



“KEC International Limited
Q2 FY'25 Earnings Conference Call”

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Moderator:

Ladies and gentlemen, good day, and welcome to the KEC International Limited Q2 FY '25 Results Conference Call. As a reminder, all participant line will be in listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing 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. Thank you, and over to you, sir.

Vimal Kejriwal:

Thank you, Sejal, and good morning to all of you. We welcome you all to the Q2 earnings call of KEC. Let me start with an update on the key developments during the quarter, and thereafter talk on the overall financial performance of the quarter and H1 along with the highlights of the respective businesses.

Firstly, we have successfully completed our QIP raising INR870 crores, this placement received demand of around 7x, reflecting strong confidence from the investor community. The QIP attracted a diverse pool of top tier domestic and foreign institutional investors, reaffirming the market's belief in our robust business model and ability to capitalize on the growing demand across various sectors. The proceeds from this placement will enhance our financial flexibility, enabling us to focus on debt repayment, support our ongoing growth initiatives across our diverse business segments.

In our Cable business, we are happy to share that our Board has approved the transfer of our Cable business through business transfer agreement to KEC Asian Cables Limited, a subsidiary established for this purpose by KEC. We are currently in the process of obtaining the necessary approvals and aim to make this transfer effective by January 1, 2025. We are confident that this realignment of our business will drive superlative growth for our Cable business.

Now coming to the financial performance. We have achieved revenues of INR5,113 crores for the quarter, a healthy growth of 14% vis-à-vis Q2 last year. The strong growth has primarily been led by T&D. With this, we have achieved a revenue growth of 10% for H1.

We have also achieved a growth in EBITDA of 17% in Q2 and 18% in H1. Our EBITDA margins for Q2 increased by 20 basis points to 6.3%, up from 6.1% in Q2 FY '24, while H1 margins rose by 50 basis points from 6.4% from 5.9%. The performance could have been better, but for the continued shortage of manpower, heavy rainfalls in Gujarat and Rajasthan where most of the T&D projects are currently being executed and a deliberate slowdown of our water projects due to the payment issues, which we encountered from our client.

During the quarter, we have successfully reduced our interest expenses as a percentage of revenue by 70 basis points in Q2 and by 40 basis points in H1, resulting in an interest cost of 3.3% for Q2 and 3.4% for H1.

We have significantly enhanced our bottom line with PBT growth of 72% in Q2 and 100% in H1. PBT margins have increased by 70 basis points in Q2 to 2.2% vis-à-vis 1.5% last year and increased by 100 basis points in H1 to 2.3% vis-à-vis 1.3% last year. We have achieved a PAT of INR85 crores in Q2 and INR173 crores in H1.

In terms of order intake, we are pleased to share that we have achieved a record YTD order intake of INR13,500 crores, reflecting an impressive growth of 50% year-on-year. Notably, a substantial 70% of this order intake has been secured by our T&D business across India and international markets. Additionally, we hold a large L1 position of INR8,500 crores primarily in the T&D sector.

We are well positioned to exceed our order inflow guidance of INR25,000 crores for the year. We have a well-diversified and strong order book of over INR34,000 crores as on date. With this order book plus L1 position stands at a record level of over INR42,500 crores.

We continue to focus on our debt levels and balance sheet. Our net debt, including acceptances, stands at INR5,265 crores as of 30th September, a reduction of INR1,074 crores vis-à-vis September 30, '23. Even after excluding the inflows of QIP, the debt levels have been brought down despite a revenue growth of INR 2,000 crores, i.e. 12% in trailing 12 months.

Now talking about specific businesses. Our T&D business has achieved revenues of INR2,831 crores in the quarter, a stellar growth of 28% vis-à-vis Q2 last year. The growth has been delivered on the back of strong execution across projects, especially in India.

In terms of order intake, the business continues to witness substantial momentum with a staggering growth of 70% and YTD new orders of over INR9,000 crores across India, Middle East, Africa, Americas and Australia. We are pleased to share that the India T&D business has secured significant orders and L1 positions from PGCIL.

On the international front, the business secured multiple orders in the Middle East, particularly in Saudi Arabia, UAE and Oman, further solidifying our leadership position in that region. In SAE, the business achieved profitable revenues of INR317 crores for the quarter. In the first half of the year, we have repaid more than INR100 crores of high-cost debt through internal accruals to further reduce our debt level to around INR300 crores.

In a significant achievement, the business has secured its largest order for supply of substation structures in the United States of America. With this, the business has a strong order book and L1 position of over INR2,000 crores.

The overall tender pipeline in the T&D sector remains strong in both domestic and international markets. In India, the power T&D sector is currently experiencing exciting developments, particularly with the recent launch of the National Electricity Plan, which aims to facilitate substantial investments for the green energy transition.

The NEP outlines ambitious targets, including achieving 500 GW of installed renewable energy capacity by 2030 and 600 GW by 2032. This comprehensive plan emphasizes extensive upgrades to the transmission network with an estimated investment opportunity, exceeding INR9.15 lakh crores by 2032.

In international, we continue to witness opportunities across Middle East, Africa, CIS and Americas. It's a record order book and L1 in T&D of over INR26,000 crores and an increase in

the tendering activities across regions, the business is expected to gain further momentum and contribute significantly to the company's revenue and margins going forward.

Our Civil business has delivered revenues of INR1,152 crores, a growth of 9% vis-à-vis Q2 last year. As conveyed, the growth has been impacted by the continued labor shortage during the quarter. Additionally, execution in some water projects was slowed down, considering a delay in client payments. The business has strengthened its order book at multiple YTD orders of over INR1,200 crores in the industrial, residential and defense segments.

During the quarter, the business has expanded its portfolio with the addition of a prestigious new client in the metals and mining segment by securing an order for the civil and mechanical works for a steel plant in India. The business outlook remains healthy across segments with a robust and diversified order book of over INR10,000 crores. We are confident that civil will be a major growth driver for us also.

