"KEC International Limited

Q2 FY27 Results Conference Call"

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Moderator: Ladies and gentlemen, good day, and welcome to the KEC International Limited Q2 FY27 Results Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call, please signal an operator by pressing star, then zero on your touch-tone phone. Please note that this conference is being recorded.

Today, on the call we have with us Mr. Vimal Kejriwal, Managing Director and CEO; and Mr. Rajeev Aggarwal, CFO. I now hand the conference over to Mr. Vimal Kejriwal. Thank you, and over to you, sir.

Vimal Kejriwal: Thank you, Alriac, and good morning to everyone, and welcome to the KEC International's Q2 earnings conference call. Let me start with some developments which have happened post the quarter end before I take you through the results and the Middle East environment.

First, we have secured orders & L1 of over INR3,000 crores from PGCIL after a break of 15 months, which also includes our single largest order in India T&D of almost INR1,200 crores. Execution of these projects will commence from next month onwards in December.

Second, we have realized more than INR200 crores of collections from Afghanistan in October, which has been stuck for more than 5 years. And we expect another INR150 crores to come in hopefully within this quarter, otherwise, at least January.

Third, as we will discuss our margins for the quarter, which have been impacted due to the cost escalations owing to the Middle East disruptions, we have submitted claims to the clients against this incremental cost.

While the clients have advised closure on these claims will happen after the war ends and there is some finality to the numbers, in the interim, the clients have paid us almost INR300 crores as advance to ease the impact on the cash flow arising by the cost increases.

Let me now turn to the operating environment, particularly in the Middle East, which continued to have a strong bearing on our performance during the quarter. The Middle East business remains operationally stable. The region accounts for almost 22% of our order book and L1 pipeline.

While tendering activity remains stable, order finalization timelines continue to be prolonged. We have secured a few orders during the quarter from Saudi Arabia, Oman, UAE and are also L1 in some more tenders. Cash flows from the Middle East continue to remain stable.

Supply chain and logistics disruptions continue to affect shipments into the GCC market, resulting in longer lead times. Freight rates, including war-related surcharges and fuel prices, remained elevated at historical levels, not only for GCC, but across all markets.

These challenges have slowed revenue accrual on certain projects during the quarter due to delayed supplies of equipment and also steel to our factory. We are actively engaging with

customers for recovery of these incremental costs. In a few cases, supplies are being deferred until commercial alignment is reached, leading to timing impacts on revenue and margins.

Performance during the quarter continues to be impacted by these factors. Notwithstanding the same, we remain positive on the region's long-term outlook, supported by investments in transmission infrastructure, renewable integration, regional interconnections, grid resilience and reconstruction activities.

Coming to the Q2 performance, we have delivered revenues of INR5,468 crores in Q2, which has a Q-on-Q growth of 9%, while there is a decline on year-on-year. PBT stands at INR41 crores and PAT at INR30 crores. The performance during the quarter was impacted by a combination of external headwinds and project-specific challenges.

Revenue was affected by disruption in the Middle East, ROW and land acquisition challenges in India T&D, apart from calibrated supplies, which we talked about. Profitability was impacted due to lower revenues, elevated freight and fuel costs, closure costs associated with certain projects, primarily metros and delays in resolution of contractual claims in the Transportation and metro businesses.

An unexpected consequence of the geopolitical disruption has been the unprecedented increase in global freight costs. For instance, shipments to Afghanistan, which are now being routed through Europe and Turkey, have seen a multi-fold increase in the freight costs. While these incremental costs are recoverable from customers in several cases, there is a clear timing gap between the incurrence and recovery, which impacted profitability during the quarter.

On the order intake front, we secured orders of over INR13,500 crores, of which 70% is from T&D. Additionally, we have an L1 position of INR3,500 crores, largely in the T&D business. Our order book remains strong and stands at a record level of INR40,000 crores as of date.

Including our L1 position, the combined order book and L1 pipeline stands at INR43,500 crores, of which 65% is from T&D, providing strong revenue visibility for the next 18 months. On the debt front, the net debt, including acceptances, stands at a very high number of INR7,793 crores as on 30th September.

The debt levels are elevated owing to some of these things. The spillover of collections of INR600 crores, including the INR200 crores and INR300 crores which we talked about have been realized in October '26.

We had also built an additional strategic inventory of almost INR160 crores to manage the commodity price volatility and the logistic issues. Also, the collections in water and metro projects were lower than what we had planned. We expect the debt levels to come down to almost INR6,000 crores by the end of the year.

Coming to specific businesses. In T&D, the business achieved revenues of INR3,686 crores, a growth of 15% over Q1 FY27. The revenues would have been higher, but for the issues which we mentioned earlier. On the order intake front, the business continues to witness significant

traction with new orders of INR9,500 crores across India, Middle East, Africa, SAARC and the Americas.

In India, the business witnessed strong momentum from PGCIL, along with orders from private developers for transmission infrastructure to evacuate power from a PSP project in Western India and a hydroelectric project in Northern India, supporting the growing power infrastructure requirement of India's renewable energy ecosystem.

In international, the business has strengthened its order book with multiple wins, including its re-entry into Bhutan, further diversifying its international footprint. We are witnessing a gradual revival in the African market, reflected in the recent wins of transmission line orders that further strengthened our presence in the region. Additionally, we are L1 in a large substation order in the Africa region.

In SAE, the business achieved revenues of INR493 crores, a growth of 15% year-on-year. We continue to witness strong momentum in order inflows with new orders of over INR1,900 crores for the supply of towers, hardware, poles and engineering services across the U.S., Mexico and Brazil, an increase of over 2.5x compared to last year.

With these orders, the order book and L1 position has been scaled up to INR3,700 crores. In line with our strategy of diversifying our product portfolio and expanding into new markets, we continue to make encouraging progress in SAE. During the quarter, we successfully executed our first pilot order for transformer tanks, opening up opportunities in new industry segments.

