“KEC International Limited Q1 FY-23 Earnings Conference Call”

August 04, 2022

MANAGEMENT: MR. VIMAL KEJRIWAL – MANAGING DIRECTOR & CEO, KEC INTERNATIONAL LIMITED.
MR. RAJEEV AGARWAL – KEC INTERNATIONAL LIMITED

Moderator: Ladies and gentlemen, good day and welcome to Q1 FY23 Earnings Conference Call of KEC International Limited. 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 this conference is being recorded. I now hand the conference over to Mr. Vimal Kejriwal – Managing Director and CEO of KEC International. Thank you and over to you, Mr. Kejriwal.

Vimal Kejriwal: Thank you Neerav. Good morning, I welcome you all to the Q1 Earnings Call of KEC. I hope that you and your family are safe and healthy. Let me start with an update on the overall performance for the quarter and then after talk about each of the respective businesses. We have achieved a revenues of Rs. 3318 crores for the quarter, with a robust consolidated growth of 31% and a standalone growth of 22% vis-à-vis Q1 last year. The growth has been delivered by good performances in most of our businesses such as T&D, civil, railways, oil and gas and cables. We have delivered EBITDA margins of 8.2% at the standalone level and 5.1% at the consolidated level for the quarter. The consolidated margins have been impacted primarily due to the elevated commodity prices and logistic cost and Brazil performance.

While we have started witnessing softening of commodity prices in the latter half of Q1 FY23. Most of the costs during the quarters have been committed at the levels of Q4 FY22. So, we have delivered a PBT margin of 4.8% and a PAT margin of 3.5% at a standalone level. Our console PBT margin stands at 1.1% and PAT margin at 0.9%. Our YTD order intake stands at Rs. 3472 crores including the recently released orders of Rs. 1233 crores. The largest contributor in the order intake has been our civil and T&D businesses followed by railways and cables. We have a well-diversified and strong order book of Rs. 23,720 crores as on 30th June'22. Additionally, we have large L1 positions of over Rs. 8000 crores diversified across businesses.

With this our order book plus L1 stands at a record level of worth Rs.30,000 crores. Tender under evaluation and in the pipeline to be quoted in the next couple of months stands at over 1,10,000 crores. Our net debt as on 30th June 22, stands at Rs. 3418 crores. The debt level has increased during the quarter owing to loss and elevated borrowings in SAE Brazil and a few orders in standalone where the dependency component is much higher and the payments would come to us at the end of the order. Our interest cost and the standalone level stands at 2.6% for the quarter as a percentage of sales largely in line with last year. Higher debt level and increasing interest rates in SAE Brazil have increased our interest costs in the console level, which stands at 3% for the quarter as a percentage of sales.

Now we talk about the specific businesses. Our T&D business has achieved revenues of Rs. 1645 crores with a strong growth of 17% vis-à-vis Q1 last year. The growth has been delivered by robust execution across India, Americas, SARC, Africa and Middle East. In Brazil, we have physically completed four EPC projects this year. Three of them have already been energized and the fourth one is awaiting energization by the client. We have also secured a bonus for timely completion of one of the projects. With this, we now have one EPC project under execution, which is scheduled for completion by end of Q3. We are confident of our gradual revival in the performance of Brazil in H2. In terms of order intake, the T&D business has secured new orders of over Rs. 1200 crores for T&D and cabling projects across India, Middle East and Americas. I'm pleased to share that we have secured a prestigious order for the building of India's first 765 KV digital substation from power grid. The orders in India has strengthen our order book from PGCL and state utilities and expanded our private clientele.

With the cabling order in Middle East, we have reinforced our presence in the international cabling solutions segment. We have also significantly enhanced our order book in America to Rs.1138 crores for supply of towers, hardware and polls a growth of 18% vis-à-vis last year. With this we now have a complete loading of the SAE Mexico factory for the balance quarters of this year. The overall tender pipeline in T&D continues to be strong both in domestic and international markets. Additionally, the business has a large L1 pipeline of over Rs.2000 crores contributed equally by the domestic and international markets.

Our railway business has clocked a revenue of over 700 crores for the quarter with a stellar growth of 19% vis-à-vis Q1 last year. The business delivered a double-digit margin despite a challenging environment. The business has also secured orders of over Rs.400 comprising of orders in conventional OHE as well as orders in new areas of speed up gradation and OHE for metro. We continue to focus on opportunities in emerging areas such as tenders on TCAS Train Collision Avoidance System under the Kavach, which aims to enhance safety of Indian railways with world class technology. The railway tender pipeline continues to remain healthy across conventional, technologically enabled emerging areas, as well as international opportunities. We are witnessing a gradual pickup in the tendering activities and are confident of securing a large share of orders in the coming months. With the continued thrust on execution, strong tender pipeline and then order book plus L1 of around Rs. 6500 crores, we remain confident that railways will continue to grow.