Our Railway business has achieved a revenue of INR503 crores for the quarter, de-growing by 35%. Now, business is progressing well on the completion of existing projects. I'm delighted to share that our Honorable Prime Minister Shri Narendra Modi recently inaugurated our phase 2 metro extension of the Ahmedabad Metro where KEC successfully installed 39 kilometers of ballastless trucks.

The business has secured new orders of over INR1,300 crores in the conventional and emerging areas of metros. These include a significant order in the emerging tunnel ventilation system in India. We continue to be selective on the order intake front, considering the margin profile and the working capital scenario of this business.

The government's sustained focus on strengthening infrastructure is expected to drive momentum in our Railway business going forward. We are already observing a rise in the announcement of Kavach tenders, which are crucial for enhancing railway safety and efficiency. Additionally, we are also actively pursuing some select opportunities in the international market.

In Oil & Gas Pipelines business, the business has delivered revenues of INR92 crores for Q2. The growth has been muted owing to a slowdown in tendering activities. However, the business is close to winning its second order for composite station works in Africa, in addition to the pipeline works under execution currently. The business continues to focus on international opportunities and on bringing required prequalifications to expand the size of the addressable market.

Our Cables business has achieved revenues of INR441 crores, a growth of 7% Y-on-Y. The business continues to maintain a sustained order booking momentum across diverse segments, including T&D, railways, metro, solar and metals.

In line with our strategic focus on increasing exports, we are excited to announce that we have secured an order for cable supply to the United States. The establishment of aluminum conductor manufacturing plant at Vadodara is in process and expected to be commissioned in this quarter.

To further strengthen our Cable business, we're investing a further INR90 crores towards e-beam and elastomeric cables. These products are designed to meet application-specific environments and incorporate advanced technologies to enhance efficiency. The production from this facility should commence in Q4 next year. This strategic entry into the new product segment will not only diversify our offering but also contribute significantly to our revenue and margin growth in cables.

In renewables, the business has commenced execution of its largest order for a 625-megawatt solar PV project in Rajasthan. Alongside this, we are also executing a 600-megawatt peak solar project in Karnataka and developing solar projects for a leading auto-ancillary company in India. This project has already been partially commissioned. The business has a strong order book of around INR1,300 crores.

In ESG, we continue to integrate industry-leading practices across all our operations, including factories and project sites. We are proud to announce that KEC has been ranked #1 in the infrastructure engineering sector and placed among the top 30 companies in India in business world's list of India's Most Sustainable Companies 2024. This recognition reflects our sustained dedication to ESG initiatives, which are integral to our operations.

Overall, we are pleased with our consistent revenue growth, traction in order intake and reduction in debt levels. While the margin ramp-up has been slightly slower than expected, we are confident of achieving the EBITDA margins of 9% to 10% by the exit of this financial year.

We extend our heartfelt gratitude to our stakeholders for their unwavering support and belief in KEC's growth story and capabilities. With the highest-ever order book plus L1 of over INR42,500 crores, combined with a substantial tender pipeline of INR1,50,000 crores approximately, we are well positioned to deliver sustained growth in the coming quarters. Thank you very much. We are now open to take questions.

Moderator: Thank you very much. The first question is from the line of Aditi from CD Equisearch Private Limited.

Aditi: Sir, my first question is why have you people not been able to fill up margins despite fairly good growth in execution?

Vimal Kejriwal: So I think Aditi, if you look at our margins, we had been predicting that we'll grow slowly, slowly. And every quarter-on-quarter, we are improving. So last quarter, we had some, I'll say, one time income, by which the EBITDA was 6.5%. If you normalize, it would have been 6.0%. We have grown to 6.3%. And we are still maintaining that we will be able to achieve the guidance of 7.5% for the year.

And the reason why, as I explained in my opening remarks, one is some of the newer projects in T&D, especially in Gujarat and Rajasthan, which are high margin, have got delayed because of severe rains, which I think is now subsided. So I think work on that has started, which is why we are saying that we'll have better margins in Q3, Q4.

Also on the Railway business, where we were expecting certain variation orders and claims, et cetera to come in, they have got delayed, and I think they should come in, in this quarter. Primarily, these are the two reasons why the margin ramp up is slightly slower than what we were expecting it to be.

Moderator: The next question is from the line of Vivek Ramakrishnan: from DSP Mutual Fund.

Vivek Ramakrishnan: Sir, congratulations on the improved performance and season's greetings to KEC team. My questions are 2. In terms of the legacy projects that were pulling down margins, could you just explain is there any few specific projects that would clear over the next 1, 2 quarters, which gives you confidence about the margins? And the labor shortage situation that you were talking about, whether that has indeed eased post-rain recently?

The second question is on the working capital. If you see, yes, year-on-year, it has decreased, but if you see from June onwards, despite the fact that there's been equity raise, it's kind of flattish, though I understand that the revenue growth has been solid. So is there any stuck receivables that can bring it down substantially in one go? Or is this the business as usual state for you?

Vimal Kejriwal: Thanks, Vivek. So let me try to answer all your questions one by one. So the first on the labor part, we had a shortage of, I think, around 7,000, 8,000 technicians or labor as we call them. We have been able to get around 4,000 by now. So I think we still have a shortage of around 4,000 workers, primarily in the civil -- a little bit in the transmission, but primarily, it would be in civil. But I think slowly and slowly, we are seeing workers returning. So hopefully, it should be behind us by now, okay? As far as -- sorry, your first question was on railways, right?

Vivek Ramakrishnan: No, legacy projects or railways, which were way you define it, sir.

Vimal Kejriwal: Yes, yes. So I think to me, what is happening on the railways is hopefully, by March or so, we should be able to complete almost all of our old projects and also execution has started on new projects. So last year, we had an order intake of INR2,000 crores. This year, around INR1,300 crores or INR1,400 crores already. And all those projects are at a decent margin, so execution of them is now starting.

So our expectation is that while we will not be, let's say, EBITDA neutral this year, but hopefully next year onwards, we should be okay, but the numbers are coming down. As I mentioned, last year, we did a revenue of around INR3,100 crores in railways. This year, we -- our target is INR2,500 crores. I think we'll reach INR2,500 crores, maybe INR100 crores or INR200 cores here and there. And next year, probably may be similar or even lower, but the quality of revenue will definitely start improving in terms of better margin projects being executed now.

