"KEC International Limited Q4 and Full Year FY-15 Results Conference Call"

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Moderator: Ladies and gentlemen good day and welcome to the Q4 and Full Year FY-15 Results Conference Call of KEC International Limited. 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. Please note that this conference is being recorded. I now hand the conference over to Mr. Vimal Kejriwal. Thank you and over to you sir.

Vimal Kejriwal: Good morning to all of you. First of all let me thank you all for your continued interest in KEC. We had a reasonably decent quarter. On all fronts revenue, EBITDA, PBT as well as Order Book. Our Net Revenue for the Quarter is up at 2521 crores which is an increase of close to 16% on year-on-year basis. EBITDA has increased from 151 crores to 185 it's an increase of almost 26% and PAT has increased to 63 crores from 34 crores which is an increase of 83%.

Similar has been the increase in the Annual numbers. If you come to the Order Book we have also today announced an Order Intake of additional 1461 crores which takes our Order Book now close to 10400 crores. That is where we are. Our Interest Cost has come down significantly, Working Capital has improved and also our L1 position after today's announcement of orders is close to around 3000 crores plus. I think that's where we are and now we would like to hear from you and take questions from you. Thank you.

Moderator: Thank you very much. We will now begin with the question and answer session. The first question is from the line of Madan Gopal from Sundaram Mutual Fund. Please go ahead.

Madan Gopal: Good morning sir. Congrats on a good set of numbers. Sir I had to 2-3 questions, first on the Order Book side, now you are flat sort of year-on-year, so moving next year can we expect a double-digit growth or should we be looking at only a mid-single digit sort of a growth?

Vimal Kejriwal: If you look at the Order Book today it is at 10370 crores and if you compare that with March, March was 10200 last year against 9500 this March and our expected guidance is that we should be in double-digit. We are talking about a 10 to 15% growth. I do not know which part we will end up with but we are very clear that we expect a double-digit growth going forward in our topline for FY15-16.

Madan Gopal: Because opening with the same sort of Order Book and looking at a growth of 10% so what are we hoping like, is it execution delay in the domestic kind of going to turn around or is it an international project we had some delay which is likely to ease out. What is it we are targeting for?

Vimal Kejriwal: **A**ctually the other way round, the Order Book today you look at appears low because of faster execution. What is actually happening is that you are getting orders which are, some of the orders are of six months execution, nine months execution, 12 months as against…. I remember in 2002 when I joined it was 42 months execution, so what is happening is that what we probably we need to look at is the Order Intake rather than the Order Book. What is happened is that couple of orders which we received during the year we have actually completed during the year itself so they do not get reflected in the Order Book. That's the basic reason, for me it is not delay but actually faster execution

Madan Gopal; So you will be hoping for an Order Intake growth of double-digit this year as well?

Vimal Kejriwal: It has to, if my revenue is going up Order Intake has to, otherwise we have a problem.

Madan Gopal: Yes. I wanted to get your opinion on the current quarter margin. Is there any one-offs in it because there is a good improvement sequentially? Are we hoping to maintain this moving to next year, how is it you are looking at?

Vimal Kejriwal: For the next year we have generally been talking about an overall margin for the company at 7.5 to 8%. This quarter we have done 7.3 so which basically strengthens what we have been saying that we should start achieving 7.5 to 8%. And the way it would move is probably maybe the next two quarters would be on the lower side 7.5 or 7.75 and gradually going up to 8. That is the way we expect it to move.

Madan Gopal: There is no one-time kind of an income or something in the current quarter margin?

Rajeev Aggarwal: There is nothing as one-time income during the quarter Madan.

Madan Gopal: **O**kay sir. And last time when I met you, you gave me a good briefing on the attempts that you are making to reduce the interest cost to bring it down below 3% of sales and you have achieved 2.8% this quarter which is commendable. Any other measures taken by the company to bring it down further or we should be looking at 3% of sales for next year? Any guidance on that front would be helpful.

Vimal Kejriwal: Our target is around 3%, hopefully we should do better than that but I don't think we will right now budget or request you to budget less than 3%. The only silver lining which we are seeing now is that the banks have started cutting rates. Even today I was seeing PNB announcing a 25 basis point cut. So if the bank rates go down then there is a possibility that we may be able to improve the interest costs.

Madan Gopal: Sir, we have done with all those measures like replacing some of the local borrowings in MENA region which is currently being funded from parent and even replacing some of the working capital, high cost working capital debt with the commercial papers?

Vimal Kejriwal: Madan, what we are doing is that to the extent we have an arbitrage between our Receivables and Payables in foreign currency to the extent we are borrowing from overseas. Because if we borrow beyond that then we have an open position and we have to hedge it then with the hedging cost it does not make sense for overseas. So to the extent we get more foreign-currency orders and we have a higher receivable position we are borrowing to that extent and I think we are almost reaching that limit.

Moderator: Thank you. The next question is from the line of Ankur Sharma from Phillip Capital. Please go ahead.

Ankur Sharma: A couple of questions from my side one, when I look at your order inflows last couple of quarters I don't see too many substation orders being won by us, so is this like an intentional move where we are trying to focus more on transmission lines and less of substations or is it just that…..because even domestic Power Grid has been placing a lot of substation orders over the last couple of quarters but again there too we have not been able to win too much of that, so your comments please.

