"KEC International Limited Q1 FY-16 Results Conference Call"

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Moderator: Ladies and gentlemen good day and welcome to the KEC International Limited Q1 FY-16 Results Conference Call. We have with us today from the Management, Mr. Vimal Kejriwal – Managing Director & CEO and Mr. Rajeev Aggarwal – Chief Financial Officer. 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. I would now like to hand the conference over to Mr. Vimal Kejriwal. Thank you and over to you, sir.

Vimal Kejriwal: Good morning to you all and thank you for a continued interest in KEC. I am pleased to inform you that we have delivered a second consecutive quarter of good results. The strong results reflect our focus on improving our performance in all our businesses. I would like to just take a minute to highlight some of our achievements. Our net revenue is up by 9% to 1,878 crores. EBITDA was up by 38.3% to 140 crores and PAT is at 30.4 crores, an increase of 167% over the last corresponding quarter level growth. EBITDA margin for the quarter stands at 7.5% as against 5.9% on the corresponding quarter and 6% for the entire year.

We received new orders of almost 3,085 crores in Q1 and if we add the orders which we received from Jan to March the total intake in the last six months has been close to 6,900 crores. On top of it we have L1 position of almost 3,500 crores and our current order book is at 10,537 crores. Our gross debt has increased slightly to 2,485 crores from 2,348 in the corresponding quarter. However, there has been a reduction in the trade payables which is corresponding to this. That is all what I would like to speak and I now open to questions from you.

Moderator: Thank you very much, sir. Ladies and gentlemen, we will now begin with the question and answer session. We have first question from the line of Ankur Sharma from Phillip Capital. Please go ahead.

Ankur Sharma: Couple of questions which I have. One, on the top-line growth it seems like most of this growth has come from JV subsidiaries. If I exclude SAE it appears that most of the growth has come from the Saudi JV and correct me if I am wrong. So could you just tell us what is exactly happening there or if you could tell us what is the current order book and can we sustain this growth in that JV?

Vimal Kejriwal: I think what you said is absolutely right. Most of our growth has come from our Saudi JV. SAE numbers are virtually flat I think it is almost let's say zero growth in terms of revenue in SAE. as well as Saudi is concerned I do not have but I think roughly around 2,000 crores is our share of the order book and if you look at the tender pipeline in the next two months we have to quote another 4,500 crores of jobs in Saudi and we also have a significant L1 position overall at 3,000 crores of which Saudi thus constitutes an important part. What I would like to also add here in this question have been asked by many people is the impact on the oil prices on this. As of today we are not seeing any impact of the reduction in the oil prices in fact what we are seeing is in a way rare guard action where most of these countries have started spending more on the public spending or public what as you want to call it building more infrastructure so, I think that is the way we are. So I will be very positive about Saudi and we do expect that we will continue to grow in a similar manner.

Ankur Sharma: Okay. And sir, just again on the Saudi profitability it seems like the margins there are much better than domestic margins is that correct? Are they like in the low double-digits at the EBITDA level is that correct?

Vimal Kejriwal: See what happens in Saudi we are doing transmission, we are doing cabling, and we are doing substations. As far as I remember, around the around 10 or 12 active projects which we are doing. What happens when the margin varies from project to and secondly what has also happen is there is some marginal improvement on account of the commodity prices, etc., because in Saudi it is a fixed price contract. Second thing what happens in Saudi we have lump sum contracts where you execute from point a to point b so, the chances of losing money as well as making money are significantly higher than the domestic market. So a risk mitigation we would always like to build in come contingencies which may happen or which may not happen.

Ankur Sharma: Okay. And sir, just last thing on this. You said, you have a 2,000 crore odd order book in this JV. So what is the average execution time for this?

Vimal Kejriwal: I think each of them will be differing but I think it will be around 12 months to 15 months will be this and when I said, 2,000 crores that is our share of the JV.

Ankur Sharma: Yes, I will share of course which gives within in our books, okay so that is 12 months to 15 months. Sir, my second question was you mentioned about being L1 in another 3,000 odd crores of orders. So by when do we expect this to come in, is most of this going to be booked in Q2 itself?

Vimal Kejriwal: Most of it should get booked in Q2, yes.

Ankur Sharma: Okay. And these would be again, I think you mentioned Saudi but any other areas or is it mostly domestic if you can just tell us where these orders are coming from?

Vimal Kejriwal: It is domestic as well as from SAE.

Ankur Sharma: From SAE, okay. And sir, on SAE specifically I mean we do have the sales number there but can you just update us what is happening there? How the margins looking like and what is the situation there now?

Vimal Kejriwal: The situation on SAE is pretty good. I think our order book is fairly good now. The orders are increasing. I think our basic problem if you recollect last time was that in Brazil we were not getting dispatch clearances which has come in for the two of our large orders and in Mexico we have situation of not having orders. Our plant has been working pretty well in the first quarter and I think the second quarter also will be well. So on the EBITDA front SAE has been positive for the quarter as against marginal negative last year.

Moderator: Thank you. The next question is from the line of Arafat Saiyed from Quant Capital. Please go ahead.

Arafat Saiyed: My first pertain to EBITDA margin. Sir you reported EBITDA margin of 7.5%. Is this margin is sustainable sir going forward?

Vimal Kejriwal: I think we have been talking about having a margin of 7.5% to 8% for the whole year based on our current order we do feel that this margin is sustainable.