And on working capital, I'll let Rajeev answer the question. Rajeev?

Rajeev Agarwal: Vivek, on the working capital front, as you see that although it is gradually coming down, but still we have some more, let's say, AR, which are -- let's say, long pending, which we are expecting and they are realizing. For example, Afghanistan has come down. We have already

received about INR400-odd crores. Still, there are about INR250 odd crores, which we expect to achieve within Q3 and Q4.

Similarly, in the earlier calls also, we have guided on the metro project, these are some of the back-ended cash flows are there. Now we are actually closing the project on the metro side. A couple of projects will get closed by December and March. And we will be able to bill a lot of back-end unbilled, so that we will realize. Similarly, let's say, receivables, maybe INR700 crores, INR800 crores or so, which we expect will get realized by end of the year. So that will actually help us to, one, reduce the debt level and also will finance additional work capital, which is required for achieving the growth of 15% for the year.

Vivek Ramakrishnan: Perfect, sir. Sir, could you just guide on the working capital days that you plan in terms of your business plans?

Vimal Kejriwal: So Vivek, that plan, as of now, remains at 100 days. So 100 days is what we are targeting by end of the year. And we are confident with the stuck receivables getting realized in the next couple of quarters and with a significant collections that we expect. And generally, if you look at the trend also, Vivek, first half, generally, the working capital goes up because of the heavy Q4, which payments generally get realized in Q1 and Q2 and the payment comes subsequently. Q3 and Q4, generally, we receive a lot of collections from the client, which help us to bring down our debt levels.

Moderator: The next question is from the line of Bhoomika Nair from DAM Capital. Please go ahead.

Bhoomika Nair: Sir, the first question is in terms of the margins that you spoke about, the second half seeing an improvement to about 9%, 10%. So what is driving this improvement? And do we see this trend of from 7.5% for the full year, that next year, we should be at around 10% kind of a margin profile?

Vimal Kejriwal: So Bhoomika, I don't think we are still talking about 10%, but we are definitely talking about a 9% to 10% next year, okay? So 9%, we should definitely achieve. Now whether we'll be able to achieve 10% or not, there's a little bit of a long shot, so I leave it at 9% to 10% for the time being.

And as far as H2 is concerned, I think there are going to be 2 factors. One is with the larger order inflow which we had from T&D, and if you look at Q1 -- sorry, H1, largely, it was from international. We have got a lot of L1s, etcetera, from Power Grid, but they will now get converted into orders, so we still have INR8,500 crores order L1 and largely in T&D.

So what happens in international is that international orders take a little bit of a time to kick start because of engineering and other, which are not there because in India, most of it is ready-made designs, etcetera. So what will happen is that in Q3, Q4, we expect a lot more increase in the revenues from T&D.

Also, on the part of supply chain because a lot of commitments have been made in Q3 and Q4 from our conductor suppliers, transformers, etc. So we do expect that there would be a ramp-up in revenues. We also expect that there would be some solution to the water payments. At least

one state has now paid off -- cleared off almost everything. We are only in two states. The second state, we are in discussion with them. So hopefully, that comes in. And those projects are at a significantly higher margin than the normal margins. So if we're able to -- and we expect that revenues for that will also start coming in.

And thirdly, as I was mentioning that many of our railway, I'll say, issues or whatever you want to call it, claims and variation orders, etc which some of it we were expecting in Q2 which will definitely come in Q3, etc. So the negativity from that part will come down. So I think these two or three factors would definitely improve our margins in H2.

Bhoomika Nair:

Okay. So the other part was on civil, if you see the order intake for the last year, while execution you elaborated the labor shortage, etc, but if I look at the order intake has also kind of been muted for the last couple of quarters. Sir, anything to read into it, what is the kind of order intake that we're looking at for the full year? How do you see this business evolving?

Currently, we obviously have a very strong order book, so it's not really a challenge, but more from a future perspective, if you can talk about what kind of growth are we looking at intake, execution, etc?

Vimal Kejriwal:

So I'll say Bhoomika, part of it is deliberate the slowing down. We expect that we should be between INR4,000 crores to INR5,000 crores of order intake in Civil for this year. We already have a couple of more L1s. So I think hopefully, this should get converted very quickly. Now I think the major reason why you're seeing a slowdown is that we have sort of stayed away or quoted very high on larger projects, let's say, metros and I'll say we stayed away from water till the problems are getting resolved.

So basically, if you look at most -- in fact, almost all the orders have come in either from defense or residential or industrial. So I'll say even out of government spending for the time being. That's one of the primary reason. Secondly, with the cash flows and the borrowing and all that, we really started focusing more on projects where the cash flows are significantly front-ended rather than back-ended. So that also sort of constrained our tender as a horizon. Slowly, we are seeing the residential and industrial coming back and you will start seeing a lot more ordering happening in civil, but I don't think we'll go beyond, let's say, INR5,000 crores for the full year.

The other part of this civil is that if you look at our conversion, we have an order book of INR10,000 crores. We're talking about INR5,500 crores of revenue. So it's less than INR2,000 crores as compared to other people who are doing INR3,000 crores, INR3,500 crores, INR4,000 crores etc. So we've been very particular about the length of the time line for execution of projects. So most of our projects we have been focusing on are less than 24 months, which is what also puts a little bit of a constraint on our order intake.

Bhoomika Nair:

Sure. Sir, if I may just squeeze in one last question on T&D, it's been a very strong 1H in terms of order intake and outlook also remains very strong. How are you seeing the competitive intensity in recent bids, if you can just talk about that? And can we possibly maintain close to the double-digit kind of margin profile per se that we are seeing out there? That's it, and I'll come back in the queue.

