**Moderator:** The next question is from the line of Uttam Kumar Srimal from Axis Securities Limited.

- Uttam Srimal:** Sir, what kind of capex we are envisaging in FY '24 and FY '25?
- Vimal Kejriwal:** Our normal capex has been around INR 200 crores, okay? Next year, maybe I think we're looking at around INR 250 crores. But I don't see it growing up because for Civil, since we are relatively new, we've been spending a lot of money on Civil. And I think for the last two, three years, whatever we have spent and what we plan to spend next year should build up an added buffer for us. So average up, so average up 200-250 crores, you know, you can go ahead
- Uttam Srimal:** And sir, this quarter, our interest cost has been around INR 150 crores. So we -- can you expect same running in quarter 4? Or we are expecting some lesser amount in the quarter 4?
- Vimal Kejriwal:** So I think we are expecting somewhere around maybe a 10% reduction. So we should be around INR 130 crores, INR 135 crores is what we are expecting.
- Moderator:** The next question is from the line of Ashish Shah from Centrum Broking Limited.
- Ashish Shah:** Sir, firstly, on the segmental margins, would it be safe to say that civil and railways would have been somewhere around 9% to 10% for this quarter?
- Vimal Kejriwal:** So I said that I don't have the exact segmental breakup and all that. But I think we are closer to your numbers, not exactly. I think maybe slightly lower than that number, Ashish.
- Ashish Shah:** Sir, second is on the solar business. We did hear that we are thinking of some -- we have actually re-entered the business. But this historically has been a low-margin business and has had several issues in terms of government regulatory flip-flops. So where do you see the clarity now that you want to sort of build up this business again? And what kind of margins you would expect in these orders?
- Vimal Kejriwal:** So Ashish, most of the flip-flop being at two different levels. One is on the custom duty on modules. Sometimes you have safeguard sometimes you don't have safeguard and other things and whether you can import from China, not to import from China. That's the way the basic thing. So I think as far as what we have done is that we have very clearly said that we will not take projects where the modules is in our scope or we tie up with -- where there's a domestic module requirement, then you tie up with the domestic module manufacturer who becomes a partner in the bid. So for us, I think we have learned our lessons. We have seen what others have done. So I think we are playing it safe and looking it as a pure EPC minus modules. That's the way we are looking at it.
- Ashish Shah:** So saying our scope will not include modules even the projects that we are bidding?
- Vimal Kejriwal:** So current project, which you've got INR 700-odd crores is also without modules. Going ahead also, what we have said is that, we will not take projects where modules are in our own scope or where modules on a fixed price, okay. There may be more projects where you have got local partner who manufacture it, they want to join you as a partner and they take the responsibility and we may look at it. But right now, all our bid what we are looking at are without modules.





- Ashish Shah:** And would you look at somewhere in like high single-digit margins for this business?
- Vimal Kejriwal:** Definitely. No question -- looking at less than that.
- Ashish Shah:** Right. One question on the balance sheet side. So we had been expecting some unwinding of GST receivables. I mean, GST, the credits that we have in the balance sheet. So probably around INR 500 crores is what we have been expecting. Can you indicate what is the progress of that this year so far?
- Rajeev Agarwal:** So basically, Ashish, on the unwinding of GST has started. In one of the business in railways, the unwinding has happened to the extent of about INR 100-odd crores in the last quarter. But overall, unwinding is visible as of now because there are some additional stocks that we have purchased because of the very volatile raw material prices, and also, there is some unbilled which has actually increased during this period, which will get billed to the customer in the quarter 4.
- So definitely, unwinding on the GST account has happened but INR 500 crores was the total amount. And what I remember is that, I guided that to the investor, this INR 500 crores unwinding in 2 years' time. So we are on track on that side. So I think in Q4, also, I'm expecting another INR 100 crores, INR 150 crores unwinding should happen on the GST front.
- Ashish Shah:** Right. Sir, lastly, any word on, I mean you did say that you've not got anything from Afghanistan, but any word on where we are in terms of our negotiation and where do you think the money can come?
- Vimal Kejriwal:** So Ashish, what I shared was that, we expect to get around INR 200 crores this quarter.
- Moderator:** The next question is from the line of Peter from KSEMA Wealth Management.
- Peter:** Sir, I was just wondering on the railway and Middle East projects. What are the major projects executing? And what would be the margin profile for this same?
- Vimal Kejriwal:** We have executed lot of projects. So if you want more details, maybe we can speak to Abhishek, who can give you more details from exact type of projects and all that. But railways, we are doing on all sorts of projects whether it's laying of track, even on the metro side, the ballastless tracks, signalling. So virtually, we are doing -- we have -- our project portfolio has got almost everything. And if you look at the Middle East, what you asked, we have got transmission lines, we have got substations, we have got underground cabling. Yes.
- Peter:** And what is the margin profile on those, sir?
- Vimal Kejriwal:** It's difficult to give an answer like that because margin profiles vary from project to project. So typically, most of our margins when we quote around 8% to 10%, but individual projects will definitely vary.