The overall T&D opportunity pipeline continues to remain robust across both domestic and international markets. In India, strong demand drivers such as rising power consumption, accelerated renewable energy integration, grid modernization, expansion of transmission infrastructure and the evacuation requirements under the GEC Phase 3 program continue to create significant opportunities for the sector.

The planned addition of renewable energy capacity, coupled with the need to strengthen and decongest the national grid is expected to drive substantial investments over the coming years. We expect the recent ROW reforms by the Ministry of Power, including market-based compensation determined through 3 independent IBBI empaneled valuers, to help address land valuation disputes, ease execution bottlenecks and improve transmission project timelines.

The outlook for our international T&D business remains positive, supported by the planned transmission investments in the Middle East, improving funding outlook in Africa and the growing opportunities across the Americas. The global push towards renewable energy, integration, grid resilience, electrification, AI-led data center expansion is creating a multiyear investment cycle in transmission infrastructure.

With our diversified presence across key markets, proven execution capabilities and healthy T&D order book and L1 position of over INR28,000 crores in this business, we are well positioned to capitalize on these opportunities and drive sustained growth in the years ahead.

In Civil, we delivered revenues of INR957 crores for the quarter. The execution was impacted by certain unanticipated challenges, including delays in release of work fronts, continued labor shortages and additional costs incurred towards fast tracking of certain critical projects. Besides these continued delays in customer payments in the water segment led to the continued elevated execution. All these factors resulted in higher execution costs and impacted performance.

During the quarter, the Honorable Prime Minister and the Honorable Chief Minister of Tamil Nadu, Joseph Vijay, inaugurated the Chennai Metro Phase 2 project executed by KEC, marking a significant milestone for the business. Execution on our second package of the Chennai Metro project is expected to be completed by March '27.

On the order intake front, the civil business secured new orders of INR1,200 crores in the B&F and hospital segments from reputed clients. We continue to be very selective in order intake in the civil business, considering the challenges that we are facing in the business.

Our transportation business has achieved a revenue of INR224 crores for the quarter. During the quarter, the business completed a first of its kind project involving 16 elephant underpasses in Chhattisgarh for IRCON. The business has also physically completed more than 10 legacy projects during the year.

The business entered the ROCS, Rigid Overhead Catenary System, segment by securing a new order from DMRC for the Jaipur Metro Rail Corporation. The business has also successfully implemented coverage across 682 route kilometers and is currently executing deployments across an additional 1,765 kilometers railway network and over 3,000 locos.

We continue to actively pursue opportunities in TCAS, Kavach technology and tunnel ventilation projects. Our focus remains on accelerating project closures, settlement of arbitration and claims and selectively pursuing high-value domestic and international opportunities to drive profitable growth.

Cables and Conductors business has achieved revenues of INR613 crores with a strong growth of 17% year-on-year, driven by robust demand across the infra, power transmission and industrial segments. The business continued to witness steady inflow of orders for supply of cables and conductors.

On the new product front, while part of the facility has got commissioned, we expect Elastomeric cables and E-Beam to commence production in Q3. These products cater to high-growth end markets are expected to enhance our product portfolio, improve realizations and contribute to long-term margin improvement.

Given the strong demand outlook for aluminum conductors, we have initiated Phase 2 of our capacity expansion to capitalize on the growing market opportunity. Backed by a diversified product portfolio and ongoing capacity augmentation, the cable business is well placed to sustain its growth momentum.

In Renewables, the business secured YTD order intake of over INR1,150 crores. During the quarter, the business has secured 2 large orders in wind EPC and 1 order in the solar segment from renowned private developers.

With these wins, we are currently executing renewable energy projects with a cumulative capacity of over 950 megawatts, reflecting the increasing scale of our operations and growing customer confidence in our execution capabilities.

The outlook for Renewable business remains highly encouraging, and we are confident the Renewable business will emerge as a significant growth driver for KEC going forward. We are undertaking a conscious strategic shift in our portfolio by adopting a cautious and selective approach to Civil in addition to Transportation, considering the performance over the last few quarters.

For instance, we have taken only 3 orders in civil this year in the segments where we intend to continue operating, reflecting our selective approach. This is similar to the approach adopted in Transportation. Consequently, Civil and Transportation together account for just 11% of our YTD order intake against a revenue share of 23%.

In civil business, we are focused on improving the pace of execution and profitability. We remain positive and are making relevant interventions to sharpen the execution to deliver profitable growth going forward.

Backed by a robust opportunity pipeline and strong structural demand drivers, T&D will be our primary growth engine. This portfolio realignment reflects our shrink-to-grow approach, prioritizing quality, profitability and sustainable growth over scale alone. With this, we expect our share of T&D to keep on increasing.

In conclusion, while we continue to navigate certain near-term challenges, we remain confident in the strength and resilience of our businesses. Our priorities remain clear, improving cash flows and margin profile, driving execution excellence, strengthening the balance sheet and increasing the share of T&D, especially in India.

With an order book and L1 position of over INR43,000 crores and a tender pipeline exceeding INR2 lakh crores, we are confident of an improved performance in the coming quarters.

Thank you very much. We are now open to your questions.

Moderator: Thank you. We will now begin the question-and-answer session. The first question comes from the line of Vaibhav Shah with JM Financial. Please go ahead.

Vaibhav Shah: Sir, we saw a sharp increase in the debt and working capital for the current quarter. We did mention that we are targeting INR6,000 crores net debt by March of '27. So what would be the plan? How do you intend to achieve that?

Vimal Kejriwal: So, Vaibhav, as I said, we have already received almost INR600 crores and odd post the balance sheet date, number one. And these were not the normal cash flows. One was Afghanistan was stuck for a long time.

And second was against, I'll say, against force majeure costs, which we have already incurred. Apart from that, as I said, we will -- we are expecting another INR100 crores from Afghanistan. So these are typically, I'll say, more like non-operating, not from the normal operations of the company.

