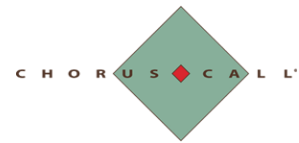




“KEC International Limited
Q1 FY '24 Results Conference Call”

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

Moderator:

Ladies and gentlemen, good day and welcome to KEC International Limited Q1 FY24 Results Conference call. We have with us today from the management, Mr. Vimal Kejriwal, Managing Director and CEO and Mr. Rajeev Agarwal, CFO. 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 and zero on your touch-tone phone. Please note that this conference is being recorded.

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

Vimal Kejriwal:

Thanks, Neerav. Good morning. We welcome you all to the Q1 Earnings Call of KEC. Let me start with an update on the key developments during the quarter and thereafter talk on the overall financial performance of Q1 along with highlights of the respective businesses. We continue to deliver a sequential improvement in EBITDA margin quarter over quarter. The margin has improved sequentially by 140 basis points in the last three quarters from 4.4% to 5.8% and has improved by 70 basis points from 5.1 in Q1 last year to 5.8% this quarter.

In SAE, I'm pleased to share that we have successfully revived the business by delivering a positive PBT for the quarter. We continue to refinance the high cost loans in tranches and are on track to refinance the balance loans. The business continues to witness a sustained flow of orders from Americas with YTD order intake of over INR350 crores, a healthy growth of 65% Y-on-Y. With this, the book and L1 in SAE stands at over INR1,600 crores comprising of orders from supply of towers, hardware and poles.

In Afghanistan, we have realized further collections of INR220 crores till date in FY24. With this, the total collections received in the last two quarters stand at over INR260 crores. We are in active discussions with the multilateral funding agencies for collection of the balance receivables and are confident of realizing the balance in the coming quarters. Coming on to the financial performance for Q1. We have delivered a robust revenue growth of 28% for the quarter with revenues of INR4,244 crores. This growth is backed by healthy execution in both T&D and our civil business.

We have also achieved an impressive growth in EBITDA of 45% with a consolidated EBITDA margin of 5.8% for the quarter. We are, however, witnessing a shift in the margin profile with significant improvement in revenues and margins of our UAE subsidiaries, SAE and KEC Spur. The margins for the standalone are slightly lower owing the mix of projects and the execution during the quarter. We have also increased our bottom line significantly with PBT growth of 26% and PAT growth of 36%.

We continue to witness an uptake in order intake. Along with our Q1 results, we have also announced new order wins of INR1,065 crores yesterday. These include orders in the T&D and cable business. With this, our YTD order intake stands at INR4,500 crores, a staggering growth of 30% vis-a-vis last year. The largest contributors in our YTD order intake have been India T&D and civil businesses followed by railways and cables. We now have a well diversified and

strong order book of INR30,125 crores as on 30th June, 23, a strong growth of 27% vis-a-vis last year.

Additionally, we have an L1 position of over INR5,000 crores diversified across businesses. With this, our order book plus L1 position stands at a record level of over INR35,000 crores, which is more or less equally divided between the T&D and the non-T&D businesses. We continue to focus on working capital and have brought down our net working capital by 22 days to 126 days as on 30th June 23, vis-a-vis 148 days as on 30th June 22.

Our net debt, including acceptances have reduced by more than INR350 crores and stand at INR5,714 crores as on 30th June 23, despite a revenue growth of 25% in the trailing 12 months. The interest cost however stands at 3.7% of revenue owing to the steep increase in the interest rates.

Now coming to the specific businesses. Our T&D business has achieved revenues of INR2,188 crores, with a significant growth of 33% vis-a-vis Q1 last year. The growth has been delivered on the back of robust execution across both domestic and international markets.

In terms of order intake, the business continues to witness traction with a stellar growth of 50% and new orders of over INR1,800 crores across India, Middle East, Africa, Europe and Americas. We are pleased to share that the business has secured prestigious repeat orders from private developers and another order from a reputed power generating client. In a significant achievement, the business has secured its made in tower supply order from Europe, which is a testament to our dedicated focus on increasing the tower sale business and diversifying it geographically. We have also secured a second tower supply order from the US market.

The overall tender pipeline in T&D continues to be strong, both in domestic and international markets. In India, the power sector is poised for promising growth with transmission infrastructure planned for major renewable energy potential zones such as Rajasthan, Gujarat, Andhra Pradesh and Tamil Nadu to support the target of achieving 500 gigawatt of non-fossil fuel power by 2030. We have already secured some of these orders in the T& D segment. We have also increased our focus on the renewable energy segment, especially solar.

In international, we continue to witness opportunities in the Middle East, SAARC, and the CIS region. With a record order book and L1 in T and D of over INR18,000 crores, and an increase in tendering activities across regions, the business is expected to gain further momentum.

