



# “KEC International Limited Q3 FY 2017 Results Conference Call”

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**Moderator:**

Ladies and Gentlemen, Good Day and Welcome to the KEC International Limited Q3 FY 2017 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 the conference call, please signal an operator by pressing '\*' then '0' on your Touchtone Telephone. Please note that this conference is being recorded.

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

**Vimal Kejriwal:**

Thank you. Good evening to you all and thank you for your continued interest in KEC. I am pleased to inform you that for the second consecutive quarter we have delivered a PBT in excess of Rs. 100 crores. We continue to improve on the margin front. We have achieved EBITDA of 9.26% for this quarter, which is a 126-basis improvement over the same quarter last year and highest EBITDA which we achieved in the last 21 quarters.

Net revenue for the quarter was at Rs. 1,965 crores down around 6.6% Y-on-Y. Y-T-D profit PBT is Rs. 255 crores, a growth of almost 49% Y-on-Y and Y-T-D PAT is Rs. 159 crores a growth of 124% Y-on-Y.

We have today announced new orders of Rs. 1,866 crores; with this, our total order intake in the current financial year stands at Rs. 8,634 crores. This is almost 26% higher than the corresponding Y-T-D order intake last year and we are well on track to improve our order intake significantly over the last year numbers. We are already very close to the order intake for the last entire year.

Our order book at the end of December 2016 stands close to Rs. 1,1200 crores and L1 positions continues to be strong at around Rs. 3,800 crores plus. So, if you add the two we almost at Rs. 15,000 crores of order book plus L1.

On the revenue front, where we have seen some growth building up in the previous quarter, the current quarter was impacted due to three reasons: firstly, demonetization created an impact on several of our ancillary support industries notably, logistics and also sub-contracting. Secondly, a large part of L1 orders which we were expecting to convert at the beginning of the quarter converted recently as you can see from our latest order intake release today. And thirdly, revenue from our substation project in Jammu Kashmir was delayed due to land availability which issues are now being resolved and the land has been handed over to us. But with the snow happening in that region this revenue will now get defer to Q2 next year. However, what we have seen is only a shift in revenue rather than any loss of revenues.

On the business front, the international T&D business is poised for increase in volume numbers in the next year, with a significant part of L1 position getting converted recently of the 1866 which we announced almost 63% of the orders are from the international market. We

also have an L1 position of close to Rs. 2,000 crores in the international business. We have also been successful in rebalancing our Middle East portfolio with a new order win in Jordan combined with the earlier win in Egypt. Africa also continues to be significant part of our international business where we have reentered Mozambique, and we have a sizeable L1 position in substation business in Africa.

Railways continues to be a strong growth driver for us. We have seen significant order intake in the first-half of the fiscal year and we are pleased to see that execution in these projects have also started as per plan and are progressing satisfactorily.

We continue to deliver a healthier balance sheet over the last few quarters with a sustained focus on the working capital and borrowings position. Our overall borrowings including acceptances have reduced by Rs. 570 crores and we have been able to bring down our receivables by Rs. 811 crores since March. Our interest cost is also going down in the last few quarters with a 16% reduction Y-o-Y in Q3 and 9% Y-T-D in nine months.

With the challenges faced in the last quarter on the revenue front, we are looking at a revenue growth of close to 5% in revenues for the entire year. On the margins, we have stated that we will be doing close to 8.5%. However, we already achieved 8.8% for the nine months. I think we are confident of closing the year with a margin of close to 9%.

Similarly, on the order intake, I think we should be able to better our order intake guidance 10% to around 15% to 20% growth in the order intake over the last year.

Thank you. I am now happy to take your questions.

**Moderator:**

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

**Ravi Swaminathan:**

We had seen revenue decline and we are projecting close to 5% revenue growth in FY 2017. Will you be able to give a growth guidance in FY 2018 given the fact that commodity prices have started moving up and we have also started building a very good order book over the past two quarters to three quarters? Can you give a sense on growth and margins also for next year?

**Vimal Kejriwal:**

Earlier we had guided that we should be doing a 10% growth next year. However, considering the fact that our current year growth is not as per our projections, we will probably be closer to 15% than 10% in next year on the top-line. As far as margins are concerned, we expect 9% for next year. We are going to achieve the 9% in this year. I would still like to stick to 9% right now. Hopefully, we will do better than 9% but at the moment I would rather still like to say that we will do 9% next year only. I am very sure we can do better than that. But we would still prefer to stick to 9% with a 10% to 15% growth guidelines on the revenue.

**Ravi Swaminathan:** Okay. We have seen a considerable improvement in terms of margin, which are the segments in which there is still further headroom for growth I mean, improvement in terms of margins and which are the segments where you may see challenges going forward say due to reverse bids or something of that sort?

**Vimal Kejriwal:** Seem going forward the improvement in the margins will clearly come from the railway sector because railways we were still closing the old contracts and all that and we had some earlier contracts which were not at a very high margins. But if you look at the current order which we have taken of almost Rs. 1,400 crores I think most of them are pretty close to what we make in T&D. So, hopefully next year when railways should be I would say around 7% to 8% of our total turnover the margins should be closer to the T&D margins. That is clearly one area where the margins will pick-up.

**Ravi Swaminathan:** Okay. And in terms of inflows I mean at India level we have seen good ordering from SEBs etc., they have been increasing but do you sense that it kind of plateau out next year or it is expected to further increase and go beyond rate of ordering? And if you can also give a flavor on how other markets outside India are panning out will be really helpful sir.

