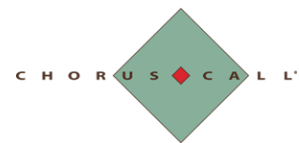




“KEC International Limited  
Q4 FY '23 Results Conference Call”

May 04, 2023



**MANAGEMENT: MR. VIMAL KEJRIWAL - MANAGING DIRECTOR AND  
CHIEF EXECUTIVE OFFICER – KEC INTERNATIONAL  
LIMITED  
MR. RAJEEV AGARWAL – CHIEF FINANCIAL OFFICER  
– KEC INTERNATIONAL LIMITED**



**Moderator:**

Ladies and gentlemen, good morning, and welcome to the KEC International Limited Q4 FY '23 Results Conference Call. We have with us today from the management, Mr. Vimal Kejriwal, Managing Director and Chief Executive Officer; and Mr. Rajeev Agarwal, Chief Financial Officer.

As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded. Please note that this conference is being recorded.

I now hand the conference over to Mr. Vimal Kejriwal, Managing Director and Chief Executive Officer. Thank you, and over to you, Mr. Kejriwal.

**Vimal Kejriwal:**

Thank you, Neerav. Good morning to all of you. I welcome you all to the Q4 earnings call of KEC. Let me start with an update on the overall performance and thereafter talk about each of the respective businesses and key strategic initiatives. The year commenced with unprecedented volatility in commodity prices and freight rates owing to the Russia-Ukraine conflict ended with a weak global outlook, characterized by a fear of recession, high inflation and high interest rates. Fortunately, in the second half of the year, commodity prices stabilized and freight rates have come down to almost pre-COVID levels.

Notwithstanding these challenges, we have delivered a notable performance by achieving highest ever revenues, highest ever order intake, considerable improvement in working capital and successfully accomplishing quite a few strategic initiatives across businesses. Our robust order book and geographical and business portfolio diversification is paying off well in the current environment and will be reflected in our performance in the coming periods.

We have delivered a robust revenue growth of 29%, with the highest ever quarterly revenues of INR5,525 crores in Q4. Our T&D, Civil and Oil & Gas businesses have delivered strong performances during the quarter. The margins for the quarter improved by 50 basis points, vis-a-vis, Q3 FY '23 to 5.1%. We've issued a PBT margin of 1.6% and PAT margin of 1.3%.

I'm pleased to share that in SAE Brazil, the business has delivered a positive EBITDA for Q4. We have successfully refinanced a part of the local loan in that entity and on track to refinance the balance loans. We secured orders of over INR7,000 crores in Q4, a staggering growth of over 50%, vis-a-vis, Q4 last year. Orders have been largely contributed by the T&D and Civil businesses.

Coming on to the annual performance. We have delivered a robust revenue growth of 26% with the highest ever revenues of INR17,282 crores for the full year. The growth is backed by healthy execution in both T&D and non-T&D businesses. We have delivered EBITDA margins of 4.8% and PAT margin of 1% for the full year.



As conveyed earlier, the margins for the last 2 quarters have improved sequentially from 4.4% to 5.1%. However, the overall margins for the year are lower due to adverse commodity prices, higher logistic costs and SAE Brazil EPC performance. We continue to witness significant traction in order intake. Our order intake for the year FY '23 stands at a record level of INR 22,378 crores, staggering growth of 30% over last year.

The order intake has largely been contributed by our T&D, Civil and Railway businesses, followed by Cables and Oil & Gas. The traction in order intake has enhanced our closing order book as of March 31 to an all-time high of INR 30,553 crores, a robust growth of 29%, vis-a-vis, last year. Additionally, we have an L1 position of over INR3,500 crores diversified across businesses. With this our order book plus L1 stands at over INR34,000 crores, which has largely divided equally between T&D and non-T&D businesses. We are happy that the order intake trend is continuing in FY '24 with new orders of INR1,070 crores announced last week.

Our focus on cash flows and working capital stands unabated. With dedicated efforts, we have brought down our net debt, including acceptances by ~INR1,100 crores in the last 3 quarters against our guidance of INR500 crores reduction. Our debt level, including acceptances stands below INR5,000 crores at INR4,985 crores as on March 31, '23, largely at the same level as last year, despite an increase in revenue of over INR3,500 crores, a growth of 26% year-on-year.

We have brought down our net working capital to 118 days. As of March 31, a reduction of 19 days, vis-a-vis, March 31, '22, against a peak networking capital of 148 days in September '22. We are confident of a further improvement in working capital going forward. The interest cost stands at 3.1% of the sales for the year, owing to the steep increase in interest rates, both in SAE Brazil, as well as in India and the elevated debt levels.

We are confident that we will be able to reduce the same by close to 50 basis points in FY '24 based on the reduction in the debt levels achieved in Q4 and the refinancing of the Brazil loans going forward. The Board of Directors have decided to recommend at EBITDA 150%, that is INR3 per equity share on the face value of INR2.

Now talking about specific businesses. Our core T&D business has achieved revenues of INR8,809 crores for the year, a stellar growth of 27% versus the last year. The growth has been delivered on the back of robust execution across both domestic and international markets. The business has significantly expanded its order book with strong order inflows of over INR10,000 crores across India, Middle East, Africa, East Asia and Americas.

In India T&D, the business witnessed a good traction as it secured orders of over INR4,000 crores, a robust growth of 2.8x, vis-a-vis, last year and such a growth we have seen in India T&D for a long, long time. The business forayed into emerging areas of digital GIS substations and HVDC Terminal Stations. It also expanded its customer base to include power producers and refineries in addition to the existing clientele comprising PGCIL, state utilities and private developers.

The recent traction in orders and focus on the government on green hydrogen and renewables reaffirms our confidence in the strong growth of the India T&D business. In international T&D,

we continue to expand our presence with multiple order wins in the key markets. We have also consolidated our leadership in the Middle East by reentering Kuwait and securing large Gulf interconnection orders.

We are witnessing a significant traction in power supply orders, which stand at over INR2,000 crores across the Middle East, North and South America. During the year, we have also reinforced our presence in the international cabling solutions segment with orders in the SAARC region and Middle East. In SAE, we have secured record orders of over INR1,500 crores across Brazil, Mexico and U.S.

