



“KEC International Limited Q2 FY 2017 Results Conference Call”

November 08, 2016



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*KEC International Limited
November 08, 2016*

Moderator: Ladies and Gentlemen, Good Day and Welcome to the KEC International Limited Q2 FY 2017 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 '*' then '0' on your Touchtone Telephone.

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 evening to you all and thank you for your continued interest in KEC. I am pleased to inform you that we have achieved an EBITDA of 8.07% and PBT of Rs. 100 crores for the quarter, an increase of 72.04% year-on-year; I think this is the first time ever that we have crossed the figure of Rs. 100 crores of PBT in a quarter.

Net revenue was at Rs. 2,121 crores, an increase of 2.7% and the EBITDA for the quarter was Rs. 185 crores, an increase of 22.05% year-on-year. Profit after-tax has jumped up by significantly by 132% from Rs. 28 crores to Rs. 65 crores.

We have also today announced new orders of Rs. 687 crores; with this, our total order intake for the financial year stands at Rs. 5,928 crores. This was almost 30% higher than the Y-T-D intake last year and almost 1.5 times the revenue for the year till year. With these orders of Rs. 687 crores, our order book now stands at Rs. 10,785.

In addition to this our L1 position continues to be strong and we have roughly around Rs. 3,800 crores plus of L1. If you add the two of them then we have almost close to Rs. 15,000 crores between the order book and the L1 positions.

We have been able to achieve a significant growth in our domestic order intake with orders close to Rs. 1,000 crores in the railway business and large orders from the private developers that is the TBCB owners in the T&D business.

On the international front, we continue to pursue our geographical diversification strategy and have secured order in Thailand and have a sizeable L1 position in Malaysia as well as in **Senegal**. With these orders close to 60% of our order book consist of domestic orders, the railway business order book which is currently at Rs. 1,200 crores continue to grow, and we are confident of scaling up our railway business to be a significant contributor to our revenues and profitability on the near future.

In the cables business, we have made significant progress in the backend by improving our design and production processes resulting in our cables becoming more cost competitive. We are now focusing on the front end by improving the sales mix in the cables business by targeting more business segments like the EHV cables.

On the balance sheet front, we have successful in deleveraging our balance sheet and also reduce our working capital requirements with greater focus on collections and AR management. I think there has been some concerns on the numbers which has been released because the 31st March number which was with you pre IndAS and the number which have come out of 30th September are post IndAS, I think we have tried to clarify that in Investor Presentations.

If you look at the significant AR recoveries in operating the first-half of the fiscal year with collection from Saudi Arabia itself close to Rs. 1,000 crores. Overall, we have been able to reduce our receivables by close to Rs. 500 crores and our gross debt, the debt and acceptances have come down by Rs. 300 crores. As far as Saudi Arabia is concerned, we have been complete four projects in Saudi in the last quarter and we expect to complete another three or four in the current quarter.

With all of this, we are confident of maintaining our growth targets on the back of our robust order book and a substantial L1 pipeline which is expected to convert into orders soon.

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

Moderator:

Thank you very much, sir. Ladies and gentlemen, we will now begin the question and answer session. First question is from the line of Ranjit Shivram from Antique Stock Broking. Please go ahead.

Ranjit Shivram:

Sir, just wanted to know this SAE the growth has been very good last two quarters but the order book is not increasing commensurate to that. So, in the second-half will SAE growth will take a shift because of this and how do you see the overall situation in SAE in terms of margins and profitability, if you can throw....

Vimal Kejriwal:

Let me answer the margin piece. I think we are very happy with our margins. Margins are I would say probably higher than the T&D what we are earnings in our normal business. So, I do not think we are concerned with the margin piece. As far as the order book is concerned, I think we have fairly decent order book of almost Rs. 1,500 crores in SAE. If you look at the revenue of SAE it is around Rs. 800 crores - Rs. 900 crores depending upon where the dollar goes and where the **Brazilian Real** goes and all, okay. So, we have almost a two-year order book in SAE. We have got more L1 positions also. So, I think we are not at all worried about SAE infact. Right now we are in a situation where we are probably refusing some order. See, you have to understand one thing, that SAE is a manufacturer and they do some EPC in Brazil

so, as a manufacturer I can only take that many orders as my plant can manufacture unlike an EPC where I can add people and take more orders so, I think that is the basic difference which is there. But overall, I think we are happy with the SAE performance and there is absolutely no cause of worry going forward.

Ranjit Shivram: Roughly what margin level if you can guide for some range also, it will be fine for SAE?

Vimal Kejriwal: Difficult to give margins but as I said, may be 10%-12% on EBITDA level should be easily achievable that is what we are doing.

Ranjit Shivram: Okay. And sir, another thing is that this railway orders are increasingly becoming a bigger portion of your order book. So, going forward will the overall margins be impacted because the railway margins are relatively lower compared to the T&D is that understanding right or is the railway margins are also equivalent to T&D?

Vimal Kejriwal: See, Ranjit the railway margins are moving towards the T&D. I think the difference today is marginal may be 50 basis points to 75 basis points at the best. Second piece is that with the business expanding, the overheads the absorption is becoming easier and faster so, I do not think going forward at least may be from the next year onwards to me the railway margins should be almost reaching T&D. We have got may be 25 basis points. So, I do not think railways will sort I mean anything is driving down the T&D overall margins it is not correct, I think railways will be at the same levels.

Ranjit Shivram: Okay, sir. And I missed out on that initial comments, was there any guidance in terms of growth and margins?

Vimal Kejriwal: There are no guidance, we said that we expect to maintain what we have said earlier.

Ranjit Shivram: So, can you just like you said kind of 5% to 10% growth and 100 basis points margin improvement you said what we are ...

Vimal Kejriwal: We have not said that, what we have said earlier was that last year we had done 8% this year we expect to 8.5% and on the top-line we have said 10% growth over last year. So, we are saying that we expect to maintain that.

Moderator: Thank you. Next question is from the line of Ravi Swaminathan from Spark Capital. Please go ahead.

Ravi Swaminathan: Sir, just on the T&D front, there has been a lot of reverse bidding that power grid and other players might look at. Can you just touch upon, how that is happening will it have an impact on in terms of ordering and margins across the market and...