Second piece is we have talked about order book in the last -- I think last 4 or 5 months, we have received a large number of orders. So hopefully, within November or so, we should also be getting close to maybe INR500 crores or INR600 crores of advance payments, which will happen.

There are other -- as I talked about the CMRL project being commissioned, there will be inflows from metros, etcetera. So I think we have a very clear targeted plan against various items, okay?

And obviously, if you look at our numbers, etcetera, so we have also focused a lot on closure of projects. So that itself will release a significant amount of funds. In fact, we are expecting more than INR100 crores, INR150 crores from Power Grid on old projects which have been also -- actually which have been closed now awaiting final commercial signoff. So there is a clear path forward on where we expect and how we expect to reduce the debt.

Vaibhav Shah: Sure. So last time you mentioned that we are planning to recover INR350 crores from JJM, INR300 crores from retention money in Middle East and some INR150 crores of railway claims. So any update on that?

Vimal Kejriwal: So as far as JJM is concerned, I think we got around INR100 crores...

Rajeev Aggarwal: INR150 crores.

Vimal Kejriwal: INR150 crores in H1, okay? But as I have been mentioning, we have also been spending money to complete the projects. On retention, the figures are right. But what is also happening is that since the revenue keeps on happening, the retentions on the new projects also are there. But now what we are seeing, I think I should have mentioned it against your cash flow earlier.

Now what we are seeing is that the order intake from Saudi has been a little bit lower. So the revenue accruals in Saudi will come down a little bit and the new retention accruals will come down. And old retentions will keep on getting released. So I think around INR500 crores or INR700 crores of retention release will also happen to reduce our debt. I'm talking about net retention accruals.

Vaibhav Shah: And incremental target in second half for JJM recovery and railway deals?

Vimal Kejriwal: Railway, for the last 7 months, if you took aggregate till October, we have been positive on cash flow. I think we have around INR30 crores, INR40 crores per month has been the normal cash

flow positive. So railway business has turned positive. I think 7 months would be INR150 crores to INR200 crores. I don't have the exact number, but it's been a positive.

JJM is a question mark all across. And honestly, every quarter, we have been talking with both the central government and the state governments and they have been promising that they will pay. But it's been, I'll say, a trickle rather than normal payments would happen.

So I honestly cannot give you right now something -- in fact, we have put in another INR100 crores additionally in this business to close some of the projects so that at least the cost can come under control.

Vaibhav Shah: Okay. Sir, secondly, on the working capital, if we can split up on a broad basis, what would be the split in T&D, civil, water and railway?

Vimal Kejriwal: I don't know, Rajeev, do we have that number split that way or T&D, non-T&D?

Rajeev Aggarwal: Roughly about 50%, let's say, is between T&D and non-T&D as of now.

Vimal Kejriwal: In terms of absolute amounts.

Rajeev Aggarwal: In terms of the absolute amounts. Yes. So roughly, the breakup is 50-50. And the reason that there is a higher amount which is there in the non-T&D business is partly because most of the projects we are talking of closure in the current financial year, so a lot of money should get released.

Plus the metro project in civil business, a few of them have been closed, and we are actually settling the claims with the client. And one last project, as Vimal mentioned in his opening remarks, is still going on, which will take some more time to close the project.

Vaibhav Shah: Okay. Sir, lastly, our target on working capital days for FY27?

Rajeev Aggarwal: We are expecting to be in the region of about 125 days by end of March.

Vaibhav Shah: So, earlier you were target closer to 110 days?

Rajeev Aggarwal: Pardon?

Vaibhav Shah: Earlier you were targeting closer to 110, right?

Rajeev Aggarwal: Yes, 110. Now currently, it is at about 125 days. That is where we are targeting. Reason being that there has been some slippages in terms of the closure of the project in Saudi Arabia and there the retention is 20%. So, we have invested because last year the order intake was significant, so we are executing those projects, which is taking the net working capital levels to a higher level in Middle East.

Vaibhav Shah: Okay. Got it. Thank you, sir. Thank you very much.

Moderator: The next question comes from the line of Sumit Kishore with Axis Capital. Please go ahead.

Sumit Kishore: Good morning.

Vimal Kejriwal: Good morning, Sumit.

Sumit Kishore: Please help to segregate and quantify the impact of Middle East disruption on revenue booking and the EBITDA impact in the second quarter and first half of this year. Also in your order book, X of L1, how much is Middle East as a proportion of order book? That's the first question.

Vimal Kejriwal: So, I don't have the exact number of order, but it's roughly around 22%. So, I'll say maybe INR9,000 crores or so would be roughly the order book in the Middle East. The impact on revenues has been around INR300 crores to INR350 crores for the quarter. And on margins, it is approximately between 1.25% to 1.5%.

Sumit Kishore: Okay.

Vimal Kejriwal: Yes.

Sumit Kishore: So, what is your revised guidance for FY27 on top line growth and margin? And Yes, that's the first part of the second question. Yes.

Vimal Kejriwal: So Sumit, difficult right now to give a guidance on the margin part because it will depend upon how the claims get settled, our cost increases are there, we have asked and all that. So it's, I think, very difficult for us to hazard a guess on where we will. We have not thought that we'll have a 1.5% impact, okay, for this quarter itself.

But on the top line, I think we do expect that we should have around 8% to 10% growth because we have lost around INR600 crores of revenue. And depending upon when the war ends, we will be not very confident when we'll recover that. That revenue will happen. It's not that it's a lost revenue. But it will depend upon how soon the logistics get settled and we can start shipping out much better and when the Dubai factory can run at the full capacity.

But with the order book, which we -- order intake, sorry, which we got from Power Grid, etcetera, and we expect those revenues to start from, I'll say, next month onwards and the earlier orders also which we announced, we do feel that we will have a very strong uptick in Q4. And so that should help us in our -- probably anywhere between 8% to 10% is what we will risk.