Vimal Kejriwal: I don’t know where from you got the numbers because if you look at the order which we have announced in the last quarter, out of that almost 1100 crores are from substations, you can speak to Nitin for more details but there is a significant amount of substation focus which is there especially on the higher end we are focusing on 765 GIS. We have got orders in lower voltage also but because they were in J&K and all that which were more difficult and probably we could get better margins we have taken that. There is a clear focus on substation business in India.

Ankur Sharma: Okay. Then I need to recheck my numbers here because I didn’t see too many of them. Okay great. So we remain committed to winning orders there, so there is no change in the company’s strategy of not going too aggressively in these segments.

Vimal Kejriwal: What must have happened in your case is probably if you are looking at the PGCIL website then most of the GIS orders they issue it in the name of the vendor, the GIS vendor name of the contractor, so maybe that may have created some confusion for you in this.

Ankur Sharma; Okay understood. I will recheck that Sir. Secondly, on SAE specifically and I was just looking at our margins basically consol minus standalone, the subsidiary margins which are pretty high this quarter. So would you be able to tell us what the margins at the EBITDA level were for SAE both for this quarter and for the full year FY-15?

Vimal Kejriwal: What happens is when you look at consol and the standalone, few operations in Saudi also they also come into the consol, so it might not be right to look at the difference as only attributable to SAE.

Ankur Sharma: I understand that but would it be possible to just give us the SAE numbers for this quarter and for FY-15?

Vimal Kejriwal: I think you talk to Nitin and take them separately. But it will be slightly lower than last year. I have that numbers.

Ankur Sharma: Okay. Any guidance for FY-16? Are we looking at a low single-digit margins for SAE for FY-16 or what is it that you are building in into your estimates?

Vimal Kejriwal: Very clearly low single-digit margin.

Ankur Sharma: Low single-digit margin at the EBITDA level?

Vimal Kejriwal: Yes.

Ankur Sharma: Okay. And just one last question on the domestic Power Grid ordering on transmission lines we are seeing a lot of smaller players also kind of come back in FY-15 especially in the 4th Quarter and also in orders which were given out in April, players like Skipper, lot of the other players like Tata Projects who have got quite a bit of market share there in Power Grid orders and I believe our market share has come down to about 9-10%. So how are you seeing the competition there in the Power Grid orders going forward?

Vimal Kejriwal: I think first thing what you need to understand Ankur is that Power Grid at some stage has split up the orders between tower supply and EPC. When you talk about some of the other players as smaller players, they have majorly got orders on the tower supply portion. For example, Skipper is a tower supplier. Not an EPC player. So that is one part of it. Second part of it is that Power Grid has got its own way of allocating limits and all that so within the limits if someone falls in they have been giving orders based on their L1 criteria. To tell you is that our this year's Order Intake from Power Grid has been significantly higher than the last year. In fact if I am not wrong our India Order Intake is almost double of what we received the previous year.

Moderator: The next question is from the line of Kapil Agarwal from Max Life Insurance. Please go ahead.

Kapil Agarwal: Your view on the North American market, how is the pricing there, the competition there which is kind of disturbed, probably in FY-15, how is that thing looking now?

Vimal Kejriwal: North American market is still looking bad. What has happened is that last year there were not too many orders and whatever orders came in were cornered by a couple of people at very low margins and low prices. Now those people are full so I don't think they will be coming into the market again. So as and when the market opens up for….and for larger order, when I say it is not good it is for larger orders. We keep on getting smaller orders. So even today for our Mexico Plant I think next three or four months or maybe six months we have enough orders. So as and when newer projects get announced and US has been talking about announcements and I think it has recently made some policy changes. So we do expect that some orders may start coming in. But as of today I don't think we have a very good visibility beyond a few months Order Book.

Kapil Agarwal: The remaining part of the business except T&D in India, how the Order Book there now and how are the orders there are what kind of legacy orders are left where we could some losses to be booked in the future quarters?

Vimal Kejriwal: See if you look at the current year, when I say current year financial year 2015, we have not a single order in the Water business. Railways we have got two orders I think, roughly around 250 crores of order intake for the year. We are L1 in close to 700 crores, we should be getting a few orders from the Railway business. That's where on the legacy part of it. As we have been mentioning our legacy revenue should be around 50 crores for the FY15-16. We have almost closed most of the other projects in the legacy business.

Kapil Agarwal: What kind of losses do we expect from this legacy orders or breakeven kind of scenario?

Vimal Kejriwal: Whatever losses we have known have been provided for in the March Quarter, obviously the accounting standing does not permit it to carry forward. When we are going to close this orders, like what happened last year we may still get some losses. But our view is that with a large current Order Book of Railways and the Order Book of Water which is in Waste Water Treatment where we are making money, we do expect that overall this business should not lose money for us in the current year?

Kapil Agarwal: Lastly, what is your view on the transmission CAPEX by the State utilities?

Vimal Kejriwal: That's a big plus for us. To me if you look at the way the State Boards are spending money specially Boards in the South, Tamil Nadu and Karnataka etc., and now probably Maharashtra will do it, so to us there has been a significant change in the India business and large orders are coming out now for SEBs. See what has happened is that Power Grid has spent a lot of money. They have built in a lot of interstate grids and all that and now the states are coming under pressure because they are not able to offtake power from the power substations, etc., So clearly the SEBs are under pressure especially SEBs which had not spend money for some time. Today if you look at I think West Bengal we are doing five or six projects for the State Board. Karnataka we are doing three projects. Tamil Nadu I think we have four projects. So SEBs is becoming a very critical portion of the India portfolio.