- Vimal Kejriwal:** Sorry, Ravi I missed, what did you say on the T&D?
- Ravi Swaminathan:** On the reverse bidding that power grid is planning, what is your views on that and is it currently being carried out and what would be the impact on say ordering and margins at the market level and for KEC?
- Vimal Kejriwal:** See, Ravi, as far as whether power is doing they have been doing for last one year, okay, so it is already impact us they have their clause for all tenders, they have an option of whether they want to excise it or not, okay. So, sometimes they do it sometimes they do not do, depends upon whether their pricing is within their range or not, okay. Whether it impacts our margin or not, I am not very sure because ultimately when we have also participate in the reverse bidding we will also ensure that we still maintain our margins and that is what you can say for some of the projects which you are seeing now our projects which we have won in reverse auction. In fact, for your information with the TBCB tenders are now going on the reverse auction. But one more change which power grid is probably is doing sometimes and I think they are looking at is that they are now making tenders sort of about what they call EPC whereby they are asking contractor to supply conductor, insulator, hardware and all instead of segregating what they were doing earlier. So, most of the large tenders which we are now seeing from power grid are actually becoming composite tenders as against what they were earlier where the job values are very small. So, now the values are becoming larger.
- Ravi Swaminathan:** Okay. And from perspective of SEBs are they also likely to follow similar processes like power grid? Are they already doing it, how was it?
- Vimal Kejriwal:** SEBs I am not aware except one SEB which is Gujarat, Gujarat is one of which does reverse auction but they do within one hour of opening the price bids, okay. More other SEBs I have seen them following a reverse auction and at least none of us have, we are not aware of anyone thinking of doing it.
- Ravi Swaminathan:** Okay, got it. And in terms of pace of ordering from SEBs how are you seeing it vis-à-vis power grid? Are they approaching the pace of ordering which power grid is doing? Are they increasing it and which are the states which are doing it currently, if you can share?
- Vimal Kejriwal:** I think that SEB order is far ahead of power grid, okay, power grid I think is today pretty behind the queue, I think they have done a lot of good work already on setting up the interstate network. So, very clearly except the large Pugalur mine which will come up as and when they get out of their court cases. We are not seeing too many things coming out of power grid on the TL substation side are coming out with orders. Whereas, SEBs with the pressure of the interstate lines being there and availability of low price power I think SEBs are under tremendous pressure to distribute road power and clearly, we are seeing specially from the south Karnataka, Tamil Nadu, Andhra, Telangana, then Rajasthan, West Bengal, these are the states where we are very clearly seeing a large number of tenders coming out.

- Ravi Swaminathan:** Okay. And are these upgradations of lower Kv lines or is it like new lines that...
- Vimal Kejriwal:** Most of them new lines most of them are upgradation, some of them are 765, 400 GIS substations they are not upgradation they are actually new lines.
- Ravi Swaminathan:** Okay, got it. And in terms of solar, we are seeing a healthy traction in those projects. And what are the projects which are there in the pipeline large orders if someone like NTPC giving out orders for this? And technological capabilities we have last time we had one sizeable order in solar for single access tracker. So, can you throw more light on it?
- Vimal Kejriwal:** So, Ravi today there are no large orders in the pipeline, I think the problem is that most of the discoms are sort of shying away from signing more PPAs because solar even the best price today was having 440 or something like that. Today if you look to the total Twitter account of Piyush Goyal he saying at Rs. 2 or Rs. 2.10 you got power available so, because of that I think we are clearly not seeing a great interest in solar at the moment, unless government takes more steps or putting renewable power on the merit order somewhere 1st or second in that and they force the states to purchase that, we are seeing some slow down happening, I think the last NTPC tender was, it is not finalized there I think a reverse auction, we were not there in that. But apart from that we have hardly seen any large tender coming out, I think the **SunEdison** and all there is some role in people stepping back a little bit. So, I am not seeing immediately large tenders coming out but the government has got huge plans. So, I do presume that it is a matter of time that again this starts.
- Ravi Swaminathan:** Okay. And in terms of the single access trackers etc, these are slightly, they involve technology, right, in terms of executing. Do we have any technological tie up for this or how is it...
- Vimal Kejriwal:** What happens is that for each side we decide to look at the areas, to look at the availability and then decide which trackers are the best. The last one which we did was 27 megawatt which is single tracker and which is working very well but it depends there is no point in tying up with one particular supplier that is the advantage of manufacturing not having a technology, you can go to the best available which suits you for that particular project.
- Ravi Swaminathan:** Understood and in terms of debt reduction what is the target that we have, do we have any internal targets for debt reduction, we do done quite a good job in the past six months.
- Vimal Kejriwal:** I will put it slightly differently, I think Yes, our AR days is probably 220 or something like that so, I think our target is that we reduce that to 180, I think we are looking at, rather we are looking at a debt reduction target. We are looking more at you know saying how do we control our ARs and that is the target which our business themes have, okay. But clearly, this quarter if you see from March we are around at Rs. 500 crores almost, slightly more than Rs. 500 crores in terms of the AR.

- Moderator:** Thank you. Next question is from the line of Bhoomika Nair from IDFC. Please go ahead.
- Bhoomika Nair:** Sir, when you mentioning that 10% growth for the year and given that we are pretty much flattish in the first-half which means in second-half we will have to see a very sharp revenue momentum. So, where will this really come in from?
- Vimal Kejriwal:** Bhoomika, first of all let me say we have been charitable, we actually de-growth in H1, okay, slightly lower than last year but actually it was high then my budget internal budget. Actually, the way we had budgeted, we had budgeted in that way that our first-half would be slightly lower on revenues and that is what I was telling that Board today although it is lower then what last year but it is better then my budget. Very clearly that was planned considering the sort of orders which we had. If you look at the order book we have close to 1,500 or 1,700 of substation orders, if you look at substation orders, they take almost six months to seven months for designing etc and the equipments come in. So, that is creating a lot of lumpiness in our business, I think that is the basic reason why we are seeing a little back ending of our execution then what we see every year, number one. Number two, I think our first-half order intake has been pretty good and we are very clearly seeing that execution now happening. So, we are pretty confident that you know, and again I will say that Q4 would obviously be much-much heavier, Q3 would still be I do not know what the number which will happen but it is still the way the budget is planned and the way we are looking at each of the orders, I think we are now starting to see. But we are very clearly that 10% is within our grasp.
- Bhoomika Nair:** Okay, that is comforting. So, the other part is in terms of as you said railways is becoming a large part, you are doing a lot of initiatives on cables to improve margins so, in this quarter we have seen a very sharp uptick in terms of margins as well. So, do we see with railways cable and other new segments starting to drive a lot of momentum that margins will actually can go upwards of 8.5%?
- Vimal Kejriwal:** For this year or next year?
- Bhoomika Nair:** Next year, I mean this year, if you can comment on both it would be great.
- Vimal Kejriwal:** Next year it has to go up, there is no doubt about it, okay. Next year we were already taking about 8.5% to 9% so, I do not think we should be delivering less than nine next year. But this year we are already at 8.6% for the half-year. And with a strong back ended execution if we are able to achieve what we are have been taking about, my view is that we should be able to improve from our guidance, okay. But being still very conservative I would still stick to my guidance of 8.5% but I think considering that we did 8.6% in H1 we should be easily be able to maintain it if not better it.