Arafat Saiyed: And sir, second question would be on your new business like railway and cable and power. So in this quarter you have shown very good growth. So you think this growth also can consider sustainable near future?

Vimal Kejriwal: Cables is not new for us, cables has been with us…

Arafat Saiyed: No, I mean railway and water.

Vimal Kejriwal: Yes, we have a large order book in both these businesses especially in railway now we have an order book. Obviously has a very small order book because it is delivery immediately against the order. So we do expect that we will continue. But I do not want to expect a significant uptick in the order book on the revenue of cable because they have a capacity constrain. Railways we do have some orders once the execution starts the railway revenues may go up a little bit.

Moderator: Thank you. Our next question is from the line of Arijit Malakar from Ashika Stock Broking. Please go ahead.

Arijit Malakar: Sir, I have a few questions. My first is regarding your segments your railway and sir cable segment has shown strong growth in this quarter reporting 30% year-on-year and 95% year-on-growth. So are this is going to showing any sign of revisal?

Vimal Kejriwal: No, I think what I have been said railway is that the based on really small so that is why the growth looks very high. I think it is almost 15 crores - 20 crores in absolute figure if you look at the number. So it is not material on a turnover of 1,800 crores. Cable definitely is showing a significant uptick in demand but as we mentioned earlier in cables we are operating at almost 90% capacity and now with copper prices going down I do not think there we are going to have a significant revenue uptick in the cables. But with demand picking-up we do expect that the margins should slightly improve.

Arijit Malakar: Okay, sir. Sir, so are you confident of these segments have a sustainable growth rate in coming quarters also?

Vimal Kejriwal: You are talking about cables?

Arijit Malakar: These two segments, cables, and railways.

Vimal Kejriwal: Very clearly. I think last year we had a bad year in railways so this year will definitely be good and cables also we do expect that they would be cash positive at the PAT level.

Arijit Malakar: Okay, sir. So when it will be cash positive on EBITDA level sir, in which quarter sir?

Vimal Kejriwal: EBITDA is already cash positive.

Arijit Malakar: Okay, now it is cash positive. Okay, sir. Sir my next question is sir, are your company is working to reduce the interest cost? As you have said that banks are unable to reduce their lending rates and that is why you are raising the money working capital money from market rates by issuing CPs all those things. Are your company doing anything to reduce the interest cost for that?

Vimal Kejriwal: Rajeev will answer this question.

Rajeev Aggarwal: So basically all the interest rate part we are consciously doing marketing instrument. We have already these commercial paper in the market to the tune of 500 crore. We intend to take it up to 700 crore. We are also looking at opportunities of replacing some of the bank borrowings the debenture or bonds which are fixed rate instrument and which can clearly give us an edge of 1.5% to 2%percent on the interest rate side. So all these efforts we are talking plus we are also increasing the share of foreign currency borrowing in our total overall borrowing. So that we can reduce the interest rate because we have a natural hedge in terms of lot of exports are taking place covers from India to Middle East and other countries we are doing. So with the natural hedge we feel that we can increase the share of foreign currency borrowing in the total mix which will ultimately reduce in the total overall interest cost for the company.

Arijit Malakar: Okay, sir. Sir, my last question is sir, your EBITDA margin is now 7.5% and as you said that you are expecting an 8% margin at the end of the current fiscal FY-16. So what the improvements do you want to see in your operational front to achieve that 8% margin?

Vimal Kejriwal: What did you say finally?

Arijit Malakar: Sir, as you said that you want to achieve 8% margin at the end of the current financial year. So what are the improvement you want to implement in your operational front?

Vimal Kejriwal: Basically what will happen is two things will happen. One is that we do expect that with whatever orders we got in the first-half of almost 6,000 crores which are obviously at a slightly better margin. The execution from those orders will kick in which will give us a better margin. Secondly, as I said that we have closed almost all of our old orders and SEA has a better order book. So whatever negative had come from these businesses in our last year numbers that would disappearing. So both these factors together would help us in maintaining our margin from between 7.5% to 8%.

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

Amit Mahawar: Yes, sir good morning this is Amit Mahawar. Sir, my first quarter is can you throw some light on the qualitative aspects of the railway and cables business? Now we understand that you are having a very good traction if you see the order intake profile and the order book mix. Railways is now substantially getting momentum and is also going up in terms of overall business pie. So how is your outlook on the railway business of KEC from say next two year to three year view?

Vimal Kejriwal: I think railway is what we are very clearing seeing with the new minister coming in. There is a strong focus on completing projects tendering out whatever was already approved and the second thing what we are also seeing is that they clearly want to encourage larger companies to larger let's say contractors to come in. So the project expenses are going up significantly. If you look at some of our last order which were announced in last almost 288 crores or something. So all that is really into very healthy competition a lot of small players who would take the order, runaway and that gone disappearing so, we are not competing with players of a similar size which is definitely improving the margins at this business and secondly with the focus of the Railway Minister what we are also seeing is that they themselves are interested in executing the project otherwise, we used to get railway project the execution will be three years - four years. Now we are finding that as soon as the award after their current getting afterwards to some execution which is a sea change from the earlier railway project business. So very clearly we are looking at. What we have also done is that we have stopped quoting smaller value orders so, normally below 75 crores - 100 crores they may not quote earlier. If you look at our order book early last three years or four years we have taken the large number of small orders to build pre-qualifications which we have already build.

