"KEC International Q2 FY22 Results Conference Call"

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Moderator: Ladies and gentleman, good day and welcome to the KEC International Ltd. Q2 FY22 Results Conference Call. 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, please signal an operator by pressing '*' then '0' on your touchtone telephone. 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 morning. I welcome you all to the Q2 Earnings Call of KEC. I hope that you and your family are safe and healthy during these challenging times. Let me start with the brief update on our recent acquisition and thereafter talk about the overall performance for the quarter and half year and each of the respective businesses. We had launched the Oil and Gas cross country pipeline business in line with Government's thrust in this sector and our vision to strategically expand our business portfolio into adjacencies.

To accelerate growth in the business and I am happy to share that we had completed the acquisition of 100% equity in Spur Infrastructure Pvt. Ltd. in October' 21. Spur Infra is now a wholly owned subsidiary of KEC. Spur Infra is incorporated in 2016, an EPC company engaged in setting up cross country Oil and Gas pipelines and City gas distribution networks. In the last 3 years Spur has an annual revenue in excess of Rs. 100 crore each year, a profitable track record, technical expertise and experienced manpower. It has an orderbook of ~Rs. 600 crore, comprising of cross country pipelines and city gas distribution network projects from marquee customers. The acquisition is in line with our strategy for adjacent growth, this acquisition will enable us to capture the lucrative growth the opportunities in the oil and gas cross country pipeline EPC sector in India as well as in the international markets, especially in MENA and Africa.

Now coming to the performance for the quarter. We have achieved revenues of Rs. 3587 crore which is a growth of 10% on consolidated basis and 18% on standalone basis vis-à-vis Q2 last year, despite the challenging environment which we are all seeing. The growth has been delivered by good performances in all our businesses such as T&D, excluding SAE, civil, railways and cables. The growth could have been higher but for the intermittent COVID challenges faced at some of our projects especially in international locations and volatile raw material prices. We continue to consciously regulate the supply of towers and conductors to some of our projects where the schedule permits. Notwithstanding this, considering our current orderbook and L1 position, we are very confident of a continued good growth for the balance half of the year. Despite significant challenges we have achieved EBITDA margins of 9.4% at a standalone level and 7.1% at the consolidated level for the quarter. The consolidated EBITDA margin for the quarter has improved by 80 basis points sequentially. During the quarter we have an exceptional write off of Rs. 43.6 crore towards the legacy arbitration case in South Africa which has been decided against us in this month. This was an unfortunate development as we had won this legal case at two different levels, unfortunately at the final level we lost this case and this came as a big surprise to us as well. Excluding the impact of this exceptional item we have delivered a PBT margin of 6.7% at the standalone level and 4% at the consolidated level. Our standalone PAT margin stands at 4.9% and consolidated PAT margin at 3.1%. The margins have been impacted primarily due to the elevated commodity prices globally and the continued cost time escalations in SAE, Brazil, amidst the pandemic. We continue to have good order inflows; our YTD order inflows stand at Rs. 7386 crore, including the recently released orders of Rs. 1829 crore. We witnessed a strong growth of 70% vis-à-vis last year. The largest contributor in order intake have been our international T&D and civil businesses, followed by railways. Our orderbook including L1 as on date stands at all time high of Rs. 28500 crore including Spur Infra of ~Rs. 600 crore and L1 position in excess of Rs. 7500 crore. We have a well-diversified orderbook across businesses with an equal share in both T&D and non-T&D business. Net debt as on 30th September' 2021 stands at Rs. 2801 crore, while the closing borrowing is slightly elevated, due to some delays in connection from Railways, our average borrowing continues to be largely in line with our targeted average borrowing levels of Rs. 2500 crore for the year. Our interest cost continues to show a declining trend and has improved to 2.0% for the quarter of sales against 2.1% in Q2 last year.

Now coming to specific businesses. Our core T&D business excluding SAE has delivered a growth for the quarter, despite the various headwinds. The momentum in T&D order intake continues with new orders of over Rs. 3000 crore, led by significant orders in the international market, especially in the Middle East and Americas. We have expanded our international footprint further with our first T&D EPC order in Europe. The overall tender pipeline in T&D continues to be strong in the international market. In Afghanistan the situation continues to remain fluid. We currently have 5 projects under execution, all are funded by international funding agencies and are critical for the country. We are in constant touch with various governmental authorities and the multilateral agencies and expect resolution in the next few months. In Brazil as conveyed in the last earnings call the two legacy projects are expected to be completed within this quarter Q3. Additionally work on the three recently secured EPC projects are going on as per schedule, we have also secured few large tower and hardware supply orders in Brazil. Execution of one of the supply orders are already commenced during this month. Our Railway business has achieved a revenue of Rs. 1000 crore for the quarter delivering a strong growth of 20% vis-à-vis Q2 last year. The business has secured orders of over Rs. 1200 crore YTD. In conventional OHE as well as orders in the new areas of speed upgradation, port connectivity OHE and third rail for metros. The railways tender pipeline continues to remain robust, with a blend of conventional, technologically enabled emerging areas as well as international opportunities. With the continued thrust on execution and an orderbook plus L1 of over Rs. 6500 crore, we remain confident that railways will continue its revenue growth trajectory for the year.

Our civil business has delivered another quarter of strong performance with revenues of Rs. 450 crore, growth of 2 times vis-à-vis Q2 last year. The growth has been delivered on the back of robust execution of metro and industrial projects. I am happy to share that we are on the verge of completion of our first metro-civil project for Kochi metro. We have already handed over the viaduct portion and work for the stations are nearing completion. The business has also commenced execution for the recently secured order for Chennai metro. Additionally, the business is L1 is a second viaduct tender in Chennai metro, the physical progress achieved in all our metro projects reaffirms our confidence of this segment contributing to our growth significantly going ahead. In line with our strategy to diversify new growth areas in civil, the business has secured a breakthrough order in airports, which marks our entry in the growing public spaces segment.

