"KEC International Limited
Q3 FY2024 Results Conference Call"

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MANAGEMENT: **MR. VIMAL KEJRIWAL – MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER – KEC INTERNATIONAL LIMITED**
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Moderator: Ladies and gentlemen, good day and welcome to the KEC International Limited's Q3 FY2024 Results Conference Call. We have with us today from the management Mr. Vimal Kejriwal, MD and CEO and Mr. Rajeev Aggarwal, CFO. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that the conference is being recorded. I now hand the conference over to Mr. Vimal Kejriwal, MD & CEO. Thank you and over to you Mr. Kejriwal!

Vimal Kejriwal: Thank you Michelle. Good morning to all. We welcome you to the Q3 earnings call of KEC. I will begin by outlining the key performance highlights for the quarter, provide insights into each of our business segments and conclude with the outlook for the year. We have delivered a consolidated revenue growth of 14% for the quarter with revenue surpassing Rs.5000 Crores. The growth has been primarily delivered by good performances in civil and the T&D businesses both in India and international. With this, we have achieved a consolidated revenue growth of 17% for nine months which is in line with our guidance for the year. Our EBITDA margins continue to show an upward trajectory with an improvement every quarter, we have delivered an impressive growth in EBITDA of 54% in Q3 and 51% in nine months. The EBITDA margins for Q3 have increased by a good 160 basis points increasing from 4.6% in Q3 FY2023 to 6.2% in Q3 FY2024. We have also delivered a noteworthy growth in the bottomline. The PBT has grown by 11 times vis-à-vis Q3 last year and three times vis-à-vis nine months last year. PAT has also grown by six times and two times in Q3 and nine months respectively. The revenues and the margins could have been marginally better but for the challenges in the supply chain and issues around the Red Sea. These challenges have resulted in a large increase in the freight cost and also availability of vessels due to much longer turnaround time on most of the global shipping routes.

In terms of order intake our YTD order intake stands at approximately Rs.13000 Crores with significant contributions from T&D and civil businesses. Notably 25% of these orders are from supply of products such as towers, cables, hardware and poles. We are also being very selective on our order intake considering the working capital and the margin profile of various businesses. Notwithstanding the same we have well diversified and strong order book of over Rs.30000 Crores as on date. Additionally we have large L1 position of over Rs.8000 Crores primarily in the T&D business. With this our order book plus L1 position stands at a record level of over Rs.38000 Crores, which gives us visibility for the next six to eight quarters. Our focus on cash flows and working capital management has started yielding results with dedicated efforts. We have brought down our net working capital by four days to 129 days as on December 31, 2023 vis-à-vis 133 days as on September 30, 2023. Our net debt including acceptances has reached Rs.6045 Crores as on December 31, 2023 a reduction of Rs.300 Crores vis-à-vis September 30, 2023. This is despite a sequential increase in revenue of over Rs.500 Crores. We expect continued improvements in working capital driven by better collections, commercial closure of projects and a shift in the order book composition with a growing share of civil, T&D and product supply business. We remain committed to further reducing debt levels by the end of the year. The positive trajectory of improvement in borrowing is also reflected in the reduction in interest cost for the quarter. The interest cost has been brought down to 3.3% of revenue for the quarter a reduction of 70 basis points versus Q2 FY2024.

Now coming to the specific businesses, our T&D business has achieved revenues of Rs.2723 Crores a remarkable growth of 22% vis-à-vis Q3 last year. The growth has been backed by strong execution of projects across India and overseas especially Middle East. The business continues to demonstrate strong momentum in order intake with YTD order inflows of over Rs.7500 Crores across India, Middle East, Africa, Europe, Australia and Americas. In India the business has secured multiple orders from PGCIL and repeat orders from state utilities. On the international front, the business has secured significant orders especially in UAE through its Dubai subsidiary, EPC LLC. Leveraging our Dubai facility, we are strategically expanding our presence in the Middle East resulting in a substantial order book and L1 position which now stands at over Rs.6500 Crores. Considering the sustained increase in tendering activities in the Middle East we have undertaken a debottlenecking program for increasing our power manufacturing capacity in Dubai facility by 20% at a nominal cost. This will enable us to meet the growing demands in the region and further consolidate our leadership in the Middle East.