Our civil business has delivered an exemplary performance with revenues of Rs. 600 crores for the quarter, with an impressive growth of two times vis-à-vis Q1 last year. The business continues to deliver consistently on the order intake front and secure orders of over Rs.1200 crores across industrial, residential, hydrocarbon, defense and data center segments. Additionally, the business also has a large L1 pipeline across water pipelines, industrial and residential segments. The uptake in order intake has significantly enhanced the order book plus L1 to an all-time high of over Rs.10,000 crores comprising of turnkey EPC projects across segments from marquee clients. The government spending across segments continues to lead the way for growth, with a special emphasis on urban infrastructure and water pipelines. We are also witnessing a gradual revival in the private CAPEX in the industrial and the reality sector. We are confident that this business will be the key growth driver for us going forward.

In oil and gas pipelines the business has delivered revenues of Rs.92 crores and secured an order of Rs.105 crores during the quarter. With concerted efforts, the team has successfully achieved completion of a targeted pipeline laying project, which will significantly enhance our PQs and pay for us to secure similar orders in the future. The business has a strong order book plus L1 of over Rs.1000 crores comprising government and private players. We are confident that this business will become a significant part of KECs overall business portfolio in the coming years both in India as well as overseas.

Our cable business has grown by 26% vis-à-vis Q1 last year and achieved revenues of Rs.419 crores during the quarter, we have formally inaugurate our state-of-the-art railway products manufacturing facility. Over the last couple of years, we have developed and launched new products such as signaling cables and jumper dropper wire through this facility and have also ramped up capacity to manufacture contact and catenary conductors. This strategy of backward integration is helping us make cables business a strategic enabler for our railways business and at the same time, address the growing demand for railway products in the external market. The businesses is also progressing well with the development of additional new products. It has received approvals for a few products during the quarter and is on track to commercialize them this year.

Overall, we are pleased with our revenue growth and order intake despite significant challenges. We are making good progress in deploying several mechanization, automation and utilization initiatives across projects to improve productivity and the quality of execution. We have started seeing softening in the commodity prices of late and have commenced execution of projects which had been secured on a higher commodity and logistics costs. On a concluding note, I would like to convey that the traction order intake, record order book plus L1 of over Rs.30,000 crores and a strong tender pipeline, we are confident of delivering continued growth in the balance three quarters of the financial year. Thank you very much. I'm now open to take questions.

Moderator: Thank you very much. We will now begin the question-and-answer session. First question is from the line of Ravi Swaminathan from Spark Capital. Please go ahead.

Ravi Swaminathan: Sir we would have seen healthy order inflow growth of around 7%, 8% CAGR, just wanted to check with you so, basically over the next two to three years what kind of order flow growth that we can think about, and which are the segments which will be the key drivers and if you can give the thought process on power T&D spends would be great sir.

Vimal Kejriwal: Ravi morning. Ravi on the order intake side, our targets are around 15% to 20% growth year-on-year for the next few years. That's on the overall numbers. The drivers, the way it is happening today it's going to be number one would be civil, number two would be T&D and three would also be oil and gas, but the base is small. So, the percentage increase may be significantly higher, volume wise, it may not be that much. Coming back to your question on T&D, we already announced a couple of orders from power grid, we are L1 in some more of them. So, power grid is slowly coming back into the fray as a larger client in India. And yesterday or day before we saw news where some Rs. 22,000 crores of funding for the Leh Ladakh transmission line is under process or something. Those tenders should come out quickly as per our discussions with PGCIL. Also, we expect that the decision on the GIB should also come in the near future, which would again sort of release the entire green energy corridor orders which are the TBCB bidding which is on hold that should get released in a very close future. So, on the

India side, we have pretty hopeful of a large tender pipeline and order intake in the coming quarters.

Internationally, the major orders or tenders are coming in from Middle East driven by the oil price $100 plus, two countries standout which is Abu Dhabi and Saudi and other country where we see our orders coming in is Bangladesh. So, these are the areas and Americas, both North America and South America, we are seeing I already mentioned that our Mexico plant is full. Brazil also we have a lot of orders now on the power supply and hardware and we are expecting some more orders.

Ravi Swaminathan: Got it sir. And my second question is with respect to the losses in SAE. so what was the absolute loss at a PAT level in SAE or at an EBITDA level this quarter?

Vimal Kejriwal: So, at PBT level it was around 100 crores. And EBITDA was around 70.

Ravi Swaminathan: And how do you see this improving, do you see this improving and what is the key reason behind this because of this currency and the combination of execution or any other factor related to that?

