Kalpataru Projects

Bala – Operator: Good evening, everyone. I am Bala from Arihant Capital. Today is the fourth day of the Bharat Connect Conference. I would like to welcome everyone to the Kalpataru Projects International Limited session. From the management side, we have Mr. Kunal Jain, Head of Investor Relations, and Mr. Nishit Vora, Senior Manager of the company. The session has 2 parts: an introduction and recent business updates by management, followed by a Q&A session. Participants can raise their hands or submit questions in the Q&A chat box. I now hand over the session to management. Kunal, you can take it over.

Kunal Jain – Head of Investor Relations: Thank you, Bala, for this opportunity. I am Kunal Jain, and I head Investor Relations for Kalpataru Projects. My colleague, Nishit Vora, is also present for this meeting.

I will briefly update you on what we have guided, what our guidance is for the year, what we achieved in the first quarter, and how we see our performance going forward. In the first quarter, we grew our revenue by 9%, reaching 6,396 crores, with an improvement in EBITDA margins of 30 basis points.

We also achieved a significant reduction in debt. Our consolidated net debt declined year-over-year by almost 1,900 crores to 917 crores. To date this year, we have received orders of nearly 18,000 crores. In addition, we have a strong and healthy pipeline and an L1 position of around 8,000 crores.

We are confident that we will be able to achieve the guidance we provided for the full year FY27. This includes 15% top-line growth, an improvement in PBT margin of 75 bps, working capital below 90 days, a significant reduction in debt, and order inflows in excess of 30,000 crores.

All our core businesses, namely Power Transmission and Distribution, B&F, and Oil and Gas, look very promising, both in terms of the tender pipeline and the orders that have been converted. Things seem very encouraging for us on that front. We can now take questions.

Bala – Operator: We will begin the Q&A session. Participants can raise their hands or submit questions in the Q&A chat box. We will wait for a moment.

Bala – Operator: We have received a few questions in the chat box. I will take them one by one. The first question is on order inflow. We have maintained our order inflow guidance at nearly 30,000 crores, and despite already having 15,000 crores, including L1 orders, is an upward revision of this guidance possible? What are the specific triggers from the Aramco award timing, HVDC bids, and B&F industrial tenders?

Kunal Jain – Head of Investor Relations: For the full year, we had guided for order inflows in excess of 30,000 crores. As I mentioned, to date we have already received orders of around 18,000 crores, and additionally, we have an L1 position of around 8,000 crores. This takes our order inflows plus L1 position to nearly 26,000 crores against the guidance of 30,000 crores.

We also have the second half of the year ahead. While it is too early to comment, it looks like we might revise our guidance upward, considering the strong tender pipeline and the ordering activity

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across all 3 businesses in which we are currently very active.

Management: We are optimistic about our businesses, which are T&D, B&F, and Oil and Gas. In Power T&D, we are already seeing a lot of tendering in India and globally, including in our focus markets.

On the B&F front, tender activity also seems to be improving in residential and commercial buildings, as well as industrial plants. We recently received a large order in the metal and mining processing plant segment from a very large client. The order value is around 1,700 to 1,800 crores.

Apart from that, we recently received a large order in excess of 4,000 crores in the Oil and Gas segment in the Middle East. We also have several more tenders under discussion in the Middle East Oil and Gas segment. Things look very promising in that regard.

The Aramco project is an existing project that we are executing and that we secured 2 years ago. Execution on that project has been very satisfactory. We have almost completed 60-65% of the work, and most of the balance work will be completed in the next 12 to 12 months.

We have successfully achieved the progress planned on that project, which gives us the confidence to scale our Oil and Gas business in the international market, especially in the Middle East. To answer your question, the order inflow activity definitely looks positive. While it is too early to say, when we announce our second-quarter results, we will definitely guide you on where we stand and what we expect the number to be by the end of the year.

Analyst1: The second question is about the Oil and Gas bids in the Middle East. What is the current scenario in the Middle East market? How much have we bid for in the Middle East market, and what are our historical win rates, especially in that market?

Management: Currently, we are present in 3 businesses in the Middle East. The first is the Power Transmission and Distribution business. The second is the Oil and Gas business, and the third is the water business, through a project that we recently secured in the UAE.

In Power T&D and Oil and Gas, the situation is very positive, with a lot of tenders across Saudi Arabia and the UAE. There is considerable tender activity in both markets.