Amit Mahawar: Right. Sir, second in terms of with T&D business in India, now we have very clearly gain market share in 2015 in India so, we have got a very strong base of business now. So how do you see fiscal '16 and fiscal '17 mainly from the Indian T&D EPC prospective? Are you targeting some new segments within, if you can throw some qualitative aspect in terms of T&D EPC for KEC in India?

Vimal Kejriwal: If you look at our T&D order book over the last two years and probably in the next one year or so, what has happened is that first of all state boards have become a significant player. I do not have exact number but I think state boards are probably 20% to 25% of our order book in India. Earlier power grid use to be 95% plus so that is one significant change. The second change is that more projects are happening last week if you have read it Sterlite one project, Adani won three projects. Next month again there is a huge large size auction happening so, we are also finding that private place are becoming important we finished three projects for Sterlite and right now are executing two projects and we are hopeful that out of the current lot of projects also we should get something and even the earlier project some of the project have awarded both by PGCIL and the private players. So you will find more projects would become a third element in our India order and the fourth element which I would like to talk about is with GIS substations. Over the last one year we have decided to and we have invested a lot in capability building in the GIS substation market and we along with our JV partner have the biggest share in the PGCIL, GIS as well as non-PGCIL, GIS business. So our domestic order book now has got four different components so we are fairly diversified in terms of order book.

Amit Mahawar: Right, sir. Sir, my last question is in the overall T&D business in India. What is the percentage of pure transmission towers and the balance for systems including GIS?

Vimal Kejriwal: When you say pure transmission it is EPC, we do not do supply here. That is what you are asking?

Amit Mahawar: Yes.

Vimal Kejriwal: 1,500 crores is our substation order book.

Moderator: Thank you. Our next question is from the line of Deepak Narnolia from Antique Stock Brokers. Please go ahead.

Deepak Narnolia: Sir, my question is on this profitability part, I see that in your subsidiaries business the profit is around Rs. 22 crores. So a large part of your profit out of this 30 crores is coming from the subsidiaries only. And can you throw a little light on that and what as the kind of losses in your old water projects or railway projects in this quarter?

Vimal Kejriwal: As I explained to the earlier answer basically what happens in the Saudi market you have to operate through a partner. So today Saudi is a large market for us and that is the reason why you are seeing a large amount of profits coming out of the subsidiary to me it does not matter because at the end of the day it is transmissions substation business and it is business it is not that we are getting an investment income anything above the subsidiaries, okay that is one. I do not have the exact numbers of the losses but I can tell you one thing that they are significantly lower than the corresponding quarter.

Deepak Narnolia: But sir, then you have been saying that your margin in transmission business in India in the range of 8% to 9%, correct?

Vimal Kejriwal: Right.

Deepak Narnolia: So the math's does not match like your 21 crores profit from the subsidiary business in Saudi and then if you take a 7% to 8% margin in India business in the India business the only profit is of 9 crore then you are saying the losses in legacy orders is minimal in this quarter.

Vimal Kejriwal: I am not sure about the math maybe you can later on speak to Nitin about it. But one thing you should keep in mind also is when we say that the margins from orders are 8% or 10% what also happens is that there would be certain old orders, etc., which are under closure and all that sometime those cost come in. So distinguish between one is the margin on the new orders and one is the overall margin which the company has those things along with our overseas orders need to be added-on maybe you can speak to Nitin later on and he can explain to you with more numbers and details.

Rajeev Aggarwal: I would like to add one more thing that international when we are talking of Saudi business or international business here the interest cost is slight competitive and quite low. So we are raising funds in the Middle Eastern market for Saudi project between 2.5% to 3% interest rate. As the interest rates in India are still very high so that ranges between 9% to 10%. So the interest cost is also one of the factor. When we look at the EBITDA margins for the same but the PAT number would be higher. And second important part is that tax rate in India is 35% whereas Saudi being a joint venture there the Saudi tax rates are 20%. So these two important parameters that we should take into account even if the margins are same. The PAT number will always look higher in case of joint venture and subsidiary compared to India.

Moderator: Thank you. Our next question is from the line of Aditya Mongia from Kotak Securities. Please go ahead.

Aditya Mongia: Sir firstly, wanted to get a sense so considering the potential that you are suggesting in the domestic operations be it railway, be it T&D, be it cables for that matter. Would you see the mix of backlog and revenues shifting more towards domestic something which has not happened in the past few years?

Vimal Kejriwal: Very clearly if you look at our order intake numbers for the last six months, there has been significant order which are coming from the domestic market and the revenues from those orders have not yet started kicking-in a full manner. So very clearly moving forward at least in Q3 and Q4 maybe partly in Q2 I am sure the rainfall is there but at least Q3-Q4 we can very clearly see the domestic market playing a bigger role and also with our railway order book and I do agree with you that going forward probably domestic revenues would be slightly higher than international.

Aditya Mongia: Okay, fine. Sir secondly, on the margins that you have reported in the quarter you did highlight that some part of it would be coming from maybe some contingencies which did not play out basically trade out in your favor. But would you kind of want to suggest these are basically clean-up margins and should kind of sustain at these levels can possibly improve or are there any one-offs in this?

