"KEC International Limited Q3FY13 Earnings Conference Call"

January 31, 2013

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Moderator: Ladies and gentlemen good day and welcome for the KEC International Q3 FY'13 Earning conference call. As a reminder all participant lines will be in the listen only mode. There will be an opportunity for you to ask questions at the end of today's presentation. If you need assistance during the conference call, please signal an operator by pressing "*" followed by "0" on your touchtone phone. Please note that this conference is being recorded. I would like to hand the conference over to Mr. Ramesh Chandak. Thank you and over to you Sir.

Ramesh Chandak: Good morning and welcome to all of you. I also have with me my colleague Mr. Varadhan Dharkar, CFO of our company. First of all I think I would like to thank you for taking interest in KEC. We announced our Q3 results yesterday in the late evening and some of the highlights are that the sales have grown by 23% at 1797 Crores. The EBITDA for the quarter stands at 103 Crores as against 113 so there is a drop in EBITDA.

If you look at our margins, the transmission margins are at about 8.75-8.8 level but our new businesses are all of them put together almost at a breakeven level and as you have been mentioning that new businesses were at a low margin but also some cost went up and the EBITDA margins almost came breakeven. In the current quarter also the contribution of the new business has gone up. So, there is a larger impact on the EBITDA margin for the company. This you will get an improved over two quarters and then of course the margins should improve.

Profit after tax for the quarter is at 29 Crores against 37 Crores of course the actual PAT was more because of the land sale profit of 43 Crores but the like-to-like comparison. The PAT is this quarter the PAT is 29 Crores as against the 37 Crores the corresponding quarter of the last year. Our receivables have improved at 174 days, which were 198 days in the corresponding quarter last year. So I think that is good improvement on the working capital side. There is also good improvement on our order book side and order book first time crossed 10,000 Crores in last four years it has almost doubled our order book and if you look at year-on-year growth is about 10.3% in spite of the execution being higher by 25%. So, we have kept a pace with the execution and further improved the order book.

We had a very strong order intake in this quarter 2300 Crores as these are spread across all the geographies and all the SBUs. If you look at our order intake in this financial year so far it is about 5800 Crores, which on a like-to-like basis is higher by almost 31%. Our total order book is about half of it is international, half of it is domestic but when you look at the execution, execution is the faster in domestic sales ratio may be 60% international and 40% domestic.

Another event recently has been that our Vadodara plant is on stream. We have already completed the phase I expansion and started commercial production. Phase II will be next few days time. We will start the commercial production. Trial production has already commenced. Vadodara plant is very world class facility and people and all the customers have visited so far are very, very happy with that.

Looking forward I personally think that the results will start improving now. Similarly we are seeing the pipeline in the order book. We are confident that going forward the results will be improved. Once again thank you very much for taking interest in KEC and we are now open for question and answer.

Moderator: Ladies and gentlemen we will now being with the questions and answer session. The first question is from Supriya Subramanian from Kotak Securities. Please go ahead.

Supriya Subramanian: Sir just a few questions from my end. One if you could share some bit of outlook on for the incremental the macro scenario in domestic as well as international markets and where do you see revenues inflows as well as margins going from say FY'13 is done so may be in FY'14 how do you see things panning out?

Ramesh Chandak: Personally we are expecting that the tempo of order book will continue to be maintained and we should be able to deliver a growth reasonably good growth about 15% for the next year. Then also we are expecting a margin improvement in the next year but there would be an improvement on sales as well as margin for the next year.

Supriya Subramanian: Sir in terms of last quarter you had shared that the standalone margins were also impacted because there were a few if these PGCIL order, which we have won at suboptimal margin levels is that out of the backlog now or is still some of that?

Ramesh Chandak: I think in other couple of quarters some of the orders are there and also in domestic business those new SBUs that in Power system and Railways they are also had very tight position but I think next two quarters probably that impact will continue.

Supriya Subramanian: Sir in these new SBUs what is the status of in terms of getting our own prequalification's in development on those front?

