

Operator

Ladies and gentlemen, good day, and welcome to KEC International Q3 FY '14 earnings conference call. Joining us on the call today are Mr. Ramesh Chandak, MD and CEO; and Mr. Vardhan Dharkar, Executive Director - Finance. As a reminder, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Please note that this conference is being recorded. I now hand over the conference to Mr. Ramesh Chandak. Thank you, and over to you, sir.

Ramesh Chandak, Managing Director & CEO

Good morning, and good day. This is Ramesh Chandak and I have my colleague Mr. Vardhan Dharkar with me. First of all, let me thank all of you for joining this conference this early morning. We had announced our results yesterday and the broad details are like this. The revenue for the quarter is at 2,202 crores against 1,797 crores during the corresponding quarter. So the year-on-year growth is about 22.5%. Out of this about 55% sales in the quarter were outside India and 45% in India.

EBITDA for the quarter stands at 142 crores, which is 6.4% of the sales against 103 crores, which was 5.8% in the corresponding quarter. It is important to note that our margins are gradually improving every quarter and they are higher than the last previous six quarters. The interest cost for the quarter has basically increased to 72 crores against 53 crores in the corresponding quarter. The increase is primarily due to higher interest rates, capitalization of Depreciation has increased to 18 crores against 15 crores, that's an increase of 3 crores. This is again primarily due to the capitalization of our Baroda cable factory. Profit before tax for the quarter is 54 crores against INR43 crores during the corresponding quarter. EBITDA growth is about 26.4% over the corresponding quarter. However, the net profit has come down to 19 crores, that is down by 34, 35%, due to the higher tax provisions.

The tax provisions are higher primarily due to two reasons; one is there is a 12 crores tax for the earlier previous year; and secondly, the taxes paid outside India on overseas business profits could not get fully offset due to the DTA and due to the lower profits in India.

We have received new orders approximately 600 crores and our order book is -- continues to be 10,000 plus crores. Overall, we see a very strong pipeline, robust order book and continuous flow of order book, and improved profitability. Thank you once again for taking continuous interest in KEC.

Now, we can open for the questions and answers. Thank you.

Questions And Answers**Operator**

Thank you very much, sir. We have the first question from the line of Renu Baid from Batlivala & Karani Securities. Please go ahead.

Renu Baid, Analyst

Good morning, sir.

Ramesh Chandak, Managing Director & CEO

Good morning, Renu.

Renu Baid, Analyst

Sir, just couple of questions from my side. First I think in the closing -- opening comments, you did mention about a strong order pipeline that you see. So the pipeline that you're indicating is both from domestic business as well as exports, or you see the export markets continuing to be much stronger than the domestic market, your views on this?

Ramesh Chandak, Managing Director & CEO

No, both the markets are actually more or less at the same level. We have seen this year that we have a strong order book from Power Grid as well as SEPs.

Renu Baid, Analyst

Right.

Ramesh Chandak, Managing Director & CEO Renu Baid, Analyst

Okay. And sir, on Power Grid just wanted your views on two things; first, that, yes, we have seen as in obviously beginning of the year the market was not as good now that they have also received funds, so there is clear improvement on the execution side. But we have seen a lot of companies who were earlier disqualified and with whom there were execution related issues coming back to Power Grid. So from a competition standpoint perspective, you think the market and the Power Grid segment continues to be competitive? Competition has consistently been in form for last four to five years in that market.

Ramesh Chandak, Managing Director & CEO

I don't see any problem with the Power Grid business. Actually, even if the new parties which were not getting the orders are coming now, they've realized that putting very low prices is not useful.

Renu Baid, Analyst

Right.

Ramesh Chandak, Managing Director & CEO

So, I think the price level should continue to be reasonable.

Renu Baid, Analyst

So even if competition now comes back, as in the pricing you don't expect that to take a hit again --

Ramesh Chandak, Managing Director & CEO

Yeah.

Renu Baid, Analyst

-- in the new --.

Ramesh Chandak, Managing Director & CEO

-- every business competition will come.

Renu Baid, Analyst

Right.

But then as long as people are not really dipping the prices unnecessarily and making loss, now most of people have realized that making loss is not a good strategy.

Renu Baid, Analyst

Correct. And sir, second question, as in we have seen as in this year relatively SAE performance has been a bit muted, especially with respect to sales and order booking there. So what is the outlook there in North American and Latin American, Brazilian markets and how do we see SAE ramping up of within our portfolio?

Ramesh Chandak, Managing Director & CEO

See, definitely I think the SAE performance is not as good as we thought. One of the main reasons is that the Brazilian currency has really depreciated, so that has impacted our sales. Brazilian currency has depreciated even more than Indian currency.

Renu Baid, Analyst

Right.

Ramesh Chandak, Managing Director & CEO

Converted into the rupees also it got impacted. Secondly, of course the North America has not done very well so far the Mexico plant is concerned. But we have seen now the signs of improvement, so next year will be better.

Renu Baid, Analyst

Okay. And sir, just only for understanding prospective as in, in the local currency one just tries to exclude the impact of the Brazilian currency depreciation there. On a like-to-like currency basis, have we seen growth in that segment of the market in the Latin American market?

Ramesh Chandak, Managing Director & CEO

No, the growth is not there.

Renu Baid, Analyst

Growth is not there. So as in -- it has been an impact of both the factors, currency as well as lower volume --

Ramesh Chandak, Managing Director & CEO

More than the Latin America, the impact has come mainly because of the North America --

Renu Baid, Analyst Ramesh Chandak, Managing Director & CEO

-- America so much.

Renu Baid, Analyst

Sure. And just a small question to close, on the interest cost side domestically we are not seeing any signs of interest cost coming down.

Ramesh Chandak, Managing Director & CEO

Yeah.

Renu Baid, Analyst

Though on the working capital, we are seeing good traction. Do you see our interest to sales coming back to about 3% level? So probably that will remain at the current level close to 3.5%?

