"KEC International Limited Q3 FY-22 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the KEC International Limited Q3 FY22 Earnings Conference Call. We have with us today from the management, Mr. Vimal Kejriwal, MD and CEO, and Mr. Rajeev Agarwal, CFO. As a reminder, all participant lines will be in 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. Please note that this conference is being recorded. I now hand the conference over to Mr. Vimal Kejriwal. Thank you and over to you sir.

Vimal Kejriwal: Thank you so much. Good morning to all of you. I welcome you all to the Q3 Earning Call of KEC. I hope that you and your family are safe and healthy during these challenging times. Let me start with an update on the overall performance for the quarter and the nine months and thereafter talk about each of the respective businesses. We continue to have a robust order intake. We have secured our highest ever YTD order intake of 14,121 crores a staggering growth of more than two times over last year. Large contributions in the order intake have been from our international T&D and civil businesses. This has significantly enhanced our YTD order book to an all-time high of Rs.24,400 crores growth a robust growth of 36% over last year. Additionally we have an L1 in excess of Rs.4000 crore. Our order book is well diversified across businesses with an equal share in both T&D and non-T&D businesses.

Coming on to the financial performance, we have achieved revenues of Rs.3340 crores for the quarter against Rs.3289 crores of Q3 last year. The growth could have been higher, but for the impact on our three ongoing projects in DMRC and RRTS due to the NGT issues and Supreme Court ban, which has now been lifted, excessive and prolonged rainfall in certain areas of South India and intermittent challenges due to COVID in some international locations, including Brazil. Considering the continuing elevated levels of commodity prices and freight charges, we continue with our strategy to regulate the supply of towers and conductors to some of the projects as per the requirements of the project cycle. Notwithstanding this, our YTD nine months revenue stand at Rs.9461 crores with a growth of 8% on consolidated basis, and 12% on standalone basis, vis-à-vis nine months last year.

Considering our current order book and L1 position, we are very confident of good growth going forward. Despite significant challenges, we have delivered double digit EBITDA margins of 10.2% at the standalone level and 7.2% at the console level for the quarter. The standalone EBITDA margins for the quarter have improved by around 90 basis points sequentially. We have delivered a PBT margin of 7.1% and a PAT margin of 5.1% at the standalone level. Our console PBT margin stands at 3.7% and PAT at 2.8%. The consolidated margins have been impacted primarily due to the continued time and cost escalations in SA Brazil due to the pandemic/ elevated commodity prices and unusual rainfall in the year.

Net debt as on 31st December 2021 stands at Rs.2913 crores, the debt has increased during that quarter due to some delays in collection from the railways. However, we expect the same to largely normalize in Q4.

Now coming to the specific businesses. Our T&D business continue to witness significant traction with YTD order intake of over Rs. 6,400 crores with a robust growth of 50% against last year. Inflows has been led by orders in the international markets, especially in the Middle East, SAARC and Americas. The businesses has achieved revenues of Rs. 1610 crores for the quarter. The revenues are slightly lower due to the strategic realignment of dispatches in some projects as mentioned earlier, and intermittent COVID challenges in America and SAARC, primarily Bangladesh. The overall tender pipeline in T&D continues to remain strong, especially in international T&D. We are also witnessing a gradual revival in the domestic T&D market with the significant upcoming opportunities of Green Energy Corridor Phase II and Leh Ladakh HVDC lines. I presume you have read recently that, the Leh Ladakh HVDC lines phase one have now been awarded to Power Grid on RTM basis and will not go into TBCB. Majority of these tenders are expected to be announced by H1 FY23.

In Brazil, the two legacy projects are on the verge of completion and are expected to be completed within Q4. Despite the significant challenges, we have successfully commissioned one EPC project during the quarter, and work on the three other EPC projects are going on as per schedule. We continue to see some challenges in the EPC project execution. We have secured a few large tower in army supply orders in Brazil. The supply prices and availability has eased significantly, but still not fully absorbed.

Our railway business has achieved a revenue of Rs. 950 crores for the quarter, delivering a growth of 9% vis-à-vis Q3 last year. The business has secured YTD orders of over Rs. 1,500 crores, the growth of 45% over last year. In line with this diversification journey, the business continues to deepen its presence in technologically enabled areas of metros through orders in OHE**,** power supply systems and track link for metros and is also widened its presence in the conventional segments with orders in speed upgradation, port connectivity, tunnel ventilation and railway siding. We have seen some good success with orders in these new areas, especially in the semi high speed rail under Mission Raftaar where our current market share is over 70%.

The overall tender pipeline in Railways continues to remain strong, with a blend of conventional, technologically enabled emerging areas as well as international opportunities. Though the pipeline is robust, there is a delay in tendering awards of our tenders under evaluation in railways. The total amount is around Rs. 6000 crores currently, which is under evaluation. We are also witnessing increased competition, especially in the conventional segment with the entry of road EPC players and tier two, tier three EPC contractors. However, now that the requirement of tender bonds has come back from 1st January, we do see that the competition will ease up a little. Nevertheless, with the continued trust on execution, a strong tender pipeline and an order book of plus L1 of over Rs. 5500 crores. We will remain confident that railways will continue its growth momentum going ahead.

Our civil business continues to be on a high growth trajectory as we delivered another quarter of strong performance with revenues of Rs.480 crores and an impressive growth of 1.8 times vis-à-vis Q3 last year. The business has also seen a record year in terms of order inflows with orders exceeding Rs. 4,800 crores in YTD FY2022, growth of 7x over last year. The business continues to strengthen its presence in the growing areas of urban infrastructure and water pipeline segments with its second large order for Chennai Metro, and four orders in the water pipeline segment totaling to about Rs. 1,200 crores. The company is now executing seven Metro/ RRTS projects of aggregate value of Rs. 4,500 crores. The business continued its diversification by foraying in public spaces through its first airport order, reinforcing presence in the industrial with orders/L1 in metals and mining, cement and FMCG segments and expanding footprint in data centers. The uptick in order intake and significantly enhanced the order book plus L1 to an all-time high of over Rs. 7000 crores. We are confident that this business will continue to be one of the key growth drivers for us going forward.