We continue to widen our presence in the tower supply business. During the quarter we have secured our largest tower supply order from the United States of America. The momentum in a tower supply order especially North America is indicative of the growing demand for our product offerings in the region. Our unexecuted order book and L1 from tower supply business now stands at over Rs.2500 Crores spanning across six continents. In SAE I am happy to share that the business has delivered a positive PBT for the third consecutive quarter. Over the past year the subsidiary has strategically focused exclusively on manufacturing operations a decision that has resulted in consistent profitability in recent quarters. The business has a steady inflow of orders and has a healthy order book and L1 position of over Rs.1300 Crores comprising of orders for supply of towers, hardware and poles and engineering and testing of towers from the Americas. In Afghanistan the progress on collection continues as we have realized an amount of Rs.55 Crores during the quarter. This brings the total collections post regime changed to a significant Rs.320 Crores. We continue to be in active discussion with the multilateral funding agencies for collection of the remaining receivables and are confident of realizing some more amounts in Q4 and the balance in the coming quarters. The global demand for aluminium conductor has witnessed a substantial increase in recent years driven by the growing emphasis on renewable energy and the need for new transmission lines worldwide. In line with the strategy of backward integration and to capitalize on the sustained demand, I am pleased to share that we have decided to expand the product portfolio at our Vadodara cable plant by setting up a fully integrated manufacturing line for aluminium conductors. The capex requirement for this expansion is estimated to be around Rs.60 Crores and the project is expected to be completed within the next few quarters. This development is anticipated to add to the competitiveness of our T&D business and also revenues of our cable business. As we look ahead the business landscape continues to be promising. In the domestic market we are witnessing substantial opportunities of over Rs.25000 Crores for T&D projects pertaining to renewable energy including a large HVDC scheme across the States of Gujarat, Rajasthan, and Madhya Pradesh. Many of these tenders have already been floated and are expected to be awarded in the next few quarters. We expect another large HVDC project to be floated in the near future. We are also bidding for selective state utilities in India. Internationally in addition to Middle East we continue to actively explore opportunities across SAARC, Africa, CIS and East Asia Pacific. Overall our T&D business continues to experience a robust tender pipeline both domestically and internationally with a record order book and L1 in T&D of over Rs.22000 Crores. We are confident of delivering a sustainable growth in this business. Our civil business has once again delivered an outstanding quarter achieving revenues of Rs.1100 Crores substantial growth of 30% vis-à-vis Q3 last year. The stellar performance is attributed to robust execution across all segments. The business continues to bolster its order book with YTD order inflows of over Rs.2500 Crores. During the quarter the business has secured multiple orders/ L1 in diverse sectors including metals and mining, residential and commercial buildings, defence and water segment. Notably our presence in the commercial building segment has expanded further with a prestigious order for a hybrid high rise structure from a reputed real estate developer. We are now developing more than 50 high rise buildings across India for Marquee real estate developers. The business outlook remains healthy across segments with a robust and diversified order book and L1 of over Rs.11000 Crores, we firmly believe that civil will continue to be a major growth driver for us. Our railway business has achieved revenue of Rs.653 Crores for the quarter degrowing by 28% impacting the margins and working capital of the business. In a recent development our Honourable Prime Minister Shri. Narendra ModiJi recently inaugurated the new Pandit Deen Dayal Upadhyay-Bhaupur Freight Corridor section in Uttar Pradesh. We are honored to have partnered with Siemens and DFCCIL to commission the signaling and telecommunication system for this prestigious project.

In terms of order intake, the challenge continues owing to the increase in competition from Tier-2 and Tier-3 EPC contractors and the shift in the clientele from Railway PSUs to zonal railways. We continue to actively pursue select opportunities in India as well as international in the railways.

In oil and gas pipelines the business has delivered revenues of Rs.182 Crores a good growth of 15% vis-à-vis Q3 last year. The business has strengthened its order book by securing its second order for composite station works. We have also started exploring international opportunities and have been approved by a leading global energy company based in the Middle East. The business has a strong order book and L1 of over Rs.900 Crores comprising government and private players. We are confident of scaling up this business in the coming years.