Ramesh Chandak, Managing Director & CEO

Our efforts are to bring it to 3% and we are expecting that next year it will come back to 3%.

Renu Baid, Analyst

Okay, sir. Next year this should narrow down the gap?

Ramesh Chandak, Managing Director & CEO

Yeah.

Renu Baid, Analyst

Okay. Thank you so much, sir. All the best, and I'll get back with more questions in the queue.

Ramesh Chandak, Managing Director & CEO

Thanks.

Renu Baid, Analyst

Thank you, sir.

Thank you. We have the next question from the line Ankit Babel from Subhkam Ventures. Please go ahead.

Ankit Babel, Analyst

Sir, good morning. My first question is again on your interest cost. In the first nine months, it has already been very high. So just wanted to check, what is your guidance for this year in terms of interest cost? And going forward, sir, what do you expect next year? Do you agree that the interest cost will rise in line with the top line growth or it will be in the same as FY '14?

Ramesh Chandak, Managing Director & CEO

No, First thing is that this year interest cost will be more or less in the same line in the first nine months period. Next year, we're expecting the -- further improvement in the working capital management, which will reduce our cost of interest. We're expecting the interest cost would be around 3%. But the growth, because of the increases in the sales, will definitely with there, so that proportionate increase will be there. But as a percentage of sales, we are expecting that it will come down to 3%.

Ankit Babel, Analyst

3% of sales?

Ramesh Chandak, Managing Director & CEO

Yeah, percentage of sales to -- this time it's 3.2%.

Ankit Babel, Analyst

Okay.

Ramesh Chandak, Managing Director & CEO

3.2, 3.3%, which will come down to 3%.

Ankit Babel, Analyst

Okay. And sir, my second question is that in a recent analyst meet of Power Grid, they had mentioned that the -- that their CapEx for the next five-year plan would be as high as 2 lakh crores plus in the transmission line segment as compared to just 1.1 lakh crores in this current five-year plan. So just wanted to have your views, is it possible to double the expenditure in the transmission line? Is there that much of need in India?

Ramesh Chandak, Managing Director & CEO

First thing is that need in India is even more than that.
Okay.

Ramesh Chandak, Managing Director & CEO

So definitely, there the need is much more than that. If the Power Grid invests that much money, we will definitely get a higher share. If Power Grid does not invest, then actually -- but it will be definitely better than the current year I think.

Ankit Babel, Analyst

No, current five-year -- this is the estimate for the five year plan, so they have actually doubled it.

Ramesh Chandak, Managing Director & CEO

I've read that interview and we also met Power Grid. Power Grid is hopeful that -- increasing CapEx during the next five years. I'm saying that if they really increase the CapEx we'll definitely -- our business --

Ankit Babel, Analyst

Sir, that I agree, means no doubt that you will not get your share in that. Just wanted to check, can it be doubled in the next five-year plan? That they will increase, that is fine. But can they increase the 100% or not, just wanted to have your views on that?

Ramesh Chandak, Managing Director & CEO

I think that is -- your case is more important, but the only thing is that India needs much more than that. Whether they'd invest or not, I think that -- I think you've to get your -- make your own guess, because you also talk to the Power Grid directly, so you know better.

Ankit Babel, Analyst

Okay, fine. Thank you, sir.

Operator

Thank you. We have the next question from the line of Shazia Naik from Anavaran Investments. Please go ahead.

Shazia Naik, Analyst

Hello, sir. Thanks for taking my question.

Ramesh Chandak, Managing Director & CEO

Hi, Shazia.

Shazia Naik, Analyst

Hi. My first question is actually a follow-up on Renu's question, which was about comparative and density increasing. Sir, so I just wanted to verify that you don't see any margins being impacted because of this and we still have our earlier license impact for the margins for FY '15?

Ramesh Chandak, Managing Director & CEO

For the company?

Shazia Naik, Analyst

Yes, sir.

Ramesh Chandak, Managing Director & CEO

Yeah, sure.

Shazia Naik, Analyst

Sir, that was around 89%, right? So we still expect that?

Ramesh Chandak, Managing Director & CEO

Yeah.

Shazia Naik, Analyst

And sir, it seems SAE and Power Systems have improved compared to last quarter, sir. Can you throw some light on specifics for those regions and going ahead?

Ramesh Chandak, Managing Director & CEO

I am getting your question. Can you repeat?

Shazia Naik, Analyst

Yes, sir. Sir, I said I was just -- I've been looking at your presentation and SAE and Power Systems have shown improvement from last quarter, maybe not as much we were expecting SAE but still some improvement. So, can you throw some light on the specifics and the road ahead?

Ramesh Chandak, Managing Director & CEO

Okay. I think definitely some improvement will come.
Right.

Ramesh Chandak, Managing Director & CEO

As it is, I think in our view that the SAE performance has not been good. We're expecting it to improve in the last quarter and also in the coming quarters.

Shazia Naik, Analyst

Okay.

Ramesh Chandak, Managing Director & CEO

And so far, the power system and other new SAEs [ph] (inaudible) are concerned, definitely most of the loss making orders are getting over, barring some 100 odd crores.

Shazia Naik, Analyst

Right.

Ramesh Chandak, Managing Director & CEO

Actually, the next year that loss will not be there.

Shazia Naik, Analyst

Okay.

Ramesh Chandak, Managing Director & CEO

-- loss will not be there. Actually the EBITDA positive will be there of the new businesses.

Shazia Naik, Analyst

Okay.

Ramesh Chandak, Managing Director & CEO

Actually, that's how we've said that the EBITDA margins can be 8% plus.

Shazia Naik, Analyst

Okay. So sir, what is your status of the low margin orders now in the backlog?

Low margin orders will always be there, but I said, all the old orders which we took initially which had problem for last one year or 18 months --

Shazia Naik, Analyst

Yes.

