KALPATARU PROJECTS INTERNATIONAL LIMITED
(Formerly Kalpataru Power Transmission Limited)

"Kalpataru Projects International Limited

Q1 FY '25 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day, and welcome to the Kalpataru Projects International Limited Q1 FY '25 Earnings Conference hosted by DAM Capital Advisors Limited. 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 the star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Ms. Bhoomika Nair from DAM Capital Advisors Limited. Thank you and over to you, ma'am.

Bhoomika Nair: Thanks, Steve. Good morning everyone and a warm welcome to Kalpataru Project International Limited Q1 FY '25 Earnings Call. We have with us from the management, Mr. Manish Mohnot, Managing Director and CEO, Mr. S. K. Tripathi, Deputy Managing Director, Mr. Sanjay Dalmia, Executive Director, Mr. Amit Uplenchwar, Director, Group Strategy and Mr. Ram Patodia, President, Finance and CFO. At this point, I'll hand over the floor to Mr. Mohnot for his initial remarks, post which we'll open up the floor for Q&A. Thank you and over to you, sir.

Manish Mohnot: Thank you, Bhoomika

Good morning, everyone, and thank you for joining us for our earnings call today. It's always a pleasure to connect with all of you. Let me first start with a quick update on the operating context before I get into more details on our performance for first quarter of '25. We have delivered a noteworthy performance on the revenue front with sustained earnings in the first quarter of '25. As most of you are aware that the first quarter of every fiscal generally typical seasonality of low labor availability and delayed collections. However, the severity this time was intense given general elections as most of the manpower did not return to the sites timely, leading to lower-than-expected growth.

Secondly, delay in collections from state utilities on back of pending budgetary allocations in the Water segment also impacted revenue and collections for water business. Starting July, we have started to see improvement in collections in the water business, and we expect further moderation in debt levels and normalization of working capital in coming months itself.

On the brighter side, business visibility remained strong and back of rising demand for electricity, energy transition and increased focus on infrastructure development. The recently announced Union budget also reiterated the government's thrust on capital expenditure and infrastructure. This is amply demonstrated from the fact that in the first 4 months of FY '25 itself, our order inflows, including L1 positions have reached around INR12,000 crores. More importantly, nearly 90% of the new orders secured, including the L1 in the recent past are in Transmission & Distribution and Building & Factories businesses. These orders have bidded and secured better margins, which is in line with our focus to improve profitability going forward.

Coming now to our performance for Q1. Our consolidated revenue is up by 8.2% to INR4,587 crores. Four out of our six businesses have generated strong double-digit revenue growth and particularly our flagship business, T&D grew by 32% and B&F by 23% in first quarter '25. The growth is driven on back of excellent backlog and robust project execution capabilities. I will further detail on each of the segments as we move ahead.

It's been highlighted earlier, we've started the year on a strong footing of order inflows front. We have secured orders of over INR7,000 crores to date in FY '25 and additionally have L1 of around INR5,000 crores. Our order backlog is up 21% to INR57,195 crores at the end of June '24.

Our consolidated EBITDA stands at INR378 crores with a margin of 8.2%, while stand-alone EBITDA remained steady at INR314 crores with a margin of 8.4%. The performance on the EBITDA front largely reflects the nature of the project mix and increased investments in resource augmentation.

Additionally, as a part of financial prudence, we generally provide 1.5% of our revenue towards warranty guarantee provision. Starting this year, we've also bought JMC business at same level at KPIL. This has led to increase in additional provision of INR30 crores in Q1.

The rise in finance cost is due to increase in working capital intensity and unrealized forex loss of approximately INR17 crores on foreign currency borrowings in our subsidiary in Brazil.

Our net debt at standalone level is at INR2,907 crores. As indicated earlier, working capital intensity started to moderate and we remain committed to bring net working capital days in our EPC business from the current level of 124 days to below 100 days business by end of '25. We believe a significant improvement would start from Q2 itself.

In Q1 '25, consol PBT amounted to INR137 crores and PAT at INR84 crores. Similarly, standalone PBT stood at INR164 crores and PAT at INR117 crores. The PBT and PAT for Q1 '25 are in line with the revenue and operating trends. Our provision for taxation as percentage of PBT is at 28.7% in standalone business and 38.7% in consol business, which is slightly higher due to mix of revenue profit in international markets with higher tax and donations, which are not tax deductible.

Moving to segmental performance for the quarter. Firstly, in the T&D business, we have been stating since last few quarters that the outlook for T&D business remains very robust in India and globally marked by rising demand for electricity, energy transition and necessary improvement required in the grid infrastructure. Our tendering activity remains robust in India, Africa, Middle East, Americas and Europe. Our T&D business secured orders totaling INR3,377 crores with an additional L1 position of INR3,900 crores. We expect tendering and ordering momentum to remain strong for balance part of the year in this business. We continue to scale up our T&D business, both in terms of our global reach and capabilities in HVDC substation design and engineering, just to name a few. Notably, the new orders received in the last few quarters in the T&D business added better margins, giving our focus to improve profitability of the business going forward.

Our T&D business reported a strong growth of 32% Y-o-Y to reach INR1,843 crores, on back of a solid order backlog in domestic and international markets. Our international subsidiary, LMG Sweden reported highest quarterly revenue of INR449 crores with a record all-time high order book of INR3,076 crores. It also secured its largest ever order to INR750 crores in Q1. In Brazil, Fasttel's performance has improved on back of closure of legacy orders. It has reported revenues of INR 230 crores in Q1 with breakeven at PBT and had an order book of INR1,200 crores. Our overall T&D order book is well diversified and stands at INR20597 crores as of June 30, 2024, providing good visibility for robust revenue growth in '25 and for next few years.

