"KEC International Limited Q1 FY-19 Earnings Conference Call"

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MANAGEMENT: MR. VIMAL KEJRIWAL – MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER, KEC INTERNATIONAL LIMITED
MR. RAJEEV AGGARWAL – CHIEF FINANCIAL OFFICER, KEC INTERNATIONAL LIMITED

Moderator: Ladies and gentlemen, good day and welcome to the KEC International Limited Q1 FY19 Earnings Conference Call. We have with us on the call today Mr. Vimal Kejriwal – Managing Director & CEO and Mr. Rajeev Aggarwal – CFO.

As a reminder, all participants' 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 phone. Please note that this conference is being recorded.

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

Vimal Kejriwal: Thank you. Good evening to all of you. I welcome you all to the Q1 earnings call of KEC. Before we get into the details, some of the key highlights of this quarter are, our first quarter revenues and EBITDA has crossed Rs. 2,000 crores and 10% mark respectively for the first time. Revenues have grown by 11% Year-on-Year to Rs. 2,105 crores versus Rs. 1,895 crores last year Q1 considering the GST impact on a like-to-like basis the revenues have grown by around 18%.

EBITDA has grown by 23% with margins increasing to 10.3% from 9.3% in the corresponding quarter. PBT and PAT have grown by 41% and 38% respectively over last year Q1 with PBT and PAT margins increasing to 6.4% and 4.1% vis-à-vis 5.1% and 3.3% respectively. Order inflows of Rs. 2,748 crores are largely contributed by the international transmission and railway business.

Our current order book now stands at Rs. 18,191 crores a 34% Year-on-Year growth and our L1 of Rs. 3,175 crores includes around Rs. 1,000 crores from PGCIL. Now coming to the details. We have been discussing the increasing share of non-T&D business for the last few quarters.

This quarter non-T&D businesses are primarily driven the revenue growth. Railways revenue nearly doubled to Rs. 300 crores plus and now contribute 15% of the Q1 revenue. Railways has also contributed almost 34% of the order inflows. We have received four new orders totaling to Rs. 928 crores from railway OHE thus balancing out the railway order book between OHE and composite works.

Civil business has grown well with revenues of Rs. 119 crores though on a smaller base of Rs. 15 crores last year with order inflows of Rs. 212 crores. Almost 50% of the total order received from December in FY15 were from T&D as these were received by later part of the last year. Major part of it could not translate into revenues for Q1 FY19 due to non-readiness of size thereby impacting our T&D revenues.

Further shortage of labor due to elections in some states of India like Karnataka, West Bengal, etc., and the early onset of monsoon in some regions added to the revenue impact. However, we expect the T&D revenues to be back on track in the coming quarters.

On the order front, T&D had contributed almost 50% to the order inflow during Q1. We are happy that we secured around Rs. 900 crores of orders from international T&D business with the addition of Nicaragua in Central America KEC has received its first ever EPC order in Americas in KEC's books. Another important win was a large order from Dubai where KEC had no presence for the last two decades enabling us to diversify our MENA portfolio further. Africa business has had a good start in Q1 with orders from Senegal and Ivory Coast an addition of two other countries in Africa.

SAE has grown by 78% over the last quarter with Rs. 270 crores of revenue despite a nationwide truck strike in Brazil in May. We expect a strong revenue growth going forward with onset of revenues from the last three EPC orders during the last later part of the fiscal. Our solar business has executed around 300 megawatts of projects to date. The on-track execution of the 130 megawatts APGENCO project has majorly contributed to the Rs. 160 crores revenue during this quarter. The same is expected to be completed in Q2.

The domestic growth for solar business continues to remain muted in terms of order inflows during Q1. With reduction in module prices we are expecting a good traction in the international market especially Middle East. However, the domestic market continue to be depressed due to uncertain GST and is now further complicate the imposition of safeguard duty of 25% this week.

Cable business has grown around 18% Year-on-Year majorly on account of considerable increase in the exports and HD cable vis-à-vis the corresponding quarter. Coming to working capital we have witnessed structural changes in the borrowings and working capital due to restrictions on the rollover facilities and buyer's credit. Credit squeeze suffered by vendors due to change in banking policies and price volatility as well as the availability of copper and steel. This has led to the reduction in acceptance in tables, increase in supplier advances and build up of some buffer stock consequently resulting in increase in borrowings, reduction in trade creditors' acceptances and a slight increase in inventory.

However, we are happy to maintain that in spite of all these we have been able to actually slightly reduce our interest cost to sales to 3.28% from 3.3% in the corresponding quarter in spite of tightening global liquidity and rising interest rates in rupee as well as in dollar terms.

Going forward we are confident of maintaining our interest cost at the same levels as last year for the full year. Considering the momentum of order book built up we believe that we will achieve our targeted growth metrics.

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

Moderator: Thank you very much. We will now begin the question-and-answer session.

We have the first question from the line of Renu Baid from IIFL. Please go ahead.

