



“KEC International Limited Q4 and FY20 Results Conference Call”

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LIMITED
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Moderator

Ladies and gentlemen, good day. And welcome to the Q4 FY20 Results Conference Call of KEC International Limited. We have with us today from the management, Mr. Vimal Kejriwal –MD 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 that 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 so much. Good evening. I welcome you all to the Q4 Earnings Call of KEC. I hope that you and your family are safe and healthy. Let me start with some of the key updates on recent events. I am pleased to inform you that all our manufacturing units in India are operational with the implementation of government mandated work guidelines for social distancing and employee safety. Our SAE manufacturing units in Brazil and Mexico have been operational throughout this period as the sector was identified as essential sector in the two countries. On the project front, international project sites, including SAE, were always operational, and we have resumed operations at over 85% of sites across businesses with strict implementation of social distancing and EHS norms.

Now coming to the performance updates, we have achieved revenues of Rs. 11,965 crores for the full year, with a growth of 9% vis-à-vis last year. The growth would have been higher but for the disruption caused by COVID-19. Traditionally, we have large revenues in March, especially in the last two weeks. The disruption has caused an impact in the range of Rs. 500 crores to Rs. 600 crores of revenue, which now shift to FY '21. Our EBITDA margin is at 10.3% with an EBITDA growth of 7% vis-à-vis last year. The PBT margin is at 6.6% with a PBT growth of 4% vis-à-vis last year. The PBT growth would have been higher but for the lower other income. PAT has grown by 14%, with PAT margin improving to 4.7% vis-à-vis 4.5%. We have recently released order inflows of Rs. 1,203 crores. With this, our total order inflow for FY '20 stands at Rs. 11,331 crores and for YTD FY '21, stands at Rs. 739 crores. We have a strong order book of Rs. 20,500 crores as on 31st March, along with an L1 position of close to Rs. 4,000 crores, majorly from the T&D business.

Coming to the Q4 financial performance, our revenue is at Rs. 3,671 crores for the quarter have marginally de-grown by 4% on account of COVID-19. EBITDA margin for Q4 stands at 10.1%. Our interest cost as a percentage to sales for the quarter has seen a vast improvement, and stands at 1.8% vis-à-vis 2.2% last year. Our PBT and PAT margins stand at 7.3% and 5.3%, respectively. On the business front, our core T&D business crossed revenues of Rs. 8,000 crores with a growth of 12%, backed by a robust execution in the international T&D, especially in the SAARC region, Americas and UAE. In line with our diversification and de-risking strategy, we have expanded our footprint to three new countries in Africa this year.

The overall tender pipeline largely continues to remain strong despite the postponement of a few bid submissions. We are witnessing a significant uptick in tendering activity in the MENA region, especially in the UAE, Oman and Saudi Arabia, despite the crude prices going down. PGCIL tenders under TBCB route worth over Rs. 14,000 crores on Green energy Phase 2 have largely been bid in the last two weeks, and a couple of them have to bid in the next one week. We are looking to leverage our recently acquired transmission tower manufacturing facility in Dubai to secure additional business in the MENA region on account of local price preferences/fiscal benefits.

The railway business continues to be on a high growth trajectory as it crosses Rs. 2,500 crores of revenue for the first time with a robust growth of 33%. This year the business has diversified its portfolio to include RRTS and road over bridges projects, in addition to our existing offerings of overhead electrification and composite projects. Our diversified and robust order book of Rs. 6,000 crore plus in the railways will enable us to sustain leadership in this sector and drive growth for us this year as well. Our civil business continued with its diversification strategy and secured entry into the strategic defense sector with two orders, including one for the construction of our data center. The business faced headwinds on account of muted industrial CAPEX cycle in India and challenges faced by the realty sector. However, the robust order book of Rs. 2,700 crores, backed by the three metro projects for DMRC and Kochi Metro, gave us the confidence of this business being one of the key growth drivers for us this year.

Cables business has witnessed revenue slowdown due to lower order intake, impact of commodity prices and loss of production/dispatches due to COVID-19. In solar, we continue to focus on select large tenders in India as the domestic sector continues to face uncertainties. We have started execution of a recently secured order of 20 megawatts solar carport for a reputed automobile manufacturer, which is the largest carport project in India. We have also put in select bids in the international market, especially in Africa. Execution of the existing projects in smart infra are on track in a significant development the business has become L1 in a defense project. We continue to have a focused approach in managing our working capital and cash flows, which is reflected in the improved borrowing numbers and interest costs, absolute cost as well as the percentage to sales.

Our borrowings as on March 31, 2020, stand at Rs. 2,380 crores. We have been able to bring down the average borrowing level from Rs. 3,100 crores last year to Rs. 2,600 crores this year, largely in line with our guidance of average borrowing levels of Rs. 2,500 crores for the full year. Our foreign currency borrowing mix has improved in line with the increase in our international revenue. This has resulted in improvement of interest cost as a percentage to sales to 2.6% vis-à-vis 2.8% last year. A robust order book and L1 of over Rs. 24,000 crores gives us the confidence of delivering a strong performance in FY '21.

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

- Moderator:** Thank you very much. We will now begin the questions-and-answer session. The first question is from the line of Ravi Swaminathan from Spark Capital. Please go ahead.
- Ravi Swaminathan:** Congrats on a decent set of numbers given the situation. My first question is, you had mentioned that Middle East ordering has been, I mean, still going on well. In spite of the fall in oil prices, I mean, what is the reason behind that? I mean, all those countries focusing still on power, T&D?
- Vimal Kejriwal:** I think, Ravi, most of these projects had been planned for some time and the tendering has just got bunched up. A couple of them have got, I will say, slightly postponed, but a few of them have already been tendered. And in our L1 there is a very large tender where we are L1 of almost I think close to Rs. 900 crores in one of the Middle East countries. Apart from that, we have bid for a few large projects. And there are a few large projects which I think got extended because of Ramadan, and I think we should be bidding for them in the next two weeks or so.
- Ravi Swaminathan:** Okay, sir. I mean, what will be the total value of all these projects you have put together in Middle East?
- Vimal Kejriwal:** In Middle East, roughly it could be around, I will say, Rs. 5,000 crores or so. It is mainly between Oman, Saudi and UAE, which includes Abu Dhabi as well as Dubai.
- Ravi Swaminathan:** Got it, sir. And within India, so basically how is the scenario currently in terms of ordering? Given the fact that government finances are stretched, so basically do we see power T&D spend in general to remain flattish in FY '21 as well or it can even see a decline?
- Vimal Kejriwal:** So my view is that last year was a flattish year, where we had roughly around Rs. 2,000 crores of intake in India, in power T&D. So this year, I think we are clearly seeing a much higher number. As I mentioned, we have already bid for, I think roughly around 25 projects in transmission, another 10, 12 projects in substations for Power Grid, which are under TBCB, where the TBCB bids are being put, I think, in the last week of June. So those are large numbers. And then there are also some of the SEBs in the South which have come out with bids. In fact, if you saw our order intake announcement, we also already got one large project in the south substation already. So I think this year, my view is that the India T&D number would be higher than last year, notwithstanding the issues which government may face. But I think if you look at the government, government policies also have a very clear announcement saying that they want to have T&D more on the TBCB route. So I think that would continue. We have not seen any postponement happening and Power Grid has taken the bids in spite of the lockdown being there.
- Ravi Swaminathan:** Got it, sir. And my last question is, in terms of working capital how is the scenario currently? I mean, the past two to three months, many of the companies have faced a stretch in working capital, how is it for KEC? And how is it likely to be going forward also?
- Vimal Kejriwal:** So in March, because of lockdown we did not collect, I will say, roughly Rs. 300 crores to Rs. 400 crores of money, had the lockdown not being there I think we would have collected that, and our

