



“KEC International Limited Q2 FY-19 Results Conference Call”

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Moderator:

Ladies and gentlemen, good day and welcome to the KEC International Limited Q2 FY19 Results Conference Call. We have with us today from the management Mr. Vimal Kejriwal – Managing Director & CEO and Mr. Rajeev Aggarwal – CFO. As a reminder, all participants' 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 phone. I now hand the conference over to Mr. Vimal Kejriwal, Managing Director & CEO. Thank you and over to you, sir.

Vimal Kejriwal:

Thank you. Good evening to all of you. I welcome you all to the Q2 earnings call of KEC. This quarter we have had a good revenue growth of 13% with revenues touching 2,408 crores. EBITDA for the quarter has grown by 17% with EBITDA margins increasing to 10.5 to 10.1. The PBT and PAT have grown by 10% each over the last year corresponding quarter with PBT and PAT margins at 6.2% and 4.1% respectively. On the order book the YTD order inflows have grown by 38% over YTD last years at Rs.7,932 crores including today's press release of 1,518 crores of orders. Largely contributed by the bounce back of international transmission and distribution and CAPEX traction from railways. Also, civil has forayed into residential EPC space with the announcement of today's order. Our current order book has crossed Rs.20,000 crore mark and now stands at 20,135 crore, 44% year on year growth and on top of this we have an L1 of almost 4000 crores so if you add that two, we are in almost 24,000 crores today.

As you all would be aware that we synergistically diversified our business to include railways, civil and solar EPC over the last few years. Our efforts are bearing fruits with the growing share of non T&D revenue in the overall revenue pie specially on account of railways and civil. The non T&D revenues continue to drive the growth in second consecutive quarter with contribution of 27% to total revenue for the quarter versus 10% in the corresponding quarter. Railway revenues have grown to 421 crores a whopping 256% growth over the corresponding quarter last year while civil revenue has gone to 106 crore with 161% growth. We remain confident as the full year railway revenue would double to our 1500-1600 crores on the back of a 4600 crores order book and already booked revenue of 734 crores in H1. We continue to focus on domestic conventional railways for building our order book while we continue to explore opportunities in the international space. On the civil EPC space we continue to focus on the existing vertical of industrial factories and buildings while we explore the residential EPC space on a selective basis.

Solar has contributed to 133 crores to Q2 revenue with the completion of 130 megawatts APGENCO project. Domestic markets continue to remain muted on account of tax anomaly. However, we have been focusing on select projects in domestic markets, roofed up solar EPC and on projects the middle east in the international markets. Coming to T&D the revenues growth has been muted and differed largely on account of significant order inflows having come in the later part of the last year and in H1 this year. You will recall that almost 3000 crores of international T&D orders are back ended and revenues from these orders is expected to commence in Q4 as have been mentioning earlier. These factors have resulted in a soft Q2 for

the T&D revenues, however the large order book in T&D will enable us to catch up with the growth in the T&D revenues in Q3, Q4 and obviously next year. Cables has grown by 11% Y-on-Y majorly on account of higher export and HT and EHV cable revenue. Clearly we are seeing a distinct improvement in the quality of our cables revenues. –YTD order inflows have grown by 38% over the last year while this international T&D has bounce back this year with addition of new geographies continue traction from Africa and SAAR resulting in a contribution of over 50% in the YTD order inflows. The Bangladesh T&D order of 1496 crores announced some time back by us is a single largest EPC order for KEC. Our fuel business, as I mentioned earlier secures its first order in the residential EPC space. On the domestic T&D fund order flows from PGCIL have already crossed 550 crores while we have an L1 of over Rs.600 crores for PGCIL. SEBs and TBCB orders continue to remain on focus area of growth in the domestic markets. Railways have been the second key contributor to order inflows with 22% share while civil order intake is close to Rs.400 crores majorly from industrial factories and buildings segment.

During the year we secured two orders in solar EPC worth Rs.190 crores in the domestic market. A working capital and borrowings continue to be almost at the similar level as Q1 FY19 with receivable days maintain at a similar level and a reduction in acceptances by almost 400 crores. This is post affecting the impact of classification of our BOK transmission line Rajasthan which has now been classified as asset held for sale. With collections from Saudi last week of September, early October advances from some significant international projects and stream lining of the railways supplied chain, the working capital is expected to normalize in the coming quarters. Our interest cost for Q2 FY19 as a percentage to sales is 3.2 versus corresponding 2.7 in the last year. In an era of tightening global liquidity and rising interest rates in rupee as well as dollar terms. Increased interest cost on account of higher domestic borrowings has been partly offset by FOREX gains from lower foreign currency denominated borrowings. Considering the current order book of more than 20,000 crores in L1 of 4000 crore and backed by the H1 revenue grow by 12% we believe that we will achieve our targeted revenue and EBITDA margin growth for the full year FY19. Thank you very much.