- Bhoomika Nair:** And this would despite railways and cables which are, cables you touched upon, or railways you touched upon and margins are trending closer to the 8% - 9% or what T&D margins are; but what about cables now?
- Vimal Kejriwal:** Cables is positive on the EBITDA front but it is still negative on the PBT, okay. Our target is that by year end it should become positive that PBT level and should become PBT accretive from next year onwards. But it is still the only good thing I am saying in cable is that the copper prices start going up and aluminum already gone up. I think the problem we have with cable is that because of the low metal prices over the absorption was always a problem. Now with aluminum going up beyond Rs. 1,700 and copper now almost touching Rs. 5,000; we do expect that from may be in this month end of December onwards the prices will start, the sales realization will start going up because of this apart from the steps what we are taking, okay. So, hopefully we should see something kicking in even in cable in Q4 itself that we are putting up cost on that.
- Bhoomika Nair:** Correct, okay. So, the other thing was in terms of SAE, you know we have seen a very strong momentum in both in terms of backlog or in terms of new orders is also revenue so, if you could just split between what is happening in Mexico and Brazil and what is driving this strong kind of orders how much is market growing, what has happened to competition. We had pain factor last two years.
- Vimal Kejriwal:** See, I will give you a broad idea, in Mexico I think we have a plant which is now full for the year for the financial year, we have already have got a lot enquiries going forward. So, Mexico per say and I think the reason as you rightly said this competition has also come down because Jyoti plant is closed and the **Abengoa** also gone into Chapter 11 so, their plant has also closed so that is one piece. The second piece is that the actual demand is going up. So, that is what is happening and we have also our plant is running full we have been able to again look at our overheads, etc. so, I think today both the plants are making money. Brazil has got a large order book. I think it is probably more than two years in Brazil now and we are seeing recently there was a large auction which was much more successful then what the earlier auction. So, clearly we are seeing interest in the Brazilian market coming back from the developers and the banking system and which is also evident from that fact that the Brazil reais sales stagnant from 4.01 to almost in fact 3.15 and interest rates have come down from 20% to 14% - 15%. So, our market is clearly picking up there, the volumes are there and as I have said two years order book there margins are pretty decent I would say right now even better the then the India margins. So, I think overall I think it is doing a good job.
- Bhoomika Nair:** Okay. So, just lastly on Saudi what is the outstanding once we complete these projects what is the kind of retention money and receivables in Saudi.

- Vimal Kejriwal:** I think I do not have the figures but is around Rs. 1,000 crores or something I do not have that number
- Rajeev Aggarwal:** Bhoomika, total AR would be close to about Rs. 1,000 crores but retention would be about Rs. 400 crores to Rs. 500 crores. We are closing the project I think last quarter we closed about four project so, those retentions will be build it normally takes three months to four months to close the projects.
- Bhoomika Nair:** Okay. So, this will help in insuring the receivables days basically come off over the next six months - nine months?
- Vimal Kejriwal:** Yes, definitely, I think the immediate impact would be next quarter, as I said it takes three months to four months to realize our retentions. So, now the project which we have closed we are billing them and all that so, a lot of things happen on closure. I think the good part is that a lot of money is flowing in from them, okay.
- Bhoomika Nair:** So, is this the reason why we are saying that receivables can come up from 230 days to say 180 days because I do not think so receivable cycle would have changed for our India operations.
- Vimal Kejriwal:** I think Bhoomika, 180 days is a target which we have irrespective of Saudi. We are saying that we need to have our receivables at 180 days. Okay, Saudi will definitely help because as Rajeev said, if I get Rs. 500 crores of retention in that case that can help. But I think the other reason why we are looking at is we have been talking about doing a faster execution of projects and that itself is cutting down my receivables and all that and that is the basic reason.
- Bhoomika Nair:** So, if I were to ask you differently, in a different manner that say if you were to execute a project in India or any other geography for that matter typical, if you were to execute on time what would be the typical receivable cycle then on a project?
- Vimal Kejriwal:** Receivable cycle in what sense?
- Bhoomika Nair:** I mean a number of days once you complete the project it would be 180 days or it would be lower?
- Vimal Kejriwal:** See, ideally, you got an project that start executing normally, would be 90 days to 100 days but once you start adding up the retentions and all that is where the 100 days starts becoming to 180 days and 220 days and all that. But for a typical project, for an 18 month project for the first nine months to 12 months the receivable would be less than 100 or around 100.
- Moderator:** Thank you. Next question is from the line of Aditya Mongia from Kotak Securities. Please go ahead.

Aditya Mongia:

Sir, wanted to discuss slightly more in the margin profile for the company and wanted to focus more on T&D and again data limited to PGCIL over here but typically if we see the past few years they have fairly good for us in terms of competitive intensity having come down. But recently one has started again competitive intensity increasing and let the top four players now account about 45% share of the entire PGCIL market, something which only seeing in FY 2012 and in earlier years. Do you see that kind of playing out for you in terms of margins declining on the T&D side incrementally?

Vimal Kejriwal:

I do not think, I am seeing that, I think Aditya if you look at PGCIL itself, the importance of PGCIL is coming down and that is what we should keep in mind. I know four years or five years back in India PGCIL was 70% to 80% of my business. Today, I think it has come down to probably 30%-35% so, that is one thing. Second thing what I said was PGCIL is now combing the orders back saying you need to supply conductor, you need to supply insulator because they have realized that by breaking up the orders they have lost a lot of, they had a lot of delays and also they need to increase their man power and coordination and ordering and all that. We were talking to Power Grid and they said that if we give the conductor, insulators to you the number of orders which they issuing has probably come down by 20% to 30% imagine the cost saving which they can do. So, that itself is you look at the TBCB one which we recently won the other orders they are all Rs. 600 crores each. So, I do not think that part is correct saying that the competitive intensity is going up in that sense, it may be going for smaller orders, for the larger orders which we want to do, I think the competitive intensity remains where it was. The second piece is that if you look at what is happening in the overall T&D market, the larger order are now coming from the TBCB player which is Sterlite, Essar and Adani, everyone else of these three players and which is where I think what we are clearly seeing is that these guys have burned their fingers and all that, when they earlier broke it up give it to smaller players and all and we are seeing them also going up going back turning a full circle and coming back and saying that why do you start doing EPCs and all that. So, I do not think I am that much worried about either my margins or my growth in India. And the largely states as I was saying earlier the number of orders which are coming out from the states I think the problem with the state is obviously the working capital and which is where the competitive intensity is much lower because there are very players who can pick-up a Rs. 500 crores order and execute it for one year and not get any money out of the same. I think we are overall happy with the way the domestic market is panning out.

Aditya Mongia:

Sir, if you were to kind of split the market this is again domestic T&D I am talking about with TBCB states and would it be one-third right now?

Vimal Kejriwal:

At this time states more than base actually, okay. TBCB we will look, but right now the first bid is now due on I think 12th of December so, let us see what happens because most of the TBCB orders have been already been placed. So, now once you have this one bid then it

almost takes probably seven months to nine months for them to start placing orders. So, I think the next 12 months I will probably see states placing more orders than anyone else.

Aditya Mongia: Okay. So, you are saying that whatever orders were given to let us say Sterlite, Essar, Adani all have been **giving** orders to someone or the other?

Vimal Kejriwal: As far as I know Essar has one large order to be placed that is the only order in the market, rest all have been placed.

Aditya Mongia: Okay. So, the second question was more on the international piece, I recall discussing with that let us say revenues in terms of execution international pieces not going to report good numbers in FY 2017 and now one realizes that in terms of order inflows incrementally most of coming from the domestic piece and this in some way there is contrary to at least my view that you are diversifying across countries beyond Saudi in let us say Egypt, Indonesia, Malaysia, Philippines, are we seeing any slowdown in activity overseas at this point of time?

Vimal Kejriwal: I think what has happened Aditya is unfortunately, most of the international orders are right now at L1 stage. If you look at our L1 order now we do not give too much break-up of that but the international orders or L1 position is probably more Rs. 2,500 crores of Rs. **3,800** crores. So, I think it is a matter of time that within this month or by before December end my international order book will actually shoot up. You say, you take Egypt, you take Malaysia, all of them I just mentioned Senegal, okay. So, many of them are in stages where some of them should come anytime. It is somehow as I said unfortunate that the orders have got delayed because most of them are multi-lateral funded so, they do take their own time to award them. So, I do not think we are worried about it geographical diversification Yes in Saudi we have because of those slow down and all that we did consciously said that let us look beyond Saudi. So, I think we are happy with that.