Ramesh Chandak, Managing Director & CEO

-- that's hardly 100, 120, 150 crores are left, everything is now executed.

Shazia Naik, Analyst

Okay. So, we should see some improvement from that aspect actually adding to the margin?

Ramesh Chandak, Managing Director & CEO

That's right. That's why I said that overall we should be 8% plus margins next year.

Shazia Naik, Analyst

Okay, sir. Sir, and I just wanted to understand about the other expenses, what exactly are included in that?

Ramesh Chandak, Managing Director & CEO

Other expenses?

Vardhan Dharkar, Executive Director - Finance

Other expenses, there are many expenses over there. So, maybe what I will suggest is that you talk to me or Mayur offline, I will give you the complete details.

Shazia Naik, Analyst

Okay, sir. Will do. Sir, thanks. I'll come down [Technical Difficulty]. Thanks for taking my questions.

Operator

Thank you. We have the next question from the line of Kishan Gupta from CD Equisearch. Please go ahead.

Kishan Gupta, Analyst

Yeah, good morning, sir.
Good morning, Kishan.

Kishan Gupta, Analyst

Yeah, hi. Just how much has been the quarter-on-quarter change in debt and acceptances?

Ramesh Chandak, Managing Director & CEO

See, debt is more or less same, the acceptances have gone up by 300 crores.

Kishan Gupta, Analyst

So, will it make that much of an impact to your total finance cost?

Ramesh Chandak, Managing Director & CEO

Finance cost is a combination of three, four things. I have said that interest cost has gone up earlier in the Baroda plant. Interest was getting capitalized, which is not getting capitalized now. It's a combination of this. And what happened is the advance from customers have gone down by 300 crores and advance from acceptances have gone up by 300 crores. So, that's why the overall balance sheet hasn't changed. But the -- instead of advances now their acceptances have gone up.

Kishan Gupta, Analyst

Do you have other finance charges also built in that figure?

Ramesh Chandak, Managing Director & CEO

No.

Kishan Gupta, Analyst

No? And just want to understand, you were as bullish about FY '14 as you are about FY '15 now, so -- but we haven't seen any significant improvement in FY '14, in fact the profits I think so would be lower this year than it was last year. So what has changed, I mean in a year which gives you confidence that things will pick up this time?

Ramesh Chandak, Managing Director & CEO

I don't remember that I have given you a different -- I think my guidance has been more or less in the same line and I don't know where you got that -- I had given some different numbers and the different numbers --

Kishan Gupta, Analyst Ramesh Chandak, Managing Director & CEO

In our perception, the new business has stabilized, no -- they are doing much better. There were some loss booking orders, which I last time also mentioned that will continue to give some losses for some time. I'm seeing that those orders left out only about 100, 150 crores. Most of the orders are about executed. These are the orders which we took in the first few months when the divisions were started. So, I don't see any difference in my guidance.

Kishan Gupta, Analyst

And what about the domestic T&D business, what's the margin expectation?

Ramesh Chandak, Managing Director & CEO

I said that overall our margins will be 8% plus next year, that's what I'm saying.

Kishan Gupta, Analyst

Okay, thank you so much.

Operator

Thank you. We have the next question from the line of Bhargav Buddhadev from Ambit Capital. Please go ahead.

Bhargav Buddhadev, Analyst

Yeah, good morning, sir. Thanks for taking my question.

Ramesh Chandak, Managing Director & CEO

Good morning.

Bhargav Buddhadev, Analyst

Sir, not only for KEC but across E&P players we have seen this signs of turnaround, meaning industry getting disciplined. I mean just to dwell up on this, what could be the particular reason for this? Is it that the pre-qualification norms have tightened? What -- also another trend which we are seeing is players are bidding but only selected players' bids are getting opened. So -- I mean if you can

dwell more upon this, is this a structural shift towards incumbents or what, I mean?

Ramesh Chandak, Managing Director & CEO

I think the -- first of all, I think I have to explain that Power Grid is not a very dominant factor in our overall business.

Bhargav Buddhadev, Analyst

Right.

Ramesh Chandak, Managing Director & CEO

-- fact is that Power Grid business alone cannot make lot of difference in KEC.

Bhargav Buddhadev, Analyst

Right.

Ramesh Chandak, Managing Director & CEO

Difference. Maybe for some other companies it's making a lot of difference, but in KEC it cannot -- ultimately only 18, 20% is our Power Grid business, 80% businesses is outside of Power Grid.

Bhargav Buddhadev, Analyst

Okay. So even in power distribution projects, are you seeing this trend of industry consolidation or not?

Ramesh Chandak, Managing Director & CEO

Power distribution, you are talking of power system or you're really taking of distribution or -- what business you are talking of?

Bhargav Buddhadev, Analyst

Rural electrification and all.

Ramesh Chandak, Managing Director & CEO

Rural electrification, I think more smaller parties are coming and bigger parties are getting out.

Bhargav Buddhadev, Analyst

Okay. But then in Power Grid in specific, are you seeing PQ norms getting a bit stringent and hence only a few players are getting pre-qualified? Earlier two years back that wasn't the case, but now there's some industry consolidation which is happening.

Ramesh Chandak, Managing Director & CEO

I don't think anywhere the PQ norms are getting stringent or anything. Only now most of the utilities, not only the Power Grid but other utilities, also are looking at people who are able to deliver the project, people who are not able to

Bhargav Buddhadev, Analyst

Okay.

Ramesh Chandak, Managing Director & CEO

Accordingly, the people are looking from that angle. I don't think anywhere the people [ph] have got --

Bhargav Buddhadev, Analyst

So basically, people are looking at the track record -- earlier record and that is what is now getting looked at, that's what you're trying to say?

Ramesh Chandak, Managing Director & CEO

Whoever has a good track record will get the order.

Bhargav Buddhadev, Analyst

Okay, fair enough. Thank you very much, sir.

Operator

Thank you. We have the next question from the line of Bharat Sheth from Quest Investments. Please go ahead.