- Vimal Kejriwal:** So Bhoomika, we have not seen any change in the competitive intensity. It remains, I'll say, slightly low than what it was what has been historically. Typically, the same four, five, six players who are there in all these larger bids. Smaller bids, obviously, we have been staying out where you've got more players, but there you have another two or three players. So I think what we have seen is Power Grid has become pretty strict on the -- I'll say, the bidders they want because they time lines are getting squeezed.
- I've got a couple of projects from Power Grid, which are now 12 months, 15 months. So I think we are very particular about it. So the competitive intensity stays where it is, I'll say, relatively on the lower side and which will definitely help in the margins.
- Bhoomika Nair:** Sure. Okay sir. Thanks so much.
- Moderator:** Thank you. The next question is from the line of Vaibhav Shah from JM Financial Limited. Please go ahead.
- Vaibhav Shah:** Thanks for the opportunity. Sir, realistically, what kind of order inflows can we target for FY '25? Can it be INR27,000 crores, INR28,000 crores, given the strong YTD position?
- Vimal Kejriwal:** So Vaibhav, we have talked about INR25,000 crores. And I think we are happy to sort of remain at around INR25,000 crores because what also happens is that we have seen that we really want to improve the quality of our order intake. So although getting to INR28,000 crores is not difficult, but then maybe we'll have to relax somewhere what I was talking about cash flow and other margin constraint, etc. So I think right now, with the sort of boundary lines which we have, I would prefer stick to INR25,000 crores. We'll see.
- Vaibhav Shah:** Okay. And sir, secondly, on the T&D margins, so when do we expect them to reach closer to double-digit like it was maybe 3, 4 years back in the T&D business? And what are the margins currently ballpark range would do?
- Vimal Kejriwal:** So I think by Q4, we should be in double-digit in T&D, okay?
- Vaibhav Shah:** Okay. And sir, lastly, on the interest cost side, so we saw a sharp rise in the second quarter on a Q-o-Q basis. So for the entire year, what are we targeting in terms of interest as a percentage of sales?
- Rajeev Agarwal:** So Vaibhav, we had guided earlier to about 2.7%, 2.8% of the interest cost for the full year. Now with the QIP having been done, I think we should be looking at somewhere around 2.5% interest cost for the full year.
- Vaibhav Shah:** So in the first half, it's around INR320-odd crores, there should be a sharp reduction in the second half, right?
- Rajeev Agarwal:** That's correct. Because we raised the QIP and we repaid the borrowing on the last day of the quarter.
- Vaibhav Shah:** And what are we targeting in terms of net debt with acceptances as of March '25?

- Rajeev Agarwal:** I think it should be somewhere around between INR4,000 crores to INR4,500 crores, somewhere between that because second half we are also expecting a large revenue to achieve our target of 15%. So I think we are somewhere looking at a revenue of INR13,000 crores to accrue in the H2. But despite that, I think we should be, as I guided earlier, we are targeting for a NWC days of about 100 days from the current number of about 130 and the interest cost will definitely come down.
- Vaibhav Shah:** Okay. And sir, lastly, on the revenue side, can we expect a similar growth in FY '26 or it can be even higher given the funds we have raised now?
- Vimal Kejriwal:** So Vaibhav, higher is difficult to say right now, but I think 15% will definitely happen because we have an order book of INR42,000 crores. So I don't see any major concerns in at least maintaining 15%. Whether it'll be more or less, we'll probably decide closer to the start of the year.
- Vaibhav Shah:** Thank you sir. Those are my questions.
- Moderator:** Thank you. The next question is from the line of Priyankar Biswas from BNP Paribas Mutual Fund.
- Priyankar Biswas:** Thank you for the opportunity and Happy Diwali. So first of all, I saw in the presentation that you have mentioned about a prospect base of something like INR1,50,000 crores. So can you throw some more color that how would it be split between, let's say, T&D India, international and other segments? So that's my first one.
- Vimal Kejriwal:** Okay. And what was the second one, let me just get the papers out.
- Priyankar Biswas:** Sir, in T&D, I remember your past commentary that there were emerging some equipment shortage that you are highlighting, particularly on transformers and those and yet we are seeing that the revenue run rates are quite good as well despite the monsoons that has happened. So what are the mitigation measures that you are taking or is there some easing of this shortage that you had earlier mentioned?
- Vimal Kejriwal:** I think easing will start happening now because capacities are getting added now slowly, slowly. So I don't say easing has happened, but what is happening is that the numbers which we are talking about like you asked 15% revenue it will be more or less and all that. So right now, the numbers which we are factoring in and the orders which we are taking, is now taking into account the elongated delivery cycle.
- It is one of the reasons why in spite of getting so much of orders, the revenue has not picked up in the way it should have picked up in T&D because of, I'll say -- I will not now use the word shortage, but still I think, a stretch on the conductor side or on the transformer side or GIS, it's improving because the capacity is going up and people are now planning according to the available capacity.

So if you look at some of the recent projects which we are winning, a couple of them, I'm seeing substations at 24 months because people are accounting saying that the transfer will not come before 15 months. So that those things are happening, which is pushing the execution cycle slightly, but it's now not delaying a project according from the schedule.

Priyankar Biswas:

Okay, sir. That's very clear on that. And if I can just squeeze one more in. So we were discussing about the railways, these new orders that has been taken. Is it safe to assume that the past issues that we had on EPC-based contracts about those milestone-linked cash flow, milestone-linked payments? Are these resolved or in the new contracts? Are the terms materially different for railways specifically?

Vimal Kejriwal:

Yes. So Priyankar, let me answer it in the three or four different parts. So one is we have now started looking at seriously taking orders where we do not have to work on the live tracks. It's like ROW in T&D. So in short, getting into ROW, we are now trying to work on contracts where I don't have to -- I'm not too much dependent on block. There will be some block requirement, but it's not that my entire contract would depend upon the divisional railway giving me blocks or not giving me blocks. So that's one major.

So if you see most of our orders now, we took -- we are now bidding for Kavach. We took tunnel ventilation, which has new lines. We have taken one doubling which is on a new line, okay or a gauge conversion. So we took some BLT projects in metro. So these are not dependent upon the railway division giving me blocks or not blocks. So we do expect that major losses which have happened in the account of prolongation of the existing time line, so that is one clear view.