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

Arijit Malakar: I have a couple of questions. First could you give me the breakup of your Order Book, like in T&D segment, SEB towers, and Railways?

Vimal Kejriwal: Arijit, it was in the investor presentation. I don't know if you have missed it. But generally T&D would be around 70%.

Arijit Malakar: And for the Water and Railway segments?

Vimal Kejriwal: Water and Railways is 3%.

Arijit Malakar: Okay. My next question is, when I am seeing your results, consolidated results is much better than your standalone, in EBITDA margin as well as in the Net Profit Margin. So the performance is led by your overseas subsidiaries or there is some sluggishness in your domestic business also?

Vimal Kejriwal: The reasons are two, one is our newer businesses are all within India. So whatever problems we had with the profitability and all that it hit you into the standalone business. And secondly what is happening is there has been a significant increase in our revenues and profit from Saudi Arabia.

Arijit Malakar: So Saudi Arabia the sales of Saudi Arabia considering improving their business outlook actually?

Vimal Kejriwal: Absolutely. And since we are on this point let me also add that we are not seeing any impact of the Oil prices at least today, orders are coming the way tenders are coming on the Middle East.

Arijit Malakar: Okay. And another thing could you tell me the margins of your T&D segment now in this Q4?

Vimal Kejriwal: Margins we have generally been having between 8 to 10%. I do not have the specific margin for this Quarter, maybe you can talk to Nitin later on. But it could be between 8 to 10%.

Arijit Malakar: And what about in your Railway segment that is?

Vimal Kejriwal: Railway and all on overall basis have been negative, that's why the overall margins are lower in that.

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

Aditya Munge: Good morning, a few questions from my side. Firstly as we are doing more and more of these substation orders wherein we would be a subcontractor versus say directly dealing with PGCIL, should we assume that margins on these orders would be different or similar to the 8 to 10% T&D margins that we report?

Vimal Kejriwal: We are not the subcontractor. I know if I gave that impression it is my apologies. What happens is in Power Grid is the orders when you do substation orders they are split up into the overseas equipment supplier then Indian equipment supplier and the Indian contractors. So you actually get separate orders. So we are not subcontractors to anyone in any of the substation orders. It's a direct order. But the way the pre-qualifications are billed the main order gets issued to the overseas GIS manufacturer and the other two orders get issued to the Indian, if I can call it associate of partners. For the order comes to us we do the billing directly to Power Grid and the money comes to us directly.

Aditya Munge: Sure. So for these orders if one would anticipate a similar margin of 8 to 10%?

Vimal Kejriwal: Definitely.

Aditya Munge: Okay. Sir my second question is more to do on margins. Even in this year if you see at a gross margin level things have been worse of versus last year. Just wanted to get a sense from you whether there is more competition in the marketplace and from that perspective do you see downside pressure to gross margins going forward?

Vimal Kejriwal: You are talking about the overall gross margins or only for T&D?

Aditya Munge: I am as of now focusing on the overall numbers.

Vimal Kejriwal: I think once you are able to do some more analysis and break it up, then I don’t think in T&D we have lost margins. The overall margins have come down because of our losses in the legacy orders in our Infrastructure business and poor performance of SAE for this year.

Aditya Munge: Sure. My last question is on the Working Capital scenario. Just wanted to get an update from you whether you have seen any leeway being given by PGCIL or is that still a distant dream for you right now?

Vimal Kejriwal: Maybe Rajeev you want to answer on the Working Capital?

Rajeev Aggarwal: On the Working Capital I don't think we are facing any problem as such because last year also we monetized our Thane land sale, so we got about 200 crores from the sale of Thane land. This year also we have already signed an agreement with ETC for sale of our Telecom tower so we will be getting about 80 crores. So funding as such is not an issue plus also the initiative that we have taken, last year we started taking funding in the overseas market for the projects in the Middle East, so that is also helping us to reduce our Interest cost and also increase the avenues for raising more funds. So I don’t see any challenge in terms of the Working Capital requirement for the company as a whole.

Vimal Kejriwal: Another thing you said something about Power Grid? What did you want to know?

Aditya Munge: Generally it appears as if Power Grid is trying to have a tight leash on its cash position. From that perspective it is working to the deterrent of players such as yourself.

Vimal Kejriwal: You have said that they are having a tight leash on the Working Capital because they are also public listed and they are having a huge problem with their 60,000 crores odd capital work in progress. The issue is for people who are let's say just supplying and not erecting. What Power Grind is now saying is that we will pay you only when you do construction. For people like us we are happy with that because we are not having back log with Power Grid on construction, etc., so whatever we do we get paid for it. So what Power Grid has started doing is they have started distinguishing between performing contractors and non-performing contractors even in payment terms apart from not giving orders. So we are actually happy with what they are doing.

Moderator: Thank you. The next question is from the line of Pooja Swami from Span Capital. Please go ahead.

Pooja Swami: You give the outlook for next year in terms of revenue 10-15% growth. The Order Book obviously gives the confidence for that. But in terms of margin when you say 8% margin for FY-16 along with what you said SAE not reporting lower than this year margin and plus the legacy orders and the new business not contributing to the margin, what gives you the confidence for 8% margins for the next year?