With this, our order book and L1 in SAE increased significantly to approximately INR1,600 crores comprising only of orders for supply of towers, hardware and ports and no EPCs. We are witnessing a very healthy pipeline for latter towers and ports from Americas. The robust supply order book, exciting business outlook and refinancing of local borrowings give us confidence of delivering profitable growth in SAE over the next few quarters.

The overall tender pipeline in T&D continues to remain strong in both domestic and international markets, given the push for renewables and requirements for new transmission lines, substations and underground cabling. Our Railway business has achieved revenues of INR3,701 crores for the year. We continue to maintain leadership in the conventional area of Overhead Electrification, OHE having successfully executed almost 29% of India's railway electrification in FY '23, the highest in the industry.

The order intake for the business remains subdued at INR2,900 crores, despite a growth of 15%, vis-a-vis, last year. The business continues to diversify its presence in emerging areas and a secured maiden order in the indigenous Train Collision Avoidance System, TCAS under Kavach. The business has also secured orders in conventional OHE composite projects as well as orders in the new areas of speed upgradation and technologically enabled areas of metros.

During the year, the business has widened its clientele with the addition of multiple new clients such as Central Railway, South Central Railway, Western Railway, Chennai Metro, Gujarat Metro and MMRDA. With the increase in capital allocation in the finance budget, we expect the tender pipeline to improve going forward. We continue to focus on international opportunities across the geographies where we have an existing presence in T&D.

Our civil business has delivered an impressive growth of 75% year-on-year with revenues of INR3,319 crores. The growth has been delivered on the back of robust exhibition across all segments. The business continues to deliver consistently on the order intake front, and a secured record of inflows of over INR6,600 crores, including the single largest order in the history of KEC of INR2,060 crores in the water segment.

During the year, the business further strengthened its presence with significant order wins in the water, industrial, residential, public spaces and data center segments. The business has also expanded its presence in commercial buildings and logistics park segment. An uptick in order intake has significantly enhanced the order book plus L1 to over INR10,000 crores, comprising



of turnkey EPC projects across segments or market clients. We are confident that this business will continue to grow significantly going forward.

In Oil & Gas pipeline, the business has delivered commendable growth post seamless integration of KEC Spur Infrastructure to deliver revenues of INR483 crores, a strong growth of 2.7x, vis-a-vis, last year. The business has secured order intake of ~INR500 crores with entry into new areas such as composite station works, which help to augment the pipeline laying capacity. The business continues to focus on widening its market by focusing on enhancing its pre-qualifications.

The business has a strong order book and L1 of over INR1,000 crores, comprising government and private players. We are confident of scaling up this business in the coming years. In line with the government's focus on green hydrogen and associated renewable energy capacity addition of about 125-gigawatt in the country by 2030, we have started refocusing on the solar business. We have commenced execution of our largest solar project of 500-megawatt in Karnataka secured last quarter. This project will utilize tracker-based technology, further enhancing our potentials in the growing renewable market. The modules for this project will be supplied by the client.

Our cable business continues to deliver a good performance as with the highest ever revenues, order intake and profitability during the year. The business achieved revenues of INR1,615 crores, a growth of 6%, vis-a-vis, last year. The business is also progressing well with our development of 10 new products this year, of which six products have been successfully commercialized.

In a significant development, I am pleased to share that as part of our backward integration, the business has commissioned the PVC compounding facility at Baroda, which will help improving profitability. We are confident that this business will continue to grow in terms of revenue as well as margins.

Last year, we had partnered with a global management consultant for a two-fold business transformation program on world-class engineering and civil execution excellence. During the year, we have successfully completed the program to improve our engineering led wins and enhance profitability across various businesses. As part of the Civil execution excellence initiative, we've seen focus on developing end-to-end execution and project management processes, including digital initiatives such as equipment telematics, BIM, use of AI, ML and analytics.

In ESG, we continue to take several measures to transform our operations in a sustainable manner. Some of our key initiatives during the year include installation of solar rooftop at our Dubai plant, in addition to the existing solar rooftops at Nagpur and Jaipur plant. With this 20% of our total power requirement at these plants will be catered through solar energy.

Installation of induction furnaces at all our four tower manufacturing plants to replace the fossil fuel-fired furnace with electricity or greener fuel. Various steps have initiated across project sites for reducing energy consumption, GHG emissions and conservation of water. I'm glad to share

that our progress on this front has been well appreciated which is reflected in the improvement of our ESG rating by S&P Global DJSI and Morningstar Sustainalytics.

Overall, we have delivered a good performance across various areas, significantly exceeded our revenue growth guidance by delivering a growth of 26% year-on-year against the guidance of 15% to 20%. Margins in the last two quarters have improved sequentially from 4.4% to 5.1%, exceeded the order intake guidance by achieving order intake of INR22,378 crores, growth of 30% against our guidance of INR18,000 crores to INR20,000 crores.

In SAE, we have closed all EPC projects and delivered positive EBITDA in Q4, brought down our net debt, including acceptances by INR1,100 in the last three quarters against our guidance of INR500 crores. This is despite our full year revenue growth of 26%. With traction in orders, we have built a robust order book plus L1 of over INR34,000 crores. The outlook remains healthy across most of our businesses with the current tender pipeline of over INR100,000 crores. With a robust order book plus L1 and a strong focus on execution, we are confident of delivering an improved performance across both revenues and margins. Thank you very much. We are now open to questions.

**Moderator:** Thank you very much. We'll now begin the question-and-answer session. The first question is from the line of Renu from IIFL. Please go ahead.

**Renu:** Yes, hi good morning sir. And thanks for the opportunity. The first question is regarding your guidance and margin outlook. While you have mentioned that FY'24 is expected to be better than '23, in hindsight, this would look '23 margins overall ending fourth quarter with 5% has been almost 50% lower than our normalized margins of 10% plus. So, going forward, what is the outlook in terms of margin by when do we expect double-digit margins to revert for the portfolio? And also aligned with this, can you throw some light in terms of the low-margin fixed-price T&D orders? By when are they expected to be broadly out and completed from a backlog?

**Vimal Kejriwal:** Thanks, Renu, for your continued interest. And I think you maintained your record of asking the first question always, yes? So, anyway, let me come to the margin straight away. I think as far as the margins going forward is concerned, our view is that we should be seeing a 50 basis point increase, I think, quarter-on-quarter in the first half. So H1, I think we should show 50 basis points each quarter. So will be around 100 basis points up by the time we reach Q3. Overall, for the year, we are expecting margins to be in the range of around 7%. So, H2, in my view, will probably be around 8% or so. I'm sticking my neck out, but I think that's the way we are looking at margins based on the current, I'll say, market scenario.

