"KEC International Limited Q4 and FY17 Results Conference Call"

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Moderator Ladies and Gentlemen, Good Day and Welcome to the KEC International Limited Q4 and FY17 Results Conference Call. We have with us today from the management, Mr. Vimal Kejriwal –Managing Director and CEO; and Mr. Rajeev Aggarwal – CFO. As a reminder, all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' and then '0' on your touchtone phone. I would now like to hand the conference over to Mr. Vimal Kejriwal. Thank you and over to you, sir

Vimal Kejriwal: Thank you. Good evening to all of you. And thank you for your continued interest in KEC. I am pleased to inform you that we have closed the year with a PAT of Rs. 305 crores, which is more than double of last year. The PAT for the quarter crossed the Rs. 100 crores mark for the first time at Rs. 146 crores, recording a YoY growth of 91%. Similarly, the PBT for the quarter was more than Rs. 200 crores, again a YoY growth of 73%. PBT for the entire financial year was at Rs. 463 crores, which is a 59% growth YoY. EBITDA margins for the business continue to rise with margins for Q4 at a record high of 10.4% and the entire year as a whole at 9.3%. This is higher than the revised guidance of close to 9% which we had mentioned in our last investor call.

Coming to revenue, the revenue for the quarter was at Rs. 2,884 crores, an increase of 10% YoY. Revenue for the full year stood at Rs. 8,755 crores, a tad higher, that is almost flat as compared to last year. Total order intake last year was at Rs. 12,358 crores which is almost 42% higher than the previous year.

Our unexecuted order book as of March end stands at Rs. 12,600 crores and the L1 positions are at Rs. 3,300 crores. Out of this we have today announced orders of Rs. 945 crores.

On the balance sheet front we have achieved a significant debt reduction of close to Rs. 1,150 crores in the entire financial year and a reduction in receivables of close to Rs. 550 crores.

On the revenue front, as I mentioned, we have grown at 10% for the quarter. the growth was primarily lead by good execution in railway projects which were awarded during the year and commencement of work in the T&D projects which are ordered towards Q3 and early Q4 of last year. However, revenue SAE in the last quarter was impacted due to the 5% transmission loss on account of strong appreciation of rupee against the dollar. This also lead to an impact on the overall year's revenue numbers, not only for SAE but also for our international business.

On the business front, I am happy to inform you that the international business is picking up momentum with large order wins across geographies in Q4. We have seen almost all our L1 backlog in the international markets converting into orders and are beginning the current financial year with a healthy opening order book. We have strengthened our footprints across the existing Indian geographies and have successfully entered, reentered eight new countries last year.

We are particularly excited about our subscription business prospects for the international market with close to Rs. 800 crores of orders and we look at subscriptions being an integral part of our growth story in the international T&D space.

I am also pleased to inform you that the civil vertical which we incubated last year has commenced operations and secured three tenders close to Rs. 225 crores. The capability team for the team is complete and we are confident of replicating our project management success in these projects and scale up the civil business, which is a significant part of KEC's overall business mix by 2020.

Similarly, the solar EPC business has also entered big league with a large tender win of 123 megawatt plant in South India, which is close to 5% of our overall order book. We plan to tap the synergies with our T&D business which operates in the international market for the solar customers. The railway business continues on its growth trajectory, registering order intake of close to Rs. 1500 crores last year and revenues of close to Rs. 450 crores. We have a strong visibility for the current year considering a tender pipeline and the manner in which execution is happening on the ground, we continue to be very bullish about this segment.

With each of our business on a firm footing and opening order book of close to Rs. 12,600 crores, we are looking at about 15% growth in the top-line next year. We may see some temporary disruption in the next few months with the implementation of GST as there may be a need for significant changes in stocking and dispatch plans for towers and bought our items. We also anticipate significant change in the logistics part within the transition phase, wherein supplies may get preponed or postponed impacting revenues. However, impact in many of the revenues will only be temporary for the first half of the financial year and we do not see any lasting impact on the transition to GST.

With the operating leverage building up in businesses like railways and solar, we expect EBITDA margins to be close to 9.5% and interest costs are also looking to go down on with better working capital efficiencies.

Thank you very much. I am happy to take your questions now.

Moderator: Thank you very much. Ladies and Gentlemen, we will now begin with the question-and-answer session. We have the first question from the line of Renu Baid from IIFL. Please go ahead.

Renu Baid: Sir, firstly getting in terms of numbers, it was a fairly strong quarter, so when we look from the perspective of execution, your sales growth guidance is just about 15%. How should we read through this with respect to growth expectation from the core T&D business and from the emerging segment and the railway, solar and the civil business for us?