In our solar business, we are progressing well with the execution of our largest 600 megawatt solar project in Karnataka. We continue to bid actively for select opportunities in line with the sustained commitment of the government to promote renewable energy. We believe this business will help contribute to our growth going forward.

Our cables business has achieved revenues of Rs.383 Crores for the quarter. The business continues to deliver an improvement in margins on the back of an improved product mix. Notably it has also achieved its highest ever profitability for the nine month period of this year. In line with our strategy to enhance our portfolio of niche products and cater to emerging market segments, we have developed two new products EV charging cables and green cables. These products are also in line with our commitment towards ESG and sustainability. Overall, we are pleased with our consistent revenue growth, improving trajectory of profitability and optimization of working capital. We generally have a positive outlook for all our business segments. We expect that tomorrow’s budget will bring both strategic measures and policies to foster growth and development in the infrastructure sector. The robust order book plus L1 of over Rs.38000 and a strong tender pipeline of over Rs.130000 Crores notwithstanding the supply chain constraints, we are confident of maintaining our overall guidance on revenue of Rs.20000 Crores. Thank you everyone. Open to take questions now.

Moderator: Thank you very much Sir. We will now begin the question and answer session. Ladies and gentlemen we will wait for a moment while the question queue assembles. The first question is from the line of Mohit Kumar from ICICI Securities. Please go ahead.

Mohit Kumar: Good morning Sir and my first question is on the domestic transmission opportunity given the fact that large trending has happened in the last nine months or we have not seen, it is converting into the order inflow for us, you did mention that your L1 of 8,000 Crores is it fair to say that most of it is com from the domestic market, transmission market and how do we see it going forward for the next 12 months?

Vimal Kejriwal: L1 has got domestic as well as international but I will say a reasonably large amount is from domestic and as you are aware there has been a change in guard in our major client and that has delayed some award of some orders which are in L1. I think we do expect that all of them should get converted into orders very quickly. Number two is clearly we are seeing a large potential at least in the next few quarters at least two large HVDCs which are coming out. One has already been tendered out by Power Grid under TBCB and on the renewable front I think we have got at least 30, 35 tenders to be quoted for transmission lines so the potential in India clearly continues to be very good on this.

Mohit Kumar: My second question is on the civil opportunity given the fact that we are entering into an election mode are we seeing a slowness in decision making and finalization of tenders and we expect that weakness to continue for a couple of quarters especially domestic?

Vimal Kejriwal: So as of now we have not seen any major slowness in the orders or something but clearly we will have some impact on the announcement of tenders and even on decision of some of the tenders once the elections are announced so once the election restrictions are comes into place the tenders will not be open or they will not be awarded. Also during the one month or so of the election period typically you find that the district administration and all others are busy with the election mode so wherever you need ground support from the government officials you may see some slowdown, but as far as private capex or private projects are concerned and even some of the government projects where you do not need ground support from the administration execution should not be impacted but yes there could be some impact on the announcement of tenders as well as decision of tenders let us say starting March or something.

Mohit Kumar: Last question is on this cable business you said that you are going to expand into aluminium conductors is it fair to say that we are talking about AL59 conductors that is where I think the CEA has allowed all the EPC companies to bid between ACSR or AL59 is that correct assumption?

Vimal Kejriwal: One is we were manufacturing aluminium conductors even earlier but at a very small quantity so that was more for our own business and for railway supplies, etc.; however, looking at what is happening on the supply chain and the huge tender pipeline which we have seen our own order book, we have decided to do this and obviously you are absolutely right this will also have the capability to manufacture both AL59 and ACSR conductor.

Mohit Kumar: Understood Sir. Thank you and all the best Sir. Thank you.

Moderator: Thank you. The next question is from line of Amit Anwani from PL Capital. Please go ahead.

Amit Anwani: Thanks for the opportunity. My question again on the conductor side so you highlighted that there would be Rs.60 Crores capex so just wanted to understand what is the capacity now and will this be the strategic capacity expansion happening over two to three years or this is just one of the near term trend and demand on the conductor side?