closing borrowing figure would have been probably been significantly lower than what it is right now, okay, that's one part. But fortunately, all that monies were collected in April. In fact, in April 2020 we collected more than what we collected in April 2019. So fortunately, for us, it is good for us that we have more government exposure than private exposure and also exposure in sectors where government is pushing, so power, T&D, railways. So clearly, as of now we have not seen any stress in the system in terms of working capital. And in fact, since March 31st we have received almost Rs. 100 crores from Saudi also in addition to what we received otherwise. So I think we are pretty happy with what is happening on the working capital, at least as of today.

Ravi Swaminathan:

Okay. Got it. And you don't foresee any challenges next few months or something of the sort because government agency is ready to postpone things, right, I mean from that point of view?

Vimal Kejriwal:

So as of now I don't see that. What we have also done is a contingency is that sometime back we have increased our working capital limits. And in terms of the recent push of government towards liquidity, we have also tied up some additional finances as a backup in case there are some payment delays and all that from the client. If we need to fund it ourselves, we have enough limits apart from our normal working capital limits. In fact, in the month of April we had already repaid some Rs. 200-odd crores of NCDs.

Moderator:

Thank you. The next question is from the line of Renjith Sivaram from ICIC Securities. Please go ahead.

Renjith Sivaram:

Congrats on good set of numbers despite the overall challenges. Sir, if you can let us know what is the kind of growth we should look at this year because of all these challenges which you are having?

Vimal Kejriwal:

So to me it's a difficult question to answer right now. I am not sure whether I can give you an answer. Had it been a pre-COVID situation, I think we had already said that we will grow from 15% to 20%, at least 15% we would have grown. Right now it's a difficult answer to give because we do not know what will happen with the lockdown, whether it will be lifted or it will continue or we will have a second lockdown or not. If everything goes well, I don't see anything impacting 15% or something. But as I said, right now your guess is as good as mine. I think we will have to wait for maybe another two, three weeks just to understand how the situation pans out. But otherwise, with an order book and with 85% of our projects already operational, I think we feel generally good about it.

Renjith Sivaram:

Okay. And in terms of order intake, what should be the target for us for this year? Because there have been some slippages last year.

Vimal Kejriwal:

So order intake has been a matter of concern. Last year we got orders which were, let's say, close to our revenue. So we have not been able to increase our order book. But notwithstanding that order book, right now its Rs. 20,000 plus crores and another Rs. 4,000 crores of L1. And as I said, we have quoted a large number of tenders. So hopefully, if those tenders get awarded then we

should be happy. I think the concern which I have on the order book is, except for this Power Grid and a few state tenders, most of the tenders right now have been postponed, and they are supposed to be due in first week of June, second week of June, somewhere like that, people have just been postponing because of the lockdown. I only hope that these tenders happen and get awarded very quickly. Otherwise, what would happen is your Q2 and all that would be sort of blank in terms of order intake from these people. Railways also has more or less postponed the tendering, but they have large tenders which are there. And they have all told us that the day lockdown is lifted we will go ahead with the tenders.

So I think the only question is, when do these tenders get awarded? If they get awarded very fast, then even I will say by August, September, you will see a lot of awards happening. If they don't get awarded now, then you may see them coming in Q3. But on the international front, I think a lot of tenders have been quoted, and they are being opened, we are receiving clarifications and all that. So I do feel that initially for this quarter and maybe early part of next quarter, most of the ordering may happen on the international front. But otherwise, I think we are pretty comfortable with the pipelines. We are seeing almost, I think, close to Rs. 35,000 crores, Rs. 40,000 crores pipeline also, which includes T&D and railway and civil tenders to be quoted. So I don't think we are right now worried about order intake or tender pipelines. And we have not yet seen tenders getting canceled in, I think, any area. Some of the private investments on the industrial side, yes, we are seeing some deferment happening. But on the infra front, be it railways, be it T&D or be it civil, we have not seen any cancellations happening.

Renjith Sivaram: Okay. And lastly sir, on the receivables, compared to December, the receivables has increased by close to Rs. 300 crores to Rs. 400 crores. So what was the reason for that and how is it now?

Vimal Kejriwal: Yes. I think the basic reason is, as I said that because of COVID, suddenly with a shutdown over the last 8, 10 days, which is a maximum period when you get all your collections, etc., you are neither able to bill because it was suddenly shut down, and you are neither able to collect. So I think that is the basic reason why you see a distortion in the AR. Otherwise, I think our AR position has generally been pretty decent, I think we have been pretty happy. And that you can see in the interest cost coming down also. I don't think there is anything to worry on the AR position.

Renjith Sivaram: What will be the targeted debt for this year, FY '21?

Vimal Kejriwal: Rajeev, you want to answer this?

Rajeev Aggarwal: So basically what we are targeting, it is again a very difficult question really to answer that. That actually will depend on how the year will pan out in terms of the execution in terms of other things. But our efforts are to continue to focus on the working capital right now and to keep the borrowings level under check, which, as Vimal rightly mentioned that even post two months of lockdown, we are very much in control of our working capital borrowing and it's in a good shape.

Moderator: Thank you. The next question is from the line of Renu Baid from IIFL. Please go ahead.

Renu Baid:

Few things, A, if you could help us understand, given the fact that we have seen this mass exodus of migrant labor back to their home state. And you mentioned that nearly 85% of the sites are operational, what is the kind of activity level currently at the site? And do you believe that this labor availability could pose a challenge for execution in the current financial year? And simultaneously, what could be the likely implication on cost? Are customers willing to take on this extra labor inflation on the price variation process which were in place?