Vimal Kejriwal: See, as I said, railways we are expecting close to double, not exactly double, around 450, we should be doing close to 750 or so, maybe we can do a little bit more but I will say 80% or so growth. Solar, I think we did around Rs. 170 crores - Rs. 175 crores and hopefully we should be doing at least three to three and a half times in FY17 - FY18. And civil, we already have orders, so Rs. 100 crores - Rs. 150 crores, maybe Rs. 200 crores, I am not sure what we will be able to actually achieve, but the number is insignificant when you look at the overall piece. The rest of the growth obviously will come from the T&D.

Renu Baid: So, the core T&D business excluding SAE should be backed with now double-digit growth in the next financial year, almost after three years of flattish numbers in that segment?

Vimal Kejriwal: Yes, definitely.

Renu Baid: And this execution pickup you are seeing it through from domestic as well as international mix or how is it looking like?

Vimal Kejriwal: International will pick up now because what has happened is, if you look at the Q4 numbers there was a large inflow of orders from international, so that has now started to pickup, we have received new orders in Jordan, etc., Saudi, so all those have started picking up. Africa does take a little bit of time in the orders picking up because they are all multilateral funded, so they do take some time to get approvals, etc. So, most of those orders which we got in Senegal, etc., would start revenues now. So, clearly Q1 would be more South Asia, I will say the India piece of that and by end of Q1 maintenance will pickup. In any case, what I talked about GST, only for the first few months we will focus more on the international execution to award all the transitioning issues and etc. with GST.

Renu Baid: Sir, my second question is, overall when we look at the company you have done a reasonable good job with respect to reduction of debt as well as working capital. So, this growth of 15% you think we should be able to continue the deleveraging exercise and how will the retentions and release of collection coming in from Saudi help in this growth?

Vimal Kejriwal: See, we will have to wait and watch, because Saudi we already started receiving money in last one, one and a half month we have got Rs. 150 crores already, so things are looking up better. In fact, we recently got a large advance from Saudi, forget a normal payment. So that gives us a lot of confidence that probably they have been able to tie-up their cash flows somewhere. We are already at 216 days of ARR and hopefully with civil and solar and all businesses picking up where the ARR are much lower than what they are in transmission, and Saudi getting more de-focused, clearly we see that we should have more cash flows coming in and they have to **(Inaudible) 9:58.6**. Related to that, if we look at our interest numbers, for the quarter we were at 2.2% but for the year we were at 2.9%. Clearly, we are targeting at least a 10% reduction from 2.9% to 2.6%, somewhere between 2.5% to 2.7% is what we should be doing on the interest piece.

Renu Baid: And sir, my last question, if I can ask you on this, overall the outlook seems positive but if you can share some more insights on the bid pipeline for the next six to 12 months which will continue to maintain the momentum on order flows that we have seen?

Vimal Kejriwal: The bid pipeline from railways is looking very good, if you look at the T&D the bid pipeline from state boards is looking very well. So, I would say Power Grid was relatively still, it has still not been firm but even today we have announced three orders Power Grid in Q4. So I think Power Grid is slowly picking up. Another thing would be, as I had said last time also, many of the TBCB orders which were won by some of the private players like Essel and Sterlite, are still under negotiation, some of them are pretty large orders and as and when they get concluded, and it is high time that they get concluded because they are now reaching their zero debts and all that, hopefully some of those larger orders can also come to you from South Asia. International, I think Saudi still is a huge pipeline, although they are not awarding too many but there is a pipeline. And we are seeing a large pipeline coming in from the far East, especially Indonesia, Thailand, etc. Africa is looking so-so, I do not see immediately a very big pipeline there. The other place where the pipeline is SAARC, especially Bangladesh, Nepal, Bhutan. So, I think overall we are happy with the pipeline.

Renu Baid: Thank you. We have the next question from the line of Balchandra Shinde from Anand Rathi. Please go ahead.

Balchandra Shinde: Sir, would like to know, in tower manufacturing if the steel billet prices are increasing, how it will affect our realization and EBITDA per ton, will it show increase because of these reasons?

Vimal Kejriwal: So, what happens is that if there is a pure contract with the price variation as with Power Grid and most of the state boards, there will clearly be an increase in the revenue. And generally, as I have always maintained, if the raw material prices go up, the increase in price is more than the increase in cost. So, it does have a marginal improvement in the margins also. However, to our contracts which are fixed price, obviously we cannot change the revenue, so the revenue will remain where it is and you may actually have a dip in the margins.

Balchandra Shinde: So, we are probably guiding for margins based on constant upgrade prices. But if at all steel billet prices increase what kind of an improvement we see in the margins from 9.5%?

Vimal Kejriwal: So, as I just now explained that we have orders which are both variable as well as fixed price, so the guidance is right now based on certain assumptions we have made for the seal price increase, not only in the guidance but also in the tenders which we have quoted. So, in our view whatever is the mix we have, we have taken adequate share of that and this margin guidance is based on that assumption.

Balchandra Shinde: And sir, can you share the states who are actually showing a growth in CAPEX?