Vimal Kejriwal: So, one reason when you see the difference when EBITDA and PBT is the interest cost, there has been a loss funding loans and also the interest cost there has gone up from 7%, 8% to 17%, 18%. So, one thing has been the highly elevated interest costs I'll say, and the second has been the delays which we are having in project completion and contractual issues on COVID and all that. So, our view Ravi is that by end of this quarter or max maybe a month behind that, we will finish all our EPC projects. We have got large claims which are under discussion and by Q2 or max Q3, those claims will also get settled. And so by that time, we will be completely out of our losses on our EPC projects in Brazil. So, Q2, maybe a little bit spillover in Q3, I'm not sure we'll see if the claims can be closed in Q2, then the whole piece should get closed in Q2. If not, there could be a minor spillover in Q3.

Ravi Swaminathan: Got it sir and other question is with respect to working capital, so basically from 130, 135 days this quarter has jumped up to around 150. So, you had mentioned railways in the PPT so is it like, so the mix is a little bit like that or some payment delays which will get restored over next two to three quarters?

Vimal Kejriwal: So, Ravi, there are a few reasons we mentioned railways, but one is starting with the fact that we grew by 31%. So, the fact that we are growing by 31% means our absolutely working capital will definitely go up. So, that's one reason. Second is, we have been losing money in SAE Brazil, that requires some funding to be done. So, that's the second piece and third piece is what we are talking about is, we have got a few projects, both in railways as well as in T&D, where a significant portion is back ended, especially on price variation and some other items. So, those projects are slowly coming to a close. So, we do expect that by Q2 or Q3, that funding will get released. So, we expect that by Q3 onwards, we'll start seeing a reasonably good improvement in the working capital. Q2 we still remain at stretch levels. Maybe these levels maybe it may come down a little bit, honestly difficult to predict. But Q3 onwards, we are very confident that the working capital will start showing improvement.

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

Parikshit Kandpal: My question is on this increase in the debt that has been increasing and it's almost doubled from the levels of FY21 if I see from Rs. 3200 crores to almost Rs. 6000 crores now including acceptances. So, I remember in June 21 we had analysts meet and we have highlighted that we have about Rs. 200 crores of capital employed in civil business and Rs. 1200 in railways business and total was about Rs. 1450 crores was the total capital employed in these two businesses. Can you just give a break up of this debt level how the split across businesses in civil, railways, so that will be helpful for our understanding.

Vimal Kejriwal: Parikshit, I don't have that break up now you can talk to Abhishek later on, but broadly I can tell you that, civil we are pretty okay with our numbers in terms of debt and net working capital, the problem is still with one is railways as I mentioned, there are couple of projects on a different model, railways earlier always used to have your BOQ based projects. Off late, I'll say a year, year and a half back they shifted to in a way of what we call EPC where payments are made on achieving certain milestones, et cetera which is a new concept both for our railway team as well as for the railway client also. So, that has taken some time for people to understand how to implement and close it, so that is happening. Then on the T&D side we have got some very large profitable projects, where contractually all the price variations are payable at the end of the year and you know that last one year there have been large price increases. So, there are substantial amounts which are to be received from the clients which we start getting now with the projects are going towards the end. So, to me and also obviously SAE losses were there, so these were the reasons why the numbers have gone up. But, as I said earlier to Ravi, we are pretty confident that the numbers will start improving next quarter onwards.

Parikshit Kandpal: Because sir, if I see last three years cash profit if I add which is about Rs. 2,000 crores of cash profit is generated and especially the working capital the growth in the revenue, the working capital should have increased by Rs. 800 to 900 crores. You have done some CAPEX of Rs. 700, 800 crores over last three years, but your debt has gone up by Rs. 2,700 crores so I am not able to reconcile why this is such a huge debt built up because typically EPC companies we don't see that coming down once that reaches this level, we've hardly seen this diversion happening. So, how do you see the Rs. 6000 number panning out over the year end, by this year because you said a significant part of that is also into it so, if you can quantify, what is the debt sitting at and how long will be the year end looking in terms of overall debt?

Vimal Kejriwal: So, Parikshit one is I don't agree with you that once it goes up it doesn't come down. If you look at our history also, our debt has been coming down consistently except when the COVID hit us. So, we are pretty confident between our teams that debt will go back to our normalized levels and we have been talking about debt minus acceptance is going back to Rs. 2500 whether it will go down at Q4 or whenever it is but the target is very clear and we are also doing a lot of things on that front. So, as a team we are pretty confident on it. We are worried because see, I'll tell you what has happened is, we have got an Afghanistan issue. So, we have got a net exposure of Rs. 250 crore stuck there which we were expecting that somebody will start coming but it has not come in but lot of discussions with World Bank and ADB is going on. So, maybe the money may come in Q2, maybe the money may come in Q3. Then, what we talked about back end is payments, those payments will start coming in Q3. So, Q3 onwards you will definitely start seeing an improvement in the numbers.

Parikshit Kandpal: And just last thing around SAE that, how much is the debt and how much is the claims which you are looking to file because you did mention about some claims then a realization of claims by Q3, if you can just quantify these two numbers?