Additionally, the business has also reinforced its presence in the water segment and in the industrial segment with orders in metals and mining, data center and FMCG segments. With a robust order book plus L1 of over Rs. 6000 crore, we are confident that his business will continue to be one of the key growth drivers for us in the coming quarters. Our cable's business achieved revenues of Rs. 356 crore, with a robust growth of over 40% vis-à-vis Q2 last year, contributed by growth across all segments. The business is progressing well with the development of new products, it has received approvals for a few new products during the quarter. In solar, we have successfully completed and commissioned one of the Asia's largest carports, a 20 MWp solar carport project for a leading Automobile manufacturer. Additionally, we have also successfully charged a 13.6 MW rooftops solar projects for a corporate client.

In Smart Infra, the Aurangabad and Bidkin Smart city projects are on the verge of completion and the execution of the projects for integrated perimeter security system, for defense airports is on track.

Overall, we are pleased with the growth in revenues and order intake despite significant challenges. The business environment continues to be uncertain with the prevailing commodity prices and Pandemic scenario. On the positive side, we are witnessing a gradual revival in outlook in Brazil as the two legacy EPC projects which have impacted our performance in the recent quarters are scheduled for completion shortly.

On a concluding note, I would like to convey that with the traction in order intake, a robust order book plus L1 of over Rs. 28,500 crore and a strong tender pipeline, we are confident of delivering a continued good growth in the coming quarters. Thank you very much, we are open to questions now.

Moderator: Thank you very much sir. Miss Bhoomika, please go ahead with your question.

Bhoomika: Yes, good morning, Sir. Just wanted to understand the margin profile, you know given the current escalation in raw material prices, while SAE will kind of get settled into the fourth quarter but as you move ahead, I remember we had kind of indicated earlier that we have restricted our conductor supplies. So, with the kind of movement in aluminum prices, what is the kind of impact in terms of margin profile and could there be an impact if we continue to delay our conductor supplies in terms of revenues. And if you can talk about how the new order bids are happening and what is the competitive intensity across segments in lieu of this escalating raw material prices?

Vimal Kejriwal: So Bhoomika, the margin profile on non-T&D is clearly right now better than T&D because in T&D we are executing many of the older projects and quite a few of them do not have a Pass through clause, whereas in Civil and Railways generally there is a pass through clause, so 46% non-T&D business, I think our margin profile will improve further because even if you look at the order book also, there is the same change with non-T&D keep going, that is one part of it. As far as aluminum is concerned, I think the good part is, if you look at the overnight rates today, aluminum has come down by almost $300, so today it is now, $ 2600 odd against the $ 3000 which it was a day before itself. As far as the conductor supplies are concerned, whatever was required or is required for our project progress, has been supplied or is being supplied. So, in a way, non-supply is not going to impact any project progress, it is definitely impacting revenues, which is why you can see a slightly lower growth of revenues this quarter, we could have done much more, had we supplied conductors but we did not want to take losses today when we do not need them that way. Coming to the new projects and all that, we are clearly bidding at the current margins, current cost and all that and so I think from Q4 onwards, we will start seeing execution happening of the newer projects which will obviously pull up the entire margin scenario, okay. You had one more question Bhoomika, sorry I missed the last one.

Bhoomika: Yes Sir, I mean related to this only in terms of competition, how is competition across various segment, so if you can talk about that typically in terms of Railways where the order inflow has been slightly muted, so from that perspective.

Vimal Kejriwal: So Bhoomika, I think the competition is a challenge, especially wherever there is a much larger civil portion. So, in Railways if you look at, let us say except Metros; in most of the electrical OHE signaling, there will be three or four parties or maybe five parties maximum but wherever there is a civil portion involved, we are seeing a huge number of civil contractors, specially from the Road sector and tier 3 contractors because as of today, I think there is no requirement for a bid bond, I think it is expiring on 31st December, I do not know what the government wants to do. So, we are clearly seeing that, since there is no bid bond required, I know recently of a Railway tender where we had not bid, which was a pure civil tender, there were 53 players coming in but that was a pure play civil, it becomes a technologically intensive or EPC, where engineering and all is required or let us say, the size is about Rs. 200-300 crore, then the number of competitors start tapering in and many of our larger projects like our viaducts and all that, we are seeing two players, three players, four maximum. If you look at water projects, we have been having eight, nine competitors but on the larger ones, restricted to three or four. So, project size wise I think we are still seeing quite less competition if it is Rs. 300-400-500 crore, below that on the civil portion lot more competition but if it is technology lower, internationally the competition continues to be similar 4, 5, 6 players, I have not seen any increase in intensity. I hope I have answered your question.

Bhumika: Yes Sir, sir one more if I may squeeze in, in terms of outlook in terms of order inflow obviously there has been an improvement and we have a very healthy L1 position, but what is the kind of bid pipeline across various segments and particularly translation in the international and domestic market?

Vimal Kejriwal: So, the pipeline continues to be around Rs. 60,000-65,000 crore between the various businesses of which half of them typically have been bid and half of them are yet to be bid. India pipeline is slightly weak but I think international pipeline continues to be very strong, especially on the Middle east and now we are seeing something happening on the far east side, so Thailand, etc. where there was a huge impact of COVID. Bangladesh there are large number of tenders which have been quoted and which are going to be decided in the next few days, so I think our tender pipeline on T&D International, we are pretty happy. India, we have to wait and watch there are quite a few of TBCB projects which are now getting into bidding and all that, so we may see some improvement happening in India pipeline also, but it is a little bit I will say far away.