Bharat Sheth, Analyst

Hi, good morning, sir.

Ramesh Chandak, Managing Director & CEO

Good morning, Bharat.

Bharat Sheth, Analyst

Sir, what we understand from the industry that is recently this Power Grid has changed their business model. See, earlier they were giving -- I mean tendering was for EPC contract only but now they are separate tender for procurement of material and separate for the construction side. So what is the factual part and can you throw some light on that?

Ramesh Chandak, Managing Director & CEO

No, what you're saying is factual.
Okay.

Ramesh Chandak, Managing Director & CEO

-- actual tenders in the market, so that is fact. I'm not saying it is not a fact.

Bharat Sheth, Analyst

Okay.

Ramesh Chandak, Managing Director & CEO

I think according to us, about 5, 10% odd tenders are like that, and different type of tenders will always be in the market, because each customer, each tender will look at options, what suits them. And we have seen some tenders from Power Grid which are for the tower materials separate and construction separate.

Bharat Sheth, Analyst

So, how is it going to -- say, in future if they go more on this line then it's going to affect?

Ramesh Chandak, Managing Director & CEO

No, then we'll put out, say, two tenders instead of one tender.

Bharat Sheth, Analyst

But then if we don't get, say, then only we -- probably we may supply the tower and in certain case if we don't get both the -- I mean same tender for same contract, then how it really works out I mean, just can you throw some light I mean?

Ramesh Chandak, Managing Director & CEO

See, (inaudible) this is a concept which many utilities have where the owner supplied material many times and many times they ask you to supply something. Even in case of Power Grid today, we supply tower, but the conductor is supplied by the Power Grid and filters are supplied by the Power Grid. So there's a system. And earlier also Power Grid had the same system.

So it's not really that this is a totally new system. See, right now what is really turnkey is only tower and the erection, rest of the things are still supplied by the Power Grid. So the same thing, instead of that they'll also supply a tower but the tower manufacturers are same. It really doesn't impact business as such.

Bharat Sheth, Analyst

Okay. Is that any chance that power when you have shifted the whole material on site and tower does not come, then it affects your margin because of someone else having a problem.

Those tenders have not yet come in execution, so we'll see as and when those tenders come into execution.

Bharat Sheth, Analyst

Okay. And is it going to -- I mean this will be the trend or --

Ramesh Chandak, Managing Director & CEO

That Power Grid knows better, how do I know what would --

Bharat Sheth, Analyst

And sir, just can you -- I mean on this tax front, if you remove this 12% our full -- 9 months tax rate is working out something 50%, so full year where do you see the tax rate, I mean --

Ramesh Chandak, Managing Director & CEO

It will come down a little bit; full year it will come down little bit.

Bharat Sheth, Analyst

Okay.

Ramesh Chandak, Managing Director & CEO

And this year is abnormal because I think what happened that -- the profit earned is more in the international and domestic profit was less.

Bharat Sheth, Analyst

Okay.

Ramesh Chandak, Managing Director & CEO

Whatever tax we paid internationally could not get the set up and I think that -- so that impact has come.

Bharat Sheth, Analyst

And sir, for full year what kind of --

Ramesh Chandak, Managing Director & CEO

-- problem next year.

Okay. So next year will be around 35% which earlier used to be --

Ramesh Chandak, Managing Director & CEO

36, 37%, what is that rate -- yeah, next year will be the same rate.

Bharat Sheth, Analyst

And sir, can you just give full-year turnover, I mean how -- I mean top line growth and full-year EBITDA, because nine months we have already almost around 5 --

Ramesh Chandak, Managing Director & CEO

We don't give guidance.

Bharat Sheth, Analyst

Approximately what kind of --

Ramesh Chandak, Managing Director & CEO

No, that's as good as guidance, approximately; we don't give the guidance at all.

Bharat Sheth, Analyst

Okay. And sir, how about I mean, in other business outlook, SEB side how -- what is the outlook for SEB side?

Ramesh Chandak, Managing Director & CEO

We're getting good orders, so we've seen good traction in the SEBs also.

Bharat Sheth, Analyst

But there again, margin is again little lower than the Power Grid business?

Ramesh Chandak, Managing Director & CEO

Different part -- different SEBs, different margins are there. Then you have to see at that point of time what is your hunger for order, how keen you are in that state. So, there are so many things decide actually the margin.

Bharat Sheth, Analyst

Okay, thank you very much.

Thank you. We have the next question from the line of Tanuj Makhija [ph] from Ambit Capital. Please go ahead.

Unidentified Participant

Hi, sir. Sir, you mentioned that the order inflow or order pipeline is quite strong from the SEBs also. Can you throw some insight as to which states are giving orders for transmission lines right now?

Ramesh Chandak, Managing Director & CEO

See, we have seen traction in Rajasthan, Karnataka, Andhra, Tamil Nadu, West Bengal, I think that's what I remember.

Unidentified Participant

And what could be the approximate order pipeline from these SEBs?

Ramesh Chandak, Managing Director & CEO

See, normally it should be equal to Power Grid, how much they can give [Technical Difficulty] permit is different. But if you really look at the five-year plan and how much they have to invest and how much -- about 50-50. So, this should be equal to the Power Grid. The Power Grid is talking next 5 years 2 lakhs then they should also be 5 lakhs -- 2 lakhs.

Unidentified Participant

So, you believe that the SEBs would be able to achieve the five-year plan target of 1 lakh crores?

Ramesh Chandak, Managing Director & CEO

I think that is your guess, I think you people know the industry better.

Unidentified Participant

Sir, I want to know your opinion. You're in the industry and you would better see the order pipeline.

Ramesh Chandak, Managing Director & CEO

I think I -- I hope that the -- most of the SEBs are getting over their [Technical Difficulty]. Many of them are talking to the governments of the restructuring which was proposed in the last budget. Some of SEBs -- I understand four or five SEBs are getting closer to the standing of that terms, conditions. So, I expect that the investment by the SEBs will increase substantially in coming time.