Aditya Mongia: I also last time that you had this Analyst Meet you talking all posters coming out for the company incrementally and that which is at the back of our mind which is the concentration of business in Saudi. Is that still a risk that you keep on monitoring or is it receding...?

Vimal Kejriwal: No, we always keep on monitoring risk, even today Saudi is my largest country after India even today, okay. So that risk is always monitored but as Rajeev said that we have collect almost Rs. 1,000 crores in this year, projects are getting completed so in terms of financial risk and all that it is concentration is coming down. Secondly, what we have clearly seen is that we have not slow down a single project in Saudi, okay. The client has not asked for slow down, the client has a tender pipeline, so, what we are very clearly seeing is that whenever they have to spend money they have money to spend, okay. What has changed in Saudi earlier you are building lines which were going nowhere, you are building and you look at the desert and say later something will come here. Today, the lines are specific for these specific requirements,

there is shortage here, here power plant is coming, we have to do system tendering, that is how the basic the profile of the geography has changed.

Aditya Mongia: And the last question would be on your view, you're thinking behind whether KEC would be interested in bidding for Jyoti Structure? Thank you.

Vimal Kejriwal: Sorry, come again.

Aditya Mongia: For Jyoti Structures in case KEC would be interested in basis of your thought process 300?

Vimal Kejriwal: Yes, it is always good in studying competition, what is loss in that.

Moderator: Thank you. Next question is from the line of Abhijith Vara from Sundaram Mutual Fund. Please go ahead.

Abhijith Vara: Sir, my first is a reduction in interest cost, is this because of interest rates coming down or was there a one-off in this specific quarter?

Vimal Kejriwal: I do not think there is a one-off in this quarter, there is some impact of the industry is coming down because our rating has also gone up and all that. But I will that the impact is more on the reduction of debt because if you look at our overall numbers between the debt and acceptances from March to now we have got a Rs. 300 crores reduction. I think it is basically because your overall working capital is down that is why the reduction has happened.

Abhijith Vara: Okay, sure, sir. and the difference between gross debt given in the presentation and annual report is because of IndAS?

Vimal Kejriwal: Yes, IndAS it is unfortunate but that is the way the IndAS has bloated the balance sheet significantly. But the actual numbers when you compare from post IndAS in both the scenarios it has come down by Rs. 300 crores.

Abhijith Vara: Okay, sure. And secondly sir, this margin I know you dwelled on much detail but just one thing I wanted to clarify this 8.7% improvement compared to year-on-year and sequential also is mainly because probably railways inching up towards T&D margins and railway contribution increasing in the overall revenues.

Vimal Kejriwal: I will say it is slightly different Abhijith. I think it is because we did not have the negatives which we had last year because last year with our businesses we had some negatives in railways and in SAE. So, SAE has become positive, the margins are in line with T&D and railways is no longer losing money. So, the negative which was there last year has gone away T&D continues to make its usual margin, okay.



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- Abhijith Vara:** Okay. One last question in your order booking which you have given out in the presentation, this includes orders after Q2 as well?
- Vimal Kejriwal:** May be one or two, so, it is very less.
- Moderator:** Thank you. Next question is from the line of Jonas Bhutta from PhillipCapital. Please go ahead.
- Jonas Bhutta:** I had a couple of questions. Firstly, on SAE, there has been a very smart reduction in the RAWMAT cost quarter-over-quarter so, which moved from 55 odd percent to less than 50% of sales. For a product company as you mentioned that SAE is largely a product company. What would you attribute this sort of improvement is it largely sales mix led or if you can just throw some more light on that?
- Vimal Kejriwal:** Jonas, from where did you get the figure of SAE, I do not think we have given SAE figures of raw material and all that.
- Jonas Bhutta:** So, effectively sir, when we do the consolidated minus standalone, there if you see because now that Saudi JV is now console is part of the standalone entity so the remainder is effectively SAE. Correct me if I am wrong...
- Vimal Kejriwal:** You are absolutely right.
- Jonas Bhutta:** So, then if you can just answer that piece of the puzzle that there is a 500 basis points of improvement in RAWMAT cost.
- Vimal Kejriwal:** No, I think the reason for that will also, I do not have the exact reasons so, I cannot give a straight forward answer, but what I am guessing is that in Brazil, we had a lot of revenues from the EPC business where the raw material cost is much lower because there is a lot of labor and construction fees. And second piece is very clearly in Mexico and all that, it is actually a margin increase. To me I think the margin has swung probably almost 15% from last year. So, that 15% is effectively most of it has come from the top-line increase, the price increase which is well what has happened.
- Jonas Bhutta:** So, until this base impact sort of which you had a low base impact until Q2 last year so, this is the last quarter of that base impact so, should we assume that this kind of RAWMAT to sales ratio may not continue for the next two quarters of the year?
- Vimal Kejriwal:** See, but let me just explain one piece on the raw material, I do not know the SAE but if you look at the company as a whole, what happens is that it depends upon the way we do on contracting. I will give you an example, if I do a simple labor contract then my cost will go into my labor fees, but if I give the same contract along with raw material, so, it changes then

the whole go into subcontracting otherwise it is only labor contract with the cement steel and steel and everything goes into the raw material cost. So, I do not think it is a right way to take out our raw material cost and compare in a company like ours, so, that the raw material cost can vary the nature of contracting which I do. And sometimes what happens in Saudi and all other countries I may give a contract will include material supply also. If I do not give it that and I do the material supply then my RM cost goes down the subcontracting cost goes down. So, today the right way to add up all the three including employee cost also because what happens is, let us say I will give an example, in Abu Dhabi I decide to use a subcontractor the entire process will go to subcontracting, if instead of that I decide to send 500 people on my visa fare. So, the entire cost of those 500 people will go into my own employee cost. So, my suggestion would be to add all three of them always together and look at them and then see if there are any sizeable changes in the three items put together otherwise it will give you misleading results.

Jonas Bhutta:

Got it. And second was on the other expenditure which on a year-on-year basis has sort of reduced by (+30)-odd crores to Rs. 238 crores so, this is because of a high base last year or this is the base that we should be working with more like Rs. 240 crores on a quarterly basis. The question is there something that we should read into this quarter's other expenses?

Vimal Kejriwal:

I do not think there is anything to read into this quarter because basically last quarter we had some extra other costs and all that which are not there similarly other items which have been like, I will give an example, if I am dispatching to Tanzania from here. So, the freight cost is so high it is not that if I am dispatching to Dubai so, the mix also keeps on so, many of the items goes there which are related to the location and all that. There is a freight cost, there is a commission paid, there are so many other items which go into that piece. I do not think there is anything significant to read into that.

Jonas Bhutta:

Okay. Sir, my third question was on the railway business. The bulk of our orders that we have won so far have been largely for overhead electrification, only one large composite order which included the civil track laying. So, there is a material difference in the execution timelines for an overhead so, if you can just sort of highlight what is the average execution time line for an overhead electrification job versus a cycle track laying job in railways?

