"KEC International Limited

Q2 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day, and welcome to KEC International Limited 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 this conference call, please signal an operator by pressing star then zero on your touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Vimal Kejriwal from KEC International. Thank you, and over to you, sir.

Vimal Kejriwal: Thank you, Neerav. Good morning. We welcome you all to the Q2 Earnings Call of KEC. Let me start with an update on the overall performance for the quarter and thereafter I talk about each of our respective businesses. We have delivered a consolidated revenue growth of 11% for the quarter with revenues of INR4,499 crores. The strong growth has been largely delivered by good performances in civil and T&D businesses. The growth would have been higher but for the heavy rainfall in some regions of India, and also some supply chain bottlenecks affecting both T&D and the civil businesses.

Despite these challenges, we achieved a consolidated revenue growth of 18% for the first half of the year, which is in line with our guidance for the year. We have also delivered a remarkable growth in EBITDA of 54% in Q2 and 50% in H1. Our EBITDA margins continue to show an improvement every quarter. The EBITDA margins for Q2 have increased by 170 basis points, surging from 4.4% in Q2 FY '23 to 6.1% in Q2 FY '24. We are largely in line with our guidance for EBITDA margins of 6% for H1.

As mentioned in our previous update, we are observing a noteworthy shift in our margin profile primarily due to the substantial growth in revenues and margins from our UAE subsidiaries, SAE and KEC Spur, resulting in stand-alone margins being lower owing to the mix of projects under execution during the quarter.

We expect an improvement in the standalone EBITDA margins as well in the forthcoming quarters with the improvement in the India execution, especially in T&D and civil. We have delivered a robust growth in PBT of 148% in Q2, and 77% in H1. The PAT growth is slightly lower, primarily due to a one-time reversal of a tax provision in the second quarter of the previous year.

In terms of order intake, our YTD inflow stand at around INR 9,000 crores with T&D and civil businesses being the major contributors. We have a well-diversified and strong order book of INR31,320 crores as on date, a growth of 14% vis-a-vis last year. Additionally, we have an L1 position of over INR4,000 crores primarily in international T&D business.

With this, our order book plus L1 position stands at over INR 35,000 crores with a balanced distribution between T&D and non-T&D businesses. We continue to focus on working capital improvement, resulting in our net working capital coming down by 8 days to 140 days as on 30th September '23, vis-a-vis 148 as on 30th September '22.

Our net debt, including acceptances, stands at INR 6,339 crores as on 30th September '23. The increase in the net debt at 7% Y-o-Y is significantly lower than our revenue growth of 24 months -- 24% in the trailing 12 months. The interest cost continues to remain high at 4% of our revenue for the quarter and 3.8% for H1, primarily owing to the steep increase in interest rates and by elevated debt levels.

Coming to specific businesses. Our T&D business has achieved revenues of INR 2,209 crores, a growth of 7% vis-a-vis Q2 last year. The growth has been slightly impacted owing to the challenges in the supply chain, both in transmission and substation projects as well as significant RoW issues in some of the projects in India.

During the quarter, we successfully commissioned the prestigious Warora-Kurnool Transmission line, WKTL, project of 878 kilometres, one of the most challenging projects spanning across 3 states of Telangana, Andhra, and Maharashtra. The project was commissioned despite the challenges of paddy crops, floods, and severe RoW issues. These issues have resulted in some unforeseen costs during the quarter for which we are in discussion with the clients.

The T&D business continues to witness strong traction in order intake with a robust growth of over 40%. The YTD order inflow stands at INR5,400 crores across India, Middle East, Africa, Europe, Australia, and Americas. In India, the business has secured multiple orders from PGCIL and repeat orders from private developers. On the international front, the business has secured significant orders, especially in Saudi Arabia. These include our largest transmission line order within Saudi Arabia for developing the power infrastructure required for the development of NEOM, a visionary city in Saudi Arabia. We continue to leverage our Dubai facility to consolidate business in the Middle East.

Our order book plus L1 position in Middle East has now expanded to INR5,000 crores approximately. We have also widened our presence in the tower supply business with the order from Australia. Our unexecuted order book and L1 from tower supply business now stands at over INR 2,800 crores spanning across 6 continents. The growth in our tower supply business, is a testament to our dedicated commitment to expanding and diversifying the tower sale business geographically.

In SAE, I'm happy to share that the business has delivered another quarter of turnaround performance with a stellar revenue growth of 51% and a positive PBT for the second consecutive quarter. For the last 1 year, we have taken proactive steps to optimize our financial structure by refinancing a substantial portion of our local Brazilian loans. I'm pleased to share that we have successfully brought down the average cost of borrowing to 12% per annum from 20% last year. The business continues to witness steady inflow of orders for supply of towers, hardware, and poles from the Americas.