Moderator: Thank you. We will take our next question from the line of Ajinkya Bhatt from Macquarie. Please go ahead.

Ajinkya Bhatt: Sir two questions from my side. Number 1, if you can give us some sense of what is the composition of order backlog in civil segment in terms of private versus, central, state governments and PSUs, because it seems like you have been doing a lot of industrial factories and these kind of projects for many private clients and any comments on related margin profile in the private orders versus government? That is the first question for civil segment.

Vimal Kejriwal: So, Ajinkya I do not have the exact breakup but I think ballpark industrial orders will probably be around Rs.1000 crore or so, maybe Abhishek can later on give you but I am just giving a ballpark number, it should be around Rs. 1000 crore or so. Margin profile does not change too much, I think what happens is the industrial projects are that people want the factories yesterday, once the board approves it, so they are all 6 months, 9 months max would probably be 12-month projects, okay. So, margin would typically be between 8-12% depending upon the size of the project. PSU projects and all that which are probably 80% of our profit, largely because of two major jobs which we have, we are doing 6 metro viaducts and we are doing right now, 4 water pipeline projects. So, water would be roughly around Rs. 1000 crore and metro I do not have the exact unexecuted value but it would probably be around Rs. 2500-3000 crore, plus we have got L1s also. That is the broad number, plus we have got few Defense orders on civil side, so you can take around, let us say 80-20, 80% public, 20% private.

Ajinkya Bhatt: Okay understood sir. And sir secondly, just wanted to understand any guidance on order inflow because YTD order intake has been about 74 billion, your L1 in another 74 billion, so we are already reaching Rs. 15,000 crore as on today with enough to spare with Rs. 65000 crore of tender pipeline. So, is it possible you can hit maybe Rs. 17,000-18,000-19,000 crore kind of order inflow, any broad sense on that, you do not have to give exact number?

Vimal Kejriwal: So, Ajinkya if you ask me internally, we would love to do around Rs. 18000 crore but that is a broad number which we have been thinking that we should do Rs. 18000 crore but now whether we will be able to convert everything into orders or not but I think with quite a few tenders now opening in L1, etc. I will say that order intake plus L1 should reach around that number or maybe slightly higher if we add both of them together. Order intake by itself with Rs. 7000 crore odd and Rs. 7000 crore of L1, I think at least Rs. 14,000-15,000 crore should definitely happen, our target is to go to Rs. 18000 crore, let us see if we can reach there, otherwise we will have some large L1 which should probably get converted in Q1.

Moderator: Thank you. We will take our next question from the line of Vivek Ramakrishnan from DSP Mutual Fund. Please go ahead.

Vivek Ramakrishnan: Good morning and festive season greetings to you and your team. I have two questions, I will just ask them sequentially, first one is on the T&D International business and going off from the first questioner, you said that the competitive intensity is not very high in that business and it is normal but all the suppliers must be leading with the raw material margins, is there a better way of doing this business, is there any change that can be done in terms of hedging your raw material margins or moving to floating price contract for the lack of a better word, is the first question. The second question is in terms of working capital, yes you stuck to your broad guidelines but is there any sense that there will be any, the funds from railways will be released shortly or has there been any movement in the receivables? Those are my questions sir.

Vimal Kejriwal: So, Vivek on the second one receivables, I think apart from railways that also in the last couple of months we have seen some delay and already this month we have seen lot of inflows happening from railways, we have not seen any stress on working capital otherwise that way, yes there have been requests from suppliers and all that, so that MSME and SME and other suppliers still continue to be under stress so, we do keep on funding them, so there is a large increase in acceptances, so both to accommodate suppliers and then because we need them. As far as international is concerned what you need to understand is that we have got orders which are divided into transmission and substation. Substation we are not facing that much of a problem on the cost side because more or less the tenders when you bid for them, these are at fixed prices, etc. there is some proper variation but normally it is okay, so I do not see a major issue and fortunately for us this time we are already, I think our order intake has 5 or 6 substations, almost 50% of our international order intake is from substations this time.

Coming to your main question, can you change, very difficult the way the contracts are bid, I think what has gone, I will say wrong this year, especially on the numbers, there has been an unusual delay in award of contracts because of COVID last year, so many of the contracts which were bid in March' 20 and all that got awarded by December'20 or January '21 by which time the commodity prices had moved significantly that is not the usual practice. As a company our practice is very clear, the day the tenders are opened and we are L1, we go and hedge at least whatever is hedgeable, steel is not hedgeable but at least aluminum and copper we would definitely hedge it but if the tenders have not been opened then there is a problem because you do not know whether you will be L1 and if you hedge and the prices come down, you have another issue. So, what we are trying to do is we are trying to see if we can limit our exposure as a percentage to such contracts which are not opened and all that, so I think we are trying to rework some of our hedging strategy. Unfortunately, this time the entire metal intensity has been for a much longer period, generally we are not seeing cycles continuing for so long and over the life of a project if the prices have gone up, they do come down by the time we finish, this time they had continued for a longer, hopefully we had started seeing meltdown, copper meltdown to $ 9500, Aluminum is $ 2600 and all that, so I think they are coming back in the normal cycle. Honestly, we do not see a way of getting out of this, unless we decide to quote only for price variable contract which are generally not there, Middle East does not have it, Africa does not have it, so SAARC and all, countries which are near India and all that is an area typically we are seeing price variation but otherwise normally we have not seen price variation in international contracts. The other part which I would like to say is that if you look at a component of our transmission line, the items which are hedgeable are only aluminum and copper which will be 30-35% of our total cost, rest is steel and construction, so it is not that bad, it is unfortunate that we had a year of backlog in opening of contracts and simultaneous significant change in the pricing but I think we are now getting over it, most of our I will say 60%-70% of steel has already been supplied over the last 2-3 quarters, we only have now 30%-40% of fixed price contracts and also with the new contracts coming in, you will start seeing an upward movement in this.