Also, we are seeing some improvement happening in the civil execution, okay? So, I think that's why revenue part should be maybe closer to 10%. I don't know honestly, but 8% to 10% is what I would say from 10% to up what we have said.

Sumit Kishore: Again a 8% growth for the full year would mean closer to 20% growth in the second half of the fiscal. So that appears to be a bit of a challenging ask, if the factors which are depressing Middle East execution continue. Your comments on that? And B, in FY28, do you expect normalized margins to at least achieve FY26 levels?

Vimal Kejriwal: So, Sumit, on the first question, which is why when you asked me on the revenue catch-up, I said that Middle East revenue, what we lost right now may not be -- I'm not sure we will catch up or not.

The entire growth which we are talking about will largely growth part of it. The normal revenues will come from Middle East, but the growth part of it will definitely come from India T&D, which has, I'll say, underperformed in terms of revenues because of a lower order intake in the first half, okay?

Now that we have got orders from Power Grid and we are L1 in some more after 15 months or so in Power Grid, you can start revenues, accrue revenues quite early. I think we are pretty confident on the numbers of what we are talking right now.

Sumit Kishore: Okay. And FY28 margins, do you think you'll be able to recover to FY26 levels?

Vimal Kejriwal: Too early. And I can't even say Q3, Q4 right now. So, I think we'll have to wait. But let me just tell you one thing is that we have an order book of almost 40,000 plus this. And largely, they are very reasonably good profit margins. So nothing untoward happens, we should have a decent margin.

Sumit Kishore: Thank you.

Vimal Kejriwal: Thanks, Sumit.

Moderator: The next question comes from the line of Abhijeet Singh with Systematix Group. Please go ahead.

Abhijeet Singh: Yes. Thank you for the opportunity. Sir, I wanted to understand more on the retention money terms that we have with our clients. Saudi mentioned it is 20%. And you also mentioned in your opening remarks that you're expecting some retention money to be booked in the H2, right?

So, why do you think that are some of our larger orders coming to the fag end of the execution? And if you can comment on the retention money, like what percentage is it in general? And after the completion of the project, after what time do we typically receive that money?

Vimal Kejriwal: So Abhijeet, let me put it this way that for virtually with every client you have different payment terms. Typically, the retention would vary between 5% to 10% typically. And in most of the cases, the retention gets released against bank guarantee also, especially in the private customers and some of the government customers also. There are customers like UAE and Oman and Saudi, etcetera, who will not release against bank guarantee. So in private, we get it released.

If you look at Power Grid, on the supplies, there are no retentions. On execution, there is some retention which gets released on completion. So most of the cases, what happens in the retention gets released in two parts. One is, let's say, the 10% retention, 5% will get released on completion of the project and 5% will get released on either commercial closure or commercial charging, etcetera. So the terms vary. But in most cases, it would get released within 6 months of the project completion.

There are very rare cases where there may be a 1-year, like in Oman where there could be a 1-year retention. But typically, within 6 months, you will get all of it, within 3 months half of it and 6 months all of it.

Now Saudi is an exception where there is a 20% retention. But of that 10%, they release immediately the day you complete physically or even if you're not completed physically, if the line cannot be completed because of issues of the clients, they have been releasing that.

And why we said that we will expect retention happening because if you look at the order book, Saudi had a very huge wave of orders, which came, I'll say, around 18 to 24 months back. And most of these orders are, or projects are completing. Even last month, I think we completed three or four projects. This quarter, we are planning to complete three or four projects. So, all these projects on completion will release a 20% retention, which is a large amount, okay?

Against that, since the revenues have been slightly degrowing that way, the new retention accruals are lower, so which is where there will be a net release of funds from the retention. I hope I'm clear, Abhijeet.

Abhijeet Singh: Yes, sir. That was helpful. And sir, second question on civil business. There is some weakness in execution in this quarter, we have seen some 17% decline in the revenue. Sir, could you point out to some factors that are leading to this execution slowdown in the civil business?

Vimal Kejriwal: So Abhijeet, there are two parts to it. One part is because of labor and other some issues which we are facing on clearances, etcetera, there has been delay. The second part is out of our four metro projects, three have been completed. So last year, there was a revenue which was there from the metro projects, which is now virtually not there. I think we have an order book of INR100 crores or something.

Rajeev Aggarwal: Yes.

Vimal Kejriwal: So we'll probably have INR100 crores, INR150 crores of revenue left out on the CMRL project. So that is a major cause, reason why the revenues have come down. Also, as I mentioned the order intake has slowed down significantly, I'll say very consciously.

And because of which also the revenues from new projects, typically, it's a cycle. So old projects get over and new projects start, so you keep on getting revenue from the new projects. So since we have reduced our order intake, that has also impacted the revenue.

Abhijeet Singh: Right. And lastly, sir, we have seen that JJM has suffered some kind of delayed receivables. Apart from the water segment, is there any other segment that you are witnessing some slowdown in the release of funds particularly?

Vimal Kejriwal: So you're talking about slowdown in the sectors.

Rajeev Aggarwal: Release of funds.

Vimal Kejriwal: Release of funds.

Abhijeet Singh: Yes, in terms of the funding from the customer side?

Vimal Kejriwal: I don't think there's anything in particular where there is a slowdown in release of funds. Often, what happens is people don't want to pay at the month and all that. So the money will come in

the next week or so and all. But otherwise, except JJM, we have not seen any concerted slowdown, if I can use that word, on payments.

Abhijeet Singh: Understood, sir. Thank you for the opportunity.

Moderator: Thank you. The next question comes from the line of Parikshit Kandpal with HDFC Securities. Please go ahead.