Vimal Kejriwal: If you look at our numbers generally and our order book also, most of orders come from Karnataka, some of them are now coming from Tamil Nadu, for the first time after long ten years we have quoted in UP this week. Then I have seen some tenders coming out from Orissa, West Bengal, the others two states are Andhra Pradesh and Telangana. Essentially, I would say south base grows right now and other piece where Power Gird is coming out is in the Northeast.

Balchandra Shinde: But sir, will our receivables from the states like Karnataka, Tamil Nadu, means like wherever the debt burden for SEBs or any other state is relatively higher, do you think this receivables will be sticky in these states?

Vimal Kejriwal: But if you look, I already said that our receivables for the year have come under Rs. 500 crores and the revenues from the SEBs is already there, so we do not foresee any significant impact or adverse impact on our receivables. As far as the payment terms are concerned, if the SEBs are delaying the payments, we know the SEBs, then those delays are factored in when we are bidding for those projects. So, I do not think we are worried or concerned with that today.

Moderator: Thank you. We have the next question from the line of Sachin Kasera from Lucky Investment Managers. Please go ahead.

Sachin Kasera: Two, three very basic questions. One, the order that you have announced today, they are a part of this Rs. 12,500 crores order book or they are over and above this?

Vimal Kejriwal: They are over and above that.

Sachin Kasera: Secondly sir, I do not know, I logged in a little late, did you give any guidance regarding the margins?

Vimal Kejriwal: We said margins in excess should be 9.5% and a 15% growth in top-line.

Sachin Kasera: My third question is regarding the civil, this is again a new segment that we are trying to get into. Previously we did not have very good experience when we went into new segments like water, so what are the type of controls we have put into this segment to ensure that again when we get into a new segment we do not have the type of experience we had historically?

Vimal Kejriwal: So, Sachin, two things. One is, we are not trying to get into, we have already got into that, we already announced orders. So, that is one piece. The second piece is, what we have done different from the earlier foray is that we have built in the capabilities before we stared bidding, so we have a very capable team already in place, and when we won the orders we were very happy. And last time also I had said that for heading our business we have hired a very senior level person from L&T who knows which business very well. And next time when you are here maybe Rohit can introduce you to him so you can also talk to him. And also, since you mention about this, we have already taken all the learnings into account from whatever problems we had last time. And we also noticed that railways and all have already been turning around. So we have learnt from our mistakes and we are ensuring that we do not repeat those mistakes.

Sachin Kasera: I am saying, fair to assume that you would be targeting margins which are closer to 10% which are in line with average margins with good peers, I mean in civil?

Vimal Kejriwal: I think it is a matter of time because what I said was that we have already built capabilities, so we are already spending a lot of money on that. So, obviously till the time I reach a stage when I can absorb my overheads fully, the margins may be lower at the business level but project level yes.

Sachin Kasera: Just one more question sir, on the interest and financial charges, do you see further reduction in terms of the rate of interest that we are paying? You did mention that the working capital should come down because you are targeting lower receivable days. And over and above, you also see some further improvement in terms of the cost of borrowings?

Vimal Kejriwal: I think to me that can only happen if our rating gets upgraded, which I hope so will get upgraded by these numbers. Otherwise, right now we are not looking at interest rates going down in the general the way RBI has been talking about it. So, unless the rating gets upgraded I am honestly not seeing any decrease in that. But the way the dollar has been behaving, dollar again weakens maybe the US dollar rates may go down.

Sachin Kasera: And what are the chances that you see for a rating upgrade for us?

Vimal Kejriwal: I do not know, that is something what the rating agencies will have to decide.

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

Aditya Mongia: I am heartened to see such good numbers. Sir, the focus is a tad bit more on margins going forward. Now you are talking about a 9.5% number for FY18 as a target. Just wanted to get a sense of what can drive this number up and down, because the way things are happening, competition is getting bit more keen. And the way you are suggesting revenue growth to happen it is more non-T&D in nature, and I understand there will be operating leverage benefits. So just thought I will get your view on that.

Vimal Kejriwal: No, first of all I did not say it will be non-T&D only, I think the question was what was happening on other side, so I said that next year railways will double from 400 to 700, it is not significant in terms of growth, if I have to grow at 15% and all, because growth has to come from T&D because that is the bulk of it. So I am not saying that. Number two is that we already have order book of Rs. 12,600 crores and I know my margins on that order book, that is how the guidance for the year has been given. So I do not think we are worried about competition at least for the current year's performance.

Aditya Mongia: And is there a target that you are also having for debt at the end of next year, would it be something that is big focus for you right now?