In our B&F business, revenue is up by 23% Y-o-Y to reach INR1,226 crores. This growth is driven by strong order backlog and a healthy mix of projects. We continue to make good progress by improving the market position in large site EPC projects, and we have secured a large industrial and a prestigious high-end residential housing project this year. This advancement will greatly enhance our capabilities and provide us with good competitive edge going forward.

Ordering activity in the B&F business remains robust with order inflows of approximately INR2,300 crores and an additional L1 of over INR1,000 crores so far in FY '25. We will continue to be selective for the orders that have better margin, that are lower on capex and a better value addition. We anticipate our B&F business to maintain double-digit growth supported by healthy order book and solid business visibility.

Our Water business reported a decline of 22% in revenue to reach INR704 crores for Q1. As indicated earlier, the business was primarily impacted due to delays in collection from state utilities given general elections and delay in budgetary allocations.

Additionally, shortage of manpower also led to lower progress on several of the large projects. We have taken several initiatives to ramp up execution and improve availability of manpower. Further, collections have started to improve in the Water business starting in July itself. With a robust order book of INR9,800 crores, we are confident that growth momentum will pick up in coming quarters in this business. Additionally, the government thrust on improving drinking water, irrigation and sanitation continues as the same, which was indicated in the recent budget, and we expect the business to continue its growth trajectory going forward.

In our oil and gas business, we reported revenues of over INR250 crores with 18% Y-o-Y growth. This improvement is attributed to better project progress in domestic business. Our order book stands at over INR8,700 crores as of June 30, 2024, in the oil and gas business. We have mobilized the required resources for the Aramco project and started with design and engineering activities. The progress on the project is expected to pick up in the coming quarters.

We are looking to strategically scale up our oil and gas business, both in terms of our capabilities and market reach. In our urban infrastructure business, revenue reached over INR180 crores, showing a Y-o-Y growth of 18%. The growth was slightly below expectations mainly due to manpower shortage. We are upgrading our capabilities and execution bandwidth in the urban infrastructure business and are confident that the business will deliver strong performance in the coming quarters.

In the railway sector, revenue decreased to INR242 crores, reflecting our focus on project completion and selective bidding in light of intense competition. We continue to focus on segments like composite rail projects, Metro Rail, RRTS, DFCC, etc. in the railway business.

In our Road BOOT project, daily revenue increased to a record high of INR63.6 lakhs in Q1 '25, up from INR61.7 lakh per day a year earlier and INR60.3 lakhs in the preceding quarter. Our combined investment in all 3 road SPVs stands at INR790 crores, including INR25 crores provided in Q1 '25 mainly towards debt repayment and major maintenance. We are at advanced stage of divestment of VEPL and are hopeful to complete the signing of the transaction this quarter.

In closing, I would like to reiterate our guidance for FY '25. First, a combination of well-diversified order book, execution expertise and a strong balance sheet gives us confidence to achieve our annual revenue growth guidance of 20% plus. Second, business outlook and tendering activities remains robust. In this backdrop, KPIL is focused on orders that have better profitability, higher returns and enables us to improve our capabilities and competitive position. We are targeting order inflows of INR22,000 crores to INR23,000 crores for full year '25. The growth in the order inflows will be led primarily by the T&D and B&F business in the current year.

Third, regarding margin guidance, let me reiterate that we expect margins to improve going forward. We believe our PBT margin to be in the range of 4.5% to 5% for FY '25. Lastly, the underlying strength of our business model is based on profitable growth and maintaining a strong balance sheet. Going forward, our prime priority is to further strengthen our balance sheet through efficient working capital management, timely project closures and divestment of non-core assets.

We will continue to keep our debt levels aligned with business growth by targeting net working capital below 100 days and interest as a percentage of revenue at 2% on a stand-alone basis.

Thank you for your attention. We can now begin taking questions.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Subhadip Mitra from Nuvama.

Subhadip Mitra: My question is with regard to the margins, while you have given us the guidance at the PBT level. Where do you see your EBITDA margins stabilizing? And do you see a recovery from second quarter itself? Or will it be more of a second half story?

Manish Mohnot: I think on EBITDA margins, we believe we should be at the level of 8.5% to 9%. But as I said earlier, we're more targeting the PBT guidance at 4.5% to 5%. As far as recovery is concerned, we are seeing recovery coming in Q2 itself, primarily because collections have started coming in from some of the businesses and interest cost has started going down, and that will help us achieve our PBT margins what we have guided. So we should see some recovery in Q2, but a significant recovery should start coming from Q3 and Q4.

Subhadip Mitra: Understood. Secondly, with regard to the promoter pledge, now that has inched up again. And we are all aware how this has been a bit of an overhang for the stock in the past. So is there something that we need to be aware about? Is there any pressure on the real estate business because of which this is moving up? And secondly, is there a targeted range where you expect this promoter pledge to be?

Manish Mohnot: So I think promoter pledge currently has not gone up as compared to what we have seen in the past. From data which is in front of me, the promoter pledge as on date is at 28.8% levels lower than the 31.5%, which were on 31st March. The promoters have also repaid some of their loan against shares in the last 1 month, and that was already notified by us to the exchanges. Our understanding from promoters is that pledge will only continue to go down from here. And we're already at 28% level. So you should see it only going downwards. And there is no way it would increase at any cost.

Moderator: The next question is from the line of Parikshit Kandpal from HDFC Securities.

Parikshit Kandpal: Congratulations on a decent quarter. So you spoke about some of the one-offs during this quarter. I think said some additional provisioning and some donation. If you can quantify what were the numbers above EBITDA line?

Manish Mohnot: So Parikshit, you are aware that we always provide at 1.5% as our provision for warranty guarantee first erstwhile KPTL business. We have slowly migrated the erstwhile JMC business to also this level. It was a 0.5% earlier, went up to 1% and from the current year, it was at 1.5%. Typically, it's a provision which comes back once the project gets closed. And today, we have a provision of closer to INR350-plus crores on our balance sheet on warranty guarantee. As far as Q1 is concerned, there was an additional impact of INR30 crores coming out of this provision, which was budgeted.