Parikshit Kandpal: Yes, sir. Hi, so my first question, if I look at your standalone numbers, so if I remove the other income, we had made a loss at the standalone level, both in Q1 and H1. In the past you have discussed segmental margins like Civil, we were just touching double digit. T&D, we were double digit. So if you can give us some more clarity on the segmental margins, what is adding up to such a big decline in EBITDA margins, especially in this quarter?

Vimal Kejriwal: So Parikshit, as I said earlier that on railways and transportation, we have faced some headwinds and that entire revenue and the margins are in the standalone. So that's one particular reason why the positive margin of T&D is getting eaten into or becoming negative because of that.

Secondly, because of the slowdown in the India business. See, what has happened is that since we were not getting power grid orders earlier, a large portion of our India order book now comprised of basically all Civil works because if you look at the nature of the contracts, any contract which I get from a private developer.

There are some exceptions here and there, would be for supply of towers and construction, whereas power grid also has conductor, insulator, hardware. So there is a huge amount of product revenue also which is happening. So this quarter of Q2 was very, very construction heavy.

And we did face a lot of challenges on account of surprisingly rainfall in Gujarat and MP. But apart from that, it was basically ROW. I'll give you an example. Today, we have got three substation projects which are virtually stuck. In fact, one of them is stuck for more than 1.5 years, where land has not been secured by the developer.

So what has happened is this is that it is getting secured finally. But this has led to a significant, I'll say, degrowth in the India T&D also. So all the three or four businesses where we would -- which are lying in the standalone have been impacted. But as I mentioned that with the India T&D now picking up with the power orders now coming in, we will definitely see a reversal in the numbers of the standalone.

Parikshit Kandpal: If I put it the other way, sir, I mean, we have ex of T&D order book in India comprising of maybe Civil, some of metro projects and domestic T&D orders, which you said. So versus the order book and if you compare the cost of completion, so how much negative, if you can help us understand how much hit still we have to take in terms of like -- because every quarter we are seeing almost INR250 crores, INR300 crores kind of subpar EBITDA being reported on a standalone basis. Is it right to assume that we still have about INR700 crores to INR1,000 crores of like cost hit which needs to take over the next few quarters until we come back to the healthy EBITDA margin of high single digits?

Vimal Kejriwal: Parikshit, it's very difficult to quantify because whatever we have been -- every quarter we have been quantifying the cost of closures at the CTC. And that is what gets booked and that's what is reflecting, as you rightly said in the standalone. See I will tell you the problem what is there is when you go to complete a project, suddenly, you get hit by something which you have not anticipated or when you are closing a dispute on an arbitration.

You have numbers which are clearly tenable, which are there and then you go into a settlement. You have -- so it's very difficult because all whatever we have seen on 30th September has been quantified and has been provisioned or provided for. Beyond that, it is very difficult today because if I had known, we would have provided it today.

I think that's the thing. But yes, in a way, your numbers are right that every quarter we have been having a hit of 2%, 3% on account of that, which is why we have not been talking about 9% or 10% margin because we are very clear that the way the closures are all happening. Although I'll also mention one thing is that we have an ECL provision of more than INR450 crores in our books. So some part of that also goes against that, but still difficult to say what will happen.

Parikshit Kandpal: So I mean, any, your own gut feeling or guesstimate, I mean, are we -- how many like three, four quarters still away from that trajectory, margin trajectory moving upwards from 5% now in a sustainable manner because we have seen it going up, then it comes down again.

So directionally, at least if you can help us understand maybe Q4 or Q1 next year or maybe by the early FY29, we will be back towards that high end of the spectrum between 5% to 9%. So how do you move in terms of like EBITDA margin?

Vimal Kejriwal: So let me put it this way. With our large order intake, which has happened in T&D and also we expect to get more. I think from Q4 onwards, we will see a significant bump up in our T&D revenues, which will definitely start have a positive impact on the numbers. FY28, I definitely -- let me put it this way.

My expectation is that this is the lowest number which we have got to. I don't see that we will go below this in our margins. Now whether we'll achieve 7% or 8% or 9% is difficult to say. But I do expect that all the old projects or legacy or wherever we are losing money or wherever we have to close, will definitely get closed by -- I think by Q2 of next year.

If you look at railways today, transportation, by March, we'll just have two or three projects to be closed and none of them are loss-making. Civil also, we are, I think, closing around 15 to 20 projects this year. So I think the trajectory on losses happening will keep on coming down. The other thing is that what will also happen apart from T&D with all these older projects getting closed.

The margin trajectory for the non-T&D business, whether it is Civil, whether it is Transportation and even Cables, we are not -- we are discounting it. All of them will also start improving. So FY29, so definitely, it is far away. That's why I don't want to say anything.

But we do expect that margins will start showing an uptick, whether it will be 10 basis points or 100 basis points is right now difficult to quantify because the other problem which I have is my

Iran war is still overhang. I can talk much more confidently and push much more revenue in that area.

Parikshit Kandpal: Just the last question, sir, on the debt. I mean the debt is all-time high for us now. So just wanted some more granularity on that, that on a sustainable basis, so for kind of business which we are doing and when we compare to our peers, we are at almost like one-fourth or one-fifth of the debt which we are running.

So there is obviously a stuck payments which you are receiving, which you have received for this. But I don't see a trajectory where the debt goes down from INR6,000 crores to INR3,000 crores or maybe INR2,000 crores on a sustainable manner because there will be a growth also which will require working capital.

And this debt is not sustainable, INR6,000 crores is too higher debt for this business. So what other options do you have beyond the usual business receivables coming and retentions coming down and all those things?

Beyond that, do you think there is a possibility that some of your entities, you can monetize stake like one of your peers has done and cut down debt? So what are the options in that table or maybe promoter can feed some capital to bring down the debt because this debt is not sustainable?

Vimal Kejriwal: So, Parikshit, while we take what you're saying on the debt not being sustainable, I think that's also a function of the margins which we have had. We have been having this debt around INR5,000 crores to INR6,000 crores for a long term. And I don't think that's been a major problem.