Vimal Kejriwal: I think we will have to wait and watch Amit as to what happens. The idea is obviously strategic and also with our cable business now reaching almost Rs.1700 Crores and this will more or less if I do a merchant sale of this capacity it will add around Rs.500 Crores to Rs.600 Crores of revenue also so right now it is more for internal consumption because we have a large T&D order book and requirement of AL59 and ACSR so as of now we do not intend to sell in the market but depending upon what happens and this is not a high cost also Rs.60 Crores and I said the turnover Rs.500 Crores to Rs.600 Crores so from that point of view we will see what is to be done. I think it is a little bit early on that side but today as I said it is for our internal consumption.

Amit Anwani: Right Sir the next question on the order intake so we are at roughly about Rs.13000 Crores YTD and we have been guiding Rs.23000 Crores to Rs.25000 Crores just wanted to understand are we sticking to that and second thing is despite so much robustness any sense you are getting from the domestic market though we are seeing a strong pipeline that there could be some risk to intake or spillover happening from next year onwards?

Vimal Kejriwal: So clearly meeting the guidance of Rs.23000 Crores to Rs.24000 Crores is going to be a bit of a challenge because we are right now at Rs.13000 Crores we have Rs.8000 Crores of L1 so unless we are able to get some more projects very quickly now and get them before March it is a slight challenge I am not seeing it as a major challenge but maybe a little bit here and there but I want to add one thing Amit is that if you look at our order intake and all that a large part of the order intake has been from transmission and especially PGCIL where the execution time is around 15 months so the order book to revenue ratio in our case would be significantly controlled unlike other infra players where the ratios are beyond two and three and all. For us the ratio has been between them and I do not expect it to be beyond more than 1.2 or 1.3 times and especially that 20% of our revenues are coming from supply order so if you take that out we should be having a revenue of Rs.18000 Crores to Rs.19000 Crores or something like that next year and so to have Rs.25000 odd Crores to Rs.27000 Crores order book also is okay so do we want to have a larger order book yes we would like to have a larger book but is it okay for our planned growth for next year I think our current order book plus L1 is also good enough for our numbers.

Amit Anwani: Sir my last question on the margin so we saw the sequential margin ramp up so just wanted to understand segment wise if you would like to highlight and now T&D is the larger part of the business how is the margin ramp up we are expecting in next six to 12 months across segments, we saw domestic T&D was also under pressure with respect to margin so just wanted to understand your view segment wise where we are seeing the major margin ramp up in next 12 months?

Vimal Kejriwal: Typically we do not give segment wise margins on this but let me add one thing that domestic T&D is right now in a very sweet spot and I think they will have pretty good margins. I can only say that maybe closer to double digit or something but the domestic T&D I think is seeing one of the best years at least I have seen in my last 22 to 23 years with this industry the domestic T&D is really doing very well and I think international is also picking up. We had issues internationally because of fixed price contracts and all that now that most I think almost all are hedged, etc., so internationally will also do well. Civil we are generally seeing a decent margin slightly lower than what we would want them to do but I think the margins and the working capital in civil are doing well. Railways continue to be some challenge on account of the delays what we are seeing because of block availability and other issues. Cable I already said that they are one of the best margins. Yes thank you Amit.

Amit Anwani: Great Sir. Thank you. All the best.

Moderator: Thank you. The next question is from line of Bhoomika Nair from DAM Capital (erstwhile IDFC Securities). Please go ahead.

Bhoomika Nair: Thank you very much for the opportunity. Sir just continuing on the question on margins you did mention that some of these international T&D projects which have been a same factor are coming to an end so when do we start seeing this legacy orders of fixed price kind of completing and when do we start seeing the current orders kind of reflecting in terms of an improved margin profile?

Vimal Kejriwal: So Bhoomika I think improved margin profile has started. If you look at last three quarters we have been improving bit by bit not what we or you would have loved to see but that is not the way it has happened but I think we are improving. New margins are starting to kick in, the old ones I will say more or less on the domestic side we are through with all of them. International we still have one or two orders which we are now I will say in the midst of concluding so I think by Q1 next year all the legacy orders should be completely out of our system.

Bhoomika Nair: You did speak about the best year that we are seeing in the domestic T&D similarly if you can also touch upon the international when we are bidding for orders and getting orders how is the bid margins kind of trending, is that also seeing like a double digit kind of thing which can possibly reflect into our actual margins into the second half of 2025-2026 where these margins are starting to reflect?