Vimal Kejriwal: If you look at this quarter itself we have achieved 7.3%**.** That is point number one. Point number two is very clearly what we have been saying is that our legacy orders have come down significantly. We expect the revenue from legacy to be less than maybe around 50 crores in the whole next year. That's the second point. The third point is clearly when we had 7.3 with all the losses etc., we are obviously making more money in T&D, what I said around 8 to 10%. And if you look at our Order Book there is a significant component of T&D orders at source, so that is what is giving us the confidence that we should be able to achieve 7.5 to 8% margins in the coming year.

Pooja Swami: Okay so you say that the margin would be mainly driven only by the T&D segment of our Order Book?

Vimal Kejriwal: But the growth in the margins would essentially be driven by the T&D sector and let's say the reduced or effectively no or zero losses from the other legacy orders.

Pooja Swami: Okay. And regarding these legacy or the new segment you could say, in a long term view what would you guide or what do you expect from these segments, like one or two years?

Vimal Kejriwal: See clearly when you look at the two segments where we are there today is Water and Railways. Water we had essentially taken orders which were in the Water Resource Management projects, which were for building canals, etc., for irrigation. And somewhere we have lost a significant amount of money because of the nature of these orders. What we have done is over the last two years we have started shifting our gears and we have now moved to Waste Water Treatment orders and today our Order Book if you leave out the legacy orders of 10-20, I don't have the exact figure in Water, it will be comprising of Waste Water Treatment orders which are more technology intensive orders and we do see a scope on that business going forward. But the basic strategy would depend upon how we are able to execute the current orders and then we will decide what has to be done on that. As far as Railway is concerned we are very clear that Railway has a great future and new Railway Minister is talking about it. That is number one. Number two, what we have seen in Railways is the order sizes are increasing. It makes the larger players like us competitive. So we do feel that going forward in a couple of years Railways should be able to achieve margins which are similar to T&D.

Moderator: Thank you. The next question is from the line of Amber Singhania from Asian Market Securities. Please go ahead.

Amber Singhania: If you can give some idea about how much losses we have provided on the legacy orders in this year in FY-15?

Vimal Kejriwal: I don't think I have the number right now with me. Maybe if you speak to Nitin he can give you some more data later on.

Amber Singhania: Okay. And secondly on SAE tower like as we know in Q2 and Q3 we were into the losses as such. So what was the Q4 scenario because we know the business vertical in terms of Net Sales but how the EBITDA and the PAT has panned out on that part? If you can give some color on that. And whether in FY-16 again it will be loss making in the PAT level?

Vimal Kejriwal: I don’t have the numbers, you can talk to Nitin. But I can tell you one thing is Q4 also was bad so we have lost money in Q4 also. I don’t have the exact number so I cannot tell you. But as far as the next year is concerned, we are not budgeting for any losses in SAE going forward. And that had happened for two reasons and mainly in Mexico we lost some money because there were no orders. Brazil we did not make the expected amount of money because of environmental and other concerns where some of the projects got delayed. Please understand that we have a huge Order Book in Brazil and hopefully with the dispatches commencing it would have a significant amount of money and profit flowing from Brazil. And in Mexico, we do not expect that SAE will destroy any value for us in FY15-16.

Amber Singhania: So FY15-16 we would be in EBITDA and PAT positive, that's what the expectation is?

Vimal Kejriwal: Expecting, yes.

Amber Singhania: Okay. And just to take forward the previous participants question on margin, we have seen like even in last year Q4 we did around 7% margin but subsequently in the Q1, Q2, Q3 the margin dipped significantly both because of seasonal as well as the SAE problems. Going forward though we did around 7.3% margin in this quarter, if you can just give some more confidence on that, how we are estimating that 7.5 to 8% on a full-year basis we will be able to achieve in FY-16? Just if you can give some more color on that?

Vimal Kejriwal: I think the basic reason why we have confidence would be, let me divide it into two parts. Clearly the T&D execution is picking up more. The T&D margins are improving. Very clearly the margins going forward in T&D from this quarter onward we expect them to be better than what we had in the 1st, 2nd Quarter of FY-15. Secondly is the legacy order has come down. Whatever losses we have had in our Railway and Water businesses we expect that they will not be there or nominal losses should be there. That's the second part. Third is in the way SAE, at least Mexico is operating now and Brazil is operating we do expect that as I said earlier that we do expect that there should not be any significant numbers coming in from them so if you look at all these three figures that would help us in achieving what we are talking about our EBITDA. And I think the fourth point which I would like to talk about is probably interest costs down the line. The interest costs have come down significantly this quarter we were at 2.8 versus 4% in the first nine months, we expect that at the PBT level apart from whatever I talked about EBITDA we should also have a significant improvement in the PBT here as compared to last year.

Amber Singhania: Just last question on 2 SF, one is your plans for the further reduction in the debt and secondly the guidance from the tax rate going forward.

Vimal Kejriwal: I don't think we have any significant plans for reduction in the debt in the sense from non-core assets except that we complete the complete the telecom tower sales then some money will flow in or may be whatever comes in from that so that would go to reduction, other reduction obviously will only happen when we are able to make our working capital more efficient. We already had a 12-day reduction this year in our accounts receivable so whatever we can get from that that would help us in reducing working capital. But otherwise we do not have any non-core or anything else which we can dispose off and reduce the working capital.

Amber Singhania: What is the tax rate going forward because we have seen significant fluctuations in that?