Renu Baid: Two questions from my end. First, if you can help us understand the operating margins. I mean in this quarter despite decline in the core transmission business ex-of SAE**,** margins overall still were pretty much steady at 10.3%. So, if you can throw more insights on how the non-T&D verticals have done in terms of margins and if the T&D business picks up in the subsequent quarter do we see an upside to the originally guided margins of about 10.5% for the full year?

Vimal Kejriwal: So, Renu, we did have improvement in our margins from the other businesses both railways as well as civil and also cables when you compare it with the corresponding quarter last year. So, all the three businesses I would say did contribute to a significant improvement. I think the other reason why our margins were higher in spite of a downside in the T&D revenue was that we had a little bit less of other expenses happening because of FOREX impact there. And I would say there are still some other cost controls which we had exercised which resulted in better I will say overhead absorption across he businesses. So, it is not just restricted to T&D but we would like it to continue and let us hope we can maintain it.

Renu Baid: Sir, what was the FOREX impact which helped the OPMs in this quarter? And will it be more of a sustainable because rupee has now been pretty weak and expected to remain broadly so?

Vimal Kejriwal: I am not sure whether the FOREX impact would continue going forward unless the rupee depreciates further. So, right now, our numbers are at around Rs. 68.50 or Rs. 68.60 they have been restated at those numbers and the rupee at least for the last one month has been more or less stable around that. If rupee depreciates further, we will probably have more I will say gains on account of FOREX going forward also. Otherwise we do not expect any major income on account of FOREX going forward.

Renu Baid: Sir, if you can quantity the FOREX impacting other expenses in this quarter?

Vimal Kejriwal: I do not have the exact number but probably they are around Rs. 20 crores or so. See one thing what I talked about in the working capital was that there was the rollovers and all had been stopped for the overseas liabilities. So, that resulted in lot of overseas liability has been paid by Indian Rupees which otherwise would have been rolled over for another three, six months. And that would have been financed by way of buyer's rate or supplier's written increasing my foreign debt.

Now what has happened as I said about our structural change the foreign debt has gone down and the rupee debt has increased as a result of which our net receivables in US Dollars have gone up significantly because we are not netting up that much of foreign debt. And that is resulting in to this fee of foreign currency impact. So, part of it I will say that when you look at the EBITDA increase some part of it will actually get set off against the interest increase. Otherwise we would have done a slightly better on the interest.

Moderator: Thank you. The next first question is from Inderjeet Singh from Macquarie. Please go ahead.

Inderjeet Singh: Two questions. My first is on this whole interest cost and the debt kind of numbers. If you kind of throw some more light as to how much is the inventory increase? Do you really think that this tightness in liquidity especially in overseas market will have an impact on our execution for the year given that we have a large business outside India? And how does that and why are you still confident that you will be able to maintain interest cost at last year levels? So, that is the first set of questions.

Vimal Kejriwal: So, let me just answer couple of whatever I could catch up with you. One is that I do not think we are looking at a liquidity crunch or something for us as a company. What I generally said was that there is a liquidity tightness in the entire market especially with many of our vendors who are I will say not very large companies. So, with whatever is happening in the banking sector smaller vendors let us say vendors who have got Rs. 1,000 crores turnover or Rs. 1 crores turnover are facing lot of pressures from the banks.

As a result of which people have been coming back to us and say I cannot give you 180 days credit, I cannot give 90 days' credit I want a shorter cycle span and all that. So, that is one thing and as a result of which what has happened is that our creditor's cycles have come down not that I really like it but I think we also need to maintain relationship with our vendors. So, that is one thing which is I expect it to be temporary that that should help us later on.

The second thing which I talked about was that rollovers and that have been you know RBI has stopped the rollovers and extension of buyer's credit etcetera. So, large part of the debt which was in terms of foreign currency has got converted into rupee. But availability is still not a problem. Third part on the inventory I think the inventory went up by slightly below Rs. 100 crores, Rs. 95 crores or so that was primarily because with the shutdown of the Sterlite plant Tuticorin copper availability became a serious issue across the country.

So, we had to sort of keep some stock and also we are also finding that right now with the monsoons but steel availability especially in the rebar side was becoming a problem in some parts of the country. So, I think these two things had been done. So, those are already coming down now and I think the other think which did not get covered somewhere is our debtors went up by two days primarily on account of non-receipt of collections from Saudi which we should be getting now.

That is what we are gearing from our team. So, we are overall hopeful that we should be able to maintain our numbers and also we have been talking about a 15% growth in turn over. So, once we look at that number then we do feel that as a percentage of revenue we should be able to maintain our interest cost. I have not said about maintaining the absolute interest cost what we have been talking about is that we should be able to maintain the percentage of revenue.

Inderjeet Singh: Second question is on the guidance on order inflows. Is there kind of given that solar is not moving as much, is there any change in that side or we would likely to still have double digit kind of growth on the order inflow side?

Vimal Kejriwal: No, I think we are clear that we would like to have a double-digit growth and if you look at our Q1 orders we have I think around 22% growth. The order intake is not been that good in the first quarter although it is much more than our revenue. Our revenue is 21 and order intake has been Rs. 2,700 crores for the first quarter plus we have an L1 of Rs. 3,000 crores odd. And I think there are lots of opportunities in the pipeline. So, I think we are still likely to grow our order book at least in the same ratio as our revenue growth.