**Peter:** And second -- and last question, sir, wanted to know, is that little technical? with the major shift happening towards renewables. Is there any medium to mild impact on the T&D business going forward?

**Vimal Kejriwal:** To me, it is actually -- in a way, I look at it more positively because if you look at most of the projects which we have secured in India and elsewhere, are for the transmission of power generated by renewables, okay? So what happens is that renewables will especially solar and all will come only in specific parts of the country, but the power is all over the country. So we are actually seeing large transmission lines getting built and talked about for a long time where we're talking about a huge project. So to me, renewables has not been a way of concern. In fact, we look at it very positively.

**Moderator:** The next question is from the line of Amit Anwani from Prabhudas Lilladher.

**Amit Anwani:** Sir, my question with respect to railways business, as we have been highlighting from past few quarters about the retention and milestone and increasing working capital. So the current order and mix which you are getting into railways, so what is your outlook about the working capital? And is this milestone in return is changing in favourable with respect to unit and new orders, you are receiving?

**Vimal Kejriwal:** Amit, what has happened is that after the first few orders come in, then we -- everyone realized that there are problems in the way those milestones have been fixed, railways have also changed many of their payment criteria. I'll give a simple example. Earlier, let's say, you're supplying an equipment and equipment would not be paid unless a particular segment of the line was commissioned. But now they have said that, okay, once you supply an equipment, we'll pay you 80%, 90% of the equipment.

So to me, although the milestone payments remain, but there have been significant changes on the payment especially on an account of what we call on account payment. So if you do the supply, you'll get your payments and all that. So that is one part. Second part is, is a portion of our order book is now moving towards metro where we are doing the ballasts less tracks, signaling, power supply, etcetera, which are shorter duration projects, I'll say better payment terms. So I think railways, as I like said earlier, the working capital should get normalized by the end of this year.

**Amit Anwani:** So sir, the shorter duration and better payments would be contributing how much to the order book in railways?

**Vimal Kejriwal:** I don't have the number right now, okay?

**Amit Anwani:** Sir, with respect to civils business, I think you mentioned about margin somewhere maybe 8% to 9%. I just wanted to understand what are the major subsegments expected to contribute in civil, I think you highlighted about data centers we are executing four projects and few other subsegments. So just wanted to have an outlook on civils...?

**Vimal Kejriwal:** Amit, I'd say, four or five segments which are there. One is, obviously, the water pipeline segment, where we have got large orders where you will supply potable water to villages. So that's right now our largest segment. Second one would be metro viaducts. So we are right now doing seven projects on metro. So that's the second one. Then we have residential projects. I think we will get probably revenue almost close to INR 1,000 crores or slightly less than that invested, then you have industrial projects. Then you have what we call public spaces. So we are building an airport, we're building a high court, we are building up some MLA and all that.

So I say broadly, this is the way our segments are divided. And I think last point is even bidding for international; I don't have an order right now. But hopefully, from next year onwards, we'll also see some international revenues going into civil.

**Amit Anwani:** Sir, I just wanted to understand the order prospect in international T&D, domestic T&D, railways, civil.

**Vimal Kejriwal:** What we have said, Amit, is that, we expect our revenues to grow by around 15% next year. And so order intake should also be growing by that sort of percentage. So if we expect around INR 18,000 crores, INR 20,000 crores of overall order intake this year, maybe INR 20,000 crores plus would be the target overall for order intake. With which business what we take is something which we are still working out exactly.

**Moderator:** The next question is from the line of Kaushal Dedhia from Axis Bank.

**Kaushal Dedhia:** Just one question from my side is on the fixed orders currently. So how much of the current order book is fixed.

**Vimal Kejriwal:** I don't have the breakup right now of this. But typically, if you look at some of our international orders, what we most have and most of the international traders would be fixed. But I say that generally, all of them are hedged now. So I don't see any significant -- there's civil generally -- civil and railways generally have a price variation clause. India T&D depends upon the type of client and the type of project. I honestly -- it will be difficult for me to guess the number. Maybe we'll give a number to separately, to work it out.

**Moderator:** The next question is from the line of Hiten Boricha from Joindre Capital.

**Hiten Boricha:** Most of my questions has been answered. I have only one question. So what would be the tax rate for this year and next year?

**Vimal Kejriwal:** Rajeev?

**Rajeev Agarwal:** Tax rate for the next year should be normal at about 25%.

**Hiten Boricha:** For FY '24. And for FY '23?



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**Rajeev Agarwal:** FY '23, we have already -- for nine months period on a standalone number, it is working out at about 26%. On a console, since there is a defer tax asset debt has been created because of the losses in SAE Brazil So overall tax rate is coming down to about 15% or so.

**Hiten Boricha:** 15% in FY '22. And sir, you told 25% in next year that is on console level or on standalone level? So wanted a number of console level, right? Okay. So 15% in this year and 25% next year, right?

**Rajeev Agarwal:** Yes.

**Moderator:** As that was the last question for today. I would now like to hand the conference over to Mr. Vimal Kejriwal for closing comments. Over to you, sir.

**Vimal Kejriwal:** I just want to say thank you very much for your continued interest in KEC. Thank you.

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