So let me be very clear saying that it wasn't something, this was budgeted. And even with that, we believe we should be at margins of 4.5% to 5%. So that is as far as the provision is concerned, because now all businesses, we are doing it at 1.5%. Secondly, we had some donations, which I do not have the exact numbers with me, which were not tax deductible, which happened in Q1, which was again one-offs, which we shouldn't be seeing going forward. And that's why our tax rates are high. And again, as I said, that was also budgeted, right? So this was not that our targeted numbers change because of that, but those are all provisions which happened in Q1.

Parikshit Kandpal: And you said forex loss was about INR17 crores, right, above EBITDA.

Manish Mohnot: So that is definitely a onetime. So our subsidiary Fasttel in Brazil has taken a loan from EXIM , which is hedged for the next 5 to 6 quarters in terms of repayment. There was volatility in the Brazilian currency over the quarter end, which has now, again, come back to reasonable levels, and which had a gross impact of INR24 crores and the net impact of INR17 crores in our consolidated numbers.

We believe that's more about timing because we are hedged for the next 5 to 6 quarters already for repayment. And this could come back in the next few quarters for sure.

Parikshit Kandpal: Okay. And my second question is on the promoter stake sale in this quarter. So typically, what we have seen is that most of the time promoters stake sale is guarded by kind of covenants on debt. So does it in any way impact our -- I mean, has it already like some of the banks would have invoked these covenants and we need to refinance some of the debt. And if yes, then how -- at what point of sales like we are there in terms of refining. Have you already secured the new funding lines if that has been triggered?

Manish Mohnot: So Parikshit, yes, there were covenants on promoter stake levels. I think we have had discussions with the bankers during the last 1 month on this matter, and the bankers have understood and supported us in this process. A lot of covenants have already changed, some of them are getting changed. We did not have any impact, any significant impact on the banking side, although temporarily for a few weeks, there was this conversation and all of that.

As we stand today, all our banking lines are fully functional, all our lenders stay committed to us, and we do not see any concerns on that front. Also, the stake sale was primarily directed towards a filing of DRHP by a real estate business. We've been given to understand by promoter that the documentation is at advanced stage and the filing is expected this year.

Parikshit Kandpal: So I mean when you, thanks for touching that point because if the filing happens, so and in case of say, eventual listing, so how does it change the entire promoter pledging on because then it becomes like pledge on this company for a loan given to the entity supposed it gets listed. So how does the pledging change? And do you think there's a pathway wherein the pledge will reduce to 0 in that scenario?

Manish Mohnot: So our discussion with promoters over the last few years on this matter has been very, very clear. They believe it will continue to come down and gradually reach those single digit if not lower numbers in the next few years.

Parikshit Kandpal: Even post listing, the pledge will entity and do you think after lifting of the real estate entity, there is no relation between the two in terms of -- do you think that still KPIL will continue to support through the pledges to the promoter listed entity.

Manish Mohnot: So I do not have the exact timing on that, Parikshit, but our discussion as I said earlier will continuously come down. Whether will it come down significantly into a post listing or will happen in a few quarters from now, is something which we will to discuss with the promoter. But the good part is the guidance is it has to come down, one.

Second, if you look at the loan against share is pledged. The margin is closer to 4x. The loan amount is closer to INR500 crores is what is the loans against shares which the promoters have taken, which is like very low against the very high margin money. So I think gradually it should come down. I do not have the exact number, which has been told, but gradually going forward, it should come down to a low single digit, if not closer to 0 over the next few years.

Parikshit Kandpal: Okay. This is the last question, sir, on so given the kind of growth we are seeing in the segment both T&D and real estate both are doing well. And internationally, you've been able to secure large contracts. So do you think that the balance sheet is adequately funded? I mean do you think there is any need to raise funds for Kalpataru to maybe pick up the growth higher? I mean further strengthen the balance to support that kind of growth. Do you think any near-term plans to raise any funding in the company?

Manish Mohnot: So, Parikshit, in the near future, in the short future, I don't see any dilution. But given the growth, which is happening, and given the kind of opportunity is visible, we will definitely revalue this getting into maybe in the next few quarters. But as of today, I think we are adequately funded to take care of our existing order book and delivery on that.

Parikshit Kandpal: And this VEPL and Indore real estate any update, if you can update as I think VEPL you said we're in the terms of closing it. So how much quantum of loss funding for the year as a while will reduce this? And on Indore real estate what is pending to be collected and what is the collection for this quarter?

Manish Mohnot: Sure. So I will first speak about VEPL. As I said, earlier, on VEPL we've got some offers. We're in advanced stage and discussion with one large global investor, who's given us a value, which is better than what we have invested. The discussion on various shareholder agreements, SPA, SHA is going on. I personally believe we should be signing the agreement at least in the current second quarter.

As far as -- and as I said earlier, I think, we will get much more than -- or we'll get more than what we have invested as far as VEPL is concerned. On the Indore asset, our sales in Q1 was around INR10 crores. Our collection till date is INR353 crores, and balance to be collected is around INR147 crores. We have around 20% of shops to residential, which are yet to be sold. And we believe majority of it should be sold in the current financial year itself.

Parikshit Kandpal: Okay. Just last question, sir, if I may, what is the disinvestment total current -- at the current juncture what is the total investment in VEPL?

Manish Mohnot: So you're talking about from both equity and debt perspective or only equity perspective. So enterprise or only investment?

Parikshit Kandpal: If you can help us understand both, how much it would be?

Manish Mohnot: So if you look at VEPL, total investment as far as equity including all the funding is closer to INR386 crores. The debt on it is around INR280 crores, INR285 crores in that range. I could be off by a few crores but INR280 crores to INR285 crores.