Ramesh Chandak: End of June most of the prequalifications will have other than the dedicated freight corridor which we may not have and we may not have the prequalification for the Metro Rail. Other than that for sub-station will have all the SBUs for Railways also for are the typical job of Railway will have the PQ but the Metro and dedicated freight corridor will probably take some more time. But actually in those not many companies in India are also qualified today. Many companies are taking help from the foreign companies. We did put a break for the DFC for eastern corridor but I think we are priced out so it may below our way above the price so we may not get any order in the DFC in the eastern corridor. We had put in bid jointly with KECs, Simplex and one foreign company. But now prices were higher I think almost all the all whole tender I think the Tata is the lowest.

Supriya Subramanian: Sir just one small question on what would be the current cash balance in the bank?

Ramesh Chandak: About 150 Crores.

Supriya Subramanian: That is it from my end. Thank you Sir.

Moderator: The next question is from Vikram Suryavanshi from Antique Finance. Please go ahead.

Vikram Suryavanshi: Sir one thing is that when you say that revenue from new businesses if I had a Telecom, Railways and Water it is coming around 130 Crores this quarter?

Ramesh Chandak: Should be 36% I think.

Vikram Suryavanshi: 36%?

Ramesh Chandak: I think we have given the different number.

Vikram Suryavanshi: But if you look consolidated revenue its not more than 10% I guess?

Ramesh Chandak: So you are not taking power systems and new business policy.

Vikram Suryavanshi: So power system also you mean to say that margins have not attractive right now?

Ramesh Chandak: Order of the substation we have taken 132 KV 400 KV substation for the PQ purpose.

Vikram Suryavanshi: Okay so that I was missing basically.

Ramesh Chandak: That my dude will have all the PQs required bidding up to for 400 KV substations.

Vikram Suryavanshi: Okay and margins in cable are relatively better now?

Ramesh Chandak: No they are really bad.

Vikram Suryavanshi: They are also bad.

Ramesh Chandak: The one disappointment which we had not that the market will improve but market have really not improved and the margins are poor in cable also.

Vikram Suryavanshi: Okay so basically 36% of revenue is basically where margins are not up to the mark?

Ramesh Chandak: Cable will probably improve, but there are two things in cable that one, we have Thane factory, which is now no production is happening there. This in the process of reducing the production and increasing the production Vadodara that has impacted the cost and similarly Vadodara is a new plant still not fully ramped up. Actually the cost there is more so it is impacting actually the cable margin, which probably now there is no production in Thane. So hopefully that cost will come down sometime.

Vikram Suryavanshi: And new facility Phase I you said has started now?

Ramesh Chandak: Phase I has started. Phase II is also starting in another 8-10 days.

Vikram Suryavanshi: So basically all capacity will start?

Ramesh Chandak: Capacity will start. It will get built up by end of February and then we have to work on. That is next year the cost of manufacture will come down but there will be impact of the depreciation and interest of the Vadodara plant.

Vikram Suryavanshi: So next year what kind of utilization we are looking on this new plant capacity utilization?

Ramesh Chandak: About 70% I would say.

Vikram Suryavanshi: So okay that would be reasonably good I think then probably you can cover lost of cost?

Ramesh Chandak: Actually we are expecting that the turnover will go up in spite of Thane being closed.

Vikram Suryavanshi: Sir would you share the order intake numbers in transmission and power systems?

Ramesh Chandak: I think we have circulated that will circulate otherwise. We always circulate.

Vikram Suryavanshi: Thank you.

Moderator: Thank you. The next question is from Ankur Sharma from Philip Capital. Please go ahead.

Ankur Sharma: Sir my first question was on SAE you have shared the revenue numbers could you also share the margins and also the PAT there for this quarter and may be also for the 9 month period please?

Ramesh Chandak: Actually the SAE EBITDA margins Q3 are bad and they are at 8.8% but in year-to-date they are at 12.8%. Particular quarter was bad and it was only 8.8%.

Ankur Sharma: Could you also share the PAT numbers if possible?

Ramesh Chandak: PAT I do not have it readily available but you can ask Mayur.