Coming to railways, the railway business has clocked a revenue of INR764 crores for the quarter with a growth of 8% vis-a-vis Q1 last year. The business has also secured orders of over INR750 crores, strong growth of over 80% vis-a-vis last year. In a significant development, the business has successfully expanded into the international market with its order for a signaling and telecommunication project in Bangladesh. In line with the government's focus on increasing capacity, speed and safety of the Indian railway network, the business has forayed into the emerging segment of automatic block signaling ABS to increase line capacity for automation and thereby strengthen its presence in the promising speed up gradation segment.

With increased trust of the government on strengthening the infrastructure, we expect some large opportunities in the areas of signaling and telecommunication, speed upgradation, TCAS that is KAVACH and Automatic Block Signaling. We also continue to focus on the international market.

Our civil business continues to run a high growth trajectory as it delivered revenues of over INR950 crores, a splendid growth of 60% vis-a-vis Q1 last year. The growth has been delivered by robust execution across all segments, especially industrial, urban, infra, water, and residential. During the quarter, the business has strengthened its order book with multiple orders of INR1,370 crores in the industrial, residential, and commercial building segments from reputed clients. The business has also widened its presence by securing composite orders, including mechanical, electric, and plumbing works MEP. The data center industry in India is witnessing unprecedented development and is one of the fast-paced growth sectors. It is estimated that there will be an additional over 800 MW capacity by 2024 with an investment of USD5.5 billion in setting up data center facilities. We are currently executing four data center projects and are confident of growing this segment significantly. With a robust and diversified order book and L1 of over INR11,000 crores, the civil business is confident of leveraging upcoming growth opportunities through its diversified presence across sectors and strong project management and execution capabilities.

In oil and gas pipelines, the business has delivered revenues of INR104 crores, a growth of 13% vis-a-vis last quarter. The business continues to focus on building required pre-qualifications to increase the size of the addressable market. The business has a strong order book and L1 of INR1,000 crores comprising government and private players. We are confident of scaling up this business in the coming years.

In Cables, the business achieved Revenues of INR389 crores. During the quarter we have launched a large transformation program for improving profitability with a global management consultant. The business has successfully ramped up the PVC plant to produce 500 metric tons of various grades, thereby leading to a significant cost advantage and better control on the supply chain. The business is also progressing well with the development of additional new products and is on track to commercialize them this year.

In ESG, we continue to embed industry-leading practices across our operations in factories and project sites. In line with our strategy to make all our manufacturing plants water positive, we are pleased to share that our Nagpur plant recently received water positive certificate for promoting water conservation. Our efforts have led to the company generating 60% more water credits than debits.

In conclusion, we are pleased with our consistent growth in revenues, traction in order intake, and improving trajectory of profitability. The outlook remains healthy across most of our businesses with the current tender pipeline of over INR1,00,000 crores. With a robust order book plus L1 and strong focus on execution, we are confident of delivering the revenues of over INR20,000 crores with EBITDA margins of 7% for the year.

Thank you. I am now open to questions.

Moderator: Thank you very much. We will now begin the question-and-answer session. First question is from the line of Ashish from JM Financial.

Ashish: So my first question is on the India T&D prospects. I mean, we have seen some amount of traction picking up. So if you can specifically tell us how is the order bid pipeline at this point of time for the India T&D? What is the kind of inflow we expect in that business this year?

Vimal Kejriwal: In India T&D, we are suddenly seeing a lot of traction. I think there is some change somewhere in the government thinking saying that, notwithstanding what is happening or, let's say, some delays in solar and etcetera. We have now said that since transmission line takes for 2 years, 2.5 years to erect or construct versus a solar in 1 year. They have now started going ahead with lines even if the solar and all are slightly, I'll say slightly behind, okay?

But if you want to take some numbers probably between PGCIL, SEB and private, we are seeing somewhere around a tender pipeline today of around INR20,000 crores or so in the, let's say, in the coming quarter or quarter 2. That's the number, which are there today.

Ashish: Okay. And what's the kind of share that we'll expect this year? And basically, what kind of competitive intensity, how many players are bidding today? And what's our fair share we'll expect out of this, let's say INR20,000 crores, INR25,000 crores?

Vimal Kejriwal: So Ashish typically., We have been getting between 10%, 12% or 15%, 16%. So 1 out of 6 is what typically we see, okay? That's a typical one.

Competition, I'll say, in transmission line is maybe for larger projects, it would be four or five players. Substations, where we are actually getting a lot of orders in substations than in transmission incidentally, it is maybe three or four people for the larger ones, especially the GIS ones. If it's AIS one, then the numbers are much, much larger and maybe seven or eight players, but GIS, it's three or four players.

Ashish: Got that, sir. One last thing. On the Dubai business, we have mentioned that it's been ramping up well. If you can give us the revenue and EBITDA that we have done in UAE business for this quarter?