Parikshit Kandpal: And when you talk about getting more than equity, then the INR386 crores is the equity you're referring to or you're referring to the original equity.

Manish Mohnot: INR386 crores is equity including sub debt, out total investment I'm referring.

Moderator: The next question is from the line of Prathmesh Salunkhe from PL Capital.

Prathmesh Salunkhe: Sir, my question is general bookkeeping question, just wanted to know the order inflow from the Fasttel subsidiary from Brazil. And another thing, the order inflow breakup segment-wise for the current quarter, that is breakup for INR3,182 cores, if you could help me with it?

Manish Mohnot: Sure. So I think if you look at the breakup for the current quarter order book including what we have declared today is around INR7,000 crores. The breakup of that is T&D is INR3,400 crores of which transmission domestic is around INR860 crores, transmission international is around INR1,140 crores and LMG Sweden is around INR1,373 crores.

Our B&F business has got around INR2,300 crores and the Water business has got INR1,350 crores. The order inflow for Q1 including today till now is around INR7,000 crores and that's the breakup. We have not seen any order coming in Fasttel in Q1.

Prathmesh Salunkhe: Okay. Fasttel has no order inflow, got it. Sir, further more....

Manish Mohnot: Q1 we don't have secured anything in Fasttel

Prathmesh Salunkhe: Yes, got it. So further the L1 position mentioned, which is INR5,000 crores, if you could give us some more color on it, like which segment dominates the L1 position?

Manish Mohnot: So in the L1 position transmission domestic is significant with more than 50%. Transmission international is around 25%, and Building and Factory's business around 25%.

Moderator: The next question is from the line of Nidhi Shah from ICICI Securities.

Nidhi Shah: My first question is on the international order booking. So I understand last year the percentage of international order inflow was higher and this is lower back to FY '23 level, so what is sort of your commentary on that?

Manish Mohnot: So if you look at our order inflow for first quarter, it's 65% domestic and 35% international. But if you look at our order book closing at INR57,000 crores, which id 55% domestic and 45% international. We believe that opportunities exists in both domestic and international business. But given that on the international business, we had some very large orders last year, including the Saudi Aramco and a few international orders, the last year's inflow international was much higher. Current year, I believe that it should be more in the range of 65% domestic and 35% international or may be in the range of 60% - 40%.

Nidhi Shah: And my second question would be, what do you think of the pipeline this year for orders, domestic and international. Do you -- how do you see the competition in bidding? And what do you think overall where this sort of sector is going this year in terms of awarding and bidding

Manish Mohnot: So as we -- as I mentioned earlier during my opening speech, I think we're seeing a lot of traction coming in transmission, building and factories and oil and gas international. That's something, which we continue to be very bullish on. Even Water sector we're seeing a lot of tenders coming, but although they're slightly delayed given that 3, 4 months of elections.

So at last -- at least majority of our business except railways, we see a lot of traction. Competition continues to be there in all segments. I think it's not as much about competition as much as about our ability to deliver in the time frame which you commit.

I mentioned this earlier that this is a scenario where we need to be selective in picking up orders because there is a lot of opportunities, but we need to be careful of our ability to deliver, right? So our focus is more on looking at profitable orders across all segments, which will further drive growth getting into '25-'26.

Moderator: The next question is from the line of Ashwani Sharma from Emkay Global Financial Services.

Ashwani Sharma: Sir, just to extend the earlier participants' questions. So, we have already done some INR7,000 crores order inflow, and we have guided for INR22,000, INR23,000 crores order inflow. Given the so much of opportunities, I believe that this number is a little conservative number. I wanted your sense on that?

Manish Mohnot: I wouldn't call it a conservative more than a realistic number. And I'd just like to pause back and take you through our historical order book growth. Last year our order book closer to double, at opening, we were closer to INR58,000 crores, INR59,000 crores. We are growing at 15% to 20% for the last 2 to 3 years. Our business for growth requires all three: one is capex; second is labor; and third is a strong delivery team.

We believe that there are times where we need to be conscious in terms of looking at those projects with selective clients where there's a reality in terms of delivery requirements. So that's why our focus is a lot more on businesses, which we are very strong in because these are the areas where we believe that profit would go up because our capability and competency to deliver at the shortest time frame exists.

So I wouldn't call it conservative other than being realistic because we are sitting on a 2.5 years order book while we speak. Given the volatility, given the kind of changes in labor law regulations or any of those which could come in, it's better at this time to be more realistic rather than being aggressive in terms of growth itself. That's the philosophy which the entire senior management has decided.

But even with this number, which I have given you. Visible growth for the next few years still looks like a high double digit with improved profitability and improved ROCE ratios. And that's our largest focus there than only looking at top line growth.

Ashwani Sharma: Right, sir. And sir, what is the kind of capex that you are looking for to fund this guidance from the execution point of view?

Manish Mohnot: We are targeting capex in the range of INR500 crores to INR600 crores in the current year through a mix of capex on the balance sheet plus lease plus the combination of few others, but we're targeting a capex of INR500 crores to INR600 crores for the current year.

We believe that this requirement should reduce in the next year given that the current year has a lot of capex on some urban infra businesses, which we got large project last year and also on staging and shutting a large project, which is -- which can be used getting -- going forward on different projects. So personally, I believe the capex number should start going down in the next year, but currently, it should be in the range of INR500 crores to INR600 crores.

Moderator: The next question is from the line of Arafat Saiyed from InCred Research.

Arafat Saiyed: My first question is on the pipeline. Can you please quantify in terms of value what kind of order pipeline you are looking for next 1 year?