During the quarter, we also supplied our first hardware order to the U.S. market from Brazil. The strong order intake has bolstered the order book and L1 position in SAE to almost INR1,400 crores. As we look ahead, the business outlook appears promising. In the domestic market, we are pleased to share that in a recent announcement, the cabinet has approved the Green Energy

Corridor Phase 2 for 13-gigawatt renewable energy project in Ladakh with an overall cost of more than INR 28,000 crores.

As we assess the project specifics, this presents a substantial opportunity for us. We anticipate that tenders for this project will be released in the next few quarters. Internationally, we continue to witness a significant uptick in the Middle East and are actively exploring opportunities across SAARC, Africa, CIS, and the Far East.

Overall, the tender pipeline for our T&D business remains robust both in domestic and international markets, driven by the increasing emphasis on renewable energy and the need for new transmission lines, substation and underground cabling with a record order book and L1 in T&D of over INR 18,000 crores, we are confident of delivering sustainable growth in this business.

Our Railway business has achieved a revenue of INR 776 crores for the quarter, degrowing by 12%, impacting the margins and the working capital of the business. The major reason for the slower project has been the delay in the availability of work fronts and heavily rainfall in certain parts of India. We have commenced execution of an international railway project in Bangladesh for signalling and telecommunication.

I'm delighted to share that our Honourable Prime Minister Shri. Narendra Modi inaugurated the priority section between Sahibabad to Duhai of India's first RRTS last month. KEC is proud to have developed the Sahibabad and Ghaziabad station, viaduct and the Duhai depot, for this first of its kind regional connectivity project.

The order intake of the business remains subdued, owing to the increase in competition from Tier 2, Tier 3 EPC contractors and the clientele changing from the railway PSUs to Zonal Railways. Consequently, we are also being very selective on the order intake front, considering the overall margin profile and the elevated working capital scenario of this business. Nevertheless, with a sustained focus on the government on strengthening the railway infrastructure, we expect the business to pick up momentum going forward. Additionally, we are also actively pursuing select international properties.

Our civil business has delivered an exceptional performance for the quarter with revenues surpassing INR1,000 crores, stellar growth of over 40% vis-a-vis Q2 last year. The growth has been delivered by robust execution across all segments.

I'm pleased to share that the Honourable Chief Minister of Madhya Pradesh, Shri Shivraj Singh Chouhan, recently flagged off the trial runs for the Bhopal metro. KEC is proud to have constructed the Bhopal Depot for the Madhya Pradesh Metro Rail Corporation Limited. The business continues to fortify its order book with YTD order inflows of over INR 2,000 crores.

During the quarter, the business strengthened its presence with significant orders in diverse sectors, including metals and mining, FMCG public spaces and data center segments. Notably, the business has secured a breakthrough order for building a multi-specialty hospital and also secured its first ever order for setting up a manufacturing facility for a prominent global FMCG company.

With the addition of our prestigious data center order, our portfolio now boasts of 5 data center projects across the country with a total capacity exceeding 100 megawatts. The business outlook remains healthy across segments, with a robust and diversified order book and L1 of over INR 11,000 crores. We are confident that this business will continue to be a major growth driver for KEC.

In oil and gas pipelines, the business has delivered revenues of INR 127 crores, a good growth of 57% vis-a-vis Q2 last year. The business continues to be focused on building necessary pre-qualifications that will enable us to expand our addressable market.

The order book of this business has experienced some restraint due to subdued tendering activities in the sector. Notwithstanding the same, the business has a strong order book and L1 of INR 1,000 crores comprising government and private players. We are confident of scaling up this business in the coming years.

In solar business, we are progressing with the execution of our largest 600-megawatt solar project in Karnataka. We remain actively engaged in bidding for select opportunities in this sector, capitalizing on the sustained commitment of the government to promote renewable energy. We believe this business will help contribute to our growth going forward.

Our Cables business has achieved revenue of INR 413 crores, a steady growth of 6% vis-a-vis last year. I'm happy to share that our transformation program for enhancing the profitability of this business is reaping results and our cable business has delivered its highest ever profitability for the first half of this year.

Over the last few years, we have concentrated on developing new niche and high-margin cable products. This year, the business has successfully developed 5 new products, which are slated for commercialization. It is worth noting that these new products have made a significant contribution, accounting for almost 30% of the overall revenue generated by the business over the last few years.

Overall, we are pleased with our consistent revenue growth and improving trajectory of our profitability in line with our guidance, with a robust order book plus L1 of over INR 35,000 crores and a strong tender pipeline of over INR 125,000 crores. notwithstanding the supply chain constraints, we are hopeful of maintaining our overall guidance on revenue of INR 20,000 crores and 7% EBITDA margins for the full year.

Thank you very much. We are now open to take questions.