Moderator: Thank you very much. The next first question is from Bhoomika Nair from IDFC. Please go ahead.

Bhoomika Nair: Sir, just wanted to understand in the T&D revenues if I exclude SAE there has been a significant decline in the revenue line. How much would have been the decline in the domestic and versus international and if you see even on the inflow side there has been a significant drop in the order inflows in T&D. So, if you could just throw some color on that aspect?

Vimal Kejriwal: So, I think I do not have the exact numbers but I think more or less the decline has been around 20% in both the businesses.

Bhoomika Nair: Domestic and international as well?

Vimal Kejriwal: It is a ballpark is around 20% in both the businesses. I think the only caveat I will say is that the last quarter at least the India numbers had sales tax and excise duty etcetera. This one is net of that. So, there will be some adjustment of 5% to 7% in the India numbers. When I said a 11% growth should have been 18% a large part of it would have actually gone in to the India numbers.

And I think on the order book we are actually very happy with the order book because we have got Rs. 900 odd crores in the international in April in the first quarter itself which will I think help us a lot in our international growth. Last year we had a very poor order intake for international and with this Rs. 900 odd crores coming at the start of the year we are pretty happy that and confident that we should start seeing a growth happening in the uptake in the numbers of the international probably from Q3 onwards.

Bhoomika Nair: And sir, in domestic order intake because that seems to be quite weaker so any reason for that?

Vimal Kejriwal: I have not seen too many orders coming. See our major areas had been Karnataka where there was a state election so everything was on hold now you will see more tenders coming in. Power Grid we are already L1 in almost Rs. 1,000 crores of order. So, I think overall with the numbers of India we are okay we have quoted quite a few tenders also in Andhra Pradesh, Orissa, UP, Jharkhand. Then we have recently quoted some tenders to Power Grid for TBCB. So, I think they will all get started may be in Q2 end or something. But we already have a large order book in India. So, I do not think our India revenues or anything is something which we are worried about.

Bhoomika Nair: Sir, my other question is on the margin profile. So, if you could just comment because from whatever I remember we discussing earlier in the past is that railways margins are roughly about 100 basis points lower than what the T&D margins are at the project level and probably little more lower at the EBITDA level. Similarly, cable used to be at about 5% to 6% margins. So, how has that moved given that these two segments are fairly growing and are now forming a significant part of our revenues?

Vimal Kejriwal: So, I think cables is still at the same level 5% or 6% roughly around that level. Railways is improving. I do not have the exact number, but it has gone up by more than 25 basis points as compared to the Q1 last year. Civil the advantage we have is that there is no cash investment in the business although the EBITDA is slightly lower but the EBITDA and the PBT are virtually the same. So, at the PBT level I think civil is probably 100 basis points lower than the T&D.

As far as T&D is concerned although we had a lower revenue but I think the margins were pretty good and as I was explaining earlier because we have shifted to a lot large part to the India borrowing. So, we were able to sell our large more of a receivables, etc., on the international market as well as some of the receivables in SAARC countries etcetera. So, there has been some FOREX gain is there which has increased the T&D margins beyond what is normal.

Moderator: Thank you very much. The next first question is from Nisarg Vakharia from Lucky Investment Managers. Please go ahead.

Nisarg Vakharia: Sir, the first participant's questions you answered but if you could just clarify again that the other expenses are down sharply which is why our EBITDA margins are higher. Is this a sustainable trend going ahead?

Vimal Kejriwal: So, what has happened Nisarg is if you have noticed our revenues and all so we had a lower revenue on account of T&D. So, that T&D revenues will definitely go up there is no question about it. So, to me the margin that whatever we did that 10.3% and all that we have been guiding for 10% so we are very clear that we should be able to maintain the 10% margin.

Now whether it comes in from a other expenditure reduction or something because what happens in the other expenditures there are at least 10, 12 line items which are large, there is a freight element, there is a commission element, there are so many items which go into that. So, this particular quarter we had a significant reduction which is why I mentioned about it. But I think for the coming quarters I would rather love to leave it as this that we should be able to maintain our margins at a similar level. Line by line item to commit would be very difficult for us.

Nisarg Vakharia: Sir, wanted to ask you that the international T&D orders which we get are they also at a significantly higher margins or lower margins as compared to the company average?

Vimal Kejriwal: So, what happens Nisarg, is that the margins would be I will say that overall would be at the similar levels, individual orders would be at different margin levels. But normally the cost of capital in international is lower. So, at the PBT level those orders could be at a higher margin but at the project margin levels when you look at EBITDA and all that they would be at the same as the company.

Moderator: Thank you. The next first question is from Mayuri Yadav from Aquentus. Please go ahead.

Mayuri Yadav: Sir, as you were explaining to an earlier participant that the inflow from the domestic T&D segment has slowdown considerably. In fact, if you look at the trend almost it has been at 11 months low the order inflow from the T&D segment. So, in the past 2 to 3 quarters we had been doing around almost Rs. 2,500 crores of inflows from the T&D segment. So, do we expect it to revert back to those levels in the coming quarter or are we expecting further some pressure especially in Q2 this year?