Vimal Kejriwal: It is difficult to generalize about international because I think each country has got its own challenges so let us say something like Saudi and interestingly what we heard L&T talking about is the Saudi predominance and all that so today if you look at the international market yes it is predominantly I think two or three countries so beyond Saudi we are doing very well in UAE also and to an extent in Oman I will say and some orders in Kuwait so those are countries where the competition is relatively less because their prequalification and the criteria which they follow is pretty tight. If you look at India hardly only two or three companies from India are there in that market. Africa has been a bit of a challenge but I will say in this quarter onwards or maybe last couple of months we have started seeing new tenders coming in and we are already L1 in a very large tender in Africa which is part of the L1 which we are seeing. Now the brighter spot seems to be United States, North America and a little bit of I will say LATAM also where we are seeing lot of inquiries for supplies and as I said in my earlier part that we got some very large orders and we still have very large inquiries both from US market, Chile, Colombia and also from Australia so which is why we are trying to expand our Dubai factory also, so I think overall the markets look good. Margin would actually depend on individual orders, what is the competition, what is the complexity, etc., rather than generalizing.

Bhoomika Nair: Right understood Sir and Sir similarly for civil because we have seen the nine months Y-o-Y kind of being slightly down versus last year so where are the margins kind of holding on, is there any improvement and I do understand that relatively the margins are lower but the working capital is also much better out there so if you can just comment on that aspect as well and lastly I just want to also touch upon the working capital which is kind of seen an improvement in the current quarter as also debt reduction so what are we looking as the year ends in the next quarter or so how should we look at this kind of further improvement or any comments on that aspect as well?

Vimal Kejriwal: So let me take the first two questions and then Rajeev can answer on the working capital so as far as civil is concerned I think yes there has been a slight I will say slowdown in the order intake. We were expecting a lot more orders looking at the growth but I think Bhoomika what happened was that somewhere with T&D doing so well we also upped our gate in civil saying I need one or two growth engines and if T&D is firing where I will say I have a better control on everything. Today T&D is virtually almost 60% of our order book so we did say that on civil we became a lot more selective on what we wanted to do and also at what levels we wanted to do which is what reflection you can see on the order intake of civil as well as railways because in both the cases we really increased our threshold limits so that is why you are seeing but in any case my order book plus L1 in civil is even today at Rs.11000 Crores and I do not have any large five year or four year orders and all that so most of these orders would sort of get executed over the next 15 to 18 months. We are still expecting that we will grow by at least 25% to 30% next year also on top of what we are growing.

Bhoomika Nair: On the margins and working capital of civil also Sir that was actually the question?

Vimal Kejriwal: The margins I think I generally covered in my earlier part where we brief about all the books but today I think clearly.

Rajeev Aggarwal: So Bhoomika on the working capital front as you are aware we are focusing a lot on the working capital and this quarter we have been able to reduce debt by about Rs.300 Crores and that has helped us to reduce the NWC days by four days from the previous quarter so we are at 129 days and we are expecting a lot of collection to happen in Q4 and our estimate is that by end of this year we should reduce the NWC days to about 110 days or so last year we were at about 118 days so from there, there will be a reduction of further eight days on the NWC front. In terms of the debt profile I think we should be closer to about Rs.5000 Crores to Rs.5200 Crores or so including the interest getting acceptances and that is where with 15% to 16% growth on the revenue side we will be able to generally maintain our debt levels at the same level as last year.

Bhoomika Nair: That is quite encouraging Sir. I will come back in the question queue. Wishing you all the best. Thank you.

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

Parikshit Kandpal: Congratulations on a decent quarter. I heard your overall commentary on the margins so just on the standalone margins when do we expect that to increase or improve from here on because there we have been seeing campaign that in many quarters now so in our overall trajectory of moving to high single digit margins by FY2026 so how do we see standalone margins playing out?

Vimal Kejriwal: For me standalone should start improving from this quarter itself because now the India T&D piece is going to start kicking in so I think from this quarter onwards quarter-on-quarter you will start seeing an improvement in the standalone so there is no question about it. See if you look at the last one year you are aware that we had this TBCB issues where we had the metal prices and so all that has been closed so now you will definitely see margins improving in standalone both in T&D and civil.