Moderator: The first question is from the line of Deepak Krishnan from Kotak Institutional Equities.

Deepak Krishnan: Maybe I just wanted to check on your order inflow guidance of INR 25,000 crores, given that you've just done INR 9,000 crores in 1H...

Moderator: Sorry, your voice is not coming clear.

Deepak Krishnan: Yes. Is this better?.

Moderator: Yes.

Deepak Krishnan: Sir, I just wanted to check on your order inflow guidance of INR 25,000 crores, given that we have done only INR 9,000 crores and ex of T&D, we could see some slowdown in the domestic business, especially railways and civil. So are we still confident of INR 25,000 crores? Or should we end up closer to maybe INR 20,000 crores, INR 22,000 crores for the full year?

Vimal Kejriwal: So Deepak, as of now, we are confident that we should be able to achieve that order intake. I think we have got a huge pipeline, as I said, INR125,000 crores. We have quoted a large number of tenders especially in India on the TBCB, where the auctions have just started happening. One did happen day before also, I think, and also in the Middle East. So I think as of today, if you ask me, we are pretty confident, and we don't think there's a need to revisit the targets. Maybe at the end of Q3 we may come back. But today, I think we are okay with the numbers.

Deepak Krishnan: Sure. Maybe just a question on your interest expense. I think for the full year, we were expecting about 50 bps improvement interest cost as a percentage of sales. But obviously, for 1H, we really don't see that coming through. So how -- what are the factors that are driving there? And X of say working capital expansion, what levers do we have to sort of bring it within the guided range.

Vimal Kejriwal: A couple of points. One is, I think for the H2, we are expecting the numbers to be between 2.8% to 3% or so, maybe 2.8%, 2.9% because we do expect that our revenues for H2 will be at least 30% higher than the revenues for H1. So even if we remain at the same levels, the percentage to revenue would come down. I think overall, for the year, we would expect it to be around 3.25% or so in that plus or minus 5 or 10 basis points here or there on the projections, okay?

As far as the levers are concerned, we did get some money from Afghanistan. We do expect some more monies to come in. Some of our monies from the -- I'll say, our Viaduct projects, etcetera, DMRC, CMRL and also, that has now started yielding positive inflows. And other places where we are getting more cash flow. So I think we are confident that numbers will start showing a declining trend.

And especially if you look at the absolute increase in the top line which we expect for H2, we do expect that the numbers should look much more decent than what they are. We don't like that number very clearly. And if you want to look at a breakup there, almost 65% of our increase has come about because of the rate increase and 35% increase is because of our elevated debt levels, which we are trying to bring down.

Deepak Krishnan: Sure, sir. Maybe just 1 final question. What are the SCM issues that we are facing for revenue execution, both on T&D and Civil and how confident that we are that this gets sorted out in maybe the coming months?

Vimal Kejriwal: So I think basically, to look at and we are aware of what is happening on, let's say, conductors or transformer, GIS, etcetera. So they have become long-lead items. And in some cases, there have been delays. Effectively, I think if you ask me, probably another INR400 crores, INR500 crores of revenue in Q2 itself, okay? But for delays in supplies, in one case, a leading transformer did not pass the test in the last moment. So that revenue got deferred, so it will get come into Q3.

So it's primarily -- and it's both in India as well as in the European market because most of our Middle East supplies come from Europe. And I think the next piece where we are seeing supply chain issues is on the supply of pipes for the Jal Jeevan Mission, okay? Clearly, we are all aware what the problems which we are facing in supply of pipe. So that's I think slowly -- in the sense that it's already got delayed so much. So the supplies have started coming in from the earlier commitments, etcetera. So we expect that in Q3, a large part of it should get settled. And by Q4, we have commitments of all the vendors to ensure that supplies are done.

Moderator: Next question is from the line of Ashish Shah from JM Financial.

Ashish Shah: Sir, my question on the working capital side, while it is appreciated that on a trailing 12-month basis, we have grown by 24% and hence that increase in net debt and working capital. But let's say, on a full year basis, do we see a net release of operating cash flows, net release of working capital and positive operating cash flows or even on a full year basis, our debt levels are likely to be higher than the previous year, because I mean, my concern is that at some point of time, I mean, if we continue growing and still the lended absolute amount is growing, then at some point in time, the balance sheet appears very bloated. So any direction on that, sir?

Rajeev Agarwal: So clearly, Ashish, in the second half, as Vimal just mentioned, we are expecting the interest cost to go down and because of the higher revenue. See, basically, where the problem is happening is on the interest rate raise where across the economies, the interest rates have been increased by all the central banks. And the most of the hike, actually, if you look at the RBI did in the previous financial year.