**Vimal Kejriwal:** Clearly, we are seeing a plateauing of the PGCIL order book, I think that is very clear because most of the orders which PGCIL was getting on interstate, and that are now getting into the TBCB route. So, the same orders are coming in from Sterlite, Adani, or Essar, rather than power grid. You can see, if you look at our overall order book for the year between Sterlite, and Adani, I think we have announced orders of close to Rs. 650 crores or Rs. 700 crores which otherwise would have come from PGCIL. Sates are increasing their tendering and it is now spreading to some other states also earlier it was focused mainly on the southern states but now we are seeing states like Odisha (Orissa), Bihar, and Rajasthan also coming out with more and more tenders. So, clearly, that is one case which you will see more action happening. Internationally I think with the commodity prices picking up, we are clearly seeing more action happening in Africa. So, next year I think we will see a significant uptick in our international revenues especially from Africa. And the second piece which I covered in my address for the rebalancing of the Middle East with orders coming in from Jordan, Egypt, we also L1 in some more orders in Middle East. So, Middle East will obviously continue to remain one of our major revenue and profit earners.

**Ravi Swaminathan:** Okay, got it. And in terms of opportunity from this HVDC line Raigarh - Pugalur which was awarded to ABB - BHEL consortium recently. Will there be any opportunity for transmission line towers from that also? So, what will be the quantum?

**Vimal Kejriwal:** Ravi, you have to understand one thing, they have been awarded the convert station. They have not been awarded the transmission line.

**Ravi Swaminathan:** Yes. Will there be a derivative kind of an order for TLT?

- Vimal Kejriwal:** Power grid has already issued tenders. They have issued ten tenders of which four have already been quoted and the balance six are in the process of being quoted probably in the next two weeks. Roughly they have opportunity of around I think Rs. 2,200 or Rs. 2,500 crores for this kind of lines.
- Ravi Swaminathan:** Okay, got it. And finally, book keeping question, what would be the margins in terms of SAE towers?
- Vimal Kejriwal:** Sorry, I missed you Ravi.
- Ravi Swaminathan:** Margins for SAE towers this quarter.
- Vimal Kejriwal:** SAE towers are similar to KEC.
- Ravi Swaminathan:** Okay. Almost like 9% margins would have been there?
- Vimal Kejriwal:** Yes, it would be in that range, 8% to 9%.
- Moderator:** Thank you. Next question is from the line of Renu Baid from IIFL. Please go ahead.
- Renu Baid:** Sir, you have mentioned earlier in the media interviews as well as in today's call you have highlighted of constraints because of demon. but one sees what was the kind of slippages that we have seen in the domestic market? And more specific the headwinds with you there with respect to the supplies and transportation of the tower angles and other logistics. Are they completely out of the system and how do you look at the problem with the subcontractor stabilizing around this corner?
- Vimal Kejriwal:** See, the logistics issue has now been fully sorted out, okay. As of today, we are not facing any problems but we definitely had a serious problem in November. And also in December it was I will say very partly resolved, okay. As of now with the limit which we had increased to Rs. 1 lakh and now having taken it off yesterday, I think the logistics problem is no longer there. The problem on the subcontractor is not fully resolved because what is now happening is that we are able to retain the people who are there already working with us getting new people is still a problem but I think with the relaxation yesterday what normally happens when we get subcontractor is subcontractor pay advance to all the workers and which they were facing some difficulty in paying cash because they were not able to withdraw. Limit has been removed. I think in next ten days or so we should be able to gear up fully on the subcontractor front.
- Renu Baid:** Right. So, February, March will probably normal quarters, normal months for us now in that case?
- Vimal Kejriwal:** I hope so, it should be at least from let us say 10th of February or something because we may just take some more days for getting the subcontractors back. But I do not see a significant impact going forward now.

**Renu Baid:** And no, rub off impact you see on similar lines when GST would be implemented especially for down the line chain?

**Vimal Kejriwal:** That we does not know what will be honestly. So, let us keep our fingers crossed, I think delay of the GST by six months has been blessing and these guys giving more time for everyone to get ready. I would like to make one statement is that today, there are lot of inefficiencies in the Service Tax because most of the clients our billing includes Service Tax. There are many places where Service Tax is not getting set off because they have been paid in different jurisdictions and different businesses etc. Hopefully, with the GST coming in the way they are talking about it, it may have a lot of positive effect on the taxation cost etc. We are still not sure what it would be but I do expect that there would be some improvement in our margins on account of this piece. It is too early to quantify today but I feel that there will be some positive impact on the numbers.

**Renu Baid:** But at least on the execution side you do not perceive that this could probably pull out any headwinds in the 10% to 15% sales guidance that we are looking next year?

**Vimal Kejriwal:** I think 10% to 15%, we are pretty certain about the guidance because unlike earlier what is happening is that we have an order book today. See, earlier our guidance was based on our expectation of L1s getting converted into orders which unfortunately with whatever was happening in the economy globally some of them got delayed and which you can see, I do not think I have ever announced Rs. 1,800 crores of orders at one shot together. So many of them got bunched together got converted at one shot.

**Renu Baid:** And sir, second if you look on the profitability side, last couple of quarters you have seen consistent improvement especially on the gross margin side. So, would this be largely attributable to international orders and SAE or probably you think other businesses are equally contributing. So, if you can throw some light with respect to how the margins on the towers and the other businesses are looking at?