In oil and gas business. We have completed the acquisition 100% equities in Spur Infra in October 21. As mentioned earlier, Spur is a wholly owned subsidiary of KEC now. The business has started demonstrating exemplary performance post acquisition and it has secure new orders of Rs. 300 crores and clocked revenues of Rs. 70 crores in this quarter. We are also progressing well with the integration of Spur Infra with KECs policies and processes leverage synergies for faster growth. With order book in access of Rs. 800 crores we are confident that this business will become a significant part of KECs overall business portfolio going forward both in India as well as overseas.

Our cables business continued its superior performance as it achieved its highest ever quarterly revenue of Rs.387 crores with a robust growth of over 27% vis-à-vis Q3 last year, contributed by growth across all segments. The business is progressing well with the development of new products is also received approvals for a few new products during the quarter.

In Smart Infra, I am pleased to share that the business has secured an order as a Master System Integrator (MSI) for Smart City components for three smart cities in Punjab. In terms of execution, the existing projects of Aurangabad and Bidkin Smart City and the project for integrated perimeter security system for defense airports are progressing well towards completion.

Overall, we are pleased with our revenues and order intake, despite significant challenges. We are making good progress in deploying several mechanization, automation and digitalization initiatives across projects to improve productivity and quality of execution. However, the business environment continues to remain uncertain with the prevailing high commodity and freight costs and uncertain pandemic scenario. I would also like to add that we have commenced execution of quite a few projects in the T&D business which have been secured recently based on the current commodity and logistic costs.

Having said that, with a strong focus on execution, robust order book plus L1 of over Rs. 28,500 crore and a strong tender pipeline, we are confident of a good performance going forward. Thank you. We are open to questions now.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Ashish Shah from Centrum Broking. Please go ahead.

Ashish Shah: First question is on the working capital side, so there our working capital has been increasing we are saying because of railways, etc. But what we're generally observing and many other engineering construction companies is that, working capital broadly seems to be in a pretty okay shape, and the government is also very clearly releasing more money for the various departments, et cetera for payments. So, why this particular situation that is happening with the railways that we are facing?

Vimal Kejriwal: What is happening is that, there is some churning happening in the railway ministry. In fact, there was a talk today I was seeing on television also saying that railway PSUs may merger, etc. So, there has been some internal reshuffling happening between companies and all of that within the railways, zonal railways and the various PSUs like RVNL, Ircon**,** etc. So, that's getting sorted out. And even in the month of January, we did receive a lot of funds on railways and other piece is that, on the net basis railways we were cash positive for the last few months, the collections have been slower. And the other two issues which were there, one is you are aware that we have got some AR in Afghanistan, which has not yet come, in the third piece that we have funded SAE to be in the losses, so that's one thing. So, overall we do expect that the situation both from railways and overall as a company will start improving and by Q4 it should be almost back to normal. Rajeev you want to add something on this please, go ahead?

Rajeev Agarwal: Vimal I think you have elaborated basically, these are the three main issues which have impacted some working capital, but we are close to about Rs. 2,900 crores on a net debt basis as against our guidance of Rs. 2,500 crores. Please also appreciate, one more thing that there has been a growth for the nine months period is roughly about 8% to 9% growth also is there in the company. So, that also takes some additional working capital, but nevertheless, we are quite conscious of this fact that our net debt has expanded by Rs. 300 - 400 crore over the guidance that we have been giving to the investors and we are quite confident that we should be able to bring it within our guidance of Rs. 2,500 crore by the end of quarter four.

Ashish Shah: And sir, besides the net debt there is also the acceptances number which has increased substantially, so our interest cost which typically we expect should remain in the 2% range has actually gone to 2.5% or so. So even that part is probably adding to the interest, so why is that also increasing sir?

Rajeev Agarwal: So, basically, if you look at for the nine month period we are exactly at the same level at 2.3% of the interest cost as against last nine months also. So, this is exactly in line with the last year and only the quarter three, we have seen the interest cost slightly higher and also because of the fact that interest rates have also expanded in Q3, if you look at the GSEC securities, the interest rates have increased by almost 70 basis points compared to the last year, the commercial paper market is also showing increase in the interest rates. So, there also we are seeing roughly 0.5% to 0.7% interest rates are going up. So, there is a interest rate increase all around. So, that is also one of the factors and obviously quarter three has been some issues that we have already highlighted on account of the delays in some railways and plus we have funded the losses in SAE and obviously, the Q3 is the first quarter post Afghanistan event where the money has not come Q1, Q2 we had received money regularly from Afghanistan. So, these are the three factors and we are quite sure we will normalize it by Q4.

Ashish Shah: Just last question sir, on the SAE part, if you can just give us a glide path on how do we see the losses kind of normalizing or we achieving a breakeven or a profit. If you can just tell us how the Q4 is looking and how early next year should be, how should we be looking at that. And also on the SAE, you said we funded some losses. So if you can just indicate how much have you funded during this quarter of this year, it would be helpful. Thank you.

Vimal Kejriwal: So, Ashish as I mentioned in my opening remarks, we expect that two old orders which were loss making, we had three, one of them got completed in the last quarter, one is going to be, actually both of them will be completed this quarter. One will be over in this month itself February, and the third order that had been, we had arrived at a settlement with the client that there has been some descoping, etc**.** So, whatever is our scope will also get over in this quarter. So hopefully, with this all the losses on SAE for the old projects will get closed in this quarter. So this quarter will also see some pain very clearly. On the new projects, we are generally going well so we do hope that from Q1 onwards, we should start seeing either breakeven or maybe some minor losses which will continue which are not accounted for this quarter. But broadly we do expect that from Q1 we'll start seeing better numbers from SAE although we are expected to see better numbers in Q4 but unfortunately the projects could not be completed due to various factors some of it within our control, some not in our control. So, Q4 will still see some pain not more than Q3 definitely but doesn't look like there will be more than that. But Q1 onwards, the pain will subside significantly. We may even, hopefully we are trying to see we can turn positive. But even if it is not, it would be very small numbers. We have funded around Rs. 200 crores this year. Rajeev?