Parikshit Kandpal: Just on the Dubai factory so if you can just sorry I missed that number you spoke about order book there so what is the order book, what was the nine month revenue and EBITDA from that entity?

Vimal Kejriwal: I do not think we spoke about the order book on Dubai. What we said was the order book plus L1 in Middle East is around Rs.6500 Crores. We also said that we are expanding capacity by 20% in the Dubai plant at a very nominal debottlenecking cost and all that.

Parikshit Kandpal: What will be the revenue and EBITDA from the entity in the nine months?

Vimal Kejriwal: So Dubai we have got two different entities one is the supply entity which runs the plant and then we have an EPC entity so all our orders in UAE are now under that entity we call it Dubai EPC and LLC. I do not have the numbers for Dubai EPC and LLC but between the two of them I think around Rs.1500 Crores of revenue.

Parikshit Kandpal: EBITDA will be how much?

Vimal Kejriwal: Maybe close to 9% to 10%.

Parikshit Kandpal: Because when we separate the standalone and consolidated the numbers on EBITDA looks really high so I was wondering like which entity so largely the Dubai entity which is contributing this right?

Vimal Kejriwal: No Parikshit it is the Dubai entity and I also mentioned that SAE has been doing well. It is a positive PBT with the high interest rates in Brazil so the EBITDA there is reasonably good also so it is a combination of both Dubai as well as Brazil.

Parikshit Kandpal: So what would be the nine month EBITDA for SAE now?

Vimal Kejriwal: It would be similar to 9% to 10%.

Parikshit Kandpal: Sir just on the residential business so you did say that you have about 50 high risers you are executing across India now so of the total order book what would be the private real estate and now the cycle is doing good but in the past we have seen very, very focused residential or many EPC players exiting the private real estate and focusing more on government sites so how are we looking to mitigate the risk in case there is a downturn in the cycle in the coming years so how do we do the risk assessments here while bidding so what kind of clientele we had, what clientele we are targeting here so that no major risk comes on us?

Vimal Kejriwal: As far as private residential is concerned Parikshit we are working with I think four or five of the top developers. I do not think we have more than five clients in the private residential. The names I would not like to give here but you can take it from Abhishek so those are there. If you look at the public sector I will say residential as well as sort of commercial because office blocks and everything is there in that so we have a few projects with the defence authorities where we are doing at least I think four or five projects with defence. Then we have got a couple of more commercial projects which are with private equities and the bigger reputed houses and then we are having I think four or five data centers which are again with big marquee name so that is the way broadly the risk profile of the clientele I will say residential and commercial is there.

Parikshit Kandpal: What will be the total order book from the building segment and this entire piece of which you just highlighted?

Vimal Kejriwal: I do not have the number but I think it should be close around Rs.3000 Crores. If you add residential, commercial and data centers and all together this should be Rs.3000 Crores or more. Maybe Abhishek can do the exact number but I think that is the ballpark number.

Parikshit Kandpal: On an individual basis how much is your qualification now on your books like for building segment especially the government buildings because we did see some large tenders coming in for station redevelopment and all so how you place that to build those kind of tenders and what would be your individual qualification on the government side?

Vimal Kejriwal: So Parikshit what happens here is that the government tenders for buildings are all from different authorities. It is not like we have in T&D we have one power grid so there you can very clearly define your PQ. Here it is difficult with some people we may have Rs.500 Crores and with some people you may have Rs.1000 Crores it is very difficult to today quantify as to what you can do and obviously the private you do not need our PQs that way. I think the tallest we are doing right now is a few buildings of 40 stories and above, around 40 stories is what we have got a few buildings so that will help us in private. Public is different. I think the biggest order we have in public on this is Rs.550 Crores or Rs.600 Crores from one of the state governments.

Parikshit Kandpal: Just the last question Sir you did mention about strong ordering in T&D and TBCB, so everything now falling in place Rs.25000 Crores I think you spoke about the total bid pipeline so just one question now on the other hand we are seeing on the supply chain side this equipment providers, the transformer, substations and all they are also talking about shortage of supply coming in, so in this kind of a scenario where there could be potentially price inflation coming or price hikes coming in equipment value chain so how are you bidding now when you tender is it a composite package on the EPC side so that our margins will not suffer and there is some undue increase in prices because of shortage of supplies?