**Vimal Kejriwal:** On the profitability there are three or four reasons. One obviously is SAE is making a lot of money in the sense that two years back they had a significant loss. Last year also they had a loss so, that has got covered into profit at a decent levels so, that is one thing which has clearly happened. The second thing is again on railways where we were having negative PBT last year that has become positive and also on the cable although we are still not making money on overall basis for the nine months but the losses have come down significantly. We are very close to breakeven.

**Renu Baid:** So, can you share with respect to what is the loss or the hit on the cables business Y-T-D?

**Vimal Kejriwal:** I am not be able to give out numbers on the call, may be if you want to have some more details you can speak to Rohit later on. But what I am saying is that on these three negative in the last year and year before so, they have turned significantly positive that is one piece and then on

the interest cost there has been a significant reduction. That is not positive piece. As far as transmission is concerned, I think our margins have been what they have around 10%. So, I will not say there has been uptick in the margins but we have been able to maintain our margins.

**Moderator:** Thank you. We take the next question from the line of Sandeep Jabuani from Narnolia Securities. Please go ahead.

**Sandeep Jabuani:** Sir, my question is pertaining to the irrigation and subcontracting expenses which had come down significantly in this quarter on Y-on-Y basis. So, I want to know the reason behind it sir.

**Vimal Kejriwal:** Sandeep, I cannot give a reason off hand but the normal practice what happens I have been explaining in every project, in every meeting is that you need to look at materials, subcontracting and employee cost together because what happens is that, let us say, I want to give a contract which includes supply of cement also, gave it to subcontractor. In which cases, it go in subcontracting. If I supply in cement then the cement cost goes in material. Sometimes I may give my own people in Saudi contract or let us say if I give a UAE they do not allow too many outside subcontractors. So, I will send my people they will come into employee cost. If I hire a subcontractor it goes into subcontracting cost. So, to me material subcontracting and employee cost all three should be read together.

**Sandeep Jabuani:** Okay. Understand, sir. My second question on the railway, in of the interview you had guided for Rs. 450 to Rs. 500 kind of top-line in FY 2017 from railway business. So, how well we are on track or we would like to revise our guidance?

**Vimal Kejriwal:** I think on railways we are on track of our guidance.

**Sandeep Jabuani:** Okay. So, we are on track to getting Rs. 450 crores to Rs. 500 crores...

**Vimal Kejriwal:** Yes, definitely.

**Sandeep Jabuani:** Okay. And sir, last question sir, it is possible for you to quantify the revenue loss due to demonetization?

**Vimal Kejriwal:** Due to demonetization?

**Sandeep Jabuani:** Yes, sir.

**Vimal Kejriwal:** I think, I do not have the exact number but broadly it would somewhere be around Rs. 50 crores, Rs. 60 crores or may be Rs. 80 crores that will be around 3% to 4% of our turnover for the quarter.

**Sandeep Jabuani:** Okay, Rs. 50 crores to Rs. 60 crores.

- Vimal Kejriwal:** Yes.
- Moderator:** Thank you. We take the next question from the line of Bhoomika from IDFC. Please go ahead.
- Bhoomika:** Sir, just wanted to understand on this margin profile a little better. While obviously there has been a margin improvement at SAE but railways, cables, etc., has been at relatively about 1% or 2% lower than our transmission margin. How have things really panned out there in terms of margin improvement to deliver such a strong margin?
- Vimal Kejriwal:** See, basically what has happened is one of the biggest contributor would be SAE, okay. SAE would have gone up by at least 500 basis points in terms of margins. So, that is one clear and there is a large number also of revenue coming from SAE.
- Bhoomika:** Correct. So, would it be fair to say the SAE will be delivering about 10%, 12% margin right now at the operating level?
- Vimal Kejriwal:** 8% to 9% should be the right figure, okay. So, what happens next I do not know but basically, it will be 8% to 9% should be the SAE margins. So that is one clear piece. Second is railways was significantly overall negative because we have stopped losing money but since we had earlier contract last year so, last year there was negative in railways which has become positive. So, again, you will have 5%, 6%, or 7% swing happening on the railway piece and obviously, the turnover increase. And the same thing applies to cables, last year we have faced significant headwinds and now hopefully with copper prices, aluminum prices going up we are already seeing a turnaround in the fortunes. So, these are the three basic items which have delivered helped us in delivering the number apart from obviously the reduction in the interest cost.
- Bhoomika:** Correct. So, sir, basically what then that means the core transmission margin itself have gone above 10% to give a blended number of over 9% will that be a right understanding?
- Vimal Kejriwal:** Yes, it is right.
- Bhoomika:** Okay. And sir second is if you can give some outlook in terms of SAE, you know how is the order backlog there what is the outlook in terms of order etc., because you have been fairly well out there.
- Vimal Kejriwal:** I think SAE has been doing very well. We have a fairly good order backlog there and I think, we will get some more orders there. And I was saying that for Brazil we have close to two years order backlog; Mexico I do not have the exact numbers but roughly as far as I know they have an order backlog of roughly around six months with them. So, they have order backlog I think lasting up to June, July or something and right now we are negotiating a few orders. We are just keeping our fingers crossed on the President Trump impact what happens there but otherwise I think we should be doing well in Mexico also.