Rajeev Agarwal: Absolutely Vimal we have funded see, in the first nine months we have lost close to about Rs. 250 crore, the number is there in front of you in the console number and in the subsidiaries account. So that number ultimately has been funded either partly by equity and partly by way of taking additional loans.

Moderator: Thank you. The next question is from the line of Parikshit Kandpal from HDFC Securities. Please go ahead.

Parikshit Kandpal: My first question is, so I see the risks which are emanating from the company, so one is on the working capital which has been expanding due to delay in collections from Railways. Second piece is SAE then Afghanistan and then commodity prices, these four, five factor really has been impacting us negatively, so to do thing the worst is behind us with respect to these factors now?

Vimal Kejriwal: If you look at let me start with commodity price, which is the most talked about thing. On the steel side we have been continuing to supply towers as we have said earlier. So actually a large part of the worst on steel is behind us. Aluminium is something which continues to be there. We have not done much of aluminium supply this year and we don't expect to do it for at least new few quarters because that's where the projects don't' require whatever the projects required had been. So, if the aluminium continues at this elevated level, then we will see some pain happening, but that pain would be accounted for in the margins, which we will discuss let's say later on or for next year. As far as Afghanistan is concerned, we are in regular discussion with all the multilateral lenders, etc. and we do expect that we will start seeing some light in Afghanistan. As you may be aware Government of India has already sent three consignments of the lifesaving drugs and now we are in settlement on sending 50,000 tonnes of wheat through Pakistan. So, clearly, we have seen that interaction at the government levels are increasing, we have also seen U.S. government opening up and talking about sending money, etc. So, all the lenders are very keen that they paid money however, they are waiting for opening up of the international banking transactions, which the talk is that they will open up very quickly. So, Afghanistan is that, working capital as I mentioned earlier to Ashish that, we do expect that in Q4 we will rationalize or we should be able to normalize to a large extent. SAE again, as I said Q4, will see some pain but after Q4 we should start seeing a significant improvement in the numbers, I hope I have answered all your questions Parikshit.

Parikshit Kandpal: Yes. So my second question was on SAE. So after ironing out the issues in the three projects and these projects getting completed this year and something may get carried forward in the first quarter next year, but from the bidding perspective, profitability growth and so, how you position now as your positioned to now capture, the opportunity which may emerge in next year. So, you see opportunity for SAE playing out over the next year?

Vimal Kejriwal: So Parikshit, one is that we have had some management changes in the Brazil setup and we have sent one gentleman I don't know if some of you may know him Mr. Rakesh Gaur was a part of the international T&D in KEC, then railways portfolio and then he was in Kalpataru and now he has joined us back. He has gone to head the operations last two, two and a half months. Our order book has currently about Rs. 1,000 crores a large part of that is now on power supplies and hardware supply, what we have done was that, last year once we saw the problem issues were happening, we had actually slowed down on EPC order intake till we sort of settle all the issues. Now that all the issues are getting settled, we will start waiting at the market, which is expanding. There is a larger auction in June and then there's another talk of a larger auction in December. So, we do expect there is a market to pick up and also as part of the entire shape up we have seen a few smaller EPC companies falling off. So, competition will also slowly start coming down.

And the last piece is that, we have clearly seen the steel prices in Brazil and availability which was a major issue stabilizing. So, we do hope that next year onwards, we should start seeing better numbers in Brazil and SAE. The other part which does not get commonly discussed is our Mexico operations, which also falls under SAE and we are now clearly seeing that a lot of order, traction coming out of the North American market specially the U.S. market. After quite some time, our factory in Mexico is now running virtually full and we have a decent order book for the next two quarter also.

Parikshit Kandpal: Okay. Lastly on the Railway segment, so, if I understand correctly when you have the Metro project, which are partly funded by state and sometimes funded by multinational agencies jointly and Central Government. So, which part of the railways is really the pain point in terms of collections for you specifically, just give a little more granularity on that and also the number of debtors days or how much the total receivables or net working capital will trend over the last two, three quarters now it has increased in this segment?

Vimal Kejriwal: Rajeev can give you the details, but on the broader level, the pain point is still on the conventional railway, the pain point is not on the metro side or the joint ventures or the multilateral funded. The pain point remains and the conventional railway as I said there are big changes which are happening in the overall system, which are now getting sorted out and that’s why I said that January we had a pretty decent collection. So, Rajeev you want to just give out some numbers on, and other thing on railways which he has asked.

Rajeev Agarwal: So, Vimal I don’t have the exact railway number in terms of the AR. AR my senses it should be approximately in the ballpark of Rs.2,500 crore but exact number I can provide later on.

Moderator: Thank you. The next question is from the line of Vivek Ramakrishnan from DSP Mutual Fund. Please go ahead.

Vivek Ramakrishnan: In terms of receivables in working capital was again going to be my question, a lot of it has been asked before, so if you could just give us the top three, four debtors who are there with you, that would be very useful in terms of debtors and amounts because if one of chunky payments comes then this Rs. 2,500 crores would be easily achieved. So, please we can get that, that would be useful.

Vimal Kejriwal: I don’t think there are any single large chunky debtors that way, I don’t think generally our debtors have been spread over. See what has happened is that, at one point of time Power Grid used to be my biggest client, then it became RVNL, off late now the business has actually spread across especially with civil. Our debtors are actually solid across. So, I have not seeing anything from very large debtors but basically, I’ll say one or two zonal railways. And that is also because, one more thing which we did not discuss is that the nature of business in railways is changing with most of the tenders now coming out on an EPC basis. And with a change in the basis, there has been some discomfort in the zonal railways on how to pay, which is now getting sorted out, because all the bills or all the projects are now coming on EPC. So largely it would be, one or two of the zonal railways and it would be RVNL, it will obviously be Afghanistan there could be one or two private, I don't think international we have anything major. Rajeev anything else you want to say?