Vimal Kejriwal: Aditya, what I had said is response to that question, are the margins higher in Saudi vis-à-vis domestic? So what I had said was that when you bid for a project overseas because of the different nature of the project where the all the risk are with you what happens is that you factor in a lot of contingencies, etc., in the margins. So that is why if those contingencies do not happen or you have to spend money on those the margins become higher that was the specific with reference to the margin level between domestic and international market. As far as this quarter is concerned I think as I said earlier, we had a better international quarter and also lower much lower losses on our legacy projects which is the reason why our margins are at 7.5 and I think we are fairly comfortable and confident. We should be able to sustain then.

Aditya Mongia: Okay. Sir lastly on the interest cost side, this quarter and the number is slightly higher about 3.8% of sales. I understand that there is some portion of payables which are being classified as borrowings and having an impact. So that is in component which may kind of improve. But are there other levers which can help you reduce interest cost from here on?

Vimal Kejriwal: I think two things rather when Rajeev talked about how we are looking at trying to make our borrowings market related rather than the base rate related because what we are seeing with most of the banks is that they are not reducing the base rate but they are reducing the market cost. So that is one thing which we are doing. Secondly, I think what is also happening is that with our working capital efficiency we are working a lot of on reducing our actual capital employed in the business so that is a second thing. I think internally what we have said is that this year we should end up with a total interest cost of 3% versus what we had in 3.8 in this quarter. And I think the last item would be that if you look at our revenue targets, we have been talking about 10% to 15% margins that is about 15% growth. So we should be somewhere around 9,500 to 10,000, 1,800 is not one-fourth of that. So what will also happen is that over the coming quarters the revenue should be more than the first quarter and we should lead to a lower interest cost as a percentage of sales. Rajeev, do you want to add something?

Rajeev Aggarwal: So there is one more thing I would like to add what Vimal has just mentioned is that if you look at our Q4, Q4 was we had almost 35% of the total years turnover in that quarter and when it moves to the Phase-I who tends the debt would be falling due for payment in the month of July and August going forward. So we had build up a sort of receivable out of the sales which we did in Q4 which will **broadly due** for payment in the current month and the next month. So then our year would go down according in the current quarter so we expect to see a reduction in the interest cost in Q2 onwards.

Aditya Mongia: Right. So 3% target remains essentially.

Rajeev Aggarwal: 3% target remains for the year as a whole.

Moderator: Thank you. Our next question is from the line of Amber Singhania from AMSEC. Please go ahead.

Amber Singhania: Couple of questions, on the overall order book how much is the old order still remaining from railway, water or any other which we call as a legacy or loss making projects or low margin projects kind of in?

Vimal Kejriwal: I think the number is somewhere around 30 crores to 40 crores. We have closed a large number of them. There are couple of orders which are still there which we are trying to either short close if not we have to execute them. But the number is very small and the second part of that is that, we do not expect there would be a significant impact of that on the bottom-line.

Amber Singhania: Okay. Secondly sir, we have around 5,200 odd crores of domestic orders as such. You mentioned that 1,500 crore is a substation. Could you also give some break-up about how much would be the PGCIL? How much would be the SEBs or something like that?

Vimal Kejriwal: We do not have the numbers right now. I think you can take it later on from Nitin. But roughly 14% of the total order book is of SEBs which is roughly around 1,400 crores, 10,000 crores, yes.

Amber Singhania: Okay. Sir, secondly on the SAE side as you mentioned that we are EBITDA positive now and things are looking positive there. So should we expect that SAE might move back to 9%-10% margin of its earlier time or what will be the stabilized margin on that on a normal case basis and when should we expect to achieve that?

Vimal Kejriwal: I think 9% to 10% is a normal margin. We expect a little better than that. But looking at our order book in Brazil they would move to that in any case probably from Q3 or Q4 I am sure exactly but we now have orders. Mexico we still face a challenge we have orders enough for us for this quarter. We are still are negotiating for some more orders going forward. So what we expect is that for this current financial year they will at least be PBT positive. Today unfortunate I am not able to tell you more because Mexico is still the grey area. But assuming what is the current situation and with the orders Brazil we would expect them to be PBT positive this year. Next year onwards we have taken a lot of steps in Mexico to improve the situation. We do feel that next year onwards I do not have the exact numbers but probably at least 4% to 5% margin should be there next year if not go up. I am being a little bit conservative but I do not have a clear base for Mexico. As far Brazil is concerned, if we consider the L1 orders then probably we are booked till mainly September '17 fully booked.

Amber Singhania: Okay. Sir, this 4% to 5% margin in FY-17 is you are talking about EBITDA or PBT?

Vimal Kejriwal: PBT.

Amber Singhania: PBT, okay. And Mexico is a grey area still and Brazil is looking pretty positive.

Vimal Kejriwal: 4 to 5 I said was for the SAE put together.

Amber Singhania: Yes, exactly, okay. And sir, is there any FOREX component in this quarter FOREX gain as such?

Vimal Kejriwal: I think there is nothing.

Rajeev Aggarwal: That is not significant.

Vimal Kejriwal: A couple of crores are here and there so, nothing significant.

Amber Singhania: Nothing significant. So we do stick to our guidance of 15% to 20% top-line growth and 7.5% to 8% margin for this?

Rajeev Aggarwal: 10% to 15% top-line and 7.5% to 8% EBITDA.

Moderator: Thank you. Our next question is from the line of Bharat Sheth from Quest Investments. Please go ahead.

