



“KEC International Limited Q4 & FY16 Results Conference Call”

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**MANAGEMENT: MR. VIMAL KEJRIWAL – MANAGING DIRECTOR AND
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MR. RAJEEV AGGARWAL – CFO, KEC INTERNATIONAL
LIMITED**

Moderator

Ladies and Gentlemen, Good Day and Welcome to the KEC International Limited Q4 and FY16 Results Conference Call. We have with us today from the management, Mr. Vimal Kejriwal – Managing Director and CEO; and Mr. Rajeev Aggarwal – CFO. As a reminder, all participant 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 ‘*’ and then ‘0’ on your touchtone phone. Please note, this conference is being recorded. I would now like to hand the conference over to Mr. Vimal Kejriwal. Thank you and over to you, sir

Vimal Kejriwal:

Thank you. Good morning to all of you. We welcome you all to the Q4 Earnings Call of KEC. I am pleased that we continued to consistently deliver significant improvement in our margins over the last few quarters reflecting a strong performance in the face of challenging global headwinds.

A few highlights of the quarter and the year are:

Significant improvement in profitability, SAE has successful turnaround, positive PBT and strong order book, expansion of our substation business Afghanistan, Bhutan, Saudi with Bhutan and Saudi being GIS, significant improvement in the Saudi underground cabling market. Solar business has ramped up to close to Rs.100 crores in a year. Railways and water legacy projects are under control and our interest cost reduction by Rs.32 crores, almost 10% reduction in terms of percentages. The revenue growth was flat basically on account of soft commodity prices, significant depreciation of Brazilian Real from almost 2.8 to 4 and delay in conversion in some of the large L1 orders, a few of which have now got converted.

Some of the other specific indicators which we already sent to you is:

Our EBITDA for the quarter is at Rs.223 crores, increase of 21%, margin at 8.7%, highest ever in the last five years, corresponding quarter of 7.3%. EBITDA for the full year is at Rs.679 crores, margin of 8%, again 6% last year which was the top end of our guidance. PBT has increased significantly in the quarter from Rs.100 crores to Rs.132 crores and for the full year it has increased by 2.5 times from Rs.126 crores to Rs.319 crores without considering the sale of land last year. New order intake for the year was Rs.8,714 crores, a 6% increase over the previous year, in addition to this in April we got orders of Rs.1,140 crores. So the order book as on 31st March was at Rs.9,449 crores and if we add the L1 position of Rs.4,000 crores I think we have a fairly decent order book. As I mentioned earlier Rs.1,150 crores has already been announced, so if you take out the April execution broad numbers then our current order book as on April would be more than Rs.10,000 crores. Looking at the current order book and the tender pipeline we do expect to continue to grow both on the revenue and the margin front next year.

I think that is all what I wanted to say and I will be happy now to take questions from your side. Thank you.

- Moderator:** Thank you, sir. Ladies and Gentlemen, we will now begin the question-and-answer session. Our first question is from the line of Vinod Malviya from Florintree Advisors. Please go ahead, sir.
- Vinod Malviya:** Can you just provide an outlook on the Middle East market for the upcoming financial year?
- Vimal Kejriwal:** If you look at the Middle East market we have had a slight slowdown in the last quarter which was primarily from the Saudi market but other markets continue to look good, Abu Dhabi, UAE, Oman, etc. On the Saudi market I think they were waiting for some policy announcements which have come last week from the Crown Prince and if you have seen today's newspaper there have been a lot of changes in the political setup and now they have merged the Power Ministry with the Oil Ministry which bodes well for the power sector. So I think I will say that we are still optimistic on the Middle East but on the other hand what we have also done is to ensure that even if there is a downtrend in Middle East how do we continue to grow, we have focused a lot on the Far East market, Thailand, Malaysia, Indonesia and also on the SAARC market, the other market which we expect to make up from is going to be India - SEB and substation market. So I think on the whole we are quite okay even with a slight slowdown in the Middle East, that should not impact on this year's performance.
- Vinod Malviya:** And second thing on the EHV segment, recently you were also applicable for a higher 220kv you got the approval, so how is that segment really picking up for you because the margin profile over there is better. So can you...
- Vimal Kejriwal:** If you look at the EHV sector, our revenue for the year has already doubled on the supply and the EPC side from our own cable business, we expect it to double again this year. So from close to Rs.60 crores I think this year we expect to do around almost Rs.200 crores from EHV, in cable business. On the cabling piece, I do not have the exact number but I think our order intake from the Saudi market was close to Rs.250 crores for the year. And there are a few larger tenders and we have now been qualified to bid for 380kv cabling also which is a large market. So I think on the whole we are very positive on the EHV cable as well as cabling side.
- Vinod Malviya:** And last question on the margin profile, so can we just provide what will be the outlook in terms of margin for FY17?
- Vimal Kejriwal:** Margin, we already had a substantial increase this year from 6 to 8, so next year we expect to do probably around 8.5 is our target.
- Moderator:** Thank you, Mr. Malviya. Our next question is from the line of Ranjit Shivram from Antique Stock Broking. Please go ahead.
- Ranjit Shivram:** Sir, when we look at the last time in our concall we were talking about Rs.400 crores of tenders from PGCIL and Rs. 2,500 crores of tenders from Railways. So of this Rs.400 crores we are still

seeing some 400, but of this Railways what happened of this Rs. 2,500 crores of tenders under Railway?