Unidentified Participant

Okay. Sir, and have we seen higher tenders open right now or request for grids from SEBs, post the restructuring?
Yes.

Unidentified Participant

Okay. And sir my second question is that in the tariff-based competitive bidding for operating a transmission line, for the last two projects the tariff-based bid was cancelled because they were on a higher profit table. So would you also be bidding right now for tariff-based competitive bidding?

Ramesh Chandak, Managing Director & CEO

Right now, I don't think we are very aggressive. So, we may not bid --

Unidentified Participant

Okay. And sir, my last question pertains to what is your interest cost?

Ramesh Chandak, Managing Director & CEO

Interest cost has -- in what, percentage rate or --

Unidentified Participant

Yes, sir. Percentage rate.

Ramesh Chandak, Managing Director & CEO

Around 9%.

Unidentified Participant

9%?

Ramesh Chandak, Managing Director & CEO

9 and 10.

Unidentified Participant

Okay. Thank you very much, sir.

Operator Bhoomika Nair, Analyst

Yeah, good morning, sir.

Ramesh Chandak, Managing Director & CEO

Good morning.

Bhoomika Nair, Analyst

So, most of my questions have been answered. I just wanted to get a sense on the international transmission segment, how is the competition out there?

Ramesh Chandak, Managing Director & CEO

Competition is intense everywhere for international, so competition is intense definitely.

Bhoomika Nair, Analyst

Okay.

Ramesh Chandak, Managing Director & CEO

We have all seen that good orders come in from some of the areas like Tanzania, Saudi Arabia, Abu Dhabi, similarly Indonesia. So I think we are seeing -- there's always opportunities and what can they -- able to capture the opportunities. But so far competitions is concerned, competition is quite intense everywhere.

Bhoomika Nair, Analyst

Okay. So you are not seeing any increased competitive intensity by some of these players because Jyoti and all have -were not there earlier in the international market, so they've also entered out there. So, are you seeing any aggressive bidding by them or anything?

Ramesh Chandak, Managing Director & CEO

More the merrier, it's always good -- competition always should tight -- competition is always good.

Bhoomika Nair, Analyst

Okay.
-- competition.

Bhoomika Nair, Analyst

Okay. And what about SAE, I mean in SAE market, how has that been?

Ramesh Chandak, Managing Director & CEO

As I said, that SAE market was slightly slow in North America, expected to improve, and I think we've seen some traction there. So, hopefully next year will be much better than this year.

Bhoomika Nair, Analyst

Okay. And they were -- we were also expanding some poll capacity out there, right, --

Ramesh Chandak, Managing Director & CEO

That has started now production and supplies have started.

Bhoomika Nair, Analyst

Okay.

Ramesh Chandak, Managing Director & CEO

So, that impact will come next year.

Bhoomika Nair, Analyst

Okay.

Ramesh Chandak, Managing Director & CEO

That is completed now.

Bhoomika Nair, Analyst

Okay. And -- I mean in this quarter, was there any ForEx loss, any notional ForEx losses?

Ramesh Chandak, Managing Director & CEO

6 cores loss is there -- 6.3 crores is the loss.

6.3, okay. And sir, you also spoke on this legacy orders which are largely over and this is barely now about 100, 150 crores in the order backlog.

Ramesh Chandak, Managing Director & CEO

Yeah.

Bhoomika Nair, Analyst

So, has there been any loss that we've booked on these orders in the third quarter, because I think first half we did book some losses out there?

Ramesh Chandak, Managing Director & CEO

Yeah, every quarter some -- I think this quarter was I think only about -- I think 5 crores or so.

Bhoomika Nair, Analyst

5 crores, so that's come off very significantly vis-a-vis the second quarter of about 20 crores plus kind of a loss.

Ramesh Chandak, Managing Director & CEO

It has to come down anyway.

Bhoomika Nair, Analyst

Okay. So -- I mean so this should largely be over in the -- by the next quarter, so then next year we should definitely see an improvement from that --

Ramesh Chandak, Managing Director & CEO

At the end of year some 150 crores will be left out, which I think -- when Q1 should be over.

Bhoomika Nair, Analyst

Okay. And in terms of the Baroda capitalization, you mentioned, which impacted the interest and the depreciation, how much was that capitalization in the current quarter?

Ramesh Chandak, Managing Director & CEO

How much I think you have to ask Mayur.

Bhoomika Nair, Analyst Ramesh Chandak, Managing Director & CEO

I don't remember that number.

Bhoomika Nair, Analyst

Okay, I'll take it from him. Okay, great, sir. Most of my questions have been answered. Thank you very much, sir, and all the best.

Operator

Thank you. We'll take the next question from the line of Pankaj Bobade [ph] from Axis Mutual Fund. Please go ahead.

Bhoomika Nair, Analyst

Sir, thanks for taking my question. Just want to know if I'm -- well, our new businesses contribute around 10% of the total order -- revenue -- or rather order book. So where do we see ourselves going ahead? And second question, I just want to know the reason for rise in tax rate for this quarter.

Ramesh Chandak, Managing Director & CEO

Firstly there are two things, one is that definitely the growth in the new businesses will come having stabilized now. So far interest -- tax rate is concerned, as I mentioned that there was one-time charge of some previous year taxes and there were also that -- some tax credit we could not get because of the DTA and the lower income, lower profit in India and higher profit in the international market business. So -- and we are expecting that the next year this should not be there.

Bhoomika Nair, Analyst

So the second thing that you mentioned that we do, we did -- we couldn't have -- we couldn't offset the profit from --

Ramesh Chandak, Managing Director & CEO

Well, the profit in the domestic was less than the profit in the international, so they deduct the tax. When they deduct the tax if you don't the credit, then there will be a rate of -- trade difference will be there.

Bhoomika Nair, Analyst

Will this credit be carried over next year?