Ankur Sharma: Second again on SAE if I look at the order book that has now come down to about 660-odd Crores for SAE so are we still maintaining our revenue runrate of about 270-280 Crores every quarter because there obviously looks very difficult given the fact that the order book?

Ramesh Chandak: 1000 Crore per year revenue will be there. We are not expecting any reduction in that revenue in the range of 1000 Crores per year.

Ankur Sharma: But despite our order book having come down, so you are saying that that would be made up with new orders which we win in the following quarters?

Ramesh Chandak: See what happens these are the supply orders. Sometimes we can have order delivered in 60 days time. Order book in SAE and order book in cables are not comparable to the order book of the rest of the business in KEC because there the gap is only 60 days for supply or 90 days for supply. So order book is not very important whereas in a construction activity order book is very critical. Manufacturing item supply we are not doing any construction.

Ankur Sharma: Sir could you also give me the breakup of your debt, I believe the gross debt was close to about 2000-odd Crores broken into domestic, overseas and also the LCs outstanding?

Ramesh Chandak: I think that domestic is 1060 Crores and 950 Crores is the foreign currency debt.

Ankur Sharma: LCs would be how much sir?

Ramesh Chandak: It is about 700 Crores.

Ankur Sharma: Sir just one last thing on the margins again I know it has been discussed already. I believe power systems was close to 21% of our revenue this quarter and clearly that has been one of the drivers of our revenue, my guess would be these would be the order we won in Khazakistan about a couple of years back so the margin there I assume would have been lower than what we would have liked it to be?

Ramesh Chandak: Most of the problem is the order which we have bought in India for the prequalification. Rest of the order is not a big issue.

Ankur Sharma: Because we do not seem to have won too many big orders in India?

Ramesh Chandak: These are the orders, which we have received earlier then only when we executed the projects we are seeing that the cost are little higher.

Ankur Sharma: Would that be right to understand therefore that the Khazakistan order the margins are fairly in the 8% to 9% is that a fair assumption?

Ramesh Chandak: The Khazakistan order has a different system. Khazakistan order you get a very large advance so normally in the projects always cash positive. So it is basically a cash positive project all through the margin may not be higher but we are always cash positive and almost like guaranteed because we have a good set of subcontractor so the profits are almost guaranteed there whatever are there. I would not be able to share the order to order profit.

Ankur Sharma: Sir just one last question would be on your international revenues in transmission which seem to be down about 14% this quarter any specific reason or if you could just throw some more color there?

Ramesh Chandak: That the market is also I think we is seeing lot of competition in Saudi Arabia so I think it is purely the competition function of competition and the orders or number of new tenders coming in.

Ankur Sharma: I was talking revenues being lower?

Ramesh Chandak: It is essentially a function of the execution that we have agreed with the customer so we are just following the execution. So as far as the growth is concerned I think will have to look at it from not from the perspective of what it was last quarter but what was my execution agreed with customer this quarter and if I look at that then we are on schedule in all the contracts that we are executing outside of India.

Varadhan Dharkar: But if you look at the year-on-year there is a growth of 10%. See one quarter may be different if you take year-to-date still 9.6% growth.

Ankur Sharma: It is this quarter where we saw this degrowth come through?

Varadhan Dharkar: In our case one quarter can go here and there mainly because of the execution write offs where some forest clearances that happen.

Ankur Sharma: Thank you so much.

Moderator: Thank you. The next question is from Rajesh Rao from Major Trend Capital. Please go ahead.

Rajesh Rao: Can you give us the breakup of order book like power, transmission or power systems?

Ramesh Chandak: Order book actually we have circulated to all of you. Because I think everybody has that it is no use of repeating that. We have circulated to all of you.

Rajesh Rao: Thank you Sir.

Moderator: Thank you. The next question is from Bhoomika Nair from IDFC Securities. Please go ahead.

Bhoomika Nair: Sir you mentioned that the SAE margin in this current quarter has been quite weak the reason for the same and do we see it going back to 10%-12% as we were looking at historically?

