KEC International

Operator: Hi everyone, I'm Bala from Arihant Capital. Today is the fourth day of the Bharat Connect Conference. I would like to welcome everyone to the KEC International Ltd. session. With us from the management team is Mr. Abhishek, Head of Investor Relations. The session has two parts: an introduction and recent business updates by management, followed by a Q&A session. Participants can raise their hands or use the Q&A chat box to ask questions. I now hand over the session to management. Abhishek sir, you can take it over.

Abhishek – Head of Investor Relations: Thanks, Bala. Thanks for the introduction. Good afternoon, everyone. Thanks for joining the KEC session.

For the benefit of everyone, let me give a brief background on what KEC does. Then we can go through the performance for the quarter, the outlook for the key businesses, and move to the question-and-answer session.

KEC today is a global EPC infrastructure major with revenues of 23,500 crores generated last year. We are an eight-decade-old company and part of the prestigious RPG Group. We are primarily present in five different infrastructure businesses. Power Transmission and Distribution is our largest business, with a share of around 65-70%, followed by other businesses such as Civil, Railways, Renewables, and our product business, which is Cables and Conductors.

Today, we have eight manufacturing facilities, five of which are in India and three of which are international. Of these facilities, six are for tower manufacturing and two are for cables and conductors. Globally, in terms of tower manufacturing capacity, we would be the largest, with a capacity of more than 4,80,000 tons.

We are currently executing more than 250 projects across the globe. A large number of projects are also executed in international countries. Today, we are undertaking projects in more than 15 countries across the Middle East, Africa, the CIS, the Far East, and the Americas through our subsidiary, SAE Towers.

Today, we have a very large and sizeable order book, and the L1 pipeline put together would be around 41,000-42,000 crores, which gives us revenue visibility for the next 6-8 quarters. We also have a very robust tender pipeline in excess of 2 lakh crores, which is equally divided between the T&D and non-T&D businesses. T&D has a very large pipeline in excess of 1 lakh crores.

Reflecting briefly on our performance for the last quarter, in Q1 we delivered a resilient performance. We were able to maintain our revenues despite the West Asia disruptions. We continued to strengthen our order book, and we also reduced our debt in Q1.

Our performance could have been better if we had not faced the geopolitical disruptions in the Middle East, because today approximately 20-25% of our order book comes from the Middle East. We also faced some challenges in the execution of our water projects, and the availability of labour was also a challenge after the elections in March. We have now started seeing labour availability gradually improve from June onwards.

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Order intake has been good. We have secured orders of more than 7,500 crores this year. Additionally, we have a very large L1 pipeline of close to 8,000 crores. Put together, this gives us visibility of around 15,000 crores for this year.

As you can see, while we have a very healthy tender pipeline, we are expecting some significantly large inflows to be awarded in the second half of the year. Therefore, we should be able to come very close to our guidance of 30,000 crores, which we had targeted at the start of the year.

If I briefly discuss the outlook for each of these businesses, starting with the India T&D business, the India T&D business is witnessing a significant amount of traction. There is a very strong government focus on renewable energy, so a large number of lines are being built for the evacuation of renewable power.

This year, we have secured multiple orders from leading private developers, including a couple of HVDC orders. Today, we are executing five projects in the HVDC space for developers such as Power Grid and Adani. We continue to see a good opportunity pipeline in this space.

There is one more large HVDC project scheduled to come later during the year, and the expectation is that there will be at least one HVDC project every year. There are around 7-8 HVDC projects in the pipeline.

One interesting order that we secured this year was for the evacuation of power to a data center. We are also witnessing significant demand arising from data centers, and that benefits both our T&D and Civil businesses. In Civil, we undertake a lot of data center-related civil work. In addition, data centers require a large amount of power, so the transmission lines associated with them will also have a good amount of traction.

Coming to the international T&D business, while we are seeing a temporary, or let us say challenging, environment in the Middle East, we are continuously seeing a large tender pipeline in the GCC region. These opportunities are driven by sustained investments in grid expansion. What we are seeing is that these countries now want to reduce their dependence on hydrocarbons, which is why they are continuously investing in this space and moving further into renewables.