We are largely focused on onshore projects. There are several tenders for greenfield as well as brownfield projects relating to gas supply and other areas. It is difficult to quantify the market in terms of the number of projects because it runs into billions and billions of dollars.

However, we do not bid for every project. We bid for projects where we are confident in our ability to execute and deliver on time. In that regard, we have bid for quite a number of projects. We recently secured our second large project in the Middle East, apart from the Aramco project that we are executing.

We expect some major wins going forward in the second half of the year as well as next year in the Oil and Gas business. In Transmission, we continue to remain bullish on the market. We have secured some projects and are also L1 in some large transmission projects in the Middle East market.

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On-ground activity remains satisfactory. There have been some instances of disruption that have led to lower productivity and slight disturbances in the work, but overall, progress has not been significantly affected. Progress remains in line with the project plan, almost to the extent of 85-90%.

The governments in the Middle East are now focusing more on energy security and strengthening their supply chains. In that regard, the market seems very robust going forward.

Analyst1: The next question is about BESS and hydrogen. We have created a team for these areas. How do you view these businesses from a 5-year perspective? What is our thought process, and how much capital are we committing to these areas?

Management: We have created a stream with a strategic focus on the new energy segment. We are particularly focusing on BESS as a significant opportunity in both the Indian and international markets.

There could also be opportunities in hydrogen, nuclear, and other such areas, but they are still at a very preliminary stage. We have started bidding for some battery energy storage projects in partnership with some BESS manufacturers.

To date, we have not been successful in any of these projects, but hopefully, in the near future, we may secure some of them. The opportunity is very large in this space, both in India and overseas. This remains a focus area for us.

Analyst1: What is the current status of receivables in the water business? Earlier, the billed and unbilled amount pending was around 1,500 crores.

Management: We continue to execute these projects and have not stopped any work. On-ground execution remains healthy on these projects.

Compared to last year, the intensity of collections has improved significantly. When we declared our Q1 results, we had collected approximately 380 to 400 crores. We have received a similar amount in the second quarter as well.

At the same time, we have also executed the work on these projects. Therefore, our outstanding billed and unbilled receivables should still be in the range of 1,400 to 1,500 crores.

However, if you compare the intensity of collections with last year, it is improving. We expect the intensity to improve further in the second half of the year in our water projects.

Analyst1: The Raipur rolling mill is the first announced backward integration project. What is the annual consumption of the T&D business, and what percentage of the rolling mill will be captive? What is the expected margin accretion from this backward integration?

Management: First of all, the rolling mill is entirely for captive purposes. This investment is purely for our in-house consumption.

The capacity currently planned is estimated at around 5,000 {? metric ton ?}; sorry, the annual capacity is planned at around 150,000 metric tons, which is approximately 12,500 metric tons per

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month.

This will help us lower our inventory at the plant because it gives us much greater flexibility to roll billets into the required sections for the towers. That will help us.

If you ask me about the ROI, it is difficult to comment on the ROI. However, the payback period for the investment we are making in this plant should be in the range of 1 to 2 years. We should be able to recover the investment made in this plant within that period.

The budgeted investment cost should be around 150 crores. This is our first step toward backward integration and strengthening our fabrication capabilities.

We plan to make similar investments within our existing businesses for backward integration. This was the first step, and we will probably soon announce some other initiatives within our existing businesses relating to backward integration.

Analyst1: Hello.

Management: Yes, sir.

Analyst1: Earlier, there were some labor shortages. What is the current scenario, especially for fast-moving projects?

Management: We encountered labor shortages at the beginning of the year because of the elections, and there were some festivals after the elections. During that period, we faced some labor shortages. However, as we were closing the first quarter, the labor supply was fully on track.

In the second quarter, we did not encounter any specific labor-related issues. However, as you know, the second quarter is always affected by the monsoon. Accordingly, the intensity of execution remains slightly moderated.

In the EPC business, most of the execution happens in the second half of the year. That is how the cycle works, and this year will also follow the same pattern.

Analyst1: In the B&F data, what is the data center pipeline, what bids have we submitted so far, and what current data center opportunities do we have in the B&F segment?

Management: Within the B&F business, we work in 5 areas. The first is residential, the second is institutional and commercial buildings, the third is data centers, the fourth is airports, and the fifth is industrial and processing plants.

As far as data centers are concerned, we have completed 2 data centers, largely on the civil front, over the last few years. We are currently working on 1 more data center in the Mumbai and surrounding region.