Vimal Kejriwal: So typically what happens Parikshit is there are two types of risk in the price part what you talked about. One is on the substation side and one is on the transmission side so transmission is basically conductors where you see a short supply which is I will say slightly easing. It is not easing but it is better than before I can say that much so there the moment your L1 you go and hedge your aluminium exposure on the LME or with the vendor so there is now zero price risk on that. As far as items like let us say a GIS and all this is concerned typically we have been dealing with most of the vendors who give you a fixed price. You may have small exposure in copper which you can hedge in this way so I do not see a price risk on what we are doing. Supply risk is always there saying whether it gets delayed or not but typically what happens is with the clients today we are I think probably the largest substation contractor in the country. We do sign up on the delivery periods before we bid with the vendors so I do not think we are facing a significant delay. Yes there are delays of may be one quarter or equipments moving from one quarter to other quarter so I do not think we are today worried about it. In fact to me it is a better opportunity for us because with our relationship with all the OEMs, etc., we do get preference I will say at least in supplies if not in prices and that is actually adding to our competitiveness.

Parikshit Kandpal: Thank you Sir. I wish you all the best.

Moderator: Thank you. The next question is from line of Vaibhav Shah from JM Financial Limited. Please go ahead.

Vaibhav Shah: What was your outstanding debt in the SAE entity?

Rajeev Aggarwal: Around Rs.400 Crores.

Vaibhav Shah: What would be the interest cost?

Vimal Kejriwal: Yes roughly around 12%.

Vaibhav Shah: So we expect it to further come down or it should be stable around these levels?

Vimal Kejriwal: I do not think the interest rates are coming down obviously to the extent we make money there. The debt itself will come down gradually but interest rates I think last one year the

Brazilian Central Bank brought it down 25 or 50 basis points last year. After that they have been quiet so unless and until the global interest rates come down honestly the next two quarters I do not see the interest rates coming down in Brazil.

Vaibhav Shah: We have been PBT positive for all the three quarters right?

Vimal Kejriwal: Yes.

Vaibhav Shah: Sir on consolidated level we had guided for margin improvement in second half so you were targeting around 8% in second half and around 7% for the whole year so given the weaker margin is Q3 so do we reduce the guidance for the whole year?

Vimal Kejriwal: I think we will have to. We still do not have the numbers. We are looking at what is going to happen in Q4 but I think that margin guidance looks difficult to achieve today very honestly but I do not think it is going to be significantly different. From 7% whether it will be 20 basis points 25 or 30 I do not think we are saying that 7% will become 5% not that way so there will be some downward. This will also depend upon the supply chain part of it are we able to get some more supplies or more profitable orders, etc., where the margins can be higher so it is slightly difficult to put a number but yes it will be in a way a little bit lower than what we were talking.

Vaibhav Shah: But there will be a significant improvement on quarter-on-quarter basis in Q4?

Vimal Kejriwal: Definitely significant improvement quarter-on-quarter. Also the interest cost will come down so on the PBT side you will see improvement happening.

Vaibhav Shah: Thank you Sir. Those were my questions.

Moderator: Thank you. The next question is from line of Balasubramanian from Arihant Capital. Please go ahead.

Balasubramanian: Good morning Sir. Thank you so much for taking my question. Sir I just want to understand what are the challenges we are facing on order intaking, we have guided around Rs.20000 Crores to Rs.25000 Crores order intake but till now we have achieved around Rs.12850 Crores just want to understand which are the sectors we are facing issue and is there any specific reason we are facing challenges because of elections these are my first question Sir?

Vimal Kejriwal: So on the order intake we are at Rs.12000 Crores or let us say close to Rs.13000 Crores plus Rs.8000 Crores L1 so in that way we should be 2021. As I said we may not be reaching 24 or 25 also because we very clearly have become a lot more selective on the order intake especially because we are getting a lot of orders so we deliberately slowed down especially on the railways where we are seeing a lot of uncertainty in terms of execution and civil where we realize that it is not the private capex is not happening in the way we were looking at it but still as I said I do not see a challenge on that because we have a large order book more than enough for meeting our guidance for the next year.