Vimal Kejriwal: So, the debt is around Rs. 400 crores there. And claims very difficult to give numbers but we were talking about anything between Rs. 60 to Rs. 100 crores of claims coming in, but let's see what happens. Unfortunately Brazil has got a very peculiar contractual system and President there has not declared COVID as a force majeure and all that so all the contracts are, becoming pure commercial discussions. So, let's see, as I said earlier, that by end of Q2 or early Q3 Brazil should be behind us.

Parikshit Kandpal: So, this Rs. 400 crore has built up only in this quarter or last quarter?

Vimal Kejriwal: It's over a period, last three, four quarters it has built up what has exacerbated the whole issue is the rise in the interest rate from 7%, 8% to 18%, 20%. The interest cost of 30 crore which has gone up there is partly because of the debt increase and partly because of the rate increase.

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

Swarnim Maheshwari: Sir, the first question is now if you see the commodity prices have started receding and we also see the SAE levels, maybe a quarter or two but that is likely to be behind us. So, if you can just, give us some sense of comfort on the margins trajectory going forward not asking for any kind of a guidance over here. But some sort of semblance on the margins part really, that will be helpful.

Vimal Kejriwal: So, Swarnim what is going to happen is that, I still feel Q2, we remain at the similar levels, I don't know whether plus or minus 10, 20, 30 basis points here or there, although you didn't ask for a number I'm giving you a number. But from Q3 onwards, definitely we will start seeing improvement in margins driven by three things, one is SAE numbers, we should not see any large loss or even if there is something very nominal, but hopefully there should not be much. Second is the commodity prices are coming down so, some of our fixed orders which are right now under execution and which may spill over to Q2, Q3, there the losses will come down. And the third one is that we have an order book of L1 of Rs. 31,000 crores, and many of the orders have now started executing. And these orders are taken at the current prices or in some cases even at the higher prices. So, with a combination of all these three, we'll definitely see the Q3 margins going up and so, I can see an upward trajectory from Q3 then still better than Q4. That's the way we are looking at the margin trajectory and also, as I was telling Parikshit earlier that, we do expect that the working capital to start improving. So, hopefully in Q3 onwards, we may start seeing some decline in the interest rates also. So, from EBITDA to PBT the differentials will start coming down. And it will also be driven by the group partner, so the top end will also grow significantly.

Swarnim Maheshwari: So, are you guys targeting double digit margins by FY24?

Vimal Kejriwal: 100%?

Swarnim Maheshwari: So, back to our 10% levels?

Vimal Kejriwal: We are clearly targeting to reach that, there's no question about it.

Swarnim Maheshwari: Fair enough. Sir my second question is on the civil business. So, we are ramping up quite nicely over there. How is the margin trajectory, are we now kind of converging with some high single digit margins or where are we in civil actually?

Vimal Kejriwal: So, actually this quarter we were almost a double digit. So, it will take us couple of more quarters, by the end of this year we should be ending the year with around double-digit margins. The order intake is at a fairly good margin. So, maybe next couple of quarters, we will still try to consolidate and by next year onwards we should start showing a double digit from Q1 onwards, but that's our expectation.

Swarnim Maheshwari: So, railways and civil are kind of double digit margins, because railways you are also doing double digits right?

Vimal Kejriwal: Railways right now is double digit. The issue that we are having in railways is that we are shifting to more technological on metros and other things. So, some of them there is a learning curve. We expect to continue at double digit, but I don't see a major improvement or anything happening. Railway, our problem is not as much as EBITDA as PBT. We have seen blockage of working capital, et cetera. So, we are in a way let me put it this way, in a way we are going a little bit slow till we consolidate and get all our money out of railways and get our working capital back on track. But railways is also having decent margins, but the margins will go up in civil.

Moderator: Thank you. Next question is from the line of Ashish Shah from Centrum Broking. Please go ahead.

Ashish Shah: Sir, first question is on the, again a little bit on the commodity side. So, we were at a position in Q4 where certain of our orders, the implied commodity price in the contract was far lower than the prevailing prices. So, are we done with those contracts, is that much of that pressure behind us or there is still some to come on the commodity side?

Vimal Kejriwal: So, Ashish there is definitely pressure to come, which is why we are talking about improving of margins from Q3 onwards or not Q2 onwards. There is still pressure to come, we are slowly executing all the orders, the good part of it is that, with the commodity prices coming down, we have hedged a lot of our open exposures, because exposures will get into revenues and hopefully in Q2 and maximum in Q3, so the open position on commodities has come down significantly, most of it whatever hedgeable, we have hedged, there is some small quantum of hedging left out, which we are slowly doing it.

Ashish Shah: Okay. Sir, secondly you did explain a few things on the working capital side, but do you see any chance that let's say, if it takes us a quarter or more for the working capital to reduce, it starts impacting our execution, we tend to slow down on the execution because the payments are taking longer, you'll see that sort of scenario probably happening?