Second thing, what we have seen is that after a lot of representation, persuasion, etc railways, even though some of the divisions continue with EPC, some of them have shifted to BOQ. In the EPC contracts now many of the contracts now provide for payment for supplies once they are made. So without waiting for milestones, at least 70% to 80% or maybe 90% money you get against your supplies rather than completion of this. So I think those are two factors.

Third is, I think, by now railways are also understanding the divisions on how the EPC contracts operate and we are also understanding how railways are interpreting EPC contracts. So that return of experience is also coming in. Although we are very particular that we are staying away from any contract where the payments are significantly dependent as happened in the last 2 years.

Priyankar Biswas:

Okay, sir. And sir, last question from my side other than the prospect that I asked. See, what I see that in the Middle East, particularly, there are a lot of large-sized -- large gigawatt-sized solar projects coming up. And I do not see any places that you are participating in that. So is it a conscious decision or do you want to participate in those sometime in the future because you are already there doing T&D projects?

Vimal Kejriwal:

No, I think it's a conscious decision right now to stay away from them. I think what we want to do, Priyankar, is we want to build our capabilities in India. So we are doing right now two large projects. Both of them are almost 600 and 625 megawatts. We will see what is to be done. See, the issue what we are seeing in -- and you are aware of what happened to one of our large

competitors in solar, is that some of these large contracts have got very heavy penalties, and many of them also have the risk of module purchases.

Most of the international contracts have modules in the scope of the contractor. We have generally been -- I'll say they've been staying away from that risk. So right now, it's a very conscious call. Tomorrow, it may change that we may decide to do something, but I don't think that will happen in the near future. Also, I think our T&D business is going very well. So I really don't want to dilute what is happening because at 15%, 20% growth and all that with the current businesses, I think we are happy with what is happening rather than taking on more large value risky projects. I'll put it that way.

- Priyankar Biswas:** Okay. And sir, if you can give me the prospect breakdown that I asked in the first question?
- Vimal Kejriwal:** Okay. So basically, if you look at the numbers, we have been talking about, I'll say, around 56 - almost INR60,000 crores of these numbers are coming from the T&D and another INR15,000 crores, INR16,000 crores is coming from railways, and INR50,000 crores and odd are coming from civil and INR15,000 crores and odd are coming from -- between emerging, what we call renewables and oil and gas. So those are very broad numbers. But if you want -- so T&D would be around 40%, non-T&D would be around 60%.
- Priyankar Biswas:** Okay sir. That's extremely clear. Thank you so much. That was all from my side.
- Moderator:** Thank you. The next question is from the line of Chinmay Kabra from Emkay Global Financial Services. Please go ahead.
- Chinmay Kabra:** My first question is I just wanted to understand or confirm the nature of the transaction that led to Q2 FY '24 tax rates coming at 15% in comparison to Y-o-Y 25%?
- Vimal Kejriwal:** So I think to me, it's 15% was there because a large part of our revenues and if you look at our standalone and consolidated we have been having a significant amount of revenue and profits coming out of our Middle East operations, which were not taxed earlier. Now that we have -- Rajeev, 9% tax. So now that we have a 9% tax in UAE where our factory and our subsidiaries are located, that's one of the major reasons.
- The second reason is that the SAE profitability has been going up. And in SAE, the tax rates are around 33%. So those are the two reasons. There's no one-off or anything else why the rates were lower. I think this is what is there.
- Chinmay Kabra:** Understood. So can we assume this 25% to be the rate going forward or any ballpark range for this?
- Rajeev Agarwal:** Yes, I think Chinmay, around 23%, 24% should be the rate going forward. That's pretty stabilized. We will have the benefit of some UAE low taxation and India rate is about 25%. So somewhere around between 22% to 24% is what I believe should be a stable tax rate going forward.

- Chinmay Kabra:** Understood, sir. My second question was since we did the QIP during Q2 FY '25, what -- and we did pay off the debt like you mentioned on approximately the last day of the quarter. So just wanted to understand the other income has seen quite a significant dip on a Y-o-Y basis. So just wanted to understand what could be the reason for the same?
- Rajeev Agarwal:** So basically, if you're comparing with the quarter 1, then, Chinmay, it was in the...
- Vimal Kejriwal:** Year-on-year.
- Rajeev Agarwal:** Year-on-year, I think last year, there were some arbitration awards and also the income tax refund. So the interest on the income tax refund and also there was an arbitration award from the very long due that came and there was almost INR12 crores, INR13 crores interest, which was awarded to us.
- Chinmay Kabra:** Understood. So what could be the run rate going ahead for H2 FY '25?
- Rajeev Agarwal:** See, other income I don't think we can really give you any sort of a guidance. These are more of a one-off. Normal other income is, let's say INR5 crores to INR7 crores in a quarter.
- Vimal Kejriwal:** It should be around INR20 crores to INR25 crores in a year.
- Rajeev Agarwal:** INR20 crores to INR25 crores in normal other income.
- Chinmay Kabra:** Fair enough sir. Those are my questions. Thank you.
- Moderator:** Thank you. The next question is from the line of Arafat Saiyed from Incred Research. Please go ahead.
- Arafat Saiyed:** Hi and thanks for taking my question. Sir, my first question is on the tender pipeline you discussed. Let's say, out of INR1,50,000 crores of pipeline what is our expected win ratio for the current pipeline and also how it was in the past?
- Vimal Kejriwal:** So typically, depending upon the business, it varies between 10% to 20%. Ideally, if you want to take an average 15% is what you can take, but it is between -- around 10%, 12%, 15%, it depends, it keeps on changing, but ballpark would be 15%.
- Arafat Saiyed:** Okay. Got it. And sir, second question is on margin profile. Let's say, can you just break up the margin profile to T&D and non-T&D? I believe the margin was, let's say, around 10% in the past. It's now come down to below 10%. So can you give us any ballpark figure on the margin, which was for, let's say, across segment especially T&D and non-T&D?
- Vimal Kejriwal:** I don't think we have been giving segmental margins, but T&D, I just now mentioned that in Q4, we expect it to touch a double-digit margin. Non-T&D business overall has been less than 5%.
- Arafat Saiyed:** Okay. Got it sir. Thanks.
- Moderator:** The next question is from the line of Prem Khurana from Anand Rath. Please go ahead.