Balasubramanian: Got it Sir. On that we are doing debottlenecking in Dubai facilities like what is the facility capacity and how much capex we are doing and what is the asset turn for those capex?

Vimal Kejriwal: So we are currently at 50000 tonnes per annum so we are expanding it to 60000. The cost is hardly less than Rs.10 Crores.

Balasubramanian: Thank you.

Moderator: Thank you. The next question is from line of Vinod from BOB Capital Markets. Please go ahead.

Vinod: Thanks for the opportunity. You just mentioned in your opening remarks that the clientele shifting in railways from rail PSUs to Zonal Railways so do you think that will impact our margins and working capital in some sense?

Vimal Kejriwal: Vinod it has already impacted and we are seeing a significant problem in the margins as well as working capital because what is happening is that earlier you were dealing with in a way I will say professional managers whose job was to execute project and manage, etc. Now the number of clients has multiplied I think there are 17 or 18 divisions in the railways so you are sort of dealing with 17 to 18 different clients where there is a lot of movement of people from one railway to other, etc., and they are not the people they are very good at running railways. Are they very good at running projects are something which has been bit of a problem. Second part is the railways also change the numbers to EPC all of a sudden so one is you have got people who are not conversant with running large projects and then you also change the type of the project from BOQ to EPC so that has created a major disruption for all the EPC players and you can check with any one of them. I think all the large EPC players have been facing a lot of disruption because of this so unless and until either these things get reversed or the divisional railways become much more expert in handling EPC contracts, design-related issues, etc., that there will be continued disruption for some more time at least in the railway EPC orders.

Vinod: The second question I had was on T&D you yourself mentioned that it is one of the best years for T&D in the last 20 years and given the probably increased mix of T&D in KEC next say couple of years do you see KEC going back to that old double digit margins so if you look at KEC a decade back when we were purely T&D you used to make 11% to 12% kind of margins?

Vimal Kejriwal: So I think that is our hope and wish also that we go back to double digit margin but I think the way things are happening, I think at least in T&D probably in the H2 next year we should be reaching a double digit margin as I said to one of the questions earlier that our legacy orders and all that will be closed by Q1 I am just taking some time an extra quarter there so I do think that by H2 we should be back to double digit in T&D.

Vinod: Finally Vimal a macro question are you seeing the return of the seller's market given the way the capex cycle is behaving so basically in terms of better customer advances and lesser competition are you seeing that happening in this space?

Vimal Kejriwal: I think for a particular size of the projects we are seeing that happening and particular type. Like I will give a simple example in railways if you look at new lines and all that it is not happening because there are too many road players coming into railways but if you look at let us say T&D where there are very large projects. Like I remember six months back we got a project of almost Rs.900 Crores from power grid. For projects of that size and etc., it is clearly turning. I will not say sellers market but I think the competition is significantly below what we used to see at 10 and 12 and 14 players so that has come down. Similarly is the position in I will say Middle East also especially UAE, Oman, Saudi, etc., where the competition has significantly come down because of the volume of business.

Vinod: We still probably some time away because from that stage where you probably can command much better advance customer advance?

Vimal Kejriwal: Customer advance is something which depends upon again contract-to-contract so the most of the international projects will have an advance. Even now India also I think most of the projects now have a customer advance.

Vinod: But the quantum going up because in the previous cycle I recall customers were even willing to pay 15% to 20% as advance?

Vimal Kejriwal: So that is happening especially on the private capex side where you can go and negotiate with the clients. In all the public sector, etc., because it is a tender specification you are not able to change. We are also seeing this improving especially when it is multilateral funded in less in Africa and all that most of the projects have 15% to 20% advance but Middle East and India would typically be around 10%.

Vinod: Thanks Vimal. Those will be my questions.

Moderator: Thank you. Ladies and gentlemen that was the last question. I would now hand the conference over to Mr. Vimal Kejriwal for his closing comments. Over to you Sir!

Vimal Kejriwal: Thanks Michelle and thank you everyone for your continued interest in KEC. Thank you very much.

Moderator: Thank you members of the management. On behalf of KEC International that concludes this conference. We thank you for joining us. You may now disconnect your lines.