Vimal Kejriwal: See, Railways we have quoted almost Rs. 4,000 crores of tenders this quarter and we are quoting some more this year. We have a reasonable amount of L1s in that which are included in the Rs. 4,000 crores, I would not like to give the exact number but I will say that we have a decent share of L1s out of this Rs.4,000 which we have quoted. The other piece which I would like to say, since you have asked this question is that, that clearly saying the Railway order size is increasing, recently there has been a tender where the normal size of Railway which was Rs.100 crores has now gone up to Rs.300 crores is now going up to Rs.500 crores.

Ranjit Shivram: So what kind of order intake can we expect this year from Railways and what is our overall order intake guidance for this year?

Vimal Kejriwal: See, this year we got around Rs.8,700 crores of order intake with a revenue of Rs.8,500 crores, we expect that we should be doing probably around 10% more in the revenues next year and accordingly we will expect to do 10% to maybe 15% but I think ideally around 10%. So our order intake for FY17 should be anywhere between Rs.9.5 crores to Rs.10,000 crores.

Ranjit Shivram: With 8.5% of EBITDA margins?

Vimal Kejriwal: Yes.

Ranjit Shivram: And what about our subsidiary sir, is there any risk over there from Brazil or Mexico, how we see overall outlook?

Vimal Kejriwal: As far as SAE is concerned, SAE has already turned around and we had a PBT positive year for them. And if you look at the order book, overall between Mexico and Brazil they have almost 1.5 years of order book between themselves.

Moderator: Thank you, Mr. Shivram. We have the next question from the line of Jigar Bhagat from Deutsche Bank. Please go ahead.

Jigar Bhagat: Regarding the current order book of more than Rs.10,500 crores, could you be able to approximate timeframe for execution of this project?

Vimal Kejriwal: Jigar, I will not be able to give exact timeframe but if you look at the EPC orders they will generally take around 18 months from now, 12 to 18 months depending on at what stage those orders are. If this has some pieces from Brazil and also cable, etc which are pure supply order, so they get executed faster. So if you ask me very ball park, probably out of this Rs. 10,000 crores almost Rs.7,000 crores to Rs.7,500 crores should get executed this year and the part of the revenue would also come from new orders.

- Jigar Bhagat:** And about the current portion of the debt that will be due for repayment in 2017?
- Rajeev Aggarwal:** Normally about Rs.100 crores a year which is basically the SAE acquisition debt which gets paid, all the rest is actually our working capital only.
- Moderator:** Thank you, Mr. Bhagat. We have the next question from the line of Vivek Sharma from ICICI Securities. Please go ahead.
- Vivek Sharma:** Sir my question is, when you said the 10% revenue growth in FY17, like in FY16 our top-line was impacted due to the commodity price fall, so what are you assuming in this 10%, the stable commodity, rising commodity, what is the breakup of that number?
- Vimal Kejriwal:** I think today the entire numbers are based on their current commodity prices which are slightly higher than what it was last year, like what example if you take copper, copper last year it was Rs.7,000 then it went down to Rs.4,500, right now it is around Rs.4,900 or something like that. So the current numbers are based on the current prevailing prices.
- Vivek Sharma:** So on a volume front would be doing, I am assuming say maybe flattish to single-digit growth?
- Vimal Kejriwal:** Last year we did almost 20% more in terms of volume and we still had a flattish growth because if you look at let's say copper, as I said our cable business's entire budget was at Rs.7,000 it went down to virtually in nine months to Rs.4,500. Steel, today a tower which I was probably selling at Rs.80,000 we are selling now at Rs.60,000 because the steel price went down. So even next year we are factoring a significant volume growth, if commodity prices move up maybe there maybe something better in store for us.
- Vivek Sharma:** Sir, my second question is regarding our debt levels, what is your plan for delivery in the next two, three years, since the debt has gone up this year I understand this is a working capital debt but how do you see in the next two, three years in terms of debt levels?
- Vimal Kejriwal:** I think Vivek if you look at the overall numbers our debt has not gone up because what has happened is our debt has got two components, one is the simple borrowing and the second is the LC acceptances from the banks, that is why in our presentation to investors we had actually clubbed that. So overall our debt is I think Rs.100 crores or Rs.150 crores lower than last year. And secondly, with the improvement in the margins has happened because we are doing our projects faster, so with that we do expect that our receivables will start coming down and we do expect that our borrowing and our interest cost should go down. In fact, one of our budget priority internally is a further 10% reduction in the interest cost, we did it from 3.6% to 3.3% this year and we do expect that we should 3% from FY17.
- Moderator:** Thank you, Mr. Sharma. We have the next question from the line of Ankur Sharma from Motilal Oswal Securities Limited. Please go ahead.