As far as the T&D orders are concerned, we had a few of them in the TBCB area, which is still impacted by GIS in some parts of it. We have completed, I think, one of them already and the other two are getting over now in this quarter. And the balance, which should get over, hopefully, in Q2 or Q3, depending upon what happens on the land availability, etcetera. There are some issues still going on. A couple of projects are still on hold where there are large claims lodged with the client. So, depending upon what happens and when the projects get completed, that would decide sort of the impact on the numbers.

**Renu:** Right. So, is it fair enough to say that while the non-T&D business is now nearing 9%-plus margin between 9% to 10% kind of margins, it is the core T&D business which is pulling down OPM? And if possible, can you throw some color in terms of how has been the T&D profitability for fiscal '23 and expectations of fiscal '24?

**Vimal Kejriwal:** So, you're probably right on the numbers, but I don't think we're 9% plus as of now, but close to that. I'll say slightly maybe 100 basis points here or there, okay, on the non-T&D. In non-T&D around INR1600 crores is coming from Cables, which is at a lower EBITDA, but much higher ROCE, okay? T&D has been very poor, okay? I'll say low single digit. And that's what I can say on, in the H2. And I do expect that will start improving from Q1 this quarter.

**Renu:** Sure. And then coming to the broad question of your order outlook, domestic T&D or overall T&D has done phenomenally well in FY'23. And your comments suggested that the momentum should continue for '24. So, how would your guidance for order inflows and specifically in T&D and civil business be, which have been the anchors for order accretion for KEC?

**Vimal Kejriwal:** So overall, this year, we had an order intake of INR22,000 crores plus. So, next year, we, on FY'24 has already been, I think we are talking about INR25,000 or so crores in the order intake. And also with the growth that we are having this year, I think we want to be very, very cautious and very particular on the order intake because the INR34,000 crores of L1 order book plus L1, we may probably be a little bit less aggressive on order intake by focusing more on the quality of the order intake.

**Renu:** Got it. Fine, sir I have more questions. I'll come back in the queue.

**Vimal Kejriwal:** Please come back. Thanks Renu.

**Moderator:** Thank you. The next question is from the line of Parikshit Kandpal from HDFC Securities. Please go ahead.

**Parikshit Kandpal:** Sir, hi. Hi, Vimal sir. Congratulations on improvement, sequential improvement. My question is, in the start of the call, you said that the domestic T&D has first time you are seeing INR4,000 crores after a long time, you've seen INR4,000 crores of orders. So, if you can just help us understand where is the demand coming from? And your sense on T&D ordering domestic for FY'24. You can also touch upon orders from utilities, industries, railways. So, that will be helpful, for opportunities like Vande Bharat high speed trains, if you can touch upon that also that will be helpful.

**Vimal Kejriwal:** So, largely, if you look at the order intake in T&D, it's coming somewhere on the back of green energy. Almost outside of INR4,000 crores, almost up INR3,000 crores of orders must be in and around the Gujarat, around the Kavada area, the Ahmedabad, Navsari path and all that, where the large solar and hybrid plants are coming up. So, most of the orders are from that area, including one from the GIPCL also, which has come in that area. There are a couple of other orders which have come from other TBCB operators.

In fact, one which we announced this year in April was also from non-PGCIL. But of course, for the TBCB project. So, we continue to see, there are a large number of TBCB schemes, which are under bidding. But even today morning, there was an advertisement for a GIS Station. So, we're clearly seeing a lot more business coming out. But again, I'll say mostly driven around green energy. That's the area where we are seeing. We are also seeing demand from private sector coming up for data centers, for refineries. And similarly, even some of them for building large residential complexes where they want large cabling opportunities are there.

So, that's, I think, another piece which we are seeing in the domestic T&D. We are not too much focused right now on the states because of whatever problems we are seeing on the payments, etcetera. So, we have sort of I'd say defocused on most of the states. We are hardly looking in a very few states. So, state utilities is not a major growth driver for me. It would primarily be power grid and other private developers.

**Parikshit Kandpal:**

And on the Railways, if you can touch upon the current electrification opportunity and the emerging one slide. Do you think that Vande Bharat require a different electrification network and high-speed rail also, if you can touch on that?

**Vimal Kejriwal:**

So 100%, the Vande Bharat will definitely require much better tracks. The tracks are to be straightened out, the level crossings have to be shut down, over bridges have to be built, signaling has to be changed. The OHE will have to be changed, in fact, we have got a lot of orders now on 2 x 25. I think five or six orders we already have for those. So, clearly, it's a matter of time that once the Vande Bharat trains to increase the number. The spend on these things will definitely go up. Last year's spend has been a little bit disappointing.

Also, I think what we did see was a significant increase in competition, okay, especially on the civil and composite projects, which have come more last year. The other big change, which in a way we were not able to manage well was that most of the railway PSU stopped giving orders and they became competitors. And the orders are all coming in from the Zonal Railways. Zonal Railways have got a lot of local players, etcetera. So, it did take us time for a company like us to adjust to that environment.

So, I think by now, it's now falling in place. So, hopefully, we should see and improve the order intake this year. Last year was a bit of a disappointment, but I think we are okay.

**Parikshit Kandpal:**

So, with the strong margin expectations, so when you source your equipment, so I know towers and cable you will manufacture, then transformers of stations and other things maybe you announced. Are you seeing elongated delivery cycles, I mean, the delivery cycles, are you seeing senses where certain manufacturers are, and there is a long issue on delivery timeline?

**Vimal Kejriwal:**

So Parikshit, what's happening is at towers and cables, we have our own manufacturing. And we have six tower factories, two cable factories. So, I think we are okay on that part where we can manage our priorities. As far as transformers and switchgears are concerned, there is a delivery issue which in fact there are issues in conductors, specific type of conductors. But I think with our relationship and with our vendor management, generally, we are not seeing a significant delay. Off and on, there could be some delays on some particular type of equipment if you want



the 765 GIS, maybe there could be a delay or something. But generally, we have been able to manage. But yes, overall, if you look at the market, there is a strain on the supply chain, very clearly.