So that impact is now getting reflected in the numbers. Our average cost of borrowing, which used to be about 5.5% or so has now reached to about 8%. So clearly, because all our working -- all our debt is basically the working capital for the business and that is where it is immediately gets reflected in the numbers. So 2.5% increase by the RBI over the last 1 year has actually impacted us on the higher interest cost.

As far as the business is concerned, we are clearly focusing on reducing our working capital and which is quite visible in terms of our NWC days. So we should really focus on the NWC days because last year, we had a revenue growth of close to about 26%, 27%. This year, also in the first half, we have grown by almost 18%. So revenue growth will require additional working capital. So there is no question about that, that you can do with the INR3,000 crores, INR3,500 crores of working capital, vis-a-vis INR20,000 crores revenue, it's not possible.

So we should really focus on the NWC days, which is clearly 140 days, 8 days lower than the last year, despite a 24% revenue growth. And in the second half, we are expecting another 30%

revenue growth compared to the H1. So overall, for the year, we are somewhere between 15% to 20% revenue growth for the full year. So that will definitely have an impact on the borrowing numbers.

So borrowing will definitely be higher. But we should rather focus on the NWC days, which clearly we will bring it down in the second half and with the collections happening in Afghanistan, collection happening in some of the state electricity board where the money was stuck. So all those things are happening, and we will have positive impact in the second half of the financial year.

Vimal Kejriwal: So let me add 1 more point here is if you look at the composition of our net working capital, what has happened is the debtor days have come down significantly. Unfortunately, the creditor days have come down more. Actually, had we maintained our creditors at the same level as earlier then our NWC would have come down more. And there are a couple of reasons. One of the reasons is that our Civil business is expanding, where supply is less and more of construction and where the payouts are happening a bit faster, although their NWC is much better than other businesses. So we are trying to see as to how do we sort of match the ARs and the APs to help us in improving the NWC further.

Ashish Shah: Right. So sir, at the company level, where would you expect the net working capital? Are we on track for close to 120 or 110 days that we have been targeting.

Vimal Kejriwal: So our aspirational target has always been 100 days, okay? That's the aspirational target. So at least I think the 10-day improvement is what we are looking at by the end of this year, financial year. Are you saying 110...

Rajeev Agarwal: We are committed, Ashish, to bring the NWC days back to 110 days by the end of the year.

Ashish Shah: Got it, sir. And just a last thing on -- from my side on the margin side. So we have been close to 6% for the first half. For the full year, are we on track to be at close to 7% or thereabouts?

Vimal Kejriwal: I mean, Ashish, the endeavour is still to be there at 7%, okay? So I don't think that should be a very big challenge, but it could be still 10, 25 basis points here and there because we're clearly seeing -- see the supply chain pressure, although it's improving a lot, okay? But then there are RoW issues which we are facing both in Gujarat and Rajasthan, etcetera. So it may change the composition of the revenue. So it's just a question of whether we do 10, 20 basis points less or more, but we expect it to be around that number.

Moderator: Next question is from the line of Amit from Prabhudas Lilladher.

Amit: My first question on the order prospect which you have highlighted, in the international market for railways, civil and oil and gas. If you would like to highlight the addressable get in prospects and which countries we are actually looking? And how much can come in the next 12, 18 months?

Vimal Kejriwal: So difficult to put a number as to how much can come in the next 12, 18 months. But if you ask me countries, countries would be, one is our neighbouring countries, which would be Bangladesh, Nepal, etcetera. Middle East is one where we are looking at more closely, especially for civil and railways.

And the third area where we are talking about is in some countries in West Africa and -- basically, I'll say, in Africa, we have already put in some test bids in Africa and Middle East for railways and civil. Hopefully, as I said, railways already started execution of 1 order which we had received. And if we are -- God is kind, maybe we'll get at least a couple of -- at least 1 or 2 more orders before the end of the financial year in either civil or railways.

Amit: Right, sir. Sir, also on this INR125,000 crores this pertains to domestic or T&D. Any color? This includes all the segments? The prospects which you have.

Vimal Kejriwal: So let me give a very broad breakup. It includes all the sectors. But if you look at only transmission, it would be around -- maybe around INR70,000 crores, INR75,000 crores is basically only transmission, okay? Something around INR20,000 crores is railways and another INR20,000 crores is civil.

Amit: All right, sir. And how about GCC? The transmission of the international markets. Is that prospect also included here?

Vimal Kejriwal: Sorry, I'm not clear. What do you want to understand, Amit?

Amit: The T&D orders in GCC, where we are seeing the enhanced capex happening. And orders already included here?

Vimal Kejriwal: So we talk about order pipeline, tender pipeline. So the tender pipeline in GCC is roughly around INR30,000 crores as of today..

Amit: So that is included here in INR125,000 crores?

Vimal Kejriwal: It is included in INR125,000 crores, yes..