Vimal Kejriwal: So, if you look at Mayuri the numbers overall order book intake roughly around 50% has been 51% to be precise has been from the T&D sector. Now I am happy that this has come over from international then domestic because the international order book was poor. So, I think it is very difficult to quantify and say that every quarter we will get similar orders or not. It is very difficult.

As I was explaining earlier we have quoted for quite a few number of jobs both in Power Grid. SEBs and also in the private sector TBCV. There are couple of large TBCV orders yet to be placed by the developers they are there. So, I think we are pretty confident about what will happen on the domestic order book. Other thing what I would like say is that our domestic order book had been pretty good. So, I will in a way say that we were not that aggressive in getting our domestic orders because we had a order book in place already. So, we were more focused on the international front.

Mayuri Yadav: Sir, my next question is with regard to your order book. Can you just help us give some ballpark number as to what is the SEB contribution in the overall order book that you have of around Rs. 18,000 crores?

Vimal Kejriwal: Unfortunately I do not have that numbers right now but may be you can speak to Neeta she will give you the number later on.

Mayuri Yadav: Sir, correct me if I am wrong that the SEB contribution overall has been going up for you compared to last year. And that is partly selected in the higher debtors for the company. Will that be a right statement to make?

Vimal Kejriwal: We had lot of order intakes last year from SEBs. But we also had similarly from Power Grid and private sector also. So, unfortunately I do not have the number for the last year as to what was the share of the SEB but it was a decent share. If you look at the debtors on a Quarter-on-Quarter we have gone up only by two days. So, I will not say that way. Over March yes, we have gone up slightly but that is more on account of Saudi. There are some receivables from receivable from Tamil Nadu, Karnataka because we did have a lot of execution in the last year. So, that would come in. I do not think it is a matter of worry for us.

Mayuri Yadav: So, sir, at the overall working capital level what is the guidance that you would like to provide?

Vimal Kejriwal: So, working capital I think what we are looking at is in this quarter our net working capital went up significantly especially because of the change from let us say creditors and acceptance of into direct loans and like that bank borrowings which we will slowly correct. So, I think overall at the end of the year we should be back to what we were at the last end which was 95 days, 96 days all that. But it will not happen immediately because it will take some time for the system to stabilize.

Also with RBI rates going up, etc., we still do not know how the system will stabilize. So, I think I would like to say that at the yearend we will be back to our normal numbers. May be for the quarter also you may still see a higher networking capital but not necessarily resulting into a higher interest because large part of the debt is that working capital is not interest bearing.

Moderator: Thank you. The next first question is from Yash Bhotika from Karvy Stock Broking. Please go ahead.

Yash Bhotika: Sir, I just want to ask two questions. Like can you tell us about the EPC business how it is doing in international and what are the order pipeline we are looking after it?

Vimal Kejriwal: So, I think the order pipeline is pretty decent. We have quoted quite a few tenders especially in Africa and Far East like Thailand, Malaysia, etc., and also in Bangladesh. Bangladesh has been I do not know I do not even have the number, but I think it is probably close to Rs. 4,000 crores of tender which have been quoted in Bangladesh. So, I think we are pretty confident about the international performance this year.

Yash Bhotika: It is on EPC basis?

Vimal Kejriwal: Yes, EPC basis.

Yash Bhotika: How we are looking of the civil sector at this moment? Have we know that last year the PBT was on a positive side so can you tell us how we are looking after this financial year?

Vimal Kejriwal: So, civil we expect to do somewhere around Rs. 500 crores or Rs. 600 crores of revenue this year. And we have an order book of around Rs. 500 crores, Rs. 600 crores again. We do expect that we will get some more orders because we are in negation with some of them. Hopefully we should get around Rs. 1,000 crores of orders this year as compared to Rs. 500 crores last year. And there will be a corresponding increase in revenue and once the revenue start increasing we will have a better absorption of overheads and leading to better and higher margins.

Yash Bhotika: Sir, I remember that we were talking about railway business from Africa regions, SAARC and MENA region. Any leads from there how it is going at the moment?

Vimal Kejriwal: So, we have put in for a few projects in railways in SAARC and Africa and also CIS. I think one of them we have lost, others we are still awaiting. And I think we are hopeful that we should get at least one of them.

Yash Bhotika: And sir, last question. Can we get a brief about how TBC projects are working at this moment in India?

Vimal Kejriwal: Working means I think the developers are all happy about it. Most of the projects are going well. The proof of the pudding is that in the last tender in Jharkhand eight parties who are bid for it, rather than three or four. So, the number of the developers who are participating is now again increasing.

Moderator: Thank you. The next first question is from Jonas Bhutta from PhillipCapital. Please go ahead.

Jonas Bhutta: Sir, two questions. First on working capital. I just missed out the earlier part of the call where you explained this entire movement from foreign debt to domestic debt what has transpired there during the quarter and what has led to that in a way stress in the vendor community? The second is if you can just update us on the Saudi debtors those you mentioned that a bit of your receivables you are expecting some recoveries but that did not come through? So, that is first on the working capital.