We are seeing a focus on creating redundancy in the system. They do not want to depend on only one line; they want to create additional capacity. That is another area that is developing. There will obviously also be some rehabilitation- and reconstruction-related activities in some of these countries.

Historically, if we look at the period after wars, we have seen a large number of opportunities arise, and we expect similar opportunities to emerge in the near future.

If you look at the other regions, we are seeing significant traction in the Americas as well. Today, we have two factories in Brazil and Mexico, and we supply towers, hardware, and poles to the American countries.

The Brazil market is catered to entirely by our Brazilian tower manufacturing capability, while North America is served through Mexico. We are also seeing a significant amount of demand from the data center and AI-led boom in the US market.

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The next region for us would be Africa. We saw a period of stagnation in Africa after COVID, with no fresh investments coming in. At that point, we reduced our operations and did not have many orders. However, we are now seeing many orders coming up in Africa as well. Multiple countries are looking at expanding their transmission capacity.

Apart from Africa, we are also present in the CIS and the Far East. We undertake work in countries such as Georgia and have projects in Armenia. We also have projects in the Far East, including Thailand and Malaysia.

That was a brief overview of our T&D business.

Coming to the Civil business, we have an order book and L1 pipeline of close to 9,000 crores in that business. We are primarily present in the buildings and factories space. Around 60-70% of our order book comes from buildings and factories, followed by the Water segment.

We are executing multiple projects under the Jal Jeevan Mission, where we are facing some challenges with collections, which is an industry-wide phenomenon. We are also executing a few projects in data centers and metros. In addition, we are executing a few projects in public spaces. We recently concluded the {? Tuticorin ?} airport project, and we are building a High Court project. That is how our Civil business is spread across the different verticals.

Coming to Transportation, for the last few years we have generally been cautious in this business, considering the margin profile and working capital situation. We felt that there were not many orders coming up in the conventional domain, and most of the orders were towards rolling stock and locomotives.

Recently, the government has started refocusing on the Kavach opportunity. We have a tie-up with {? Kernex ?} and are bidding for those projects.

Apart from that, we are also looking at tunnel ventilation projects. We are primarily not focusing on projects that require power blocks from the client, because that is an area where we faced challenges earlier. The zonal or divisional railways were not able to provide us with power blocks to work on live lines. Therefore, we have stayed away from such projects.

Coming to the Renewable business, the business is generally doing well. This year, we had a significant development with our entry into the wind energy segment. I think that is a significant milestone for us.

We were targeting this segment because we had not seen many large EPC players entering it. Wind is a segment that we would like to grow. Last year, we commissioned a record 1 GW of solar capacity across two projects, and we continue to look at expanding our presence in the renewable space.

Coming to our last business, the Cables and Conductors business, this is our product business. The business is delivering good performance. Last year, we achieved the highest-ever revenues and profitability in this business.

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This is more of a strategic business for us because a large amount of cables and conductors are also used for captive consumption in our T&D and Railway projects. Around 30-35% is used for captive consumption.

Last year, we carved this business out into a separate subsidiary with a specialized leadership team focused more on product sales and delivery. We are trying to create more value in this business.

We have invested capex of close to 300 crores over the last 3-4 years. We have undertaken some debottlenecking initiatives and established a separate line for manufacturing aluminum conductors. We are manufacturing some new products, such as elastomeric cables. We have also initiated a new process, the e-beam facility.

Our plan is that over the next 3-4 years, we will create more value in this business. We expect to take this business to a sizeable turnover of around 4,000-5,000 crores. At that point, we may look at options to monetize it or list it separately. Alternatively, we may bring in a strategic investor into the subsidiary to leverage our international presence or bring in an international cables player to grow the business further.

That was more or less an overview of our businesses.

In conclusion, I want to say that we have a very large order book and a significant tender pipeline. Execution has faced some challenges, primarily on account of the West Asia-related issues, which we believe are more or less transitory in nature.