Moderator: Sir shall we begin the question and answer session.

Vimal Kejriwal: Yes.

Moderator: Thank you. Ladies and gentlemen we will now begin the question and answer session. We have our first question from the line of Vineet Anand from SBICAP Securities. Please go ahead.

Vineet Anand: Sir first of all just wanted to know the working capital situation last quarter you had highlighted issues with respect to specific payables issues as well, a part of acceptance if you can throw some light whether it has eased or how is it now.

Vimal Kejriwal: I think Rajeev can answer the number part of it but, as I was saying that the receivable days have remained virtually at the same level. They have not seen any change or increase in the receivable

days, I think the problem which we have been facing has been on the BPO days where because of the railway business increase and where we are linked with too many small suppliers I think that is the area where we are slowing addressing, that was the second point. Third point obviously was inventory is not getting normalized because the volatility in the commodity prices, inventory levels had definitely gone up which are now coming down. I think Rajeev if you want to add something on the numbers.

Rajeev Aggarwal: As far as the numbers are concerned Vineet on the net debt front we are 3150 crores as against 3054 crores in the previous quarter. So there is a increase of about 100 crore on the net debt but acceptances which is also partly interest bearing so have come down significantly by about 400 crores. So if you look at the total number in terms of the payables and net debt then our overall reduction is close to about Rs.150 odd crore from the previous quarter.

Vineet Anand: I think the debt gross receivables at around 244 days you did only provide the net working capital as well if you can provide that.

Rajeev Aggarwal: So net working capital days would be about that same level of 145 days or so.

Vineet Anand: So it has worsen Q2 you are saying.

Rajeev Aggarwal: I don't think it has worsen, we have been operating at the same level for the last six months so this should improve now going forward in Q3 and Q4.

Vineet Anand: Okay. And second thing sir, the inflows YTD are around 8000 odd crores what is our general expectation where will we end in this year when fourth will have elections and all. Thank you.

Vimal Kejriwal: We already have as I said an order book plus L1 of 24,000 crores. I think we are pretty comfortable, I presume that we did last year 15000 crores so this year we should do 15 plus maybe on a 10-15% is what we would love to do, but we are not very keen to pursue orders where the margins are less and all that because I already have a large order book. But my view is that with whatever orders are there in the market we should do 10-15% more than last year.

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

Renu Baid: I have two, three questions. One is, I just wanted to clarify in the previous question you mentioned 10 to 15% growth that is the indicative growth for the transmission business for the current financial year.

Vimal Kejriwal: My understanding was he asked me question on your order intake.

Renu Baid: Okay, just clarifying. Sir my question actually pertains to the core transmission business. If we see ex-of SAE, the core transmission backlog today is up 29% and as we expect there would be

blackened execution so if you can help us guide through in terms of how should one expect the core transmission portfolio to grow in the second half, then how could it look at the end of the year will it be in double digit growth or growth could be at individual level. And for next year because the backlog today is 29% up Y-o-Y for transmission plus new orders are there in pipeline. So how should one look at growth for the second half of 19 and FY20 for this statement.

Vimal Kejriwal:

So to me Renu if you look at the numbers we have and the planning we have, we will definitely have more than high double digit growth on the T&D for H2. When you combine with the slight de-growth which we have in H1, I think we are still targeting low double digit growth for the whole year. But keep in mind one thing is that our second half is almost 68% of our revenues. So when I am saying that we will have higher growth and we have still maintained probably I don't know when we will end up finally for the whole year but on the second half you will clearly have higher than what we are talking about. I don't know I can't have a number to it.

Renu Baid:

Sir overall for the year just early teens kind of number.

Vimal Kejriwal:

It can probably be higher than early teens because what I am saying is that overall for the business for the year we may be at low teens. What I am saying is that we will do whatever we are have to do in H1, H2 plus recover the shortfall of H1.

Renu Baid:

Okay. And thereafter next year we should be comfortable with the 20% kind of growth.

Vimal Kejriwal:

Absolutely. I do not know how much we will actually do but we have a large order book and most of those are long black ended projects have started executing some of them are just starting, some of them will start in Q4, so effectively I will not have any back ended projects. So with the current order book which we have I think 15% growth at least is easily assured in the ending.

Renu Baid:

Clearly. So from an investor perspective there wouldn't be any concern on execution or mix of orders which could see some slowdown, clearly none of those concerns on the transmission backlog that we have?

Vimal Kejriwal:

I do not see today, we are still only in the second of November but to me the way our order book is panning out the quality of the orders we have I am not seeing any sort of challenge in achieving that.

Renu Baid:

Perfect sir, second question would be on the profitability, clearly rupee depreciation would have benefited us this quarter because being a net exporter there so if you can share #A with respect to the kind of positive delta because of currency gains in this quarter and also with respect to SAE the number has been a bit soft this quarter, so how should we read with respect to the EBITDA performance of SAE and execution scaling in the second half.