Vimal Kejriwal:

Today the railways most of the jobs are from 36 months to 48 months that is a normal timeline. Clearly, you can do an OHE job much faster, if it is on a sector which is not with a very heavy traffic because what happens is that when you are doing an OHE you have to stop the railway traffic. I will tell we are still doing a job on the Pune section and there the train going virtually every minute so, that job has taken us four years because the railways are not just able to give any shutdowns or they have to shut down the Pune-Miraj section and all that is a nightmare. They will give you shut down for 10 minutes and then say do your work in 10 minutes, the next train is coming. Whereas, if I have to go in our whatever sector we have won let us say I

got job in Ajmer-Rani, in Ajmer-Rani every day five trains goes there. What happens is the amount of shutdowns which we will get and the amount of working hours we get is very different. Some of the OHE jobs we have done actually in 12 months also some pieces which railways want urgently. Honestly, railways OHE done in 12 months to 15 months if we get un-interrupted work front.

Jonas Bhutta: Okay. So, sir when you say that the average execution timeline for rail projects should be 36 months to 48 months which is slightly higher or higher than the traditional T&D business then in absolute terms would not your working capital sort of increase rather than going down. I mean because for the Rs. 100 of jobs that you will do effectively we will take nearly four years to complete that entire project and recover that money against T&D job which you will recover in say 20.

Vimal Kejriwal: I will be spending that money over four years.

Jonas Bhutta: So, the payment cycle is more or less the same?

Vimal Kejriwal: I will say railways probably slightly better because railways I have never faced that cash issue in railways, the moment the invoice is approved by the railways, okay payment is done immediately. Railways does not have a cash flows or any other issue. They may have an issue of budgeting and all because they have budget for the project or not but once the project is approved then I have not seen a single railway project having a problem in payments.

Jonas Bhutta: And so, what is the advance scenario in railways so, do they give an interest free advance?

Vimal Kejriwal: No they do not give interest-free advance so, normally they do not take advance from railways because I think they charge some 13.5% or something plus you have to give a bank guarantee. So, the effective cost goes beyond 15% so, railways we do not take advances.

Jonas Bhutta: Got it. Just two book keeping questions. Firstly say, if you can help us give us this geographical break up of the order book that use to historically give between India, East Africa, MENA, SAARC and stuff. If you can just broadly sort share those numbers.

Vimal Kejriwal: No, that is already given in this.

Jonas Bhutta: It is just given international versus India so, just hoping to get a slightly more granular...

Vimal Kejriwal: Just speak to Rohit, he can give you better idea.

Jonas Bhutta: Sure. And the last one was sir, if you can help reconcile the gross debt number that you have given in the presentation of about 3,124 versus the annual report which was 2,500 so, what gets added as per IndAS is what I wanted to understand.

- Rajeev Aggarwal:** So, basically, what has happened in that as per IndAS such as buyers' credit, PO funding and receivable reporting which is with recourse has come in as a corporate debt which was partly off balance sheet or which was classified as a part of the creditors so now they are sitting as borrowing line item and so, that is the basic change if you compare to the old Accounting Standard and IndAS.
- Jonas Bhutta:** So, effectively the Rs. 600 odd crores increase in gross debt we should just attribute entirely to this off-balance sheet items which have come now on-balance sheet.
- Vimal Kejriwal:** Not off balance sheet they were lying most of them were lying in some other heading and all that, okay like an LC bill how we call it bill discounting, etc.
- Rajeev Aggarwal:** It partly was off balance sheet and partly was on balance sheet but is not going in the head of the creditors. So, from creditors it has moved to the borrowing.
- Moderator:** Thank you. Next question is from Saket Kapoor from Kapoor & Company. Please go ahead.
- Saket Kapoor:** Sir, you were talking about the cable business turning positive down the fourth quarter, what has been the losses from the cable part for the first-half sir, and comparative figure for last year also, sir?
- Vimal Kejriwal:** I do not have the exact number but as I said that we were EBITDA positive, I think it has 4%-5%. PBT would be negative because we have new plant so, there is a huge depreciation and interest charge. I will ask Rohit to give you the exact numbers of it.
- Saket Kapoor:** But sir, going forward what is the incremental business we are expecting, sir? I mean how will be that cable business contributing going forward.
- Vimal Kejriwal:** In cable business, I think the basic issue what we are having is that there were not too many EHV orders, the higher margins come from your extra high voltage order then for some strange reason this last four quarters, we did not see too many EHV orders coming in. Secondly our EHV plant started running two years back so, now we are just completing all our PQs and all that. So, whatever orders were there somewhere we were still able to get a large chunk of it. I think we are doing a lot of action on that, so that is one thing. The second piece was the orders are coming in from the solar business, solar cable is hot selling item and we are trying to see if we can do something about how to sell more of it in terms of our capacity and all that can be switch over some of the machines to do solar, etc. So EHV and solar would be two items which would contribute to the top-line as well as bottom-line.
- Saket Kapoor:** Sir, in turnover sense could you give some sense what kind of turnover will be attributed to the cable business itself?

- Vimal Kejriwal:** Turnover see, Saket will not increase too much because the manufacturing capacity is limited but the thing is that EHV pricing obviously is much higher and I think if you heard my opening part is the drop up prices are going up and aluminum prices are going up. So, the turnover increase will actually happen much more from the metal price increase, than the volume, what is there in the volume, I think we are doing about 900 - 950 we may go up by Rs. 100 crores, okay. Cable will not have too much of a revenue increase on account quantity because the plants are already running 80%-90% so, I do not see they are running too high but price increase can happen only from the commodity piece and whatever else value addition we can do by shifting to a higher value product.
- Saket Kapoor:** Margin addition will come only from value addition that is what you are...
- Vimal Kejriwal:** Margin addition will come from value addition specifically by selling more of EHV products.
- Saket Kapoor:** Right, sir. Sir, reduction in finance cost has been the key point also for this number. Now going forward sir, it is generally the trend that quarter four is the highest quarter in terms of the revenue booking. So, this year also sir, we will expect quarter four to be the largest quarter or is there any shift in the billing pattern?
- Vimal Kejriwal:** It is always there normally 40% of our revenue come in quarter four.
- Saket Kapoor:** 40%?
- Vimal Kejriwal:** Normally, I do not know this quarter what was happened, normally if you see the past years we used to have 35%-40% it happens. So, let us see if some items do not go in December, then it will go into January and all but broadly I will say that way.
- Saket Kapoor:** But sir, finance cost, how will finance cost pan out sir, going forward?
- Vimal Kejriwal:** Actually, better because we just got a rating upgrade our interest cost are going down, so, to me finance cost should be less than 3% that is what we are targeting that you know overall, interest cost should be sub-3.
- Saket Kapoor:** Sir, last question. Sir, are we having EMCO Limited also as our customer, will we do any work, EMCO, yes, sir.
- Vimal Kejriwal:** EMCO we keep on talking about buying transforms and all that, I do not know, I do not have honestly an idea whether we are buying from them or not but they are a transforming manufacturer and we do buy transformers. We take from them or not, I do not have answer of that.