Amit: Okay, sir. Sir, on margins, for stand-alone T&D, where we are facing challenges, what are our internal targets in 12, 18 months in domestic T&D margins?

Vimal Kejriwal: For 12, 18 months, we are clearly looking at going to double digit, but it will be between 8% to 10%, which has been our standard numbers, okay? So next year, definitely, we will be at least 8%.

Moderator: Next question is from the line of Priyankar Biswas from BNP Paribas.

Priyankar Biswas: Priyankar here. My first question is, sir, as you were highlighting that your creditor days has actually gone down. So I was unable to actually completely understand the explanation. So what is actually leading to this shrinkage? And how should we be looking at it, let's say, in the next few, let's say, quarters or maybe the next year going ahead?

Rajeev Agarwal: So basically, there are 2, 3 aspects to it. One is just seasonality impact, if you generally look at our past years also, in the first half, because Q4 is always very heavy in terms of the revenue. So there's a lot of buying which happens in Q4. So that gets paid off in quarter 1 and quarter 2, and that is one of the reasons these creditors are looking lower. Second reason is that our railway business is actually shrinking. So it has actually degrown in this quarter by almost 12%. And new orders are not coming up. So that is also leading to some actually payment of the earlier acceptances, and new buy-ins are not happening because since the new order intake for this half year, it was only INR750 crores.

So effectively, the new purchases of material, especially on the bought-out items, did not happen in the first half of the year. So that also led to some reduction in the able days or in terms of the acceptances. So that is the main reason. But clearly, in the second half, when we are talking of a revenue of almost close to INR11,000 crores, so that will add to a lot of acceptances and that is how this buildup will happen at least. So that will lead to the better working capital and reduction in the NWC days also.

Priyankar Biswas: Okay. So that's well understood. So another question here is, so what we are seeing now is like a lot of launches in real estate and then, of course, significant capex happening in data center. So can you just elaborate on the prospects here a bit? Because see, in 2Q of FY '23, we had fairly substantial civil orders flowing in. So we didn't see it this time. So based on the visibility, maybe the 2H and how do you see FY '25 essentially on these fronts?

Vimal Kejriwal: One is if you look at our revenue targets, and I think we do expect that civil next year would again grow by 30%, 40%, definitely, okay? So that's one part of it. This year, we'll definitely cross the revenue of INR5,000 crores. For next year, we should end up with at least INR7,000 crores of revenue as far as civil is concerned, okay? We're already with a L1 plus order book of almost INR11,000 crores, okay? And we have around INR20,000 crores of tenders to be quoted in the civil business. And I completely agree with you, a large part of the order -- tender pipeline is coming in from real estate.

Second piece is metals and mining. Data centers, yes, their numbers are coming up, but it is not a very large volume in terms of whether we'll be able to do INR2,000 crores on revenue, I don't know, maybe INR500 crores, INR1,000 crores today. Once we start doing MEP of data centers, maybe the values may still go. Right now, we are doing 1 project, we are doing the civil piece of it, okay?

So I think we are getting into MEP so that should go up. So I think if you look at where the orders are going to come, it's going to be public spaces. It's going to be part of industrial. We started seeing cement orders, now people talking about cement. Surprisingly, we're also seeing order inquiries about commercial buildings, which we did not discuss before, we are right now doing, I think, 2 or 3 of them, and we are having more inquiries on commercial.

So I think, to me, if you ask me next year, the order intake should at least be INR10,000 crores around civil, this year we're targeting around INR8,000 crores. So next year, with the growth of what we have, should be around INR10,000 crores.

Priyankar Biswas: Okay. So this year, you are saying that we should broadly be around -- FY '24 should we broadly be around INR8,000 crores in civil...

Vimal Kejriwal: That's our target. Yes..

Priyankar Biswas: Sir, just 1 further split I need. when you were speaking of the prospects of INR125,000 crores, so what would be the international within this?

Vimal Kejriwal: International within this is roughly around INR50,000 crores.

Priyankar Biswas: So mostly even the transmission is also largely India this time?

Vimal Kejriwal: The INR50,000 crores that I'm talking is only international T&D, okay? India T&D, as I said earlier, is roughly around INR30,000 crores.

Moderator: Next question is from the line of Abhijeet from Yes Securities.

Abhijeet: We have seen some moderation in T&D revenue growth in this quarter. You highlighted a few issues pertaining to supply chain and RoW. So sir, are we cautious in terms of further order bidding in the domestic T&D sector because of these issues that we are facing? And...

Moderator: Abhijit, sorry, you're breaking your audio in between. Can you please speak through the handset?

Abhijeet: Is it better now?

Moderator: Yes.

Vimal Kejriwal: Yes, go ahead..

Abhijeet: Sir I'm saying, are we cautious in terms of further bidding in T&D domestic business because of the issues that we are facing right now? And how should we look at the revenue growth going forward for the business? I mean, given that we have seen some moderation in this quarter.