Vimal Kejriwal: I don't think I have the exact number, but it would be, I think, somewhere round INR700 crores, INR800 crores of revenue between the two subsidiaries in Dubai. If you look at the annual numbers, Dubai plant should be around INR500 crores also, between INR400 crores to INR500 crores, because the capacity is around 50,000 tons, if you take an average realization of 1,00,000. I said between INR400 crores to INR500 crores would be the full revenue potential of the plant.

And on the EPC, it depends upon how many orders we are able to exhibit and what do we do. But I think typically, I think this quarter was -- I don't have the exact numbers, but that's what we will achieve.

Ashish: And what's the kind of margin the Dubai plant makes, sir?

Vimal Kejriwal: So right now, the margins are better than other places, because of the fall in the steel prices because these orders have been booked and steel has been showing a beneficial trend. So I think it would be close to double digit or something or maybe 100 basis points here or there, but it's broadly around that side.

Moderator: The next question is from the line of Vivek from DSP Mutual Fund.

Vivek: Congratulations on an excellent performance. On the stand-alone EBITDA, you had said that there was a product mix that caused lower EBITDA. Which part of the product mix in terms of revenue has caused the lower EBITDA? And you expect it to normalize in the current year? It is question number one. I mean, in the later quarters.

And secondly, especially on working capital, there's been tremendous improvement. You had some kind of wobbles in the railway collections. Has that improved? Those are my two questions, sir.

Vimal Kejriwal: So the railway collection wobble still continue. Let me be very, very clear on that. I think that's still not normalized partly. Our issues where we have not been able to build it properly or complete the project as per the commercial terms and partly on account of delays, okay?

As far as the India as a stand-alone business is concerned, I think what we have said is that the project mix was an issue because we are all -- we've been discussing the legacy projects for a long time. So we have been able to book a large part of -- I'll say the losses in those projects during the quarter. And depending upon how they progress, probably they should get hopefully closed by Q2. So I think by Q3, we will start seeing a bump up in the stand-alone margins.

Moderator: Next question is from the line of Riya Mehta from Aequis Investments.

Riya Mehta: My first question is in regards to international T&D. What kind of opportunities are you seeing in Middle East?

Vimal Kejriwal: So as far as Middle East is concerned, the maximum, I'll say, tenders are coming in from Saudi, a few from UAE and a few of our Oman. But largely, it's a Saudi focused market. And the second piece, as I answered the first question is that we are seeing a lot of inquiries for tower supplies from our Dubai plant. So typically, I think our revenues in Middle East should be close to INR1,000 crores or maybe it's more than that for this year.

SAARC, we are seeing opportunity restricted two countries, basically Nepal and Bangladesh. Of late with the current situation of Bangladesh, there is a little bit less. But I think Nepal suddenly seems to have an upgrade with orders or tenders. So get funding from all over the place from Government of India, KfW and Millennium Corporation U.S. So we have seen a large number of tenders, which have come out in Nepal.

And I think, hopefully, by Q2 or Q3, many of them would be quoted and decided. So we should hopefully see a lot more orders coming out of this country. Bangladesh, also, there are some

tenders, but of late, it's a little bit less, but I think it is a matter of time because the requirement is large. So those tenders will also come up.

Riya Mehta: Also in Civil, you said that you're seeing investments in water pipeline. So which markets are we seeing this exactly?

Vimal Kejriwal: So this -- if you ask me the segment, it is that Jal Se Nal Tak where you are -- we're supplying water, building tanks, water purification plants, etcetera, and supplying to villages. So right now, we are in two states in Odisha and MP. And we have an order book of close to INR4,000 crores in this segment.

Riya Mehta: Got it. And in term of Oil & Gas pipeline, could you give your outlook on that?

Vimal Kejriwal: That business has been a little bit subdued in that sense, because the number of orders and what we were expecting tenders had not come in earlier, but now we are seeing some tenders coming out. We are already involved in to two tenders. And I think a few more are coming out. But it's been in a way lower than what we had thought, okay? But I think the government is now again talking about the gas grid. So hopefully, some more tenders will come out.

Riya Mehta: Okay. I think ONGC and all this are coming up with a tender in December now.

Vimal Kejriwal: Yes, yes. Let's hope for the best.

Moderator: Next question is from the line of Bhoomika Nair from DAM Capital Advisors.

Bhoomika Nair: The first question, in T&D, you spoke about some INR25,000-odd crores of ordering that could possibly happen this year. Just wanted to understand how is competition kind of behaving in this space of, given that there is a decent amount of traction? Are you seeing much more players of the same size of players, who typically win a lot of the orders more impact kind of scaling up?

Vimal Kejriwal: So typically, Bhoomika for the smaller orders and for smaller T&D, where the prequalifications are pretty relaxed and also for AIS substations. So there, we are seeing a lot of competition, I would say 6, 7, maybe 8, 9 players also coming in. But if you look at the larger orders where there is a requirement for specialized conductors and 765 lines, etcetera, and also the larger GIS. Like last year we got two digital GIS. So, there were hardly maybe I think two or three players who were able to offer those products. So, for the larger ones with much more, I'll say complex requirements, the competition is fairly limited, maybe three to four players. But on the normal ones, it's hard to carry, you have 7, 8., 9 players coming in.