Vimal Kejriwal: So, I will let Rajeev answer that for working capital.

Rajeev Agarwal: So, Ashish as Vimal rightly said that some of the reasons he very much explained. We are not much concerned on the working capital; we have adequately funded all the projects. So, our view is that execution will not come under any pressure, because there is a adequate amount of working capital which has been pumping and which has been provided to all the projects, which will take care of their execution and some of the things like which are projects having back end payment and price variation, which will start accruing towards a closure of the project. So, all those money will start coming to us already in fact there has been some improvement, but obviously in quarter one you should appreciate that there is a 30% growth in the business. So, that has taken some additional working capital, but definitely from Q3 onwards, Q2 also there will be some improvement, but Q3 onward I expect that things will be more visible, there is one more aspect that you should look at that last couple of years our business in civil and railways did quite well, and there most of the projects are getting the inverted duty structure. So, what happens is that all my inputs were carrying 18% GST whereas the output was only 12%. So, that was adding a substantial amount to my tax balances, if you look at my balance sheet, there is a substantial increase over the last two years on the tax balances that have been added, so that has also taken a lot of working capital. Fortunately, on 18th of July the government of India has corrected that anomaly and they have increased the GST rates from 12% to 18%. So, that will be a very positive trigger for our working capital for most of the EPC companies for that matter, which are doing railway projects and Metro projects, government tenders and all that. So, there itself, I expect the release of working capital will be roughly about 250 to Rs.300 crore per year. So, next two years probably whatever we have accumulated almost Rs.500 crore on account of the inverted duty structure on the tax balances that will get released. So, that's, a very positive thing. And last one year one and a half years because of the elevated price level, all the tenders where we have the price variation also, which are funded by multilateral banks, there the clause is that price variation will be settled towards the end of the project. So, we have accumulated a large amount of price variation in those projects that will get settled. So, now with the projects, getting to a closure from Q3, Q4 onwards and probably we will start realizing those payments also. So, we know there is some bit of an elevated working capital that we are running but we are quite sure that amount is going to be recovered shortly. So, that's the reason we are not worried on that account.

Moderator: Thank you. Next question is from the line of Bhoomika Nair from DAM Capital Advisors. Please go ahead.

Bhoomika Nair: To understand this working capital a little more, sorry to harp about it. We've seen the debt go up in SAE. So, you said that the losses will come down as these projects get completed into Q2, Q3. But, how will the debt reduce out there and with this reduction in India from both railways and the EPC projects, which get completed and the variations come back, then how do we see the working capital days come down to what level because, we've seen over the last two to three years, the working capital days increasing from 120 to about 148 days, and intermittently, we even had something much lower than that. So, where do we see this settling by the end of the year?

Vimal Kejriwal: So, Bhoomika, as far as SAE is concerned the debt will not come down immediately. If I give that impression, it's my apologies, but I don't think we said that SAE debt will come down because SAE debt has gone up because of a loss. So, as and when they start now making money and all that slowly the debt will start coming down or I put in some more equity from India, obviously the arbitrage is very high, because we are paying 18%, 20% interest there. And the cost here are 4% to 5%, so SAE debt will only start coming down when they start making money or I remit more cash from here equity from here. Overall, as Rajeev was talking earlier, we are very clearly you know that our targets have always been 100 days, that's the way we have always been our aspiration target is always on how do we reach 100 days we are working on it. Difficult to give a number but maybe 10, 15 days is what we should be looking at by the end of the year. So, maybe 130, 135 is something which we should look at reaching by the end of the year and as Rajeev said, which I had missed out earlier was GST could be one thing that would be crores or something should come back from that, many of our railway projects where there is a EPC project, where the payments were milestone linked, and little bit back ended those are getting over. So, large releases will happen from the railways, and some money's will come in from our transmission. And hopefully, Afghanistan we are seeing a lot of discussions happening between ADB, World Bank in fact yesterday also I saw UN DP Afghan tweet, saying that we are working with Afghan Government on restarting of projects, et cetera. So, if that starts, then that could be an additional bonus for us in terms of reduction of the debt. Are we worried, yes we are already worried slightly. We did not want it to go ahead but I don't think it's something which is impacting the operations or anything else. I hope I have answered your question.

Bhoomika Nair: Yes sir. Sir just on SAE basically what we're saying is, while the EBITDA loss might come off, but until and unless the internal accruals help in terms of paying out debt or remit money, the PBT loss because of the interest costs might continue would that be the fair understanding?