We believe these issues should ease off in the next few quarters, at least by Q3. From Q3 onwards, we should expect to deliver a good amount of growth with a sustainable improvement in margins.

That would be all. We can move on to the Q&A. Thank you very much.

Operator: Thank you, sir. We will begin the Q&A session. Participants can raise their hands or use the Q&A chat box to ask questions. We will wait for a moment.

Operator: We will take the first question from Ronak Bajpai.

Management: Yes.

Ronak Bajpai: Hello, sir. Am I audible?

Management: Yes, Ronak, you are audible.

Ronak Bajpai: Thank you very much for the opportunity. My first question is regarding your comment that we will see some sustainable improvement from Q3 onwards. What kind of margin improvement are we targeting, and what level can we sustain?

Management: Ronak, if you see, until last year we had delivered margins of 7% for the full year. This year, in Q1, we saw a slight decline because of the modest revenue growth, as we had a revenue spillover of approximately 300-400 crores in the Middle East.

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What happens, Ronak, is that in Middle Eastern countries such as the UAE, a large amount of supplies is imported from countries such as China and countries in Europe. This includes equipment such as transformers and GIS. All these items are imported.

Because of the Middle East crisis, there is a significant increase in the shipping lead time for these items. That is why we had a shortfall of 300-400 crores in the first quarter, which affected our margins.

We have also seen some impact in Q2, obviously because the war is continuing. One positive development is that in Q1 there was a complete standstill in the movement of these materials. No movement was taking place. This quarter, movement has started, although the lead time is still high.

Our view is that we should be able to recoup some of the high-margin revenues that were lost in Q1 and Q2, and some portion should definitely come in Q3. That will lead to some improvement because these are all T&D projects with project-level margins that are much higher and in double digits.

Therefore, we should see some improvement from Q3 onwards. Growth should also pick up, and the margin trajectory should be much better in H2 compared with H1.

Ronak Bajpai: Understood, sir. Building on the Middle East war situation, I think another war is beginning to take place in Saudi Arabia. Will that have any impact on H2? Are we considering that a threat right now?

Management: Ronak, in Saudi Arabia, what we have seen is that most projects require materials to be procured locally. Saudi Arabia has an in-country value concept under which towers are generally procured locally.

Therefore, in Saudi projects, as long as the supply chain continues to function, we are not significantly impacted by the supply chain situation. Even now, all our Saudi projects are generally moving as per schedule.

We do not see much impact in Saudi Arabia. Execution appears to be generally fine. Our main issue is with the tendering process. In the Middle East, we have a very large tender pipeline, but finalization of the pipeline is being delayed.

In H1 of this year, we have not seen many awards in the Middle East. We are observing this carefully and are in discussions with the utilities in the Middle Eastern countries. Their view is that once the war moves towards a stable situation, we should see more orders being awarded in these countries.

Ronak Bajpai: Understood, sir. My final question is regarding the government's Kavach projects. Can we get a number for the pipeline, what we are bidding on, and the win ratio? Also, since we are entering multiple new segments, including wind energy, while T&D contributes 70%, can we see some diversification in the near term, over the next 2-3 years, with multiple segments contributing more?

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Management: Ronak, let me first answer the Kavach question. In Kavach, equipment-related approvals are available with three parties: Kernex, Medha, and HBL. We have a tie-up with Kernex. For all Kavach-related projects, Kernex is the equipment OEM partner and we are the EPC partner.

The opportunity is not significantly large considering our size and scale. Since we are being very selective in Railways, this is one area that we are looking at. Annually, we would be targeting revenues of approximately 1,000 crores from this business. Not from the Kavach business. The Kavach business would not be larger than that. Therefore, it is not a very large business for us.

Coming to the diversification aspect, Ronak, our idea is to keep T&D in the range of 65-70%. There are significant tailwinds both in India and in international markets.

In India, Power Grid is announcing a significantly large amount of capex. There is also significant traction among developers. You may have seen many new developers entering the space, such as Sterlite, SG Infra, GR, Reliance, Adani, Sterlite, Indigrid, and {? Reson-ia ?}. These players are already present, so the developer space is heating up.