Bharat Sheth: In T&D our roughly order book pending order book is around 9,000 crore, correct?

Vimal Kejriwal: Yes.

Bharat Sheth: Out of that, how much is the fixed price and how much is with variable and going ahead as you rightly said now commodity price looks I mean softer so, what kind of really benefit that we can have I mean out of this?

Vimal Kejriwal: See broadly I would say around 40% would be price variable and the balance 55% to 60% would be on a fixed price.

Bharat Sheth: So looking at softer commodity price, do you think there that there is a further room to improve what guidance you are giving on margin front?

Vimal Kejriwal: See what happens Bharat Bhai in most of the fixed price contracts also what we generally do is as soon as we get the contract we hedge on material, okay. So the only improvement which is possible is on contracts which we have already build but have not secured. So whatever we will be now let’s say winning which I have quoted it is a three months back or four months back which I would have quoted at a higher metal price. Once I get there then I will be able to probably make a little bit more money on the commodity cycle.

Bharat Sheth: Okay. And second, domestic side say still our margin is around below 7% because of some of I mean legacy order as you rightly say whereas in other it is around 9% if you really do pure arithmetic. So domestic side form what is your sense of margin I mean EBITDA margin which is 70% I mean standalone.

Vimal Kejriwal: I think going forward Bharat Bhai as I was telling earlier participant our 30 crores to 40 crores is the revenue left off from the legacy projects. On the balance projects we have been if you look at infra probably the margin will be slightly lower, transmission the margin would be higher than that. So I think it is a matter of time that we go to 7.5 to 8 overall even in the domestic market. Maybe two quarters, maybe three quarters I do not think I will be to guess that exact number but I definitely think that at least from Q1 next year our domestic margins and international margins should converge.

Bharat Sheth: Okay. So earlier you were saying that further room to improve 1% margin in FY-17 form current year onwards?

Vimal Kejriwal: See that will now again depend upon how competition pans out, okay. Today we are looking at our current order book we are saying these numbers. What will happen further, how is competition done, how much order book comes, in which country it comes or even for India if you look at SEBs comes more. Normally our margins in SEB is slightly higher because risk are different there. So depends upon the mix and all. But our endeavor is that we should increase it.

Bharat Sheth: And of course as you also right said that SAE where we are not making much I mean PBT level that will also help from next year onwards?

Vimal Kejriwal: Yes, absolutely. But today because I do not have visibility on Mexico honestly, I am not committing on that.

Bharat Sheth: And sir, can you give some sense of new pipeline of bidding and how much we have bided which is not yet open and further pipeline?

Vimal Kejriwal: See I do not have the number of what we have bided. But let me put in this way that we have L1 for almost 3,500 crores. So that will get covered into an order book in maybe next one month, two months or a quarter or so. Our next quarter order book is revenues let's say in short again the revenue will be able to get orders. As far as the pipeline is concerned I was just telling someone that in Saudi we have got 4,500 of tenders to quote in the next two months only in Saudi, okay. Now I do not have total number with me but broadly what the orders tenders you quoted and tender which we have now I think it is more than 10,000 crores, number two. Number three, there are a lot of BOOT projects which are being a let's say Power Grid, one by Sterlite and other people and now Adani and then there are huge of projects going to be quoted next month also. And what we are saying is that I think last week the Ministry of Power announce that if you finish above project early then you are entitled for incentive payments, etc. We are suddenly seeing that most of the players are now asking us to come and discuss with them how they can they reduce the execution of this project by three months, six months, nine months. So I think we will also very clearly see that market also coming into play.

Moderaotr: Thank you. Next question is from the line of Saket Kapoor from Kapoor & Company. Please go ahead.

Saket Kapoor: Sir, my question is pertaining to the nature of our debt sir. Sir this debt is taken for which purpose, for total working capital requirement or for it is taken also for asset creation? Because the entire EBITDA 80% is towards finance cost only and how are we planning to bring it down going forward sir?

Vimal Kejriwal: See entirely this debt increase has been on account of our increase in revenue which is almost to the tune of 9% to 10% and also this was entirely is a working capital loan. There is no debt has been drawn down to do any CAPEX. The CAPEX number for our company is very-very small it is almost about 20 odd crores that we have incurred in the first quarter and that has been done completely out of internal accruals.

Rajeev Aggarwal: If you talk about total debt Kapoor sir then around 500 crores to 600 crores debt is like which we have taken for assets previously including for SAE acquisition and for our cable plant.

Saket Kapoor: So sir, how are you repaying that?

Rajeev Aggarwal: By operation it is being done, from profit.

Saket Kapoor: No, what you have acquired? I miss the word you say?

Rajeev Aggarwal: We acquired SAE, our US subsidiary and we also set-up a cable factory/

Saket Kapoor: Okay. So sir, how are these assets contributing in the debt repayment?

Vimal Kejriwal: If you look at SAE, we acquire them for $95 million and in the first three years their profit was more than 75 million. We set-up a cable factory for making EHV cables and all and after the factory has been set-up you can look at the cable business. The turnaround has been spectacular, we were earlier making losses we are now cash positive and we started making money. The second part of that is also that we had old factory in Kurla which was basically closed and shifted to the new plant. We have been able to sell the land and also use the proceeds to reduce some debt as well.

Saket Kapoor: Sir, what is our net debt level sir as on June?