Vimal Kejriwal: Not sure, about it. What is happening is that, the EPC revenues will come to an end by this quarter Q2, maybe a little bit may spill over to Q3, but hopefully by Q2 the projects will all get over. Then what will remain there is going to be the revenues from our, right now we have not taken any EPC orders and we are not taking anything in the very near future at least. For order book there is a large order book and we are expecting some more orders now in SAE in terms of power supplies and hardware. So, it would depend upon how the steel and zinc prices behave like zinc has now come down significantly. So, it would depend upon the profitability of these orders. Some of these orders are pretty decent and are at current prices, current interest cost are baked in. So, if we commodity prices remain at the current levels, maybe we may turn even PBT positive also. So, that's the way I look at it, if it's borderline best case.

Bhoomika Nair: Got it. Sir my second question is on the railways business, we've been fairly cautious because of the elongated, payment cycle and receivable cycle, et cetera. We've been quite cautious on the order inflows per se because we have come off to less than Rs. 2,000 crores kind of a number. Now, what are we seeing this kind of as we move ahead in terms of order inflows and likely growth because so far the order book has been healthy and we've been able to manage the revenues, et cetera. But as we move ahead, what are we seeing out there?

Vimal Kejriwal: So, Bhoomika railway business is changing in many aspects. One is the way we have been bidding. So, we were earlier doing only electrification, then we got into civil then we got into signaling and telecommunication. Now today if I want to divide my railway business, there are three components. One is on the metro side where we are doing signaling, telecommunication, OHE, where we announced few orders are on the metro segment in the railway business. The second piece is on the railway, on the technology side as we call it, which is on Kavach which is also on speed up-gradation, on signaling telecommunication that is becoming a large part for us. Third piece is that what we are now seeing is and we were actually apprehensive earlier that, all the tendering was moving in from the PSU into the zonal railways and we thought that zonal railways are prone to break down the tenders into Rs. 50 crore, 100 crore. What we have seen is actually the reverse of it. In fact, in August we have quoted 2 tenders which are close to Rs. 1000 crores from the zonal railways and what they have done is that they have started combining the tenders of composite with track laying and electrification and signaling and all that which is where of core strength is. If it was a pure in place civil tender then all the road players used to come and bid. Now that we have clearly seen stopping, second piece is that with the bid guarantee and all coming back, the competitiveness is sort of number of players have come down and all that. So, slowly we will start seeing the railway order book building up in various places, we are very conscious of the working capital and I will not say working capital is stuck because of slow payment of the railways. I don't think that is the right statement which I will make. It is stuck up because of the nature of the contracting and the railways have also realized it so, some of the newer contracts they have changed the payment terms. Earlier EPC payment terms are very different from the current EPC payment terms. So, we are waiting and looking at each of the tender and then quoting. So, I am very hopeful that our railway order book will increase, in fact we are L1 in number of international orders already, hopefully by the end of this month that should get converted into our first international order also.

Moderator: Thank you. Next question is from the line of Shalini from DSP Mutual Fund. Please go ahead.

Shalini Vasanta: Sorry, the same thing stuck record. In terms of the railway, when is the project going to be completed, say elongate working capital cycle and is that in Q2, because I just missed that. And second thing is more, given the fact that your credit ratings are very important to maintain a low interest costs and keep your ratings at least AA minus. Could you tell us in terms of your conversations with rating agencies, because a lot of the triggers that they have put in seems to have been, your numbers will soften the figures. So, that's a second question that I have. Thank you.

Vimal Kejriwal: So, one thing is that, the railway project is expected to be completed in Q3. However, we do expect that some of the milestones will be met earlier. So, part of the money should start coming in Q2, and the balance should come in Q3. As far as the rating agencies are concerned, I don't know what they will do, what they have to do but we have recently had a review of our ratings, and they have been affirmed at the same level. So, I don't think ratings are at a risk today. One minute Rajeev wants to add some.

Rajeev Agarwal: So, basically, on the rating agencies, so we had a review post last financial year results. So, rating agencies have taken the case to the rating committee, but they did raise some issue on the elevated working capital, but we have explained them that what are the reasons for this increase and how we are taking the steps and correcting it. So, based on that they were seem to be satisfied and that is how they have reaffirmed the rating. Both ICRA and other agencies who have been rating us they have all reaffirmed the rating at the current level.

Moderator: Thank you. Next question is from the line of Renu Baid from IIFL Securities. Please go ahead.

Renu Baid: Sir, I just have one question pending on the railway segment of the business. If you look at the backlog today we have close to Rs. 3700 - 3800 crores of order book and we are expecting to execute almost Rs. 3500 odd crore this year. So, coming back to the question in terms of growth visibility for the railway portfolio, could you help us to quantify, as in you did mention Rs. 1000 crores kind of orders coming through but how should we look at growth in this segment in the next two years. Do we see some bit of consolidation this business because of slowing order book and increasing competitive pressures?