Vivek Ramakrishnan: All the best, if I can squeeze in one more question. So, contract door to door transition contract, what is the timeline that you take for that typical contract and average to understand**,** sir?

Vimal Kejriwal: Average would be probably be around fifteen months or so, they vary from nine to twenty-four but average I will say, would normally be around fifteen months.

Moderator: Thank you. We will take our next question from the line of Khushboo from Quant Mutual Fund. Please go ahead.

Khushboo: Hello Sir, good morning. My question would be, if you could give the bifurcation within, like sir the revenue mix, between the different segments of the company.

Vimal Kejriwal: I thought we have given it in the investor presentation, you want anything beyond that?

Khushboo: Actually, I could not find that.

Vimal Kejriwal: It has break-up between various businesses, this is the thing you are looking for?

Khushboo: Actually, I could not find it in the investor presentation, I have not looked at it again.

Vimal Kejriwal: Please look at it, our non-T&D was 46%, T&D was 54%, so we have given it business wise also. So have a look at it, if you need something more, please talk to us, we will be happy to give it.

Khushboo: Sure, thank you so much.

Moderator: Thank you. We will take our next question from the line of Priyankar Biswas from Nomura. Please go ahead.

Priyankar Biswas: Good morning, sir. So, my first question to you is regarding Brazil, so as you said that by 3Q this legacy projects would be over. So, my question is, how much is the order that was right now, is of the legacy, so that we can see that how much revenues we can expect, as in from that? And lastly, since the legacy contribution would be much lowered in SAE for, let us say even 3Q, so can we expect that meaningful jump in EBITDA margins, let us say in the third quarter itself, so what is your assessment on that?

Vimal Kejriwal: So Priyankar, the order book for these projects is very less, most of it has already been exhausted, now we are incurring cost to complete that, okay. So, I do not have the exact number, but maybe Rs. 50 crore or Rs. 75 crore, there would not be revenues for these projects more than that. There will definitely be some costing there, we have got claims and all that, so we are working on that. Will there be a margin improvement from Q3 on this, I doubt about it, it should be from Q4 but we do expect that there will be some reduction in losses in Q3 because we are now on the verge of completing this but meaningful turnaround or Brazil becoming positive in that situation, should probably happen from Q4 or even if it does not become positive, I do not see any significant losses or anything coming in Q4, I think Q3 should be the end of it.

Priyankar Biswas: So, Sir there is free approach, so another question from my side is; like you had highlighted that in this particular quarter, there were some challenges, especially on the supply chain and other constraints, especially for the international, so if such constraints were not there, let us say, you did not have to regulate the supplies for fixed price contract. So, can you give a rough ball park idea like, how much higher the sales could potentially have been?

Vimal Kejriwal: Probably another 10%. We should have had, we could have easily had a revenue of, you know we could have done at least another Rs. 300 crore, Rs. 400 crore of revenue.

Priyankar Biswas: Okay and sir the last question from my side is, in the industrials, in the civil side you are getting some industrial projects and that segment has been picking up for you over the past revolution that we see. Now one of the largest civil construction companies has highlighted that probably from FY23 onwards, we could see a meaningful revival in private CAPEX and private industrials. So, what is you take on that and how big can the, specifically this industrial segment can grow for you, I mean increases?

Vimal Kejriwal: Industrial segment is already seeing green shoots, so I do not know why, I do not want to wait till FY23 because we have already, I think in this quarter we at least got five or six new orders from industrial segment and slowly the segments are getting diversified. Earlier, we had become more a cement company, where any others, all our initial orders were for setting up cement plants, then we now are working with, I think all the steel companies. Now we have also got, this quarter we got order from two more metals and mining, three orders actually from metals and mining, then data centers and we got an order to set up a new carbon black unit. So I think we are slowly seeing, plus I think one we are getting in a chemical also, so I think we are slowly seeing the CAPEX cycle spreading over many of the industries.

Priyankar Biswas: So, any estimation, like what sort of growth can we see like, let us say, in the next couple of years, at any ball park?

Vimal Kejriwal: So civil business by itself, let us suppose this way, this year we should be doing Rs. 2,200 crore or so, which will be a 100% growth, next year we expect he business to grow by at least another 50% or so but private, we honestly do not take **so** many orders because the pressure on execution and then later on, most of the private sectors we do see a lot of hassles on getting the last mile payment, etc. So, we have been a little bit choosy on private sector, I think our private sector will also grow similarly in the 20%,40% or so, at least now it is at a lower pace, this year or next year it may grow by 50%, after that we will have to see, how it shapes up.

Moderator: Thank you. We will take our next question from the line of Swarnim Maheshwari from Edelweiss. Please go ahead.

Swarnim Maheshwari: Hello Sir, good morning and thanks for the opportunity. Sir, have a question sir, first if you can just highlight, you know what is the total project size of the five projects in Afghanistan that we have, which is halted right now?

Vimal Kejriwal: I do not have the exact number, Rs. 300 - 400 crore of work must be left out, as far as I remember, I can give you later on, I do not have the numbers right now.

Swarnim Maheshwari: Sir not a very big deal, not a very big number overall.

Vimal Kejriwal: No, I think most of all, what I know, Swarnim, is out of the five projects I think the completion varies from 60% to 80%, okay. So, it is only, basically the construction piece of most of the supplies is balanced to be done, so which is normally much lower in value.