- Moderator:** Thank you. Next question is from the line of Devang Patel from Crest Wealth Management. Please go ahead.
- Devang Patel:** Sir, you mentioned earlier SEB orders are now much larger than PGCIL orders, could you just give a ball park idea where the ratio stands today in the first-half order inflows?
- Vimal Kejriwal:** Devang, margin it is not available immediately but in ball park I think now, if I take a ratio of Rs. 100 crores then SEB would probably be around 40 or something, 40-30-30 I will say 40 of that, 30 of PGCIL and 30 of your private. But I am not having exact number, I may be wrong slightly here and there but net-net it will be that.
- Devang Patel:** So, the impression I got is the SEB orders are much larger then PGCIL orders 2x to 3x.
- Vimal Kejriwal:** No, that is happening because when you look at the pipeline today why this has happened is because we have got a Rs. 600 crores from Power Grid, I think in April or May for Vemagiri so, that one order has sort of vitiated otherwise Power Grid business has been slightly on the lower side.
- Devang Patel:** Okay. But generally, the market opportunity that you have been speaking about earlier also, is that SEB orders will be to the magnitude of 2x to 3x or what power grid orders are or CAPEXs annually at Rs. 20,000 crores - Rs. 22,000 crores.
- Vimal Kejriwal:** I think the way it is looking today, you are right, because I am not seeing if you go to Power Grid website also, I am not seeing too many orders coming in although when I met them last time also they made a statement that 50,000 megawatt is going to commission now, Reliance have to come in and all that. But we have to still see that talk getting converted into action.
- Devang Patel:** Sir, the question was not more on PGCIL but is the SEB order therefore is picking up to that?
- Vimal Kejriwal:** Yes, definitely, no question about it, no question.
- Devang Patel:** Yes, sir, the second question on a tower capacity, what is our utilization level currently and strategically where we think we should be adding, in which geography we feel the need to add capacity?
- Vimal Kejriwal:** See tower capacity, if you ask me today is 100, okay and I think for the next six months for this financial year we will definitely be 100% if not going beyond that. So, there is no question about that and what was your second question?
- Devang Patel:** Which geography, we have three plants would it more on the Northern or Eastern side where we feel the need to add capacity or more towards the course so, that it helps us our export?

- Vimal Kejriwal:** There are so many capacity available in the whole market there is no need, I do not think I want to spend any capital at all on investing manufacturing today on towers, there are capacities available all over the space there are so many plants in East, there is plant in South, I do not think today I would like to you know...
- Devang Patel:** Right. So, would you easily be able to do job work or would you be buying out is what you are indicating?
- Vimal Kejriwal:** I did not understand the question, job work?
- Devang Patel:** For additional revenue or for additional... since you are at 100% would we get something subcontracted where there is additional capacity or would we be buying out some capacity?
- Vimal Kejriwal:** It depends upon what is required because let me also explain one thing, we regularly buy from outside, we buy from Saudi, we buy from Egypt, we buy in other countries also, we buy from India also. So, depending upon the needs so, to me and to my project the factories like any other vendor, they are free to buy from the factory, they are free to buy from sometime, if someone else offers them cheaper. But the party has to be qualified, has to adhered to quality and safety standards. If they meet that the projection always go and buy from someone. Many times we buy even today we are buying Saudi some local manufacturers, in Egypt we are buying from local manufactures, we just got a Thailand order which we got, we are buying from local manufacturers so, it depends upon wherever it is economical from there we take filling the factory is least of my issues.
- Devang Patel:** Okay. Sir, and lastly this Jyoti capacity which is up for sale is it each factory is a different bit or it is consolidated bit for all three factories?
- Vimal Kejriwal:** I have no idea about this. I do not think I can say anything about it.
- Moderator:** Thank you. We move to the next question that is from the line of Bharat Sheth from Quest Investment Advisors. Please go ahead.
- Bharat Sheth:** Sir, just can you touch upon I mean each of the segment I mean geography ever I mean tender pipeline visibility of the new business that we are seeing because since we have reached I mean crossed Rs. 10,000 crores kind of an order book and good L1 position but second-half, so, where do we see? And second question is that end of the year order book position....
- Vimal Kejriwal:** If you look at our numbers now and if you look at our 10% growth then we should be doing works to Rs. 5,500 crores in our next.... Rs. 9,500 is 10% broadly, we have to do more Rs. 5,500 so, which will bring our order book to close to again I will say around Rs. 10,000 crores, we are close to with our L1 status we are close to 15,000 crores today.

- Bharat Sheth:** And the visibility, pipeline I mean how do we see each of the segment and each of the geography we are?
- Vimal Kejriwal:** So, let me do in this way, in India we are seeing a huge visibility from the states Karnataka, Tamil Nadu, Rajasthan, Andhra Pradesh, I think each one of them probably has got tenders of Rs. 2,000 crores each to be bid in next one month - two months and all that and states normally they decide by they take another two months or four months to decide so by March, to me all these Rs. 10,000 crores and all that will be decided. Other states I am just giving you the three or four larger states. Power Grid is to come out with the Pugalur tender the large HVDC tenders Rs. 3,000 crores or something is a number which is there and there are some court case with ABB now, I do not know who has the court case that should get resolve that should come out. On the international front, Saudi has got a huge tender pipeline so, almost I think Rs. 10,000 crores so...
- Bharat Sheth:** Are we seeing some delay in that ordering side?
- Vimal Kejriwal:** There is a bit of a delay, what they are now doing is that the old tenders they are not following up too much but they are issuing new tenders which lines they want new lines, okay so, the fact that they are now issuing new tenders is of significance because if they do not have to put then why would they issue new tenders so, to me Saudi is there then as I have said that we have got almost 2,000 there are lot of tenders are coming, in Far East Thailand, Indonesia there is work there, in SAARC there is a lot of work, Afghanistan, Bangladesh, Bhutan, I think, there are enough countries, although in SAE we are already full but there are some large tenders coming up in the U.S. space so, that also a part of it may probably flow to India because the volumes are very large. I think railway we have already quoted, some are coming and I do not know if you read the statement Suresh Prabhu yesterday or day before only where he said that from 2,000 kilometers I want to make it to 4,000 and then to 6,000 kilometers of overhead. So, very clearly we are seeing railways coming out and I think the other thing is PGCIL has just signed an MoU with railways to build transmission lines for them because now railways want to own their own transmission and because they are seeing their Discoms are charging them too much. First tender has already been issue I think it is due in the next week, so that is another piece of business if you come as they combine of railways and PGCIL. So, business is a lot there.
- Bharat Sheth:** So, on South America are we looking for expanding beyond Brazil?
- Vimal Kejriwal:** Bharat, we are already working. We are supplying to Argentina, Uruguay, Paraguay.
- Bharat Sheth:** EPC side?
- Vimal Kejriwal:** No, not now, no.