Vimal Kejriwal:

So most of the contracts have a price variation clause. The government contracts, whether it is railways or utilities, etc., have a variation clause. Some cases link directly to labor indices, most cases link to WTI, etc. So I do feel that we should not have any issue on that. And as of now we have not seen labor costs going up. I think my worry is not labor cost because it's not a large chunk in any case. The second part is that now we have seen a flattening of the labor migration. So if you look at the last 7, 10 days, we have hardly seen any. There are some migration happening, there are new people coming in and all that, so the numbers are close to flat. The third piece what will also happen is that, I think we will have to live with, let's say, 20%, 30% reduction in labor force across projects and maybe even across factories. I think the target is very clear that how do we increase our mechanization, automation and digitalization to replace this lost labor and also compensate for additional cost, which will be there on account of social dispensing and all that, instead of having six workers in one room you may now have two workers in one room, so your cost and all will go up. Whether the clients will directly compensate? I don't see that as a thing, whatever comes out of a price variation. There is a talk that some of this can form part of change of law clause because you are doing all this as part of a change of law. So we will have to wait and watch what happens. It's very difficult right now to say. But to me, I think what we should also keep in mind is that the commodity prices have come down, the diesel prices are coming down. So I don't think if you ask me a question, I don't think I am worried about my margins because even if it was up on labor, I will definitely save them across my material cost, my logistic cost and all that. So I think my margin would be more dependent on whether I am able to ramp up productivity and get revenue rather than looking at whether labor will increase my cost or anything. No, I don't think I am worried about that.

Renu Baid:

Right. So as of now the current status of labor availability versus pre-COVID would be like 70% or it would have been lower?

Vimal Kejriwal:

50%. We have around 30,000 people, we now have around 15,000 people with us. The problem is that a lot of local people and all are coming for jobs. Our concern is that we do not know whether all of them are COVID free or not COVID free, and some of them are local so they are not trained. So we are now working on training modules to train people. See, ultimately we have to live with the fact that migrant labor may go away. And if I am doing a project in UP, why should I hire somebody from Bihar, if I can get people in UP. So I think that's the way we are looking at it and saying, how do I train my local labor who is currently not used in this. So I think that is what is going to happen.

Renu Baid:

Sure. Sir, second would be on the civil piece of the business because that was one piece, led by large metro orders you were sitting about almost Rs. 2,500 crores of book. And these projects were also in and around the cities. So what would be the road map in terms of looking at the potential scale-up of execution of these orders? And would you be able to give any broad indicative numbers at least for railway and civil in terms of likely range of revenue growth for next year, if there is no second lockdown?

Vimal Kejriwal:

Okay. First, civil, I think we should do at least Rs. 1,500 crores of revenue, because I have to do the two DMRC job, I have to do at Kochi Metro. I already have I think six residential projects, four of them from one large very reputed developer where the work has started during the COVID, jobs were awarded and started during the COVID. So there are good people, I will say what we will classify as A grade. And with the two defense jobs where I do not see any problem, I don't see civil revenues being a concern for me as of now. The concern in civil is that most of the residential projects, apart from the big ones are getting shelved, so there could be some issue on whatever we had planned from residential. Although I am happy with what we have. The concern mainly is on the industrial part. I think the private industrial CAPEX is something which will not happen for the next six, eight months, very clearly. So whatever revenue we had thought we will get from that, I don't see that happening very fast. Okay? So private industrial CAPEX is going to take a beating. But fortunately since I have these three large orders of DMRC and Kochi, and the two defense orders, and I think six or seven residential orders already from good people, I am pretty okay with this.

As far as railways is concerned, we did a 33% growth this year. And I see no reason why we cannot do a similar or higher growth than that because I have a Rs. 6,000 crores order book. The second piece is that the railway order execution has ramped up pretty fast. So if you look at the ramping up speed, I think railways were the fastest to ramp up. Because you are working on tracks and other things. And the other thing what government had done was, they authorized railways to start their own project without waiting for the DM or the Collector permission. So in that way, railways actually started projects earlier than all other industries. So I think railways, we are pretty confident. I don't see why we cannot do 30%, 40% growth in railways, assuming that there is no second lockdown.

Moderator:

Thank you. The next question is from the line of Bhoomika Nair IDFC. Please go ahead.

Bhoomika Nair:

Sir, just wanted to understand a little bit on railways. While obviously, the order backlog is very strong and even the execution as you mentioned should be quite decent. But how will inflows pan out for the current year? If you can throw some light on the railway side?

Vimal Kejriwal:

So I don't have the exact number, but roughly around Rs. 9000 crores to Rs. 10,000 crores of tenders to be quoted, probably in June itself. So there are a large number of tenders and railways have very clearly told us that they are not cutting anything on their CAPEX budget, very clearly all our clients have told us. The other piece is that last year we started bidding for a lot of the metro

railway projects. When I say metro railway, this is the ballast-less tracks and OHEs and power supply, apart from civil. Civil is being handled by the civil team. So the railway team is quoting for all others. We already quoted for some projects in Bangalore, we are quoting for other projects also. So we are very clear that we will also get some orders from this. So I think as far as railways are concerned, we are pretty confident that we will have a pretty decent order intake.

Bhoomika Nair:

Okay. And the other aspect was on SAE, because it's been a good year for us in terms of execution and strong execution that we have seen on the projects on hand. But there were some projects which were in pipeline. So any status on that, because we have almost Rs. 1,000 crore backlog now, so from a revenue perspective of next year would it be fair to say that SAE would not see growth and may perhaps see a decline next year?

Vimal Kejriwal:

I think it will be that situation, because Brazil being where it is today, I honestly do not see a revenue growth happening in SAE. We will be lucky if it is flat, it may have some de-growth. Also on the fact that Brazilian currency has devalued by almost 25%. So even if they do the same job, the revenue translated into Indian rupee, unless Indian rupee depreciates against the dollar, we may have some impact of the Brazilian real depreciation itself, forget the part that we may get, we may not get orders. The other piece is that we have got two Sterlite orders there, L1 position, which have to be converted into orders, which Sterlite has been talking to us saying we will do it anytime. So if those two orders get converted a little bit early, then maybe we may be able to maintain our revenues. But I think it is fair to assume that there could be a marginal de-growth or at best flat.

Bhoomika Nair:

And how large are these Sterlite orders for SAE?

Vimal Kejriwal:

I don't have the exact number, but maybe you can talk to Abhishek later on. But it's I think roughly around Rs. 500 crores. But please don't hold me, just talk to Abhishek later on. But I think roughly around in that range.

Bhoomika Nair:

Right. Sir, the other thing was on the working capital, clearly the interest cost has declined because of high amount of FOREX loans that we have taken. So how should we look at this now going ahead in terms of FY '21 with both interest as well as working capital in the current environment? Are you seeing a stretched receivable day given the lockdown and COVID etc.?

Vimal Kejriwal:

As of now, we have no reason to believe or say that there is a stretched working capital. In fact, what has happened is that both Power Grid, RVNL and all have been told to release monies as fast as they can. So they are releasing retentions which are not due, they are not adjusting advances. So I honestly do not see anything happening on the working capital based on what is happening today. Today, we are receiving cash. In fact, in April whatever we had budgeted for cash inflow, we got more than that. May also has been decent until now. So if this continues in a similar manner, I honestly do not see any reason for my working capital to get stretched.