- Bhoomika:** Okay. And lastly in terms of interest, you have shown a significant improvement in our working capital and the interest rate reduction itself which has resulted in a very significant cost savings when it comes to interest. So, you think that we should be able to maintain almost about 2.8%, 2.9% kind of levels in terms of interest cost to sales ratio?
- Vimal Kejriwal:** You are talking about next year?
- Bhoomika:** Yes, sir.
- Vimal Kejriwal:** Next year should be 2.7% is what we have been talking about.
- Moderator:** Thank you. Next question is from the line of Jonas Bhutta from PhillipCapital. Please go ahead.
- Jonas Bhutta:** Sir, three questions. Firstly, sir, even to meet the 5% full year top-line it implies almost a 27% growth in Q4 sales. So, how confident are you on that and where will that come from because in the nine months' railways cable, solar SAE, all have grown at 30%. So, the key piece that has been underperforming is the T&D piece. So, are you expecting a major jump in execution in fourth quarter in that part of the business?
- Vimal Kejriwal:** Very clear, Jonas. If you look at the numbers a 20% -25% rise means almost Rs. 3,500 or may be more than that and it has to come from transmission there is no doubt about it. But if you look at our today's order release also 70% of that is from transmission, okay. So, we are very clear that it will come from transmission, obviously, railways and all will also contribute but the major chunk no doubt about it will come from the transmission business.
- Jonas Bhutta:** Yes. The other set of clarification I wanted was, when I do a console minus standalone of the financials that is roughly what SAE is. Sir there SAE has shown a very smart improvement in sales it has been doing for the past nine months of almost 30% but somehow margins are just 4.5%, 5%. So, for a product business when you have such strong top-line growth why are we not seeing operating leverage in that business sir, if you can just help us explain that?
- Vimal Kejriwal:** Couple of things. One is actually the margins number I do not know how it has been captured but I think the margins are better than that number one. Number two, it is just not product, we also do EPC there although, I do not have the exact breakup of how much is EPC out of...
- Jonas Bhutta:** But that is relatively newer business I do not think it would contribute more than 30% of sales, right?
- Vimal Kejriwal:** Yes, it would not contribute more than 30% very clearly, okay. So, margins I think maybe you should reconcile with Rohit. I do not think margins are major issue and I think the other thing what happens is that the exchange fluctuations gets booked there that is the major reason for you looking at lower profitability you know the profitability appearing to us because it all lies

into holding subsidiary which are part of console. With the new IndAS and all that unfortunately, all that is now getting into the exchange equalization account. They are getting into your P&L directly.

**Jonas Bhutta:** The similar trend that we have seen in the standalone entity so where top-line has de-grown by almost 11% in Q3 but margins have shot up by about 150 basis points is that because the contribution of Saudi JV in the current quarter is higher?

**Vimal Kejriwal:** No, I do not think that is correct. In fact, as I was talking earlier we have been slowly derisking our Middle East operations. So, Saudi JV contribution is not going up very clear. And as I was explaining to Bhoomika there were three reasons which I told earlier about railways, cables, coming up. It is not additional numbers coming in from Saudi, no.

**Jonas Bhutta:** Got it. And the last question was sir, where do you see the net debt level as end of March 2017 I mean?

**Vimal Kejriwal:** Go ahead Rajeev Aggarwal.

**Rajeev Aggarwal:** See, Jonas, it is difficult to predict number of net debt level as of March, but our continuous focus has been to reduce our net debt and this year we have reduced on quarter-on-quarter we are reducing the net debt and currently with respect to the March we have already reduced it by Rs. 570 crores and this is on the back of accounts receivable has gone down significantly during the nine-month period and we can only say that it will now go up. So, how much reduction will be possible we will have to see.

**Jonas Bhutta:** Sir, in the recent reset in interest rates has that already you have got that benefit of that in the current quarter or that benefit we will see in fourth quarter and going forward?

**Rajeev Aggarwal:** See, we definitely see further benefit in the fourth quarter because after the demonetization what has happened is in this quarter the banks have reduced the interest rates that effect will definitely be there on the commercial paper and other money market related instrument. So, that benefit will be coming in the Q4 as well. So, there itself definitely there would be further reduction.

**Vimal Kejriwal:** See, one thing Jonas which you have to keep in mind is that for both companies none of them borrow at the MCLR or at those rates. Recently, what the banks have done is they have reduced the MCLR and base rates, etc., people like us have always been borrowing at money market rates and we have not seen a significant decline as of now in the money market rates, okay. So, that is one piece. And I think the second piece is that the Libor has been going up and we have significant foreign currency borrowings. So, which is why when Bhoomika asked me I did say that we probably will expect a 10% reduction from 3% to 2.7% that was factoring all these items.