**Parikshit Kandpal:**

Okay. Just the last question, sir, on the standalone business. So, if I reconcile standalone and consol., so there is a profit of a different method of, EBITDA positive about INR77 crores. And so is there any reversal, in any of the entities, international entities of provisioning? And if I have to attach it to the EBITDA margin, so EBITDA margin standalone is the lowest now at 4.2% this quarter. So, this issue is largely owing to the fixed T&D projects or civil also, we are seeing some pain?

**Vimal Kejriwal:**

No, no. I don't think it's a question of pain there. There has been some pain in T&D. Obviously, civil there is no pain at all. I think the issue, which is there is in some of the earlier calls, we had talked about our Dubai subsidiary, which is a tower factory, and also our EPC arm, which is under Dubai factory, 100% owned by KEC. So, what's happening is that many of our orders for tower supplies and also all the orders in UAE. And also some part of it because of the fiscal benefits which we have and the duty advantages.

This year, I mentioned that our Dubai turnover is close to INR900 crores. which -- and I'll say that's a very healthy PBT. So, all that would have otherwise a year back to the probably had been a part of the standalone. And that's the only reason why we see a lower standalone as compared to the earlier years, that there is no reversal or any other issue, except whatever what Renu was talking about previously about projects there's some pain there. But otherwise, all other businesses are okay. Thanks Parikshit. You'll have to come back. Thank you.

**Moderator:**

Thank you. Next question is from the line of Bhoomika Nair from DAM Capital Advisors. Please go ahead.

**Bhoomika Nair:**

Yes, good morning sir.

**Vimal Kejriwal:**

Morning Bhoomika.

**Bhoomika Nair:**

Good morning sir. Good to see the debt reduction that we've seen over the last three, four quarters, almost INR1,000-odd crores between 1Q and 4Q. Now, if I see the interest cost, it's actually risen quite sharply despite the decline in the debt levels. Clearly, some bit of it has, would have gotten over the increase in the interest rate. Now as we move ahead when you're talking of it to be about 2.5% to 2.6% of revenues to be the interest cost. This is talking of a very sharp decline on a quarterly basis versus the exit of 4Q FY'23, which is at about INR160 crores. What gives us the confidence that this will kind of come down? And what are the areas that will actually drive the reduction in the interest cost. Also, if you could talk about if there is further scope of debt reduction.

**Vimal Kejriwal:**

So Bhoomika, I do not see much of debt reduction happening because we would not discuss, but we'll definitely have a 15%-plus revenue growth in FY'24 again. So, that would require some more working capital. So, honestly, I'm not very sure whether we can reduce the debt further keeping in mind the revenue growth. Maybe there is this, what will happen probably is that

NWC should improve, you saw that we already improved by a good number. Our target as usual always remains below 100. I think we should be able to lose by at least 8 or 10 days this year from 118 to maybe 110 or maybe let's see what we can do. Our aspiration still remains below 100. So, that's one part of it.

As far as the interest is concerned, we had around INR150 crores, INR160 crores of interest this quarter. And if you look at our Brazil interest for the year, the Brazil interest is around INR90 crores or so. So, we do expect that, that interest will come down by at least INR30 crores, INR40 crores if we are able to restructure those loans the way we have been discussing either by way of restructuring the loans or maybe some equity in figure for India, where you actually borrow in India at a much lower rate. So, that's one part of it.

The second part of it is the entire debt reduction largely has come in Q4. So, clearly, you'll start seeing some impact happening in Q1. Because a lot of people ask me the question saying your debt has gone down, interest have not gone down. That's because most of the introduction happened actually in March. So, there will be some impact of it. And hopefully, I think the interest rate scenario notwithstanding the FED increase yesterday showed sort of settled down, where we should start seeing some improvement somewhere in the interest cost also.

Also with our international business going up, we should be in a position to leverage that and probably borrow a little bit more in foreign currency because the premium rates have come down to below 2%, etc. So, it does make a lot of sense saying that can we leverage our international business and borrow a little bit more on this. And I don't know, Rajeev, if you want to add something?

**Rajeev Agarwal:**

So, I would like to add only one more point that entire impact of the rate hike cycle which, let's say, in India was completed in first week of February by the RBI announcing 25 basis point hike. So, that got over. And so that entire impact has come in quarter four. Previous quarter, the impact was coming gradually as the intake was happening. But quarter four has taken the entire impact of 2.5% interest rate hike cycle which has happened over the last three quarters. So, that is also one of the reason that the interest cost for this quarter is looking higher. And we are very confident that with a reduction of almost INR1,000 crores in this quarter, we should see a lower interest cost in quarter 1 in the absolute number.

**Bhoomika Nair:**

Okay, okay. Sir, my second question is on the order intake that you spoke about close to INR25,000 crores for next year. It's fair that we will be focusing a lot more on the quality of the order. Now if you could just elaborate here in terms of you mean by margins, you mean by working capital, what exactly do you mean? And simultaneously also talk about the, obviously, T&D orders are clearly picking up, and we've seen that in FY '23 and the outlook remains fairly strong. How is the competitive intensity out there across segments like T&D, railways, civil, if you could just touch upon that?

**Vimal Kejriwal:**

So our largest markets today are India and Saudi Arabia, okay? So clearly, in Saudi Arabia, we are seeing the competitive intensity going down and the margins improving slightly. I think that's one part. India, what we are seeing is that many of these orders are becoming very specialized

orders, like a digital substation or either 765 with specific conductors, etcetera. And where these are larger projects, the competitive intensity is also slightly down as compared to the earlier years, okay? You know, the earlier orders were not as competitive effectively, I'll say in the bigger orders. Same thing applies in civil today to have orders of, let's say, tender of INR500 crores and above. You would have basically 3, 4, maximum 5 players. So clearly, on the larger ticket size, we are seeing less competitive intensity. But on the smaller ones, especially, which has got more civil content in the railways, we have seen a lot more competitive intensity. On the residential sector and all that, where we are becoming a little bit larger than what we had wanted to be, but where we are seeing very little competency with just two or three players in virtually across all of those bids. What was your next question, Bhoomika?

**Bhoomika Nair:**

No, just only focus when you said the quality of orders we'll be focusing on for next year in terms of the INR25,000 crores intake. So I mean, will we mean to focus more on the margins, focus more on the working capital? Exactly when we speak about quality of order intake, what exactly do we mean by that? Any targets that we have in mind when you're bidding for the order?