Prem Khurana:

So I have three questions. To begin with, if you could talk a little bit about the Cable business because I mean when I look at the revenue, it's been largely flat on a Y-o-Y basis. And even the margins on a Y-o-Y basis seem to be on a softer side. And I think our efforts with -- wherein I mean, we intend to kind of hive up this business into a separate subsidiary, wherein the numbers could change materially because I mean they'll be much more focus on this business.

What -- I mean once this exercise is done and you've been able to kind of transfer it to the subsidiary, what sort of growth would you envisage with the Cable business? And if you could also talk about the margin profile please, because it seems that we've come down some 5% in the Cables now?

Vimal Kejriwal:

So Prem, I think the way we are looking at it is that we have -- I talked about 4 major investments which we are doing. One has already been completed. So the conductor business should start -- I think we're just starting the first dispatch in this month itself, probably. So the way we are looking at is that, that capex will generate revenues of around INR600 crores. Part of it, obviously, will come this year, maybe INR200 crores, INR150 crores, I don't know how much will come, but roughly around INR200 crores should come this year.

But next year, in FY '26, we will have the full INR600 crores of revenue into our balance sheet or into our Cable revenues. And then we are setting up an e-beam facility and also elastomeric cables, etcetera. So that revenue also is expected to be around INR600 crores to INR650 crores. The full impact of that will come in, in FY '27. So by end of FY '27, we expect INR600 crores plus INR650 crores, so INR1,250 crores plus, let's say, we did INR1,700 crores and probably we'll do some -- a little bit more in the growth.

So we should be around INR2,800 crores, INR2,900 crores of revenue in FY '27. So that's as far as the revenue is concerned. Margins, obviously, with conductors being in short supply, the margins on conductors and also the products of e-beam definitely command a higher margin and also a lower cost. So we expect that the margins or EBITDA on these should go up to 7.5% to 8% in FY '27. That is what our target is for Cables.

Prem Khurana:

Sure, sir. And sir, on civil side, you spoke about, I mean, your reservation in terms of the sort of competition that you have, which is why you're being selective. How about private sector? I mean we've seen you go and bid for some of these residential real estate projects, commercial real estate developments. I think I mean the way it's been with the real estate cycle, it seems that there's a lot of opportunity and that too from branded developers because branded seems to be selling better.

So -- and when you give us that pipeline of INR15,000 crores is on civil side, how much of this would you say, I mean is it essentially from the private sector and you would be kind of willing to go and consider that? Or I mean you plan to kind of go a little slow on that segment for some time, understand the way it works and then decide? Because your guided order inflow for the segment INR4,000 crores, INR5,000 crores would be somewhat in line with what you're planning to execute.

So you would not have buffer for the next year in terms of even if you want to grow, we're not creating that sort of buffer for civil?

Vimal Kejriwal:

So if you look at the tender pipeline for all, right now, between B&F, the tender pipeline, which we have is around INR13,000 crores, okay? So you can look at -- let's say, I talked about 15% and all that, so if you put INR13,000 crores, 15% is what roughly INR2,000 crores. So that's why we are saying that our order intake should be around INR4,000 crores to INR5,000 crores.

There are other places also, including defense and data centers, etcetera. Maybe we may pick up our water project if payment starts happening. But broadly, the B&F is around INR13,000 crores. That's the pipeline as of today.

Prem Khurana:

Sure. And how would the competition be with these because these would be essentially wherein -- I mean not necessarily these would be L1-based bidding as far as the real estate or the data center concern you?

Vimal Kejriwal:

So what happens in the real estate is that we work only with maybe 4 or 5 or maybe 6 reputed developers. And the way it happens is that most of them or all of them know exactly what is your cost and everything. So although it is not L1 and all, it's a very knowledgeable customer who we are dealing with when a customer who knows your costs and he knows his own costs, etcetera. So while real estate would give you, I'd say, in a way, sort of a risk-free margin because you know exactly what the costs are.

And most of the costs are passed through, steel and cement is always on actuals with all these developers. However, you will not be able to make any abnormal profits because they will not let you tell because they know exactly what your cost and all that. So real estate would give you a steady income but not -- I'll say, not high profits, okay? You want to do 7%, 8% of margin or 9%, so then that's where your real estate would be. In the real estate, you've 15%, it will not give.

Industrial is a different ballgame where there are one-off projects and all that and especially if you are doing EPC projects. On Industrial, the margins could vary depending upon the efficiency of your execution and your engineering.

Prem Khurana:

Sure, sir. And sir, just one last from my side. On last when you spoke, I mean you spoke about Kavach and you were not sure of the time line in terms of when would these tenders come out. Any clarity now and by when would we get to have these tenders come out in our interest?

Vimal Kejriwal:

So I don't have the exact number, but I think 8 or 10 tenders have already been issued, and I think we have bid for 4 or 5 of them, okay? However, what has happened in Kavach is different divisions are taking different, I'll say, way out. So some of them are still coming on the old style where it's supply and construction altogether.

In a couple of places, they have bifurcated the 2 where they're saying, let the OEMs make the supplies and someone else will come and get. So obviously, we are not bidding for those ones. But for the consolidated ones, I think we have put in 4 or 5 bids. I don't have the exact number, but a few bids have happened in the last 2 or 3 weeks.

Moderator: The next question is from the line of Anuj Upadhyay: from Investec.

Anuj Upadhyay: Sir, my question relates to the T&D pipeline. We have been hearing that it's closer to around INR 80,000 crores or INR 1 lakh crores of opportunity is lying ahead. But are we seeing any kind of a delay, especially in terms of the tendering, which is happening towards the PGCIL side, because we are the subcontractor, so when it gets to the PGCIL, then the flow of order comes to us. But is there any kind of a delay which has been happening because it's been quite some time we are hearing similar kind of a number, but the rate at which the orders should have happened, it's not happening.