Manish Mohnot: No. I think, as I mentioned earlier, we're looking at inflows in the range of INR22,000 crores to INR23,000 crores, which means typically the different segments, we are at a ratio of some segments, we do 20%, some segments 10%, 25%. So it looks very healthy in terms of the order pipeline and even in the transmission business, we see tenders close to INR50,000 crores being built in the next 3 to 4 months.

So whether it is transmission, B&F, Water and oil and gas, we will see a huge pipeline coming in. Our focus is primarily on profitable and large orders, and that's why we're keeping our target at around INR22,000 crores to INR23,000 crores for the current year.

Arafat Saiyed: And sir my next question is on divestment of non-cores. So can you please let's say -- in terms of let's say what may happen in FY '25 and now you're looking for FY '26 in terms of divestment of non-core. And also, what amount you are expecting from, let's say, the divestment? And again lastly on, let's say, the likely to be, let's say, gain or burn from this investment over the last few years you have done?

Manish Mohnot: So our noncore, what we have declared are primarily the road assets, primarily Indore and primarily Shubham Logistics, right? This is what we have declared non-core earlier itself. Out of the road assets, the largest road asset which is more than 70% exposure is VEPL and I said that earlier that we expect to sign an agreement in Q2 itself on that.

The other two assets are very small in value and have a very short duration left from here. So we're not sure whether we'll be selling it or just going through the process of keeping it on books for the next 5-odd years because the investment in those assets are very, very low as compared to what we have on VEPL. So if you look at the total investments in the other 2 assets, if I look at BBEPL it is closer to INR91 crores and if I look at WEPL it's closer to INR300 crores, and VEPL is something which we are looking at exiting now.

As far as Indore is concerned, we believe that we should be out of the entire investments in the next 12 odd months, as indicated earlier. Shubham Logistics, it will take us some more time. The business is on the revival mode. We're also selling up some of our warehouses and assets, which we had.

The debt numbers at the Shubham Logistics are continuously coming down. So that's a business, we would not look at divesting in the current year, but focus on it getting into next year or the year after that.

So to answer your question, current year is going to be 1 more asset and Indore, then look at the next few road assets next year and then look at Shubham the year after next. As far as the answer on saying that, do we expect to get more than what we've invested? Our first ballpark belief is that we should be not having any losses on the investment in totality on these assets.

Arafat Saiyed: Fine. That's really great. And sir, lastly on railways, so basically, if you look at railways, for you is down 45%, while your competitors also down almost 36%, 37%. So any sense on that, let's say, that let's say, this was largely due to election year -- election quarter? Or you believe, let's say, going forward also the tender pipeline and that has reduced significantly as election is largely over? So let's say, in terms of doubling, tripling now it's going, let's say, if you can guide on that?

Manish Mohnot: I think on Railway business for the last couple of years, we've been bearish given the intense competition in this business. So, we have hardly picked up any large orders in this business. The business still has an order book, which is around INR3,900 crores to be delivered. So given that we've not taken any large businesses, we believe that it will continue in a degrowth mode, at least for the current year.

Going forward, once competition comes down, we might have some opportunities in the domestic market. Parallelly, we are looking at the international market for the railways business. And I'm hoping that in the next 12 to 18 months, we should have some wealth coming on the international front also.

While we say so, I think current year, next year, as far as railway business is concerned, we do not see growth happening in any form.

Moderator: The next question is from the line of Amit Anwani from PL Capital.

Amit Anwani: First question on margin, you did highlight PBT target margin of 4.5%, 5% and 8.5%, 9% on EBITDA. Just wanted to understand what business segments are actually going to recover on the margin front? And you also did highlighted that the recent order wins on slightly higher margins. So if you could elaborate more on how the margin recovery is going to happen now sequentially?

Manish Mohnot: So on the margin front, even if you look at the quarter 1, right, I think what we have primarily lost is because is productivity not being achieved due to availability of labor. So it's not that we had projects which bleeded or anything. So if you look at the Q1 margin also in standalone, PBT we're at 4.4%, it's not that we have gone down significantly.

So my belief is that all segments, which we have budgeted, right, would continue delivering on margins, whether it's B&F, T&D, TLI, all of them. Now that labor has come back, now that collections have started improving in a few businesses, we see productivity also improving from Q3 onwards. Q2 obviously has always has an impact of monsoon.

So it's not any specific segment. It's a business as a whole as we believe that we will continue to deliver on what we have targeted, and that's how it will more in the range of 4.5% to 5%.

Amit Anwani: Sure. Sir, and second thing on the international versus domestic, you did highlighted domestic to international between 55% to 35%. So segment-wise, just wanted to understand in international market, this segment will be going more aggressive? And second thing, how the -- so you did highlighted that we have been selective in terms of taking orders. So how is our strategy in international markets with respect to order taking? And which segments you feel will contribute more to the international intake?

Manish Mohnot: So even in our current order book, significant portion of the international order book comes from the transmission segment and oil and gas, a large Saudi Aramco project. So going forward, if you ask me in the current year, I think we continue to be primarily focused on transmission business. Oil and gas in few geographies and urban infra in a few geographies. But my own assessment is in the current year, more than 70% of our order inflow should come from the transmission business itself.

Moderator: The next question is from the line of Bharat Sheth from Quest Invest.

Bharat Sheth: Sir, in your opening remarks you stated about the LMG, we are looking for aggressive growth as well as in Fasttel your breakeven. So if you can give a little more color on both those companies?

Manish Mohnot: Sure. So I think on Linjemontage, our last 6 years journey has been very good. The business itself has become 3x over the last 6 years after we have acquired and they have paid us a significant amount of our investment back as dividend as far as Linjemontage is concerned. Today, when we look at where Linjemontage is in terms of our order book. If you look at the revenue for the Q1, we did around INR449 crores growth of 84% as compared to INR244 crores in the previous year.