Ramesh Chandak, Managing Director & CEO

No.

So, we will not be getting any benefit out of this?

Ramesh Chandak, Managing Director & CEO

No; no benefit.

Bhoomika Nair, Analyst

Okay. And regarding the new businesses, where do you see these new business panning out going forward, means would they contribute more than 10% or near to 25% or 20%?

Ramesh Chandak, Managing Director & CEO

The intention is that the new businesses over the period of time will really expand and each of these businesses, whether you take railway, water or power systems, they're all capable of becoming as big as transmission, provided our strategy works very well. But it'll take years, this cannot happen overnight. So it will take few years to happen then.

But each business which we have started has a big growth potential, and we continue to work on that strategy. We'll be little cautious because we suffered losses this year and last year. We'll be little cautious in expanding, but definitely we are very bullish on all the three businesses which we started.

Bhoomika Nair, Analyst

Okay. Sir, last question; you said that we have a legacy orders of around 150 crores which will end up by -- will be finished off by Q1.

Ramesh Chandak, Managing Director & CEO

Yeah.

Bhoomika Nair, Analyst

As we booked loss for this quarter around 5 crores, how much of losses are expected from this 150 odd crores?

Ramesh Chandak, Managing Director & CEO

It will not be very much in significance.

Bhoomika Nair, Analyst

Pardon?

Ramesh Chandak, Managing Director & CEO Bhoomika Nair, Analyst

I mean less than 5 crores or around that number?

Ramesh Chandak, Managing Director & CEO

If anything is left out it will come only at the time of closure, the project you come to know which is not within your knowledge that will get booked.

Bhoomika Nair, Analyst

Okay, thank you sir.

Operator

Thank you. We have the next question from the line of Kunal Sheth from Prabhudas Lilladher. Please go ahead.

Kunal Sheth, Analyst

Yeah, good morning, sir.

Ramesh Chandak, Managing Director & CEO

Good morning, Kunal.

Kunal Sheth, Analyst

Sir, I just wanted to know, we've mentioned in our opening remarks that we're expecting further improvement in working capital the next year. So I was just wondering what are the key levers we will have and we'll work on to improve that?

Ramesh Chandak, Managing Director & CEO

Better coordination, better follow-up, ensuring that the work is done -- billable work is always done and not that some works which cannot be billed is done, normal whatever we do for working capital, nothing spectacular.

Kunal Sheth, Analyst

Okay, so basically more rigorous follow-up and improved processes is what we are essentially talking about?

Ramesh Chandak, Managing Director & CEO

And we are working very hard on that -Okay.

Ramesh Chandak, Managing Director & CEO

-- and hopefully that everything is in place now. So, we'll start implementing so it will make an impact. Maybe it should make an impact in the -- March itself.

Kunal Sheth, Analyst

Okay. Sir, any targets you have set in terms of number of days you'll be looking at to reach next year or maybe --

Ramesh Chandak, Managing Director & CEO

Yeah, definitely there are internal targets, but we are not in a position to really disclose that and we don't want to really talk about that, but definitely internal target are there.

Kunal Sheth, Analyst

Sure. No problem. Thank you, sir.

Operator

Thank you. We have the next question from the line of Ankur Sharma from PhillipCapital. Please go ahead.

Ankur Sharma, Analyst

Yeah, good morning, sir.

Ramesh Chandak, Managing Director & CEO

Yeah.

Ankur Sharma, Analyst

Sir, my first question was on SAE again, because margins -- what were the margins during this quarter on SAE and more importantly, where do you see the margins kind of settling down going into next year?

Ramesh Chandak, Managing Director & CEO

For this quarter, the margin is only 6%.

Ankur Sharma, Analyst Ramesh Chandak, Managing Director & CEO

Okay. We are expecting that the margins will be around 10% and I think next year also they'll be around the same 10%.

Ankur Sharma, Analyst

Okay, sir, that's -- so it should go back to that 10% number --

Ramesh Chandak, Managing Director & CEO

-- quarter, this year they will be close to 10%.

Ankur Sharma, Analyst

Okay.

Ramesh Chandak, Managing Director & CEO

Okay. This one quarter is lower.

Ankur Sharma, Analyst

Okay. That's --

Ramesh Chandak, Managing Director & CEO

And if you look at year-to-date, it's still 10%; year to date is not less.

Ankur Sharma, Analyst

Okay.

Ramesh Chandak, Managing Director & CEO

What happened, that only this quarter is lesser that has really impacted little bit of our EBITDA.

Ankur Sharma, Analyst

Okay, that's helpful. And sir, secondly on the gross debt number, we are still at about 2,000 odd crores. Where do you see that settling down by the year-end? I mean, I would expect that number to come down going into Q4, but if you could help me on that. No, I think what happened is, see the -- see, either the acceptance will come down or the debt will come down, so one of things will come down. Now the question is today that ultimately the debt will increase in line with the sales, okay. To the extent whatever working capital gets reduced, that much debt can reduce. Otherwise, the rest of the things will continue in proportion of sales. And we already gave just the guidance that about -- the interest cost will be around 3% next year, of the sales.

Ankur Sharma, Analyst

Okay, and -- that's helpful. And sir, just one last thing on the water business where I think we booked a couple of large orders during Q3; which are the states where you're seeing traction and what's the kind of competition? And clearly -how do you see that going forward into next year?

Ramesh Chandak, Managing Director & CEO

(inaudible) I think Karnataka, since maybe I think Baroda -- sorry, Bangalore Municipality, but I think we are not operating in all the states, we are operating only in I think Gujarat, MP, West -- not West Bengal. Mostly, the two, three states are MP and Gujarat --

Vardhan Dharkar, Executive Director - Finance

Bangalore.

Ramesh Chandak, Managing Director & CEO

-- and Karnataka. We are not operating in all the states.