Vimal Kejriwal: I do not think debt reduction we have a target that way, our target would be to reduce our receivables from 200 odd days to 180 days. As a consequence of that, whatever goes down will definitely go down. And clearly with a sort of top-line growth that we are talking about with a margin of 9.5%, we will definitely have cash generation which will help us in reducing the debt, even otherwise, even if you do anything with the ARR, hopefully the debt should go down even in the current year if you look at it, our debt has gone down by Rs. 1,100 crores whereas debtors have gone down by almost Rs. 600 crores. The large part of the debt reduction has happened from the free cash flow.

Aditya Mongia: So, just to put in a different manner, what I am trying to ask you is, let's say you have ended the year FY17 with a return on equity of about 20% odd, if my numbers are fine. If there is scope of further improvement in that number going forward, is that a focus area?

Vimal Kejriwal: ROE should definitely increase. I do not have a number for you or anything, but very clearly I think the numbers will improve.

Aditya Mongia: And just lastly, if you can give some sense of the 15% number execution where there can be volatility next year?

Vimal Kejriwal: No, I do not think there should be too much of a challenge to that number, because we have an order book which is decent enough to cover that piece. And as I said, we also had a L1 of Rs. 3,000 crores of which Rs. 945 crores is already announced today as orders which has which have come in. So, I think we are pretty confident of the numbers that we are talking about.

Moderator: Thank you. We have the next question from the line of Abhineet Anand from SBICAP Securities. Please go ahead.

Abhineet Anand: Just given the way inflows have happened this year, 40% plus, any fees on what could that number be in FY18?

Vimal Kejriwal: I think the way we have been looking at is that we should have order intake which is 15% - 20% higher than the revenue for the current year. So, if I am looking at a 15% growth which means we will probably be around Rs. 10,000 crores odd. So, to me we should be getting an order inflow at least of Rs. 12,500 crores - Rs. 14,000 crores at the minimum.

Abhineet Anand: Which is basically type of flattish to 5% growth?

Vimal Kejriwal: I said at the minimum.

Abhineet Anand: And SPV performance, if you can highlight in terms of how were the margins and some more qualitative there? And also the fact that recent things that are happening around in Brazil, does it impact in the medium-term?

Vimal Kejriwal: So, actually I think overall we had a fairly decent year and we were pretty happy with the performance of SPV. What we have still not seen in SPVs is a large inflow of orders in North America, although we were expecting that with all the talks of President Trump there would be large number of orders coming out in the United States, etc., we are still not seeing it. So, to me that is a little bit of a concern, so Mexico still does not have a one year or two year order book, we still have six months of order book. So that still causes us a little bit of concern, I would really love to have at least a year's order book in a flask like that. But Brazil, we have had a very good order book, we have got some large orders which some of the EPC orders will start executing around December, January. So, clearly Q4 or maybe Q1 of next year we will start seeing a significant spike in the Brazil performance. Politically if you look at since the last President was impeached the country has become much stable, the currency has strengthened by almost 25%. In fact, in the last auction which happened where you would have read that Sterlite won two orders, in that also virtually all the lots got sold as against the earlier auction where I think 40,000 lots only got sold. Clearly the market, the investors and the companies which are involved in that business are much more bullish about the Brazilian market today than they were six, eight months back.

Moderator: Thank you. We have the next question from the line of Nitin Arora from Aviva life. Please go ahead.

Nitin Arora: Sir, with respect to the total order inflow this year which has been Rs. 12,358 crores, can you share the numbers in terms of what was the states ordering of this total number?

Vimal Kejriwal: I do not have that number immediately with me, maybe we Rohit give you that number later. I can broadly tell you that India order book was almost Rs. 3,000 crores - Rs. 3,500 crores or something. Rohit can give you the numbers.

Nitin Arora: So, if you look at the Indian order book compared to last year, it seems to be flattish to negative, correct me if I am wrong, whereas we have grown very significantly on the international side. I am talking specifically only on T&D largely. Now, given that you are standing on a higher base and you talked about states giving the orders now and you yourself said that we are putting out a bid in UP. If you look at the other states are somewhat getting a little toned down, I mean, I am talking about specifically about South where the large ordering has happened in the last two years barring the demonetization in this year, before the demonetization they also ordered good amounts of orders. So in the next two years the only bunching of orders that can happen is from UP, that could order more rather than all other states. So if you can throw some light on the state side, if the total opportunity size of the tendering where you are seeing in terms of numbers, it would be really helpful. And how do you see the Power Grid in the absolute numbers basis because you will have stations also in this year, it will be really helpful. Thank you.