Rajeev Aggarwal: It is about 2,200 crore.

Saket Kapoor: 2,200 crore?

Rajeev Aggarwal: Yes, 2,200 crore.

Saket Kapoor: Sir, our interest outgo is around 71 crore?

Vimal Kejriwal: Yes.

Saket Kapoor: So can you give the blended cost how much it is?

Vimal Kejriwal: Our weighted average cost for the debt is about 8.5% to 8.7%.

Saket Kapoor: 8.5% to 8.7%?

Vimal Kejriwal: Yes, correct.

Moderator: Thank you. We have next question is from the line of Lokesh Parekh from Anand Rathi Share & Stock Brokers. Please go ahead.

Lokesh Parekh: My question is related to domestic transmission market. So what can be the expect market size in FY-16 and how has been the progress in terms of ordering? Second is that Power Minister has been saying about the announcement of 1 lakh crore orders in FY-16 in transmission segment. So what is your view on that?

Vimal Kejriwal: Yes, Lokesh, we are also waiting for all those orders and tenders to come out amount of 1 lakh crores we have not seen much out of that but very clearly if you look at our current order book almost 5,000 crores on the domestic market there is one of the largest order books we have had. Whatever the Power Minister says if some part of that also comes out so, you have to keep one thing in mind when the Power Minister talks is added, SEBs is added, private sector is added, jobs which are going to be now on BOO and all that whosoever tender will open, award will be there. So, all of that would take some time. So I think what he is talking about will probably come and hit you somewhere in the Q4 or something. When this projects actually go off the drawing board. What is there on the drawing, what is already being announced as I was telling the earlier participant is that from Power Grid roughly 9,000 crores to 10,000 crores of tenders which are there in the market today. Some of them have been quoted and some of them to be quoted. And there will be a lot more private sectors if they went the fourth coming auctions then a lot more private sector orders will come in. the third component has been Power Grid spending so much money. States are now being forced to spend money to augment the intra-state network because now the intra-state network is fairly robust and being made more strong. So we are also seeing a lot of let's say positive movement happening on the state levels. So I think overall, the domestic market should grow at least with 15% to 20% year-on-year.

Lokesh Parekh: Okay, sir. Sir, what is the progress on this Raigarh Pugalur project? And what can be the share of substation and the lines in this project?

Vimal Kejriwal: We are not there in this substation it is an HVDC substation converter so, we are not participating. And what had happened was there was 15 packages on this line and for some reason I think Power Grid had in my view that is what they are saying is that they had a let's say somewhere they have probably gone wrong in their estimate or something. So what they did was whatever tenders were quoted they basically cancelled all of them and then they have refloated the tender. I am not sure, I think three or four of them were already been requoted and the rest are already in the pipelines to be quoted in the next two weeks to three weeks.

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

Ravi Swaminathan: Just had a one query. Regarding the payment cycle for SEB related orders vis-à-vis Power Grid order we have been taking more number of orders from SEBs what I guess. So how is the execution, and payment cycle in orders related to SEBs vis-à-vis Power Grid, is there any difference in that, how is it?

Vimal Kejriwal: The payment cycle differs from each SEB to each SEB. Like if you take West Bengal their payment cycle is almost similar to Power Grid, they give in advance. In fact, they are better than Power Grid because they don't charge any interest on advance. But the others like Karnataka and Tamil Nadu do not give advance but then what we have seen is that there is a certain payment cycle which may or may not be mentioned in the tender but we are aware of it with our past experience. So those payment cycles get factored into the bidding and that is also small contributor to the reason we look at the interest cost increase because what is happening is that when you are taking more orders from SEBs although they have a higher EBITDA somewhere because our payment cycle is rightly longer than Power Grid the and interest cost from the working capital goes up slightly. I answered your question?

Ravi Swaminathan: Yes. So could we assume that our working capital requirement could slightly inch upwards because of this going forward?

Vimal Kejriwal: Ravi, may be it may go up but I think the other thing what happens in the case of SEBs is the execution is slightly easier than Power Grid because these are the people SEA and EEA and all these people are the guys who actually give power to all the villagers and towns and all that. So normally, they can actually exercise a lot more control on the ROWs, etc. And secondly, what we see is that most of the SEB lines come at the last day when it is up to their neck. So once they announce the project and do it then they want a project yesterday which is normally not there in the case because Power Grid is very well-planned, they normally do it ahead of the planning and, etc. So Power Grid the pressure is not as much as initially as it is in the SEB.

Moderator: Thank you. Our next question is from the line of Aditya Mongia from Kotak Securities. Please go ahead.

Aditya Mongia: Sir, just a follow-up question, just wanted to focus slightly more on the domestic T&D market and in that the trend that we are seeing is that a lot more on these 800 HVDC or 765 kV lines are being awarded or at least are they are in the tendering stage. So till now what has happened is that for these orders typically number of bids which get received are in the range of 4 to 6 which is lower than say 8 to 10 which are typical 400 kV contract we would see. To us if we kind of go through document we could not find a prequalification or a requirement which would lead us to this kind of difference in the number of bids being made. So just thought we will just check-up with you whether a typical 400 kV line contractor is eligible to bid for these higher kV orders as well or how is it?