In the EPC space, we are not seeing many available players. Our nearest competitors would include Kalpataru and Transrail. L&T does not do much in India; it is more focused on the Middle East and those regions. There are 3-4 players with whom we generally compete in India.

Therefore, with the traction we are seeing in T&D in India and the Middle East, overall T&D should continue to have significant traction and grow by at least 15-20%. This should keep its share high, in the range of 65-70%.

Diversification will come gradually through Renewables. Apart from solar, since we have now started undertaking wind projects, Renewables as a business may grow in excess of 20%. We will target growth in excess of 20% for the next few years.

Today, the business has an order book of close to 1,000 crores. Our idea is to gradually grow it. However, margins in Renewables are not as attractive as those in T&D.

We are not very focused on Railways and are de-growing that business. In Civil, our focus will primarily be on industrial projects. We will have a selective focus on residential and commercial buildings, and we are not focusing much on metro and water projects.

In Water, we have had a difficult experience with government payments for Jal Jeevan Mission projects. Therefore, we are not looking to take more orders in Water. Similarly, in metros, we executed a few elevated metro projects where we did not have a good experience in terms of project completion. We would therefore like to avoid these segments.

Civil should generally grow around the corporate level of approximately 15%, so its share should be around 15-20%.

One area where we will see greater diversification is Cables and Conductors. We commissioned the conductors factory in March 2025 with a capacity of 25,000 tons. We are manufacturing all types of aluminum conductors, including AAAC, ACSR, and Al 59. The capacity should be able to generate annual revenues in the range of 600-700 crores.

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Given the traction we are seeing in India T&D, we are looking to double that capacity. That will be one area of growth.

As I mentioned earlier, we are also introducing new products. We are coming out with elastomeric cables, which are flexible cables. We are also looking at new conductors such as HTLS conductors and other products.

This will lead to some diversification and growth in the cable business. The cable business will also increase its share from 10% to around 15%.

That is how the diversification will take place.

Ronak Bajpai: Understood, sir. Thank you very much. That is all from my side, and all the best for the future.

Management: Thank you, Ronak.

Operator: Thank you, sir. We will take the next question from Karan Gupta. Sir, you are unmuted.

Karan Gupta: Hi. Am I audible?

Management: Yes, Karan, please go ahead.

Karan Gupta: My question is regarding the transmission and distribution side. I wanted to understand the order pipeline, the industry opportunity, and the expected annual pipeline on the transmission pole side.

Management: Karan, if you look at the tender pipeline for us today, over the next 2–3 months, the tenders we have already quoted and the tenders in the pipeline put together amount to around 1 lakh crores.

Of this, India would account for approximately 40,000–50,000 crores, with the balance coming from international markets.

Our target for T&D order intake this year is 18,000–20,000 crores. The bulk of this will come from India. In India, we are targeting order intake of 8,000–10,000 crores, while the balance of approximately 10,000 crores would come from international markets and SAE, which is our American subsidiary.

If you look at the overall tender pipeline in India, annually we are seeing a pipeline of around 60,000 crores. Last year, it was 60,000 crores, while the year before that it was much higher. The year before that also included a couple of HVDC projects, which is why the pipeline was in excess of 1 lakh crores.

Last year, the pipeline was slightly lower because there was only one HVDC project, which was secured by Adani. This year, however, the pipeline is looking very attractive again. One HVDC project has already been won by Power Grid, and we are expecting one more HVDC project to come in.

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Therefore, this year the India T&D pipeline should also be close to at least 80,000 to 1 lakh crores.

As I mentioned, the developer space is becoming more interesting, Karan. While we are focused more on Power Grid, it is encouraging to see more developers entering this space.

Power Grid has announced a significantly large amount of capex of approximately 1,10,000 crores or 1,30,000 crores to be executed over the next 3 years. We have a market share of 20-25% in Power Grid, so a large amount of orders from Power Grid should come to KEC.

Along with the other developers we work with, we are not very keen on working with one-time developers. However, we are continuously working with other developers such as Adani and Reliance. We have very good exposure to Adani and good exposure to Sterlite and Indigrid. We are working with all these players in India.