Bhoomika Nair:

Okay. And on the payable side, on the vendor payment, I mean, has the payable number of days come down or anything because you are paying faster?

Vimal Kejriwal:

It has come down slightly, although we are trying to extend it, because the banks are not lending to MSMEs and smaller players. So we have to support them if you want to run your supply chain, so that's happening. But larger players are agreeing to extend, so we did not succeed in extending the overall DPO days, although some of the large items in railways we were able to push, I think that effort will continue. But there is no major push also or a pull from the payable side that we need to pay too much in advance. I think what we have been doing is that some places where we are getting our leverage on interest cost and where payments are essential, where I cannot defer them or I have to pay them in any case in a month or so, if the gentleman is giving me, let's say, a logistic player, logistic player means cash very fast. So at some places, we have been leveraging that and paying faster also actually than what is warranted, because you can make some interest arbitrage there. So, I think the working capital will continue in the manner it is. It will definitely improve by a few days or something like that. But I see no reason why it will get stretched in any manner, no.

Bhoomika Nair:

Okay. And sir, just lastly if I can have what has been the FOREX gain in the quarter and for the year?

Vimal Kejriwal:

I think Abhishek can tell you later on, but it is much lower than last year, because what we have done is we have borrowed a lot of money, a lot of Indian foreign currency, which acts as a natural hedge. So to that extent, my capacity to sell forward is going down. So in a way, some part of my FOREX gain which used to come above the line is now getting reflected into my interest cost reduction, not significantly, but there will be, let's say, 10, 20 basis points of interest savings could have happened and which would result in my gain. Plus, I think what we have done is since we are resorted to hedge accounting, etc., so the entire FOREX gain and all that have become much less volatile than before. So maybe you can have a chat with Abhishek later on, and he can tell you exactly what has happened. But I don't have the number, but it is much lower than last year, I can tell you that much.

Moderator:

Thank you. The next question is from the line of Priyankar Biswas from Nomura Securities. Please go ahead.

Priyankar Biswas:

So I have a couple of questions. So one is, like can you elaborate on the tender prospects? So I think you have elaborated on India and Middle East, but can you throw some light on Africa and the SAARC region?

Vimal Kejriwal:

So SAARC has got a large amount of tenders to be quoted, especially in Bangladesh and in Nepal, so two countries where there are large number of tenders is to be quoted. Africa, there are quite a few tenders in Mozambique, in Tanzania, in Ivory Coast, Guinea, etc. So I think Africa and SAARC, I don't think we have seen such sort of numbers earlier. So pretty decent numbers, I will say.

Priyankar Biswas:

So like if I compare, let's say, year-on-year basis, so have the prospects materially increased over there, I mean, this region?

- Vimal Kejriwal:** So as compared to last year, definitely. If you want to compare with a year before and all, it's very difficult. But last year SAARC was a little bit dry, but this year SAARC is much, much, much better than before. So if I was looking at the SAARC numbers, right now we have got around Rs. 6,000 crores of tenders to be quoted in SAARC just now.
- Priyankar Biswas:** Okay. And sir, if you can, can you provide, let's say, what can be the possible CAPEX that you will be doing in FY '21? The possible CAPEX level.
- Vimal Kejriwal:** So we earlier had a good CAPEX level planned for us for this year. But now with COVID-19 happening, I think we are really relooking at our entire CAPEX plan to see what all we should not do. But clearly, there will be some because we will have to mechanize more with migrant labor going away and with the labor strength coming down. Clearly we have to improve the productivity by means of higher mechanization. So there will be some CAPEX happening at the site level, both in railways and T&D and also in civil, I honestly don't have a number which we will finally do, but maybe Rs. 100 crores or so against the earlier planned Rs. 200 crores, Rs. 250 crores.
- Priyankar Biswas:** And sir, the last question from my side. So in your total debt what will be the amount which is FOREX denominated? And if you can give a broad idea as to what is the interest differential between, let's say, FOREX debt and the INR debt?
- Vimal Kejriwal:** Rajeev, do you want to take this question, please?
- Rajeev Aggarwal:** Yes, Vimal. So basically, right now we are having close to about 55% to 60% of our total debt is a FOREX debt, and which we keep on changing depending on the mix of international revenue in our total revenue book. And as far as the cost is concerned, the cost arbitrage between the foreign currency and the rupee borrowing is basically your premium amount, which is roughly between 3% to 3.5%. So while taking the FOREX borrowing, we always take a conscious call whether we should go for the FOREX borrowing or whether we get more money by selling forward. So that is always an arbitrage that we take into account before taking any action on that FOREX borrowing or selling.
- Moderator:** Thank you. The next question is from the line of Swarnim Maheshwari from Edelweiss Securities. Please go ahead.
- Swarnim Maheshwari:** Sir, two set of questions. First one, you did mention in an elaborate manner about the labor issues and all. Sorry to harp on that, if you can just give us some color on, if we see our fixed margin business, what impact could we have since we won't be able to ramp up our revenues or our projects. So what could be the possible headwinds to those margins, considering we have about 50% of our business as fixed margin business, which is nonnegotiable?
- Vimal Kejriwal:** So Swarnim, what will happen is that there is definitely some impact of the fixed cost, non-absorption in April and now in May also. But as I was replying to the earlier question, we also see a lot of cost savings happening going forward, especially in the fixed-price contract. If you look

at, zinc has come down by probably \$500, steel is now coming down, aluminum has come down. So in a way, a lot of commodity cost will go down, the logistics costs are going down. So as far as the fixed price contracts are concerned, our view today is that whatever extra costs which we are going to incur will get absorbed by the other cost savings. Plus, we have drawn out a very elaborate business continuity plan by which we are saying that a lot of cost would be reduced, the rentals would be reduced. I will give you an example, we have a travel cost of I think around Rs. 10 crores, Rs. 12 crores per month. Last two months, it has been zero. So Rs. 20 crores straight goes to my bottom line because it's zero,

So I think in that manner, what will happen is this work from home and all other issues which are happening, there is also a significant reduction in cost in other places. So while the cost may go up in labor or it may have gone up in terms of hiring between 15,000 workers without work, that is there. But on the other hand, there will be significant reduction. The third piece is that, as I was saying that we are really working on how to improve productivity on a long-term basis. So what we are clearly seeing that there may be long-term impacts on our entire cost structure which would be very good for everyone in the long-term. Where if I am able to do the same work instead of 10 people with five people and two equipment, in the long run we always know that equipment is going to be cheaper than having paid this. So I think, very clearly we are seeing that many of the costs will go down significantly. And honestly, I will not be surprised if margins actually go up rather than going down.

Swarnim Maheshwari:

That will be a big surprise surely, because we were under the impression that at least for the commodity cost at least, we hedge it as soon as we get the contract. So for that benefit to flow through, that might not happen. But yes, your point number two and point number three, that could be a significant reduction.