Vimal Kejriwal: I am not sure about the exact policy but my understanding is that qualification is slightly tighter in terms of what you would have done earlier. I think the basic difference what happens in this lines, these towers are larger, and the way they have been designed they are more difficult to erect, okay. And to me what happens is that it would give HVDC line as much more difficult to actually construct and there are significant delays because these are large lines and normally what also happens is that unless the entire line is completed let's say 2,000 kilometers, 1,500 kilometers the Power Grid will not pay you a retention, etc. So what happens is that the working capital required and the capability required to execute these lines are significantly higher than normal 400 kV line because of which what we have seen is that even though the equipment is similar, most of the smaller players and people with let's say a little bit of working capital problem I can say that normally stay away from these lines. That is the basic reason why you see lesser competition rather than just a PQ issue.

Aditya Mongia: Okay. And what was this HVDC converter issue that you were trying to highlight for the legacy order?

Vimal Kejriwal: I would say is that we are not involved in any of the substations for HVDC. We still do not build the HVDC converter stations.

Aditya Mongia: For transmission line you would be basically?

Vimal Kejriwal: Yes, transmission we are bidding, we have won a few of them.

Moderator: Thank you. Next question is from the line of Abhishek Ghosh from IDFC. Please go ahead.

Abhishek Ghosh: Sir, just wanted to get some understanding around the SAE pricing, has it improved? And what is the current scenario in that term?

Vimal Kejriwal: SAE pricing, Brazil is growing slightly. The second thing what is happening in SAE is that since we are getting release of the orders which clearances or manufacturing which was stuck. So basically the production is going up, so whatever under-absorption of overhead was happening that is now is reduced, and the third part is that with the financial closures happening the working capital is getting released. Money is coming in from the clients, etc.

Overall we are now getting more significantly positive on Brazil and I will say Mexico we still want to wait and watch.

Abhishek Ghosh: Sure. Sir, whatever deliveries that were pending all have been delivered now from the…

Vimal Kejriwal: No, these are large order some of them are 20,000 tonnes-30,000 tonnes so these are the large orders so what has happened is that you were not getting one is for manufacturing clearances to manufacture and in some cases although the manufacturing clearance were given there was small quantity but also saying that you manufacture and keep but don't dispatch it because the environment clearance and the financial closure of the client had not taken place so now that both are taking place you are now getting clearances from manufacturing and dispatch. So we can probably produce 3,000 tonnes to 2,000 tonnes a month we cannot produce entire 30,000-40,000 in one month. So this will now get dispatched over the next 12 months or so.

Abhishek Ghosh: Okay. And sir, what kind of margins now SEA would be doing in terms of operating margins current now that the delivery started to happen.

Vimal Kejriwal: I think right now they are EBITDA positive I do not think we have significant margins because these clearances which have now come down will start getting as I said manufacture and dispatch probably from September onwards. So I think the major impact we will start seeing in Q3 onwards. Q1 we are already EBITDA positive. Q2 we will keep our fingers cross to see if we can become PBT positive I am not very confident about it but even if it is negative probably be partially negative Q3 hopefully we should be PBT positive.

Abhishek Ghosh: Okay. And sir, just one more thing on your net working capital days which has kind of seen an increase, what is the kind of net working capital days that we are targeting at maybe at the end of the year?

Rajeev Aggarwal: I think we should be targeting about between 90 to 100 somewhere between that. Currently, we are at about 110 days as of June so our target would be to about 90 days to 100 days a year.

Abhishek Ghosh: And what would be the course of action for that?

Rajeev Aggarwal: See clearly we have to look at reduction in the average receivables because the Q4 was heavy so we have built up some of the receivable which will start getting reduced from July onwards now the payments are falling due and we are recovering those payments. And also some of the tax assets have gone up in the Q4 of 2015. So now our focus is on getting all those payments out from the various states after completing the assessments and by providing them a bank guarantee. So these will start getting reduced in Q3 and Q4.

Abhishek Ghosh: Sure. And just one last question in terms of the competitive intensity at the domestic level so, how has that been in terms of has there been any moderation deterioration just some qualitative commentary around there?

Vimal Kejriwal: I do not think it has not changed significantly. In the middle if you look at it probably Q3 and Q4 last year there was a slight improvement in the quality but again we are slowly seeing a lot more smaller players having completed the earlier projects are now being made eligible by Power Grid today. But for me these are let's say the passing phase. Again they get a couple of projects and then they go out that is their capability or that is what the client would like them to do. At the end of the day it is again the five or six large players who are competing.

Moderator: Thank you. Next question is from the line of Divyata Dalal from Systematix Shares. Please go ahead.

Divyata Dalal: I just wanted to get a sense on the CAPEX plans for FY-16, seeing that since our cable facility is operating at full capacity any plans to add more capacity there?

Vimal Kejriwal: Our CAPEX is roughly 100 crores odd, we spend similar amount every year. It is generally on the construction equipments because when you get new projects especially in countries like Uganda, Tanzania,, etc., where the facilities are not there you end up buying them. So that is what our plan is. On cables right now we do not have any intention, we just put up a new plant two years back. So as of now we do not have any intention of spending anything significant. A couple of crores we always keep on spending on upgrading some particular capability. There is no significant plan.

Divyata Dalal: Okay. And sir in terms of the execution cycle which is since our clients are pushing for early execution so how are we place to execute these orders on an early basis in terms of capability and in terms of bandwidth as well as in terms of equipment?