And also their order book visibility is so good that we believe that growing at a good double-digit should not be a challenge for Linjemontage. They have an order book visibility of around INR3,000 crores while we speak, which is closer to double in the last 1 year. And the markets continue to be bullish as far as the entire Sweden, Norway, Denmark is concerned, and we believe that's an opportunity, which we will be focused on capitalizing on. We are today among the top 3 EPC contractors in that country on the transmission side with a strong team and a presence across transmission and substation, both in Sweden as well as Norway.

So -- and even on balance sheet, that business has free cash available on balance sheet. So it's like a debt-free business. So EBITDA is equal to PBT as far as that business is concerned. On Fasttel, it was a strainful journey over the last 3 years because of COVID, Brazil, all of that and historical orders, but we are now out of all historical orders. Our revenue for Q1 '25 is around INR230 crores, a growth of around 40% compared to what Q1 '24 we did.

Fasttel order book has also doubled. We are sitting at around INR1,200 crores as of now. We believe that the business will get into profitable mode getting into Q2, Q3 itself, right, and going into a high growth and margin mode into the next year. So both the businesses today, I believe that growth is visible. The team is good. The markets look good, and we are conservative at least on what not to do in both the businesses.

So from a perspective direction, I think we stand committed to those businesses, the opportunity looks good and growth is visible. For the current quarter, fairly, we had a small setback of FX coming into the Fasttel business, which I just explained in the earlier call, which to me is more a timing issue. It was a net INR17 crores impact.

Otherwise, if you look at Linjemontage for the current quarter, they have done an EBITDA closer to 4% or closer to 5% and even Fasttel has done EBITDA at the range of 8% to 9%, which is what we believe will continue to improve.

Bharat Sheth: So even, sir, in Linjemontage, we expect -- do we expect improvement in the margins from 4% earlier we were doing 6% kind of EBITDA margin? And kind of a potentially next 3 years, where do you see this Linjemontage as well as Fasttel?

Manish Mohnot: So on Linjemontage, we definitely expect margins to improve getting into Q3, Q4 itself, right, not even next year. And getting into next year, we definitely should be at 6%, if not higher than that. On Fasttel, our EBITDA has been closer to now it's at around 8.5% to 9%, and we see that going forward because that's a business where -- that's a market where 10% to 12% EBITDA is common in terms of T&D projects. So yes, EBITDA margins should go up on these businesses going forward. And next year, for sure, Fasttel will be 6% plus.

Moderator: The next question is from the line of Vaibhav Shah from JM Financial Limited.

Vaibhav Shah: So firstly, when do we expect the execution to start for Aramco project in terms of revenue booking?

Manish Mohnot: So the execution in terms of team building is fully done. We are close to 150 people who are already at the site now. 150, could be even more than that 150 is when I was there a few weeks ago. The design and engineering phase of the project has started fully.

In terms of revenue, I think you should see significant revenue coming from maybe December onwards on this project because our design engineering significantly would be done by November, December. And that's when the site activities would start in a big way.

As I said earlier, this project does not involve buying of pipes, right? Pipes is a free supply from the client. So it's at the site where the execution whenever it starts is when revenue comes here. So we believe that Q4, we should start seeing a lot of it and December onwards, Saudi Aramco revenue and margin should come in.

Vaibhav Shah: Sir, any guidance on the full year FY '26 revenue or margins for the project ballpark?

Manish Mohnot: It will be difficult for us to give a guidance today, but today we're sitting on a 2.5-plus years of order book, right? And given that the positive environment around, I don't see a growth in having a high double-digit -- I don't see a problem in having high double-digit growth, but I wouldn't like to give the guidance at this stage. Maybe by the end of Q3 or beginning Q4, we would be giving guidance for next year.

Vaibhav Shah: Sir, I was asking for the Aramco project.

Manish Mohnot: So Aramco projects, I think the delivery scheduled over 36 to 42 months. So the peak of that project would be the next '25-'26 and '26-'27. So if you ask me in terms of revenue, I think the next '25-'26, '26-'27 should be more closer to 70% of the revenue of that project. 10% to 15% might happen in the current year and the balance in the last year.

Vaibhav Shah: Okay. Okay. Sir, secondly, you mentioned the order inflow guidance of INR22,000 crores to INR23,000 crores for FY '25. So that is on standalone level or consol level?

Manish Mohnot: So I think that is the guidance at the consol level, which we are giving, with standalone closer to INR20,000 crores and the subsidiaries in the range of INR3,000 crores.

Vaibhav Shah: Okay. And sir, lastly, in terms of revenue growth for Fasttel and LMG, how are we looking for FY '25?

Manish Mohnot: So as I said earlier, I think this question I had mentioned earlier also, both the businesses would grow at a 20%, 25% plus for the current year. It would even be higher, but the budgets are at 25% plus and with profit improvement. So I don't see challenges in both the business growth as far as the current year and the next year is concerned.

Moderator: The next question is from the line of Parikshit Kandpal from HDFC Securities.

Parikshit Kandpal: My question is on -- so you highlighted that 70% of inflows this year will be from T&D, so I just wanted to understand are we looking to increase any capacity on tower side? Are we looking to set up any conductor capacity or cables capacity?

Manish Mohnot: I think our tower manufacturing capacity is in excess of 200,000 tons, and I don't think we need to increase that with the current visibility, at least for the next 2 years. We are not in the cable and conductor business, so -- and we do not have any plans currently of getting into that business. But as far as capacity at the plant site is concerned, we believe that we have enough capacity to take care of our growth requirements.

Parikshit Kandpal: Okay. My second question is on retail asset monetization. So how do you intend to use the proceeds? Do you think that it will be appropriate to repay the debt of the balance 2 assets and reduce loss funding. So how do you -- how are you strategizing thinking about utilizing these proceeds? And post -- what is the current level of loss funding or support -- putting support even in this quarter, you supported in excess of INR20 crores. So for a year as a whole, how much would be this number? And with monetization, how much that number can come down?