Bhoomika Nair: So, I mean are the big margins still have been on double digit kind of levels now here or have started to trend it up, trend it down, I mean, how is the trajectory out there in terms of the big margins?

Vimal Kejriwal: So, I said typically the mid margins have started to trend up, but the margins have started to trend up very clear.

Bhoomika Nair:

Okay sir. Sir, the other thing is in civil obviously we've seen a huge amount of traction in the last couple of years and we've scaled up our own offerings, etcetera. out there. Obviously, there's a lot of capex that's happening, a lot of activities that's happening, where do you see the order and flow for this segment in the current year and the kind of revenues that will grow that we could possibly see out there?

Vimal Kejriwal:

So, Bhoomika, if you remember last time also, we talked about it saying which sectors and all that. So, I think one is clearly the real estate, the residential piece is doing very well, That's the biggest market which we are seeing. Second one is on commercial. Surprisingly, we started seeing a lot of inquiries on the commercial side, both offices, as well as the shopping malls, etcetera, okay. So that's I'll say the residential and commercial.

On the industrial, we continue to see a lot of things from metals and mining, okay whether it is steel, whether it is aluminum, zinc, so we have continuous inquiries are coming from metals and mining. Off late we got a couple of inquiries from FMCGs, which were not there at all, but now we started receiving. So, I don't know whether rural demand is picking up or what is happening, but we are seeing inquiries from FMCG.

Then also from data centers as we talked about, I think broadly those are the areas where we can see and water is continuing in any case. Not too much on the urban infra. So, there seems to be some slight slowdown at least in the sectors in which we are operating. I think probably that's the part of civil.

Bhoomika Nair:

And so what kind of intake we could see in this year from this segment?

Vimal Kejriwal:

So, overall for civil our target is around INR8000 crores or so of order intake out of the 25,000, which we have for the whole company, we expect that civil should do 8000 maybe more, but that target is 8,000.

Bhoomika Nair:

Okay, okay. So you're in civil just on the margin profile, we used to get around 5% odd 6% kind of margin sometime back. With this increase in terms of a very low working capital commensurately, how is this now kind of turning, I mean, with residential, etcetera, coming up more, are we seeing working capital going up and margin trending up, if you can just comment on both these aspects of the segment?

Vimal Kejriwal:

So, working capital, Bhoomika, is more involved in your urban infra and all that. Okay, residential, industrial, and all that. Typically, for working capital requirements are very low. See, I think if you look at historically, what used to happen is that you had very small contractors who did not have their own cash flows, etcetera. So, somewhere the way the civil business is structured, especially the residential industrial, the payment cycles are I will say pretty good as when I look at T&D and railways and all that.

So, the working capital cycle remains fairly I'll say benevolent for us in terms of civil. Margins have been trending upwards. Obviously they are not still at double digit and all that, but they're slowly trending to, hopefully it should be higher things now, but it's trending higher single digit, sorry, but it is trending upwards. It's not at 5, 6 now.

- Bhoomika Nair:** Okay, okay. Great, I'll come back in the queue.
- Vimal Kejriwal:** Yes. Thanks Bhoomika.
- Bhoomika Nair:** Thank you.
- Moderator:** Thank you. Next question is from land of Nikhil Kanodia from HDFC securities. Please go ahead.
- Nikhil Kanodia:** Good morning. Congratulations on the robust order book that you have at the record high levels. Sir, I had two set of questions. So, one set is regarding your standalone and console margins and the other set of questions would be regarding your debt numbers? So on the quarter-on-quarter basis your debt has kind of increased by INR700 crores. Sir, any light as to what could be the reason and the guidance for the year end debt numbers like are we expecting any reduction or any addition in the debt numbers?
- Vimal Kejriwal:** So Nikhil, Q-o-Q first quarter over Q4 is always a phenomenon if you look at historically also. The Q4 debt is always lower and Q1 has always been higher which is why we have been because of the seasonality of this we have always been comparing year-on-year rather than Q-o-Q at least in our business. So, I think that's why, I don't read too much in the fact that the debt number has gone up Q-o-Q, okay and also that there was a 26% increase in revenue which we have -- which we have had, so there will be an impact of that.
- Overall for the year I don't expect too much reduction in the debt as such because we have been talking about revenue going up from the current INR17,000 to INR20,000 crores plus. So, a part of debt would be required to fund that revenue increase. So, although I don't see the debt going up, I don't see it coming down significantly. However, what can also happen is that the net working capital, which is at today 126 days or 128 days, can probably our target is to bring it down to 110 days at the end of the year.
- So, hopefully there should be a reduction. Also, I think it looks like that we have reached a peak of the interest rate cycle. So, maybe somewhere we may see some reduction happening or today my interest rate average has been 7.7 versus 4.4 or 4.5 in the corresponding quarter. So, it's almost like a 100% sort of rate increase which has happened, but now it's peaked. So, I think interest should start coming down as a percentage of revenue. Rajeev, you want to add anything on this?
- Rajeev Agarwal:** No, no, I think, Vimal, you have answered it well. So, effectively, what we should look at is the NWC. NWC has been constantly coming down. It was at 148 days, now it has been brought down to 126 days. Despite 25% increase, if you look at the last four quarters, there has been a corresponding increase of 25% to 26% on the volume. And that's a substantial number in the absolute terms. And also, we are seeing now we are targeting 110 days. So, that is, we are going back to what we used to be. Let's say 2019, 2020, we were at about 100 days or so. So, we are actually trying to go there to 100 days of NWC. And definitely, we are quite confident that we should achieve 110 days target by end of this fiscal. Thank you.