Swarnim Maheshwari: Right, second thing is on the balance sheet side, now there is a sequential jump actually, you know in our working capitals by almost about 10% odd, so this is just owing to the delays in the collection from the Railways or is there something else?

Vimal Kejriwal: Rajeev, if you are there, you want to answer this question?

Rajeev Agarwal: Yes, Okay Vimal. So basically, apart from the Railways delay, working capital slightly is elevated due to other reasons. One is that, there has been a significant increase in the prices across, so that has also led to the increase in that inventory levels, in terms of the price, in terms of the volume more or less it continues with the same because there is also, in between there was a shortage of raw material but the price increase itself at 30% to 40% has led to the addition in terms of the value of the inventory. Second is, there has been losses in the SAE, so that has led to the additional funding for SAE business and the third one is, you know the Afghanistan collections has slightly now taking time because we had received the last payment around 17th or 18th of August, since then the collections are virtually stopped and we are in touch with the various funding agencies, who have funded the project in Afghanistan as well as the client, so where they are responding positively and they are working out the ways and how they can pay us some money directly. So, these are few other reasons, which have actually led to the elevated working capital during this quarter.

Swarnim Maheshwari: So, Rajeev, is the receivables from Afghanistan sizeable?

Rajeev Agarwal: So right now we are working out the modalities with our funding agencies to receive the payments because as you know, that right now US has choked all the funding lines to Afghanistan. So earlier, the payment routine used to be through Afghanistan for these payments but since the Afghanistan is currently blocked, so we are working out the alternative methods with our various funding agencies, how we can realize our payment for the various progress bills and other bills that we have reached.

Moderator: Thank you. We will take our next question from Saket Kapoor an Individual Investor. Please go ahead.

Saket Kapoor: Sir firstly, as you articulated about this change in the commodity pricing, sir can you work out with a new normal now, like you were saying Aluminum prices were going down by $400 or $300, so now this has become a new normal that $200-$300 up and down movement can happen, within a fortnight, so if a commodity has fallen by $400, it can move up by another $300 to $400 in a fortnight, so how is our company now going to align itself, that to the new normal with respect to these commodity prices, if it happens for a sustainable period of one or two years down the line?

Vimal Kejriwal: See Saket there are two three ways, one is that you shrink your business a little and say that I will not work at fixed pricing, which I do not think is practically possible. Second piece is that you can fix up a risk management limiting, say that I will not work on higher than 10%-20% the fixed price. And the third one which is probably more practical is, you would start building a much larger cushion in your tender costing, like today Aluminum is $ 2600, now in the normal course probably you would have taken $ 2600 if I were to quote a tender today or $ 2700, now when we see that regularly it will be fluctuating $ 300-400, then we may start quoting at $ 3000, so the markup or the firming up as we call it, will become much higher if the volatility continues. But as I was saying earlier, this happens regularly where prices go up and down, it will go up in few contracts, may go down in few contracts because in today's date if you go to see, we are still losing money for the older contract but I now have contracts which I had bid at $ 2,900 and $ 3,000, now I will supply them at $ 2,600. So, generally we have seen that, over a period this gets rationalized somewhere or the other, this year unfortunately what had happened was, in last year March the prices had gone down significantly, now if you see Aluminum was $ 1500-1600 and then suddenly what happened is, there was a shortage and price went up to $. 3000, you do not see such swings, normally it does not go up from $ 1500 to 3000, it may go to $ 1600 and 1800 and that you can absorb in your tender costing. So, I think this was a very unusual swing because you suddenly only had very low prices at the start of the COVID March, April, May or June, if you see the last year, the metals and all were at the bottom and suddenly it went to the top. I do not think we have seen such swings generally for the last 18-20 years I have been in this industry and I had never seen such swings, that in one year it doubles itself. So, I think we are realigning some of our risk management policies, to ensure that it does not happen. And the second piece is also that, last year because of COVID the market and the tender pipeline had slowed down, because of which to protect revenues what we also decided is that, maybe 6 months before we quoted, prices have increased so you can take the order but in the normal course probably today you may say risk, they may say no to the client, that we do not want to take it now, we have order book with us now, so the circumstances have changed. So, I think you will see a significant change in the way tendering is happening in all these markets.

Saket Kapoor: Sir for the Spur Infra execution, can you on an orderbook of Rs. 600 crore, what kind of execution are we expecting for the current year and the FOREX impact also for this quarter and lastly sir the SAE contribution for the second quarter in terms of the revenue I have the numbers are, how are the bottom line budded by what price?

Vimal Kejriwal: In the bottom line, there was a PBT loss of Rs. 80 crore, roughly Rs. 5-7 crore up or down but Rs. 80 crore was the loss. Spur in last 3 years has been doing Rs. 100 crore and in this year, we feel that it will be around Rs. 150 crore, our transaction had completed on 12-13 October, so roughly anything between Rs. 60-75 crore of revenue will come in our books in consolidation of Spur this year.

Saket Kapoor: For SAE, how is the second half this year?

Vimal Kejriwal: In Q3 we will face few losses, from Q4 I think hopefully we should start seeing a neutral or a positive number and from next year it will be positive for sure.

Saket Kapoor: In first half, how much was the loss for SAE?

Vimal Kejriwal: Approximately Rs. 150 crore.

Saket Kapoor: And in this third quarter, it will be…

Vimal Kejriwal: Third quarter we do not have it at present, it is going on, if I would have had the number I would have shared.

Saket Kapoor: Just wanted to understand the delta sir, whether it would be in the similar bed or we will be positive or neutral?

Vimal Kejriwal: It should be lower than the first two quarters, significantly lower than the first two quarters definitely.

Saket Kapoor: And lastly sir on the FOREX part, how has the FOREX contribution been?

Vimal Kejriwal: Roughly Rs. 20 crore positive, right Rajeev?