Vimal Kejriwal: So, Jonas, we were expecting around Rs. 250 crores, Rs. 300 crores from Saudi. I think which should be coming now. That did not come so to that extent the debt has gone up by that which should get sorted out now. As far as the working capital what I had explained was that with the current RBI restrictions on the rollover facilities, extension of buyer's credit, etc., many of our let us say international purchases which normally would have been rolled over buyer's credit because that is always a cheaper option. All that had to be paid off as a result of which the India borrowing went up and consequently the creditors and payables acceptances went down.

So, although you think or seem that debt has gone up by Rs. 1,000 crores or Rs. 1,200 crores but when you interlay that with the creditors and the acceptance which have gone down by Rs. 800 crores that number looks very, very different. The second piece of that because of the tightening of liquidity, whereas to the tightening of credit control by bankers not liquidity. Many of the medium scale enterprises all are facing lot of pressure from the banks which is hampering their ability to extent credit etcetera. So, many of our vendors have been talking to us saying that they will need some credit support and that is what has led to us to give some advances to some vendors to reduce the credit cycle which I think is a temporary phenomenon and once banks start again losing their credit this piece of it because they also have to ultimately lend and this should be back to normal.

Jonas Bhutta: So, this is something that would continue into 2Q also?

Vimal Kejriwal: It would continue at least for partly in Q2 I will not say I do not think we will be at the same levels, level should improve in Q2 but I do not think Q2 levels would be back to what we had at Q4 end but especially to be at the back scene levels.

Jonas Bhutta: Then what is the total receivable number in Saudi, is it still at Rs. 1,500 crores?

Vimal Kejriwal: I do not have the exact number but what I gave you the number Rs. 300 crores is what is due.

Jonas Bhutta: And lastly, on the back-endedness of the revenue because there were certain large projects which would start revenue recognition only in the second half the year. In the Q4 call you had mentioned the total project size of various projects put together is about Rs. 4,000 crores. Would it be possible for you to give just a rough cut number of how much of that sits in the SAE book and how much of it is in the standalone book?

Vimal Kejriwal: I do not have the exact number. But I think around Rs. 1,000 crores of that is sitting in the SAE books and the rest is part of international. We have got some large power supply order which will start later on and then we have got couple of I would say cross country and inter country linkages, etc., which projects are scheduled to start only next year.

Moderator: Thank you. The next first question is from Abhineet Anand from SBICAP Securities. Please go ahead.

Abhineet Anand: This Brazil part three of the auctions have happened, when does these auctions convert into orders for the EPC guys?

Vimal Kejriwal: So, what has happened Abhineet is the first two auctions are I will say more or less getting converted and first has been converted, second one people are now ordering and even for the third one, negotiations have started. So, to me probably by next three to six months even the third auction should have ordered out because there is another auction in middle of December, the larger one than the third auction.

Abhineet Anand: Secondly, this other income looks slightly on the higher side. Any one off or something on that?

Vimal Kejriwal: I think there was some interest from on the income tax refund. I do not know the exact number but there was some inflow from income tax refund.

Abhineet Anand: And is it possible to break up our overall debt in to foreign and domestic as of now?

Vimal Kejriwal: So, in Indian rupees around 60% and overseas is 40%.

Moderator: Thank you. The next first question is from Bharat from Quest Investments. Please go ahead.

Bharat: Sir, on this railways front can you I mean we have been able to improve the Year-on-Year margin by almost more than 1%. And so which is still lower than as we understand then the T&D business. So, with this size growing when do we expect that railways also should start throwing EBITDA margin of T&D level?

Vimal Kejriwal: See what is happening Bharat Bhai is that today one-third of my order or probably half of it is now composite orders which has got all these issues of freight, etc., which is now getting sorted out. So, our view is that by the end of the year when you close the year I think our margin should start touching towards T&D towards the end of the year.

Bharat: And sir, again you have reiterated EBITDA margin of 10%. But sir, in view of some softening of the commodity price that we are seeing as well as rupee also has depreciated. So, in view of that how do we see 10% is there any room to improve on this EBITDA margin 10%?

Vimal Kejriwal: As the guidance I do not think we would like to comment beyond 10%.

Bharat: How is CAPEX number if you were paid by or missed it?

Vimal Kejriwal: Sorry CAPEX target for the year?

Bharat: Rs. 100 crores?

Vimal Kejriwal: Target for the year should be probably more than that because we have just implemented SAP so Rs. 30 crores to Rs. 40 capitalization will be there for SAP. Normal will be Rs. 100 crores. So, I think this year we will probably end up with around Rs. 140 crores, Rs. 150 crores capitalization.

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

Amber Singhania: Just wanted to understand a bit about the macro part on power T&D. How is the opportunity panning out if you can give some idea or some color about the large opportunity coming from SEBs, PGCIL and TBCB in the coming quarters? If you can highlight with couple of projects on that on the domestic side and similarly if any large tenders are there in the pipeline on the international side if you can highlight those?