- Nikhil Kanodia:** Okay. Sir, just to clarify, you said the average rate of -- average rate is 7.7 versus 4.5 similar quarter of the last year, right?
- Management:** Yes.
- Nikhil Kanodia:** And so what would be your order inflow guidance for the year?
- Management:** So, as we said that our target has been around INR25,000 crores. So, we are now announced 4,500. So around 20,000 plus should be the balance three quarters.
- Nikhil Kanodia:** Okay. Okay. Understood. Fair point. And sir on the margins front, so we have seen some margin improvement on the standalone and the console level and you mentioned that from Q3 onwards, we could witness some bump-up margins at the standalone level. So, any guidance as to when can we expect a double-digit kind of a margin at both the levels?
- Management:** Double-digit right now, it looks difficult to predict exactly when it will happen. But our guidance for the year has been that H1 should be at 6% and H2 at 8% and overall for 7%. Let's wait for some more time to see exactly when we can reach double digit. But Yes, we are slowly heading towards improving the margins.
- Nikhil Kanodia:** And so your standalone margin guidance for the year would be?
- Management:** I don't think we have separate margins for standalone in this. I think we will still restrict ourselves to console.
- Nikhil Kanodia:** Okay, okay. And sir, one thing that I could see is, this is my last question, with the PAT at the standalone level was at the lowest levels. So sir, any measures that we are taking to improve the bottom line?
- Vimal Kejriwal:** So I think as I said that earlier, because of the mix of the projects and execution of legacy projects, the PAT was lower. And also, obviously, the interest cost was high. Also, I think let me put one thing, which we have not discussed earlier is that, we are seeing some strain on the supply chain in the transmission and substation where items like conductors and transformers, etcetera, are having an impact on the top line, actually the revenue growth. So I think slowly, these things are coming into place. So once that happens, to me it is a function of margin is going to depend upon the revenues, okay?
- So as soon as we are able to push more revenues, it will happen. That's why I said Q3 because Q2 clearly with -- its a monsoon quarter in India. And also this year, I think the monsoons have been pretty bad. In fact, the July has been sort of washed out in many parts of the country. So I think from Q3 onwards, we should be able to improve on all the fronts.
- Moderator:** Next question is from the line of Sai from Kotak Securities.
- Sai:** Yes. So, my first question is is the recent CEA National Committee agenda shows a pipeline of 7 trillion in transmission and distribution segment and while it doesn't comment on the expected timeline for the same of when it would commence, how can we expect these projects to be

awarded usually as in what time and can we expect since the number is too big? And how are we expecting to plan a capital expenditure on the same head?

Vimal Kejriwal:

So typically Sai INR1,00,000 crores of projects come out every year that's the way it happens. Typically these guys take a, time of five years. So if you divide it by that, that could be a INR140,000 crores. But I can tell you one thing is that we are seeing a lot more traction than before, at least on the larger projects linked to green energy.

And especially between, I'll say, in Gujarat and Rajasthan. Those are the two states where we are seeing huge amount of projects being announced. And as you are aware, government, and especially on the wind and solar, has allocated large capacities to the PSUs, whether it is NTPC or NHPC or HAVN or GIPCL. And those large projects are coming up. Now, looking at what is happening on the right of way, etcetera, what government is also doing on the transmission, all that, they are actually setting up very large projects, 765, double circuit and all, which are not required today.

But I think they want to avoid the problems which they'll see in future. So it's happening more like Middle East now, where you know, you are building in a lot of capacity. I think that's a real, but again coming back to the question maybe INR1,00,000 crores to INR140,000 crores annually could be the number on the entire spend.

Sai:

Okay. And the kind of capex we are expecting?

Vimal Kejriwal:

I don't -- what do you mean by that?

Sai:

I mean the capital expenditure that we are expecting for the same pattern for the projects that are going to come up?

Vimal Kejriwal:

I don't have a specific number for that. No.

Sai:

No. Alright sir. So, and also as you mentioned, these projects, particularly in Gujarat and Rajasthan, they are more of a renewable thing based. And given KEC also undertakes solar projects, what can we expect on this?