Vimal Kejriwal: So, Renu there is definitely some consolidation happening in this business because there has been a change in the nature of business from, as I said earlier from RVNL and RITES and all going back to the zonal railways, there was some consolidation. Also we were seeing some change in track by the government and right now they have started focusing on speed up gradations, then they went into safety, et cetera. So, there has been some delays in the offering also. Now, all those things are behind us and we have seen large number of vendors coming up. Just to give you some sort of numbers right now we have around Rs. 5000 crores of tenders, which we have quoted in the railways. Which are awaiting and opening, so if you take let's say strike rate of 20% that could give you Rs. 1000 crore, we have another Rs. 12,000 crores of tenders to be quoted in the next couple of I'll say a month or so. Okay, so the pipeline, if you add the two, we're talking about Rs. 17,000 crores of tenders to be decided or to be quoted now or in the next couple of months. So, we are pretty okay, also as I was mentioning earlier that we should be getting our first international order this month, hopefully we are L1 already and we are also looking at that opportunity outside where there are large number of tenders, most of which are not considered in the figures which I told you. Okay, railways right now it's under consolidation phase, I don't see a major growth happening this year in railways in terms of last year. But next year, back of the order which we will now get, we will definitely see a growth happening.

Renu Baid: Sure. And lastly, if you look at the Metro part of the portfolio, if you can help us in terms of the update on the various metro project that you are executing, and there were certain pending cost escalations in a couple of them. So, where are we in terms of realizing those cost escalations and by when should we expect overall margins when the Metro portfolio to be realized?

Vimal Kejriwal: So, we were doing seven Metro, seven projects. Two in Chennai, two in DMRC, two in Kochi, and one for RRTS, of that the first one in Kochi has already been commissioned. It actually it's been commercially commissioned also now. RRTS it should get completed anytime maybe a month or two or something, but the viaduct is already ready handed over to the other party to overlay the lines, et cetera. Chennai are going on very fast. One of them is in very advanced stage, it will take time but it's reasonably okay. Second one just started a few months back. So, DMRC one of the projects is going on very well, second one is stuck in approvals and maybe a part of it we may surrender also because the Supreme Court, the green committee has not yet cleared the full route, et cetera. But overall, we are pretty okay with what we are seeing in terms of margins, et cetera in the metro sector. As far as claims and all are concerned. So, there are two parts to it. One is claims which arise because of various costs and other things and all design changes. Second one is on account of scope changes and all that. So, part of that are getting accounted and closed and we are getting payment of it. Part of it which are in the nature of claim, like let's say idling claim, you remember Supreme Court saying that you can't work in NCR in November, December because the smog and all that. Those get into claims which gets settled at the end of the project. So, those claims will now get settled one by one. But the normal claims on account of change in scope, change in design, et cetera are an ongoing process where we keep on submitting and they keep on getting settled.

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

Priyankar Biswas: My first question is, so you told that railways are already at double digit EBITDA margins, and civil is quite close to that as well. So, by implication, it means that the T&D margins which earlier used to be like 10% or somewhere higher than that seems to be in very low single digits. So, there seems to be a lot of legacy contracts here. So, what is the status about those and can you give us some type of idea that when are we expected to complete these legacies and let's say when the T&D margins can go back to somewhere around 10, 10.5 that they used to get?

Vimal Kejriwal: So, Priyankar your calculations are pretty okay. And a large part of the issues on the T&D margins has been on the commodity side, and also on account of SAE, because if you add all the three of them what we have international portfolio we have an India portfolio and we have a SAE portfolio. So, SAE has been losing money and which you are talking about it, international also has not been doing very well, because most of the contracts of international were fixed price. They are now slowly getting over. So, as I mentioned earlier by Q3 we will start seeing changes. In fact, if you look at our order intake for the year, large part has come from international T&D, which are at current prices, or maybe even higher than current prices. So, now that the execution of those are starting, we'll start seeing an uptick in the T&D margins from Q3 onwards. We still have some legacy projects from power grid and if you remember, we had an old Essel project also, which was taken over by Adani. So, some of those projects are at fixed price. And the impact of that you can see in the margin. So, that's why our Q1 margins are low and Q2 also we're not, though you are predicting an increase in the margins. So, probably by Q2 and if not part fully but then at least the balance should probably get knocked off in Q3, that's the way I look at it.

Priyankar Biswas: So, probably, let's say in a 4Q or maybe 1Q FY24. So, would it be fair to say that T&D at least can again go back to double digits, so I'm speaking of T&D individually only?

Vimal Kejriwal: So, Priyankar, I already stuck my neck out and said that next year we should start getting back to double digit margin from the company as a whole. T&D, this quarter is 45% of my revenue. So, if T&D doesn't reach double digit I cannot reach double digit. So, the assumption is that it will start reaching double digits or already close to double digit and backed by civil and railways. We should be, that was the basic assumption when we said we should hopefully reach double digit.