Vimal Kejriwal: So, Amber, if you look at the domestic T&D market I think roughly around Rs. 5,000 crores of tender should get finalized in probably in the next one quarter or so. That is the amount of tenders which we have already been quoted including TBCB, when I say TBCB it is I have quoted as an EPC to the TBCB player, Power Grid and SEBs. So, there is a large pipeline then there have been some new TBCB tenders which have been floated of which right now RSQ is going on.

So, once the RSQ is done probably in another three months or four months those tenders would also come out. We also now understand that government wants to build some more green corridors that is the discussion going on. So, may be in another three to six months we may see those getting tendered out by Power Grid. That is the new development which has simply happened. I do not know what Power Grid has said in their investor conference yesterday or today.

But a general discussion is going on in Power Grid. I have generally spoken to Power Grid who were talking about new green corridors, etc., coming in. So, I think India market is looking pretty good for us. Now it is a question whether it happens in Q2 or Q3 is something which we have to wait and watch.

Amber Singhania: Sir, there is some speculation which is that PGCIL is going pretty lull compared to last year also and PGCIL has also indicting the similar kind of slow ordering barring the green corridor of course. What is your interaction with them suggestion and what is your sense on the overall market?

Vimal Kejriwal: Let me give the numbers. Last two years we have got around Rs. 1,000 crores of orders from PGCIL. This year I have already said we are L1 in Rs. 1,000 crores from PGCIL. So, to me overall I do not know what will happen with the PGCIL order in but as far as I am considered I have a Rs. 1,000 crores sort of pipeline with PGCIL already. And hopefully we will get some more orders from PGCIL. So, I am not that much worried about it.

Amber Singhania: Okay and how is the situation on the international front sir?

Vimal Kejriwal: International is pretty good. We already got Rs. 900 crores of orders in |Q1. So, I think we are happy. There are lot of tender which are happening in Africa as well in Far East especially like

Malaysia, Thailand and then also in Bangladesh. I think Bangladesh has becoming bigger and bigger and I think we are very about it.

Amber Singhania: Just last part sir, this quarter definitely we had a lower T&D revenue. But going forward it will increase and T&D overseas are mostly the fixed price contract. Given the current currency fluctuations and rupee depreciation and all where do we see do we see some hit coming in the T&D margins going forward? How things are panning out on the overall commodity as well as currency impact?

Vimal Kejriwal: So, I think some impact of currency has already come in to Q1 and after that we are seeing the rupee stabilizing, so I am not right now at the current levels we are not looking at too much impact of foreign currency. As far as commodities are concerned, most of it has already hedged. So, there may be some margin improvements here and there, but we do not think that there would be significant improvements on the existing orders.

But orders which we get now those have been quoted when the commodities were higher. So, we are keeping our fingers crossed and if we get some of those orders now then may be there could be some improvement when we execute those orders. When that will happen Q3, Q4 or next year I do not know when the execution will happen. But on those orders definitely if those orders come now then there could be some improvement.

Moderator: Thank you. The next first question is from Inderjeet Singh from Macquarie. Please go ahead.

Inderjeet Singh: My first question is on the margin side. To be honest I am little surprised that given that there is heightened working capital, we are taking more SEB orders, our railways margin is getting better but we are very reluctant to kind of stick our neck out on the overall margin profile for the year. Is there some kind of cost pressures that we should be worried about at this point of time?

Vimal Kejriwal: Inder, there is no cost pressure. So, I do not think we should be worried about cost pressure at all. Right now the earlier gentleman was asking me about commodity price going down and making more money. So, I do not think we are worried about cost pressures at all. I think what happens is that you will see there is lot of volatility in currency, in commodity. So, I think and then there are elections happening.

So, we are very sort of I will say conservative in the way we are looking at things. You never know what happens, oil prices have been going up and down we have got some large orders in Dubai etcetera. So, we just want to be a little bit conservative as has been our standard practice. I do not think we should read that as a sign of weakness or a sign of worry.

Inderjeet Singh: My second question is can you share more details on how the railways kind of piece is moving? Good to hear that margins have starting to improve but in terms of order inflows what is the kind of outlook right now and what kind of revenue numbers and still are we on track to be kind of close to Rs. 2,500 crores revenues next year in the railways side?

Vimal Kejriwal: Next year I think we should touch Rs. 2,500 crores or hopefully more than that. I do not know what will happen but this year we are targeting around Rs. 1,600 crores which is double of what we did last year Rs. 800 crores. We have an order book right now of more than Rs. 5,000 crores. So, honestly I do not see any challenges in doing more than Rs. 2,200 crores, Rs. 2,300 crores next year.

Already I have announced that order of around Rs. 900 crores or so this year from railways. We are not given our details, but we are also expecting a significant order in railways now. That Rs. 3,200 crores which you talked about L1 has I think two orders of rail also. So, I do not think we are worried about order intake. What is now happening is that we will slowly start seeing ordering happening on signaling etcetera.

Right now, the ordering is more on OHE and a little bit of composite. Also if you are tracking railways in the last six months or so railways have actually cancelled a lot of contracts which have been awarded to companies that are not been performing. So, many of those contracts are coming out for rebidding on a fast track basis.