Vimal Kejriwal:

So Solar we are doing one large project right now in Karnataka. It's a 600 megawatt project. We have started bidding for a few more, very selectively, especially where there are no modules. We don't like to take module risks, so, but off late, I think the developers have understood that, that they don't get good information with that, so most of the large projects now, especially from the public PSUs are coming without modules. So we have recently put in bids for one or two of them, and I think in the next month or two, we'll be bidding for another, I'll say, two or three large solar projects.

Moderator:

Next question is from the line of Subhadip from Nuvama Wealth.

Subhadip:

So my question is with regard to the TBCB pipeline that we are seeing on the T&D side of things. I think the CEA has recently approved close to INR70,000 crores worth of projects, which will probably get tendered out over the next few months, which also includes one large

HVDC project. So with the quantum of projects that we're seeing coming up on the 765 side or on the HVDC side?

Do you see you know KEC having an edge in terms of let's say winning some of these EPC orders and also you know given again that you know the size of the projects is larger, there are limited number of bidders, can we see margins also tending upwards?

Vimal Kejriwal:

Broadly, I'll say yes. Broadly, I think very clearly, if you look at the results of 765 and other projects. In fact, we are the only EPC company which is doing an HVDC project on the converter stations side. On transmission line, there are a few others also would do it, but on the substation side, we are on the only, who is doing, apart from obviously the OEMs who do it themselves.

So clearly, you're right that the competition is limited, but capability is limited. So the business will definitely grow up margins. I don't know how much it will go up. But as I said earlier, also the margins are tending to improve, okay? Very clearly, we are seeing those things happening. The other thing, Subhadip is that these projects are now coming with a shorter time line. Some of them are 12 months, some of them are 15 months. Max, I have seen a couple of projects over 18 months.

So because of which your working capital will also start improving once you have a shorter cycle projects, which is if you look at the current EPC projects, which have been awarded both by private and we have one project from both Power Grid as well as at least two or three private sector TBCB developers. And some of the projects are at least the last one, which I took as our 10-month project.

So I think that is another thing which will help in hopefully improving our working capital as Rajeev was talking about in reducing the NWC and all that would also come about from these projects.

Subhadip:

Understood. That is very helpful. And lastly, while you have given us a guidance with regard to, let's say, our FY '24 revenue and the margins. On FY '25, would you hazard a guess in terms of the targeted top line and hopefully nearing to those double-digit kind of margins?

Vimal Kejriwal:

I think it's a bit early for that. But let me put it this way that we have a INR35,000 crores order book plus L1, okay? So I think as far as the top line is concerned, we are, I think, I'd say, reasonably well placed. Number may be a bit early to say. But I think we'll have a decent number. I can only say that. Margins, again, I am still not hazard a guess right now, okay? But very clearly, the project mix is improving significantly.

Old orders are getting over. And I think hopefully, as I said, by Q2, we should be able to get out of almost all the legacy orders. So the margins will start improving. Whether they will touch double digit or not is a matter of conjecture today.

Our aspiration is that it touches double digit next year, but whether we'll be able to do it or not is something which will depend upon how the metal prices and how the execution pans out. But I think it should be significantly improved, I can say that much.

- Moderator:** Next question is from the line of Harsh from Yes Securities.
- Harsh:** Sir, we mentioned the collections worth INR260 crores from Afghanistan in the past two quarters. What's the balance amount and when do we expect to receive it?
- Vimal Kejriwal:** So I think that the net as per our balance is around 400 crores, which we expect to receive. I have said that in the next few quarters we should be able to receive and that is what we have been earlier also mentioning that by the end of this year we should get the money. See this money has we should get the money. So this money's have to come from multilateral. So it's very difficult to hazard an exact, accurate timelines, but based on our discussions with them, we do expect that by year end, we should get the balance money.
- Harsh:** Okay. Secondly, have we managed to completely execute the legacy projects in Brazil or there is still some portion left? Can we expect the full FY '24 to be PBT positive for SAE Brazil?
- Vimal Kejriwal:** So as far as the legacy projects are concerned, we had completed them, I think, in Q3 last year, okay? So since -- so last two quarters, we have had no EPC projects. All of them are what we call supply projects, okay? Brazil is EBITDA positive. As I said, SAE is PBT positive. Brazil still have a very marginal, I think, negative PBT, but now that a large part of the loan has been restructured. My view is that from maybe Q2 itself, we should be PBT positive in Brazil also, although SAE by itself will become PBT positive this quarter.
- Moderator:** Next question is from the line of Anupam Goswami from Star Union Dai-ichi.
- Anupam Goswami:** Sir you mentioned about your revenue target, which is about INR24,000 crores. Where do you see the proportion of H1 and H2, given there's a little -- you mentioned about a little subdued demand in the Q2. How do we see the H2 compared to H1?
- Vimal Kejriwal:** So Anupam we'd talked about INR20,000 crores, I don't know, I have not talked about INR24,000 crores.
- Anupam Goswami:** Okay. That's my mistake. Okay.
- Vimal Kejriwal:** And typically, what we have seen is H1 is 40%, H2 is 60%, typically that's the way it always happens. This year, because of range, maybe a couple of percentage points here and there, may be 37%, 38%, but typically, it's around 40% and 60%, okay? Generally if you look Anupam in different fashion. It's first 3 quarters is 20% and the last quarter, it's 40%. That's the way for the other two, I'll say, numbers way we look at it, okay?
- Anupam Goswami:** Okay. And sir, in your margins, are you seeing that in your, let's say, FY '18 or '19, there has been a good margin growth. And one thing was there that T&D revenue mix was also pretty high in the mix. So where are we heading in the margins? Do we see T&D mix more coming in the revenue and margin also improving? Or is it like too much of a competition and we are not gaining that margin profile, what we used to earlier?