Ramesh Chandak: Yes on an average there will be 10% plus.

Bhoomika Nair: Yes so any reason for this lower margin in the current quarter?

Ramesh Chandak: We have some particular order which is at low margin we have executed in this particular quarter so there is nothing special reason.

Bhoomika Nair: Okay so we see it reviving back to about 10-odd percent?

Ramesh Chandak: But year-to-date is still 12.8%.

Bhoomika Nair: Yes I understand that but I was just trying to look at from a situation if a one quarter phenomenon?

Ramesh Chandak: 12.8% is not the indication for SAE market.

Bhoomika Nair: The other thing was in terms of you mentioned that the margins are kind of weak because of these new segments and where we are executing the PQ related orders and it gets exhausted in the next two quarters or so. So once that is done on these new SBUs where do we see the margins?

Ramesh Chandak: Above 6%.

Bhoomika Nair: So then would it be fair to say sometime in the second half or Q2 2014 or thereabouts we start seeing margins coming back to the historical levels of 8%?

Ramesh Chandak: 8% will definitely a substantial improvement in the quarter than what it is today.

Bhoomika Nair: But it may not be back to the 8% levels?

Ramesh Chandak: That depends upon may be it is six months after that may be 2014-2015. Basically will have to bid at 6% and then we start bidding at 8%-9%. See on a long-term sustainable basis on infrastructure projects we can fairly expect 9% EBITDA margin. It is a worldwide trend and there is no reason that why we should not get that.

Bhoomika Nair: Fair enough so probably this year and next year is probably an impact because of these new businesses that we are going to get?

Ramesh Chandak: Next year also there will be improvement.

Bhoomika Nair: That is about it. Thank you very much.

Moderator: The next question is from Pranav Gokulae from Religare Asset Management. Please go ahead.

Pranav Gokulae: Sir, continuation of Bhoomika's question. What are the current margins on the new business segment which we are having right now in the nine months period may be?

Ramesh Chandak: Almost 91.

Pranav Gokulae: They are breakeven and you expect them to move to 6% by the end of next year or its further full next year?

Ramesh Chandak: The new orders which we are booking now we have 5% - 6% margins.

Pranav Gokulae: Because incrementally if I look at this current order inflow 33% is from this new business segment so this will be at 5% -6% levels?

Ramesh Chandak: The current order what we have received that is a margin as and when they come for execution.

Pranav Gokulae: You are saying there is a positive margin?

Ramesh Chandak: definitely about 5% margins.

Pranav Gokulae: Thank you Sir and all the best.

Moderator: Thank you. The next question is from Sanjeev Panda from Sharekhan. Please go ahead.

Sanjeev Panda: Just to continuation of the previous question this new business where we see 5% to 6% kind of margin scenario what are the kind of project execution period broadly in those projects?

Ramesh Chandak: Two years.

Sanjeev Panda: Another thing the Thane plant which will coming to Vadodara plant what is the plan like Thane plant like are you going to shut it down or something and how do you own that entirely or what is the outlook regarding that?

Ramesh Chandak: We own it entirely. Definitely there is no production is happening right now in Thane so production is stopped. We have to work on that now.

Sanjeev Panda: So will that be a something of a property that we can look at a future?

Ramesh Chandak: I cannot give you any commitment at this point of time about it. It is quite difficult to say any at this point of time. Most important that was really that because there are number of workers there I think we have to resolve with the workers.

Sanjeev Panda: Do you have any liabilities regarding those which will be into long term?

Ramesh Chandak: Yes, they are all permanent employees.

Sanjeev Panda: So will you be planning to settle how will it?

Ramesh Chandak: Every company will do something they are not going to keep them idle. I cannot tell you the strategy what we are doing. I think one did not share for me really to talk in public what we will be doing there. It would be unfair if I say anything.

Sanjeev Panda: The interest cost that has gone up this time like will it be only purely the quantum?