In fact in the last one month we would have quoted at least four tenders which were cancelled and rebid. So, we are also seeing lot of pressure from the railways for execution and lot of and I think quite a few non-performers are getting into deep trouble.

Inderjeet Singh: Any number that you would want to put at where the ordering inflows could be this year in railways?

Vimal Kejriwal: Last year we did around Rs. 4,000 crores odd so I think this year we would love to do at least Rs. 5,000 crores. Let us see how it pans out.

Moderator: Thank you. The next first question is from Harshit Kapadia from Elara Capital. Please go ahead.

Harshit Kapadia: In the annual report you have highlighted something on smart infrastructure and you have given out three to four services that you are looking at in terms of Smart Cities, Smart Mobility and smart utility. So, if you could highlight what is your plan there? Are we adding more manpower to it, are we ready for it, are we looking at bidding right now or is that may be one year, one-and-a-half years down the line we will be ready. So, if you can throw some light on that?

Vimal Kejriwal: So, Harshit, we already have around 20 people working on Smart Infra full time working on it. We have already put in a bid for a few of the contracts and we do hope that within this financial year we will win at least one or if not two contracts and there should be at least to start of the revenue. I do not think it could be even reaching three digits, but I think we should start getting some revenue out of Smart Infra within this financial year.

Harshit Kapadia: Have you also determined what is the size of each of the markets and where our capabilities in this would sir?

Vimal Kejriwal: I think what happens here is that we will play the role of an aggregator where we will get hold of let us say active equipment provider and a software company like let us say Cisco or a Wipro or someone and we will get hold of others. So, we will do the system integration but there is no particular area where we cannot operate it depends upon what sort of partners we can get it.

And that is the way we want to do it. Size is very difficult there are contracts for Smart Infra which come Rs. 5 crores to Rs. 10 crores. There are contracts we are running into Rs. 1,000 crores also. So, it will depend upon the particular SPV as to how do they structure their contracts.

Moderator: Thank you. The next first question is from Aditya Mongia from Kotak Securities. Please go ahead.

Aditya Mongia: Sir, I have two questions from my side. The first question is more of a clarification. On the balance sheet side you talked about two changes. One was the change in the composition of debt towards more domestic versus foreign. And the second one was that payables started coming down because that was the need of the hour. I wanted to clarify whether both these changes were back ended in the quarter or it impacted the entire quarter's performance?

Vimal Kejriwal: Yes, so I think composition of that the second question is on payables, right?

Aditya Mongia: Yes payables.

Vimal Kejriwal: Yes, so as I was explaining what has happened two things have happened. There are two items which have gone into this. One is very clearly the RBI ban on rollover facilities and buyer's credit. So, normally what used to happen is that we were buying lot of supplies and other items from the overseas market which used to be bought for three months and then rollover for another three, six months depending on how the FOREX used to be there what are the LIBO rates and how does the India rates compare to that.

It used to be basically the interest and FOREX arbitrage. What has happened is that with the rollover being banned you have to per force payoff all those suppliers. So, that effectively resulted in your suppliers going down and your rupee debt going up. So, that is one part which has happened which is why you will see the suppliers listing are going down. The second piece which is also happened why the suppliers are going down is that the suppliers have faced tremendous liquidity problems and cash flow issues because of the tightening of the Indian banking system.

Not all of the suppliers are AAA or AA and all that. Many of them are A minus, etc., and they have been facing significant banking pressure. And they have been requesting us saying that can we look at their credit terms and reduce their credit terms and that is what has happened. In fact some suppliers who actually paid advance so that is another reason why the other assets look slightly higher.

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So, all these things have combined together to basically change the structure of the working capital. Hopefully in a couple of quarters with the banking system become again loosening its strength it should go back to the normal numbers. But if you look at the interest cost, the interest cost has remained the same as a percentage because all this is not adding in a way to my cost because if I am paying the supplier earlier we are getting a discount from him.

Rupee to dollar has been a little bit change in interest cost but that comes back by way of less forward premiums etcetera. So, it is not changing the interest cost significantly, but the structure of the entire working capital or balance sheet is changing.

Aditya Mongia: So, basically both these things will kind of reverse partly if not fully over the course of this year?

Vimal Kejriwal: Absolutely. But they we are still very confident about the interest cost.

Aditya Mongia: So, sir, the question is coming out because I would have expected that considering where the business returns are at this point of time that there should be some improvement in interest cost as a proportion of sales and the current growth rates. Is it right to assume that while it may not happen in FY19 because of the factors you mentioned the process should continue next year when things are stable?

Vimal Kejriwal: 100%. It should have happened this year also but then because of the interest rates itself going up now RBI has again increased by 25 basis points yesterday. Had the international rates not gone up, number one. Number two is that the LIBOR has short up significantly. So, if you would look at what has happened LIBOR is now almost 1% inching over the last one year and the Indian interest cost also.

Had that not happened we would have clearly been lower as a percentage of revenue and our target is still that is why in spite of all these we are still maintaining that this year we should be able to stick to that. Next year definitely it has to come down. We are very clear on that.