Vimal Kejriwal: So, Nitin, Power Grid's this year's budgetary allocation is Rs. 24,500 crores and I did meet their chairman and all that, a couple of days back they had a CEO meeting and they were very bullish about that they will be able to meet that allocation. That is one piece as far as Power Grid is concerned. I do not know why you got an impression that post demonetization the tendering from south has come down, I do not think that is right. To just give an example, I think last week Tamil Nadu has come out with three tenders of 765 KV each, total value is close to Rs. 2,000 crores, we just announced three orders from Karnataka today. So, very clearly the growth in south, these two states, in Telangana continue significantly and I have a huge list of projects which are in pipeline in this phase. So, notwithstanding what is happening with other states, I just wanted to say that it is not slowing down in these states. As far as other states are concerned, it is not that tenders are not coming out, like UP was coming out with some tenders but I do not think the ground situation was conducive for the people like us to bid there and that is the reason we were out of that, now the ground situation are improving, we have got there, we have got back into UP. I will just give you an example, Orissa is coming out with some 15 to 20 GIS substations, Himachal is coming out with. So, it is not that orders are not happening in other states, but the question is was is it in our side and what we wanted to do. Now as the things are improving, we feel that we can get into some more states. UP clearly is going to be an outlier because they have not spent money and with BJPs Power for All and the focus of Chief Minister and Piyush Goel is working in, clearly UP will become a very big state. The question is that will they continue to award orders of the Rs. 50 crores - Rs. 100 crores, then I do not think that is a state for us. Unless and until they decide that they really want to grow big time and grow quickly like what Karnataka and Tamil Nadu did where the big players would come in, if they still continue to get into Rs. 50 crores and Rs. 100 crores then there is a problem, which is what we have been telling them. And I think they are listening because the current tenders they have come out is almost Rs. 200 crores - Rs. 250 crores each one of them. So, UP is clearly going to be there. And I think other states cannot be left behind, Maharashtra has suffered a serious problem by not having lines and all that, now they are also talking about it, they are again putting up some large solar plants. If they put that up they will again require lines. So, I do not think I am that much for it, yes we will have a large growth in India, business growth last three years if we look at we have really grown very fast in India. I still remember, I think two years back or three years back we were Rs. 2,000 crores, we are now at Rs. 4,000 crores already. So, somewhere it did take time for the external order book to catch up with.

The second thing is, if you look at the way our margins have grown, we have been very, very particular about what orders we pickup. And one of the first questions I was asked was on competition from the market, etc. so we are not very choosy in what we want to do and what orders to pickup and at what margins. So, if I was getting a lot of the international margins, we have gone picked them up rather picking up lower margins in India. I think that probably can also explain to you why there has been a shift on the international order book. I hope I am clear.

Nitin Arora: The civil part which you have started as a separate segment, I am saying the orders taken there in the civil segment is a part of your T&D order book now?

Vimal Kejriwal: No, it is not, it is a separate vertical with separate business head.

Nitin Arora: And sir, the Rs. 945 crores order was a part of the L1, is that correct?

Vimal Kejriwal: Most of them I think. Civil was not part of the L1, the rest were.

Moderator: Thank you. We have the next question from the line of Ankit Babel from Subhkam Ventures. Please go ahead.

Ankit Babel: I just had two questions. First is that since you are focusing a lot on improving your working capital and you are also targeting a reduction in debt, so is it fair to assume that in FY18 your absolute interest cost will be lower than the current Rs. 254 crores, is it fair to assume?

Vimal Kejriwal: I do not know.

Rajeev Aggarwal: See, Ankit, next year we are looking at volume growth of about 50% is what we have guided. So, due to the volume growth and since EPC business essentially needs involvement of working capital, so as a percentage to sales certainly there will be an improvement which Vimal has already guided between 2.6% to 2.7% somewhere we will be having interest as a percentage to sales. Absolute numbers actually depend on the volume of business that we would be doing next year.

Nitin Arora: Sir, but since you are targeting a reduction in debt, how can the interest cost increase?

Rajeev Aggarwal: No, interest cost, I am saying interest cost will increase, I am saying…

Nitin Arora: No, interest expenditure basically, if the debt is coming down the absolute interest should come down, assuming that the rates do not change.

Vimal Kejriwal: You are talking about 15% growth then capital will be required for it, you are saying that we have got an AR of 220.

Nitin Arora: That I understand sir, so it means that the debt will not reduce.

Vimal Kejriwal: We did not say that, did we say that? What we have said very clearly was that the interest as a percentage which is today 2.9% will come down to between 2.5% to 2.7%, that is what I had said at the start of this. Now, to me, giving you a different answer, it would depend up on where we end up on the revenues. If we do are talking of 15% then if you look at the volume then it is Rs. 10,200 crores, now you add 2.6% to it, which goes to Rs. 260 crores - Rs. 265 crores, will be within more or less that level, so it depends. I do not see a significant increase in the absolute amount, what Rajeev was trying to say it is a function of the revenue.

Nitin Arora: And my second question was, will the rupee appreciation impact your margins since around more than 50% of your order book is overseas. So will it have some impact?

Vimal Kejriwal: There will be some impact very clearly on the translation piece, most of the items we also have a cost in dollars. So, if it is more on the translation and also on the numbers, on the profits which come here, there could be an impact. But there are also other items where we have also cost in dollars in India, let's say for steel, if we import steel and other things among that. So, at some places the cost will come down. So, I do not see any significant impact of that.