Ramesh Chandak: The percentage of sale has come down. It is same. It has not gone up. Ultimately are borrowing largely is again were focused on working capital changes were due to the working capital. The EBITDA it has come down in a way because we have spent all the money in the Vadodara plant in spite of that the interest cost is at the same level because our working capital has come down.

Sanjeev Panda: Thank you. That is it from my side.

Moderator: Thank you. The next question is from Chinmay Gandre from KR Choksey. Please go ahead.

Chinmay Gandre: Sir with respect to the PGCIL orders that you have won and you have won quite a lot of orders this time this year during from PGCIL so I mean the competition has been easing to an extent but I mean we have won almost 30-odd percent orders from PGCIL so have we bidding aggressively because on those orders I mean how is it sir?

Ramesh Chandak: See we have been bidding aggressively all through. Maybe earlier because which did not get the orders because of our prices were more now may be people have understood because we have seen that many people have made losses in the PowerGrid order. So now may be the margins are at an acceptable level so we are getting the order. But I think this is the question of merely the function of pricing and we have been bidding competitively PowerGrid earlier also but may be some people were much more aggressive than us so we lost those orders and we have regained its not that it is a new market we have never seen this market share. We have this market share few years back so we are back to our original market share.

Chinmay Gandre: So new orders you got from PGCIL if you put a range would it be like a 7% or 8% kind of EBITDA margins that you have won that?

Ramesh Chandak: May be better than that.

Chinmay Gandre: Sir and regarding your interest cost I mean it has gone up you said that it is primarily because of the capitalization of the Vadodara plant so out of 2000 Crore how much debt would be on account of the Vadodara facility?

Ramesh Chandak: That is about 150 Crores and I mean has not been entirely has gone because of that I have said that it is a combination of growth in sales. It is not only because of this Vadodara factor in spite of Vadodara interest being there we have been able to maintain as a percentage of sales because of the reduction in the working capital in the number of days of the receivables.

Chinmay Gandre: Sir the 150 Crore you mentioned it is combined of both Phase I and Phase II?

Ramesh Chandak: Yes complete, total.

Chinmay Gandre: Thank you Sir.

Moderator: The next question is from the Subbiah Subramaniam from Kotak Securities. Please go ahead.

Subbiah Subramaniam: Just one small follow up from my end one is in terms of the capex incurred for Vadodara what is the quantum and if you could share potential capex target for FY'14 as well?

Ramesh Chandak: See Vadodara I think about 181-90 Crores. Going forward it will be 100 Crores next year.

Subbiah Subramaniam: And sir any forex component in this quarter and YTD numbers if you could share?

Ramesh Chandak: I think few Crores are there I think 5-6 Crore is there.

Subbiah Subramaniam: This is for only 3Q?

Ramesh Chandak: This quarter only.

Subbiah Subramaniam: For nine months if you have those figure?

Ramesh Chandak: 27 Crores. Hopefully, now the rupee is strengthening.

Subbiah Subramaniam: Sure that is it from my end. Thank you.

Moderator: Thank you. The next question is from Ankur Sharma from Philip Capital. Please go ahead.

Ankur Sharma: Just one small question on your water business I understand that will be prequalified for the Colaba Storage Treatment Plant along with 5 other bidders so if you could just tell us a what is the size of that plant and by when can we see this order being placed and also which are the other cities which you may be targeting as well over the next couple of quarters?

Ramesh Chandak: I mean order target we can only say when we put the bid. Order will come or not we can not really say anything about that one. We have already doing similar projects for Sholapur Municipality right now. So I think again the water projects right now what we have planning is really to see that we get a proper prequalification. But may be in water we will not be as aggressive as we were in power system probably. We will see that water will always positive EBITDA margin even if you taking for the business. But will go slowly and gradually and we are not going to move very aggressively on that. But we are very keen for the Colaba project and will put in the bid as and when it comes. But it will all depend upon number of bidders and what pricing we have.

Ankur Sharma: What could be your size and also by when do you think this could come?

Ramesh Chandak: I do not have an off hand number on that, but this is not only one there are many other projects on which we are working on it.

Ankur Sharma: Thanks.