Similarly, if you look at the international market, Karan, the overall annual pipeline is significantly high in the Middle East. The pipeline in the Middle East would be approximately 50,000 crores.

The only challenge is that finalization is taking some time because of the current situation. We will have to understand how things develop. We have considered order intake of 3,000-4,000 crores from the Middle East this year. We expect a few orders to be converted in the second half of the year.

The pipeline in America is very robust, with both our Brazil and Mexico factories completely loaded for the next 1-1.5 years. Our order book in SAE today is 3,500 crores, and annual revenues there are close to 2,000 crores.

We have very good visibility of 1-1.5 years of execution in both the Mexico and Brazil factories.

Apart from the Americas and Africa, as I mentioned, we are seeing an improving trajectory, with more tenders being announced in Africa.

SAARC is an interesting market. With political stability now emerging in Nepal and Bangladesh, we should see some orders there. We are very clear that we will take only funded orders, so we are not taking any exposure to sovereign funding or client funding. These projects are generally funded by EXIM India or the Asian Development Bank.

T&D looks very robust from a pipeline perspective, and our target is for it to grow in the range of 15-20% for the next few years.

This growth will be driven by the pipeline. We have a very large tower manufacturing facility, which we recently expanded by 20%. We also manufacture conductors, so we control a large part of the T&D value chain from that perspective.

Karan Gupta: Okay. So in this T&D... [inaudible]

Karan Gupta: Manufacturing, what is the asset turnover and profitability margin profile? What is the take rate on the Indian order pipeline?

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Abhishek: Karan, if you look at T&D projects, the margins will depend on the project. Some projects will have margins as high as 20-25%, while some projects may be strategic, with lower margins. On a blended basis, however, the margins are in the double-digit range.

Returns are in excess of 25%, referring to return on capital employed. The working capital requirement is not very high. Net working capital would be less than 100 days or so in T&D projects.

It is a very good business for us, which is why we want to keep its share the highest. Our objective is to keep it at around 70%.

Karan Gupta: 70% of the portfolio?

Abhishek: That is correct.

Karan Gupta: What take rate can we expect from the Indian market?

Abhishek: Margins in the Indian market would also be around 8-10%. Projects in India also have double-digit margins.

Karan Gupta: So, 8-10% margins in India and 20-25% on the export side?

Abhishek: The 20-25% figure refers to the overall return on capital employed. EBITDA-level margins would generally be in the double-digit range.

Earlier, exports used to have slightly better margins because the cost of capital was slightly lower there. However, we are not seeing much difference now. A difference of 50 basis points here and there is acceptable, but generally we are not seeing any significant discrepancy between the margins of Indian and international projects. Generally, they appear to be at par, at double-digit levels, in T&D.

Karan Gupta: In the Indian market, we have an order pipeline of 80,000 to 1 lakh crores for this year, FY27. What share can we expect in the bidding pipeline?

Abhishek: Our share would generally be around 10% overall. However, this is the overall tender pipeline. The addressable pipeline would be slightly lower because we may not bid for all the projects.

As I mentioned, we are not bidding for all projects involving new developers such as {? Seagull ?}. Therefore, we may not bid for those projects.

The general addressable market would be slightly lower than the overall pipeline, in the range of 50,000-60,000 crores. Of that, we generally have a market share of 15-20% in overall India T&D.

Karan Gupta: Understood. 15-20%.

Abhishek: Yes.

Karan Gupta: Thank you.

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Operator: Thank you, sir. We will take a few questions from the chat box. The first question is: You have guided for net debt to come down to approximately 5,500 crores by March. How much of that depends on one-time collections such as Afghanistan, JJM, and retention money, and how much comes from regular operating cash flow?

Abhishek: I would say that the majority of it is coming from one-time-related inflows, towards which the outflows have already taken place.

We have a clearly demarcated plan for achieving debt levels of 5,500 crores. If I break it up, 300 crores will come from Afghanistan. We have received letters from the Asian Development Bank stating that the money will be paid to us in September. We are seeing some delay, so instead of September it may happen in October, but that money will definitely come. There is no doubt about it. The amount is around 300 crores.