- Ankur Sharma:** Sir, just one question specifically on the solar business, we obviously scaled it up pretty well, so how do you see that going in to 2017 and what is the kind of top-line and if you could also comment on the kind of margins you make in this business?
- Vimal Kejriwal:** Solar, we did roughly around Rs.90 crores or something this year and FY17 we are very bullish, we want to do at least Rs.500 crores and we can be probably double of that, so that is one part on the revenue. Margins are in line with T&D, I will say last year was slightly better than T&D but I think on the whole with the way the per megawatt rates were coming down to 4.4 and 4.7 and all that we do expect that there would be a squeeze on the margins as well as our working capital. So right now we do not have any working capital involved in solar, going forward maybe there may be something. So I think the margins would probably be around 8.5% - 9% or somewhere in the range between 8% to 10% in solar.
- Ankur Sharma:** Just switching gears to SAE, I think you said you are PBT positive for the full year, what would have been the EBITDA margins here in this business for the full year on SAE?
- Rajeev Aggarwal:** I think what we have done is about 5.5% to 6% EBITDA margin in SAE business for the full year at least as against the negative margins last year.
- Moderator:** Thank you, Mr. Sharma. We have the next question from the line of Ravi Swaminathan from Spark Capital. Please go ahead.
- Ravi Swaminathan:** One question, you had mentioned that SEBs are starting to award increasingly in the domestic market, which are the SEBs you are seeing attraction from and how big potentially they could be on par with PGCIL ordering this year?
- Vimal Kejriwal:** Ravi, if you look at the SEB capital spend, it's almost four to five times that of Power Grid for the year that is all the SEBs put together. There are many SEBs where we still are not comfortable with either the paying capacity or more than that whether you can finish projects in those states or not. So right now we have restricted ourselves to few SEBs like Karnataka, Tamil Nadu, West Bengal, Rajasthan, some of the SEBs where we think that operating on the ground is much more conducive than other SEBs, so that is the second piece. A third piece is that, if you look at the size of the orders, we are not talking about orders which are much bigger than Power Grid, some of the orders have been between Rs.500 crores to Rs.800 company, Rs.900 crores single order. And you will have to understand the reason for that, the reason is that is Power Grid has got a large team, they have got a lot of capability and quality in their team, today Power Grid designs their own towers, they also do their own procurement of conductors and that sort, when you go to SEB I do not think they have the requisite capability to do all this directly, so they prefer that the contractors buys everything. So the SEB contracts are lump-sum turnkey whereas Power Grid sometimes breaks their mark into various supplies, Power Grid is also changing larger orders, they have now also gone into lump-sum. So that is the basic reason why the order sizes of SEBs are bigger, but second thing is that when SEB order is happening it's like your

telecom revolution where they do not have fixed line but they have gone for mobile straightway. So the same thing has happened in SEBs, they had very poor infrastructure and now they want to build, so they are straight away getting into GIS and 765, etc. We have recently Tamil Nadu and Karnataka have announced tenders for 765 GIS, etc., which are even rare in Power Grid. So very clearly we are seeing significant quantum jump in the size of tenders from SEBs.

Ravi Swaminathan: So pipeline wise any ballpark number that you can put, see Power Grid orders are roughly around Rs.4,000 crores - Rs.5,000 crores annum going by the tender list, what would be SEBs...

Vimal Kejriwal: I do not think your numbers are right because I think Power Grid we have been doing around Rs.2,000 crores odd every year. SEB, I do not have the exact number but probably it will be around Rs.1,000 crores - Rs.1,200 crores or something, till now SEBs have been 50% of Power Grid I don't know next any specific SEBs come in board but the ratio generally has been 2:1 and the rest would be people like private Sterlite, Adani, etc.

Ravi Swaminathan: And about international orders, which are the continents you would be looking at potentially going forward for growth wise, Africa, Middle East, can you touch upon those?

Vimal Kejriwal: I think the biggest for us right now would be SAARC, South Asia which would be countries like Bangladesh, Afghanistan, Nepal, Bhutan, etc. The second one would be Fareast which would be Indonesia, Malaysia and Thailand. Obviously Middle East and Africa we already have a large presence, in Africa we always do around Rs.1,000 crores year, so we expect to do, Middle East has been more than that, this year we are just keeping our fingers crossed that now with the Saudi new regime and everything in place whatever little slowdown we have seen in Saudi should now go away.

Moderator: Thank you, Mr. Swaminathan. We have the next question from the line of Utsav Mehta from Ambit Capital. Please go ahead.

Utsav Mehta: Just following up on the previous question in terms of SEB ordering, we have been hearing some very positive things about investments being made by Andhra Pradesh and Telengana Governments, and I noticed that you did not mention those two names in the list of SEBs that you mentioned earlier. Any particular surprise kind of?

Vimal Kejriwal: It was by mistake, I should have mentioned Andhra and Telengana. I think the only reason I did not mention of it is that the order size is relatively smaller than Karnataka and Tamil Nadu because Andhra still rakes probably a little bit further but there is a huge amount of work coming up in both these states. Also if you look at Power Grid and the private sector, there is still a large amount of work all happening around between Andhra, Maharashtra, Karnataka. The southwest grid is still not as strong as we would like it to be, so there is a lot of work happening in this particular triangle and that is why we have this. And the other thing which I would like to say on Andhra and Telengana is that with the cyclone in Vizag, etc especially Andhra bank they

want to convert all the overhead lines along the coast into cabling, underground, so that is another opportunity which may come up in the near future where the entire coastal transmission lines may actually go underground.

Utsav Mehta:

And just two follow-ups on the two answers that you said earlier, Railways you said that there is a significant increase in the contract sizes, are you now increasingly seeing more established engineering and construction firms that are coming up, has the competitive intensity now increased from established players?

Vimal Kejriwal:

See, we are in two types of contract in Railways one is the overhead part of it and the second is composite where you also do your stations and tracking and yards and everything. If you look at the overhead, there are three or four players, we have not seen any increased intensity in that. In composite what happens is that a part of the job is like a road project, so what happens in that is if it's a pure civil play then we will see a lot of competition increasing especially from road players but if the contract is civil plus OHE and signaling then the competition is limited. So to answer, very simply, I do not think we have seen an increase in competition, in fact it's actually the other way around because with contract sizes going up the capacity of people to put up bid bonds and put up money for execution becomes a challenge.