Vimal Kejriwal:

Swarnim, what is going to happen is there are many tenders which we have quoted earlier. So that is one part. Second is you don't hedge steel. Third is diesel, there are so many other costs which we are not hedging. We will hedge aluminum and copper and all that, but there are others which you don't hedge.

Swarnim Maheshwari:

Got it, sir. Sir, second question is actually for Rajeev sir. So there was just one thing, I mean, on a sequential basis our debt profile is broadly stable at about Rs. 3,300 crores, and yet there is a 20% decline in interest cost essentially. So what has actually led to that? I just wanted to understand that part.

Rajeev Aggarwal:

No. So Swarnim, what happened actually, if you look at the previous quarter, our borrowing more or less has remained static. But what has happened is that our shift to the FOREX borrowing started in later half of Q3 so the full impact of the FOREX borrowing when we have increased the proportion from almost we were operating at about 40% to 55% to 60% in Q3, late Q3, so that impact has come in Q4. So that has led to the benefit. Second, also what has happened that in this quarter we actually received a lot of money. So my average borrowing level for Q4 has actually

come down, except for the last 10 days when we were planning to receive another Rs. 350 crores to Rs. 400 crores, which could not be collected. Otherwise, my borrowing actually on the balance sheet date would have been less than Rs. 2,000 crores.

Swarnim Maheshwari: Got it, sir. Sir, does that suggest that because of the change in the mix of the borrowing the reduction in the interest cost is sustainable at about 2.7%, 2.6% level?

Rajeev Aggarwal: In fact, we are targeting further improvement on that. And that is further helped by reduction in the repo rate, which the RBI has announced two times. So apart from that, we will definitely have a lower interest cost compared to this year, at least by 20, 25 basis points is what I can expect.

Vimal Kejriwal: Swarnim, let me add to what Rajeev is saying. For the first time, or it's after a long time Rajeev has now been able to borrow at sub 7% for our AA rating, which is not happening for a long, long time, people only giving money to AAA. But we just finally came to know that we will be able to. Now people are coming and saying, boss we will have to give money to AA as well. So I think apart from what Rajeev said, I think the costs are going down. And as I mentioned earlier, fortunately, I don't know what else government has done, but at least on the payment front they have been able to push some of the PSUs. And luckily, we were there with those PSUs, like Power Grid, RVNL and all that. So what is happening is a lot of money is coming in which we have not thought will come so fast. So I think we are overall happy with the number, and I was a little bit concerned with your numbers. I think, Rajeev, our interest cost is 2.3% this year, right?

Rajeev Aggarwal: No. Our interest cost last year, Vimal, for FY '20 was 2.57%, to be precise. So we should be getting at least 25, 30 basis points off in FY '21.

Vimal Kejriwal: So Swarnim, we are talking about 2.3% for this year.

Moderator: Thank you. The next question is from the line of Sagar Naik from Equentis Wealth Advisory. Please go ahead.

Sagar Naik: So I had a couple of questions. So first one is, how much of the labor will be local for us?

Vimal Kejriwal: I don't think we have the number that way. Because except for states like Bihar and Jharkhand and Bengal, the three states where you hire, they are also not local in that sense. Like for West Bengal, most of the labor comes from Malda and many of them have gone. So I don't think we can talk about labor, local. But the factories would have roughly, I will say, 60%, 70% local people. So all the five factories put together would have, let's say, 2,000, 3,000 people. Out of that, maybe around 2,000, and these are ballpark numbers, would be locals staying around the factory. The people who come through contractors are normally migrant workers, all the people who are permanent on the roles of the company, like technicians, operators, etc., would normally be locals of the region.

Sagar Naik: Right. The next one would be, if you look at the balance sheet, so the capital work-in-progress has increased from Rs. 8 crores to Rs. 80 crores. So may I know the reason for this?

Vimal Kejriwal: Rajeev, I think it is the Dubai factory.

Rajeev Aggarwal: Yes. It's our Dubai facility, Vimal.

Vimal Kejriwal: Yes. We had acquired a Dubai factory. It's not yet operational, so it's in capital work-in-progress.

Sagar Naik: Okay. And you gave the update about the current situation that our factories are operational at 85% level. But what about April and May? I mean, how much was the loss due to the lockdown and what were the operations like at the site as well as factories?

Vimal Kejriwal: No, so when I say 80%, May generally the factories have been operating. I think we started the factories in a phased manner. The first we started was 12th of April in Butibori where they gave us permission to start dispatching. So it's difficult to quantify because what you should also understand one thing in the factories is they manufacture towers which we can outsource also, there is enough capacity available in the country. So as far as the factory output loss is concerned, I am not too much worried about it. If I am not able to make up from my own factories and from my Dubai factory, I can easily outsource it to other people. There are enough players with empty factories in tower manufacturing in India and Saudi. So for the quarter year, but if you had asked me for the annual year, for the whole year, I would say we will have zero loss on the tower manufacturing side in terms of volumes and revenue.

Sagar Naik: Okay. Yes. And just last one. If you look at the international orders, so historically the inflows have been around 40% to 50%. And for FY '20, it has dropped down to 22%. So can you give the reason? I mean, why have the international orders dried up? And what would be going forward in FY '21?

Vimal Kejriwal: So last year was a bad year in terms of international orders. Year before was much better than that, which is why this year we had almost a 20% rise in the international turnover. But as I said, the international order pipeline is very good. And a large number of the L1 orders which we have, I don't have the exact number, but I think close to Rs. 2,000 crores or whatever is number, you can take from Abhishek later on, is in international T&D. So I am very confident that this year, we will see a significant spike happening in the international order intake.

Moderator: Thank you. The next question is from the line of Amber Singhanian from Asian Market Securities. Please go ahead.

Amber Singhanian: I hope that everyone is safe and fine in the entire KEC family. Sir, just one question. You mentioned about the order pipeline of Rs. 35,000 crores to Rs. 45,000 crores. If you can just elaborate about the large tenders in that? And also TBCB, how much is there on the transmission and how much is on distribution side? Just some color on the entire pipeline, sir.

Vimal Kejriwal: I don't have the exact breakup. But what is happening is that right now there are around, if I am not mistaken, around 12 or 13 schemes which have been tendered out. Most of them are in

Rajasthan, three or four of them are in South and one is in MP. So all these schemes have been tendered out. And they are, I think, the due date for them is 22nd June for REC. So based on that, Power Grid has already tendered out and I think in the last 10 days we would have put in close to 30 to 35 bids in Power Grid in the long time. So I think overall, the scheme value would probably be around Rs. 20,000 crores, Rs. 25,000 crores. I don't have the exact number, but it is definitely in excess of or maybe at least Rs. 20,000 crores. Both lines and substations put together. Apart from that, there are tenders which are there right now in Tamil Nadu, in Gujarat, in Assam, Rajasthan is coming out with large tenders. So I think India is looking much better to me than last two years.

Amber Singhania: Okay. And sir these 12, 13 schemes of TBCB, bids will take at least six, eight months to come to you as a contractor, if it all comes or lesser than that submission?