Moderator: Thank you. The next question is from Pawan Parekh from Espirito Santo. Please go ahead.

Pawan Parekh: My question is on the order inflow on the cable side. In the presentation we are seeing for the nine months the cables order intake is 2% of the total thing and if you deduct the H1 order flow it comes to a negative 250 Crores?

Ramesh Chandak: I think something wrong and I think that will never happen. I do not have those figures in detail, but actually order books see the cable itself execution is much higher. If you look at the cable execution is almost 7% part of the total sale is 7% which came on this quarter. Order book in power because if you look at in order book figure it must be there order in sometimes 30 days 60 days so order book as I mentioned in the beginning also order book for Cable and SAE are not material. It is a question because they get the orders they execute the order immediately sometime. The order book is not that critical as it is critical for the rest of the business of ours.

Pawan Parekh: Sir secondly we have spoken about many in the new businesses can you speak a bit more on the Telecom EPC business that we are doing?

Ramesh Chandak: Telecom is still very small I think. It is not a big size. Telecom has been only around 3% of our total business and right now the most of the business, which we are doing, is optic fibre on the existing lines of the PowerGrid. That is the large business which is going on I think we are doing 15,000 kilometer of existing line we are doing for them. Since we are in transmission business we are quite expert in doing this. We hope that the business will continue for a long time because that is basically bringing the telephone line on the transmission line. So I think many not only right now PowerGrid is doing but may be in future the SAP is going to do lot more people will do and that is the trend outside India. See we are looking at that business futuristically. Right now there are only three four players which are doing that I think L&T is there KEC is there LS Cable is there, BGR is there, only four companies are doing that business because you have to do in the live condition. It is related technical and complex. We have done similar project in Algeria earlier we have done 2000 kilometers Algeria couple of years back that's how doing.

Pawan Parekh: So Sir do you plan to do EPC on the cable laying also?

Ramesh Chandak: Sure definitely as part of our business.

Pawan Parekh: Okay so we will be collaborating with some of the cable manufacture for that or is that an independent business?

Ramesh Chandak: Both you have to because if you are a large tender the customer wants that which are the two people who is the EPC contractor with the cable supplier. They are probably precondition because they would like to know that who the cable supplier is. There are many cable suppliers in the country, so I think we are one of them.

Pawan Parekh: Thank you.

Moderator: Thank you. The next question is from Abash Sharma from Kotak. Please go ahead.

Abash Sharma: Sir my question is regarding Vadodara plant. Till now we have turn around Rs.150 Crore term loans for that and we are planning 100 Crores next year so how much term loan we are planning to drawdown on this Rs.100 Crores?

Ramesh Chandak: There are no term loans. They are all finished now. The plant is complete now. No more investment.

Abash Sharma: Okay and how much interest has been capitalized so far out of this 150 Crore interest?

Ramesh Chandak: No I do not have the off hand number.

Abash Sharma: But anything has gone into P&L or entire interest has been capitalized?

Ramesh Chandak: It is going to be very small in the beginning only three or four months. Production has happened up till July.

Abash Sharma: Sir this Thane factory closure how much turnover we have lost due to this closure?

Ramesh Chandak: 100 Crores.

Abash Sharma: How much turnover we are planning we are expecting this Vadodara plant to give?

Ramesh Chandak: See overall I am saying that the turnover will go up next year in cable over and above whatever is today. So we will compress it whatever we will lose in Thana.

Abash Sharma: Thank you.

Moderator: The next question is from Bharat Sheth from Quest Investment. Please go ahead.

Bharat Sheth: Sir just I mean on AP side you said that there is 5 Crores where it sits in this Q3 and 27 Crore around 27 in nine months?

Ramesh Chandak: This going to be other expenses.

Bharat Sheth: So it is negative correct.

Ramesh Chandak: Yes.

Bharat Sheth: Sir I mean if we really look at I mean order book which is now again a transmission side has increased to 73% which was earlier I mean a beginning of the year 70% so and these are with more profitable business correct?