Utsav Mehta:

So we have been hearing a lot of things about PGCIL splitting their supply and job work contract, civil work contracts, you alluded to that earlier but I thought that was moving in the direction of them continuing to do that in more and more projects rather than moving towards LSTK. Have I got something wrong here?

Vimal Kejriwal:

I think what has happened is that till six months back I think they were saying that, in the last six months we are seeing a reversal of a trend because what also has happened is that many of these contracts where the splitting was done there was a significant coordination issues between the supply and the execution. So now Power Grid has realized and I hope they continue to realize that that it does not make sense to split, in fact in the last contract which we had announced on Power Grid Vemagiri which was part of the TBCB, which almost a Rs.600 crores project which was announced last month, that is a LSTK contract where even the conductor supply, and insulator supply in ours so. The other thing what I am saying is that, many of the contracts especially in the northeast, etc because they are smaller in size, Power Grid in order to attract people like us is trying to sweeten the deal by doing that. Of late I do not think anything splitting up. Also I will add one more thing, it could also be that there was a change in guard in PGCIL on 1st of October and maybe that could have led to some change in thinking on the way the contracts can be executed.

Moderator:

Thank you, Mr. Mehta. We have the next question from the line of Manish Ostwal from Nirmal Bang. Please go ahead.

- Manish Ostwal:** My question on again working capital side, the total debtors have increased in absolute terms by Rs.400 crores, and you say in FY17 we will see some correction in the working capital cycle, so what are the levers to corrections and what are the sources of improvement?
- Rajeev Aggarwal:** See, basically these Rs.400 crores off road increase in the receivables was towards the end of the year and out of that significant amount Manish we have already received in the month of April per se I do not see any increase in the working capital side. As far as the debt is concerned, debt as we have already mentioned that we have replaced the high cost of acceptance with the cheaper cost of warrant and that is clearly likely in our borrowing cost whereas we have reduced our interest cost by almost Rs.32 crores which is 10% of our total interest cost.
- Manish Ostwal:** And secondly sir, our tax rate is quite high, so any guidance on how the tax rate would be in FY17?
- Rajeev Aggarwal:** So tax rate for the year was higher because we had received some additional tax demand from some of the countries we have been operating in about, so that was a onetime sort of demand, so there we have provided for fully in the current financial year, so going forward we entered the tax liabilities going to be normal.
- Vimal Kejriwal:** Manish let me add, I think India is not the only country where there is retrospective taxation, etc, so we have some issues with some of the other countries where their retrospective demand etc is which we are contesting but which we have provided for, which is the reason why our last two years have been higher than normal. And as Rajeev said that we do expect hopefully this year onwards we should be on standard tax rates.
- Manish Ostwal:** And lastly on the cable side of the business, what is the total volume growth in FY16 and price de-growth in the numbers?
- Vimal Kejriwal:** I do not have the exact volume but it was (+20%) and if you look at the value, value was our entire budget was done at 7000 copper and almost for nine months we were selling at close to 4,500. So value de-growth would have been at least 30%.
- Moderator:** Thank you. We have the next question from the line of Amber Singhania from AMSEC. Please go ahead.
- Amber Singhania:** Sir, couple of things. You share the revenue breakup of various segments, could you also give some color about the EBITDA margin or the profitability of these segments?
- Vimal Kejriwal:** EBITDA margin, as far as transmission is concerned, I think we are pretty okay on EBITDA margins, transmission would be probably 10% plus and other are obviously much lower than that, cables would be around 5%, solar as I shared earlier is in the same line as T&D so it would be around 10%. Infrastructure continues to be negative for the time being because we closed all

the legacy projects and all that, going forward, as I was talking about Railways etc, we do expect that the Railway EBITDA next year should be pretty close to the transmission EBITDA.

Amber Singhania: Sir, and you is SAE now doing in terms of, like last concall you shared that there was some still issues we are facing in one of the geographies out of two, how things are panning out there and what is the outlook on that side?

Vimal Kejriwal: See, SAE has got operations basically in two countries, Brazil and Mexico, when I say Mexico, Mexico sales into Mexico, US, Canada and also Latin America. Brazil, the country we are all aware is going through a very bad phase but fortunately for us we have almost a two-year order book in Brazil and in Brazil what happens is all our cost and revenues are both in the local currency. So effectively on paper we should not get impacted by anything which happens because my cost and both are there and we are making money there. Mexico, we earlier had some trouble because of order book but now I think we have a fairly decent order book, as of today we have a nine months order book with us, up to December we are fully booked. Brazil, as I said is two years. On an average I will say that SAE as a company has got 1.5 years order book and at decent margins, for the year they obviously turned profitable.

Amber Singhania: So we can expect SAE to report around 9%-10% margin this year?

Vimal Kejriwal: We expect them to do that, but we have to keep one thing in mind is that in Brazil the interest cost is almost 20%, so the net PBT numbers would be much lower.

Amber Singhania: But it will be profitable, right sir?

Vimal Kejriwal: Yes, definitely.

Moderator: Thank you, Mr. Singhania. We have the next question from the line of Ankit Babel from Subhkam Ventures. Please go ahead.