Rajeev Agarwal: No, Vimal it is largely basically what is happening is, partly it is Afghanistan issue obviously, Afghanistan if would have continued normal probably we would have received Rs.150 crore lower the number on the debtor side and working capital, but largely, our debtors are all spread out actually, we don't have any chunky payment like 200, 300 crore from a single kind nothing of that sort. So, even in railways, where we are talking about let's say some delays. So, they are spread out on a number of projects, it is not that only one or two project there is a significant amount which is pending.

Vimal Kejriwal: So it is split across various projects, and each project in railways, each zone is different. In fact, we got at least 13, 14 clients in railways. So it's not one single client. So there'll be some outstanding from RVNL, other are all spread across railways, roads and all that.

Vivek Ramakrishnan: Sure, sir. I understand that, while the project have this spread out the nature of the delays seem to be similar across the various because of all the things that you have well explained. So, if we could have that railway number, like the previous caller also asked that would be very useful. But moving on to the international. Number one, I have two questions, one given that has happened, wasn't there a concept of a force majeure because a lot of things you've done which is beyond your control, and that seems to be a tough position to be in. And the second question is that, you had mentioned that you will be hedging some of the aluminium prices. Is there any possibility at all, I know there is no active steel hedging market, but strategically tie up with a few suppliers who will give you the steel at a contracted price is that possible at all that will and reduce your risk especially because your T&D order book you said is significantly from international projects where the commodity price pass-through is not there.

Vimal Kejriwal: Vivek, till now Steel there is no hedging mechanism except if the contract is internationally then, by the time it takes two, three months, four months and all that so that's the only way otherwise if you look at the Indian stream, the government sector doesn't wanted it even for one day, at the time of loading whatever is the price is applicable. Aluminium obviously you can hedge, but there will be time gaps between when you operate and when you have been awarded, etc. which causes this problem and one thing we have to understand is that, with COVID there has been a huge volatility in the base metals, and a couple of reasons why we see some of the impact of raw material prices is that if you remember when this whole thing started in March and all that in India, et cetera and otherwise, the metal prices and all have touched a rock bottom at that point of time. And that was the time when we had bid for a few projects. After that the entire project pipeline, et cetera started drying up. And then the metal prices went up. So by the time the projects came back to us for award we had two choices. Either you refuse all the projects and take a hit on your revenue as some companies did it or take up all these projects knowing well that the prices have gone up. But the expectation of the metal prices have never remained at such a elevated level for such a long time. At least in my last 20 years I have not seen the elevated prices of aluminium or steel and all that for 14, 20, 24 months and continuously without even coming down. So, the choice we exercise, then we left down with everyone and that we should protect our revenues, which is why you see that, in spite of all the problems for the nine months, we have had 8% growth in revenues. It was a conscious choice on the metal side. Yes, Vivek.

Moderator: Thank you. The next question is from the line of Swarnim Maheshwari from Edelweiss. Please go ahead.

Swarnim Maheshwari: Sir, my first question is on SAE. Now, one of the earlier participant reply, you mentioned that you expect to breakeven from Q1 and I believe that we have won about Rs. 1000 crores worth of order in nine months so far. So, is it that the new orders are also coming at quite a low margin or if you can give some sort of guidance on the SAE margin trajectory for FY23/24?

Vimal Kejriwal: So Swarnim difficult to give you a guidance trajectory today, the new orders have not come at a low margin, if you want to call it the margins would be between 6% to 15% or 30% on some of the orders, so it's not at a low margin when you have taken the orders. The issue is that, there is a large volatility still continuing in the steel prices specifically and logistic costs. Unfortunately, Brazil has had last couple of months have also been pretty bad in terms of rainfall, it's the climate change, we're hearing about the Amazon deforesting, etc. There have been significant changes which have happened. So, where will you end up with those margins I do not know today, but the orders have been taken at decent margin, number one. Number two, what I had said was that, the old legacy orders will get over in this quarter. So, a major pain and whatever else what we are seeing at 70, 80 crores every quarter should get over by this quarter end. The new orders are reasonably okay. We have to wait and watch when we are closing those orders, then actually what happens, so I said that from Q1 onwards you will start seeing a turnround in the SAE fortunes, whether Q1 itself will become positive or Q2 will become positive, I do not know honestly today, but I don't expect that there's been a significant pain or large pains in Q1, and that's what I said and that's what I will repeat again.

Rajeev Agarwal: So, Vimal just to add to what you have said, basically the order intake in the first nine to 10 months in SAE have been largely on account of the tower supply and the hardware supply and which we have taken at a very healthy margin, in fact ranging from 8% to 10% margins. As Vimal said that, unfortunately the prices of raw material have still not stabilized. So, we'll have to see what happens but there is a IPCA adjustment which is available, but definitely all these orders which have been booked, they have been booked at a healthy margin and obviously at the current prices applicable at the time of booking the order. So, our sense is that these orders of supply of hardware and towers, they will be definitely giving us a profit, they will be in profit, even when we execute even let's say in terms of the volatile raw material prices. The only thing is that, we have not bid any EPC order so that we'll have to decide going forward.

Swarnim Maheshwari: Got it. Sir my second question is our civil business is scaling up really well and on the intake side and on the revenue side, just wanted to understand what's the margin trajectory over there are we broadly converging there with the T&D margins, where are we in that category?

Vimal Kejriwal: So, our margins are broadly converging towards T&D, both ways one is because the T&D margins came down and second is because the civil margins went up. So, we are quite happy with the margins which we are getting there. And also on the working capital and cash flow, and also on the widening gamut of orders. Like, as I mentioned, we have got five or six orders were executing in water, we have just got our new data center order, we are L1 in a very large public space order which we have been trying for a long time. So, on the civil side we have to be happy, virtually on all counts.

Swarnim Maheshwari: Well, that's great sir, that it's really happening to see our diversification strategy is actually kind of getting allocated again. So my one last question on bookkeeping, the L1 pipeline of Rs. 4,000 crores what's really the breakup with respect to verticals?