I think the problem has started because the margins went down. And we are very clear that the margins will improve. Coming to the -- your question on options, I think over the last 2 years, we have been talking about the cable business, and we are expecting that business. So I think this year will be close INR2,500 crores, INR2,600 crores. I don't have the exact number, INR2,500 crores, INR2,600 crores of revenue. And I did talk about expansion of the conductor facility and also the elastomeric and this.

So our view is that by probably by end of next year, the business should be at a reasonable number of INR3,500 crores or maybe FY28 should be INR4,000 or more of revenue. So that is one place where we have been discussing and we have been open about it saying that at some point of time there would be some form of dilution in that business.

Now whether it is a dilution completely or what happens, I don't think we are looking at a complete dilution, but whether it would be equity infusion by a strategic investor or a public issue, I do not know it will happen later on, but that is one area where we clearly see that cash flow can be inducted.

The other piece, I still have more hope than you have on reducing the debt by our own operations and all that. I think if you look at India T&D today, our NWC is down to 40 days. So when I'm

talking about that we will increase our India business, etcetera, we are very clear that there will be much more numbers coming out of the business

Although the past 2 quarters are not justifying it, but we are very clear on that part of it, that we have to do much more on getting out from the business. Because if you look at the INR6,000, it's largely working capital, okay? So we have to do more work on improving the working capital to bring it down.

Moderator: The next question is from the line of Amit Anwani from PL Capital.

Amit Anwani: First question again on the Civil side. So you highlighted the current order book has roughly about 11% of Civil and Transportation and railways. Just wanted to understand any risk with the projects in hand?

And second, when we take the projects because I'm just putting a context that over the past 5 years, whatever non-T&D businesses we have done, whether it is conventional railways, oil and gas, Civil, there's been a lot of -- we went long and then we have to cut short the books -- so what is strategically which you kind of want to build as a risk hedging in the orders? And for the existing book in Civil, what is your view in terms of execution coming in or impacting the margins here?

Vimal Kejriwal: So, Amit, to me -- I was not very clear on your question, but let me try to still answer it. And if I'm not able to answer, you can please ask a clarification. See, first of all, 11% is the number of our order intake, okay? So we had order intake of roughly around INR1,500 crores or so between transportation and Civil put together.

Order book will be more than that. I think my order book between railways and Civil will be around 20% -- 25% almost INR8,000 -- INR9,000 in Civil and another INR2,000 or so in railways, okay? So order book could be around 25% between them. And could you just talk a little bit more on what exactly was what you wanted to understand with me?

Amit Anwani: Order book of 25%, this carries more risk, you must be aware of what is the composition of the book? When these 25% of the order book comes into execution, any risk in next 4 quarters in terms of again impacting the margins?

Vimal Kejriwal: Difficult to say whether there is a direct risk. If we know we would have quantified and put it in. But if you look at the order book, and I think Civil is a large amount of INR9,000 crores or so, it is largely, I'll say, B&F, okay, largely B&F, except for INR1,000 crores of JJM orders.

So that is, I can say, a little bit risky in terms of cash flows. It is still profitable. So I'll not say it is risky in terms of margins. Obviously, you will not make as much as you were making earlier because of the delayed execution. Otherwise, it's all buildings and factories. And I don't see too much of a risk on the order book what is there.

As I said earlier, the costs which are getting incurred are on closure of projects which are not in the order book. The projects already completed or you have 1%, 2% of revenue left you doing a

railway project, they have not cleared that depot. So when you go to complete that, therefore it takes much more than what you can think about it. So you try to get it, so those are the things.

But if you ask me, if I give you a generalistic reply, I don't see there's any significant risk in the balance order book, which is what before you came I was saying that we do expect to start having some improvement in our numbers in non-T&D.

Amit Anwani: Right. And sir, you mentioned that now Civil, we are deliberately slow, the railway we have gone slow. So more of the heavy lifting in terms of order inflow will be T&D, I'm assuming that. And second, in terms of completion, let's say, 2 years down the line, is it fair to assume that the T&D plus all this product business will be like more than two-third of the revenue. Any sense you want to give like what is the composition we are looking? And will T&D be doing more of a heavy lifting because a lot of things now we are going slow on the non-T&D side?

Vimal Kejriwal: So Amit, you are absolutely right that T&D would be doing the heavy lifting. And in T&D also, I do think that India T&D will do more because as I said that the Saudi order intake has been slightly lower plus the 20% retention. So in a way -- and we are seeing a huge pipeline in India. So one is clearly the T&D business and more -- I'll say India. But if you -- I'll just say that Africa, we have got now 4 orders also.

So I think everything that way is looking okay. On the manufactured product business, the expectation is that we should be doing -- we want to do between 15% to 20%, actually more closer to 20%, so INR4,000 crores to INR5,000 crores is the target. In fact, if you look at Cables plus SAE, we are at INR4,000 crores, INR2,500 crores Cable and INR1,500 crores, INR1,800 crores from this.

But we actually wanted to push the transmission to 15%, okay? So we do want to increase the tower sale business, especially to the American market as well as to the Australian market. In fact, we are also getting a lot of inquiries now from Middle East, surprisingly because logistics is becoming a problem for people to supply to Middle East, from India and all that.

So we are having a lot of discussions on the Middle East market also. So clearly, as a strategy, I don't have exact numbers, but we are clearly focusing on increasing the share of manufactured revenue into our business, our overall numbers.

Amit Anwani: So, lastly, on the labor…

Moderator: Sorry to interrupt, Mr. Anwani. May we request you to return to the question queue for a follow-up question? Thank you. The next question is from the line of Sanjay Mahajan from Wealthwise Capital.