Vimal Kejriwal: I think Abhijit, what is also happening is that the clients are also realizing that the delivery time lines for some of the items have increased, okay? That is one part which is happening in the new tenders. Definitely, we are cautious, especially cognizant of the timelines of what we are bidding. I don't think it is still at a stage where it will impact the growth of the business. Also, keep in mind that most of the suppliers are now expanding their capacity whether it is a conductor, whether it is transformers, GIS. I was in Saudi 2 weeks back and we could see all the suppliers wanting to expand capacity.

So I think clearly, we are seeing that the way the demand scenario is getting to pan out for the next few years, the suppliers have been waiting for this. And now they are seeing that there is an opportunity. So they are looking at expanding their capacities. So I think last year, also the current year and all was an aberration because people had not expected the T&D business to pick up so much. You know in my earlier calls also; we had been sort of negative on T&D business.

All of a sudden, the business just turned around and is galloping. So everyone, including us, the suppliers have been caught napping. And now suddenly, we are finding people are adding capacities and all that. So I think to me, it's more of a temporary phenomenon. Maybe in a couple of quarters, the capacities will also increase, which will be enough for the growth which we are looking at. Am I worried about it? No, I don't think we are worried about it. It's just a temporary blip which has happened in quarter-to-quarter and all that.

Abhijeet: All right. Sir, also in terms of the railway business, like this quarter, practically, we have seen the order inflow dropped substantially. And you mentioned the reasons highlighted all the reasons in the PPT also. Sir, going forward, I mean, are we like -- how are we looking at the business in terms of bidding for the incremental orders given the weakness and given the competition from Tier 2, Tier 3 suppliers. So how do we look at the order inflow for the business in the next 2 quarters?

Vimal Kejriwal: So I don't think we are very positive about the order inflow on this business. That is why when the first question was asked on order intake, I said, yes, we do hope that we'll be able to get our -- maintain our order intake because some part of railways definitely is -- was baked into that, and we are seeing how we replace those order intake.

As far as railways is concerned, what is happening is that there are 3 or 4 different buckets. So one of the buckets where we have been losing orders and unfortunately that most many orders have come has been on setting up of new lines, etcetera, where there is a lot of I'll say, earthwork and civil and all involved, which is where most of the road contractors and local contractors have started coming in, especially because these orders are now not coming in from RVNL or RITES and all, but coming in from the divisional railways.

So that piece is something which is sort of virtually out of bounds for us now because we're not getting orders or the margins are so low that we don't want to take those orders also. Where the orders will come in for us is like your TCAS and all that, where I think there is some discussion now. And I think in December, January, we will see some orders coming in.

We talked about auto block signalling then also on 2x25kV, which is for speeding up the trains and also some of the metro orders. And we have bid for a few orders in international. So I think at least one of them should come in in railways during this financial year. Right now, we are not very -- I'll say not aggressive or not very bullish on the order intake of railways. We would love to first complete the existing orders and all that. And then we look at which segments we want to do and how we want to do.

Abhijeet: Right, sir. Sir, lastly, on the average cost of borrowing, you mentioned that it has increased to around 8%. So what is the expectation, like going forward in the next few quarters, this number would it go up or it is going to be around these levels?

Rajeev Agarwal: So as far as, Abhijit, rate is concerned, I don't think that we are looking at a further increase in that interest cost -- interest rate per se. So interest rate will remain at around 8% or so, because the RBI has not hiked the rates post, I think, the February 2023, that was the last hike that was done. And this time, fortunately, yesterday also, there was a Fed meeting and Fed also not increased interest rates. So they have halt after a long time.

So I don't think the rate should go up further, but at the same time, we are expecting that the rate will not go down at least for the next 6, 8 months. So probably the reduction may start happening on the rate front, probably in the second half of the next calendar year, not before that. But our cost of borrowing will remain around the current level, at least for some time.

Abhijeet: Okay. So next 4 quarters, you are saying the cost of borrowing would remain around these levels?

Rajeev Agarwal: Yes, at least 3 quarters for sure. Yes.

Vimal Kejriwal: So I think, Abhijit, what can probably change although, Rajeev, is not accepting it is that with our international business growing so much, we're also looking at how do we get some better rates from international financing, etcetera. So let's say, from Middle East, Saudi and other countries, etcetera. So those efforts are going on. Let's see if something can happen out of that, maybe there could be some impact on these things.

Moderator: Next question is from the line of Subhadip Mitra from -Nuvama Wealth.

Subhadip Mitra: So firstly, just a little bit of more color on the debt front. So I wanted to understand that has there been any movement or reduction in the overseas debt? And do you -- how do you see that ease panning out and its interest on -- its impact on the interest costs?