The second component is obviously the water business and Jal Jeevan Mission projects. We have outstanding receivables of around 800 crores in that business. We were executing 10 projects in the states of Odisha and Madhya Pradesh.

All the projects are in advanced stages of completion. The pending order book in these projects would be approximately 1,200 crores.

We are receiving small amounts every month towards collections, and we are continuously maintaining a cash-and-carry situation in this business. We therefore expect these payments to come in. The amount in Water is 700 crores.

The third component is the significantly large number of projects scheduled to be completed in Saudi Arabia. Three years ago, there was a bunching up of order intake in Saudi Arabia, and retention there is higher.

These projects are scheduled to be completed in H2. Most of them will be completed in Q3 and Q4. We expect the release of at least 200 crores upon completion of these projects in Saudi Arabia.

Apart from these three components, there are some claims and related matters in Transportation and metro projects in Civil. We are targeting another 100-150 crores of payments from these areas.

Put together, these are the one-time cash flows we are targeting.

Apart from normal receivables, we also currently have an elevated level of inventory because of the volatile environment. Considering the high steel prices, we have maintained some buffer inventory. Also, because of the West Asia crisis, inventory levels at our Dubai factory are slightly higher.

Our view is that we should also be able to liquidate inventory worth approximately 200 crores by the end of the year.

These are the levers we have identified, and cumulatively they should reduce debt by at least 1,000 crores by the end of the year.

Operator: Yes, sir. We will now take a question from Sagar. Sagar, you are unmuted.

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Sagar: Hi, sir. Am I audible?

Abhishek: Yes, Sagar, you are audible.

Sagar: My question is primarily about top-line growth. I understand that we are facing difficulties in the current year because of the West Asia crisis. However, if I look at the last 3 years of growth, we grew around 9% in FY25, then 7%, and this year we are targeting approximately 12-15%.

My question is, despite having such a large order book, why are we not able to grow at double-digit rates, as we used to in FY23-FY24? What execution challenges are we actually facing?

Abhishek: Sagar, if you look at the growth numbers, last year in March we again saw an impact from the Middle East, because of which we lost approximately 300-400 crores of revenue in Q4. Otherwise, we would have delivered double-digit growth, close to 12-15%, last year as well.

I would have to check the year before that. However, in the current year, despite the West Asia crisis, we have given guidance of 12-15%. That is because of the strong T&D order book we have.

Even with the West Asia crisis, if the war continues into Q3, the 12% figure may become 10%. However, in the base-case scenario, 10% is definitely achievable.

From the following year onwards, our view is very clear: based on the order book we have, 15% growth should not be a challenge for us. From next year onwards, sustainable growth of 12-15% is definitely possible.

Sagar: It is also about working capital days. If I look at them, they have been stretched compared with last year. What exactly led to this, and what is the outlook for next year?

Abhishek: Sagar, there are 3-4 reasons. I just mentioned the plan for reducing borrowings.

Obviously, we have a large amount of money, approximately 300 crores, stuck in Afghanistan. That contributes to approximately 6-7 days of working capital impact.

Similarly, we have receivables of 800 crores in Water that are stuck because we are not receiving payments from the government for the Jal Jeevan Mission projects.

We also have a high level of inventory because of the strategic inventory we are currently maintaining due to elevated steel prices. In addition, inventory at the Dubai factory is slightly higher.

All these factors together are creating a slight elevation in working capital. Our view is very clear: with the 1,000-crore reduction we are targeting this year, we should be able to reduce working capital days to approximately 115 days by the end of the year.

Sagar: Thank you very much. That is all from my side.

Operator: Thank you, sir. We will take the next question from Rahul Jain. Sir, you are unmuted.

Rahul Jain – PNB MetLife: Hi. Am I audible?

Abhishek: Yes, Rahul. Please go ahead.

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Rahul Jain – PNB MetLife: Abhishek, this is Rahul Jain from PNB MetLife. My question is regarding margins.