- Vimal Kejriwal:** So as far as foreign exchange is concerned I think overall for the year we have net gain of around 37 or 40 roughly around I will say between 35 to 40 crores. That is where we are on the FOREX gains as far as SAE concerned I think we had earlier talked about also that Q2 will not be a great quarter for SAE because their orders are fairly back ended, lot of work has started now so I think for the year I am not anticipating any significant let say negative coming out of SAE.
- Renu Baid:** Okay. And what could have been the margins as in because if lower volumes the margins in SAE approximately and the EBITDA level were they significantly lower than low single digit or how is it?
- Vimal Kejriwal:** They will not be low single digit but the problem in SAE you wanted to understand if Mexico and to a large extent Brazil is still being manufacturing. So if the capacity is lower the over rate cost are pretty high there, it is not like an EPC where you can withdraw people, etc and bring down the overheads.
- Renu Baid:** EBITDA could have been lower because of lower volumes this quarter has.
- Vimal Kejriwal:** Absolutely.
- Renu Baid:** Sir what range could that be, as in would that be like 4-5%.
- Rajeev Aggarwal:** No, it is not that low I can only that you that much.
- Renu Baid:** Sir at least high single digit, mid to high single digit level.
- Vimal Kejriwal:** That is your conclusion now.
- Renu Baid:** Okay. And one more question if I can ask, you did mention that Saudi collections have moved and we expect that to come down by the end of the year. So if for the benefit of investors you can help us quantify what has been the kind of connections during 2Q and for the first half. And in the second half how do we expect the retentions and these corrections to improve further.
- Vimal Kejriwal:** So let me put it this way, in the month of September, October we have collected around 300 crores because some money came on 1st, 2nd October that is why I am combining it and saying September, October we have gone around 300 crores, I think Q1 was less but Q2 was around 300 an odd crores, in fact today also we got some money so money are in a way flowing in.
- Renu Baid:** Right. So which would be a positive tailwind for orders or incremental business from that market for us.
- Vimal Kejriwal:** I don't know whether it could be a tailwind for more orders or not because we are not still seeing too many orders coming in from that region. I think they are still busy finding their own –17:26

and all that so I am not seeing too much right now happening on the development but as I always have been mentioning that there is a clear need for setting up more transmission lines. So to me it's a matter of time whether it is three months or six months I do not know, because yesterday I read a new about some improvement in Qatar, if these things start happening there Iraq money with oil at 75. It's just that they need to channel it into productive investment.

- Renu Baid:** Right. And what would have been the pending collections due from Saudi.
- Vimal Kejriwal:** Let me answer that different manner. To me we do not have anything overdue. That gets pretty clear. Our total receivables from that country is around 1000 or 1200 crores. But none of them is right now, all the due payments have been made.
- Moderator:** Thank you. We have next question from the line of Aditya Mongia from Kotak Securities. Please go ahead.
- Aditya Mongia:** I had the first question on the breakup of debt if you could give me a sense of how much is foreign currency debt and how much is domestic and the cost of debt on both these accounts.
- Rajeev Aggarwal:** So right now Aditya we do not have the exact break up but it would be roughly about 40% is foreign currency debt off take and 60% is rupee debt.
- Aditya Mongia:** Okay. And the cost of capital or cost of debt over here if you could.
- Rajeev Aggarwal:** Cost of debt obviously has gone up because as you are aware since the last one year FED has increased almost four times, in India also the rates have been going up. So about the last one year the rate increase itself is about 100 to 105 basis points. So currently my guess is as cost of borrowing would be close to about 7-7.5% including the currency fluctuation.
- Aditya Mongia:** Understood, so what would be our guidance for let say the full year because now the interest cost to sales the number has materially changed the second quarter. Some sense on what the number could be for the full year and what would be the drivers which may change that number from another guidance.
- Rajeev Aggarwal:** So basically Aditya what we are expecting is that since we have received a significant amount of ordering from the international market and all these orders are carrying advances to the extent 10 to 15% so we are expecting good amount of advances in the Q3 and Q4 that will change our borrowing number. Second there is a collection which has started coming in from Saudi so in the second half of the year we are expecting to collect another 3 to 400 crores at least we should be able to collect. So that will go on reducing our borrowing number. So, I can safely say that probably in the second half despite the higher volume that we are talking about of growth of close to 15% we should be able to reduce the borrowing number exact number and not in a position to give it to you but definitely it will go down below 3000 crore.