Rajeev Agarwal: So there is no reduction in the overseas debt. So in fact, it has slightly gone up and that is by design, not by default, because there are a lot of orders which are coming in from the Middle East market and from the international market. So to that extent, we have and there is a large amount of tower supply orders which have helped us to increase our foreign currency debt, and that is helping us in a way to control our cost of borrowing and reduce our rate of interest. So it has only gone up, it has not come down.

Subhadip Mitra: Understood. And with regard to the exposure on the Brazil side of things, that has started coming on?

Rajeev Agarwal: So Brazil debt -- overall debt has been reduced. In fact, in this quarter 2 also, we have infused some additional equity to reduce the overall quantum of the debt, and the entire debt portfolio has been restructured. In such a manner that the interest cost now for Brazil has come down from 20%, which was there about a year ago, has now come down to about 12%.

And now that Brazilian Central Bank has also started cutting the interest rates. They have already cut 50 basis points in the previous quarter. So we expect that the interest rate in Brazil should go down further as the Central Banks have started cutting the interest rate. So that benefit will also come in Brazil.

Subhadip Mitra: Understood. And what would be the total amount of debt on the Brazil side right now?

Rajeev Agarwal: So it would be approximately equivalent to $50 million.

Moderator: Next question is from the line of Abhineet Anand from 3 P Investment Managers.

Abhineet Anand: Yes. My first question is Civil, you have done quite well. Just want to understand where would be the EBITDA and PBT margins here in this presently?

Vimal Kejriwal: The EBITDA margins would typically be around 8% or so right now, okay? PBT, I don't have the exact number, but I think civil the NWC is at around 70 days. So it would be around 5% or so, Rajeev?

Rajeev Agarwal: Yes, absolutely..

Vimal Kejriwal: Yes.

Abhineet Anand: And our mix of international and domestic debt what we have presently?

Vimal Kejriwal: I don't know. Rajeev?

Rajeev Agarwal: So it is -- at present, it is roughly about 70-30. So 70% is domestic and 30% is international.

Abhineet Anand: Okay. Any forex gains that we have had during 1H of this year, sir?

Rajeev Agarwal: Negligible.

Vimal Kejriwal: Hardly anything. I think it would be around INR10 crores – INR15 crores. It is very less..

Abhineet Anand: Okay. And lastly, this UAE and SAE margins have improved, if you can just let us know 1H, what have been the margins there broadly?

Vimal Kejriwal: I don't think we have the margin figure right now with us. Why don't you speak to Abhishek later on and get the numbers.

Abhineet Anand: Sure, sure.

Moderator: Next question is from the line of Teena Virmani from Motilal Oswal.

Teena Virmani: My question is regarding the Middle East order book, which you mentioned that it was somewhere closer to INR50 billion. So how are margins and working capital in those projects, particularly from Saudi?

Vimal Kejriwal: So if you ask me, the margins are -- I'd say slightly better than other margins. They are improving now because the business is growing, the tender pipelines are growing. So we are all trying to put some margins up. And I can see an increasing trajectory there, number one.

Number two, if you look at per se Saudi, the payment terms are not -- they were not very great. I think we are seeing a change happening with the client. We had a meeting with the client that we also discussed this last week also and that -- and they are looking at improving the payment terms.

Thirdly, what is happening is that INR50 billion which I talked about, also had a tower supply orders which are from that region, where the payment terms are much better.

So if you aggregate all of them, I don't think the payment terms are significantly adverse to what we see at other places, okay? Also, I think we are seeing that the execution pace is picking up there, which is helping us in realizing our retentions and all payments more faster than before with the client becoming a lot more flexible than earlier. So I think we are quite okay with the payment terms there in the Middle East now.

Teena Virmani: Okay. Okay. And in terms of the margins, like you mentioned that they are slightly better. So are they in the range of 8%, 9%, if 1 can safely assume that for the Saudi project?

Vimal Kejriwal: So to me, some of the existing orders would be at that level. I think the new orders, we are trying to improve the margins, okay? Our aim is that we start getting double digit on these orders on the fresh ones. Looking at the order pipeline and the order book of many of the large players I do expect that, especially in Saudi and all that, the margin should start inching up.

Teena Virmani: But they are all on fixed prices basis?

Vimal Kejriwal: So okay, they are around fixed. What has changed, Teena, is that, now in most of the cases, the metals get reset on the date the tender is awarded to you, okay? So earlier, you were carrying 2 different risks. One was the risk if between bidding and award, if the prices change, then you had that risk because you're not sure whether you will get it or not. And then you had the risk of carrying it for the fill execution.