Vimal Kejriwal: So Amber, these scheme are for 12 to 15 months completion by the vendor, by the TBCB developer. So my view is that, especially if Power Grid wins, I think by middle of July, end of July, we will have all the orders. So if REC does not postpone, REC tendering date right now is 22nd June, the target they have given is within 7, 10 days they will give the award. That's the scheme. If they give the award, in Power Grid we are already L1 or you are not L1, you know that. So you will get the award immediately because these are all 12 to 15 month schemes.

Amber Singhania: Sir, what is your status of the previous lot which has been awarded? I believe there was also the time line was 18, 20 months. So are those projects running on time, as such?

Vimal Kejriwal: I don't know. We have got a couple of them from Power Grid, so they are under execution. I think they most of them are on time. I don't have a track of physically what is happening on all the lines. But wherever we are working, I think they are okay. We have got I think two or three projects with Power Grid, one with Adani, I think they are working well.

Moderator: Thank you. The next question is from the line of Aditya Singh from Axis Bank. Please go ahead.

Aditya Singh: Sir, actually I was mentioning, I was going through the results, I saw in emphasis of matter, note #8, where we mentioned about regarding the delays in recovery of receivables of Rs. 148 crores from a customer, it was mentioned. So could you elaborate on that? I think last time you had mentioned about the Essel.

Vimal Kejriwal: So this is the same project, that continues as an emphasis of matter for the last, I think, two quarters or three quarters it has been continuing, there is nothing new about it. But I think as I said earlier, there have been pretty positive developments happening. Unfortunately, because of COVID, some of the regulatory hearings which were to happen for getting into a new owner have got postponed by some time. But those should happen. So if you keep a track of the CERC website, you can see the developments happening in this project. So let me put it this way, since the last call, I think we have moved definitely a few long steps, we are now pretty close to our resolution of this.

- Aditya Singh:** And sir, another thing was order book is Rs. 1,000 crores and Saudi from the Rs. 200 crores, that I mean you were monitoring closely. And I think you mentioned that due to the oil commodity fall, you were not actually expecting the orders to follow up.
- Vimal Kejriwal:** Aditya, I am not very clear on the question. You are talking about what, orders or what are you talking about?
- Aditya Singh:** I was talking about the orders, sir. I was talking about the orders.
- Vimal Kejriwal:** Orders from?
- Aditya Singh:** Sir, Saudi orders that you have mentioned, I think it was around Rs. 200 crores last time.
- Vimal Kejriwal:** So those orders are still there. I think one of them we have already received, one of them is an L1 position. So as and when it comes, it's okay, they are not very material orders for us. Rs. 200 crores is not a large amount.
- Moderator:** Thank you. The next question is from the line of Varun Ginodia from AMBIT Capital. Please go ahead.
- Varun Ginodia:** So my question is a follow-up on the last one on the acceleration side. Do you think you will need to take any provisions on that, because I understand last thing you mentioned there was no resolution at the end of 4Q, then you might be compelled to take some provisions on that particular project?
- Vimal Kejriwal:** So I think, Varun, as of now, with the developments which have happened, I think we are comfortable and our auditors, PwC have also been very comfortable that we don't need to take a provision on this. So we will wait for at least one more quarter. I don't think we will again have a provisioning requirement in next quarter also if nothing happens. But I think right now it's in a comfortable position. It is moving ahead in the right directions on the expected lines. Unfortunately, had COVID not happened, probably we would have got the regulatory approvals in place. So there are some regulatory delays which have happened. And I do hope that they will come through.
- Varun Ginodia:** Got it. And just one quick question, the last question. With the order breakdown that you mentioned of Rs. 20,000 crores to Rs. 25,000 crores for various lines and substations, I believe those are part of Green Energy Corridor packages, right? That's the last question there.
- Vimal Kejriwal:** Yes, yes.
- Moderator:** Thank you. The next question is from the line of Saket Kapoor from Kapoor and Company. Please go ahead.

- Saket Kapoor:** Sir, firstly, SAE contributed in a lumpy way better for the third quarter, so what was the performance from SAE? And going forward also, what contribution do you envisage for next year?
- Vimal Kejriwal:** So I think this was on expected line. We have said earlier that three EPC projects which they are doing had got delayed earlier and will come up for execution in the second half of the year. That is what is happening. So this performance will continue at least for the next two quarters till we complete these projects. And by that time, we think the new projects where we are L1 and we have an order book there, should also come into play. But as I said earlier, I do not see any significant growth or maybe there may be a slight de-growth in the SAE revenues in FY '21, also contributed by the depreciation of the Brazilian currency,
- Saket Kapoor:** Okay. Sir, on a rate of 1539 we may expect, so in translation it should happen?
- Vimal Kejriwal:** It can happen in translation, and it some of it can also happen in the execution, so there could be some de-growth, yes.
- Saket Kapoor:** But margins will improve, or gross margin will...?
- Vimal Kejriwal:** Very difficult to say at the moment. Margins definitely should improve from what they are today, they were pretty low this year. So I do expect that they will improve next year, yes.
- Saket Kapoor:** Sir, in the consolidated part, when we consolidate the numbers, what are the pieces that goes into consolidation? And where is this standalone, if you could throw the light?
- Vimal Kejriwal:** I think it is only SAE. Rajeev?
- Rajeev Aggarwal:** Yes. Largely, it is SAE, Vimal, only which goes into the CFS. Otherwise, our joint venture in Saudi and everything comes in the standalone number.
- Moderator:** Thank you. The next question is from the line of Rakesh Roy from Indsec. Please go ahead.
- Rakesh Roy:** Sir, my first question is, in terms of African business, can you highlight on our Africa business, the nature of business there and which type of projects you are taking from there? Is it government funded or a private funded or what type of projects?
- Vimal Kejriwal:** So all my Africa projects are either funded by multilaterals like African Development Bank or World Bank or something similar to that, or are funded by Government of India. We do not do any private EPC project in Africa. We do have a couple of tower supply orders which are against confirmed LCs.
- Rakesh Roy:** Right. Sir, my next question is for many states face finance stress now in domestic market, sir. Sir, the tender will come, definitely tender will come, can we see some stress on receivable or the delay in receivable from the state side in near future?