Aditya Mongia: Sir, the second question is more on so when you were doing business earlier it was largely T&D and largely PGCIL. Now it is less T&D and lesser PGCIL. Compared to PGCIL are other customers also let us say unforgiving to players who do not execute contracts on time? Is there a similar kind of scrutiny which happens as you were suggesting in railways case some time back? Just want to get a sense of customers over here?

Vimal Kejriwal: It does happen but to me Aditya, your perception that PGCIL Is less is what correct. PGCIL is equally tough with parties who do not perform.

Aditya Mongia: I would want everybody to be like that. That is what I am trying to confirm over here. PGCIL is a good example.

Vimal Kejriwal: PGCIL is very tight about it. You may be surprised that the number of calls which we start getting even if there is a one-day delay and when I say one day delay it is from the early plan which we have given to them not from the original dealers. So, I think it is there. On the private sector side what happens is that they are unforgiving but what happens is that many times you have seen that they are not able to do what they are supposed to do.

PGCIL being I should call it a government company is able to push through lot of things with the District Administration, with the FC and the District Collector, etc., which the private sector is not able to do in the same manner. So, at many times what happens is that the private sector the client is more on the receiving side than we are on the receiving side.

Moderator: Thank you. The next first question is from Bharat from Quest Investments. Please go ahead.

Bharat: Sir, with the improvement in oil price are we seeing any improvement in the Middle East area I mean new more orders coming or?

Vimal Kejriwal: Honestly Bharat Bhai, no. And I think they are still using their money for whatever they are supposed they are doing but it is not yet flowing into productive assets although we did get a Rs. 400 crores order from Dubai. Saudi we are slowly seeing some tenders being floating not yet been bid. But I do not think the flood which we are expecting when the flood will start I do not know because most of them still need a lot of work to be done. So, either they are putting the money in all the wars or other issues which are happening. But I think it is a matter of time Bharat Bhai that, that happens.

Bharat: And sir, I mean since railway after a long time is coming out and giving work and doing capital expenditure. So, are we seeing any kind of a change in the way of working with railways has been improved?

Vimal Kejriwal: 100% and I think there is no doubt about it. Railways have improved tremendously in the way they are working and the way they are interacting, in the way they are also pushing us for execution and also I have tenders where within 15 days of bidding the tender has been opened, awarded and work commenced. So, there is a clear change I think there is a lot of seriousness on their part also.

The second piece is that the size of the orders have grown significantly and which has led to sort of larger players only being in the picture which is helping everyone because the number of orders which they have to follow up is much less. But I can tell you that there are regular meetings held at the let us say at the CMD level of rights or RBNIL or even the Head of core, regularly, every month probably or may be more than a month.

Moderator: Thank you. The next first question is from Ranjit Shivram from ICICI Securities. Please go ahead.

Ranjit Shivram: Just wanted to understand was there any impact due to this rupee depreciation because we were expecting that rupee depreciation should be beneficial for us for our export? Is that understanding right?

Vimal Kejriwal: That is right. I think that is what I had said earlier that this quarter the other expenses have gone down because there is a large amount of FOREX gain.

Ranjit Shivram: No, apart from that in a revenue booking perspective would there be any advantage?

Vimal Kejriwal: Revenue booking this quarter has not been a major advantage because as I said the T&D business international was down by 20% in terms of revenue.

Ranjit Shivram: And in railways do we also compete in the metro portion because there were some metro orders the tracking orders which were ordered out from Bangalore Metro. So, did we participate in such kind of orders?

Vimal Kejriwal: No, not yet. But we will do in some time.

Ranjit Shivram: Okay so is there any PQ kind of a hindrance over there we are still not prequalified to participate in those projects?

Vimal Kejriwal: So, there are PQs but we have got enough partners with whom we have tied up. So, I do not think participating would be a problem.

Moderator: Thank you. The next first question is from Aditya Mongia from Kotak Securities. Please go ahead.

Aditya Mongia: Just one more question from my side. Wanted to clarify, one of your other peers in their annual report was talking about this trend in railways from BOQ to basically EPC mode of awarding obviously this may be happening for some time now. Is there a sensitive guess of what is the potential kind of ordering happening from railways on a BOQ basis which will eventually shift in to the EPC mode?

Vimal Kejriwal: Obviously we do not know whether they have awarded last year they awarded a few projects on EPC mode. They have been talking about doing it but we have not seen till now any new projects coming in. We have put in a pre-qualification I think they have not yet opened the pre-qualification. I am not sure the number but there are three or four large projects which they are supposed to do on EPC. But for some strange reason they have not gone beyond the RSQ stage.

So, as and when they decide to award it there must be some internal issues going on within the railways I have no idea honesty. But the talk was that a lot more projects would come on the EPC, that is what the Minister has been saying, that is what the Railway Board Chairman has been saying. But we have not seen that actually materialized beyond the PQ stage. So, we are also waiting and watching that.

Moderator: Thank you very much. That was the last question in queue. As there are no further questions I would like to hand the conference back to the management for any closing comments.

Vimal Kejriwal: Thank you very much for your continued participation.

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