Vimal Kejriwal: T&D is around 30%, non-T&D is around 70% that's the breakup.

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

Priyankar Biswas: My first question is, you had secured the inaugural order in European Union as well in this quarter. So what I wanted to understand is, what are your expansion plans in the EU going forward and is there any synergistic link with the UAE factory that you had set up, in the last quarter of the previous fiscal, so, can you help us on that, that how does the business model work here?

Vimal Kejriwal: So Priyankar they are right now not looking very actively or aggressively at EPC orders in EU, this order if we got was on a bordering country which could be classified as European it could be classified as Soviet Union, which is East Europe. We will continue to look at EPC orders in that region. We are still not looking at a hardcore West Europe and that side. However, with the Dubai factory and you very rightly put it that way. We are looking at doing some let say can we do some tower supplies to that region and we have got quite a few inquiries coming in from that region. So maybe hopefully next year onwards, you may start seeing some suppliers to that market and another market which we did not talk about could be Australia market because there are some large projects coming up and with the current political relationship between Australia and China, we do shift to see that there would be a shift in the procurement from Australia. So EU, Europe and Australia could be two markets where you could see some tower supplies happening from our Dubai factory.

Priyankar Biswas: Okay. And sir, if I have to ask, can you give us a status like, I can understand that during 1H FY21, the orders that were secured in a low commodity price environment that is where we are facing the pain now, due to the increase in the commodity prices. So are we largely done on those projects like which were like secured probably in 1H FY21 and some commentary on that and when can we expect the overall broader level margins to sort of stabilize. When you used to do something like 10%.

Vimal Kejriwal: So, Priyankar if you look at our standalone margins are 10.2% even today with all the problems which we have faced. So once we are able to sort out the Brazil issues which we have been seeing, we'll be able to do it. Unfortunately, we have not been able to do it as of now. So, margins will start coming back, when I do not know to be very honest, whether it will be Q2 or Q3 next year, where we start showing the required levels of margins. Q4 will definitely be still to have some pain. So, I don't see a significant improvement happening in Q4. I don't think there'll be deterioration also, I don't see that happening. Coming back to your first question on H1, orders of FY21, I'll see largely on the steel front a large portion has been done away with, we have supplied most of the steel, etc. Balance will probably get supplied in this quarter or maybe Q1 which is why I said that the margins will start showing a significant improvement from probably Q2 or Q3 next year. Aluminum is something which we have not yet supplied, we are slowly doing it. And we are still hopeful and a lot of voices are saying that post Chinese New Year and all like copper, aluminium will also start correcting. So we will wait and watch we still have the project requirements are not there before, at least another three quarters not before Q3 see, even the way we have taken those orders and then I understand knowingly, most of the orders are pretty large orders for unlike a normal transmission orders of 30 to 36 months. So that has given us a lot of flexibility in timing our supplies, so I hope I am clear.

Priyankar Biswas: Yes, absolutely correct sir. And since your order inflows have been quite strong so far, like nine months, like +140 billion. So where can we hope to close in this year, FY22 target that you may have in mind?

Vimal Kejriwal: There are target of close to Rs. 18000 crores let me be very honest with you. So, we will still try to see if we can convert some of the L1s into orders and we have as I said a large tender pipeline. So, ideally we would like to reach there. I'm not sure whether we can reach there or not. So, we'll end up between 14 and 18 probably. There are some very large metro tenders to be quoted, there are a couple of large tenders to be quoted, okay. And, if the things go well, we should be doing a reasonable amount, maybe Rs.16,000, Rs.17,000 I don't know honestly. But as I said our rough figure was Rs. 18,000.

Priyankar Biswas: And sir the last question from my side. So on oil and gas base new subsidiary. So, what sort of growth trajectory can we expect from that so, should the past growth like we have seen in let's say railways and civil can that be taken as a sort of proxy, can we achieve that sort of a growth with this business?

Vimal Kejriwal: See the growth should be faster than that. The reason is not railway and civil was completely done organically here it is an inorganic growth where you have acquired a large amount of capability upfront. So, my view is that you can take the current company which we acquired, and we have said last year there is a Rs. 100 crore of turnover. This year we probably expect them to do almost Rs. 250 crores of turnover. Although part of it will not come in our books, because we acquired it in October. So, next year onwards, we will definitely see a 100% or maybe 200% growth at least in the next one year or maybe may be even two years. So, what trajectory for oil and gas will be much faster than what we had seen in the initial days of both civil and railways.

Priyankar Biswas: And sir margin wise it would be broadly similar to the overall portfolio?

Vimal Kejriwal: Right now we think it will be similar, the good part there is a capital acquired is pretty less, so even if EBITDA level is maybe slightly similar or lower but at the PBT level it would equal or better than the current businesses.

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

Renu Baid: So, my first question is around the core T&D business. Firstly, as in given that the overall execution in the core portfolio has been weak for SAE. Can you just help us understand what was the broad revenue growth between domestic and international T&D in the current quarter and for YTD and given the fact that domestic T&D or international T&D orders has been fairly good and backlog is up by almost 50%. So what is the kind of ramp up in the T&D revenues that we expect over the next 12, 18 months both in terms of revenue going forward in the next fiscal?

Vimal Kejriwal: So, basically what has happened Renu is that, India business has de-grown and international business has grown. And if you look at the numbers, we would have probably grown by the same percentages between the two businesses. And including SAE we had a negative number of growth. Going forward, clearly we have seen a large ramp up happening in international the business, the next year intentional probably grow by at least 25%, 30% from the current year. India growth would largely depend upon what happens with the Leh Ladakh and the Green Energy Corridor orders. Supreme Court order expected today, if I'm not wrong 1st February on the entire GIB and all that, they had issued an order, the representation has been made and all that, so that order should come in today, that should also help us in clearing some pieces of what is happening, but, the Leh Ladakh, the phase one has been given to Power Grid it's around Rs. 18,000 crores of orders to be done by Power Grid, right now they are in the midst of training up the packages, etc. So, if those order get issued by let say June, July or something there may be significant improvements happening in India, otherwise India we see the business flat, but we are seeing a lot of growth happening in Bangladesh, or else you know Bangladesh is part of the India portfolio South Asia, et cetera so Bangladesh we are have seen a lot of new projects coming up, internationally Middle East is doing very well and also part of the CIS is doing well. We already have got one more order in CIS. And there are a couple of new tenders which are coming up, so international we are very happy, with what we have achieved and what we are seeing.