While working on this project, we have also developed the capability to execute data centers on an end-to-end basis, including civil and MEP works. Earlier, most of the projects we executed were primarily on the civil front. We now have full in-house capability to execute data centers along with MEP works.

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We have bid for quite a few projects in the data center space. If you consider only the civil portion, the market should represent an opportunity of around 15,000 to 20,000 crores to be tendered soon. If you add MEP, the number could be 3-4 times higher.

We have bid for 2-3 large projects in this space. Hopefully, we will be able to convert 1 of these opportunities. It could represent an opportunity of between 1,000 and 2,000 crores for us this year.

Analyst1: I think the addressable market is more than 1 lakh crore. What is the opportunity size in HVDC and GIS substation projects in the domestic market?

Analyst1: What kind of capabilities do we have in those areas? Are they limited to subcomponents, or do we offer full EPC?

Kunal Jain – Head of Investor Relations: As far as our EPC capability is concerned, we have end-to-end capabilities across the entire voltage range, whether it is HVDC or non-HVDC, AIS, GIS, or any type of transmission line. In terms of capability, we are end-to-end in the segment.

The opportunity for EPC is roughly in the range of 1 lakh crore. This year, 1 HVDC project has already been awarded to PGCIL in Perth. We are currently working on 3 HVDC projects.

As far as the HVDC opportunity is concerned, we see a couple of HVDC projects every year, at least for the next 2-3 years. However, it remains to be seen whether the government converts these HVDC projects to some other technology, which is also under discussion within the ministry.

That needs to be seen. However, every year we see an opportunity for at least 1-2 HVDC projects for the next 3-4 years. The HVDC opportunity itself would be in the range of 50,000 to 60,000 crores.

GIS substations also remain a very attractive opportunity in both the Indian and overseas markets. That opportunity is difficult to quantify, but it is also significant.

As far as components are concerned, we do not manufacture any substation components. We procure these components through OEMs or third-party OEMs. In the case of PGCIL projects, most of the substation transformers are supplied by the clients themselves. For international projects, we procure them through OEMs.

Analyst1: The first Middle East water treatment order, worth 344 crores, opens a new vertical. How do you view desalination projects in the coming years? Will we be able to bid for more desalination projects, and what is the margin profile for this project?

Kunal Jain – Head of Investor Relations: Water is not a new business for us. We have been executing projects in the water segment for almost the last decade. We have executed international projects in the Maldives, Sri Lanka, and Mongolia.

In the Middle East, this is our first entry into the water space. The opportunity in the Middle East for desalination, water treatment, and water supply is very large over the next 5-7 years. The opportunity remains very large on that front.

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This is our first project in a joint venture with Wabag. Wabag is primarily the technology provider, while civil and installation activities will be carried out by us.

We see this as a very large opportunity. We have just started to qualify, and we qualify with most of the clients in the Middle East. We continue to bid.

The margin profile looks very good. It is broadly in line with our T&D and B&F businesses, which are almost in the double digits. The margin profile is therefore good, and we expect the business and tendering activity to remain very healthy over the next few years.

This is just a stepping stone, and we may enter this business in a significant way from next year onward.

Analyst1: What is the status of non-core asset monetization, especially for Shree Shubham Logistics and the road assets?

Kunal Jain – Head of Investor Relations: If you look at our road projects, all the road projects, barring 1 small project, have either been divested or terminated.

Currently, we have only 1 road SPV on our books, Brij-Bhoomi Expressway, for which only 2 years of the concession period remain. That project cannot be sold given the short timeline.

We will complete the concession period, after which the asset will be handed over to NHAI.

As far as Shree Shubham is concerned, we continue to work with consultants and advisors on how we can monetize the business. We are also divesting some of its owned assets to make the business asset-light.

Shubham now has no external debt, so its interest cost has come down. Hopefully, the business will become viable now. After that, we will evaluate the divestment options going into next year.

Analyst1: In LMG Sweden, what is the status of fundraising, and when can we expect it?

Kunal Jain – Head of Investor Relations: The LMG IPO has already concluded. We have divested 30% of our stake. The IPO took place last week, and we have already received the proceeds from the sale of our 30% stake.

Analyst1: What is the current status of the railway business? Are we seeing strong momentum in railways?

Kunal Jain – Head of Investor Relations: In railways, over the last couple of years, we have not remained very positive because of 2-3 factors.

The first is that competition intensity is very high in the railway business, given that many road players have now entered this space. Secondly, the size of projects in the conventional railway space has reduced significantly.