- Aditya Mongia:** Okay. So what is a number which is close to. So, I think today's borrowing number which is net debt plus your acceptance would be about (+3500) crores if that number you are saying should come down from 2H level the full year number should be lower.
- Rajeev Aggarwal:** So Aditya let us put it in a different compare. I think what is happening is that today we are at 3.2% of revenue with the expected revenue growth in H2 we are very clear that as a percentage of revenue we will be below 3%. If it is closer to 2.5 or 2.6 or 2.8 would depend up on how the interest rate cycle pans out.
- Aditya Mongia:** Got that sir. Sir secondly on the viewable days I recall a discussion being there earlier where in the focus was to essentially reduce the receivable days materially from current levels is that an achievable target let say over next two, three years or how would you come through it, it will help us better understand how the working capital situation can then pan out for the company from here on.
- Vimal Kejriwal:** Aditya in two to three years we have to do it there is no way you cannot do it.
- Aditya Mongia:** Below 200?
- Vimal Kejriwal:** So we do not know whether, as I always keep on saying my ideal target is always 180 days. We always say 180 days pushing the team so to achieve 180 and it's not something it's not achievable, the problem is we need to do master closure of project not completion commercial closure and the clients have to be aligned to that because what I can very clearly see is that when the budgets are in execution stage up to 70%, 80% of that, at that point of time the numbers generally be around 100 days, 120 days, 130 days. So only when the project start going towards closure then fully retention kicks in, there is some lethargy from our side in billing from the client side in paying because he wants to hold back his entire project is over. So we are trying to see how do we expedite that whole process where we can do faster commercial closure, early reconciliation of activities with the client, touch base, etc. I think that is what is causing us lot of pain and that is the place where the numbers are lying. So, I think that is where we have been targeting we have been successful in some projects but not in all the projects, it has been our pain and we are able to from attack that piece then the numbers will definitely come down. And we are pretty confident on that.
- Aditya Mongia:** Sir that is very helpful. Just lastly, any broad numbers that you would want to share on the overseas T&D opportunity in terms of growth which can happen this year and maybe over longer term basis, how do you see through it.
- Vimal Kejriwal:** So what we are seeing is that this year we may not have any significant growth in the revenues on the international, when I say international it does not include SAAR, but if I add SAAR then we will definitely have a significant growth over last year. The other things is that, our expectation is SAAR and when I say SAAR it would be Nepal, Bangladesh, Bhutan and

Afghanistan put together that revenue may be actually more than India in T&D, that is the sort of growth we are looking at. We have a large order book L1 of 4000 crores, of it some portion is definitely from international T&D so the international order book will grow further.

Moderator: Thank you. We have next question from the line of Ravi Swaminathan from Spark Capital. Please go ahead.

Ravi Swaminathan: Just wanted to know when we see good inflows in the international space, which are the geographies from which we are seeing good inflows. You had mentioned few countries but is there a two to three year run way for growth in these geographies or is it that kind of spend would last for a year or when then can payable of these geographies.

Vimal Kejriwal: Ravi to me if you geographies I can very clearly see three geographies one is very clearly as I mentioned SAAR, there is a huge pipeline of project still to come in Bangladesh, Nepal and Afghanistan and can very clearly see we have got huge list of project which can come up, the second area has been Brazil where again there is a auction happening in December and almost \$2.5 million or something and they have a road map for the next three years with the new president now coming in let's see what happens. So that is a clear second area which will happen. Third to me too early to say but I think middle east specially Saudi will again bounce back as I said it is the matter of time that the order starts flowing from there. Fourth would be then once the elections and all are done in India I think we will again start seeing the India T&D bouncing back also there are quite a few TBCB projects which are now been announced which are under various stages of bidding, RFQs and some of them are now under RFP happening. So, I think some of them will get awarded in the next maybe two months or so. So that is something which will help us in India also.

Ravi Swaminathan: Okay. And in terms of railways so basically we have seen once again a good amount of inflows in the first half of this year but given the fact that general elections are coming up and if there is some kind of change in government or something of that sort do you see this two inflows tapering up.

Vimal Kejriwal: I am not seeing an inflow tapering up we have a long list of vendors to come in, I think what would happen is I will say probably till March or so ordering will continue after that the code of conduct or whether elections dates are announced the code of conduct would come in, then the ordering would stop. So, I am not seeing a tapering of happening at least in the current financial year.

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

Jonas Bhutta: Sir, I joined the call a little late and just excuse me if some of my questions are repetitive. Sir basically just wanted your perspectives on how would you see the working capital behaving in

the second half and consequently the debt position, given that this temporary liquidity scenario that we have seen would warrant some more vendor funding from your side, something that we have already seen in the first half and would sort of accelerate in the second half is what I wanted to understand that is my first question sir.