Ramesh Chandak: Yes.

Bharat Sheth: So you see I mean this trend to start I mean from H2 of FY'14 or after second quarter of FY'14?

Ramesh Chandak: I think one quarter difference it really depends upon on the exhibition start but definitely it has to improve.

Bharat Sheth: Okay and normally on working capital side I mean in our borrowing comes down at the year end because we receive, where do you expect our borrowing in the year end?

Ramesh Chandak: It will depend up the customer. The most of the Indian customer want to pay by March end so normally that happens at the end of March but we are all trying. What happens that the payment intends to do but the payment may be sometimes they give in April sometimes they give I think we really do not know the number but I think the annual trend will continue that is my expectation. That has been there for last 10 years I have seen so I think there is no reason that this year the trend will be different.

Bharat Sheth: Sir nine months EBITDA is around 6% so where do you see full year and next year around normally you give the broad range so?

Ramesh Chandak: I cannot give the broad range but I think some improvement will happen but I really do not have the numbers right now.

Bharat Sheth: So even current year also?

Ramesh Chandak: Current year also I think this is slightly better than this but I do not have the numbers. Normally our Q4 is better.

Bharat Sheth: Because there was higher execution also?

Ramesh Chandak: Yes.

Bharat Sheth: Thank you.

Moderator: Thank you. The next question is from the Bhoomika Nair from IDFC Securities. Please go ahead.

Bhoomika Nair: Sir just wanted to discuss the overall competitive scenario and the ordering activity now given that you won a lot of orders from PGCL in the last nine months or so are these margins better than what do we have bagged in FY'12?

Ramesh Chandak: Yes.

Bhoomika Nair: Sir I mean in our side look at it PGCIL ordering is its peak and we are seeing most of the ordering is more or less done with so in the domestic business particularly do you see that the ordering activity could be little weak?

Ramesh Chandak: I think you also attend the PowerGrid conference that you know better. But PowerGrid is saying that they will maintain there tempo of placing the orders and we believe that and may be you can ask more specifically this question to PowerGrid also give me feedback what they have told.

Bhoomika Nair: What about ACB how is the ordering activity there are we seeing any kind of pick up or not really they just keep announcing and nothing is really happening and how is their payment cycle has it improved in any which manner?

Ramesh Chandak: We have not faced a payment problem with ACB that is a good market. Regarding the momentum in placing the order I think it will all depend up on the restructuring plant, which is the ACBs when you respond to the restructuring plant the ACBs which will respond to the restructuring plan and complete the pre condition definitely the one which will place the order lot more and the ACBs which do not respond to that will be (indiscernible) 36.32.

Bhoomika Nair: As of date would it be fair to say we have not in any kind of traction in something in the pipeline in a big manner in ACB side?

Ramesh Chandak: To my knowledge I think every ACB is working on the restructuring plant taking the restructuring in terms they are quite attractive. But I do not think anyone has completed that part. Everyone is trying. So it depends upon who is faster.

Bhoomika Nair: So at least probably a six to nine months away from ACB?

Ramesh Chandak: I think so. It may be closer to the election everything gets cleared and lot many orders will come.

Bhoomika Nair: But it would post the election because anyway closer the election?

Ramesh Chandak: Because they have to announce. They have to win the election.

Bhoomika Nair: International ordering is not really an issue in that?

Ramesh Chandak: There is also a shortage in demand. I cannot say there is no issue but they are at the same momentum nothing great is happening but whatever is there, there is no shortage also. I think there will be some improvement but not dramatic improvement. Looking at all our SBUs and all that we have a good growth momentum so far the order book and the sale growth is concerned.

Bhoomika Nair: Okay and what about margins in the international?

Ramesh Chandak: They are not substantially affected. They are same like India, but I will say the transmission margins will be around 9%.

Bhoomika Nair: Yes sir I understand but I just wanted to get incremental as we get orders I mean the orders are they getting very aggressive not very aggressive given that you know there is a slow down typically everywhere expect this space?