Renu Baid: Right. Because overall when we see as in last few years, our order backlog in the international as an overall transmission business except SAE has been approximately Rs. 10,000 crores. But on the revenue side we have struggled to broadly move beyond Rs. 6,500 crores so was just trying to understand, while this year has been create by multiple challenges on domestic side. Somehow on the revenue side, we have struggled to deliver similar kind of growth, despite orders coming in shorter execution cycle, etc. So was just trying to connect the dots, where are we missing or lagging either in terms of mix or execution headwinds on the way and if we see the environment improving, then probably coming towards 23, 24 can be see ex of SAE the core transmission business coming back to double digit growth or that still remains a challenge?

Vimal Kejriwal: So, the expectation is that next year, we should have a double digit growth expectation is that next year we'll have double digit growth definitely in the transmission, because this year has been bad in any case. And with the amount of aluminium which we discussed, conductor, and share and all that which we have deferred for the last 12 months. I don't see any major issue or having a double digit growth in this industry. And secondly, coming to a question of, I was not very happy with the word used that we are struggling to this. I don't think it's a question of struggle, in any execution, etc. Part of it is as I said deliberate where we have timed the execution going forward. Part of it is geopolitical where Afghanistan since last August, we have had zero execution. Otherwise we would have done maybe Rs. 150 to 200 crores. Actually our plan was to do more than a Rs. 300 to 400 crores of execution in that country during this year. So, there has been various reasons, but not attributable to inability to do construction…..

Renu Baid: Agreed, that's a combination of external factors also here.

Vimal Kejriwal: Yes, And also a COVID and all that. Today also we are seeing that, again COVID is coming up. And so these are the issues, like Brazil had not issued a single visa for the last 18 months. They're just issued couple of visas now, so you could not send anyone, we can keep on talking about SAE struggling and all that but unfortunately, COVID did not help with all the problems which we had. So, that's what has happened in transmission. But, I'm very confident that next year we will have a significant growth in transmission.

Renu Baid: Sure. And along with the same time next year, by the time as in by 1Q, most of the old fixed price projects will be broadly done with and margin should start trending back to at the company level, back to 9% to 10% levels as we come towards mid of next fiscal year?

Vimal Kejriwal: Most of them will be done with except some part of conductor supplies. Because we don't need the conductor supplies till September and unless the aluminium prices come down, I don't see supplying at a loss or low prices, when I can still wait for a chance for it to come down. So except for that piece which may or may not happen, you're absolutely right that by September we would be out of all our orders.

Renu Baid: Got it. And in the rail segment while we have done pretty good in terms of diversifying from the main line to a variety of different end markets with more technical specifications, but overall do we now see the growth in the rail EPC segment moderating or coming in line with the T&D kind of portfolio with 10% to 15% kind of growth, the very high phase growth of 30%, 40% broadly is behind us, am I right or probably, we might still see some upside in growth as and when we foray international space in this vertical?

Vimal Kejriwal: So, we will not be able to see anything beyond let us say best would be around 20% if it happens, see that the base is growing, this year we'll end up with close to Rs. 4,000 crores, on a Rs. 4,000 crore business I cannot expect to have a 30%-40% growth. That's one part whether the base has gone up and second obviously, if you remember we were talking about last two, three years about electrification coming to an end and some pieces are changing. However, we are very confident of what we are seeing on the metro side, we are already very close to bagging some international orders one of the L1 orders, what they are talking in the international market. So, maybe at the order sizes international are larger, so if we are lucky and if we get one or two large orders then maybe in a couple of some years you may see a spike up on the percentage for, the time being of 15% to 20% growth should be a good estimate.

Renu Baid: Sure. And sir lastly definitely would like to appreciate and acknowledge management efforts to successfully diversify portfolio into the civil business, Civil or oil and gas and build a good credible portfolio there. But along with the diversification especially in the non-T&D business, the core working capital intensity of the business as a portfolio for KEC. So that's substantially reduced. So, from the structural perspective of working capital intensity reducing with changes in mix, by when do we expect the changes to start actually reflecting in terms of our book networking capital intensity coming down and probably incremental growth requirements not coming on the debt side and probably de-leveraging processing some acceleration there?

Vimal Kejriwal: This quarter itself if you look at our non-T&D business was 52% and T&D was only 48%. So, going forward with the growth numbers which we talked about, T&D 10%, railways more than that, civil will definitely grow by at least 50% next year. And oil and gas will probably grow by 150% to 100% next year. So clearly if you look at civil, oil and gas they have working capital is more negative. And even for cable business doing well there again, the working capital is negative. So, once we are able to push these businesses more and more, we do expect that the numbers will start improving. Rajeev you want to talk about this, about the going forward and what do you expect on the working capital, etc.

Rajeev Agarwal: Clearly, Renu we expect that civil vertical has a much better working capital intensity as compared to the right now T&D and the railways. So, with the expected growth in the civil vertical, we expect for over the next at least two, three years it will grow at a much higher percentage. And similarly, cable has shown decent growth this year by almost 20%, 25% growth over the nine month period where the working capital is negative. So both these vertical put together, will shoot about 20%, 25% over the next couple of years' time and then we expect the working capital intensity to be much better. And that will help us to overall, let's say manage our working capital more efficiently. Maybe, we will be able to reduce our overall working capital debt and interest cost accordingly.

Moderator: Thank you. The next question is from line of Aashna Manaktala from ICICI Securities. Please go ahead.

Aashna Manaktala: First question in terms of interest cost, so for nine months as we are now at 2.3% of sales, as you mentioned and interest rates globally and both on the domestic front are going up. So, how much further can be expect it to expand for the coming quarters?