Sanjay Mahajan: I would like the management to continue on so more like on a manufacturing side of the business or the production in the tower sale Cables and the Conductor. It seems that this could be one one-off the stronger business where we will have a better visibility. And with this business also, how much is typically for the captive or own projects?

And how much is for the outside sale. If I understand this component in the right manner. I'll be happy to know more about it. And the capex that you tried to mention in the opening remarks, something more capex was doing on this year.

Vimal Kejriwal: Thanks, Sanjay. So as far as captive is concerned, transmission would right now be 70%, 80% of India and Dubai would be captive. Rest we are selling overseas. SAE obviously is 100% third party. The entire revenue of INR1,800 crores in SAE would be for third-party sales. As far as cables and conductors is concerned, the number varies between 30% to 40% of captive sales.

So around, let's say, if it was revenue of INR2,500 crores, around INR1,000 crores would be captive consumption. And if the conductor -- once the conductor plant comes in and with our power grid order book, etcetera, we do expect that the share may go up slightly on account of conductor.

Sanjay Mahajan: What is the kind of capex we are doing over here? And would be the work in progress or whatever more fund that would be required for this?

Vimal Kejriwal: So for capital, I think on the cable side for elastomeric and all that, we have already spent the money and capitalized it. That's why you see an increase in our fixed assets. As far as the conductor part is concerned, we are now about to start on our second phase. I think that's around INR50 crores or so, if I'm not mistaken, okay?

And on the transmission side, we have already expanded our capacity. So we don't have any major capex on increasing capacity right now, but we are looking at the market. As the need arises, we will plan for it. But right now, in our current capex plans, we are not spending too much money on the transmission capex on the factories.

However, we are spending close to INR100 crores or so on the construction equipment side on transmission. We have bought more transmission TSE machines. We are doing a lot more on the Gin Poles and other mechanization efforts. So at least INR100 crores is being spent on the capital side on construction and transmission.

Moderator: The next question is from the line of Nipurn Khemka from CD Research.

Nipurn Khemka: So, my first question was how much additional capital do you people need to sustain the business in the current rate?

Vimal Kejriwal: I don't think we will need additional capital because what we have been talking about is release of capital. So I do not envisage any extra capital to be poured in. In fact, we have been talking about reducing the balance sheet size and reducing the debt. I think Rajeev gave some figures also how we want to reduce it. So I think we are very clear on that, that we will be...

Nipurn Khemka: Because I was seeing that in the last year, something close to INR2,800 crores is what we have poured in. So that's why I was asking. And in the H1 also, we have close to we have INR900 crores we have sucked in. So what would be the rate that we are targeting for this year?

Vimal Kejriwal: No, I think as I explained earlier, that there has been some factors which led to an increase in this -- in the last 2 quarters, which already we have received a lot of collections. And I actually elaborated full collections item by item, which we expect to realize and which will reduce the debt. So I think we are pretty comfortable, I'll say, on the reduction part of it.

Nipurn Khemka: Okay. And the second question was like with this -- whatever money we would receive, how do we expect to pull up our ROE, if any…?

Rajeev Aggarwal: So once the funds get selected and borrowing level comes down, it will lead to a better ROCE and ROE and the margin improvement. So margin improvement, coupled with the reduction in the balance sheet side will have a positive impact on the ROE and ROCE.

Nipurn Khemka: Okay. I was specifically asking this question because it has been so long that because of this quota we are out of shape, that's why?

Rajeev Aggarwal: The point is that if you look at last few years and especially the last 4, 5 years, one, the business has grown to INR17,000 crores to almost INR24,000 crores, INR25,000 crores. So almost 40% growth in the business has taken an additional capital. That is one. Second, last 3, 4 years have been challenging in terms of the margin. Obviously, last couple of years, we saw improvement because of the better pie of T&D business and also the margins in T&D business improving.

So but apart from that, we have seen earlier the SAE and transportation business. So we have not made enough money to fund that growth. So obviously, the funding of the growth has taken place by debt, okay? Third piece is that the Saudi growth where the 20% retention is there. And obviously, the business doesn't generate 20% margin. So some working capital has been taken away in the Saudi business.

But as Vimal mentioned in the opening remarks and plus later on also, Saudi business this year, we have not received so many orders for whatever Middle East war is going on. So we are trying to close all the projects that will help us to reduce our retention, close the project, realize the retention. So that will help us to release the working capital.

So these are all some of the reasons that we should also appreciate that basically the growth funding has taken place by debt capital, although we did a QIP of about $100 million in 2024. So that also helped us to kind of fund our growth plans.

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

Saket Kapoor: Sir, firstly, small bit of clarification on the cable part of the story, what were you mentioning in terms of infusion or in terms of some capital raising? Can you explain what -- any thought process that we have? Or firstly, we will be creating a new entity as a cable and then raising fund or what was your call there, sir, like I'm unable to comprehend?

Vimal Kejriwal: Saket ji, the question was that if there is a need, where will you get cash from the company? That was the question for which I gave that answer. And if you recollect that we had subsidiarised the cable business, I think two years ago. So, even then we had said and we are still saying that at the appropriate time, maybe 12 months down the line or 15 months down the

line, whenever the cable reaches a particular size, this year there will be around INR2,500-INR2,600 crores.

We expect another INR500 crores-INR600 crores every year to go up. So, what we had said is at that point of time, we will decide in what format we can raise money in that company. Options are very clearly is that either we dilute from, because KEC holds 100% equity. So, either I dilute some KEC's portion and get some cash into KEC, if that is what we require.

Or if the company requires cable, if you think it will get me more revenue, more margins than what KEC is getting, then maybe we will dilute to get more funds into the cable company. So, that's a decision which we will take somewhere down the line after a year, a year and a half, saying that in which format do we want to bring money into the cable company or KEC?

So, that decision, I think maybe a few quarters away, maybe by the end of next year is when that decision will be taken. But that is always available in case if there is a cash flow issue or something happens and we need to bring in more money in the KEC, that's the straight option available.