Vimal Kejriwal:

So there are two things which I can tell you, one is the second half revenues would be significantly higher than first half. So any case the interest cost as a percentage of revenues even at the same level should come down significantly. Look at the breakup it is normally 60-40 that is the ratio of the revenues. So, many of my loans are still fixed loans and all that so the percentage will come down. Secondly, as far as the railway supply chain and other vendor financing is happening, what is also happening is that we have taken very conscious steps with the vendors with our client railways and all that and have pushed a lot of large vendors to come into the supply chain that is happening slowly. So the impact of that, they are starting to feel now already that some of my vendors have let say about transformers, now you are going and buying all the transformers from ABB obviously the ABB has a different credit terms than what we are buying from. Same thing is happening on many of the write ups there is large item is getting supplied for hardware in railways which were being manufactured by non-T&D hardware manufacturers who are small time players. Now most of the large T&D manufactures have gone into that and have approved from railways. So then you get into your standard T&D payment terms with those vendors also. So we are clearly seeing that our vendor finance, I will not say, the vendor piece is changing that would help us in execution as well as in working capital.

Jonas Bhutta:

Okay. So is there a number sir that you can guide for, for the full year interest to sales ratio because at the start of the year we mentioned that there is an upward bias to the 22.5 that we did last year but is there a number that you can sort of zero in right now.

Vimal Kejriwal:

I have just answered that question and it will below 3% but exact number I cannot give you now because the interest rate phenomena of scenario is so fickle today that I have no idea what RBI will do or what will happen to dollar, I don't know whether the war will go up. So to me it is a problem, we do not know I don't think we would be able to touch 2.5 and all that, it would definitely be higher than that, but whether it would be 2.6 or 2.9 it is difficult for me to give an answer today.

Jonas Bhutta:

Sure. Sir, the second question was on the railway piece where this entire backward integration a new sort of taking on in house manufacturing of certain products. Sir has that benefit as in already played out or as in 2Q or how progressively should one monitor the positive impact of this either on your margins that you mentioned, vendor you already sort of alluded to that in the first question. So how would we sort of see this visible in numbers sir.

Vimal Kejriwal:

The biggest advantage of the backward integration has been the help in execution so let me give you an example. Earlier even to get a 300 or 400 tons of structures every month was such a big pain. Today my battery is supplying me 3500 tons of structures a month. And we are expanding it to 4000 by this month end. So the amount of help which I am getting on my execution that itself is to me biggest surplus, positive point for this whole thing. There is clearly an improvement in margin so, that is why you can see that with our non-T&D business still being 20% we are still at 10.5 if we are 10.5 with 25-27% of non-T&D business clearly the margins in non-T&D business also is going up.

Jonas Bhutta:

Got it. Sir lastly on the auctions that are likely to happen in Brazil. Sir what we have noticed is the ones that happened or the SBVs that were formed in September have paid at very aggressive tariffs almost 35% lower than what they paid in December last year or for the SPV that were signed in March. Sir, how are you seeing the impact of that when you are negotiating with these SPVs for back to back contracts. I am sure they will look to pass on some cost to the vendors #A and #B is that likely to play out either in lower margins but faster working capital or will it be elongated working capital but you can upfront it with some better margins if you can share some light on that and that is my last question sir.

Vimal Kejriwal:

Jonas the numbers are not correct because most of the projects have been bid at 50% discount not 35. So that is the first thing, second thing for me is I am an EPC player we have seen the same thing happening in India market also. The developers can go and bid at whatever margins they want to bid, I am not constrain to give them a price lower than what I want to give and I have been seen that, I told you we have a 4000 crore order L1 position. In that I don't know, I don't have the exact number but probably slightly closer to 1000 crores or 800 crores or whatever is the number is for EPC contracts out of that auction only. So, I think we are comfortable with the numbers which we are quoting. Secondly, on working capital elongation, Brazil the projects are around four years from the date you get your approval of which almost two years go in getting your environment approvals, etc. So the physical execution time wherein I come with equipment and when I am actually spending in capital on the project would be probably around 18 months or 24 months from the date of planning and then within 12 months you do the project. So physical execution of the project is around 12 months, 15 months. So there is no major blockage of working capital in Brazil.

Moderator:

Thank you sir. We have next question from the line of Bhoomika Nair from IDFC Securities. Please go ahead.

Bhoomika Nair:

Sir on this revenue guidance if you see I know you are talking about a very strong second half in terms of transformation railways is also doing very well. And our order intake and order backlog has jumped up quite shortly. So, would there be an upward bias to our 15% growth guidance for the year in terms of revenues.