- Vimal Kejriwal:** So Rakesh, wherever the states are stressed or where we don't think we can complete projects, we don't bid. We are very clear. And the other thing what you have to see is that states may be stressed and all that, but for transmission projects they have been getting funding either from multilaterals or from REC, PFC. So normally what happens is, before we bid we see who is going to finance the project. And if only we are comfortable with the financier, we take up that project. So I don't see any significant thing happening on the state issues.
- Moderator:** Thank you. The next question is from the line of Jonas Bhutta from PhillipCapital. Please go ahead.
- Jonas Bhutta:** Firstly, congratulations on a decent set of numbers. I have two questions. Firstly, if you can help understand the sharp jump that we have seen in the employee cost and the other expenses. Because even if I were to add up the Rs. 500 crores to Rs. 600 crores kind of revenue slippage, and I am assuming that you have made expenses assuming that revenue was to come in, that still looks very high, both have increased by Rs. 100 crores on year-on-year basis.
- Vimal Kejriwal:** Yes. So Jonas, the reason is in SAE towers. Because what happened for the SAE, unfortunately there is no system of employing subcontractors. So on all the three EPC projects which we are executing, we have to take all the workers on our roles and execute. I would say almost everything which you see in the employee cost increase is on account of SAE employee cost increase. There is nothing else which is unusual in the employee cost, zero.
- Jonas Bhutta:** And this is just a follow-up to this. So when you expect SAE revenues to stay flat or decline next year, should we take a proportionate change in the employee cost or should we use this as a run rate going forward?
- Vimal Kejriwal:** 100%, it will come down, no question about it.
- Jonas Bhutta:** And my second question was, sir what we understand now, and please correct me if the understanding is wrong, is, the execution of projects in urban centers, is still very slow despite on paper, sites being opened, and while the rural sites are still sort of moving. So in that context, sir, shouldn't your T&D and railway piece do much better than the civil piece? And this is in context to your comment earlier in the call that you said you expect almost a Rs. 1,500 crores top-line in civil this year, given that lockdowns are still pretty much prevalent at least in the urban centers. Just wanted to hear your thoughts.
- Vimal Kejriwal:** So I would say you are partly right. But what has happened is, if you look at the urban centers, we have got, I would say, four metro projects in the urban centers. And the Kochi Metro got permission much before the lockdown was lifted. And the good part of it is that because roads were empty, we could do work faster. Delhi, the DMRC and RRTS project got the last approvals because of the prevailing COVID situation in Delhi. But right now, we have all the approvals. We are doing piling. In fact, someone from my office had Tweeted some pictures also of the project going ahead. So definitely there was a problem in the month of April, and I will say at least two or maybe three weeks of May. But after that the work has started and is doing well. So I don't think

it's too much of issue. In fact, what happens in T&D railways, because we are doing linear projects, you never know in 100 kilometers which kilometer you will get into a containment zone. So I have our cases in a project where I have not been allowed to work on one end of the project, but I can work on the other end of the project. We have got approvals in projects also section-wise, saying this part is in the containment, this part is not in containment, so we can work here. So it's very difficult to say what would happen. But as I said earlier, my railway ramp up happened much faster. So clearly the railway revenues this year or this quarter and all that should see a much higher growth than other businesses. But international T&D continues. So you will have revenues coming from international T&D.

Moderator: Thank you, the next question is from the line of Sandeep Verma from Axis Bank. Please go ahead.

Sandeep Verma: Sir, in terms of like current operational level, what would be the pre-COVID and post-COVID, what would be the operational level, sir?

Vimal Kejriwal: So I think we are right now operating at around 80% of our capacity.

Sandeep Verma: Okay. And in terms of GST payments, I mean, there were some delays in GST payments from the government. So how is the situation right now, sir?

Vimal Kejriwal: I thought it was quite comfortable. Rajeev, you want to answer this?

Rajeev Aggarwal: Yes. So basically, Sandeep, last year we have received quite a good amount from the GST receivable, particularly the amount which was stuck up on account of the exports that we had done and on the inputs we had paid the GST amount. So all those have been collected. And you will see in my balance sheet, there is a significant reduction on account of GST receivable from the Government of India.

Sandeep Verma: Okay. And in terms of your receivables position from Afghanistan project, how is the situation right now, sir?

Vimal Kejriwal: So Sandeep, I think our Afghanistan solution is pretty decent. In fact, the amount of money which we have got in the last seven, eight months from Afghanistan has been much, much more than what we got before. However, the AR levels remain at the same position because we had also done a lot of revenue there. So if you take a global view, our exposure to Afghanistan has come down significantly because our unexecuted order book has come down significantly. But to the extent of revenue, we have been able to get a lot of collections, and some of them are old retentions and all that. So to me, the quality of receivables has also improved significantly in Afghanistan, with most of the receivers being for the current projects, old projects being closed commercially and money is coming in.

- Rajeev Aggarwal:** And Vimal, just to add on Afghanistan. Despite the good revenue that we have done during the year, we have still reduced the exposure by almost Rs. 200 crores in terms of the bank guarantees and the collection of receivable.
- Sandeep Verma:** Okay. And sir, in terms of liquidity position, how is the current cash position and your unavailed fund-based working capital numbers?
- Vimal Kejriwal:** So Sandeep, I don't think we would like to talk on it on this call. But I can only say this much that we have a very comfortable position. I am saying very comfortable position on my existing limits and my new limits which many banks have been talking to us. We are pretty happy. In fact, right now, we are in negotiation with at least one lender to prepay some of the loans and all that to leverage interest. So I think we are very happy with our conditions on liquidity.
- Moderator:** Thank you. The next question is from the line of Saket Kapoor from Kapoor and Company. Please go ahead.
- Saket Kapoor:** Sir, the South African JV part, the reversal of order, could you explain what is the impact?
- Vimal Kejriwal:** Saket, we had a problem, a legal case going on I think for the last four or five years in South Africa. So that has been continuing, the exposure has been coming down. So in one court we are winning, then they appeal then they win and all that. So now it's finally reached the Supreme Court of South Africa. So there is some Rs. 50 crores, Rs. 55 crores outstanding there. So if we win we will get the money, if we lose then we will have to write it off. But it has been going on since years, and it will continue. To me it is a money which is due, it's an arbitration award. There was a dispute, there was arbitration awarded in our favor. So whatever was the awarded in our favor is this amount which we are carrying. So we are very comfortable that this is an arbitration award and which even when they go to Supreme Court, we will get this money. In fact, some of the money we have provided, so actually we should be getting more than what we have in the books. That is our expectation.
- Saket Kapoor:** Okay. Sir, and could you throw more light on the cable business and the order book there?
- Vimal Kejriwal:** In cable there is not much in the order book, the order book is hardly of three, four months. So I don't have the number, so broadly the order book for cable is around Rs. 300 crores to Rs. 350 crores. Because it's a product business, unless you have some EHV cabling orders which are there. But otherwise, I think we are okay. March was a problem. Because, again, March is a month where a lot of cabling orders come and a lot of cables get supplied. Unfortunately because of the lockdown we had a problem in the cable business. But otherwise, we are doing well. We have also spent some money, so we have done backward integration. So you will see a lot of product mix change, especially on the railway side happening from our cable business.
- Saket Kapoor:** So this decline will be recompensated in the first quarter itself?