Rajeev Aggarwal: Tax rate going forward again we are expecting to be around 35% which is a normal tax rate. This was a hit on account of the previous years in the particularly in Kazakhstan and in Afghanistan there our tax rate actually went up slightly to 40% but next year we are expecting the normal tax rate of about 35%.

Amber Singhania: Even with the international operations.

Rajeev Aggarwal: International operations.

Amber Singhania: Okay.

Moderator: Thank you. We will go to a next question is from the line of Bharat Seth from Quest Investments. Please go ahead.

Bharat Seth: Just want to get some sense in coming time I mean see we say that we have a L1 in around (+300,000) crores so can you give some sense whether it's domestic or international and more of T&D or substation just some sense?

Vimal Kejriwal: It is basically international. There is some part of PGCIL also in it. I don't have the exact breakup of the L1 orders but there are some Railway orders also. If you want to look at it geographical normally it will be 50-50 between international and India. But India has some component of Railway order which are at a decent margin and some PGCIL orders and I think there are couple of small ACB orders also but not much.

Bharat Seth: Earlier we were talking that execution time line is coming down so do you think that will again further will help us in reducing our working capital cycle?

Vimal Kejriwal: Definitely, it will help us in reducing our working capital, no doubt about that.

Bharat Seth: Is there any I mean like this year we reduced by 12 days next year going ahead where do you see?

Vimal Kejriwal: We reduced by 12 days not 12 percent.

Bharat Seth: Yes.

Vimal Kejriwal: The efforts is to reduce it further but what I wanted to say is that we don't want to build too much expectations around that part of it but what we are also seeing Bharat bhai is a significant effort from even PGCIL and all that to ensure that they capitalize their assets so they have also been focusing a lot on trying to close the projects commercially faster that is a good thing which we are seeing from the client part and I think that will help us also.

Bharat Seth: This PGCIL has been given something 27,000 crores kind of worth of order on nomination basis so when do you think that ordering for that will likely to start happening and rolling out there to business?

Vimal Kejriwal: It will happen soon because they don't have much orders in their hand from the market. If you look at the tenders which they have announced today large part is on North-East and New Delhi and the second tender is out for the green energy corridor so I think they will be doing it fast because what they have been given on nomination only on the ground that they can do it faster. Otherwise it should have gone on PPP. The only reason why they have taken it out and given to Power Grid from the PPP model is that there is a delay in the execution on the PPP because of the process involved and they want those orders to execute faster.

Bharat Seth: So do you think that will give some kind of a priority on the top 4-5 players over a smaller player I mean where they have burnt the finger?

Vimal Kejriwal: I will not be able to comment on that because Power Grid has got their own standards then the way they give allocation of limits and all to everyone, that allocation depends upon what is the size of your balance sheet, what is your capacity and what is your balance order book and how has been your execution. They use 4-5 different guidelines and I don't know if you all know about it but last month we got the award from Power Grid for the "Best Transmission Contractor" in the large players.

Bharat Seth: Last year we roll out this solar from rolling out EPC side so any update on that side?

Vimal Kejriwal: Right now it is too small for us, we just get two orders. We are continuing to look at that I don't think it will be a significant portion in our next year's budgets but we are looking at it. There are opportunities coming but it's not something which is worth discussing it's not that much.

Moderator: Thank you. The next question is from the line of Chinmay Gandre from Dalal & Broacha. Please go ahead.

Chinmay Gandre: Just wanted to understand the kind of margins you booked in the Middle East kind of area because if I see they primarily have booked through your subsidiaries and JV so basically if I assume that even SAE did not make money at EBITDA level or it kind of breakeven at EBITDA level then you made like 18% kind of EBITDA margins on those projects for the quarter and similar kind of thing was also in the September quarter where you said I think SAE made say a 10 crores odd loss at EBITDA so it means that around 30% kind of margins are add in those projects so just wanted to get your understanding on that, can you throw some light on this?

Vimal Kejriwal: Chinmay I'm not sure about the numbers but yes it is a fact that we made better margins in Middle East especially in the Saudi market which is a fairly protected market.

Chinmay Gandre: But are the margins so high and are these like sustainable margins or it is kind of a quarterly fluctuation because of the accounting treatment that you give?

Rajeev Aggarwal: Please understand one thing is the accounting statement is in accordance to that Accounting Standard 7.

Chinmay Gandre: Percentage completion basis.

Rajeev Aggarwal: Pure percentage completion so there cannot be quarterly fluctuation for the same project. When revenues come from a different project then the margin would be for the other project. Definitely the quarterly fluctuation but that's because of different projects not for the same project.

Chinmay Gandre: Broadly should current quarter kind of margins be sustainable considering the mix that you have in your backlog?

Vimal Kejriwal: That's what we have been saying that we have made 7.3 this quarter and we do expect to make anything between 7.5 to 8 going forward for the next whole year because expectation is that we will be able to sustain our margins.

Chinmay Gandre: You have been mentioning that you are seeing spending from the stateside, just wanted to understand like what has been the factors driving that also throw some light like the funding has been given to them I mean can you broadly throw some light on this aspect?

Vimal Kejriwal: I think the major reason for them is the political pressure. What we are seeing in some of the southern states and all is that they have power cuts but when press writes about it Power Grid comes back and says that we have enough power, the states are not off-taking it. It's putting a lot of political pressure on the state governments and we are aware of that so like Power Grid commissioned the Southwest connection and all that so now they are saying that the South can be fed as much power as South wants.