- Vimal Kejriwal:** Looks difficult today. But I don't know if you get some fast orders and all that or something happens today I think I would love to stick to my 15%.
- Bhoomika Nair:** Okay. Sir on the order intake guidance also that you have given of almost 15% growth for the full year, I know first half has been fairly strong almost 40% plus kind of growth but, if you move ahead in the second half last year we had won a lot of orders which resulted in a very good order intake for the full year of last year. So on that base are we seeing that kind of traction on ground in terms of orders.
- Vimal Kejriwal:** The reason I actually said 10 to 15% order what growth I am expecting, the reason is very clear Bhoomika is that I already have 24,000 crore sort of order book with me 20 plus 4000 L1. So what happens is even subconscious level I am quoting and all, I know that I have got a large order book so you tend to become a little bit more conservative in bidding, you tend to put in more margins saying I already have an order book, I have an order book which will take care of my next two years. So then you tend to focus more on pushing up your margin as in building order book. Which is a basic reason why I sort of tempered down my guidance because I really want to now improve the quality of orders further from what we are already getting and that is the whole idea.
- Bhoomika Nair:** Okay.
- Vimal Kejriwal:** It's not that the market is not there or things are not there and all that but I think we just need to be, we just want to be a little bit more careful with a large order backlog. So, I just want to increase my margins, etc that is what we are looking at.
- Bhoomika Nair:** Understood. Sir, you know while we have a fairly decent order backlog and if you look at it PGCL ordering has been quite kind of weak. How is the competitive intensity in the likes of TBCB or when you just spoke about in terms of SAE where we saying that you know the private players are bidding 50% discount, etc so what is the competitive intensity of debt, that we are seeing.
- Vimal Kejriwal:** SAE I will not say there is very significant competitive intensity because we are one of the very few players who can supply our own towers, our own hardware into EPC. There is no other player in Brazil who can do it, so that clearly gives an added advantage as far as any other player is concerned. So we are very clear that in the next two to three years we want to triple our Brazil turnover. So, I do not think there is intensity, there is enough fight which keeps on happening. But, I don't think we are sort of worried about the competitive intensity. India, I will say last two quarters I am little bit disappointing because we have not seen too much of business happening. I am not saying competitive intensity going up too much because many of players are in deep trouble otherwise so, I do not think we are seeing that. Competitive intensity where it is happening and where we are little bit surprised in new states like Bihar and UP and all that. Where we had thought people would not like it there we are seeing 7 players, 8 players, in some

cases 10-12 players coming in. So, I think that is an area of a little bit of a surprise so we will see how it pans out because the players who are winning those jobs are players, who will not be able to execute are players and we have seen that happening in other states also. I think it is a matter of time that the states will start tightening their PQs when they start seeing non-performance. TBCB I have not seen too much of competition because I think what has happened in TBCB is that because of delay in some of the earlier projects financiers are clearly insisting that TBCB projects EPC should be awarded to 1 lakh contractors. So it is basically two, I am not saying more than two because what has also happened is all my major competitors except one have also started bidding aggressively as developers in TBCB. So effectively when you look at the competition in TBCB it has come down significantly for other EPC.

Bhoomika Nair:

And also if you can comment on the competitive intensity in the railway segment.

Vimal Kejriwal:

Railway segment in the OHE it stays where it is three, four players there are always that is what continues in railways because what is happening is that the pressure of delivery is so high that the amount of contracts which they have canceled you will be shocked. The top of it had they canceled the contract, so many people have burn themselves very badly in railways. So because of that, and because of the significant pressure. I know, I keep on getting calls every day from railway for 26 months project do it in 9 months, do it in 8 months, 36 months project okay. So, very clearly because of that pressure everyone knows the intensity of combination I will say is pretty low I can use that word. In the job which are civil and all that where you have to lay tax and check the period is 36 months, 42 months and all. There we too see some players especially from the road sector coming in. There you will have five, six, seven players in each bid.

Bhoomika Nair:

Understood. Sir lastly on the FOREX element you mentioned that there would have been a 35 to 40 crore gain in the first half, that would have been reflected in the revenue line item in terms of translation.

Vimal Kejriwal:

Some of it, hardly anything of revenue most of it will go in negative expense actually. On other expenses it goes in negative item right Rajeev.

Rajeev Aggarwal:

Yes, absolutely this is a net of other expenses.

Vimal Kejriwal:

I don't think there would be much difference in revenue it would be 5 to 10 crores not more than that.

Bhoomika Nair:

Okay. So the benefit is basically sitting in the lower order expenses.

Vimal Kejriwal:

Basically on the lower half, middle of it.

Bhoomika Nair:

Would it be possible to break this down between 1Q and 2Q.