Nitin Arora: So, the 9.5% which you are expecting next year, you have already factored in higher currency, right?

Vimal Kejriwal: It is based on the current exchange rates, if there is more fluctuation then it is not factored in.

Nitin Arora: So fir, then what kind of currency you are factoring in while bidding for new projects?

Vimal Kejriwal: It depends upon project to project, because if I have a project which will take 12 month to decide then I will obviously factor in a different exchange rate and all that. If I know that a project would be settled tomorrow then you obviously be closer to the current rates and all that.

Nitin Arora: And sir, lastly, the overall growth which was expected to be around 5% for the year is just 1%. So any message in this fourth quarter, sir?

Vimal Kejriwal: I explained to you earlier, maybe you missed out.

Nitin Arora: Sorry, I missed out earlier comment, sir.

Vimal Kejriwal: Major reason was very simple that there was a foreign exchange depreciation, so both Asia and international we did translation on the revenue side there was an impact. Obviously, some of the orders which we are expecting to start early, some of them got delayed in the March and all that. So the work on that probably commenced later on. So, there is some revenue slippage what we had is there and some is on account of currency.

Moderator: Thank you. We have the next question from the line of Jonas Bhutta from PhillipCapital. Please go ahead.

Jonas Bhutta: Sir, just wanted details on two things. In the presentation, we have mentioned the net debt excludes long-term borrowings of the company's BOT project. So, what is that debt, what is the quantum of that debt that is in the BOT?

Vimal Kejriwal: That is about Rs. 150 crores as on 31st March.

Jonas Bhutta: And the same for receivables?

Vimal Kejriwal: No, because this is still under construction so there is no receivable as such?

Rajeev Aggarwal: Rs. 180 crores of receivables as per IndAS norms.

Jonas Bhutta: Sir, the reason I ask is, I was just trying to reconcile the balance sheet numbers which are part of the normal disclosure to the net debt number that we have mentioned here in the presentation. So basically, short-term plus long-term borrowings add up to about Rs. 2,900 crores and if I knock off current investments and cash balance, we arrive at about Rs. 2,600 crores and then another Rs. 150 crores on account of the BOT project. So, still there is a significant gap between the calculated net debt versus what the company is declaring. So, I just wanted to understand what am I missing?

Vimal Kejriwal: Jonas, I think we would not be able to do it on the phone, maybe you can just speak to Rohit and close it.

Moderator: Thank you. We have the next question from the line of Bharat Sheth from Quest Investment. Please go ahead.

Bharat Sheth: Sir, on our pending order book in T&D is around Rs. 10,000 crores, so roughly what is the brush up between transmission and power substation?

Vimal Kejriwal: You asked about international or what?

Bharat Sheth: Of course both, our total order book was Rs. 10,000 crores plus in T&D.

Vimal Kejriwal: Okay, it is around 25%.

Bharat Sheth: Then how do we see going forward, because you are more bullish on substation side.

Vimal Kejriwal: Bharat, what I said was that in international substation we were not a big player, what I was saying that this year we already have orders of Rs. 800 crores from international. So, now what is happening is our 3Q subscription is getting built up. We are clearly seeing that since the start is a very small number, the percentage growth in substation will be very high. That is what I was trying to say that a significant part of our growth, when you say growth was flat and now you are going to grow at 15%, I am saying that the growth may come from the substation.

Bharat Sheth: I agree with that. So, over the next three, four years how do we see the kind of opportunity like in transmission we have established on suspension in international market and domestic?

Vimal Kejriwal: Yes, so what is happening is if you look at the expenditure of some of the boards and all that, most of them have a substation expenditure which is equivalent to transmission. To me the target should be next two or three years, your subscription business should be as big as transmission. In fact, if you look at the orders which we have released today, most of them are actually from the substation piece.

Bharat Sheth: Sir, do we, I mean, with this double opportunity anticipate our company to continue to grow in the range of 10% to 15% in the next two, three years?

Vimal Kejriwal: It has to grow.

Bharat Sheth: And how much is leverage we have on EBITDA side with the help of that higher top-line?

Vimal Kejriwal: See, 9.3% happened this time, 9.5% we are guiding for next year. So, clearly with 0.5% every year, after 2018-2019 we should at least be 10%.

Moderator: Thank you. We have the next question from the line of Sandeep Baid from Quest Investments. Please go ahead.

Sandeep Baid: Sir, I had two questions. One on our cable business, it had a subdued year, we just wanted to understand what are the margins we are making there and if you can elaborate on the next two three years for the cable business?

Vimal Kejriwal: First of all, I do not think it was subdued here, because last year we had a loss at PBT level, this year we are positive at PBT level for the cable business. So, that is the good part of it. On the EBITDA, I think we are close to 5% on EBITDA.