Vardhan Dharkar, Executive Director - Finance

And --

Ankur Sharma, Analyst

Okay. And so, how do you see that going forward, I mean do you expect going into '15 --

Ramesh Chandak, Managing Director & CEO

Cautious in growth, as I said that we will be cautious in growth. We see that this is a good business. There's lot of potential to grow that business. But we will be little cautious in growing.

Ankur Sharma, Analyst

Okay. And these orders are, sir, mostly plain water treatment and sewage treatments plants, is that correct?
No, this one -- the last one is a sewage treatment plant.

Ankur Sharma, Analyst

Sewage treatment, okay. Okay, and how our main competitors you're working against in these orders?

Ramesh Chandak, Managing Director & CEO

I think there are so many competition, so many companies are there actually. TATA project is there, (inaudible) is there.

Ankur Sharma, Analyst

Okay, of course (inaudible) is there, okay. Okay, sir, great. That's helpful. Thank you and best of luck.

Ramesh Chandak, Managing Director & CEO

Thank you.

Operator

Thank you. We have the next question from the line of Venugopal Garre from Barclays. Please go ahead.

Venugopal Garre, Analyst

Hi, thanks for this opportunity. So just a few small questions. On the Cables business, I think there is a pretty good growth in sales in this quarter. So just wanted to check on a Y-o-Y basis, wanted with the new factory coming up, what kind of margins we getting there and how we see that improving over the next few quarters.

Ramesh Chandak, Managing Director & CEO

See, right now the margins are bad.

Venugopal Garre, Analyst

Okay.

Ramesh Chandak, Managing Director & CEO

We're expecting that the cable business will improve next year. And as I mentioned that overall basis next year will not have negative margins -- negative EBITDA margins in the -- all the new business put together. And cable also will not have a negative EBITDA margin, it will have a positive EBITDA margins next year.

Cable, the issue is pricing or utilization?

Ramesh Chandak, Managing Director & CEO

Right, both combination today. That Baroda plant utilization has not increased to the extent we wanted, and also basically the pricing issue.

Venugopal Garre, Analyst

Sir, secondly on this legacy order or rather the bank merchant order book of 100 to 150 crores, so this is spread across a new business plus power systems --

Ramesh Chandak, Managing Director & CEO

Yeah, across all the businesses.

Venugopal Garre, Analyst

So I just want to understand, but when you -- since you know these are sort of -- there probably costs have been higher than what you thought, so you would have already ideally done the cost -- booked --

Ramesh Chandak, Managing Director & CEO

-- is that we already provided, but what happens is that when you actually comes to closure of the project, some costs which are not anticipated also comes. When you close the project something is left out, some punch item is there and that's all -- will come.

Venugopal Garre, Analyst

Okay. But your expectation of margin improvement, which is something which we also expect given the order book -bad order book is quite less, but is that -- is it more of a second half next year phenomena where you actually suddenly go off or --

Ramesh Chandak, Managing Director & CEO

Not for about a year, I'm saying, which order is expected what time because it's not -- it does not mean that the -- all the new orders are at a very high margin or all the new orders are at a very low margin. Because even in the new business -- established business like transmission, also there will be some orders which are low margin, high margin. On an average when we execute, we're expecting the margin will be 8% plus.

Venugopal Garre, Analyst

So the new inflows that are coming in now, especially even in Q3, are you seeing sort of margins or the pricing being pretty much on your targets? Is that you're seeing or you're seeing any unusual change in pricing levels across the

Ramesh Chandak, Managing Director & CEO

See, the -- any order will come only at the target level which is -- it's coming off a dream level or what we want, that I cannot say you. But definitely when you put a bid, you put at a target, isn't it, and then you get order, so you get as your target. But the target is also changing. So I think today what I'm saying that as a combination -- I'm again repeating that we're expecting that the next year whatever order book backlog we have plus whatever pipeline is looking at, we should have a margin of about 8% plus.

Venugopal Garre, Analyst

Right, sir. Also just --

Ramesh Chandak, Managing Director & CEO

Each tender -- sometimes you're entering a new country you will have a different target, sometimes you're entering a very established country you will have a different target, sometimes you're executing a very difficult position you'll have a different target. So target is not a standard target that the target X. Each project, each tender has a different target. You get your order -- you always get your order at your target because you put a bid like that.

Venugopal Garre, Analyst

And this -- just to understand, this is very similar expectation from your new businesses too, right? So when you're bidding businesses which are going slow today, you would essentially take in orders only if it fulfills a certain margin criteria, which I understand would be close to 19%?

Ramesh Chandak, Managing Director & CEO

We were not attended [ph]. Obviously what I have said that earlier we took -- those orders were also not taken at a loss. We made mistake in our costing, those were initial Q4 orders which is in each SBO. There was a mistake in the costing itself. That's what we really suffered and now getting corrected. [Technical Difficulty] would put a bid at a negative margin.

Venugopal Garre, Analyst

Sir, just a couple of very small questions. FX loss is at the EBITDA level, right, this is booked at the --

Ramesh Chandak, Managing Director & CEO

Yeah.

Venugopal Garre, Analyst

And sir, in the debt how much would be ForEx debt in the 2,000 odd crores?
About 700 crores.

Venugopal Garre, Analyst

Okay, thank you so much, sir.

Vardhan Dharkar, Executive Director - Finance

Thank you.

Operator

Thank you. We will take the next question from the line of Divyata Dalal from East India Securities. Please go ahead.

Divyata Dalal, Analyst

Yeah, good morning, sir. Most of my queries have been answered. Just wanted to know more on the cables business; from which segment are we seeing more orders coming in? Neither -- is it from power or is it from telecom cables?

Ramesh Chandak, Managing Director & CEO

I think as of today we have good orders for telecom also.

Divyata Dalal, Analyst

Okay.

Ramesh Chandak, Managing Director & CEO

But I don't say that it's a trend, or the telecom orders comes in one stroke and then there'll not be another one. But I think so far next year is concerned, we'll have good telecom orders, but they're already in hand.