- Moderator:** Thank you. We have next question from the line of Abhinit Aanand from SBI CAP Securities. Please go ahead.
- Abhinit Aanand:** Yes, just on the tax rates for 2017 and 2018?
- Vimal Kejriwal:** 2017-2018 tax rate Rajeev.
- Rajeev Aggarwal:** I think we should be doing the normal taxation which is about 35%.
- Abhinit Aanand:** Okay. And see one of the target that we have I think we are close to achieving is the 3% of sales as the interest cost and we did a phenomenal job in reduction of the debt. So, is there any target to reduce that further in the coming years?
- Rajeev Aggarwal:** See, as I think Vimal said in the opening remarks that we are looking at more in terms of targeting the clear number of days outstanding AR which is from the current number of 220 days to 180 days. So, if we reduce the AR to 180 days you know obviously it will release some of the additional working capital which is deployed over there and that will straight away reduce our outstanding borrowing or the business will grow to that extent so, that additional working capital which is available that will be deployed in additional business.
- Vimal Kejriwal:** I think broadly if you want to look at probably next year we are targeting around 2.7% or something, this year it will be reduction of around 3%, we should be looking at probably a 10% reduction in the interest cost, so, in my percentage terms probably it should go down to 2.7 or so that is what we are looking at.
- Abhinit Aanand:** Okay. And just overall, SEBs is increasing and compared to PGCIL and all, so, in the past three years - four years what would have been the average tendering by SEBs and what is presently can you throw some light on that?
- Vimal Kejriwal:** At this moment I am not having these numbers but generally we have seen that all the SEBs put together Rs. 70,000 crores - Rs. 80,000 crores they do but then that is not an addressable market like I do not quote in Maharashtra or I do not quote in U. P. and all that so, it is difficult to give an answer but the SEBs where we are quoting which is basically the south based and a couple of them in the north probably will be Rs. 20,000 crores - Rs. 25,000 almost equivalent to Power Grid or slightly more than power grid.
- Abhinit Aanand:** And this you are saying for the lines or the lines of substations combined?
- Vimal Kejriwal:** Lines and substations combined.
- Moderator:** Thank you. Next question is from the line of Ankit Babel from Subhkam Ventures. Please go ahead.

- Ankit Babel:** My first question is sir, you are giving a very good visibility in terms of the work available to you people both domestically and internationally and at the same time you are also targeting to bring a working capital lower and also reduction in debt level. So, in that scenario I am just worried that why you people are targeting just 10% growth going forward. I mean when all the things are favoring to you your margins are also improving, why cannot you grow at 15%-20%.
- Vimal Kejriwal:** It will depend if tenders come, if our client will grow so, I will also grow when we are giving a number of 10% and all that, it is based on what we are looking at the market coming out with. Today, if you ask me this question, I do not think anyone would have said that there would be no tender from Power Grid side, you understand. To me it is a market related growth, if the market grows higher we will definitely because I do not think we have any constraints in growing. We do not have a constraint growing, let it be today when we are saying 10% we have looked at the market and sir this much orders are coming and on that basis this will happen. Tomorrow if Power Grid suddenly announces four grids or something else happens, okay, it is always possible to grow more. I do not there are any constraints, okay.
- Ankit Babel:** But you are pretty confident that next year at least 10% growth is visible to you, considering the order inflows which you are getting in this year.
- Vimal Kejriwal:** 100% confident.
- Ankit Babel:** Okay. And my second question, is what is your view on the solar power, you did mention that PPAs are not getting signed so easily so, at the start of the year we were pretty confident of getting good orders. So, has there been any change in that sir, now?
- Vimal Kejriwal:** See, at the start of the year we were expecting to do almost Rs. 400 crores of revenue, okay. I do not think we will reach Rs. 400 crores we will probably end up, I the do not know if anywhere between Rs. 200 crores to Rs. 300 crores because we are still negotiating some orders if those orders come in then we can probably go to Rs. 300 crores also. I think what we are seeing is that somewhere in reluctance among the Discoms to either sign PPAs or actually in honor the existing PPAs also so, which is creating a sort of a diffidence in the developers' mind that we should do it or not should do. I think that is where we are seeing and this would have been compensated by large public sector which we are not seeing except for NTPC I am not seeing any public sector undertaking coming out with large bond. So, I think we will have to wait for next year because this year the government is saying that we have tendered out 10 gigawatts and all, and their target is around 10 gigawatts for this year and I am not sure whether we will be able to achieve but the next year target is I think 12 gigawatts so, let us see how that pans out and in what from it comes out. We are still hopeful and to me whatever Rs. 250 crores - Rs. 300 crores we achieved we achieved this year; it would be a good base for us to start looking out overseas. We are seeing a lot of tenders now starting to come out from

Africa and all, okay on the solar piece. So that is going to be an interesting opportunity going forward.

Ankit Babel: Sir, where do you see your railways order book at the end of this year? Currently it is around I guess Rs. 1,200 crores.

Vimal Kejriwal: At present if it is Rs. 1,200 crores so, there should be execution of another Rs. 300 crores then it will be Rs. 900 crores so, hopefully we should get a few more orders may be back to Rs. 1,200 crores to Rs. 1,500 depending upon because we have quoted some tenders.

Ankit Babel: Because you were targeting some Rs. 2,000 crores at the beginning of the year.

Vimal Kejriwal: Not for this year at all. We have never said we will have Rs. 2,000 crores this year, from Rs. 400 crores to Rs. 500 to Rs. 2,000 is very difficult and I do not think we also wanted to go so steeply because we have lost enough money in railways so we really wanted to go steadily so, that we get orders, we execute them, ensure that we have margins and then expand rapidly which is now happening. So, next year probably we will see a quantum jump but I do not think this year order book will add best I think the Rs. 1,500 crores at the best.

Ankit Babel: Okay. And sir, my last question is what is the kind of tax rate should we assume for this year and next year, your tax rates are very volatile.

Rajeev Aggarwal: I think we should be able to 35% and 36%.

Vimal Kejriwal: This year may be slightly higher because Q1 was higher, going forward I think 35% should be....

Ankit Babel: In the first quarter it was 42% and second quarter it is 35%.

Rajeev Aggarwal: So first half it is about 37% right now and we expect the normal taxation to continue for the Q3 and Q4 so, probably for the year as a whole it should be around 36%.

Ankit Babel: Okay, next year 35%?

Vimal Kejriwal: Yes, it should be 35%.

Ankit Babel: And sir, just interest cost of Rs. 60 crores now this run rate should continue at these Rs. 60 crores - Rs. 65 crores level only?

Vimal Kejriwal: No, you cannot take a run rate on absolute amount and as I said that we will be doing a Rs. 5,500 crores turnover in H2 so, you will have to take a percentage 3% and take whatever number comes there.