Ankit Babel: Sir, my first question is, though you have said that you want to bring down the cost of interest to 3% of sales but your sales is dependent on the commodity prices. So just wanted to know that in absolute terms what would be your interest cost in FY17? It was Rs.277 crores this year.

Rajeev Aggarwal: We should be doing ...

Vimal Kejriwal: It should virtually be flat in terms of about.

Rajeev Aggarwal: We should be doing roughly about 3% of the sales number.

- Vimal Kejriwal:** We have said that we will do a 10% increase in our turnover for next year and we have said that we should be reducing our interest cost by 10%, so from 3.3% to 3%. So if I do the mathematics then we will be at the same number.
- Ankit Babel:** So my full year question here is, can this level of interest cost be maintained at least of the next couple of years at around Rs.280 crores to Rs.300 crores level?
- Vimal Kejriwal:** I think Rajeev is pushing a lot with his team to see how do we reduce it. I think let me add one more thing here Ankit, one of the reasons why our profit has gone up is that the operational efficiency is increasing a lot, like if earlier were getting over in 36 months are getting over in 18 months, 15 months and all that. So as a result of which what we are finding is that the retention money and all should start coming in much faster than before. So we do expect that there should be an improvement in the AR numbers and overall the debt level and the working capital level should come down.
- Ankit Babel:** Sir the 10% growth in order inflows is what you are expecting this year, now are you already including good orders on the solar side?
- Vimal Kejriwal:** There will be some orders, because if I am talking about Rs.500 crores of revenue in the solar side there has to be at least an equivalent amount of inflow if not more. So I am not looking at a large order inflow but at least we will have to as per the revenue.
- Ankit Babel:** Because a 10% increase in order inflows means around Rs.800 crores to Rs.900 crores of inflows additional, out of that if it Rs.500 crores is coming from solar which means that your core-business is getting just Rs.400 crores - Rs.500 crores extra orders. So just wanted to know am I right in my calculation?
- Vimal Kejriwal:** You are broadly right in your calculation, what you have to understand when you look at these numbers is that the commodity prices are still low, that is where the difference is, what orders we got last year some of them were at a higher commodity prices that were quoted earlier. So now what is happening is that today when you quote a tender for PGCIL you are talking about Rs.55,000 for a tower which was Rs.80,000 a year back. So what happens is that there is clearly a volume growth in to the numbers but the value does not look...
- Ankit Babel:** Sir in volume terms what kind of growth you are expecting in order inflows?
- Vimal Kejriwal:** Volume we are talking about at least 10% to 20% growth in the volumes.
- Ankit Babel:** And sir lastly, in one of your interview you have mentioned that the execution cycle of contracts are declining, so in some cases it has declined even below 12 months. So in which geography it has happened and could you throw some more light on it?

- Vimal Kejriwal:** It has happened in India, it has happened in Africa and it is now happening in Middle East also. In fact I will give an example, in Power Grid recently we did an order which was for 12 months which we finished in seven months.
- Ankit Babel:** So is it the new normal now?
- Vimal Kejriwal:** It has become, in fact we are pushing Power Grid as well as Railways which has a norm of 48 months should bring down to 24 months because we feel that we can do it faster, but are constrained by the client's budget and other reasons. So I think clearly we are seeing that happening in Power Grid, we are seeing that happening in some of the SEBs, in Karnataka we are seeing projects where the execution cycle they are bringing it down to six months from 12 months. So clearly I think the clients are also trying to do that. And one thing I want you to understand, especially in the SEBs is that the ordering is done at the last minute when the lines becomes almost something which is hanging like sword on their head. So they are trying to cut down the execution as much as they can. So slowly-slowly they are saying that most of the orders are coming for 18 months, 24 months, so many of them are coming for 12 months also now. Recently we are L1 in a Railway order where part of the section they want to do over in 12 months which was unheard of in Railways.
- Ankit Babel:** Because earlier when we used to ask you about the average execution cycle of your order book you used to say it's around 18 to 24 months, so how much has it reduced, I mean what is the execution cycle of the current order book
- Vimal Kejriwal:** I had answered this earlier saying that out of the current order book we expect almost 75% to be executed this year. Average if you will see it will now start coming to 12 to 18 months, rather than 18 to 24 months. 18 has become the upper end rather than the lower end.
- Moderator:** Thank you, Mr. Babel. We have the next question from the line of Akash Fadia from SBICAP Securities Ltd. Please go ahead.
- Akash Fadia:** Sir, just wanted to know you said that the tax rate would be normalized, what I the tax rate we should be working for at 2017-18?
- Vimal Kejriwal:** Yes, 2016-17 is 35%, 2017-18 would depend on what the government does but I do not think we expect to be more than 35% in any case.
- Akash Fadia:** Second is that, we largely hedge whenever we take the contracts but I think steel contracts are not available, so steel prices coming down can we say that this 8% that we have attained from 6% last year, so maybe certain 40 - 50 basis points etc is also on account of that or can there something be produced on the same?

Vimal Kejriwal:

Akash, I think very broadly what you are saying is right; I will not be able to give you those numbers of how much percentage would be on that, but let's understand the way we do our business. Power Grid is completely price variation, so whatever steel prices go up or down accordingly our selling price to Power Grid changes and accordingly we have an impact on over and under absorption of overheads also. So it is not necessary that going down of prices is always positive. The impact is only on the international front, now it would again then depend upon, if you are executing projects which were won let's say a year back when the sale cost in our contracts was higher than you will make money, in fact that is one of the reasons why if you look at our international order book we have gone a little bit slow on international ordering because we wanted to be very conservative on the metal prices which we take in our cost book, because today with the prices being at the lowest, today if you take orders at those prices and the prices go up the you can really be hit significantly by that, by the cost increase of international orders. So the impact of price rise of price fall in steel is different considering the different markets.