Chinmay Gandre: Any funding from the central side or is it that they have been managing in their own funding?

Vimal Kejriwal: The funding happens to RAC and PFC in any case, also some of the states have raised the tariffs so they are in a slightly better position than before.

Chinmay Gandre: And broadly how much the market has improved on the state side on YOY basis broadly? It would be difficult for you to throw a number but can you throw some ballpark kind of figure.

Vimal Kejriwal: Maybe two years back my Power Grid ratio would have been probably 80% in my India portfolio, probably we are around 60%.

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

Abhishek Ghosh: In the last con-call we had mentioned that there were some shipments in SAE which were deferred so have they been delivered now?

Vimal Kejriwal: I don't have the exact data on which one had been delivered but some of them are started delivering.

Abhishek Ghosh: What would be our order backlog for Mexico and Brazil look like in terms of factories like what kind of order backlog that we have?

Rajeev Aggarwal: I don't have the factory wise number but as roughly the order backlog there is around 1000 crores.

Abhishek Ghosh: So about 8 to 9 month kind of execution we can see based on this order backlog?

Rajeev Aggarwal: Based on 12 months.

Abhishek Ghosh: And would we have the legacy order losses number for FY15 and 4Q will that be possible?

Rajeev Aggarwal: As I said earlier why don't you just speak to Nitin later on I don't have the numbers with me right now.

Moderator: Thank you. The next question is from the line of Apoorva Bahadur from Crisil. Please go ahead.

Apoorva Bahadur: So I just wanted some color on this Power Grid ordering so as you said that there are three different parties when Power Grid declares an order win. I just wanted to know that out of total amount of order that they declare does that contain the total order win for all three parties or only for the lead equipment supplier?

Vimal Kejriwal: For all three parties.

Apoorva Bahadur: Any idea about the percentage?

Vimal Kejriwal: It depends upon the voltage of the GIS but generally it would be for the main equipment supply to be around 30% or so and the balance would be for the Indian contractors.

Apoorva Bahadur: Because I wanted to make a market sizing sort of a thing so this would be helpful.

Vimal Kejriwal: It is difficult that way because each order would be different. Some of the cases they make supply the transformer, they may not so it depends upon what is the scope of the tender and they may include some items in the scope of the overseas and this have to come from outside, sometimes they allow you to get it from India. So it's like difficult to do an average sourcing. If you want to understand it more then come and meet someone from our team, they can probably explain it more detail, will give you a better idea.

Moderator: Thank you. The next question is from the line of Manish Goel from Enam Holding. Please go ahead.

Manish Goel: If you can throw some light on the cables business, it has done extremely well in the current year so in terms of capacity utilization and how do you see that going forward, number one. Number two on the margins, is cable what is the margin we are seeing in the cable business if you can and how do you see going forward?

Vimal Kejriwal: It's a run variable that's a fact I think this is probably the best year they have had in a long time. Capacity utilization to me it's roughly around 90% in all, more than 90% actually so that's the second part of it. In cable business order essentially comes from change of product mix, we have commissioned our Baroda plant a year back on EHV, we already now have the Type Test Certificates for 220 KV cable which we have started producing and selling. So once we start moving more towards that cable 220 and 132 KV which are high value, high margin products the change in the revenue and all would happen more from that. As far as the margins are concerned they are not significant as of today. We have made cash profits; we expect to improve significantly in the next year and such much more positive budget on the cable side. What is also good in cable is that we have started getting a lot of cabling orders outside India which are helping us also in improving our cable sale on the higher voltage.

Manish Goel: In terms of FY16 for you to probably see a major shift in the revenue composition and to see a better margin would it be back-ended?

Vimal Kejriwal: Not exactly back-ended, maybe 1st Quarter they may slightly this so it won't be evenly spread out but I think from the 2nd Quarter onwards because we have put a measure thrust on exports and EHV. EHV orders obviously take some time to materialize and all supply. So in a way it would be more in the 3rd Quarter and 4th Quarter, maybe something may start coming in the 2nd Quarter also.

Manish Goel: So this is also one of the reasons why you expect your EBITDA margin to improve in FY16?

Vimal Kejriwal: Absolutely.

Manish Goel: But are you looking to further enhance the capacity or you would probably look to more focus on change in revenue mix going forward?

Vimal Kejriwal: Clearly we want to focus on change in revenue mix; I don't think we have any plan as of now or maybe in the near future to enhance the cable capacity.

Moderator: Thank you. The next question is from the line of Amber Singhania from Asian Market Securities. Please go ahead.

Amber Singhania: Just wanted some color on the overall macro order bidding pipeline, both on the domestic as well as the international size as well as the segment wise be it cable, SAE or T&D and Water-Railway, if you can just throw some more light on that.

Vimal Kejriwal: If you look at India, there is a plenty of tender pipeline right now. There are quite a few tenders coming out from the SAARC Region. This Nepal we have tender but I do not know with the earthquake they are on hold so I presume there will be some more tenders coming out now with what has happened there, I mean got quite a few tenders out so that's this part of the globe. Middle East there are quite a few tenders, especially in Saudi, couple of them in UAE. Africa is more when they announce a large interconnection between two or three countries large projects come out. Africa is more let's say specific country based. You have one country and suddenly you find like last year we got some 700 crores in Tanzania, right now nothing is coming in Tanzania. They are more now in Kenya and Ethiopia so Africa is more country based; you keep on waiting and watching which country and which interconnections come out. We also expect that in the former Soviet Union some orders, some tenders should start coming out. We just got job in Georgia which we announced today. There are other tenders which will come out in Kazakhstan and Azerbaijan that's where the broader situation is.