Vimal Kejriwal: Our expectation is that interest cost for the year as a whole still we expect we should be able to manage within 2% which is comparable to the last year. Reason being that Q4 we expect a much higher revenue in Q4 and generally our Q4 the interest cost goes down below 2% because of the higher number and also because of the larger collection, which generally happens in Q4. So, our expectation is that for the interest cost as a, for the year as a whole will be well around 2%.

Aashna Manaktala: Okay. And coming to SAE so, you mentioned that recently you have not booked any EPC orders. So out of the total orders that you have of around Rs. 1200 crores, so what would be the proportion of the EPC orders in the overall order book. If you can give that number?

Vimal Kejriwal: So right now in the total order book of SAE, we have close to about Rs. 1000 crore order book and EPC portion will be about 20%.

Aashna Manaktala: Okay, and if I can squeeze one last question. In terms of Afgan project like you mentioned, there has been no execution lately. So is it due to the difficulty in terms of execution or is it that the payments from the multilateral agencies are being raised?

Vimal Kejriwal: So, to me it's not a question of multilateral payments and all that, basically because of Taliban takeover everything has been put to a stop. There is no one from the multilateral agencies on the ground. So while we have the stores we are maintaining everything we have got around 50, 60 local employees at the site, maintaining everything. Obviously the entire payment mechanism has been frozen. So we feel if we do the work, there is no way in which we can get payment for that, which is why the projects are on hold.

Aashna Manaktala: Okay. So how do you think it is going forward or it is going to be challenging thing going forward?

Vimal Kejriwal: It will be a challenge or something but very clearly the world and the Western world cannot keep Afghanistan payment systems cut out, so there is a lot of talks happening saying how will they resume the payment system, because dollars have to be made, they have to be made available for buying essentials or buying other things and all that. So, it's a matter of time that basically the U.S. and the European Union an agreement with the Afghanis, on what needs to be done, how the payment channels have to be reopened. Once the payment channel reopens, we have had enough discussion with all the multilaterals who are ready to make the payment. So, it's not a question of that they are not willing to make the payment, it's just the channels are blocked right now, once the channels reopen the payments will happen.

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

Saket Kapoor: Sir, firstly if you could explain what is our scope of work at data center, and the oil and gas portfolio.

Vimal Kejriwal: So, in data center we make the complete data center, in the first order we have done everything including interiors and MEP and the whole thing was plug and play where the data center operator can come in and then install whatever he has to install, so that one was a complete civil, mechanical, MEP including all electric power and all that. Currently, when you do larger data centers, sometimes it's a combination, at times you get only civil order and at times you get civil plus MEP mechanical. So it depends on the type of order. The second order which we have got is right now only civil where we will build the entire data center the MEP and electrical will come in a second part which we are hopeful of getting also. In oil and gas right now there are two parts, one is our civil business which is quoting for various oil and gas projects, we have to make tankage, put up process pipeline, make process units, all that. So, that is civil and mechanical. The second piece is, the acquisition which we did for oil and gas pipeline so the cross country pipelines which are setting up that is that work.

Saket Kapoor: Wherein also sir, we are an EPC player, the company which we purchased.

Vimal Kejriwal: Absolutely.

Saket Kapoor: Okay. How has FOREX played sir for this quarter, what is the impact of FOREX and like you earlier said that aluminium has been the talking point for this call, many times you have articulated and spoken about aluminium so, how much is the exposure, what is our requirement, if today we have to execute what is the quantum of aluminium and what could be the impact. If we can extrapolate that?

Vimal Kejriwal: I don't have the exact number today, we'll have to wait and maybe if you talk to Abhishek later on he can give you the numbers but as I said, we are not in a hurry to supply, we will take our own time to supply fortunately these are orders which are long term in nature so we have time to do that. And in FOREX, Rajeev you want to give an answer on the FOREX please?

Rajeev Agarwal: FOREX has been working well for us, we are selling whatever forward is to be sold. So, we are taking timely action and we are actually selling and we have reduced our foreign currency borrowing and we are selling more forward which are future receivables on the confirmed orders. So, total for the nine months period we have booked a gain of roughly about Rs. 50 - Rs.55 crore on a net basis.

Saket Kapoor: And for this quarter sir?

Rajeev Agarwal: This quarter, it is about Rs. 15 odd crore if I'm not mistaken.

Saket Kapoor: Rs. 15 odd crore and Rs. 50 - 55 crore is the total nine months number?

Rajeev Agarwal: Yes, that's right.

Saket Kapoor: And lastly sir about this quarter four being the largest quarter in terms of executions also. So, last year, out of the total top line if I'm not wrong, we did 33%, 34% of our revenue. So, this year also the ballpark number should be in that vicinity only sir?

Vimal Kejriwal: Broadly we are hoping, although we have earlier said that we will do 15% and all that but that is out of the window right now with the current waves, things are happening. We are hopeful that we could reach an overall double digit growth for that I don't have the exact number but, it should be close to 35% And I see no reason why this quarter also will not be at that number.

Saket Kapoor: Right. And last two point on the tax rate sir, we will be MAT paying Rajeev?

Rajeev Agarwal: No, there is no MAT we are paying a regular tax. So, we are not in the MAT because of the losses in Brazil, but at the standard low level we are doing decent. So, we are paying normal taxes. So, on the Brazil losses we are creating the taxes.

Saket Kapoor: Sir, lastly on this water pipeline layout also we have seen that EPC players have not been tendering, not releasing orders even holding orders from the government there is Jal Sa Nal scheme and all how are you seeing the traction, just like in your case you are just extending the deliverables for the T&D segment, because of the purchases in aluminium and other base metals, even in the DI pipe segment what we are observing is that the tendering process is not happening because of the higher raw material prices and margins being completely squeezed out. So, sir finally when will this deliverable start happening, how is the pipeline going to look like, what's in your EPC portfolio for Jal Sa Nal scheme?