Saket Kapoor: Right sir. How are the margins being for the cable and the conductor part? And I'll just put two more questions for you in the capacity of time. Oil and gas pipeline, maybe sir, H1 versus H1 especially, that is all account from the execution from our Spur subsidiary or what has led to this increase and what is the outlook for H2? And sir, secondly, in JJM sir, how much pending receivable is left and within the last six months how much have we got back?

Vimal Kejriwal: In JJM, it will be around INR800-900 crores. In that, we are getting around INR150-INR150 crores in every quarter. But that number is not decreasing because we are doing the same amount of work.

Because the project has to be completed. So, I think we still have an order book of INR1,000 crores -INR1,100 crores in JJM. So, that is stuck in a tight corner. When it will come out, it will come out when the government will give the money. The margin in cable is around 5.5%-6%. Because in cable, there is a lot of impact of the Middle East war.

Because all the polymer prices are PVC, XLPE, take any item. Because the main metal you are hedging is aluminum, copper. But in all these, logistic costs have increased and prices have increased. So right now the margins are lower. Conductor would be similar or maybe slightly lower because conductor is a much more volume driven game. But now they are getting into specialized conductors. They will make HTLS and all. So the margin of conductor will also increase.

Saket Kapoor: And sir, lastly about transportation...

Moderator: Sorry to interrupt, Mr. Kapoor. May we request you to return to the question...

Saket Kapoor: Sir, please complete the answer. Oil and Gas pipeline.

Vimal Kejriwal: The oil and gas pipeline revenue has increased because of 2 international projects. One in Saudi and one in Africa. Execution has improved. It has not increased from India. It has increased from outside.

Saket Kapoor: Okay, sir. Closing order book?

Vimal Kejriwal: I don't know. How much is the closing order book? It is around INR200 crores-INR300 crores. But we are seeing it in the international market. I think the order book should increase. A lot of work is coming there. Post war will also come. So I think work will increase in the Middle East. And in Africa also, there are some projects going on. But mainly I think work will increase in the Middle East. Okay, Mr. Saket...

Saket Kapoor: Okay, sir. I will fall back to line. Thank you. Happy Diwali to the team, sir. Thank you.

Moderator: Thank you. The next question is from the line of Jayesh Gandhi from Harshad H. Gandhi Securities. Please go ahead.

Jayesh Gandhi: So all my questions are actually answered. Only one query I have is that in Slide number 11, you spoke about performance impacted due to certain reasons. And one of the reasons cited is land acquisition also. Can you just help me understand what exactly is that land acquisition problem?

Vimal Kejriwal: Jayesh bhai, there are 2 parts to that land acquisition. One is what I talked about at least 3 of my substation projects have not taken off because the client has not been able to get land for the substation. And that has impacted the revenues in India T&D significantly. That is one part of it.

Second place where the land acquisition is coming into play has been on the renewable side where I think 2 or 3 of our wind projects, we are facing -- not we, the developer is facing significant challenges in acquiring land.

However, let me add one thing is that I talked about a new Ministry of Power guideline, which has come on forming a market rate committee, etcetera. And the expectation is that with that MRC, the land acquisition issues should hopefully get more streamlined. Today there is a conference call on power grid. See what they say. They say that the biggest impact is happening on land. But land acquisition is basically on the substation side which has a serious impact.

Jayesh Gandhi: Sir, if it is possible for you, can you quantify that order book, which is impacted by this particular -- I mean, what amount of order book is there?

Vimal Kejriwal: Difficult. I don't have the numbers. Maybe Abhishek, then you can speak to Jayesh and give the numbers. We will give the numbers to you separately, okay? But I would only add one thing, Jayesh-bhai is that out of the 3, I think land is also available in two, so work will begin soon.

Jayesh Gandhi: Got it, sir. Thanks, sir. Good luck sir.

Moderator: Thank you. The next question is from the line of Abhinav Mandowara from Aequitas Investments. Please go ahead.

Abhinav Mandowara: Yes, hi. Thanks for the opportunity. I joined the call late, so not sure if it is being repeated. I wanted to understand the working capital issues where we are facing and how our payments have been, and also with regard to Middle East pipeline just quickly...

Rajeev Aggarwal: So working capital, we had mentioned earlier, Abhinav, on the call that there has been some slippages in the collection and some of the money we have already realized in the month of October. Plus apart from that, we were expecting the collection in the water project, which has not happened. So that is how the working capital is slightly higher. But at the year-end, we are expecting the borrowing levels to go down to about INR6,000 crores level.

Abhinav Mandowara: Okay. Could you just quantify how much of the collection are we pending as such?

Rajeev Aggarwal: No, collections are pending at a few areas like we mentioned that retention collection is pending, which is going to happen. And in the next 6 months' time, water collection has not come and still we are struggling to get the payment from both state and the centers for the Jal Jeevan Mission. Some of the projects which we have closed in the Saudi and other territories, we are expecting a lot of collections to come from the retention payments. So all these will help us to reduce our borrowing by March.

Abhinav Mandowara: Okay. And what is the Middle East, like how are you seeing execution there? Any specific issues which you are facing?

Rajeev Aggarwal: So execution issues, basically what happened in the first half due to the West Asia war, the execution has been impacted, especially on the supply side, supplies which are coming up from the Europe and other parts of the globe, they have been impacted. Freight cost has gone up significantly higher. So all these has impacted.

And in India basically the ROW issues in a few of the projects have impacted the execution. So these are some of the challenges that we have faced. Obviously in the Civil business also we need to increase the pace of the execution, which currently needs to improve significantly, and that is where the performance has been impacted.

Abhinav Mandowara: Okay. Thank you.

Rajeev Aggarwal: Thank you.

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

Rajeev Aggarwal: Mr. Kejriwal has left for a meeting. So thank you very much for your interest in KEC. Thank you so much.

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