- Jonas Bhutta:** So, if at all Q4 interest cost should be at least similar of that 3Q is that a fair assumption?
- Vimal Kejriwal:** I think, it would be slightly lower in terms of percentage because we will have a much larger revenue.
- Rajeev Aggarwal:** It will definitely be less than 3%.
- Vimal Kejriwal:** Okay, because revenue being what numbers we are talking about so, as a percentage the interest cost will definitely be lower, no question about it.
- Moderator:** Thank you. We take the next question from the line of Nisarg Vakharia from Lucky Investment. Please go ahead.
- Nisarg Vakharia:** Just wanted to confirm, you said that you are confident of achieving 15% growth next year is that correct?
- Vimal Kejriwal:** I said 10% to 15% but I think we should be closer to 15%.
- Nisarg Vakharia:** Sir, you have been guiding interest cost as a percentage to sales at 2.7% for a while. The EBITDA margins has surprised on the upside for all us sustainably. What can we expect in terms of your balance sheet in terms of the receivable days further going on from here. What do you think is the ideal case for the business that you do?
- Vimal Kejriwal:** Ideal should be 180 days is what we have been telling our teams. We are today at gross at around 218 days, okay. If you look at that then we still have a scope to reduce it by 30 days, okay. And that is what we are internally targeting as how do we reduce it further, we have been working on it and I think the main reason for that is obviously the delay in commercial closure of projects which we have been pushing our teams and also the client because it is also in the hand of client as to how do they cooperate on closing projects. So, that is the basic key to reduce it. And secondly, we have got a large amount of moneys on retention in Saudi Arabia as I have been mentioning the projects are now getting close one-by-one. So, once the retention flow starts which normally they take around three months or so from the commercial closures so that will contribute significantly to this 218 going down.
- Nisarg Vakharia:** Sir, lastly, there is a lot of talk by the government on solar. The numbers are very-very large. Looking at our size those numbers are not yet reflecting and our sort of P&L. Do you think this opportunity is spoken more about by the government than it actually is there or there is a very large opportunity in solar?
- Vimal Kejriwal:** I think both your statements are correct. One is that the government talks a lot about solar. At least one statement from someone in the ministry on renewals, so there is very clear talk going on. The problem what is happening today is where the coal price is being where it is and power being available at Rs. 2 an hour on the power exchange, solar is going on back foot because

many of the Discoms do not want to buy, even on committed PPAs and where they are buying they are not paying for it. So, there has been a little bit slow down on the private sector projects where there are developers and all that. Where we are seeing action is the government promoted projects, so NTPC, APGENCO or NHPC all these people very clearly we have seen going ahead and let me also say that next year you will definitely see a significant improvement in our solar revenues we are already L1 in a very large project in solar. Hopefully, we should get that project in the next 10 days or 15 days and we will start seeing the revenues coming in early may be Q1 itself.

**Nisarg Vakharia:** Two things on that solar. First, is that what is the EBITDA margins that we generally do in the solar business because I believe it is a very competitive space. So, it is above the company average or below it?

**Vimal Kejriwal:** The EBITDA margins would be I would say at par or may be slightly below but then the difference is that that is a cash positive business. So, your PBT would be at least at the company average.

**Nisarg Vakharia:** And secondly, we will never want to invest money in a solar project, right? We will refrain from making investments and strict to only EPC?

**Vimal Kejriwal:** 100%.

**Moderator:** Thank you. We take the next question from the line of Pavan Parakh from HDFC Securities. Please go ahead.

**Pavan Parakh:** My question is on the cable business. You said the loss has been reduced primarily on the back of increase in copper and aluminum prices. So, is that the only reason or there are any further lever also because revenues are largely flat that implies volume decline now.

**Vimal Kejriwal:** I think Pavan, somewhere maybe I did not put it rightly. The aluminum and the copper prices have not started going up in the last one month or two months. We have seen some improvement happening in December and now I can see it in January also and hopefully that trend will continue in February and March, so that is one thing. I think the basic reason for the cable turnaround is that we had appointed an international consultant to work with us on the cables like we had one some years back on transmission and we have been able to do a lot of good work on the backend pace where we had a lot of improvements on the cost side as also on our design, QoQ, etc., So, we have been able to I will say that we have been able to address our back end, we are still facing some headwinds on the front end especially on EHV because it is a new plant and we still don't have enough qualification to see it wherever but we are slowly over coming it. These factors combine should see a good thing happening on the cables going forward.

- Pavan Parakh:** Okay. And secondly sir, this has been answered but our reported margins for this quarter is about 9.5% and as you always say our T&D margins are closer to about 9% and other businesses have margins more than 9%. So how do we read this 9.5% and may be T&D margins are substantially high in this quarter?
- Vimal Kejriwal:** Yes, that is what I told Bhoomika when she asked that we are about 10% in this quarter on the T&D margins.
- Moderator:** Thank you. Next question is from the line of Ajinkya Bhat from Kotak Securities. Please go ahead.
- Ajinkya Bhat:** I just wanted to reconcile the order inflow number, sir. In you 1H FY 2017 presentation you had declared YTD that is 1H order inflow of about Rs. 59 billion and this time you have declared the quarterly order inflow of Rs. 19 billion. So, total that adds up to about Rs. 78 billion versus simultaneously you are also saying the Y-T-D order inflow is Rs. 86 billion. So, where is this difference coming from?
- Vimal Kejriwal:** Maybe I think you can talk with Rohit to get reconcile, I do not have the detailed break up of adding up and all that. Later slightly talk to Rohit, he can probably reconcile the whole thing. Because I do not know whether you have added the Q3 numbers and all that because we have two declarations in Q3 so may be just reconcile with him.
- Moderator:** Thank you. Next question is from the line of Darshika Khemka from Edelweiss. Please go ahead.
- Swarnim Maheswari:** This is Swarnim here from Edelweiss. Sir, two questions from my side. First one on the cash flows sir, if you can just mention that what will be our cash flows in terms of operating cash flow and free cash flows for Q3 FY 2017 and nine months FY 2017?
- Vimal Kejriwal:** The numbers are not readily available. Except that as Rajeev was saying that we have reduced our debt by Rs. 562 crores in the nine months. I think that is the only number I will be able to give you and gross receivables have come down from 246 days to 218 days.
- Swarnim Maheswari:** Okay. And sir, secondly, what would be our utilization levels at Mexico plant?
- Vimal Kejriwal:** Mexico plant, the tower plant is operating at 100%, the coal plant keeps on varying depending upon what orders are there. But I think for February and March the coal plant also will get 100%.
- Swarnim Maheswari:** Okay. So over there in Mexico the problem is all about the visibility, right?
- Vimal Kejriwal:** See, Mexico is a pure product supply business, so the orders there are normally not very long-term so that is where it is. There is a visibility issue going on but I think for the last 15 months we have been virtually positive every month in Mexico. We have decent order book. We also

right now have visibility especially from the U.S. and Mexico itself. I think today they are significantly confident about what is happening.