Rajeev Agarwal: Vimal you are absolutely right. So, for the 6-month period it is about Rs. 20 crore and for the quarter it is roughly about Rs. 5 crore.

Moderator: Thank you. We will take our next question from the line of Deepika Mehta from Axis Bank.

Deepika Mehta: Can you elaborate on the activity that you are seeing on the airport side and also on the smart city side, particularly looking for what airports and what smart cities are in momentum?

Vimal Kejriwal: Deepika at present we do not see much activity right now happening in airports. I think government was more on privatizing and all that.

Deepika Mehta: I am referring to your comments mentioned airports one.

Vimal Kejriwal: No, so what I am saying is that we have got our first airport, we have bid for a few more, which are more on the North East side and all that. We did lose, we had bid for Rajkot also which we lost, for some time there has been a little bit of a flux in the airport but now government has again announced that they want to build some 220 new airports and all that and then also there was a change in the Airports Authority management, etc. and our new minister has come, so now I think we expect to see a lot more action on new airports being built. And the second was?

Deepika Mehta: Smart Cities?

Vimal Kejriwal: Smart City unfortunately, the way I am looking at it, I think most of that money has got diverted to COVID Relief and our Healthcare and all that, so honestly smart side we are not seeing much happening. Hardly, one tender in two months or something, to me I think right now there is not much action, let me tell you to be, very frankly.

Deepika Mehta: So, just to understand in smart cities how does the funding happens?

Vimal Kejriwal: Funding is a mix of, part comes from the state, part comes from the Urban Development Centre.

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

Ashish Shah: Sir on this working capital bit, you did mention that Railways is one of the issues, so is it because of some fund crunch at the railways you are not getting paid or there is delay in certifications because what I actually see their contract essence has gone off, which might indicate that maybe there is delay in certifications or there is more of unbilled, so if you can just highlight that?

Vimal Kejriwal: Ashish it is of the first point, basically there is some delay happening I think in the raising of funds and all that, maybe they are looking at how to raise because the passenger trains are not running, our regular cash flow is a little bit impacted and delay in certification is also a consequence of that, okay. I will tell you, in many of the railway PSUs with whom we work, they have a practice that they will keep only one bill in the pipeline, so if they have not paid my previous bill, they will not upload the second bill in the pipeline, so it remains sort of unbilled or in contracts under execution. So, the second one is a consequence of the first one.

Ashish Shah: Got it and you see that improving anytime soon?

Vimal Kejriwal: Definitely, I think it has improved already, in this month we have collected more than Rs. 200 crore in railways already, so I think it started to improve but there must have been some crunch or whatever happened but otherwise we never faced a problem. And I do not think we will face a problem; it should get resolved.

Ashish Shah: Sure, so can you leave us with some guidance that you can for the full year in terms of what revenue growth you might be looking at consolidated level and what is the kind of margin that you may expect?

Vimal Kejriwal: Revenue I think we have been talking about the 15% growth and I think for the half year we are at 12%, so I think we are reasonably confident that we will be able to do a 15% growth with the current orderbook which we have. Margin looks difficult to give a number right now, we were at 6.3 % in Q1, 7.1 % now, I think we probably would like to go to, I do not know I am permitted to commit our numbers or not because metal prices and all are disrupted, definitely we feel that H2 will be much better than H1, in terms of margins, whether we will do 8% or 7.75% or 8.25% or 8.5%, I am not sure but it will definitely be much better than the current H1 numbers.

Moderator: Thank you. Our next question is from the line of Harshit Patel from Equirus Securities. Please go ahead.

Harshit Patel: Sir could you give us any idea on the HVDC pipeline on the domestic T&D front, so do you see any new projects coming up, what could happen in the next 3-4 years and the follow-up to that would be what is our margin profile in this kind of projects, do we get to earn significantly better margins than the usual T&D projects?

Vimal Kejriwal: You are talking about the HVDC lines, I have not seen any new HVDC lines being announced, except I think there are one or two private lines coming up in Mumbai on HVDC basis, that is right now there is no other HVDC on the, there is a talk about this Leh Ladakh once the solar projects comes up, then there is a large talk about that being an HVDC line but as of now, I do not think they have firmed up,whether it will be HVDC or not, so apart from couple of private sector HVDC lines, I do not think we are seeing any significant HVDC line coming up. The margins would be, I will say better, not for us as an EPC contractor, we will be generally okay with similar margins, for us it is like building any other line but for HVDC equipment suppliers, obviously that is a monopoly business between I think we in India, we are only two of them, so they will probably have a much better margin.

Harshit Patel: And sir my second question would be on the railways front, so as you have indicated that we had already started bidding for a few projects on the international arena, so has there been any significant movement in the L1, which of these countries would be and by when do you think we can get our first order on this side?

Vimal Kejriwal: So, we have bid in 4 or 5 countries, 4 countries we have already bid, so we do expect that during this financial year we will end up with at least one, if not two orders in the international.

Harshit Patel: Okay, so is something L1 at the moment on this front?

Vimal Kejriwal: There is one L1 in this, yes.

Moderator: Thank you. Our next question is from the line of Rita Tahilramani from Invesco Mutual Fund. Please go ahead.

Rita Tahilramani: Just one question, is this net debt plus acceptances has significantly increased in this particular quarter, what could be the expectations by the end of the year, one. And secondly, also wanted to understand the cost of debt as on date?

Rajeev Agarwal: Yes, so basically Rita so we have tried to elongate the period for the various trade creditors through this acceptance route, wherein we are able to reduce the interest cost significantly, whereas lot of smaller vendors they need the cash, so we are able to discount those bills with the bank at a significantly lower interest rate, so that is the reason this acceptance amount has gone up, so it is helping us to increase the payable days as well as meet the requirement of the vendors in terms of the quick payment, with a minimum cost of funding.