Divyata Dalal, Analyst

Okay, and who would be the major clients in --

Ramesh Chandak, Managing Director & CEO

-- is always BSNL -- basically telecom department --

Divyata Dalal, Analyst Ramesh Chandak, Managing Director & CEO

We are seeing some improvement in the demand but we're not seeing the improvement in the pricing yet, because there is over-capacity in the market today.

Divyata Dalal, Analyst

Right.

Ramesh Chandak, Managing Director & CEO

And it is not over-capacity really from the country but it's actually under-capacity, but because right now the demand is very low it looks like the capacity is higher. So this really can change only when the -- as I said, our investment in distribution starts working. And distribution, when -- distribution has to start by the SEPs. I think we are all waiting that the SEPs start the investment in the distribution. The moment that starts, I'm expecting the cable business --

Divyata Dalal, Analyst

Okay, because we've seen good growth quarter-on-quarter in this business, so that is mainly contributed by the telecom side, is it?

Ramesh Chandak, Managing Director & CEO

No, contributed by the power cable.

Divyata Dalal, Analyst

By the power cable, okay. And sir, what would be the CapEx for this year and for next year?

Vardhan Dharkar, Executive Director - Finance

(inaudible) same, 100 crores we spoke, and t I think next year also it should be around 100 crores. We only --

Divyata Dalal, Analyst

So this 100 crores includes the SAE Tower CapEx as well?

Vardhan Dharkar, Executive Director - Finance

Yeah.

Divyata Dalal, Analyst Vardhan Dharkar, Executive Director - Finance

All the segments.

Divyata Dalal, Analyst

Okay. Alright, that's it from my side. Thank you.

Operator

Thank you. We have the next question from the line Ravikiran Surana from TATA Securities. Please go ahead.

Ravikiran Surana, Analyst

Yeah, Good morning, sir.

Ramesh Chandak, Managing Director & CEO

Good morning Ravi.

Ravikiran Surana, Analyst

Yeah. Sir, my question is on the tax rate on the standalone P&L for the quarter. So even if I adjust this 9 crores from the standalone tax expense of 31 crores, your tax rate even in standalone is close to 50%, so any reason for that; on a 42 crores PBT effective tax is 22 crores?

Vardhan Dharkar, Executive Director - Finance

See, actually as Mr. Chandak explained earlier, one is that of course the 12 crores tax that we have paid for our (inaudible), that is impacting the current quarter tax liability. And second, as you said, that the more profit was outside of India where we paid the taxes and profit was lower in India. So, we couldn't claim the complete set of the taxes paid outside of India.

Ravikiran Surana, Analyst

No sir, I'm referring to standalone financials only.

Vardhan Dharkar, Executive Director - Finance

Yeah.

Ramesh Chandak, Managing Director & CEO Ravikiran Surana, Analyst

Okay.

Vardhan Dharkar, Executive Director - Finance

The international business that we're talking about is KEC International Limited business outside of India.

Ramesh Chandak, Managing Director & CEO

We're not talking of [Technical Difficulty].

Ravikiran Surana, Analyst

Okay, got it. Thank you.

Operator

Thank you. We have the next question from the line of Abhineet Anand from Quant Capital. Please go ahead.

Abhineet Anand, Analyst

Yeah, sir. Just wanted to know, I think in the result that has been published, there is a one-off of 9 crores. So what you guys are saying is basically 12 crores at the tax level. So first, what's that numbers, whether it's 9 crores or 12 crores? And secondly, there is no one-offs apart from that in the tax part?

Vardhan Dharkar, Executive Director - Finance

Sorry?

Abhineet Anand, Analyst

Basically in the -- I think in the tax expense that has been shown, for the quarter it says 9 crores as prior-period tax.

Vardhan Dharkar, Executive Director - Finance

Yeah, for the quarter it is 9 crores, but for the 9 months it is 12 crores.

Abhineet Anand, Analyst

Okay. So for the quarter is 9 crores only?
Yeah.

Abhineet Anand, Analyst

And given the trend and given the order book that we have, we would largely be knowing what type of sales mix we will have in 4Q. So what would the tax rate (inaudible) for the whole year '14?

Vardhan Dharkar, Executive Director - Finance

It will be lower than what we have for the 9 months, so slightly it will come down.

Abhineet Anand, Analyst

What would be a ballpark number, sir?

Vardhan Dharkar, Executive Director - Finance

Slightly difficult to say at this point of time.

Abhineet Anand, Analyst

But for '15 you say, it will be more like 35, 36%.

Vardhan Dharkar, Executive Director - Finance

Yeah. 37% is more likely to be the next year's tax rate.

Abhineet Anand, Analyst

Okay. And we have said that for FY '15 we'll have a margin of it around 8% plus, is it right?

Ramesh Chandak, Managing Director & CEO

8% yeah.

Abhineet Anand, Analyst

So we are basically -- given that new business contributes like 10, 15%, so we are type of confident that in the transmission space you will have around 9 to 10% margin, is it right to assume?

Ramesh Chandak, Managing Director & CEO

But I don't have the numbers but I think -- the calculations are with you, so you can always calculate.

Okay. And given that you have a strong order book in hand, any ballpark number where could we see the FY '15 sales growth --

Ramesh Chandak, Managing Director & CEO

We don't give that.

Abhineet Anand, Analyst

Okay. Thanks a lot, sir.

Operator

Thank you. As there are no further questions from the participants, I now hand over the floor back to Mr. Ramesh Chandak for closing comments. Thank you, and over to you, sir.

Ramesh Chandak, Managing Director & CEO

Once again, I want to thank all the participants. I really appreciate the interest taken in KEC. And you've any questions, please get in touch with Mayur so that more details you can get. I think all of you have the numbers of Mayur, so please go ahead.

Thank you very much. Have a good day.

Operator

Thank you, sir. Ladies and gentlemen