- Vimal Kejriwal:** As roughly half, half. If you want more detail maybe you can speak to Mita later on but broadly the numbers are equal.
- Bhoomika Nair:** Alright. And just lastly on the interest cost element, if I look at debt acceptances more or less are steady or even gone down on a Q-o-Q basis. So apart from the higher interest rate has there been any FOREX loss that has been booked out here.
- Rajeev Aggarwal:** No, Bhoomika there is no FOREX loss on this account so basically it is last years, we said that it is last year in fact of the higher interest cost or interest rate basically.
- Moderator:** Thank you. We have next question from the line of Mayuri Yadav from Aquentus. Please go ahead.
- Mayuri Yadav:** Sir you have given us guidance in terms of the T&D business revenue growth in second half being high teen percentage wise, similarly if you can just let us know also in the railways and civil segment because we have done reasonably well in terms of revenue growth in railways and civil so if you can just help us understand what H2 would look like.
- Vimal Kejriwal:** Mayuri, I do not have a separate numbers for railways but as I said, railways we expect to double from last year. We have already done some 700 odd crores of revenue in first half. So I think we should be bigger 1500-1600 for the year. So another 800-850 or whatever is the number, be the revenue number for this. Civil, I do not have the exact number but we expect to do around 500 to 600 crore for the year.
- Mayuri Yadav:** So doubling in both the segments.
- Vimal Kejriwal:** Yes.
- Mayuri Yadav:** Right sir. Sir my next question is with regards to your margin, as the previous participant was asking about the FOREX element in the quarter. So this 35-40 crore is not in the quarter it is spread between Q1 and Q2 isn't it?
- Vimal Kejriwal:** Yes.
- Mayuri Yadav:** Basically if I just take out this FOREX for the quarter assuming 35 crore and a half of that is in this quarter. Margin kind of slightly if we strip off this FOREX movement then in the margin is slightly down compared to last year or even on sequential basis so this is largely because of the composition change in revenue where T&D have contributed less.
- Vimal Kejriwal:** I am not sure what maths you want Mayuri and the second thing what I would like to say is that, I do not agree on stripping off the margin for FOREX please understand that when we are bidding foreign currency contract, export contracts and all that we always keep in mind what is

the prediction for rupee and all that, what is the forward cover rates, what is the annualized premiums. Some part of that is becoming now with the volatile market it is becoming part of our margin calculations. So my view is very clear that we should not take out FOREX income or losses out of the operating cost. You should also understand one more thing is that there are items where we keep on incurring more cost also, because of the rupee depreciation. So there are things which go either way. So to me, FOREX gain or loses is slowly and with our international order book increasing by 10% now. These are all becoming an integral part of our numbers. Now and then commenting thing is there, I don't think it may not give you the right approach.

Mayuri Yadav: Right, okay I understand the answer. So basically would it be right to say that we are maintaining a margin guidance of 10 to 10.5% for the year.

Vimal Kejriwal: In fact our guidance earlier was 10% because the FOREX was slightly more positive than what we were thinking that is why last time which has improved probably 10.5 and fortunately it has been 10.5.

Mayuri Yadav: Right. So we can assume for the year that is the range where it will remain.

Vimal Kejriwal: We would love to maintain that.

Mayuri Yadav: Sir my next question is with regard to your domestic T&D order inflows which has picked up in this quarter and then it was around 2923 crore vis-à-vis some 1300 crore which you did last quarter. So just want to understand what has been the composition and what has led to this incremental growth Q-o-Q basically.

Vimal Kejriwal: 2923, I don't know I cannot see.

Mayuri Yadav: Order inflows for T&D.

Vimal Kejriwal: For T&D, I had said earlier also that we got one large order from SAAR region Bangladesh which was 1500 crore single order. And then there were other orders also.

Mayuri Yadav: Right. So basically still the international enclosure that is what is supporting the order inflow in T&D.

Vimal Kejriwal: On T&D front yes.

Mayuri Yadav: Right. So domestically sir what is your view in terms of order intake I am assuming it will continue to remain little sluggish for the year.

- Vimal Kejriwal:** Domestic we do have some L1s and as I said some of the TBC projects are to be awarded now, so it would depend on where and who get those TBCB projects first as a developer and then to whom do they give. Each one of them are large projects so you can end up getting another 1000 crores, 1500 crores of orders from these if you play your cards well. So we are keeping our figures crossed, also we normally have seen that pre-election the ordering increases. So we have not yet seen that happening but hopefully we still have time for that, so may be order may start or tender may start flowing in now because I was also told that power grid wants to issue a lot more tenders now for the green quarter, etc although we have not yet seen the tender but there is a strong talk going on that 8-9000 crores of tender may come out.
- Mayuri Yadav:** Right. Sir my last question is with regards to your CAPEX guidance for the year last time you had said around 170 odd crores would be the CAPEX that does number stand even today.
- Vimal Kejriwal:** I don't think we will do more than that. I don't have a revise number for you but we will definitely will be within that.
- Moderator:** Thank you. We have a follow on question from the line of Jonas Bhutta from Phillip Capital. Please go ahead.
- Jonas Bhutta:** Sir just wanted some clarity on the kind of year end inflows that you are looking at from railways and civil.
- Vimal Kejriwal:** I don't have them. The numbers are not there but I think what we had said about that we can probably though around overall 10 to 15% growth in the overall order intake.
- Jonas Bhutta:** Okay, so to put it the other way sir in this 4000 crores of L1 you said about 800,000 crores is from Brazil auction, what is this Q of this 3000 crores balance is that also very international heavy.
- Vimal Kejriwal:** Sorry I missed the first part of your question.
- Jonas Bhutta:** Sir out of this, if you can just give us a flavor of this 4000 crores of L1 of which you said 1000 odd crores is from the Brazilian auction so the balance 3000 crores is this international heavy and does that contain another such large railway order.
- Vimal Kejriwal:** It does not have any large railway order but I will say proudly between international and domestic when I say international includes SAE the ratio would be 75-25, 75% international and 25% India.
- Jonas Bhutta:** Okay, fair. Sir the second question was.