**Vimal Kejriwal:**

So I think there are three or four things. One of the focus is where seeing if there is a large negative carry in the working capital during the project execution or there's a very large retention element, etcetera. We are looking at it very seriously, whether we want to even bid for those projects. So that's one part, which is very clear.

Profitability, again, is something which has been -- which is now there on our, I'll say, much more focused manner. And clearly, we have slowly started increasing the threshold profitability in many of the places where our concentration is becoming higher. Let's say, for example, I don't know from -- but let's say for Saudi, okay. When we look at it and all that, then the number where we are putting is becoming different.

The third one is that with all the issues which we had on commodity, etcetera. We are again becoming very, very choosy on what orders, what is the risk and commodities and whether can I bid for something which I can hedge immediately if there is a price variation or because I'll give a simple example. There were tenders earlier, which we were hoping on fixed price, but the prices are opened up for six months.

At that time, you were at the most after six months of our relevant, then you would have to pick it at whatever price it was that after six months. So tenders like that, we have become very, very cautious, whether we want to bid them or not or even go to bid than how much of commodity risk we want to provide for. I think these are the three items. I think Rajeev, anything that you want to add on the quality?

**Rajeev Agarwal:**

I think that's the working capital.

**Vimal Kejriwal:**

I think the fourth one is on the size of the orders. I think what we are realizing is that I think the number of projects which we're executing today is very, very large. So we are looking at reducing the number of projects which we are doing. So in some of the businesses, especially in Civil and even in T&D, we have actually put a sort of a floor saying that below that, we will not

quote. I think there are three or four things which will help us in improving our order intake quality.

**Bhoomika Nair:** Great, sir. I'll come back in the question queue. All the best sir.

**Vimal Kejriwal:** Thank you Bhoomika. Thank you.

**Moderator:** Thank you. The next question is from the line of Ashwani Sharma from ICICI Securities. Please go ahead.

**Ashwani Sharma:** Yes. good morning. Thanks for the opportunity. Sir, my first question is on the working capital. So there has been improvement, but I wanted specific updates on the railway where we had GST payment pending. So what is the status over there? And also if you could comment on the Afghanistan from where we expect around INR150 crores, INR200 crores. Have those payments come in?

**Vimal Kejriwal:** For Afghanistan, out of INR200 crores, which we are expecting, we got around INR50 crores. The balance, we have already signed agreements. So I think the money should come in hopefully within this month. So that INR200 crores should be there.

In the sense that we already got part of it, part of it always a hide and seek. So it's just a question of getting the money. As far as working capital is concerned, I'll let Rajeev answer, but as far as GST is concerned, I don't think we have any major issue now that the GST is in the inverted rate structure got sorted out, the GST settlements are happening, and it has been coming down month-over-month. Maybe Rajeev, you want to comment?

**Rajeev Agarwal:** So basically, on the GST front, I would like to say that a couple of quarters back, we had given a guidance of a reduction of about INR150 crores to INR200 crores. So during the year, we have actually reduced the GST balances by roughly about INR120-odd crores from last year to this year.

Obviously, from a peak level, if you look at what was there in June, from June to March, we have reduced almost INR200 crores of GST accumulated balances. And this is on the back of inverted duty correction, which happened in July, and that has helped us to reduce the GST balances especially in Railway.

So Railway is, actually, on the working capital side. Also payment from the client is still yet to improve, and especially, we were expecting some payment in the month of March and roughly about INR200 crores, INR250 crores got deferred. But GST part has definitely improved in railway rates, which is about INR100-odd crores they have reduced the balance. So on the working capital front, I would say there are a couple of items which we are still working, especially on the railways and others, which should help us to further improve our working capital this year.

**Ashwani Sharma:** Yes, thanks for the detailed answer. Sir, secondly, on the standalone numbers. When you look at the margins, you did highlighted the rational. But was there any legacy -- was there any loss

related to legacy orders during the quarter? And is there any share in the legacy orders in the current order book?

**Vimal Kejriwal:** There is. Ashwani, we have talked about that, that we have got a few TBCB orders, where there are losses which were there. And that's what has impacted the standalone apart from the railway parts.

**Ashwani Sharma:** So what was the quantum?

**Vimal Kejriwal:** I don't have the exact quantum. I don't think I can give you right now. Maybe you can speak to Abhishek later on, he'll give you the numbers. But there are some more legacy orders, which as I mentioned earlier, we have completed a couple of them, a couple of them will get completed in Q1. The rest will depend upon at the client side once we get the clearances, then those will get over. I don't know whether it will be Q2 or maybe Q3.

**Ashwani Sharma:** Sir, just one last question. So in your opening remarks, you were talking about a few strategic initiatives. If you could just highlight those, what those be?

**Vimal Kejriwal:** No, I think what we have talked about was like in railways, we started getting into more technology areas. That has been done before TCAS, where L1 and some other segments, which we are not yet got the orders. We are not announcing them. We've got 3 BLT projects.

Then we finished one of our large programs with an international consulting on improving our engineering. And that you can see clearly the reflection of that is in our much larger wins in T&D. And also partly, I'll say, in Civil because we are also doing a lot of work on analytics and AI, ML on the Civil part of it. and that will clearly help us in improving either our margins or our competitiveness in the system as well as execution.

**Ashwani Sharma:** Yes. Thank you sir. Thank you very much.

**Vimal Kejriwal:** Thanks Ashwani.

**Moderator:** Thank you. Next question is from the line of Priyankar Biswas from Nomura. Please go ahead.

**Priyankar Biswas:** Good morning, sir. It was great to see that the significant level of deleveraging. So it was significantly ahead of your estimates. But my question is, so can you just give us some idea like what is the level of debt of the Brazil subsidiary SAE? And you were highlighting that interest rates have gone up there. So what is the effective interest rate there? And since you were speaking of refinancing there as well. So what is the level of interest cost we should expect here, let's say, assuming that you complete your refinancing by the end of the first half?

**Vimal Kejriwal:** So our debt is around INR400 crores, \$50 million actually in Brazil. Right now, we are paying between 18% to 20%, 21% of interest cost there, okay? The base rate is 13.85% or something is the base rate. And then there's a margin over that. And since we have a loss making balance sheet there, we are almost a higher end of the margin, okay?