Manish Mohnot: So let me first answer the second question. We had guided for a INR70 crores to INR75 crores support in the current year for the businesses primarily to repay debt. We believe we should be in a similar range given the traffic growth, it should only come down and not go up.

As far as utilization of proceeds, I think we've really not gone into that detailing as of now because after we signed the binding agreement, all the approvals could take any time between 3 to 6 months, right? So we will have enough time doing that time to decide.

But clearly, the proceeds could go either for debt reduction or growth on capex. There's no other way. It's only one of the two or paying back as dividend to shareholders. It's only one of the three. So it's early for us to start discussing on that, and we've not thought on that as of today. Once we signed the binding agreement, once we start getting approval is when we'll be getting into -- focusing more on how to use the proceeds.

Parikshit Kandpal: And post acquisition, how much could be the reduction in debt in the loss funding? I mean VEPL are you supporting anything out of the INR75 crores in VEPL because I understand large part is going to Wainganga?

Manish Mohnot: So VEPL Q1, we gave around INR5 crores. So I think we will continue to support in this range of maybe INR5-odd crores on a quarterly basis, not more than that unless it's going to be debt repayment. So I don't have the exact numbers. So total all three put together, we paid INR25 crores but VEPL was not higher. The higher was WEPL, which we supported in Q1.

Parikshit Kandpal: So that will continue despite this monetization that INR70 crores, INR75 crores kind of support will continue.

Manish Mohnot: For the current year, it will because, as I said, even once we sign it, getting all the approvals is a journey, right? It takes 3 to 6 months. So when we are sitting in July, August, we signed it, it would be January, February. So current year, definitely, we believe the support will be required.

Parikshit Kandpal: And what is the WEPL debt, sir, right now for which you are giving the bulk of the support?

Manish Mohnot: INR107 crores.

Parikshit Kandpal: So that's -- I mean so even if like you get to your.

Manish Mohnot: That's what I said next couple of years what the entire debt would be over. So if you look at on a debt basis, the debt on our 3 assets put together is INR425 crores with INR285 crores on VEPL, 107 on WEPL and only around INR35 crores in BBEPL. So I think the debt support would get over and after that, we still have a long life. The assets would still have,one of them has a life of around 18 to 20 years. One of them 7 to 8 years and one of them, again, 5 to 6 years.

Moderator: The next question is from the line of Teena Virmani from Motilal Oswal.

Teena Virmani: My question is related to the execution growth for the company. So Q1 was weaker and it was expected to be weaker also because of labor related and election related impact. But how will execution ramp up in the coming quarters for the standalone entity because if railways is going to be weak, so will other segments grow faster than 20% to take care of your full year growth guidance of 20%. Just wanted some of your thoughts on this.

Manish Mohnot: Sure. So in the current year, the majority of our businesses are growing at 20% plus. So whether you look at T&D, which is transmission domestic, whether you look at buildings and factories, which is the entire country Southern as well as the Northern and Western, whether you look at our international subsidiaries or whether you look at water, urban infra oil and gas.

So if you look at each one of these businesses from a revenue perspective, they will have a good order book at the closure of the last year, right. And there is good visibility going forward also. So all our businesses are growing at anywhere between 15% to 25% at individual business level except railways.

So the key growth drivers will be across all business because oil and gas would literally grow at maybe 50% plus because the base was small and Saudi Aramco is a big number. T&D was not going for the last 3 years. Now we have seen a good order book and good L1 so that business would grow at 25% plus. And even in Q1, we have seen transmission grow at that numbers, right?

Water business has a very good order book. Q1 was down because of, as I explained earlier, labor as well as these connection issues. In buildings and factories, we have seen a growth of 23% in Q1 itself, right? And even with labor issues. So obviously, getting into Q2 or Q3 onwards is much higher.

So all our businesses except railway would grow at more than 20% for sure on an annualized basis, and that's why we have guided for that number, which is in the range of 20%. And railways is also an annualized business, will not be a huge degrowth. Right. While there will degrowth, it's not that we are looking at reducing it by half or something because they still have a visible order book. And their size is so small that on a larger number, the impact is very minimal.

Teena Virmani: Right. Right. So Water segment, which was impacted in Q1. Water would start growing in the coming quarters where you don't see any challenge?

Manish Mohnot: Yes. So given the impact of Q1, would they grow at maybe 20% annualized, could be less, maybe 15% to 17%, maybe not 20%. But other businesses could do much better. So even with the Q1 impact, we believe that the consol business growing at 20% will not be challenge on majority of the businesses.

Teena Virmani: Got it. And what is the size of the urban infra projects where you're required to enter with large capex, primarily for the tunnel boarding machine and other things. So what is the size and by when these projects are contributing to execution?

Manish Mohnot: Urban infra, the order book is closer to INR3,000 crores while we speak with 2 underground projects and a few overhead projects also. As far as Q1 is concerned, if you look at that business, that business grew at 18%. They did around INR181 crores compared to INR154 crores last year. Urban Infra as well as civil international put together because that's also urban in nature. So I believe that with a visible order of INR3,000 crores, they should be growing at more than 35% in the current year because they had a very low base in the previous year.

Teena Virmani: Okay. And so will this capex, which you have already done this year as well as which you've already done last year as well as you'll be doing this year. This won't be your significant number in the coming years?

Manish Mohnot: So my own belief is that at least on TBM we shouldn't be seeing significant investments coming in unless we get some good profitable orders in Q3, Q4. But as I said earlier, it's all about making sure that we get profitable orders when we can afford to do that capex. But in the current order book, I think this would be a big year of capex and capex should go down going forward.

Teena Virmani: Right. So, this INR500 crores, INR600 crores that you're targeting, that is primarily for these urban infra related project itself, the capex?