- Vimal Kejriwal:** No, not in the first quarter, because all the CAPEX is now also were delayed because of the COVID. So all the equipments have now come in. So I think that the recompensation should happen from maybe August or September. September onwards it will start.
- Saket Kapoor:** And what will the contribution of EHV in our total cable business?
- Vimal Kejriwal:** We are doing up to 220 kv cable supplies and cabling also. So I don't have the number, but I think our total HV and EHV put together will be at least Rs. 300 crores, Rs. 350 crores. Rajeev?
- Rajeev Aggarwal:** Absolutely, Vimal, you are right.
- Moderator:** Thank you. We will take the last question from the line of Bhavin Vithlani from SBI Mutual Fund.
- Bhavin Vithlani:** I just wanted to take your views on the labour situation. There was a call by a large EPC company and it mentioned that over the last 10 days the workers at site have reduced from 70% to 10%, and especially the work in the urban centers have come to a grinding halt. So I just want to actually take your view and how would you divide your projects in India on the urban/rural? And are you actually also facing similar challenges like they are doing?
- Vimal Kejriwal:** So I do not know what has happened. Because Bhavin, if you look at our numbers, we had lost around 40% people around the lockdown time, after the lockdown happened and all that, when the mass exodus happened. After that, once the Shramik trains and all started, we started losing some 200, 300 people every day. That's 1% of our labor force. In the last three or four days, I am not seeing too much happening. There were some exodus because of Eid, people wanted to go and celebrate Eid, they are coming back and all that. So whatever numbers we are losing now in the last seven, eight days or 10 days, we are able to hire local people. So I will say that right now we have reached a plateau where we are not seeing people going. So I am quite surprised if someone is saying from 70% to 10% in the last one week or 10 days, we have stopped seeing any exodus in the last 10 days.
- And as far as your question about urban/rural, I don't have the answer right directly for you. But basically in urban we have got four metro projects. We have got a few residential projects where we have not seen too much of issue. All my metro projects are going on well, my residential projects. In fact, during the lockdown we have started two new residential projects. We have commenced two. And both of them are one in Bangalore, one in Pune, which are high COVID areas, okay, where we have got approvals to start new projects. And we have been able to get workers for those projects. So I think it's a matter of time that the worker issues get stabilized one day.
- The second is that I think we have to get used to the fact that we will have to work with lesser number of workers. And how do we increase productivity by replanning the work as with reskilling people, and as well as hiring local people and training them to do all this work. To me, that's the answer. And the next answer is, obviously, more mechanization and automation. That's the way

we have to live with this. I don't think there is any escape saying that 20%, 30% less people will work. At least four, six months the work will be less. But I don't think we are so much worried. I think there was too much of, I would say, inefficiency in the system. Today also if you see, if I want to use a batching plant in some of the government contracts, I have to go and take specific permission for that, 'Why do you need a batching plant, why can't you hand mix it'. That is the position. Now people are coming back and realizing that, 'No, we can't do hand mix now'. So I think that there are a lot of areas where mechanization can happen which was not happening, either because I didn't want to spend money or the client was not willing to do it. So I think this is what is happening on migration.

Bhavin Vithlani:

Understood. The second question is on the extra cost, given that the productivity has got impacted. So are your actual clients in agreement that they may give you increased compensation because of the standstill cost? And some of your competitors are talking about that there is a policy change expected that where earlier you could bill after the milestone is achieved, now they are saying that they are relaxing the milestone midway in the contract and there could be WIP related billings which can ease working capital, and that can compensate the cost, if not directly, through the cash flow. Are you also seeing some...?

Vimal Kejriwal:

So Bhavin, there are various things which are happening with various clients. I have not seen any clients coming back and saying, you can build WIP, I have not seen it, number one. But I will tell you what is happening, some of the clients have said that, let's say, somebody has given me a 10% advance, that advance is supposed to be adjusted from every invoice of mine. So some clients have come back and said that we will not adjust your advance. So you bill full and you take full money. So that is what we are giving the extra cash. Many of the clients have come back and said that whatever retention we are holding contractually, if you give us a bank guarantee, we will pay you all your retention monies, which is not contractually payable. So a lot of relaxations like that has happened on payment terms, etc. People have released retention, people have released advances, people are doing e-payments. So the time taken for the bills to be approved, transit and all that, that is going down. Costs are going down, my stationery costs have come down significantly because of e-billing,

So coming back to your basic question on reimbursement of labour cost, it's a million-dollar question. I don't have a single letter today which says that I will reimburse the cost. And I got 215 contracts right now ongoing in India. But what has happened is that there are many people who have come back and said that you take care of the labor because they are also aware with the migrant labor goes back, they may not come back and all that. So in some cases, people have given us money for the entire extra costs which we have incurred, with an understanding that as and when you raise rates, for the shutdown or for force majeure and all that, at that we will adjust this money. Others have given a formal letter saying that you please take care of them, we will come and talk to you. There are some times they have actually given us money saying that you give incentive to the worker not to go away. If they don't go away, we will pay you a bonus for the workers not going away,

So what will happen, Bhavin, is, as of today we are not sure what will happen, “*oont kis karvat bhaithega*” I don’t know. But there are all the clients have been behaving differently. But one thing I would say, most of the clients have been pretty benevolent about cash flows on the workers. So whatever amount we are incurring on the fooding, housing, this that and all that, most of the clients have come back and told us that if you need extra money for that, we will pay you that money over and above your bills, which we will define on adjusting at the end of the contract. Whether he will deduct my money in the end or will give me additional, to me it is a million-dollar question. But as I said earlier in an earlier question to answer to someone, that under the force majeure you may not get it. But under change of law there is a significant chance of getting this money. Because what you are doing is because of change of law issued by the Central Government. So there are very different views, and I am very clear that CII, everyone is talking to the government on that and something would come out from the environment on this piece.

Bhavin Vithlani: Understood. And just lastly, a housekeeping question. What is the interest bearing advances received and what is the rate of interest on those?

Vimal Kejriwal: I don't know. Maybe, Rajeev, you have an answer to this?

Rajeev Aggarwal: So I don't have the exact number, Bhavin. But normally, it is about 40%, 50% level of the total advances remains to the extent of Rs. 1,200 crores to Rs. 1,400 crores. So maybe Rs. 600 crores, Rs. 700 crores advance is interest bearing.

Vimal Kejriwal: I think, Bhavin, I would like to add one thing to Rajeev is, now most of the advances like PGCIL, PGCIL has now start giving advances at SBI MCLR. So in many cases we are finding that the advanced rates have been coming down. Honestly, if you ask me, I would have taken zero advance from the customers who are charging me interest. But what happens is that we normally take it because it is in a way a commitment of the client. Like what has happened in Andhra Pradesh, cancel everything, do this and that. So if the client has already cut a check, so although in many cases, advance rate may be higher, slightly 10, 20 basis points also, but still we take it more from the angle of committing the client, then from the interest cost or cash flow angle.

Rajeev Aggarwal: Absolutely.

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

Vimal Kejriwal: So as usual, a big thank you to all of you for continued interest in KEC. Thank you so much.

Rajeev Aggarwal: Thank you.

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