**Swarnim Maheswari:** So, positive as in at the operating level, right?

**Vimal Kejriwal:** Positive at the PBT level.

**Swarnim Maheswari:** At the PBT level, okay.

**Moderator:** Thank you. We take the next question from the line of Devang Patel from Trust Wealth. Please go ahead.

**Devang Patel:** You mentioned exchanged fluctuations get captured in the P&L. So, would it be right to say that in Q3 at the Mexican currency devaluation not been there the margins would have been higher?

**Rajeev Aggarwal:** No. Basically, what is paying out the Mexican currency depreciation it is not issue because most of the order that we are taking in Mexico are in U.S. dollar only. So, from that perspective there is no issue, the issue is that the holding company's level because the acquisition which is lying in the holding company that is getting mark-to-market due to the change in the accounting guideline and that is where the impact has come in the first quarter. In the second quarter there was no depreciation of the Indian rupee against the U.S. dollar. So, there was no impact. In the third quarter the currency has depreciated by about Rs. 1.25 or Rs. 1.30 some of the impact has come.

**Devang Patel:** And how much that impact would be? Would you have a rough idea?

**Rajeev Aggarwal:** For quarter three, it was about Rs. 10 crore.

**Devang Patel:** Rs. 10 crores?

**Rajeev Aggarwal:** That is right.

**Devang Patel:** Sir, on the cables business we used to have 4%, 5% EBITDA margins earlier with copper prices gaining. Could you give a sense of how much of our portfolio would gain from this? I guess the EHV cables will not get too much benefit than in the project orders?

**Vimal Kejriwal:** We use both copper as well as aluminum and if you look at aluminum also in the last I think may be one quarter or so it has gone up by \$300. So, I think both of them are gaining and in EHV normally what also happens is you also have a price variation clause generally whether it is aluminum or copper. So, the entire piece will gain.

**Devang Patel:** Would we get margin benefit out of price increases what I was asking on the entire portfolio?

- Vimal Kejriwal:** We will get on all that is what I am saying.
- Moderator:** Thank you. Next question is from the line of Siddarth Mohta from Principal India. Please go ahead.
- Siddarth Mohta:** Yes, sir. Sir my question is, that recently there was news that railway will float Rs. 8,000 crores of tender for transmission network to reduce the electricity bill. So, can we play sir any role there sir?
- Vimal Kejriwal:** Yes, definitely. In fact, out of the Rs. 1,400 crores order which we have this year in railways, I do not have the exact but I think close to Rs. 1,000 crores will be only for the OHE, okay. Now there are two parts of what we are talking about one is electrification of tracks second is what railways are not talking about is building their own transmission lines.
- Siddarth Mohta:** Yes, sir. I am talking about that only.
- Vimal Kejriwal:** Transmission lines they have already started floating the tenders and Power Grid has already floated the first tender. I think more tenders are coming out. Clearly we will be bidding for this.
- Siddarth Mohta:** Okay. And sir, my second question is with respect to Saudi Arabia. How is our project execution going on and we were targeting to recover Rs. 400 crores to Rs. 500 crores of retention money by quarter four FY 2017.
- Vimal Kejriwal:** Yes. The execution is going on very well. I think we are pretty happy with the way the execution is happening and closure of projects are getting completed. I think we should definitely get some part of it by March, I am not sure whether we will get the entire Rs. 400 crores or not but if not March and April or May I think a lot of money will come in.
- Siddarth Mohta:** Okay. The target of Rs. 400 crores to Rs. 500 crores might be in the next six months is something that we can target.
- Vimal Kejriwal:** I am honestly not very sure whether we will get it in March or move out April, it depends upon how quickly the commercial closure happens. Normally they take around 45 days, 60 days, 90 days somewhere. It depends on when he will pay so, it may come in March, it may not come in March but I do not foresee a significant delay.
- Siddarth Mohta:** Okay. Sir, but within six month I am talking by June we can receive actually?
- Vimal Kejriwal:** Yes, definitely.
- Siddarth Mohta:** Okay. And sir, now the raw material prices sir, it has gone up what our understanding is that for domestic segment it is more of a price variable as far as transmission segment is concerned.

But in overseas it is more of a fixed cost project. So, how we are going to cope-up with this increase in raw material prices?

**Vimal Kejriwal:**

See, what is also happening is that some of the countries I am not sure which one but I think Indonesia some of these countries also started having price variation. But basically, what we have been doing is that there will be bidding for new projects, we have generally been providing cushion based on what our supply chain team comes back and say what do they expect our steel prices to go up and all. So, generally in all the projects depending upon how much time the client takes to award the contract and when do we think it will start supplying we do build in enough contingencies on steel pricing on all the metals which we cannot hedge. Metals like aluminum, copper, etc., which we can hedge we automatically hedge them the way we are doing our contract so, we do not carry any rules of that. Steel is the only item which is not clearly hedgeable on any of the exchanges so, that we try to do it by providing cushion in our pricing sometimes. Sometimes we also do keep stocks up when we think the pricing is going up. So, that is the only way you can work on the steel piece.