Vimal Kejriwal: So I think what happens is it's not as much as PGCIL as what we call the BPCs and all that, that's REC and PFC pushing, getting their approvals and then awarding or transferring the SPVs to either PGCIL or the private sector. So whatever time takes -- like, for example, if you take the Rajasthan HVDC, that's not been awarded. There has been a retendering now and I think today or tomorrow is RA for that. So there are projects which get delayed at that level.

However, once the projects are finalized and awarded to the developer, then the zero date is already fixed for the developer. So it is not in his interest to delay the award to the contractors. Otherwise, the project will get delayed because for me, the project is actually 15 months or 18 months from the day I get my LOA. So I don't see any deliberate delay happening.

Yes, PGCIL being a PSU has to follow its own processes, etcetera, approval, so that may take sometimes a little bit extra time, but I think I'm not seeing anything significant happening. There are various approvals which are there with them. And once they get it, they issue it.

Anuj Upadhyay: Okay. So this INR60,000 crores or INR80,000 crores opportunity, which we are discussing, should happen over the next 1 year's time period, the bidding at least should have happened over the next 1 year time period. Is my assessment correct, sir?

Vimal Kejriwal: No, it is not correct because when we give you the number of INR60,000 crores and all that, that's typically for the next quarter, whatever is available with us, okay? This is not on the blue sky saying that in a year how much happened. This is a tender pipeline which is there today or where we are aware that it will happen in the next 3 months or so, okay? This also includes some tenders, which we have already quoted, but where they have not been opened, okay?

So when I say tender pipeline of INR60,000 crores, there are tenders which we have to quote and also tenders which we have quoted but not decided.

Anuj Upadhyay: Helpful, sir. And anything on the SAE side, sir, even there, the order intake has gone up. So just want to get your thoughts on how the market over there is flourishing?

Vimal Kejriwal: So SAE, if you look at, Brazil is doing well. We have got a lot of L1s now in Brazil based on the last auction. So I think next year onwards, the numbers will start picking up more, but I think you have to be very clear that it's a factory, so it cannot produce more than what it is. So growth in SAE would be limited, but it's doing well. On the Mexico side, I think today, the elections are happening.

So let's see what happens on the US side and how the -- who comes in and what is the impact of that on the -- one is on the US-Mexico relationships and second is on the US ordering, okay? But the good part is that after the new President has come in, in Mexico, we are seeing a lot of action happening in Mexico itself. So I'm very confident that the revenues from Mexico would start picking up also next year.

Moderator:

The next question is from the line of Uttam Kapoor from Axis Securities Limited.

Uttam Kapoor:

Sir, my questions pertains to our Oil & Gas business. So if you see from last to this year on half year basis, there has been a decline of 29% in revenue, so any reason for that? And how do we see the entire year for this year because last year, we had done around INR626 crores of revenue in Oil & Gas?

Vimal Kejriwal:

I think that business has been a bit of a disappointment in terms of the tender pipeline as well as the order intake. What has happened is that because the tender pipeline has come down, we are seeing a lot many players in each of the tender. And also, we were hoping that these tenders will be converted into supply plus construction. However, for whatever reason, we are still seeing only construction tenders coming out, which means the size of the contracts are still INR1,500 crores, is not what we had thought INR500 crores, INR600 crores.

So a lot of, what you call, your city gas players and other contractors are also bidding. So the business has not been growing, which is why we then decided to focus on international, and we got our first order, and we are now about to get our second order. We have also been prequalified in Saudi Aramco, we are working -- trying to get prequalified with ADNOC, etcetera. So to me, I think the growth in this business will happen only on the international side.

But coming back to India, I think we are seeing a lot of inquiries from slurry pipelines for all the steel mills. And we are right now doing one very large slurry pipeline project. And we are bidding for, I think, a couple of more for the private sector right now. I think they should be decided. And that -- if that comes, that could add a significant amount of revenue to Oil & Gas. Otherwise, Oil & Gas India will continue at a flattish rate unless we are able to break through more in the international market.

Uttam Kapoor:

And sir, what is your capex guidance for FY '26 for this year?

Vimal Kejriwal:

Capex, typically, we've been spending around INR300 crores, INR350 crores, okay? Next year, maybe probably INR400 crores because of that INR90 crores what we talked about in the Cable side. So that we are in any case expanding, so it should be around that much. See what is also happening is that on the civil side, we have been doing around INR200 crores every year. So the civil may come down slightly next year because we are already building up a large quality of capital items.

Moderator:

The next question is from the line of Harshal Mehta from Smart Sync Services.

Harshal Mehta:

Congratulations sir for a great set of numbers and solid order book, first of all. Sir, can you give some -- yes, sir, so can you give some updates on our existing 2 Kavach projects? As in how

much of them are finished or any rough percent -- in rough percentage terms? And also by when it can be finished?

Vimal Kejriwal:

Honestly, I don't have any numbers right now, but I know that I think 40% or 50% has been completed and commissioned, okay? Balance is under completion. I don't think I have a deadline or time line for that right now because you're aware that they supply chain issue in Kavach is very severe. There are only very few players and the capacities are limited. But I think it should get over the next couple of months now. And we have already finished. I think it was 40% a few months back, maybe 50%, 60% by now. Might be finished in three or four months.

Harshal Mehta:

And also, if you can explain -- you clearly mentioned that the new set of tenders that are coming in for Kavach, they are having 2 different set of biddings, as an OEM side will be different and the EPC side will be different. But our existing billing process, if you can explain that, specifically to this Kavach project, the payment that we are getting or that we will be getting will be directly from railways or we'll be getting from our JV partners and they will be getting from railways?

Vimal Kejriwal:

Rajeev, any idea?

Rajeev Agarwal:

I think we can directly...

Vimal Kejriwal:

I honestly do not know. I'll come back to you. But I think it's a joint bid. So I think our payments are coming directly because the scope of work is very well defined, okay? Honestly, I cannot tell you a straight answer right now. But I think it's coming to us directly because we have our scope very well defined clearly. And to correct you on the first one, what I had said was that some of the divisions are issuing the consolidated tenders, some of the divisions, they've been breaking up, okay? So it's not that all the tenders are coming as the tenders.