Sandeep Baid: You see that going up, sir?

Vimal Kejriwal: It has to go up, because very clearly if you look at today's order release, we have received a large 220KV order from Power Grid, and the volumes are pretty large enough. So, once we do that project the we will be qualified for almost any 220 KV HV cable and cabling projects. So, clearly I think that should happen. And then I think the next piece where are doing pretty well on cable has been on the solar cables, with all the solar projects coming up there is a huge requirement for solar cables and I think our launch has been running over booked on the solar piece, that is one area where I think we see a lot of traction coming. So, overall I think we are happy with what cable has done, maybe we would have been happier if it would had been better than this. But we are happy and I think next year we have a much more aggressive budge for cables.

Sandeep Baid: And secondly sir, while GST rates have just been announced, but in case you have done any work, how does that impact our business?

Vimal Kejriwal: I do not know because I have been getting a lot of SMSs, WhatsApp on different rates for the same item. So, honestly, at least I have been busy with Board meeting since morning, so I have not been able to actually understand what is happening on the GST front in terms of the impact. But as I said earlier in my opening remarks, we do expect a huge amount of disruption happening, at least in June and July till people settle down. So, a quarter or two I think it was going to be negative even otherwise because people may not understand what is available for setup, how to setup, what has to be done, how to take care of efficiency. But I think going forward it should be very positive on businesses like us which may come across the country, supply across the country, if you are able to optimize because your entry taxes will go away, your CSTs will go away, Octroi will go away. So, I think it would take some time for people to actually optimize their supply chains. I will give you a simple example, today when I have a project in Maharashtra, I don’t supply that power from Nagpur, I supply them from Jabalpur because there is a VAT involved in supply from Maharashtra. Once GST comes in I am going to supply them from Nagpur plant rather than supplying them from Jabalpur, which will straight away save me some Rs. 500 - Rs. 700 of freight per ton. So, in that way we do expect that a lot of efficiencies will come up. But as I said that there could be initial disruptions, once that get settled for me the full benefits would probably start flowing into Q3 and Q4. I think that is what will happen.

Moderator: Thank you. We have the next question from the line of Mehul Mehta from Sharekhan Ltd. Please go ahead.

Mehul Mehta: Sir, in terms of annual receivables, what you have mentioned is about debtor days have come down from 247 days to 231 days in the presentation. But if I look at nine months basis we were at about 218 days, so are we on track to our target of 180 days going forward in terms of debtor days?

Vimal Kejriwal: Yes, I think we are on track. What probably would apply, I do not have the number right now with me, because what happens is that if you look at our top-line because there has been very high 10% over quarter-on-quarter, Rs.2,900 crores almost, so a large part of the sale has happened closer towards March, which is actually lying in the debtors. So I do not think that is a major problem for us.

Mehul Mehta: It is quarter four impact one can say?

Vimal Kejriwal: Yes, till quarter four impact will happen and I am not worried about it.

Moderator: Thank you. We take the next follow-up question from the line of Sachin Kasera from Lucky Investment Managers. Please go ahead.

Sachin Kasera: Sir, just two small questions. On the solar side, I understand that you mentioned that you will locate almost 3x growth in solar business in FY18?

Vimal Kejriwal: Sorry, can you repeat the question, Sachin?

Sachin Kasera: I am saying, sir did you mention that in solar you are looking at almost a 3x growth in FY18 over FY17?

Vimal Kejriwal: Yes.

Sachin Kasera: So, a follow-up on that, we have seen that the per megawatt prices correcting significantly in the last one year from almost Rs. 4.5 per megawatt they have come down to Rs. 2.5 - Rs. 3 crores a megawatt. Will that have any impact in terms of type of margins that we can make in these bids, have we also seen a commensurate reduction along with this type of correction?

Vimal Kejriwal: Sachin, if you look at a typical solar project, the construction piece will probably be 10% to 15%, the rest is all supplies. So that is one piece and very clearly what we have been seeing is two things, one is there has been a consistent reduction in the supply prices and the second is that technical capabilities of supply has gone up, like our inverter which was Rs. 500 is now being sold around Rs. 1,500. So, because of the technical improvement and technical efficiencies, there has been a significant reduction in the cost, on a technical term I would say. And also my structures, we used to buy structures from outside, now we manufacture them ourselves, we have been able to redraw the structures and take out a large amount of cost and all that. So, what I am trying to tell you is that the EPC costs are definitely going down, as far as margins are concerned, to me solar is not a critical part of my business. If I do not make the margins I want to make I will not take jobs. The third piece is that when I said Rs. 600 crores today I think it is largely a function of the order book which I already have. So, I am not worried too much about prices going down, they really do not impact the EPC we will just not take those orders. But today we have order book which we should be able to more or less meet those targets.