**Siddarth Mohta:**

Okay. Sir, but generally when we bid for an order and when the tender had come for the finalization, so generally there is a time lag of three months to four months. So, we have seen that in the last three months to four months there has been sharp rally in the commodity price and you are saying that you generally take a cushion of that. But whether that cushion is enough to see the sharp increase in the commodity price?

**Vimal Kejriwal:**

Still we cannot speak, what happens in some cases award happens immediately. in some cases cushion is taken more, in some cushion is taken less. Ultimately, it is somewhere or the other balances. I do not think we have lost money on account of steel. But if you also understanding one thing is that when there is price variation clause and when the steel prices go up you actually recover more than the actual increase in steel prices because there is formula for recovery. So, many times what happens if you result losing on your fixed price contract the formula provides you enough cushion to in a way overcome the loss if any which you have on your fixed price contracts. I do not think we are right now so much worried about the steel price having an impact on profitability. I do not think today we are worried.

**Siddarth Mohta:**

And for the other commodity you said that it is easily they are all hedgeable commodity?

**Vimal Kejriwal:**

As a general practice you always hedge it. I think on the commodities the only which I carry is that if I quote in a particular commodity which I want to hedge as soon as I get the order of L1 if the price does not open for three months, the price moves up in the three months then there could be an issue. But normally we are aware of clients' timelines if we are aware that this guy will not open for six months we will normally put in some hedge for that period also. But that is a risk which we normally carry.

**Siddarth Mohta:**

Okay. And sir, my last question is, sir, interest as a percentage of revenue for FY 2018 can we breach lower than 2.5%?



- Vimal Kejriwal:** We have said 2.7%, you are saying 2.5%, we have not said 2.5%. I will be happy my CFO is listening if we can do 2.5% times nothing like it.
- Siddarth Mohta:** Okay, sir then I might have missed that number. So, 2.7% is the guidance for FY 2018.
- Vimal Kejriwal:** Yes.
- Moderator:** Thank you. Next question is from the line of Vineet Anand from SBICAP Securities. Please go ahead.
- Vineet Anand:** I think majority of my questions have been answered. So, I would just like your a medium-term view on the four, five, sectors that we have and if I have to classify them with the T&D PGCIL, SEBs and SE so, how do you see within next three years, four years and just say of 2018 more so from a volume perspective how much can we do and what is the opportunity size?
- Vimal Kejriwal:** Long-term, Vineet, I think the opportunity is clearly coming more on the state side because what has happened over the last so many years Power Grid has been investing Rs. 20,000 crores every year. So, we are seeing clearly a lot of buildup of the inter-state network. The intra-state was the place where there was a huge problem and now with all the visibility on power exchange so much power is available, etc., there is a significant pressure on the state governments to perform because today you will find the Power Minister getting up and saying, this much power is available the states are not buying it, we have surplus in power which is putting a huge pressure. And also there are creating a lot of awareness on the consumers so very clearly I am seeing that the state sector even today state order book is now actually touching the PGCIL list. Unless until PGCIL goes and win some of the TBCB orders, very clearly I think states will be more than PGCIL going forward.
- Vineet Anand:** Okay. So, if I have to see in terms of numbers in FY2016 what was the broad number from SEBs and say by 2018, 2019 what could be an inflow from state on the transmission side?
- Vimal Kejriwal:** I do not have the 2018, 2019 number. But generally, what we have seen in the last one year or two years is the state expenditure has been almost 3x to 4x of PGCIL. Now the issues is that we don't address all the states which is why we still do not look at that number in terms of going 4x and all. But generally, numbers which we have seen in state is around Rs. 80,000 crores to Rs. 90,000 crores is the number of the sates on the entire T&D infrastructure. Part of it would also include the last mile which we do not do. We do not have the exact break up of only transmission and substations but that is the broad number which they have been spending.
- Vineet Anand:** Okay. And railways obviously this year you guided that we will do somewhere around Rs. 450 odd crores in railway with that I think the Ministry is obviously seeing a larger number for the next few years. Can it go to Rs. 1,000 crores in next two years, three years?

- Vimal Kejriwal:** Two years definitely, next year we should be doing almost Rs. 750 crores or so, okay and year after we hope we can do more than Rs. 1,000 crores but Rs. 1,000 crores definitely we should be able to achieve because we already have order book today of Rs. 1,600 crores.
- Moderator:** Thank you. We take the next question from the line of Sundeep Baid from Quest Investment. Please go ahead.
- Sundeep Baid:** Sir, how much would be your exposure to the U.S. market though our Mexico business?
- Vimal Kejriwal:** See, I do not have the break-up of U.S. but between U.S. and Canada we are sitting around \$25 million to \$30 million, okay. If you take the SAE revenue would be around overall around 20% of the entire SAE.
- Sundeep Baid:** So, U.S. and Canada would be 18% to 20% of SAE?
- Vimal Kejriwal:** Of SAE, yes.
- Moderator:** Thank you. We take the next question from the line of Ambar Singania from Asian Market Securities. Please go ahead.
- Ambar Singania:** Sir, just one clarification I wanted, you mentioned about the FOREX impact of roughly around Rs. 10 crores in Q3. So, basically that is Rs. 10 crores of higher profit because of the rupee depreciation in Q3?
- Rajeev Aggarwal:** That is currency depreciation when we covert the loan which is lying in U.S. company into INR at the time of consolidation. So, we have to do the mark-to-market earlier the mark-to-market was going through the reserve account. Now with the IndAS guidelines provide the mark-to-market to be routed through the profit and loss account. So, my SAE subsidiaries have made more profit and since the loan is lying in the holding company so from the profits whatever SAE subsidiaries have made so, I have to deduct the mark-to-market movement of the currency and that is how the net incomes comes to the consol number.
- Vimal Kejriwal:** Amber, we are talking about the acquisition loan which we have taken for the acquiring SAE that is lying in the holding company of SAE, okay the operating company is holding company, okay.
- Ambar Singania:** Okay. Sir, but what about the line-to-line consolidation impact of the currency? Is the margins are reflective because of those....
- Vimal Kejriwal:** No, I do not think there is any significant mark-to-market.
- Rajeev Aggarwal:** So, that is provided for in the SAE standalone balance sheet so, whatever the mark-to-market is there on the other loan that is already provided for.