- Moderator:** Thank you. Next question is from the line of Nitin Arora from Aviva Life Insurance. Please go ahead.
- Nitin Arora:** Just some book keeping questions, can you tell us the total exposure of your order book in the SEBs part?
- Vimal Kejriwal:** Nitin, I do not have that figure right now, I will ask Rohit to give it to you but I think probably, I do not have the number honestly but I think Rs. 1,500 crores - Rs. 2,000 crores it will but we will give you the exact number.
- Nitin Arora:** Okay. Sir, with respect to your CAPEX, if you can give us the first-half CAPEX number?
- Vimal Kejriwal:** Again a difficult question but I think it would be around again Rohit will come back to you but again it will be somewhere Rs. 20 crores - Rs. 25 crores, it is not much significant.
- Nitin Arora:** Okay. And sir, you talked about the interest cost reduction, we have already seen in our businesses it fluctuates a lot until and unless there is some internal restructuring being done as you mentioned about the reduction in the interest cost per se. Can you highlight what we have done with respect to our rating got upgraded so, how much savings that would attribute to in the current quarter interest cost and what is our borrowing cost now post that rating upgrade?
- Rajeev Aggarwal:** So, basically as the Vimal said that our rating has been updated because continuously for the last seven quarters or eight quarters the performance of the company has been inching up and we are back to our EBITDA margin of close to about now 8.5% now. So, that has led to the improvement in rating and ratio has also improved because in the first six months we have recovered almost close to about Rs. 500 crores of our AR and that has gone into reduction of the borrowing basically the borrowing by Rs. 300 crores. So, all these factors have led to the better rating and with the interest rate reduction and the change in the computation of the overall borrowings so, interest cost has really come down. We expect this trend to continue because we expect that probably in the next six months or so further interest rate reduction should happen for the economy as whole which should help KEC to further reduce the interest cost. But in terms of total interest cost, I think I would assume that this year we should be targeting under 3% of sales in terms of 3% of the sales number, next year we should try and improve it or probably 2.7% - 2.8%.
- Nitin Arora:** So, what would be your average borrowing cost, at this point?
- Vimal Kejriwal:** See it depends actually for Indian rupee it ranges between 8% to 10% depending upon where we are borrowing, if we are borrowing in the CP market, if we to be even slightly better than 8%, we are borrowing recently we had NCD of Rs. 250 crores, we have raised the funding at about 9.3% so, actually it depends on the source of borrowing for the company if it is in the foreign currency then obviously the interest rate will be much lower.

- Nitin Arora:** Okay. Sir, my point was that you are talking about 3% of the sales which we mentioned it is Rs. 5,500 crores it comes to about Rs. 165 crores, Rs. 130 crores we have already in the first-half so, that takes the interest cost to about Rs. 290 plus for this year so, that is why I was asking incrementally the next two quarters is going to go higher it totally depends because we are going to grow very higher on the execution, so is there any savings that was the question that can happen in the average foreign cost you should reflect in the second-half as well. Otherwise on a ball park basis we still will be ending at Rs. (+290) crores number.
- Vimal Kejriwal:** I think you are very close to probably our estimates. So, we should be around that number Rs. 280 crores - Rs. 290 crores.
- Moderator:** Thank you. Next question is from the line of Aditya Mongia Kotak Securities from . Please go ahead.
- Aditya Mongia:** Sir, the question which I just want to ask is that since we only have IndAS number for 1H not for 2H last year. Just wanted to check whether in this system of account should one be again expecting 4Q to be a very good quarter in terms of margins execution ramp-up or is there a difference now versus earlier?
- Vimal Kejriwal:** I do not understand why....
- Rajeev Aggarwal:** See, if your question is relating to the change in accounting standards and that is affecting the revenue booking so, my answer is no. So, as per the new IndAS also there is no change in the revenue booking regulation so, we continue to book the same pattern as we have been doing as per the earlier accounting standard.
- Aditya Mongia:** Sure. So, we have already done 1H more than 8.5% and as you are saying 4Q would be very good quarter. Why are we not we not upgrading our guidance for margins this year?
- Vimal Kejriwal:** I think Aditya, we are talking about doing Rs. 5,500 crores it is a large number the commodity prices are pretty volatile and all that. So, I think that is the reason why we would like to stick to our guidance and rather than upgrading it and then getting proved wrong or something, I would be happy to remain there then showing a better performance than what it is. I do not think we will do a very high number but it all depends upon what order gets executed, what happens, there can always be each of the order in different margins let us say today we have got L1 in Egypt, L1 is from other countries and all that and L1 of a country where I have a lower margin comes in and a higher comes in and the margins may change all that. At a given point of time we are executing almost 100 projects. So, what happens in which project so airing on the higher side, I would rather prefer to have on the lower side.
- Aditya Mongia:** Sure, sir, just one more request from my side, again the sequentially by themselves are now becoming relevant in themselves let us say our cable business or railway business, even solar

business possible incrementally. Is it possible for the company to start sharing segmental information as part of the results which also includes margins?

Vimal Kejriwal: We will come back to you on this, I think we have discussed all this with the auditors and all that also and also in cable business whatever it is again EPC job, we do EHV, we do solar and all that somewhere and I think our view was that these do not require a separate disclosures and I do not want to get into a situation where we are not disclosing in the audited and we have disclosed to the investors, etc., which create more issues at a compliance level. Anyway we will look at it and see if we can do something more about it.

Rajeev Aggarwal: Aditya, basically, you know the nature of the business of the KEC is EPC whether it is railway, or whether it is T&D, the nature of the business is you know the EPC, we are doing the EPC jobs. So, that is where we feel that these are all different segments from the reportable point of view and that is what we have discussed with auditors and the auditors have agreed on that. And on the cable business first of all, the total revenue of the cable business is around 10% and most of it is also going forward is going for the EPC business underground cabling and all that so, that is why we do not feel the need of reporting the separate segment.

Moderator: Thank you. Next question is from the line of Saket Kapoor from Kapoor & Company. Please go ahead.

Saket Kapoor: Sir, got answers of all. Just a very small understanding. You told Rs. 5,500 crore is for the second-half that is to be executed.

Vimal Kejriwal: Yes.

Saket Kapoor: And we have done for six months Rs. 3,300.

Vimal Kejriwal: Rs. 3,900.

Rajeev Aggarwal: Rs. 3,900.

Saket Kapoor: Rs. 3,900 and overall basis we can take 40% being the last quarter.

Vimal Kejriwal: Generally it happens, okay that is the...

Saket Kapoor: No, sir, I just wanted to understand liner pattern, in this pattern how will be third quarter generally as compared to second quarter.

Vimal Kejriwal: It will depend, I will tell you why I am not able to give you straight numbers because there are many items which individually Rs. 150 crores - Rs. 200 crores in transformers and reactors and all that, if out of that if one happens instead of December to January, we do not get to know.

So, it is a little difficult to give answer that what will happen exactly in Q3 and what will happen exactly in Q4 but between the two of them we have planned to do this revenue.

Saket Kapoor:

But bulk of them will be shifted to the fourth quarter that is what that is clear.

Vimal Kejriwal:

Normally it is always because what happens in Q4 our vendors feel like they have book in front, clients have the same thing, there are many clients where they have budgets which are expiring in March and all that so, many times then they will come and say no you shift faster or do this and that they take time in inspection so, for them December relevance December, for us it is quarter-to-quarter it is our job, if you go to a Discoms or someone they do not bother about whether it is Q3 or Q4 except for power grid. So, they do like this only, in Q4 everyone has pressure that is why Q4 is more.

Rajeev Aggarwal:

This is true for most of the organization including manufacturing organization.

Moderator:

Thank you very much, sir. Ladies and gentlemen, this was the last question for today. I would now like to hand over the floor to Mr. Vimal Kejriwal for his closing comments, over to you, sir.

Vimal Kejriwal:

I think, I would just like to thank all of you. It was a really longest I have at least done 1 hour and 20 minutes and that shows the interest. Thank you very much. Thank you, all.

Moderator:

Thank you very much, sir. Ladies and gentlemen, on behalf of KEC International Limited, that concludes this conference call. Thank you all for joining us and you may disconnect your lines.