Amber Singhania: Just one more thing on the bookkeeping side. This quarter we had like other income of 9 crores, have you booked the profit from this tower sale, 5-6 crores whatever is there?

Vimal Kejriwal: No we have not booked any profit from the tower sale because the sale is not concluded as yet. We are under let's say finishing the conditions precedent. This is basically on interest income, etc., which you have from some deposit, some tax refunds, etc.

Amber Singhania: Any CAPEX we are planning to do it, what would be the CAPEX guidance for 16?

Vimal Kejriwal: Around 600-700 crores on the construction equipment, etc., some balancing equipments in factory. Normally our CAPEX has been between 80 to 100 crores every year, it would be around that.

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

Deepak Narnolia: Sir you guided for this 10 to 15% sales growth in FY16 and you are saying the execution is likely to pick in the new orders this project cycle would be lesser. So I just wanted to know sir in your opening order book if you compare it from last year on an average execution period has come down, project cycle is lesser in the current order book in a comparison to last year?

Vimal Kejriwal: I don't have the exact numbers but it is significantly lesser, I can tell you that. Even from Power Grid we are receiving orders which are below six months to nine months execution which was never before. We have got orders in Saudi which is again one of them with even four months execution, Zambia was very close. So there is a very clear thrust from the client side also that they are now looking for faster execution of order that is number one. Number two is there is a clear thrust on closing of existing orders, etc., so there would have been orders which are delayed by six months, nine months, 12 months and all that which now Power Grid, etc., are really putting all their efforts to clear the Right-of-way and all so that the execution even on orders which are hanging on which are not been completed. Just for your information in the last year, financially year 15 we completed 15 Power Grid orders lines and out of them at least who are ahead of their original schedule which is the first time any contractor for Power Grid is actually delivered lines to them ahead of their original schedule.

Deepak Narnolia: My next question is in your water business, you started with the order book of around Rs.600 crores, correct?

Vimal Kejriwal: Yes.

Deepak Narnolia: And the yearend order book is around Rs.300 crores now but you have booked revenues of only less than Rs.100 crores. So is there any cancellation of order during the year or something like that?

Vimal Kejriwal: I will not say cancellation, what has happened is that there are many orders where we negotiate with the clients because in many cases the client could not give clearances. Ultimately these are for building of canals or strengthening of canals, etc., which are used for irrigation. Many times the client is not able to get land from the farmers. Sometimes they finally find that the time available to do is very short, he does not want to shut down the canals so this is what has happened and since we are also losing money, we have had discussions and negotiations with the client and have been able to close let me use a word 'short-close' number of orders for your observation is right. I don't know the exact numbers but there have been quite a few orders which we have been successful in short-closing.

Deepak Narnolia: This is in a way positive for you.

Vimal Kejriwal: Yes it is positive.

Deepak Narnolia: You are saying that your proportion of SEB orders have significantly increased if you compared it from last two years and you are seeing a significant traction in SEB orders going forward also so the proportion of SEB will definitely increase in future. So do you see any elongation of working capital cycle given the track record of SEBs and delayed payment from SEBs?

Vimal Kejriwal: I'm not actually right now seeing that. We were also initially little bit hesitant but then we went and talked to the SEBs and today let me tell you, in March end one of the SEBs gave me single cheque of more than 90 crores. So what we are finding is that although there may be delays from their side for payment for power producers and all that they are not delaying that for EPC players. Because for us what happens is that it's a one-month billing if they don't pay, we just stop work then it becomes a problem for them and what we have also realized is that generally SEB orders are delayed significantly so by the time they give the order the project becomes a crisis for them. So the amount of follow-up and the execution speed which we are seeing in SEBs, to me is probably even better than Power Grid from the client angle. The second part of this is what happens is that the SEB is one which is actually supplying power to all the villages and everything else so when an SEB operation goes to clear Right-of-way and all that he is the much better power and authority over the locals to give you ROW clearance, etc., So what we are also finding surprisingly is that the SEB order execution is happening much faster than what we had anticipated when we started this.

Moderator: Thank you. The next question is from the line of Sundip Nag from Ashmore Group. Please go ahead.

Sundip Nag: You mentioned that while the order book in Brazil has been pretty strong, we have seen some delays in execution. So my question was how much of that is related to Petrobras scandal and on the ground are you seeing a turnaround in events or pick- up in activity in Brazil?

Vimal Kejriwal: Sundip as of today I don't think it is linked to the Petrobras scandal because these delays have been happening from the last 6 to 9 months and these delays are primarily happened I think to start with what they had the World Cup then they had the election so like India we saw a significant slowdown in the government approvals for the project. Secondly what happened was that most of these projects have been won by Spanish companies with the Euro prices they have some problems with their funding which are now getting resolved. So as of now we are not seeing any linkage to the

Petrobras to these delays. So the delays are now not at the Brazilian government, not on account of that the problem is the Petrobras, there is more on the ground level with environment, etc., which are getting cleared slowly.

Moderator: Thank you. The next question is from the line of Rajeev Mehra from JM Financial. Please go ahead.