Rita Tahil Rehmani: Okay and what could be the ending debt maybe say by FY22 end?

Rajeev Agarwal: So, my sense is that these acceptance levels should continue at around Rs. 1500 crore or so, which is actually the current level.

Rita Tahil Rehmani: Okay and gross debt basically?

Rajeev Agarwal: Gross debt right now is let us say, close to about Rs. 3000 odd crore and we expect better collection in the second half and railways as Vimal has already mentioned that we have started seeing some green shoots and started getting some more collections, so I think the overall guidance for the borrowing level is about Rs. 2500 crore, so we should be able to maintain within that in the second half.

Rita Tahil Rehmani: Okay and what is the current cost of debt for us?

Rajeev Agarwal: See, cost of debt varies from 1%-1.5% to going up to 5%.5% depending on the instruments that we are using for taking the working capital borrowing because largely our borrowing is for working capital and there are various instruments that we use for taking these working capital from PCFCs to working capital demand loan, we use the lot of commercial people in the market, so rate varies from instrument to instrument but generally it is in the ballpark of less than 5%, average cost of borrowing.

Moderator: Thank you. Our next question is from the line of Harsh Bhatia from Emkay Global. Please go ahead.

Harsh Bhatia: Just had two quick questions, sir what sort of projects are we booking under this tech enabled emerging metro segments because this is the first time that this description has popped up, so I think you have already alluded to the sort of new opportunities that are coming up in the metro and the railway, electrification part, so if you could provide some more granular detail about this project, that we have reported?

Vimal Kejriwal: So, Harsh this would be basically what we call power supply contracts, this could be third rail OHE, this would be ballast less tracks, also signaling and telecommunications, all of them are to our metro. Apart from metro, there is a train collision avoidance system, which is a new thing which is coming up in the conventional Indian Railways that is one, then there are some very smart modernizations thing happening on signaling and telecommunication and Mission Raftar for increasing the speed of trains on the conventional piece between some of the metro cities, which require a different type of OHE and signaling, so all those come into that.

Harsh Bhatia: That is helpful sir. One last question from my side regarding this core infrastructure acquisition, we already have an orderbook of Rs. 600 crore approx., so would the current management continue to oversee the operational aspects or would KEC management takeover the entire operational aspects of the business, positive to sort of any business for us right, so what sort of thinking does the KEC management have over there?

Vimal Kejriwal: So, two things rather, one is we have been trying to get into this business for the last one year, so we have built in a reasonable I will say capability, we have our business head and we have a bidding head and others we are already part of KEC, so it is going to be a mix of both, existing Spur team, except for the promoters are continuing fulltime and the promoters, there were 4 promoters 2 of them were actively involved in the business and both of them are going to be there with us for some more time.

Moderator: Thank you. We will take our next question as a follow-up from the line of Ajinkya Bhatt from Macquarie. Pease go ahead.

Ajinkya Bhatt: Sir just wanted to understand, in one of the earlier conference calls when you talked about diversity came into civil segment, you mentioned that you do not have a lot of complex engineering capability in-house and you have an ambition to build that in-house, so if you could elaborate on the progress on that front and related question, how is it being done currently, so do you engage with external consultants and seek the design diagrams before you start execution, how does it happen at the moment?

Vimal Kejriwal: So, Ajinkya two things are there, one is we have hired a CTO which is a new position for us a Chief Technology Officer, a gentlemen who has spent his lifetime in Shell US, so he has joined us as a CTO and he is helping us in upgrading our engineering capabilities across all our businesses, specifically more in railways and civil because T&D we had a decent engineering strength and capability, so the last two businesses we are now upgrading, we are also trying to see how do we improve our entire engineering, the way we do it and all, not just the capability but the front end of it, the back end of it, so lot of effort is going on, on the engineering front. Coming to your second question, traditionally I think almost all the companies, maybe one or two companies maybe an exception but in India traditionally most of the construction companies have always outsourced engineering. So, there are enough engineering consultancy companies available, who basically do the entire basic things for you and then what you need to do is, you need to develop capabilities to ensure that you check what has been done is right, what has been done is commercially want you to do, you do not add extra safety factors to increase costs, etc. so most of the construction companies I know of and we have dealt with so many EPC companies, most of them prefer to outsource engineering, so I think right now for us also for sometime in businesses like civil, we will probably continue with outsourcing while developing capability of at least checking and optimizing them, over a period of time we definitely also want to build our own, it will take some more time but we are moving in that direction.

Ajinkya Bhatt: And just one final thing, so when you build out this capability on engineering, is it more about hiring more engineers or is it a largely driven by seeking licenses to specific software which allow you to handle that job and could all of this lead to increase in fixed cost, materially some point?

Vimal Kejriwal: It will be both, you will be buying or hiring more licenses which you were not using before, new technology which are developing and all that, so you will definitely spend a lot more money on licenses and then you will also hire people who can use those licenses or either retrain your existing people but to me what happens is, that a large part of that or I think all of that or more than that will get recovered from the optimization which you will see in your costs. I can give one simple example; we were quoting for a railway line, where there had to be a soil strengthening to be done and the initial client estimate was more than Rs. 100 crore and then when we went through it and then we called some of these consultants and we took our teams to look at it, we finally could bring it down to Rs. 50 crore. The client was also very happy and we were also happy, so obviously there is a part of that cost which we incurred will get recovered through that. So, although you may look at it saying on the OPEX side the cost may improve but that will result in a much higher value coming to you through the margins.

Moderator: Thank you. Our next question is from the line of Kunal Sharma from SMC Private Wealth. Please go ahead.