Due to the dilution of PQ, the size of projects is now around 100 to 200 crores, and we are not very keen to work on projects of that size. In addition, capital deployment and work-front availability in

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the railway business remain issues.

That is why we continue to remain selective regarding conventional railway opportunities, while we continue to work on metro, underground, and elevated metro rail projects.

Analyst1: We have a target of 800 crores of capex in FY27, and we have already incurred 250 crores of capex in Q1. What is the breakdown for the new Raipur rolling mill and for other projects or capacities?

Kunal Jain – Head of Investor Relations: We had guided for capex of 800 crores at the start of the year. Out of this, around 200 to 300 crores had already been incurred in the first quarter.

In this quarter also, the capex would be similar. We would be around 500 to 600 crores, and we have already reached approximately 500 crores. The Raipur investment is around 150 crores.

Given the intensity of the business and the ordering activity that I mentioned earlier, we have already reached 28,000 crores of order inflow, including L1. The order intensity therefore remains very strong, and we will be able to easily surpass the capex guidance of 800 crores.

Most of the capex is directed toward 3 areas. The first is the Raipur rolling mill that we announced. Secondly, given the requirements of the B&F business, we have to incur significant capex on staging, shuttering, and aluminum formwork.

Thirdly, for some of our international Oil and Gas projects, we need to invest in automated welding and related areas. We have also secured some elevated metro projects at the end of last year, for which there will be some capex as well. Overall, the capex is spread across the businesses.

Analyst1: What is the current scenario in the transmission and distribution market regarding right-of-way issues?

Kunal Jain – Head of Investor Relations: Right-of-way remains part and parcel of T&D projects. It is not as though it has increased significantly over the last 2 years. It was always present.

However, some large players, such as PGCIL, have a much greater capability to resolve right-of-way issues compared with small developers. Large developers have a good capability to resolve these issues.

We also prefer to work with large developers such as PGCIL because right-of-way remains within their scope. We are therefore quite comfortable working with players such as PGCIL.

Compared with the situation 7-8 years ago, the situation is much better now. Right-of-way issues are not having a significant impact on the progress of our projects. They may affect a few projects for a couple of months, but the issues are resolved in a timely manner because of the intervention of PGCIL and government agencies.

Analyst1: Considering 1,500 crores of billed and unbilled receivables in the water segment, how do you view working capital and the debt profile at the end of FY27 and in FY28?

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Kunal Jain – Head of Investor Relations: As I mentioned at the start of the call, our debt has already come down in the first quarter, both at the standalone and consolidated levels.

The second quarter was also very good in terms of collections. Apart from the water business, where there were also decent collections, we do not see any deterioration in our debt or working capital in the second half of the year or going into next year.

This remains core to us. You will continue to see an improvement in our working capital as well as our debt numbers in the second quarter and in the second half of the year.

Analyst1: Several EPC companies reported lower margins in Q1 FY27 due to commodity inflation, labor shortages, and logistics. However, our margins expanded in Q1. How did this margin improvement happen, and how do you view the coming quarters?

Kunal Jain – Head of Investor Relations: We had guided for full-year margin improvement at the PBT level of 75 bps. At the consolidated level, it could be slightly higher than 75 bps, and we are confident of achieving that number.

We have already shown an improvement in margins in Q1. In Q2, Q3, and Q4, and for the rest of the year, we will continue to improve our margins. For the full year, we will definitely improve our margin by a minimum of 75 bps.

The margin improvement is visible because of 2-3 factors. First, the projects for which we are bidding are all at better margins compared with the projects we had earlier.

Our interest cost has also come down significantly over the last 2-3 quarters, which is helping us. In addition, we are managing project execution and project closures efficiently. We are also undertaking significant optimization across the projects. These factors are helping us improve our margins.

Analyst1: Thank you. I think most of the questions have been answered. I would like to thank the management of Kalpataru Projects International Limited and all the participants for participating in the Bharat Connect Conference. Kunal, are there any final closing remarks from your side?

Kunal Jain – Head of Investor Relations: Thank you, Arihant Capital, and thank you all for attending this call. We are on track to achieve the full-year guidance we have provided.

As I stated earlier, order inflows continue to remain very strong in our core businesses, which are T&D and B&F. Thank you.

Bala – Operator: ...and {? BNM ?}, Oil and Gas. We are confident of achieving our full-year guidance. On that note, I thank you all for attending this conference.

Management: Thank you, Bala.

Bala – Operator: Thank you, everyone. We are closing the session.

Bala – Operator: Thank you very much.

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