Vimal Kejriwal: All our orders are related to that only. The good part Mr. Kapoor is that most of our orders have been taken this year with the current pipe prices, so we don't have any major issue with releasing orders for pipes and all that. The second piece is that, the EPC orders in this since have a price variation also. The third piece is that, clearly with the steel prices coming down the DI pipe and all other pipe prices have also started coming down. So, at least we are not having any major problem in releasing orders for the DI pipes or anything in fact you have seen that in our civil business water pipelines and all are playing a very decent role.

Saket Kapoor: You told about some key changes at the team, I missed that point any key changes?

Vimal Kejriwal: We just said that we had a new CEO at the SAE Brazil.

Moderator: Thank you. The next question is from the line of Charanjit Singh from DSP Mutual Fund. Please go ahead.

Charanjit Singh: So, sir my first question is specifically on civil infra. So, civil infra the quality of jobs and the nature of jobs now which we have started taking has improved significantly. So, from a margin perspective, any thoughts in terms of what we were expecting earlier and what we will be able to deliver going forward. That's my first question.

Vimal Kejriwal: Charanjit on the margin front in civil we are reasonable we are pretty happy with the margins, which we are seen, everyone has caution saying that the margins at civil are less and the capital and all that. We are very happy with the margin we are seeing. That is across all sectors, whether it is metros, whether it is water pipeline, whether it is residential or industrial and even public places, generally we are happy with the margins, which we are seeing in the civil business as a whole.

Charanjit Singh: Okay. And sir on the international T&D front in terms of the margin profile at the incremental order and the competitive intensity there if you can touch upon that and quantify also in terms of how is the margin profile right now there?

Vimal Kejriwal: So, international the profile depends upon the region-to-region like if you go to Africa, you'll always have 10, 12 people and you will have Europeans, you will have Chinese and everyone. Saudi, players competing. You go to Middle East the competition is relatively limited between five, six players, couple of Indians and couple of local players. You come to the SAARC region you will have Indian and sometimes Japanese so that means the competition varies, Africa is obviously more competitive in terms of the number of players putting in bids. Margins I will say would depend upon individual orders rather than individual areas or geographies and all that. As, I've always been saying that if a country like Saudi we can be a 4% margin we can also be a 20% margin. Same thing applies to most of the other regions also. So, margin is more specific to a project then to a local region.

Charanjit Singh: Okay. And, lastly on railways, if you look at overall number of spending happens almost around 2 lakh crores. So, the opportunity size is pretty big, and we have seen a good uptake for us in the revenues till now. And going forward from a tendering perspective and order financial perspective for next year. What is your view on the railways segment specifically, and if you can give more color in terms of EPC, OHE work as well as signaling work, how are we positioned in each of these segments. That's all from my side.

Vimal Kejriwal: So, conventional OHE has come down significantly. Right now, we have got seven or eight orders on that Mission Raftaar, where they are replacing the conventional OHE by high speed, high capacity OHE. So, that's one area which has been going on reasonably well, otherwise what we have seen is a general slowdown on the conventional spending, for whatever reason, government has been focusing on increasing the speed. So doing some work on those things, and also obviously on the metro side and development on the Northeast. So, we have been seeing a shift in the tendering happening more towards because let's say Assam, Tripura and all those sides, where a lot of tenders are coming in which are difficult areas to also make money. Other piece was that, after the COVID the government had taken out the need for putting in a bid bond because of which we see in railways the competition has increased significantly. As, I said last time one of the tender we saw 53 bids coming in, in a railway tender. Now that the government has restored that piece where you need to put in a bid bond. We are clearly seeing that market competition is coming down significantly. That will also be another factor where we'll see the share in the railways are going up, metros are doing very well, there obviously the competition is very less you hardly see three players, four players in every Metro bid on the electrical side. Okay, that's where we are focusing as part our railway business.

Moderator: Thank you. The next question is from the line of Rishabh Dugar from CD Equisearch. Please go ahead.

Rishabh Dugar: Sir, so my question is, your debtor days is somewhere around 160 days and it has been there for quite a while. So, I just want to understand that what kind of initiatives are being taken by you to bring it down?

Rajeev Agarwal: So, Rishabh if you look at debtors days 160 days or so, that is a normal debtor for the EPC industry, if you look at per se. So, what happens is that you generally on a EPC project, you have progress debtor which is you're doing monthly progress, then the measurement happens and then you are able to bill and then after billing the customer takes about 45 to 60 days time to generally pay. So, generally the cycle is between 90 to 120 days, in few cases there are payment delays happen for example in railways and et cetera so it is normally for all the EPC industry if you look at generally the progress debtor will be roughly about 120 to 150 days or so. So, that's a general trend in the industry and we are trying to improve the billing cycle in terms of putting a lot of efforts in terms of billing on a monthly basis fast checking the joint measurement certificate with the client. So, there are a lot of efforts which are going on in this direction, but currently it is what it is at 150 and 160 days. But definitely the efforts are on to improve the cycle. As I mentioned previously also in civil our working capital cycle is much better, where the client generally pays after raising the bill, they pay within 30 to 45 days. So, with the civil turnover going up and gaining more share in the overall pie, the overall working capital should come down.

Rishabh Dugar: Okay. So, could you give some brief estimate about where do you see your debtor days moving forward in the near future?

Rajeev Agarwal: The idea is to bring it down to, the progress debtor should come down to 100, 120 days level. So, there is clearly 30 to 40 days improvement which is possible and we are making all the efforts to achieve those numbers.

Rishabh Dugar: Okay. So currently, what you're saying that in the near term, it would be around 150, 160 days that's what in the near term?

Rajeev Agarwal: Normally what happens is that, in quarter four there is generally a lot of collections, so it comes down. You are seeing these numbers in Q3, so they are slightly elevated at this level, but the way the efforts are going on, it will take some time probably next year, we should be able to bring it down once our collections from the railway business becomes normalized, we should be able to bring it down at least by 30 days.

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

Vimal Kejriwal: I would just like to thank all the people for their continued interest and would just pray that everyone stays safe. Thank you so much.

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