What we are expecting is that by deleveraging and reworking and even with some corporate guarantees from India, etcetera, rates would almost come down to half. That's what we are, which was the number which I talked about earlier that the interest from INR90 crores would come down by INR40 crores, INR50 crores. So we expect that interest will start coming down, maybe partly in Q1, but definitely in Q2, etcetera, we'll see a significant reduction in the Brazil interest cost. Rajeev, you want to add something?

**Rajeev Agarwal:** Yes. So towards that, we have already done \$20 million refinancing. So to that extent, 35%, 40% portion of the debt has been converted at virtually 8% interest rate.

**Priyankar Biswas:** So should we see the benefits of that in the next quarter, let's say, this \$20 million refinance, I mean, 1Q?

**Vimal Kejriwal:** Certainly. Part of it will definitely come because we just did it at the start of the year. And definitely, the full benefits will start flowing in Q2. And hopefully, by that time, we would have done some more.

**Priyankar Biswas:** Okay. We are understood on that. Then the second part, like I just heard that you got something like INR50 crores of what was due from Afghanistan, right? So any color can you throw on when you expect the balance INR200 crores to come back to you? And what is the state of negotiations maybe?

**Vimal Kejriwal:** No, I think what we had said was that out of our overall gross exposure is around INR600 crores, net is around INR200 crores and odd INR250 crores. We have said that we will get around INR200 crores in Q4 is what we had expected to get it. Out of that, around -- roughly around INR50 crores came in, in Q4.

And the balance we were expecting, but unfortunately, the agreement got delayed, the agreement has now been closed. So around -- I think within May, we will get another INR150 crores or so. So the INR200 crores, which we had talked about earlier, that money will come in, the balance money which is there is from multilaterals funded, which is the World Bank and ADB where the intense discussions are going on. And I think we are fairly confident that by the year-end, we should get the entire money. But that's the way we are looking at it based on today's development. We'll obviously keep our fingers crossed on what happens on the geopolitical side. But whatever discussions are there today with the multilaterals, I think they are also equally keen to close and move ahead.

**Priyankar Biswas:** And sir, one more question from my side on the railways payment. I remember there were EPC projects, where there were milestone-linked payment issues. So what is the status for that? So is the fourth quarter improvement in working capital that we have seen such improvement. Is it due to us achieving some milestones with railways and the receivables there coming down, if that is the case, or let's say, how should we see the working capital movement from here on?

**Vimal Kejriwal:** So, let me put in a different fashion, Priyankar. In the last couple of months, railways has become cash neutral to us. Earlier, we had to put some money into the working capital, which we are

now not putting. They are collecting enough to take care of their payments. Has the working capital come down? Maybe marginally, okay?

I think we are still facing issues. Some of them is because of the EPC, which now the execution is just getting over, I think some of them have got over. So those monies will come in. Also, generally, we have been seeing some slowdown in the payments, okay, which was more March and I think March end gross now, I think that is getting resolved. So I think we will start seeing some improvement. And Rajeev talked about saying that we will reduce net working capital, etcetera, one of the levers for that. This year is going to be the reduction in the NWC of railways.

**Priyankar Biswas:** And so this year, the focus is reducing the balances with railway FY '24?

**Vimal Kejriwal:** Absolutely.

**Priyankar Biswas:** And sir, the last question from my side. Can you give us a ballpark idea of what is the fixed price share of contract in your order book?

**Vimal Kejriwal:** I don't have that number. But I'll tell you one thing is, broadly, most of the fixed price contracts, wherever we are executing the base metals, have already been hedged. So I don't see any risk arising from any of the new contracts, which we have taken on fixed price.

Because what has also happened this time is that as I talked about earlier to Bhoomika's answer on quality of order intake, etcetera. So we were very careful on that. So I think all the fixed price contracts, which we have taken now in the last financial year, all of them are fully hedged now, except for steel. Obviously, steel, we can't hedge. But still, I think we have been seeing generally a stable environment and we had also provided for some increase. So I think we are very comfortable on the metal pricing in all our new fixed price orders.

**Priyankar Biswas:** Okay. Well understood sir. That's all from my side. Thank you.

**Management:** Thank you.

**Moderator:** The next question is from the line of Jonas Bhutta from Aditya Birla Mutual Fund. Please go ahead.

**Jonas Bhutta:** Good morning, sir and congratulations on the working capital improvement that we've seen. So three quick questions. Firstly, sir, when we look at the subsidiary performance, which is basically consol minus standalone, the performance of the Dubai subsidiary seems to mask the performance of maybe Oil & Gas and SAE. So if you can talk about how SAE performed at least at an EBITDA front in this quarter and the backlog that it has of about INR1,500 crores, as and when executed, what kind of margin band at least at a bid price level have you sort of paid that and we should assume for the next 1 year, 1.5 years as this INR1,500 crores gets executed?

**Vimal Kejriwal:** So the last question is easy for me. I think the bid margins are up between 8% to 10% there. So I think going forward in SAE, or at least on the EBITDA front, although the interest is still a big concern for us. I think EBITDA, we are quite comfortable because they are all supply orders and most of them, quite a part of that has been already hedged already.

So that's one part of it. The second part on the EBITDA part is I don't know the exact numbers, but it's marginally positive as far as both Brazil is concerned, and Mexico also has done well. So it will be a couple -- I think, \$1 million or \$2 million. I don't have the exact numbers. But it's not a big number. But it's okay as far as when you look at the turnaround from the losses. And as far as SAE, Spur is concerned, I think Spur has been doing very well. And I don't again, I don't know the exact numbers. But normally, Spur, we have been making a margin of around between 8% to 10%. I think that was the margin for this quarter also.

**Jonas Bhutta:** Understood. Because when we see the implied margins in the subsidiary, it works out to roughly 14%-odd, which is considerably higher than what you mentioned in terms of SAEs potential and that for Spur. So was there a one-off in Dubai, or this is something that we should maintain in terms of steady state, on the INR900 crores worth of revenue, what is the kind of margins we booked here?

**Vimal Kejriwal:** So Jonas, if you look at the Dubai revenue, I'd say half of it was from tower supplies and half of it was from EPC contracts. Tower supplies would typically be, I'll say, between 10% to 15% margins. That's the way we have been looking at tower supply.