Kunal Sharma: Thank you for the opportunity. Sir just a couple of questions I have, so could you please share some lights on the domestic and the international orders as we said earlier that we are quite bullish on the international market than domestic, so what is the reason behind that,that we are not confident on the domestic market, where is the infrastructure industry on the civil and the government have a good CAPEX plan in the domestic market as well?

Vimal Kejriwal: I think Kunal somewhere either I did not speak well or you did not understand it well. We were talking about transmission and distribution only. In Civil and Railways all orders are in India only now, so I think today if you look at our order break-up, probably more than 50% of our orders are from India in any case, even now. So I think, maybe I could not spell it out well, we were only talking about T&D in India where we are not seeing right now too much of order in the pipeline.

Kunal Sharma: Okay understood. And the second on like, what could be the margin profile on the consolidated basis as we have done the Spur Infrastructure Private Limited acquisition.

Vimal Kejriwal: Spur has pushed small too impact on margin profile, if you get Rs. 100 crore revenues from it, in Rs. 13,000 or Rs. 14,000 crore, so it will not move the needle, yes. So that will not change, although Spur has a slightly better profitability or even similar profile, I do not see Spur changing on margin profile for a few years.

Kunal Sharma: Okay understood, so we will maintain the margin as we have done earlier.

Vimal Kejriwal: Yes, whatever we have, thank you so much.

Moderator: Thank you. Our next question is a follow-up from the line of Saket Kapoor an Individual Investor. Please go ahead.

Saket Kapoor: Yes thank you again, sir, about the cable business part, if you could give some more color on the same, how is the order booking and how is commodity compressing the margin for the cable segment also?

Vimal Kejriwal: Mr. Saket, what is happening in cables, the demand is high, let us be very clear there is a lot of inquiries, lot of demand, which is happening. Unfortunately, because the raw material prices were very high, clients have not been closing the transactions that as far as good job, prices are decreasing, so now that the prices have come down of copper and aluminum, I definitely see there will be a huge spike in the orders for cable, not withstanding that, I think our order intake and revenue for this business have never been so good as has been for the last six months. It has been higher, something 30%,40% increase over last year, but even otherwise generally if you see, I do not think we have ever done Rs. 600 crore of revenue in the first half for cable business. So that is one part on the demand, demand if there is enough demand, there was some slowdown in ordering because of commodity prices being high which I think now people will start ordering. As far as margins are concerned, generally if you look at the metals, aluminum, copper and all that, they are normally pass through, that means if the order has come in today, then in the evening only it gets hedged in the metals, so we do not see a major impact of metals on the margin per say in the sense, the percentage margin decreases because your order value increases but the absolute margin remains where it is. I think the problem in cable industry which is hitting many players in cable, is the rise in price of the plastic material, I think XLPE, PVC and other insulation material is something which normally is not hedgeable and normally people have never seen large movement in those material and whatever we saw in the performance of some of the cable companies, I think was not more from metals but from the plastic side. I think that is what, that is what has hit lot of people and there is no solution to it, unless you buy and keep it, stock for six months, stock for twelve months and that has also been a slight problem because of logistics issue and all that because it normally comes from Japan, Korea and all that and China, so there have been some problems. So there has been some increase on the plastic side, which was not expected, which has impacted the cable margins, otherwise I think, this was one of the best half years we had, in terms of business for cables, okay.

Saket Kapoor: And then going forward also, for the H2, there is a likely trend and if you could give the order book position for the cable segment and mainly it is the key utilities that are been biased, the categories also, sir if you could give?

Vimal Kejriwal: See in cables, there are no order books. The order comes, it is like any other, this is a product for us, it comes and goes, so order book will be not much on the cable side. Every month we get orders for Rs. 100 crore - 125 crore and they get executed. I think so the order book will be around Rs. 300 crore, Rs. 400 crore, which will be the next three months' orders. I do not have the exact numbers, you speak with Abhishek, I think so it will be this much. If you look at the business, if you look at where the orders are coming, I think we are seeing a lot more happening on underground cabling. So, we clearly see that, EHV cabling will significantly pick up in H2 and going forward. I think after the cyclones and other issues which are having in right of way and the Supreme Court order in the GIB case in Rajasthan, we are clearly seeing that many of the companies and transpose and all, are now looking at doing underground rather than doing overground, wherever is feasible, so clearly, it will increase in EHV, increase in solar, we are not seeing too much happening on the housing side and it will increase in the industrial. The industrial CAPEX that we are talking about, there every new industry will have at least Rs.30 crore, Rs. 40 crore of cables. So industrial demand, solar demand and EHV cabling and fourth is the Railways, our biggest increase has been from the Railways side for the conductors and cables and all that, so that will be the 4 sectors where we are clearly seeing a large demand for improvement in cables.

Saket Kapoor: Sir in EHV what is our market share currently?

Vimal Kejriwal: I don't have the numbers right now, because in EHV we have only 3-4 players, so everyone has equal share.

Saket Kapoor: Sir and EHV is also used in metro coaches and all?

Vimal Kejriwal: No, EHV is not in metros but EHV will be used to supply to metros, to start a metro line the power that is required in that EHV is used but generally it is 33 KV.

Moderator: Thank you. I would now like to hand the floor back to Mr. Vimal Kejriwal for closing comments. Over to you sir.

Vimal Kejriwal: I would just like to thank everyone for their continued interest and would like to tell the team that we have good orderbook and Q2 has been a slight blip on account of raw materials and South Africa, I think we are pretty confident of future growth. Thank you so much, thank you everyone.

Moderator: Thank you members of the management. Ladies and gentlemen on behalf of KEC International that concludes this conference. Thank you for joining us and you may now disconnect your lines.