Last year, the March-ending order book was around 33,000 crores, of which approximately 60% was T&D, while Civil was 26%. Where are we losing margins? Our Q1 margin was 5%. When do we expect to see margins of around 8.5-9%?

T&D is a larger part of the business, at 60%, and you mentioned that it has double-digit margins. Exports are also strong in that area. When do we expect to see that level of margin, and where are we missing? Which segment is causing the margin shortfall, and where is the actual impact?

Abhishek: Rahul, the margin pressure is clearly coming from Railways and Civil. T&D is in double digits. The Cables and Conductors business is around the 6-7% mark. Renewables is also performing reasonably well, at around 6-7%.

In Railways, we have been continuously reducing the size of this business for the last few years. Our focus has been only on taking orders that are not dependent on receiving power blocks from the client.

This is an industry-wide issue. Most EPC players are continuously reducing their order books in the Railway business.

Competition continues to be very high in this business because NHAI has almost dried up, so most road players and Tier 2 contractors are entering Railways. The number of players is very high at the time of bidding.

After that, there are multiple zonal railways. There are 22-25 clients. These clients have started handling Railway projects only over the past few years. Before that, the projects were handled directly by PSUs such as RVNL, CORE, and IRCON.

The new zonal railways do not have a full understanding of how a contract or project generally works.

For example, in a speed-upgradation project that we are executing for the Mumbai-Howrah, Delhi-Howrah, or Mumbai-Delhi routes, these are high-density routes where the tender requires power blocks for 8-10 hours.

Earlier, RVNL was able to provide these power blocks, but the zonal railways do not have the same influence and are not able to provide the required power blocks.

All these factors are leading to significant delays in Railway projects. Most of these escalations are being submitted as claims to the divisional railways, but they do not have the understanding or capability to deal with these matters. That is why most of these cases are moving into arbitration.

We expect to come out of these Railway-related arbitration cases by the end of this year at the latest. From next year onwards, Railways should start moving back to profitability.

That is the situation in Railways.

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Coming to Civil, Rahul, Civil is a business that we started 5 years ago. You may recall that we were primarily present in T&D. Since T&D was not growing at that point, we diversified and created this new Civil business so that the required growth could come from it.

We gradually started taking projects in Civil. We began with buildings and factories, then moved into Water, metros, and other projects.

Generally, buildings and factories have been decent. They have delivered mid-single-digit margins and have performed reasonably well for us.

In Water, we are facing significant payment issues. Payments are not coming in, so the projects have been extended because we are executing them on a cash-and-carry basis. The margins remain positive, but they have definitely been hurt.

Metros are one major area where we saw a significant impact on profitability. Virtually all of those projects have been loss-making.

We were executing four metro projects for DMRC and CMRL. One of them has been completely handed over and inaugurated by the Prime Minister; that was the DMRC project.

The other two completed projects, one for DMRC and one for CMRL, are awaiting inauguration by the PMO. The date for the DMRC project has not yet been announced. For CMRL, the inauguration is scheduled for October.

The projects were completed at least 6-9 months ago. Until the flag-off takes place through the PMO, maintenance of these lines remains our responsibility.

What happens, Rahul, is that maintenance generally costs approximately 5-7 crores for these projects. This creates a significant margin issue because until the projects are handed over and inaugurated by the PMO, these costs continue to be charged to the profitability of the metro projects.

There is one project whose execution is still ongoing. It is expected to be completed by March or April and is for CMRL.

Since these metro projects were delayed, we also have a large number of claims and arbitration cases ongoing in these Civil metro projects. These matters will take some time, and our view is that they should also be closed by the first half of next year at the latest.

This year, because of the issues we are facing in Railways and Civil, as well as the challenges in West Asia, we are seeing subdued margin levels.

Our view is that Q1 and Q2 should be similar. From Q3 onwards, as revenue increases slightly, we should see some improvement in margin levels.

On an overall basis, while we have not given formal guidance, we do not see margins going above what we achieved last year. FY26 was 7%, and this year I do not think we will be able to go beyond that.