And also, what happened was I'll not call it one-off, but I think many of the orders which we booked after that, if you remember, if you look at the steel prices and a little bit there was we had some gains in some of the prices, etcetera. And also logistics citing the major advantage, which we got in the Dubai supply was on the reduction on the logistic cost against what was considered in that tender. But typically, I think we should be at a 10%-plus as far as the Dubai is concerned. I don't think it will be 15% going forward. It depends upon what sort of EPC orders we get out of the margins there. Supply would -- overall would traditionally be around 10% plus. So you're right that Dubai has a major role to play in the numbers of the subsidiaries.

**Jonas Bhutta:** And what is the order backlog as of now, sir, there?

**Vimal Kejriwal:** In Dubai, I don't know, Rajeev?

**Rajeev Agarwal:** Basically, the Tower factory is full for the next year. And EPC order would be roughly about INR400 crores, INR500 crores.

**Vimal Kejriwal:** It's going to be around 400 Cr. I don't have the exact, but INR400 crores, INR500 crores. Basically, there are four or five orders. A couple of them in Dubai, a couple of them in Abu Dhabi. So I think you have four or five orders. Abhishek can give the full number, we'll be around INR400 crores, INR500 crores.

**Jonas Bhutta:** Sure. Sir, my second question was on the working capital. So if I look at inventory days, receivable days, they are largely, we've maintained them at the average level of, say, maybe Q4 of last year, where we've seen a massive reduction is in the other current assets and non-current assets. Any line item that you can point to that has led to this reduction. I know Rajeev spoke about GST collectibles sort of coming down, I don't know whether that played a role at least going through the annual report, one of the main line items there is due from customers, which is effectively contract assets. Has that come down considerably? And the second part that helped



us was on the payables, we manage payables pretty well. So both of these are these things that are likely to remain in our favor even in FY '24?

**Rajeev Agarwal:**

So Jonas, it's Rajeev. I think there has been a reduction in most of the line items. If you look at the inventory reduction, if you look at the GST balance reduction, each of them have contributed about INR150 crores compared to the last year in March. Obviously, these numbers have significantly gone up during the middle of the year and especially at the end of Q1 and Q2. From there, the reduction is pretty sharp. So that's one.

Even on the debtor day sales, if you look at the DSO number. DSO days have also come down by about 10 days. So obviously, it is not enough. And we are expecting much more reduction on the DSO side. So -- but DSO days from last year March, it has reduced by about 10 days. So there has been a reduction in many of the line items. Obviously, DSO is something which we need to work more, and probably that's an area where we are working. And we expect more reduction in DSO days in the current financial year, and that will be from debt reduction, whatever working capital gets really that will be used for doing the growth in the current financial year, which is about 15% growth we are expecting.

So debt will get financed and that is -- all the loan or the borrowing will not go up from here. In fact, our target is, as Vimal pointed out, our target is to come down on the NWC days from 118 days as on March 31 to about 100 days, so less than 100 days. Let's see, we are targeting -- aspiring to reach 100 days. But definitely, there will be further reduction on that number.

**Moderator:**

The next question is from the line of Shalini from DSP Mutual Fund.

**Vivek Ramakrishnan:**

This is Vivek Ramakrishnan. Most of my questions have been answered, but let me post one tricky one for Rajeev, perhaps. One way of reducing interest cost is to keep the ratings higher and ICRA has put the outlook on negative watch at AA minus. They have said that key thing they're watching all total outside liabilities upon net worth. So even if you increase payables, it gets counted there. So how do you expect the trajectory of this to go over the next 1 year? That's the only question from my side.

**Rajeev Agarwal:**

So basically, why it is put us on the negative trajectory, you have to look at the rating rationale that was -- they wanted to see the margin trajectory to go up. And clearly in quarter four, we have improved our margins by 50 basis points. And what we are -- Vimal has just guided for another 50 basis point hike in the margin in quarter one and quarter two also.

So I think from now onwards, our margin trajectory would be positive and that we will be able to retain the rating at least at the current level. I don't think that margin -- this rating should go down because we have achieved a large reduction in the borrowing also. So that will also work in our favor and instead of the rating agencies. So that will also help us to maintain the rating.

**Moderator:**

The next question is from the line of Aditya Mongia from Kotak Securities. Please go ahead.

**Aditya Mongia:**

Congratulations for a good set of number. My first question was more of a bookkeeping question from my side. Wanted to get a sense of whatever, 26% odd growth that you have reported in

revenues. How much of that would be volume versus value? And maybe similar number for your inflows as well.

**Vimal Kejriwal:** I think most of it would be volume driven. Because there could be a little bit in Cables, maybe, I don't know. But I think Cables maybe the methods have been at the same in -- I think most of it would be volume driven.

**Aditya Mongia:** Understood. The second question that I had was on the water business. Now as I see today, it's almost 20% of your backlog, if I'm not wrong, between 15% and 20% and whether it's a few years back when we were having the discussion what has appeared to be a difficult feel in terms of margins and in commercial terms. So what in your view has kind of changed for us to be becoming more aggressive in this line of work?

**Vimal Kejriwal:** So Aditya, when earlier we were talking about water, it was almost like a different business. Today, if it's become a very different business with the central government first on a Jal-Se-Nal-Tak water mission, etcetera. So the cash flows are guaranteed, the projects have become much more larger, the competition has become much more healthy.

In fact, the water business is one of the reasons why the NWC has come down also because the payments are, I think, one of the most strong payments I have seen in EPC business happening in water. And the numbers we can -- our order book today will be slightly, I think, yes, it's almost 15%. We have around INR3,000 crores all in all. INR4,000 crores on order book actually. On water against a total order book of 31%. So 13% would be our order backlog today in water.

**Aditya Mongia:** Understood. The next question that I had was on margins. I just want to get a sense from you as you had maybe 2, 3 years of double-digit margins from '15 to '18 -- 2015 to 2018. At which point of time your top line was at INR10,000 crores or thereabout. Now it's about INR17,000 crores, INR18,000 crores of top line. Have you kind of keep on scaling up, is it difficult to get back to the 10% EBITDA margin level? Just wanted to get your thoughts on that.

**Vimal Kejriwal:** It is difficult. Let me put it this way because once you keep on -- which is why if you were there on the call earlier, we talked a lot about the quality order intake. Because -- and I think the way if you look at our 10, 15-year history, it has been a step ladder sort of growth where for a few years, we have had a much larger revenue growth and a lower margin growth.