- Ambar Singania:** Not the loan part but when we are merging the balance sheet and the P&L of both the countries, the difference on the currency side suppose just hypothetically you are getting an 8% margin there.
- Rajeev Aggarwal:** Yes, Ambar I got it, so, basically that is going to the OCI that portion is foreign currency translation reserve that is routed through the OCI.
- Ambar Singania:** Okay. So that is separate item on that.
- Rajeev Aggarwal:** Yes, it is a separate item after the PAT there is a line item for OCI and that goes through that. Ultimately it is going through the reserves account.
- Ambar Singania:** Sure. Sir, my second question is when you mentioned about railway does this include the metro rail also or that is a separate opportunity for us or do we have any role to play on the metro rail projects?
- Vimal Kejriwal:** We do not do metros right now, okay. So, as and when we think that we have capability of doing metros, we will start doing it. We have been looking at doing some prequalification, etc., but we have not yet bid for any metro project.
- Ambar Singania:** But in the near future there is no plan because we know that Mumbai metro is already bided out.
- Vimal Kejriwal:** We may do something but we are not working at the civil piece. In case if we do something on the metros it would be more on the electrical piece, signaling and other features.
- Ambar Singania:** Sir, just one last thing when you mentioned about 5% growth on full year basis and so far, we are already down around 4% on nine-month basis. So, Q4 the growth which one of the other participant also asked 25%, 26% growth we need in Q4. Do you think that is slightly higher target to achieve on that part or do you think it is easily achievable on that?
- Vimal Kejriwal:** I think Ambar as of today, we are confident of that, that is why we have given 5% I could have otherwise as well told you 0%. But in today's date numbers is what, and we feel that we should be able to do it.
- Moderator:** Thank you. We take the next question from the line of Rajiv Mehra from JM Financial. Please go ahead.
- Rajiv Mehra:** Sir, just wanted to get the breakup of your international order backlog if it is possible sir region wise?
- Vimal Kejriwal:** At this point of time it is not possible, perhaps you can Rohit he will give it to you later. You are talking about order book or order intake?

- Rajiv Mehra:** About the order book sir, the 48% which is of international order book. If you could share the big numbers of which region wise?
- Vimal Kejriwal:** I think broadly around 30% of it is from MENA.
- Rajiv Mehra:** 30% is from MENA.
- Vimal Kejriwal:** And what you call, Africa and CIS would be around 20%; Far East should be 10% -- Indonesia, Malaysia, etc., there is SAARC of 16% and SAE is 25%.
- Rajiv Mehra:** Okay, got it. And sir, just one last question which I must have missed, your solar order book stands at what currently?
- Vimal Kejriwal:** Solar order book is not significant right now; it could be Rs. 50 crores or something like that or may be less than Rs. 100 crores. But we have a large L1 position which we have not yet declared so hopefully, by March end the number will be much higher.
- Moderator:** Thank you. Next question is from the line of Saket Kapoor from Kapoor & Company. Please go ahead.
- Saket Kapoor:** Sir, there is a lot of talk about the smart meter coming up in the system whole system will be revamped and total smart meter installation will be done. So, what kind of business opportunity are we looking into it? Are we into it at all?
- Vimal Kejriwal:** No, we are so far away from that because basically smart meter means you will have to go to the last mile connectivity and all that which is dealing with the local authorities, etc., that is not just in our hands. We had tried to do it earlier and I think we got a lot on that account we got out of distribution business earlier. At this point of time we are not looking at that.
- Saket Kapoor:** Not look at that. And sir, there is no update on Jyoti Structure, is the story over there or we still doing the due diligence.
- Vimal Kejriwal:** Do not know, you talk to bank, we do not know. You talk to the bank, we do not know what is happening there.
- Saket Kapoor:** Okay. No, you were one of the interested party, in last call also you did speak about it that we are looking into, so I just wanted...
- Vimal Kejriwal:** Last time we said that bank said that you put expected, we did that, after that, that paper is with bank. Banks have to come back and tell you want to sell it or not. Now-a-days, you are seeing what is happening, all the cases are going into NCLT after what happens with the aero stocks, a of a lot of people. So, I do not know what will happen there.

**Moderator:** Thank you. Well, that was the last question. I now hand floor over to Mr. Vimal Kejriwal for his closing comments.

**Vimal Kejriwal:** I would just like to thank all of you for your continued interested in KEC. Thank you very much.

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