Sachin Kasera: And what are the type of margins you can look for it, 6% - 7% as far as solar business is concerned, sir?

Vimal Kejriwal: Generally it would be that way but what you have to understand is that there my interest cost and all is zero, so the PBT margins are much higher, PBT margins would almost be on par with T&D and all that, maybe a tad lower but more or less I will say.

Sachin Kasera: And my second question is on the cable business, you did mention that you have got some very good orders on the EHV side. From what we understand is there is a lot of excitement on the EHV segment of the business in India, if you could give us some idea as to how are we positioned as far as the overall EHV business is concerned, how the business opportunity will grow and what are the type of flip which it can give to the overall cable business?

Vimal Kejriwal: See, there is a lot of excitement about the EHV, we are seeing a lot of things happening on it. We have significant amount of order book on EHV. So we already have order book of more than four months with us on EHV, we are also negotiating with some large parties in the south of India where we should be getting more orders. But coming back, I have not seen very large orders coming out from EHV right now, there is a lot of spark happening about it, Andhra Pradesh has been saying that they will convert all the lines on the poster written into cables, but we have not seen much happening. But there is very clear traction and that will definitely help us in that.

Sachin Kasera: Can you look at double-digit growth in the cable business in the next one to two years sir, are we looking at that way?

Vimal Kejriwal: It will depend upon how the EHV business comes up, because we have not invested money into people, so it is a product business, so my capacity will not go up unless either my product mix changes significantly or the copper or aluminum prices go up.

Sachin Kasera: And EHV is a far better margin business than the current 5% that you mentioned in the existing cable business?

Vimal Kejriwal: It is difficult to say that, Sachin, because what happens here is that the margins are decided from project to project. I have SD cables also at 20% margin, I may sell EHV at a zero margin, so it depends upon how the competition is and which orders I want to win. So it will be difficult to generalize and say that in EHV it will be 5 or this and that like normal EPC business, each order would be a different margin.

Sachin Kasera: And what is the maximum we can do in EHV with the current capacity at the current prices?

Vimal Kejriwal: Current capacity will be around Rs. 400 crores.

Moderator: Thank you. We have the next question from the line of Abhineet Anand from SBICAP Securities. Please go ahead.

Abhineet Anand: Sir, just wanted to know our gross debt along with acceptances, how much that is?

Rajeev Aggarwal: Gross debt including acceptances is close to about Rs. 2,700 crores.

Abhineet Anand: And a breakup between the short-term and long-term debt?

Rajeev Aggarwal: Long-term debt is about Rs. 700 crores or so, because this is largely the debt which we had taken for acquisition of SAE, that is the LCD which we had taken last year to retain some of the high FOREX. So, other than these two rest is all working capital.

Abhineet Anand: And tax rate this year was around 34% - 35%, I think next two years we should be around the same levels?

Rajeev Aggarwal: We are expecting the taxes for the next years to be at the same levels.

Abhineet Anand: And just last thing on civil, what are the segments we are targeting actually, there are a lot players already in it. So, from a medium-term perspective when we have already built capabilities that we mentioned, so what are the key segments we are targeting in civil?

Vimal Kejriwal: I think we have seen two key segments, one is on the industrial side like building a cement plant or whatever comes on that way, the first part is that. The second part is residential which would be not the high income one and not the middle also, it is not middle where it could be a 20 story or a colony which has got 2 crores - 3 crores. Anything between Rs. 75 crores - Rs. 80 crores to Rs. 300 crores would be the number which we are looking at.

Abhineet Anand: And we feel that the capability that are required are already being built in.

Vimal Kejriwal: Yes, they are already in place.

Moderator: Thank you. We have the next question from the line of Sabyasachi Market from IndiaNivesh. Please go ahead.

Sabyasachi Market: Just one question I had that in erection in subcontracting expenses we see that there has been a significant fall of around Rs. 243 crores YonY. So could you please throw some light on that?

Vimal Kejriwal: I think it is very difficult to explain that number that way. As I have been always saying that for us the erection and subcontracting and labor cost, and even material is all rolled into one. For example, if I want to do a combination I have a choice of doing it myself along with all material and all my labor, that will go in three different items. I may give it to a subcontractor including material and labor supply. So whenever you analyze our numbers you should actually add all of them together and then look at it, that is the right way of doing it. Because what happens is in a country like Saudi I take my own labor, I buy my own concrete. So when I do more execution there the subcontracting cost will only be very small in that. When I do it in some other countries and all that I may, you know. So it is a way you execute a project which will decide the breakup between these three elements. So my suggestion would be, you add all three of them and then if you have a problem then you come back to us to understand it.

Moderator: Thank you. Ladies and Gentlemen, as there are no further questions from the participants, I would now like to hand the conference over to Mr. Vimal Kejriwal for closing comments.

Vimal Kejriwal: Thank you very much, for your interest shown to us. Thank you.

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