Priyankar Biswas: Okay. And sir one more thing, like I see that in this quarter the other expenses as a portion of the revenues are quite high like 10% plus. So, we hadn't seen that sort of a higher expenses for quite some several quarters. So, what has actually led to this sudden sharp rise in other expenses, so I understand the.

Vimal Kejriwal: There are two items Priyankar there mainly one is the sharp increase in freight cost, so many of our projects in Africa, Saudi, et cetera we have seen rates going up by three times or four times. So, the freight is one of the large elements why that has basically gone up, almost Rs. 44-45 crore is the impact of the freight going up. The second is that, this quarter we did not have anything Forex was sort of neutral. Normally what happens is that you have a Forex income and all that happening which neutralizes which is set up against other cost under the head of other expenses. So, Forex income this year is virtually zero or something like that nominal. So, because of that the other expenses are low.

Moderator: Ladies and gentlemen, we have the lines for the management reconnected. We move to the next participant. The next question is from the line of Rishabh Dugar from CD Equisearch. Please go ahead.

Rishabh Dugar: So, what sort of efforts are being undertaken by you to bring down your debtor days?

Vimal Kejriwal: Rajeev explained it, Rajeev you want to once again explain what we have setup to bring debtors down.

Rajeev Agarwal: Yes, so basically, Rishabh as I explained earlier that there are few contracts where there is a large price variation, because last few years commodities have remained at elevated levels. So, that has entitled us to get a huge price variation in few contracts. And unfortunately, those funded by the multilateral that there is a clause in the contract that those price variations will be settled towards the end of the contract. So, those things will be settled towards the end of the contract when we finish. Some of them are closing in Q3 and Q4. So, we are likely to receive that money so that will help us bringing down the DSO days. Another important factor that you are aware that Afghan exposure we have about Rs. 250 odd crore net exposure in Afghan and due to the force majeure issues, we are not able to recover that money. But our dialogue with the funding agencies, World Bank and ADB are regularly going on, and in fact they are going to start the project maybe in Q3 or maybe in Q4 we don't know, we can't really give you the timeline, but they are very clear that these projects are very important and they want to finish these projects. So, once we restart those projects, so there is a visibility to recover the Afghan exposure also. So, that will help us to bring down the DSO days.

The third thing which Vimal also explained quite a few times is that, certain railway project which are EPC nature, which are very different from the BOQ type of projects, where you can only bill to the client and recover the money only on completion of certain milestone and those milestones are like quite big, it takes time to complete those milestone. So, once those milestones gets completed, so you are entitled to raise the billing and then realize the payment. So, one of the large projects and railway electrification that we have been doing its likely to get completed in Q3. So, that will also release a large amount of money. So, our expectation is that, between Q3 and Q4 a lot of these DSO days will come down because as we complete those projects, we will be able to recover the money.

Rishabh Dugar: Okay. What sort of projects you're more comfortable undertaking are these the T&D projects or the railway or civil projects?

Vimal Kejriwal: Rishabh it is not the business wise project it is actually individual tender wise, what are the payment terms, what are the conditions for payment, et cetera. So, even in civil and all that sometimes we get projects which are back ended or linked to large milestones, et cetera. So, it depends upon individual tender and project rather than I'll say, classifying it under each business, but generally they are saying that civil payment terms are better and cash flows are better if you execute the project well. Generally, and they are making a general statement.

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

Swarnim Maheshwari: Yes, sir some sense on the total ordering opportunity at the moment that is being targeted?

Vimal Kejriwal: So, Swarnim right now, if you look at our numbers we have quoted around Rs. 27,000 crores of tenders, which are awaiting results. So, that's one part of it and our pipeline for the next two, three months is roughly around Rs. 80,000. So, between the two of them put together it's around Rs. 1,10,000 crores quoted and to be quoted.

Swarnim Maheshwari: Got it. Sir, this used to be about Rs. 50 to 60,000 crores about a year back or so. So, I believe the big jump is actually coming from the civil is that a correct understanding?

Vimal Kejriwal: Not exactly. Civil, I will say roughly around Rs. 30,000, but a large part is transmission. Both one domestic and also international, especially on the MENA side. MENA is almost close to Rs. 20,000 crores right now out of this number.

Swarnim Maheshwari: Okay. And domestic?

Vimal Kejriwal: Domestic T&D the numbers are very big. If you include Leh Ladakh and all that then we are talking about Rs. 35,000 crores. So, that number is included in this because they are large number of tenders, which are stuck on the GIB issue, which the expectation that will get resolved either way very quickly. If there is a problem, then my cabling business will do well, if they agree to let transmission line then the transmission will do well.

Moderator: Thank you. I now hand the conference over to Mr. Kejriwal for closing comments.

Vimal Kejriwal: Thank you, everyone. For your continued interest. I can only add that, we have got a large order book, raw material prices and all are coming under control. We will definitely start seeing changes happening from Q3 onwards. Thank you so much.

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