Vimal Kejriwal: Three things – one is as far as equipments are concerned and I said that, we are spending 100 crores or some part of equipment what is specifically required for let's say an HVDC project maybe require a different type of semi-equipment, we have been buying them regularly. Manpower I do not think we are facing a significant problem. We being a leading company I think we do not face an issue on the manpower.

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

Saket Kapoor: Sir, the point I am trying to make is about, South India we are hearing that there your transmission line is not laid out properly that is why there your power distribution is not proper. So what portion of our order booking is in South India and how is the situation on ground at South India with respect to this transmission line?

Vimal Kejriwal: Kapoor sir, I am not having exact number but what you are saying is right. In South India there is problem, I do not think we have spend too much money on the intra-state projects. But now very clearly we are seeing that Tamil Nadu and Karnataka both the states are actually under a lot of pressure. Specifically to remember last year when Power Grid was able to join the

Southern Grid with the Western grid through the Nellore line and Trivandrum line, now what is happening is politically this is becoming very difficult because if there is a power cut and then Central Government says that we are supplying enough power, people are not buying power or they do not have capability to transmit power so that is basically putting a lot of pressure on all these governments who ensure that they build up their grids. That sort of a major reasons why we are seeing a lot of money being spend on the Southern Grid.

Saket Kapoor: Sir what is situation on ground there? They are putting a transmission line, fresh orders are there on in the pipeline?

Vimal Kejriwal: Yes, there are. Very clearly the amount of order which are coming from Karnataka and Tamil Nadu are probably much-much higher maybe double or triple of what other states are building?

Saket Kapoor: Sir, could you quantify what is the size of the contract there?

Vimal Kejriwal: Mr. Kapoor I do not have the exact number. I want to request you that later you talk to Nitin and Nitin can give you more details.

Saket Kapoor: Sir, you tell me break up of your order book in the pan India presence so, how much is coming from Southern portion and how much is from Northern?

Vimal Kejriwal: I am not having this much detail brother, we do not keep region wise detail on the conference call. You have a word with Nitin, he will tell you later on.

Saket Kapoor: Can you give segment wise break-up? Our main segment transmission lines, substations and other device…

Vimal Kejriwal: I have told some time ago that subsidiary is 15%.

Saket Kapoor: Okay, sir, I have missed that. And balance is transmission?

Vimal Kejriwal: Yes.

Moderator: Thank you. Next question is from the line of Ravichandran M from Unifi Capital. Please go ahead.

Ravichandran Margin: There is only one question. You were guiding for 10% to 15% growth in EBITDA margin of 7.5% to 8% for this year. Based on the visibility you have on Indian market as well as on the overseas market to what kind of number one can look for FY-17?

Vimal Kejriwal: I am not very clear, what was the exact question?

Ravichandran M: Exact question is whether you can give top-line guidance and EBITDA guidance for next year?

Vimal Kejriwal: For next year. I do not think I can give you right now, okay. But our expectation is that we should be doing (+8%) because 7.98% is this year's but we would really like to grow more than that because at some point of time we have always been saying that the typical margin should be between 8% to 10%. So if you ask me what I want to achieve I would like to achieve 10%. But I think maybe when we do this call after Q2 or maybe at Q3 we will have a better number because we would have more orders with our pipeline and all. But looking at the margins in our current order book, etc., I think I am confident that we should be able to do more than 8%.

Ravichandran M: So based on the flow of orders in the last six months whether we can assume that the next year top line growth will be better than this year?

Vimal Kejriwal: On an average if you look at five years we have been talking about growing between 15% to 20%, okay. So next year probably we may be look at in 15-17% I might not honestly in a position to commit to you but we would like to grow more than 15%, yes.

Ravichandran M: Can you throw some light on the order book, what would be the guidance regarding the order book growth?

Vimal Kejriwal: The order book growth would be in the similar line. 10% to 15% we are talking about for the revenue so, order book guidance would also be on a similar basis. Maybe 1 or 2 percentage points more so, maybe we can take it from 15% to 20% or something.

Moderator: Thank you. Next question is from the line of Vinod Malviya from Floringtree Advisors. Please go ahead.

Vinod Malviya: Sir, my question on the tax front. The effective tax for this quarter again is much higher like 40% and if I recollect properly for the full year we are guiding some 35% tax rate. So still we maintain that guidance or we have to revise on upper side?

Rajeev Aggarwal: See on the tax rate. As you know 35% is a normal taxation but what happens, we are doing business in a lot of international market particularly in Africa, Middle East and other countries where some of the past issues sometimes keep coming and that adds to the additional tax burden. So that is just how that tax rate goes down. We are now taking fairly comfortable position as far as the tax is concerned but some of the past issues are still hitting us which we expect to close all the issues in our next one year or so. And going forward we expect to come back to the normal tax rate of 35% maybe from year FY-17 onwards.

Vinod Malviya: So what would be your effective tax rate for the full year for FY-16?

Rajeev Aggarwal: For FY-16 we expect to be around 40%.

Moderator: Thank you. That was our last question from the participant, I would now like to hand over the conference to Mr. Vimal Kejriwal for his closing comments. Over to you, sir.

Vimal Kejriwal: I think I would just like to say thank all to everyone for continuing to take interest in our stock and I would I only want to say that we have been trying to maintain what we are seeing and we are fairly confident about what we have talked about our revenue and EBITDA growth for the FY-16. Thank you so much.

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