Akash Fadia:

And secondly on this Saudi JV we have done pretty well I think in FY15 and FY16. Now as per the commentary that we had in the initial remarks from you, you have mentioned a bit of slowdown that we see in the Saudi market and I see that the Saudi JV had done very good number. So do you see that will be impacting us very highly in FY17 or in the medium term?

Vimal Kejriwal:

No, as far as FY17 is concerned we have enough orders for FY17 to sustain the FY16 momentum, so I do not see any downtrend in the revenue from Saudi for the next year. When I said that we are seeing a slight impact, normally we used to have a Rs.20,000 crores tender pipeline in Saudi which probably is now down to Rs.10,000 crores or Rs.12,000 crores. So you still have a tender pipeline of that much and I think very clearly what our local team says is that the tenders have slowed down because they were waiting for all those new policy announcements etc which have now happened. So we will have to wait and watch what happens but I think to us the announcement in the power sector seem to be pretty positive with power getting combined with oil and a more powerful minister looking at both of them so we do expect that allocations to power should increase from last year. So I do not think they are worried about our revenues for next year, I was just alluding to the fact that the tender pipeline and the current numbers in Saudi were slightly lower than the huge pipeline which we had last year. But let me also say that on this point in that in Abu Dhabi, Oman, etc. we are still seeing large number of, especially in Oman large number of tenders coming up, Abu Dhabi has been coming up with a lot of tenders. So Middle East as a whole still remains a fairly important piece for us and we are very clear that even in FY17 we will have a significant chunk of our international revenues coming up from Middle East at pretty decent margins.

Moderator:

Thank you, sir. We have the next question from the line of Harshraj Aggarwal from IndiaNivesh Securities Ltd. Please go ahead.

- Harshraj Aggarwal:** Thank you, my question has been answered.
- Moderator:** Thank you, sir. We have the next question from the line of Bharat Sheth from Quest Investment Advisor Pvt. Ltd. Please go ahead.
- Bharat Sheth:** Sir, last year if you look at our T&D intake including SEB and SAE and everything is around 7% - 8% up YoY order intake for the full year, and almost out of our total order intake around 28% is of this PGCIL. So can you give some color going ahead maybe 8% low because as you said value growth is low but volume growth can you give and how is order book from this PGCIL going ahead for FY17?
- Vimal Kejriwal:** See, PGCIL order intake is not going to go up significantly because their entire capital plan is capped by Rs.22,000 crores - Rs.22,500 crores, so that is one case which you have to understand. Even yesterday if you look at they have approved some Rs.19,000 crores of investment, basically they have approved a huge HVDC line. What will Power Grid do is, it's tough to get too many orders for it from the overall number of power grid, now how much we can get out of that, like last month we got a Rs.600 crores order from there and now they are bidding for some large TBCB jobs. And I was saying earlier they are now shifting to LSTK which basically sort of drives away smaller players because the requirement of bank guarantees and working capital and now a days Power Grid has also ensured that the payments are linked to a physical progress rather than only supplies. So the share of the larger players is clearly going up in the PGCIL market, but I do not think the PGCIL market will grow significantly on an overall basis for the industry. Now which one gets how much orders, it's a business of tenders, it's something that none of us have a control.
- Bharat Sheth:** So how do we see this T&D segment order intake to grow and how is visibility on private players and there are we getting from private player or not?
- Vimal Kejriwal:** If you look at T&D sector, if you look at REC, PFC projects for TBCB there are quite a few projects which are I think, I do not have the exact figure, around Rs.20,000 crores to Rs.25,000 crores tenders are still there where the RFQ has been done and now the RFP is out in the market, in fact one was quoted last week also. Before that there were co-projects I think which Adani has won and all those are now to be tendered out for EPC. So to me there is enough work for T&D in the market for next year, now a big job will be quoted soon of Khandwa which I think is a Rs.4,000 crores job. So I think that there is enough what is happening on this piece, the second piece which is happening because of solar growth there are lot of lines coming up for solar, we are doing around five or six lines, we are L1 in a few substation tenders for solar. So a lot of work is coming for solar which is in a way I will say comes suddenly, if you look at NTPC today they have got almost Rs.1,000 crores of solar tenders in the market, the day they will announce they will come back and say give it to us 12 months. So to me I think T&D in India looks pretty positive for me.