Manish Mohnot: So it's a mix of all three. It's urban infra which would be -- maybe one third of it. It would be the staging and shuttering and formwork for B&F business, which would be one third. Then there would be another 10% to 15% for the international businesses given the growth and balance across all other businesses.

Moderator: The next question is from the line of Ashish Shah from HDFC.

Ashish Shah: Yes. So sorry for this. So yes, my question was about this particular event where we were made party to 1 dispute in NCLT earlier this month in respect of one of our terminated projects. If you can just update a little bit context of that event and also any implications that it may have for the company.

Manish Mohnot: Sure. So this was Kurukshetra Expressway, which we terminated 2 years ago because of the farmers agitation and that termination was -- the road asset was handed back to NHAI. We have already written off our entire equity in that asset in '22-'23 itself and today are carrying values closer to zero as far as that asset is concerned.

This entire proceedings were started from the bank against NHAI, there will be a party to it. So the bank has gone to NHAI for debt repayment based on the concession agreement where banks are eligible for the debt repayment because it is a termination on account of a default by NHAI. So that's why bankers have gone against them, and we are party to it. As far as we are concerned, I think we have completely written off our equity on books, and we shouldn't see any impact on it in any account.

Finally, on this asset, we also have into arbitration on a couple of -- we have right now 2 arbitrations which are going on, which we expect in the next 3 to 6 months some awards to come in whatever form. But otherwise, as we stand today, we do not see any hit coming out of these proceedings in any form.

Ashish Shah: Sir, in this particular termination matter, has NHAI accepted our argument for termination or that part itself is something that we are arbitrating on?

Manish Mohnot: I'll just ask S.K.T to also speak on this.

S. K. Tripathi: Yes, yes. So as far as the NHAI is concerned, they have taken over the assets, and they are maintaining the assets. We are out from the asset about 1.5 year back. Now as far as the debt settlement is concerned, as expected NHAI will not walk an easy path and they are giving a tough time to the bankers and to us also.

But as Manish commented that we are in the arbitration on these projects on the termination payment as well as we are persuading bank also to come on the same platform, and we may see some resolution over say next 3 to 6 months on this matter.

Ashish Shah: Sure. But as we see it today, there is no impact on the company in terms of any residual liability on the debt repayment?

S. K. Tripathi: Right, right. There's no liability.

Moderator: Ladies and gentlemen, this will be the last question. It's from the line of Riya Mehta from Aequitas Investments.

Riya Mehta: I have two set of questions. First one is regarding the supply chain challenges, which we were speaking earlier quarter. And I think one of your competitors also put up in line for conductors. So are we seeing similar supply chain challenges? And are we looking out for similar capex?

Manish Mohnot: No. So from a supply chain perspective, at least at the KPIL level, while we've seen some delays, I wouldn't say that there are challenges, which are impacting project delivery. We've seen some delays over a few months. While we speak today, I think on a Q1 basis, whatever we have projected in terms of delivery and supply chain has happened at 95% plus.

And getting into the balance part of the year based on commitments from all our suppliers, we believe that we will not have challenge in supply chain, at least based on the current environment, whether it's from conductors, insulators or even transformers.

As far as our plans for setting up a plant to look at that option, as I said earlier, we do not have plans as of now because we believe that the industry already has visible capacity to take care of the requirements of the country. And to that extent, we would trust our suppliers who have been with us for long enough. So as of today, we do not have any plans to be getting into that business of cables and conductor.

Riya Mehta: Got it. And then on T&D, where are we seeing the demand primarily from domestic or international and domestic is majorly PGCIL?

Manish Mohnot: So at least in the last 6 months, we have seen transmission domestic more than 90% orders coming from PGCIL. So that is driving growth in a big, big way. As far as international is concerned, we're seeing opportunities everywhere, whether it's Africa, whether it's Middle East, whether it's Latin America or whether it's the European market or the Australian market. So we continue to stand bullish on that. And that's an opportunity, which looks very, very attractive as of today.

Riya Mehta: And my last question is in regards to the workforce challenges. So that is in what layer of employees are we seeing workforce or unavailability of labor? Are this from the skilled or semi-skilled or what?

Manish Mohnot: I think that's a challenge across the value chain, right? So whether I look at skilled, whether I look at semi-skilled, unskilled, whether I look at international projects, domestic projects and even supervisory staff, right? I think that's a challenge right now, which is the biggest challenge for the industry as a whole, given that the growth that's coming in the last few years has been very, very huge, right? It was beyond expectations that what was coming in now. And the delivery schedule is really reducing as far as all projects are concerned, right? Some driven by the pressure of the government, some driven by RERA, some driven by other regulatory requirements.

So given that delivery schedule has reduced and the expectations have only gone up, so I think it's a challenge across the entire value chain. So today, if you ask me the number one challenge is not order book, not revenue, not growth, not profitability, it's only about resources, resources and resources.

Riya Mehta: So, do we tie up with agencies or do we have hired directly these or have contractors or how is the mechanism for manpower?

Manish Mohnot: I think it's a mix of everything, but we hardly use any agencies. It's been more our own team and our contractors who work with us. We rarely use agencies. But it's a mix of everything depending upon the project, the country, the kind of work, a combination of all of that.

Moderator: Ladies and gentlemen, that was the last question for today's conference call. I would now like to hand the conference over to Ms. Bhoomika Nair for the closing comments.

Bhoomika Nair: Yes, I would like to thank everyone for being on the call, and thanks to the management for giving us an opportunity to host the call. Thank you very much, sir, for answering all the questions, and wish you all the very best.

Manish Mohnot: Thank you very much, Bhoomika. Thank you, everyone.

Bhoomika Nair: Thank you.

Moderator: On behalf of DAM Capital Advisors Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines. Thank you.