- Vimal Kejriwal:** So, to me Anupam, T&D margins got hit on account of two things. One was obviously because of COVID the business had come down. And second was because of the war, the Russia-Ukraine conflict.
- So I think to me what is happening is that because of the, as I said, the Russia-Ukraine conflict, the metals went up significantly. So the major reason for the reduction in the margins had been the delay on account of COVID and also the, I'll say, a very unusual increase in the metal prices over a very long period, okay?
- Now to me, the metal prices have stabilized significantly. COVID has subsided, so the execution is improving. So clearly we are seeing that the T&D margins should start getting back to their normal levels.
- Anupam Goswami:** When do we see the T&D margins?
- Vimal Kejriwal:** I think it will start becoming normal from Q3 onwards is what we have talked about.
- Anupam Goswami:** Can we expect about 11%, 12% in that?
- Vimal Kejriwal:** I don't think, we ever talked about 11%, 12% margins in this business, okay. Yes, in '18-'19, we did have 10%, 10.5% but I think that was the maximum we have achieved till now. If we can do 11%, 12%, we will be very happy.
- Moderator:** Thank you. Next question is from the line of Rahil Shah from Crown Capital Partners. Please go ahead.
- Rahil Shah:** So just one question. In your exports business, so what is the contribution, right now? The revenues?
- Vimal Kejriwal:** So our outside India, business is overall around 35%.
- Rahil Shah:** And what part of it is from non-T&D?
- Vimal Kejriwal:** Right now, it's 100% T&D.
- Rahil Shah:** 100% T&D. So do you expect like non-T&D orders to be there in this year?
- Vimal Kejriwal:** I just announced that railway has got a first order in Bangladesh. Civil has been quoting, oil and gas has been looking at it. So clearly, the business of the other verticals will definitely start increasing. And the other piece is that the India T&D is improving. So we honestly do not know where the ratios will be and we don't have a target for the ratios. Depends upon which business does. But clearly I think the absolute value of international business will definitely go up. SA is doing very well.
- As I said, Middle East is doing very well. So the numbers in the T&D as well as railway and civil will go up internationally. But I think India is doing also very well. So whether the ratios

will change or not, I do not know. But India T&D is doing well, civil is growing at 60% and all that. So the India revenues are going up significantly faster.

Rahil Shah: Right. Okay. And just lastly confirming you said, networking capital days like target is 110 right for the year?

Vimal Kejriwal: Yes, yes. You're right.

Moderator: Thank you. Next question is from the line of Uttam Simal from Axis Securities. Please go ahead.

Uttam Simal: Congratulations on good set of numbers. Sir, my question pertains to interest cost. So we have incurred around INR159 crores this quarter. So this run rate will go for the remaining three quarters also, or we expect some reduction in the interest cost going ahead?

Rajeev Agarwal: See, our interest cost is by and large similar to what it was in quarter 4. And the reason, as Vimal explained in his opening remarks, is that basically the interest cost has gone up from, you know, RBI has front loaded the entire interest rates hike. And last one year, the RBI has hiked interest rate by almost 2.5%. So since our majority, or in fact, the entire amount is towards the working capital, the transmission was immediate, because all the bank borrowing in the market interest rates, it went up immediately on the hike announced by the Reserve Bank of India.

So the entire hike has been captured in this quarter 4 and quarter 1. More or less, our volume of borrowing has come down. In fact, if you look at quarter 1 versus quarter 1 of last year, borrowings have come down by almost INR350 crores. And so the entire impact is basically on account of the interest rate. We do expect that these interest rates are unlikely to go down, what it looks like with the US Fed hiking the interest rates recently, and they're talking of one more hike. We are only hoping that RBI don't need to increase the interest rate further.

So that will, we expect that by and large the interest rate will remain for the current year. Obviously, we are making a lot of efforts in terms of controlling our borrowings and bringing down the borrowing with that revenue growth of 15% to 20% what we have guided for the year. And I think there could be some reduction in the borrowing and that will lead to some reduction on the overall interest rates or all interest costs.