Now what has changed and especially in Saudi and UAE it was there earlier is that the metals get reset on the date the contract is awarded to you. So on that date, you can go and hedge it. So although they are fixed price, but it's a hybrid concept now. So you have the opportunity of hedging your metal especially, I'll say, copper, aluminium, and zinc on the day the contract is awarded. So the risk comes down significantly.

Moderator: Next question is from the line of Riya Mehta from Aequitas Investments.

Riya Mehta: My first question is in terms with you said that there are a lot of supply chain issues, which are happening in the T&D aspect. So could you elaborate more on that? And also you said that at Jal Jeevan there is some pushback from the pipe companies to supply. So what is actually happening? And could you elaborate on that?

Vimal Kejriwal: I think on the Jal Jeevan, it is very simple that the orders which have come out are very large in number. I mean there are many states which are giving large orders, and I think some of them more also because of coming -- forthcoming elections, etcetera, people want to give orders and ensure that some work is done.

So clearly, the supply side is not keeping pace with the speed at with execution is likely to happen, which is that pressure. But I am seeing a lot of players have now started expanding capacity at least. I know 1 or 2 people who I had met personally, they are expanding capacity. So we do hope that the situation will ease out. And especially, what will happen is that with the elections coming in, I don't see new orders after March, at least beyond March.

So the pressure of the supply will start easing off and also at the capacity. As far as T&D is concerned, I think there was -- there has been some pressure on specific high-capacity conductors, which is what are being used in -- especially in the TBCB projects. So it's not -- there's a general shortage of conductors and all that, but for specific varieties, which are more preferred on account of IRRs and other conception all that. So both -- all the players that are asking for. That's where there has been some concern.

Also in Saudi, with the focus on Saudization, most of the orders are now having to be supplied by the Saudi vendors, local Saudi vendors, which has put some pressure on the Saudi side. And third piece is also on the subscription OEMs where with the problems which we had on power prices and then labour in Europe, that has put some pressure on supplies from Europe.

But I think going forward, all these are getting factored into the tenders, not only buyers but the clients also, now the clients also know that we will not get a transfer within 12 months. So that's how the tenders are changing. So I think going forward, we should be okay and we should be able to maintain the margin projections or the revenue projections, which we are now factoring in.

Moderator: Next question is from the line of Mehul from -Nuvama Wealth. Please go ahead.

Mehul: If I heard you correctly, for H2 revenue, you have guided for 30% growth over H1, I believe. Is that correct?

Vimal Kejriwal: Yes.

Mehul: So that means that like revenue would be flat like near about like for FY '24 as a whole?

Vimal Kejriwal: Sorry, I didn't get that part, what you're saying?

Mehul: So for FY '24, if I take this 30% growth over H1 revenue, then we should be like more or less flattish or like kind of single-digit growth over like FY '23 in terms of revenue growth?

Vimal Kejriwal: I don't think the numbers are correct. We have said it should be around INR20,000 crores of revenue. It would be around 15% to 17% growth is what we have been targeting, okay?

I think we have done around INR9,000 crores this quarter. Okay? H1 -- sorry, H1, we had done around INR9,000 crores. So INR11,000 is what we're talking, that will tick to INR20,000 crores.

Rajeev Agarwal: Maybe I got INR7,000 crores.

Mehul: So -- and in terms of order inflows, I believe you are guiding for INR25,000 crores for this year, like we should be achieving. And last year, it was about INR22,000 crores kind of FY for '23?

Vimal Kejriwal: Absolutely. That has been our guidance for the year that we should be around that number, yes. I think one thing, Mehul, which I would like to add is that right now, almost 20% of our revenue is coming from product sales, which is towers and cables and all that. Where it is more like book and bill supply, okay? So when you look at the order book backlog and the ratio of order book post sales, some of these parts need to be excluded in the terms of -- EPC would be 1.5, 1.6x for us, generally we have been 1.4, 1.5, unlike other people where our sales has been -- execution has been much faster than other people in terms of the ratios.

But in our case, 20% is now coming in from supplies, that order book would be more coming, let's say, for next year, most of it will come in Q1 or maybe Q4 and all that. So I think that factoring you should go in the order book versus revenue.

Mehul: Understood. Understood. And sir, is it that you know, I believe that the railway piece like wherein like in order inflow to an extent is getting impacted. That is why that this INR22,000 crores guidance is for INR25,000 crores. If that would have worked like maybe like in growth would have been higher than this?

Rajeev Agarwal: No, no.

Vimal Kejriwal: That was factored in -- our normal railway order intake was factored in INR25,000 crores, okay? So now the railway is going down. So we are trying to see how do we push our civil team or T&D team to make up for that, okay? But we think we'll be able to make it up.

Moderator: As there are no further questions, I would now like to hand the conference over to Mr. Kejriwal for closing comments.

Vimal Kejriwal: Thanks, Nirav. Thank you, everyone, for your continued interest in KEC. Thank you so much.

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