Ramesh Chandak: International cannot be bracketed as the international because the parameters in Middle East are different in North and South Africa and Central East, West Africa and then they are different in Central Asia. So we really cannot generalize that. It all depends upon country to country.

Bhoomika Nair: Thank you so much Sir.

Moderator: The next question is from Pawan Parekh from Espirito Santo. Please go ahead.

Pawan Parekh: Sir just one question you said for next year you have capex plan of 100 Crore could you actually give a break down as to where you will spend that amount?

Ramesh Chandak: 7000-8000 Crores companies 100 Crores turnover largely we go in the construction equipment, other thing is in the Mexico plant and some all three factories are here. We are all working on increasing the capacity I mean not capacity within a different fashion, but putting the balancing equipment in all the factories and in certain miscellaneous the 100 Crores in a company of our size, which will come.

Pawan Parekh: Thank you.

Moderator: The next question is from Sagar Parekh from Enam Holdings. Please go ahead.

Sagar Parekh: Sir if I am sorry if I am asking the question again because I missed certain part of the call what was the reason for lower margin in SAE?

Ramesh Chandak: Yes some orders they had at a low margin so they will execute those orders now so that margin has come less. Like I said they are not a long term sustainable basis we can expect 10% margins is what we are saying.

Sagar Parekh: Because last quarter when the margins are low you said that that was one off?

Ramesh Chandak: Year-to-date is still 12.8%.

Sagar Parekh: So 12% should be the sustainable rate going forward?

Ramesh Chandak: 10% sustainable.

Sagar Parekh: Okay and now the situation in SAE has improved in terms of incremental supply orders that you have getting over there?

Ramesh Chandak: This is same there is nothing no major changes which it has there sales will be in the range of 1000 Crores.

Sagar Parekh: Thank you.

Moderator: Thank you. The next question is from Ambar Singhania from Quant Capital. Please go ahead.

Ambar Singhania: Sir as you said that there are 5 to 6 Crores of forex in this quarter could you also give me the figure for the corresponding quarter last year and the Q2 in this year?

Ramesh Chandak: I do not have the number.

Ambar Singhania: Apart from this Vadodara like how much time will take to stabilize this plant like will it be one quarter?

Ramesh Chandak: End of this quarter we will stabilize by the end of the March quarter.

Ambar Singhania: So far have you announced any VRS or anything on the Thane plant or can we expect any some kind of extraordinary expenditure coming in this coming year?

Ramesh Chandak: Right now I really cannot talk about our strategy in the public.

Ambar Singhania: Thank you very much Sir.

Moderator: The next question is from Madan Gopal from Sundaram Mutual fund. Please go ahead.

Madan Gopal: Sir just I had one question probably I would have missed it I joined later. The margins have been lower and probably because the new business is not yet the margins in their not moving up so from which quarter do you expect the orders which you bagged in the new segment with higher margin as we discussed in the past would start contributing to our revenue share, if that has to happen?

Ramesh Chandak: Q1 of next year.

Madan Gopal: So as of now if I assume 10% kind of margin, which your peers as well as you would be making on the transmission business the margin in the new segment, should be in the negative range?

Ramesh Chandak: Regarding the transmission some new orders will pay at a better margin so we still have to execute the old orders.

Madan Gopal: So first they have to turn breakeven and then they will start contributing in terms of margin and what is the best case margin you expect sir because the construction today we are seeing not more than 5% margin in these companies? Is that the kind of margin that you will see even when we started executing the new orders?

Ramesh Chandak: Yes I expect about a 1% improvement in margin in general.

Madan Gopal: Next year overall margin?

Ramesh Chandak: Yes.

Madan Gopal: Thank you Sir and best of luck.

Moderator: Thank you. Ladies and gentlemen that was the last question. I now hand the conference over to Mr. Ramesh Chandak for closing comments.

Ramesh Chandak: First of all let me thank you once again to all of you who are really taking interest in KEC. As I mentioned, during the discussion that whenever any question there please ask Mayur or anyone of us. We will be happy to provide any additional information you want. Thank you very much and have a good day.

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