Uttam Simal: Okay. And sir, with regard to water projects, what kind of margins are there in the water project that we are currently executing?

Vimal Kejriwal: Difficult to give a specific answer because the margins depend upon the size of the project and different values. But they would be between, I would say, between 8% to 10%.

Moderator: Thank you. Next question is from the line of Ashish from JM Financial. Please go ahead.

Ashish: Sir, my question is on the Afghanistan net receivables. So that number seems to have gone up from the March quarter to the June quarter. So have you been doing any incremental work there or that's because of the reduction in the payables?

- Vimal Kejriwal:** Actually the second part is the reduction in the payables and liabilities.
- Ashish:** Okay. So there's no incremental build-up on the receivables, but we have some of the liabilities.
- Vimal Kejriwal:** We are not doing any work there, no.
- Ashish:** Right. Sir, secondly, we did talk about Kavach as one opportunity. So is there any quantification of that opportunity at this point of time? I mean, what it means for KEC as a company for our scope of the work in that particular area?
- Vimal Kejriwal:** So, typically our scope of work is around 30%, 40% of our contract value, whatever we get. So we've got two contracts. So it's not very significant as of now, because I think as far as I remember, till now around INR1,600 crores of tenders have come in, and we have got two of them. Another, I think INR2,500 crores or so are in the pipelines. This entire Kavach, the plan which I have seen at least talks about around INR25,000 crores of orders coming over, I don't know how long it will take but it's getting a bit expedited after the unfortunate accident.
- Opportunity wise, I don't see more than INR500 crores, INR600 crores for this year but if the government accelerates it then the numbers can go up. But in a best year, maybe INR1,000 crores or so, if it happens, it's not a very big opportunity, but it's an opportunity where the number of players are less, so hopefully the margins can be better also.
- Moderator:** Thank you. Next question is from the line of Nikhil Kanodia from HDFC Securities. Please go ahead.
- Nikhil Kanodia:** Just one clarification that I wanted is the yesterday's press release of INR1,065 crores of order into that is included in the year-to-date order inflow, right?
- Vimal Kejriwal:** The order inflow of INR4,500 crores, but not in the order book. Order book was as on 30 June - - order inflow of INR4,500 crores is Y-to-date -- year-to-date.
- Nikhil Kanodia:** Okay. So that includes the yesterday's orders, also?
- Vimal Kejriwal:** Yes, yes, yes.
- Moderator:** Thank you. Next question is from the line of Sagar Didwania from ICICI Bank. Please go ahead.
- Sagar Didwania:** So my one question is regarding with the stand-alone business. So year-on-year basis, there is a decline from INR100 crores to mere INR4. And on the consolidated basis, that is a marginal improvement. So can you just bridge the gap between this, stand-alone and consolidated numbers?
- Vimal Kejriwal:** So, Sagar, as I said at my opening remarks, it's basically the project mix which has impacted in the last quarter. And when I say Q1 of FY '23, we had a very large profitable project, okay, where large revenues came in in that quarter. This quarter, that project, the revenues are very less because the project is now coming to an end. Also, we had a few legacy projects where we had metal exposures, etcetera, which have all been hedged and booked. Plus, I'll say a couple of

large legacy projects have got completed, and the claims are getting settled. So, based on that, whatever is the impact has been considered in the books.

Moderator: Thank you. Next question is from the line of Vishal Periwal from IDBI Capital. Please go ahead.

Vishal Periwal: Sir, one question on the Kavach. So in terms of opportunity side, you did mention, but how is actually the bidding happened? Is it like a we as a EPC player, we bid or the equipment player bid and then we get the order?

Vimal Kejriwal: So it's in a -- I don't know whether it's a JV or a consortium, but it's a joint bid, okay? Where the bids have been done together.

Vishal Periwal: Okay. So currently, can you share like how many players are there? And are tie-ups is with only Kernex or anyone else?

Vimal Kejriwal: So as of now we have bid with Karnex for the two projects and as far as I know that there are three approved players under RDSO for the Kavach and there are I think two or three more which are under approval. So hopefully, if their approvals comes through then you will have around five OEMs, five or six OEMs in Kavach.

Vishal Periwal: Okay and one clarification too, out of this INR25,000 crores or INR30,000 crores opportunity for EPC players the split is 40 and for equipment manufacturer it's 60, that's right?

Vimal Kejriwal: It depends upon what happens, okay. We can always do more also or less. So it's on order to order basis. Then who has got the financial capability to do more, etcetera. So difficult to say, but right now, 40%, I think you can safely assume as a system integrator role. And 50%, 60% would be the equipment supply. That's a broad thing, but I think with the number of players and the sizes increasing, these ratios can actually undergo a change.

Moderator: Thank you. As there are no further questions, I would now like to hand the conference over to Mr. Vimal Kejriwal for closing comments.

Vimal Kejriwal: I think, thank you, everyone, for your continued interest in KEC. Thanks a lot. Thank you.

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