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From FY28 onwards, we should definitely return to the margin levels at which we were operating previously. From FY28 onwards, we will start seeing the actual improvement in margins because by then we should have largely resolved the West Asia issues and the Railway and Civil arbitration matters should be more or less out of our books.

At that point, the T&D margin levels of 10% will no longer be offset by the losses we are currently facing in these two businesses. Margins should begin to be reflected at the consolidated level closer to the 7%, 8%, or 9% levels that you mentioned. That is how the margin trajectory should develop thereafter.

Rahul Jain – PNB MetLife: I believe your Civil business, including Transportation, is around 25–30% of the business. Is it operating at very low single-digit margins, or is most of it loss-making?

Abhishek: No, it is loss-making. It is loss-making.

Rahul Jain – PNB MetLife: That is what is affecting the overall numbers. You have filed for arbitration regarding claims related to delays or cost escalations. What amount can we expect through these arbitration claims in FY28–FY29?

Abhishek: It is very difficult to give you an answer, Rahul, because what happens is that, for example, in a Railway project, we may have outstanding accounts receivable of {? 50 crores ?}.

We may enter arbitration. Before entering arbitration, we may discuss the matter with the client and say, “Please pay us this amount. It is relevant and legitimate, and it is something you are required to pay.”

The client may say, “I will not be able to pay 50 crores. I will be able to pay only 30 crores.” That is when we move into arbitration.

Suppose the arbitration award is then issued for 40 crores, out of the 50 crores claimed. We go back to the client and say, “The arbitration award has now been issued for 40 crores. Please pay us this amount.”

At that point, the client may say, “Please finalize this at 30 crores.” The matter then moves into another dispute, and the client may say, “I will now approach the High Court.”

That is why it is very difficult to give you a straightforward answer. A lot will depend on how the arbitration proceedings progress.

However, when we provide guidance for the current year and the next year, we have considered these numbers accordingly. We have considered that our arbitration-related cases involving 300 crores, 400 crores, and {? 500 crores ?}, and the amounts involved, may require some provisions. Only after considering those provisions are we providing these numbers.

There may be a variation of 50 basis points here and there, but not beyond that.

Rahul Jain – PNB MetLife: What is the total amount of arbitration claims as of the current date?

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Abhishek: The arbitration claims currently would run into thousands because claims are filed for every issue, large or small.

For example, in metros, one metro project is worth approximately 1,000 crores, so there could be claims of {? 1,000 crores ?}, or claims in the range of 500–2,000 crores, in those projects.

Therefore, the overall number would not be meaningful.

Rahul Jain – PNB MetLife: Can I consider that 50% of whatever arbitration claims come to us would be exceptional cost escalation?

Abhishek: It is very difficult to consider that because these claims will be divided across multiple years.

Some claims relate to the past and are in arbitration. Some are in conciliation, and some are at the filing stage. The stages are different for all of them. The levels of discussion are also different, and the timelines vary significantly.

All these factors put together are what we are discussing.

Generally, if you want to understand the opportunity, next year we are targeting at least 200 crores of claims-related cash flows to come in.

Rahul Jain – PNB MetLife: Thank you. That is all from my side. I hope to see better margins and better working capital days and net debt in the future.

Abhishek: Definitely, Rahul. Thank you.

Operator: Thank you, sir. Due to time limitations, this will be the last question. I would like to thank KEC International Ltd. management and all participants for participating in the Bharat Connect Conference. Abhishek sir, do you have any final closing remarks?

Abhishek: Thank you, Bala, for hosting us. Thanks to all the participants for your interest in KEC.

I want to say that we have a very large order book. This large order book is driven by T&D, which operates at double-digit margins.

We are facing a few issues that are occurring simultaneously, such as the West Asia war, concerns related to water projects, and some challenges in working capital.

We believe most of these issues are transitory in nature. They should be resolved over the next few quarters. After that, from next year onwards, we should definitely see normalized margin levels return, and gradually the T&D margins should be appropriately reflected in KEC's margins.

Thank you for your interest.

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

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