Moderator:

The next question is from the line of Saket Kapoor from Kapoor & Company.

Saket Kapoor:

Sir, firstly, I have only -- I seek few clarifications. Firstly, you mentioned about the gas pipeline part of the story not gaining traction domestically, so could we allude to the reason why is that the reason? And are we going through the gas pipeline EPC through spur infra only? That is what our arm is for the same? And secondly, towards this Kavach opportunity part also, sir, what is the scope of work that comes under the Kavach?

Is it regarding laying out of network also, the network connectivity, in terms of the Internet connectivity that wherein are we playing any role? And thirdly, sir, BharatNet Project, we were not one of the bidders there. Have you -- have we evaluated that part of the story? Because that also provides a huge scope of work in the telecom network and also with lots of work that are played by the EPC players. So these were my three understanding.

Vimal Kejriwal:

So Saket Ji, as far as BharatNet is concerned, we have sort of stayed away from telecom EPC, but we have been suppliers. In fact, last year and someone has asked a question why your cable revenues have not grown as much as they are? Because, last year, we had a very large revenue

coming out of our optical fiber, which we supplied to the network, which was set up in Tamil Nadu, okay?

Unfortunately, the margins on all are a bit of a problem and plus competition, this is a difficult business and whether with low margins. So we have consciously stayed away from BharatNet, but as and when it is getting done, we will definitely be there to supply some of it. That's as far as the BharatNet is concerned. As far as Oil & Gas is concerned, yes, we are only on the infra part of it. We are not in the city gas and all.

And when I mentioned city gas and all, my mention was because we saw a lot of contractors from the city gas side coming into the infra gas side and causing a drop in the prices and margins. So that was the context of this. What else did you ask?

Saket Kapoor:

I asked about the opportunity in Kavach. What is the network aspect in it and what is the scope of work exactly in Kavach what we play in. Because I think the network is -- too is the biggest one.

Vimal Kejriwal:

So what is happening in Kavach right now is that, let me explain whatever I know about it. One is you have your Kavach equipment installed in the locomotives, then they are installed at the stations and then they are installed along the track, okay? So that all 3 of them talk to each other and the locos can talk to each other also. So what typically happens, sir, is that the installation in the loco and the installation in the station of the Kavach-specific equipments are done by our Kavach partner.

And the rest of the work, which is along the track and including in the stations also on the communication like how you just mentioned, all that is done by us. And also, what happens is many of them have got -- all these always have structures. You get poles near the railway track where communication happens. The current or whatever you want to call it, when a train passes, the messages get relayed from the tracks into that pole.

And then into the station and to the locomotive. So we have a role to play in all of that. We are also there along with the equipment vendor sometimes to install the equipment also, but that is primarily the job of the equipment vendor to work on the locomotive and on the station cabins.

Saket Kapoor:

So, there will be an OFC play out in this, and what is our current capacity of optic fibers cables?

Vimal Kejriwal:

I have not seen OFC in this because this is based on GSM and all that. It's a GSM-1, it works on the tower, so it doesn't require OFC.

Saket Kapoor:

Okay, and what is our current capacity? You alluded to the fact...

Vimal Kejriwal:

There is no capacity issue in this, this is a normal EPC work for us. The issue is on the equipment suppliers...

Saket Kapoor:

Let me clarify last, you mentioned that last year, we supplied a large OFC cable to one of the telecom players. So what is our current capacity here? And how -- what is our utilization level?

- Vimal Kejriwal:** We can do around INR10 crores per month. Utilization right now would be 30%, 40%.
- Saket Kapoor:** Okay, sir. And lastly, on the QIP part of the story, sir, you mentioned that we had 7x to 8x the book being subscribed. So the main purpose was to get the cash flow done or was it regarding the capex in the Cable segment to fund that, what was the main purpose and why did not we, sir -- we up the issuance value at this time and take advantage of the participation there?
- Vimal Kejriwal:** I think we are very clear that we wanted to use it for debt repayment. And the size is what was decided by the Board and said that we -- see, look we don't have a big capex. And we are pretty okay. And I think with our margins going up, we are also very sure that we'll be able to generate our own cash flows. So we did not want to dilute the equity shareholders too much by raising fresh equity. We did not do it in 20 years, we did it for the first time. And we didn't want to do it more.
- I think that was the idea where we wanted to have restricted this. The only reason why we did it is that because we did feel that bankers were getting a stretch that all these money is put by us, you should bring your own and invest. And it was done more for the bankers than for ourselves. That was the whole idea...
- Saket Kapoor:** Sir, in the last point, you commented on the water infrastructure that there are payment issuances and all are coming. Sir, these are all state agencies and centrally funded projects. So, where exactly are you seeing the problem in this and what code correction is expected for creating the water infrastructure? If you could just explain, sir.
- Vimal Kejriwal:** There is a ratio between the state and central. Some have 40% of the state, some have 50%, some have 60% and the rest is given by the central. So, what we are seeing is a significant mismatch in the timings. When the central government gives money and the state does not have money, then the central does not allow it to be dispersed. When the state has money, I saw that it is not coming from the central.
- So, because of the budget, the central did not give money for 4-5 months. Now that the central has started giving money, the state has used its quota. So, there is a little mismatch. I think in a month or so -- so in some states, I understand there is MP, UP, where this mismatch has gone wrong. So, those are the states where the mismatch is going on. But I think it is a matter of time that this mismatch will get settled. Because ultimately, NAL to JAL is a big government program.
- They also like electricity, they want water in every house. So, it is a matter of time that these differences will get resolved between the state and central and money will start coming into all the contractors.
- Saket Kapoor:** Absolutely. River Linking is also coming up in a big way. So, that is I think where we will have an opportunity.
- Vimal Kejriwal:** There are many opportunities. Let us see what opportunities come up.



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

Vimal Kejriwal: Thank you, everyone, for your continued interest in KEC. Thank you.

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