- Bharat Sheth:** And sir on working capital, we are expecting substantial growth jump in this SEB side where we understand that the working capital cycle is little larger than the other T&D segment, so how do we plan to manage that?
- Vimal Kejriwal:** Bharat, there are couple of SEBs where the cycles are slightly longer, there what we have been doing is one is obviously all those payment terms are built into our tender constraint and in those cases maybe there maybe probably increase in my EBITDA but higher interest cost and net margin will be the same. But what is happening is, let me also give you some examples like West Bengal, West Bengal is the only SEB or client today which I have in the government sector which gives me an advance without interest, even Bombay charges me interest. The other thing is if you take clients like Karnataka, any bill you raise by 18th of the month he pays you by the 13th of the month. So they may not be paying the power producers but they are paying the CAPEX, they are getting money from REC, PFC, they have their own allocation. So I do not think we are looking at any serious delays or increase in our AR on account of SEBs. This answer may be a surprise but that is a ground reality.
- Moderator:** Thank you, Mr. Sheth. We have the next question from the line of Abhishek Ghosh from IDFC Securities. Please go ahead.
- Abhishek Ghosh:** Sir, we are seeing cable prices having moved up by almost 15% - 20% in last couple of months, so if that trend was to continue do we see volume growth for cable segment in FY17 to be substantially higher 18% because of the higher realization going forward?
- Vimal Kejriwal:** Abhishek, I am not sure about the numbers where you have got in, but let me put it this way, the copper has gone up from Rs.4,500 to Rs.4,900 to Rs.5,000, so clearly there is a 10% rise in the cost which obviously will get passed on to the customer, so it can be a 10%, it can be 15% rise, maybe 20% would have been in some specific type of cables like suddenly solar cables for example, suddenly they wanted this and the prices may go up. There have also been some shortages of fiber in the market, fiber prices have gone up, so that has contributed a little bit. So that is where we are, we are clearly expecting that our cable turnover should go up by 10% to 15% from what we did this year, we got Rs.1,000 crores this year and hopefully we should do Rs.1,500 crores to Rs.1,200 crores next year, if the commodity prices of copper goes up to Rs.7,000 obviously we will do much more than that.
- Abhishek Ghosh:** Sir just one thing, if you could share the 4Q 2016 volume growth for cable segment, will that be possible?
- Vimal Kejriwal:** I do not have the Q4 numbers but I think for the year we did around 20% to 25% more than last year.

- Abhishek Ghosh:** Sir just coming to T&D and specific to PGCIL ordering, we had also seen some substation orders, proportion of substation orders for PGIL were going up. So is that trend continuing and is that also contributing for us to be able to do higher margins in the T&D segment?
- Vimal Kejriwal:** This year may be yes, because we did get a lot of substation orders a year before, we got some of them last year but it cannot continue indefinitely because they will ultimately build substation only when they have lines, so lines and substation have to go in tandem. I think somewhere what we have done is they had assumed that the lines will take longer time to execute than substations so they had actually delayed the ordering of the substations which has now caught up. So I am not seeing too much of difference between the two, yes there are still some backlog which are happening. I think what we are now also seeing from Power Grid is that there are a lot of solar parks coming up and sometimes suddenly they are being asked to do lines at substations, a couple of substation lines which came up off late in Power Grid were not on the radar and suddenly they announced them because of like MP or somewhere where they announced a large solar project and I think they put some pressure and then Power Grid had to build that line very quickly. That is where we are seeing difference otherwise I do not see the substation market to grow beyond what the transmission grows.
- Abhishek Ghosh:** And just one more thing, in terms of net working capital we saw deterioration as of 31st March because the receivables were higher and what we understand from your commentary is you have seen a reduction in debt, so would you be able to quantify in terms of days what would be the reduction for the month of April? A broad number would be fine.
- Vimal Kejriwal:** I think we would have reduced another about 10 to 12 days in the month of April.
- Abhishek Ghosh:** And sir just lastly, I joined in late, if you can help me with the margin guidance for 2017-18?
- Vimal Kejriwal:** 2016-17 we have said 8.5%, 2017-18 we have not said anything as yet.
- Moderator:** Thank you, Mr. Ghosh. We have the next follow-on question from the line of Ranjit Shivram from Antique Stock Broking. Please go ahead.
- Ranjit Shivram:** Sir, if you look at the overall commodity prices, if the prices have almost bottomed out and if they are going back then you have already mentioned for the overseas contract we have a fixed price contract, so is there a risk in our margin guidance of 8.5% because of the commodity price going up?
- Vimal Kejriwal:** Ranjit, what happens is what I said sometime back also is when you are bidding for new contracts and when the commodities are at the lowest end of the cycle you have to be very cautious. So very clearly our treasury and our supply chain works on what is the expectation they have on the commodity prices and we factor them in our costing. So when we have given a guidance of 8.5% we have factored that what is the expectation of the commodity going up and how will they

impact our numbers. But what happens also is that we basically cover what we think is a normal increase, like copper we will say that maybe that is going up 10% now if copper from Rs.5,000 becomes Rs.10,000 then obviously it is something which is abnormal which we cannot factor in, but all normal increases as per analysts, as per the commodity traders and manufacturers and everyone they will send our own team, those are clearly factored in. So if all the normal increases are very clearly factored in into our pricing. The other piece is, if you have looked at an order book breakup the India order book has very clearly increased as compared to international and India as you know is on price variation. So the risk on more than 50% of our orders is any case not there.