And the other way around is if you look at 2015, 2020, our revenue growth was flat, and our margin grew significantly from 6% to 10%. So there is some correlation if the numbers go up very fast. But I think what we have to look here is that our numbers are now growing because we are getting into more businesses. So if you're trying to flog the same business, which has reached maturity, then growth will definitely impact your margins.

And now that we have Civil and Oil & Gas, etcetera. I think it's not going to be a significant impact. The revenue growth will not have too much of impact on the margins. But I think as far as double digit is concerned, we are very clear that we are looking at double digit. And we had earlier also said again, we have -- I hope that by exit of FY '24, we should be at double digit or close to double digit at the time of exit.

**Aditya Mongia:** Sure. Just a last question from my side. So you talked about competitive intensity in, let's say, Middle East actually going down. Is this an indication of good things to come from an ordering or an order growth perspective, are you kind of seeing, let's say, next 1 to 3 years being pretty good in the Middle East part of things?

**Vimal Kejriwal:** I don't know about 1 to 3 years. But at least next 6 months to 1 year, I can very clearly see a large number of tenders in the pipeline, especially in Saudi. And also, we are seeing UAE also has started coming back into action and at least every month, we have started seeing one tender, unlike Saudi, where you have at least two or three tenders every week.

So clearly, from 1-year perspective, I think it's great. And that's the reason why the competitive intensity is coming down because everyone is now full. In fact, we have now started looking at not putting many of the tenders because of various reasons and also because we have a large order book. So clearly, it's a sign of good things on the tender pipeline.

**Moderator:** The next question is from the line of Kaushal Dedhia from Axis Bank. Please go ahead.

**Kaushal Dedhia:** Most of my questions have already been answered. And congratulations on getting positive EBITDA on Brazil subsidiary, networking capital reduction as well as sequential improvement in the EBITDA margin. So just one question from my side is on the dues of Afghanistan. So I heard that you got some INR50 crores in Q4 and another INR150-odd crores balance is expected in this month. So after this recovery of INR200 crores, what would be the net dues in Afghanistan?

**Vimal Kejriwal:** On a net basis, it will be about INR250 crores.

**Kaushal Dedhia:** Even after getting this INR200-odd crores?

**Vimal Kejriwal:** Yes, after INR200 crores, the gross number is INR400 crores, and net basis is INR250 crores. I think we'll -- you can talk to Abhishek to get a better hang of it. There will be some large part of the result of the money, which are coming in will also go to the liability reduction. But there will be some reduction.

**Kaushal Dedhia:** Okay. And sir, lastly, on this Brazil SAE thing, the subsidiary, we will not see any further impairment or anything now that touched on EBITDA positive. Is that fair assumption?

**Vimal Kejriwal:** That's a fair assumption. I don't see any reason for any further impairment. But even the impairment calculation, a lot of things during the 10-year yield and all that. A little bit of 5% or 6%, you have a poll. But I don't -- honestly, I don't see any more impairment happening, no.

**Moderator:** Next question is from the line of Hiten from Sequent Investments. Please go ahead.

**Hiten:** Sir, most of my questions have been answered. I have only one question left that's on tax rate. So what would be our tax rate in this year, sir?

**Vimal Kejriwal:** So the tax rate -- if you look at the standalone FY '24 -- you are talking about FY '24, it could be approximately 24%.



- Hiten:** I'm talking about fiscal year FY '24, yes, sir.
- Vimal Kejriwal:** Yes, 24%.
- Hiten:** 24%. Okay. Okay. And sir, you have guided 15% top line, that's on consol level, right?
- Vimal Kejriwal:** Absolutely, yes.
- Moderator:** The next question is from the line of Yashika Pancholi from Sunidhi Securities. Please go ahead.
- Yashika Pancholi:** I just wanted to know -- yes. Just wanted to understand if there is cancellation in railway orders in Q4?
- Vimal Kejriwal:** Sorry, I did not get your question.
- Yashika Pancholi:** Just wanted to understand that for railway, have you had any cancellation in Q4?
- Vimal Kejriwal:** No.
- Moderator:** Next question is from the line of Ravi Malhotra from JP Investments. Please go ahead.
- Ravi Malhotra:** I had a question on the -- yes, I had a question on the international business on T&D. Since we are focusing on this business, what would be the addressable market size and key drivers for the T&D business in international markets?
- Vimal Kejriwal:** By international market, I think it's going to difficult to define the size because we keep on adding countries, reducing countries, etcetera. But typically, we look at 15%, 20% growth every year. Last few years, they have not grown. This year, we've grown a way almost 50%, 60%. So going forward, we look at saying that 10% to 15%, 20% growth should happen.
- And mainly, it normally comes the neighboring countries, SAARC, Bangladesh, Nepal, etcetera. And then Middle East and Africa. These are three major areas where we looked at growth. This year, we have added Americas because we are seeing a lot of work happening in Americas where we do power supply. So to me, these are the areas where we look at. And typically, the market grows at that rate, 15%, 20%.
- Ravi Malhotra:** And sir, one last question on the green hydrogen project, which we have. So the government has a outplay of about INR197 billion. So what would be -- any calculation, what would be the T&D opportunity?
- Vimal Kejriwal:** We don't have specific numbers because we do not know where and what will finally come in. The talk has been that there will be large green and hydrogen -- large renewable projects for setting up of green hydrogen. Because ultimately, green energy, depending upon whether it is wind and solar, where it comes up, etcetera. But typically, the talk has INR18,000 crores, INR20,000 crores of opportunity will come in T&D on account of green, as a renewable energy plant being set up and for the transmission of that, the power from those plants to the electrolyte, wherever else it has to go.



I think it's still, I'll say, a little bit too premature to look at numbers because we honestly do not know there's a huge government trust. We still have to see large-sized hydrogen plants coming up. Whatever coming out right now are pilot plants in refineries and other PSUs. But we are not seeing major plants coming up. But in anticipation being major announcement on the renewable side.

So we'll have to wait and watch maybe 6 months to 1 year down the line where this becomes much more clear saying what would be the impact. But I think we are very positive that there will be a good impact for us, both on the T&D side and also on the solar EPC side.

**Moderator:** Thank you very much. I now hand the conference over to Mr. Vimal Kejriwal for closing comments.

**Vimal Kejriwal:** I think I'd just like to thank everyone for their continued interest in KEC. Thank you so much. Thanks Neerav. Thank you.

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