Rajeev Mehra: You mentioned that quite a few projects which were delayed three months, six months, 12 months so if you could just lay a number to it, what's the quantum of the order book which could be delayed.

Vimal Kejriwal: I don't think I have that number right now in this with me available but what I was talking about and the context was that there were projects which were delayed because there are two locations, five locations and Right-of-way or there were some projects which got delayed because they required forest clearances, etc., now with the simplification of environment clearances, etc., what we are seeing is that the last mile problems which we are facing have got resolved. So these projects which we were stuck for minor issues have been completed but the impact on working capital is significant because you would have a 10% retention so because the only 1% left out.

Rajeev Mehra: And sir could you just throw a light on the order bid pipeline, how it is looking in the next coming 6 to 8 months I think you would have mentioned that but I missed that.

Vimal Kejriwal: You are looking at the tender pipeline, right?

Rajeev Mehra: Yes how is the tender pipeline domestically and internationally looking for the next 6 to 8 months down the line?

Vimal Kejriwal: Not exact number but roughly from what I can recollect there will be at least 10,000 crores of tenders which we should be bidding in the month of May.

Rajeev Mehra: This would be both together?

Vimal Kejriwal: It would be altogether international as well as South Asia.

Moderator: Thank you. The next question is from the line of Mohit Kumar from IDFC. Please go ahead.

Mohit Kumar: First is sir of course Power Grid is looking to bid out a lot of BOT projects so are you willing to have a thought, are you participating or is there any colors you can throw?

Vimal Kejriwal: Talking about the EPC portion of the…..

Mohit Kumar: whatever is sort of BOT projects which would be bid out in next couple of years, I know of course right now I think they have their pipeline is around 40,000 crores odd projects which are bidding stages.

Vimal Kejriwal: That's not Power Grid, that’s PFC and REC; you're talking about those projects?

Mohit Kumar: Right absolutely.

Vimal Kejriwal: Basically what we have been doing as a KEC is that we have not been participating in the interstate bidding. We prefer to still remain as EPC players and if you look at our order book, etc., even in the last quarter as we have announced two projects from Sterlite for that projects which they had secured on the BOT pages so similarly whether we’ve been the winners of the BOT want to build the line they will come back to us, even Power Grid is doing that, Power Grid has won a few projects and now they are bidding out EPC portion of it so that's where our primary interest lies.

Mohit Kumar: My other question is how is the State Electricity Board ordering activity compared to the last few years, have you seen any marked improvements or which are the states which are giving the orders apart from Maharashtra, Karnataka, and Tamil Nadu?

Vimal Kejriwal: Let me put in so tenders are getting floated from virtually every state including let’s say West Bengal, Orissa, UP even Bihar has got a huge number of orders coming out, MP okay. We are very particular about what states we want to work. There were earlier questions on the working capital and other issues so we are very particular about what states we want to work. So we are basically right now focusing on Rajasthan, West Bengal, Tamil Nadu, Karnataka, and little bit of Maharashtra and Gujarat. We normally don't quote in other states but other states are also coming out with tenders and people who are willing to work with them.

Mohit Kumar: Can you put a number to the quantum market which has moved over a last few years whether you have seen the marked improvements where the market has doubled or tripled in the sense of the tender for stations and enquiry from the SEBs have multiplied?

Vimal Kejriwal: Mohit if you want to look at numbers, broadly what we are seeing is the SEB CAPEX matches Power Grid so around 20,000 crores is what Power Grid has been spending and SEBs are now reaching that number. I don't have the numbers for the earlier years because we were not very active in the earlier years on the SEB market, but today very clearly we are seeing that the SEB spending is going to be more, right now it's equal to Power Grid.

Mohit Kumar: But sir is it possible to segregate the split and distribution and Transmission company of course all the SEBs are unbundled and of course there will be distribution segment and there will be transmission company which will be giving out the orders.

Vimal Kejriwal: So honestly we have no idea about what distribution is doing because whatever orders we had we are just completing those orders, we don't bid for new distribution jobs.

Mohit Kumar: So all the orders are mainly from the transmission companies, am I right?

Vimal Kejriwal: They are only from the transmission companies but they could be for transmission or for substations for last mile.

Mohit Kumar: So do you mean to say that like there are two companies MSEDCL Maharashtra so all the orders which you have got is you are tendering, you're participating is mostly from the MSEDCL side or there is also enquiry from the distribution companies?

Vimal Kejriwal: We are participating only for MSEDCL.

Moderator: Thank you. The first question is from the line of Uday Singh from Enam Holdings. Please go ahead.

Uday Singh: My question was related to your order intake number, for FY15 the total number is 8223 crores, right?

Vimal Kejriwal: Yes.

Uday Singh: So I was just calculating my number for the 4th Quarter and which comes to about almost about 2800 crores for Q4 whereas I was seeing your press release and it said about 3802 crores I just wanted to kind of get some clarity on that.

Vimal Kejriwal: Not 3800, I think what you may probably have missed out is when we announced our Q3 results along with that we had also announced that order release so we have had three order release is for Q4 January-February and March so maybe if you can add them you will reach around 3800, maybe Nitin can give you some more details so that 3800 for that quarter plus 1400 which we announced today for April.

Moderator: Thank you. As there are no further questions, I would now like to hand the floor back over to Mr. Vimal Kejriwal for closing comments.

Vimal Kejriwal: I would just like to thank all of you again for the continued interest which you are showing in KEC. Thank you so much.

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