- Vimal Kejriwal:** And I already earlier said that 600 crores of PGCIL L1 we have so you can draw your numbers now.
- Jonas Bhutta:** Sure, that helps. Sir the other was in the mix of debt, so what we have seen is our acceptances have half between March and September from 2000 odd crores to 1000 odd crores and I always sort of assumed that these are higher cost compared to the normal bank debt or working capital debt. Given that this mix has changed now, progressively what you mentioned is one reason why interest cost this quarter are up because interest rates are generally higher than what they were last year but now because of the sharp change in mix would the blended interest rates trend lower as an we calculated interest for the second half. I am sorry I am just trying to be pushy on this interest to sales.
- Vimal Kejriwal:** Jonas so it is not exactly like that, so basically what happens is in acceptances there is always some interest free credit period and beyond certain number that depends on negotiation with the vendors. So there is some interest free credit period and some interest baring credit period. So on an average if you look at the total interest paid on the acceptances would be lower than the debt cost and that is how we always prefer to have higher credit period from the vendor and higher acceptances level. So overall cost of the acceptance should be lower than the borrowing cost.
- Moderator:** Thank you. We have next question from the line of Sanjay Doshi from Reliance Mutual Fund. Please go ahead.
- Sanjay Doshi:** Sir, I want your thoughts around the strong order book that we have, order book plus L1 is closer to 24000 crores. How should we look at the profitability of this backlog versus our current run rate and given that there is sharp volatility in raw material prices and there would be large portion of fixed also.
- Vimal Kejriwal:** Sanjay fortunately you have been saying that our order book is not growing too much.
- Sanjay Doshi:** Sorry.
- Vimal Kejriwal:** On the raw material part what is happening is that, since we have now got lot of orders in last Q4 and H1. So what I was saying was that, I think we are pretty okay with this because what has also happened as I said many of the orders are new orders where we had factored in the current material so if you look at the current material price they are actually slightly lower than what they were around six months back, nine months back. So effectively what we are now seeing when we are getting the orders that I will say we are in the money now and out of the money in most of the commodities.
- Sanjay Doshi:** So basically it should be better than our reported 10.5 kind of number that we are doing today.

- Vimal Kejriwal:** Hopefully yes.
- Sanjay Doshi:** And also will there be any significant benefits of operating leverage or maturing of our railways and civil business as they gain state in terms of execution.
- Vimal Kejriwal:** I think it will be, I don't have the exact number but very clearly even this quarter our railway margins are much higher when you compare them either to Q1 or to the last year number one. Number two, when you look at the revenue mix which we had this quarter with our non T&D growing so significantly from 10% to 25-26% and we still doing a 10.5% EBITDA it is very clear reflection that our non-T&D businesses are making much more money in terms of EBITDA when they were doing earlier and that is mainly on account of the leverage.
- Moderator:** Thank you. We have next question from the line of Bharat Sheth from Quest Investments. Please go ahead.
- Bharat Sheth:** Sir when you guided for 10% EBITDA margin that time you were factoring that railway will be higher and from Q3 you will start having with the scale it will also come to T&D margins. So now in the second half T&D looks to be much higher than the H1 and as you already said that they already achieved the scale. So is there any upside to risk in second half margin.
- Vimal Kejriwal:** Bharat, I think you know we are very conservative in what we are saying, we would still prefer to stick to it, last time we increased because we felt it is going down. At the moment we would still prefer to stick to 10.5.
- Bharat Sheth:** My question was is there any upside risk to 10.5?
- Vimal Kejriwal:** Upside risk?
- Bharat Sheth:** Yes, it can go upwards movement.
- Vimal Kejriwal:** I know what you are saying, that is why I said, I will still prefer to stick to 10.5.
- Moderator:** Thank you. Ladies and gentlemen that was the last question. I now hand the conference over to the management for closing comments over to you sir.
- Vimal Kejriwal:** Thank you very much for all your interest. Thank you.
- Moderator:** Thank you very much sir. Ladies and gentlemen on behalf of KEC International Limited, that concludes this conference call. Thank you for joining with us and you may now disconnect your lines.