- Ranjit Shivram:** And of the India T&D orders how much is Power Grid currently?
- Vimal Kejriwal:** It will be roughly half, I do not know the exact number but it would be roughly half.
- Ranjit Shivram:** And next year we are seeing the Power Grid portion will come down and SEB portion will increase?
- Vimal Kejriwal:** No, it will be the same overall, what we are saying is that it will be around Rs.2,000 crores - Rs.2,250 crores, I am not talking that it will go down significantly but what we are talking about is will Power Grid increase, Power Grid I do not think it looks like it will increase.
- Ranjit Shivram:** And sir lastly on the Railway ordering, how much of Railway orders are we expecting in FY17 because you have a good tendering there, you told them Rs.4,000 crores of...
- Vimal Kejriwal:** Our Railway target is between Rs.1,500 crores to Rs.2,000 crores.
- Ranjit Shivram:** And that will be a jump of what? Currently it is around Rs.1,000 crores.
- Vimal Kejriwal:** Order book currently is around Rs.600 crores or Rs.500 crores something around that, we do expect that it should go up to Rs.2,000 crores.
- Moderator:** Thank you, Mr. Shivram. We have the next question from the line of Sarvesh Gupta from Trivantage Capital. Please go ahead.
- Sarvesh Gupta:** My first question is, I joined in late so I could not understand that what will be the impact of our commodity prices hardening up now, so on the Indian business are you saying that your EBITDA per ton or any absolute metric would remain constant because of price variation?
- Vimal Kejriwal:** Yes, I think your understanding is correct, actually it should improve slightly because some part of overheads have a better absorption because when your cost go up your revenue goes up, obviously it does not go up to the extent of profit, it goes up with some multiplying factors of

your margins etc. So generally in a rising market if you are able to price variation matches your cost increase it should be positive for you, if not at least in the same levels.

Sarvesh Gupta: Sir let's say your revenues is Rs.100 and your cost of material is Rs.60, then in case there is price variation contract then you would only pass on the increase of that cost of material, so in that sense your overall absolute EBITDA should not change?

Vimal Kejriwal: No, it does not happen like this, we can discuss it a little later on, but what happens is that your increase with the client is always on your revenue and not on your cost. So what will happen is that you will say 60% of my cost is material, so if material cost goes up by 10% then instead of going up by Rs.6 it will go up by Rs.10.

Sarvesh Gupta: And sir my second question is on the stickiness of the international business, so while you have a large portion of your order book now coming from the international business where you are being able to make a good breakthrough, now are these clients or more clients in that region very likely to keep on giving you business or these are more like one time engagements?

Vimal Kejriwal: I think I just gave you a couple of examples Sarvesh, we are in UAE for 20 years, we are in Saudi for 15 years, so we clearly have a stickiness with our clients, so they are not one time clients.

Moderator: Thank you, Mr. Gupta. We have the next question from the line of Jonas Bhutta from Phillip Capital. Please go ahead.

Jonas Bhutta: Three questions from my side, sir firstly if you could just reiterate from the previous question that you expect the Railway order book to go from Rs.600 crores to Rs.2,000 crores over what time period?

Vimal Kejriwal: Next financial year end, FY17.

Jonas Bhutta: It still then does not add up to 10% growth in order book, because that implies a jump of nearly Rs.900 crores there itself and add to that the Rs.500 crores inflow from solar, so then effectively you are talking of a non-core business order inflow growth upwards of 14% - 15%.

Vimal Kejriwal: Yes, that is okay, your numbers are pretty right but what you also missed out is that we are saying that we are going to make the similar margins on these businesses also, so I do not think I am very worried whether one particular business goes up or not, margin levels are now fixed, all I have to make money equivalent to T&D, if they do not make then they will not get the orders.

Jonas Bhutta: Sir my second question was on the standalone margins, sir you exited FY16 with around 8.8% margin while for 2017 you are guiding for closer to 8.5%, so does that imply that you will make

lower margins on the JV business or SAE because it's sort of suggests that given that the momentum of copper prices going up seems to be in your favor in the parent business so effectively your margin should be inching higher there, then why would your full year margins would be lower by close to about 30 basis points.

Vimal Kejriwal:

Well, there are two reasons for it. One is, the copper impact basically is only in India because most of our cable is sold in India, so whatever happens that will be in India. And second case is that if you look at our order book you will slowly see that the India order book has been increasing. So the inflow or the aggregate amount of profits which are coming from the India business are more than the profit coming from the international business. So international has traditionally been a higher margin altogether, please keep that in mind. So I think that is where we need to keep in mind, the other thing what we need to keep in mind is that we are always very conservative in what we talk about, so all your earlier speakers were talking about the risk in commodity, what will happen to your pricing and all that. So we need to factor all that to keep in mind when we do our international number, today we have got contracts let's say in Saudi or other countries, if suddenly the steel price shoots by another \$500 or \$1,000 it can have serious impact on what is happening. So that is why in international markets we are always very conservative because the number of variables are very high there.

Jonas Bhutta:

And my last question sir, would you be able to share what is the SAE absolute EBITDA number for the full year?

Vimal Kejriwal:

Absolute EBITDA number for KEC for the year is Rs.679 crores.

Moderator:

Thank you, Mr. Bhutta. We have the last question from the line of Sarvesh Gupta from Trivantage Capital. Please go ahead.

Sarvesh Gupta:

Sir, what is the expectation on PGCIL orders growth in the coming two years including FY17 and 18?

Vimal Kejriwal:

Sarvesh, we are not expecting PGCIL to grow because they have a flat CAPEX budget of Rs.22,500 crores for the next five years, so I do not think there will growth if you look at their normal budget. So what we have been seeing is that they are still getting a large number of jobs from the ministry on account of sudden exigencies, etc., or the solar park coming up or someone else goes and makes an announcement. So they have been doing that on and off, but if you look at the standard budget I do not think we are seeing too many things coming up from PGCIL.

Moderator:

Thank you, Mr. Gupta. Ladies and Gentlemen, that was the last question. I now hand the conference over to Mr. Vimal Kejriwal for closing comments. Over to you, sir.

Vimal Kejriwal:

I think I would just like to say thank you to everyone. Thank you for your continued interest. Thank you.



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