KALPATARU PROJECTS INTERNATIONAL LIMITED

"Kalpataru Projects International Limited Q2 FY'25 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day, and welcome to the Kalpataru Projects International Q2 FY '25 Earnings Conference Call 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 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: Yes. Thanks, Steve. Good morning, everyone. A warm welcome to the Q2 FY '25 Earnings Call of Kalpataru Projects International Limited. We have the management today being represented by 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, Project -- 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 on the call today. Let me first provide a quick update on the operating context, post that I'll move on to our performance and key highlights of each of the individual businesses. Post our last interaction for the Q1 earnings conference, we have witnessed noteworthy improvement on the execution front with improvement in labor availability and moderating working capital intensity compared to Q1 of FY '25.

Our T&D, building and factories, oil gas and urban infra business each at individual level have reported Y-o-Y growth in excess of 20% for first half of '25. Our Water business has remained subdued, which we expect will moderate the overall growth to some extent, but not significant.

We have also completed the signing of definitive agreements for sale of Vindhyachal Expressway, VEPL. We expect to close the deal post receipt of necessary approvals from concerned authorities and lenders in the next few quarters.

As far as business landscape is concerned, government plans for infrastructure development, including the transmission and distribution capex is getting better and firmer as we are progressing ahead in the year. In this backdrop, we've secured record order inflows of INR11,865 crores, including INR 835 crores announced yesterday. Nearly 90% of our order inflows are from T&D and B&F business in which we continue to improve our capabilities and strengthen our market position. Additionally, we have L1 position in orders worth INR7,000 crores. More than 75% of that L1 position is in the domestic T&D business. Our consol order book stands at INR60,631 crores at the end of September '24. Our order book remains well diversified across businesses and markets, which depicts inherent strength of our business model.

Now moving on to the performance. We have delivered yet another quarter of good performance marked by growth in turnover, improved profitability, moderation in debt level as compared to June quarter. We've reported a consol revenue growth of 9% both for Q2 and first half of '25. Our consol revenue reached INR4,930 crores for Q2 and INR9,517 crores in first half of FY '25. The revenue growth is largely driven by approved project progress and healthy order backlog in T&D, B&F, Oil & Gas and Urban Infra business.

Our consolidated EBITDA margins improved by 70 basis points, Y-o-Y to reach margin 8.9% for Q2 '25. Our consolidated EBITDA grew by 18% Y-o-Y to INR438 crores to Q2 '25. Similarly, our consolidated PBT grew by 42% Y-o-Y to reach INR188 crores and PAT was up by 40% Y-o-Y to reach INR126 crores for Q2 '25. For the first half, consolidated PBT reached INR325 crores and PAT at INR210 crores. This improvement in margins was driven by a combination of robust execution, healthy project mix and diversified business profile. Our consolidated net debt declined to INR3,668 crores at the end of September '24 compared to INR3,739 as on 30 June '24. Our consolidated net working capital declined by 5 days compared to June quarter to reach 98 days at the end of September '24.

Our standalone revenue was up by 8% Y-o-Y at INR4,136 crores for Q2 '25. Our standalone EBITDA margins grew by 40 bps to reach 8.4%, and PBT grew by 15% Y-o-Y and PAT was up 17% Y-o-Y for Q2 FY '25 standalone level. Our standalone net debt declined by INR114 crores Q-o-Q to reach INR2,973 crores for period ended September '24.

On the individual business verticals front. First starting with the T&D business, our revenue grew by 25% in Q2 '25 driven by robust execution and strong order backlog. So far, we've secured orders worth approximately INR6,000 crores in the current fiscal year in T&D with an additional L1 position of approx.. INR5,500 crores. On the international front, performance in Sweden and Brazil saw significant improvement compared to the same quarter last year. At Linjemontage Sweden Q2 revenue reached INR380 crores, up by more than 100% compared to similar quarter last year. Our order book Linjemontage stood at record high INR2,958 crores as on September '24. In Brazil, Fasttel reported INR285 crores in Q2 revenue reflecting a 48% Y-o-Y increase. The order book at Fasttel stood at INR828 crores at the end of September '24. Our overall T&D order book including international subsidiaries stands at INR22,269 crores as of September 30, 2024. The business outlook remains positive with a robust tender pipeline in both domestic and international markets.

Our B&F business achieved revenue growth of 19% Y-o-Y in Q2 driven by a healthy project mix and improved project momentum. We have secured orders for INR4,500 crores till date in FY '25. Our B&F business order book stands over INR13,000 crores. In Q2, we have secured some prestigious orders in design build, luxury housing and airport business.

Moving on to our Water business. Our revenue dropped by 43% Y-o-Y in Q2 '25 due to delay in collections in a few states, which impacted execution and project progress. We are closely working with clients for improving the collection cycle and scale-up project execution. The business has witnessed slowdown in tendering activities post elections. However, we have a strong order book position of INR10,500 plus crores as of 30 September '24, ensuring good visibility for the next few years.

In our Oil & Gas business, revenue grew up by 170% Y-o-Y, to reach INR463 crores in Q2 '25. The growth was largely on account of improved execution on existing projects and start of Aramco project. Our order book in the Oil & Gas business stands at INR8,474 crores, giving a good visibility going forward.

In our Railways business, revenues dipped by 40% in Q2 '25. As communicated in our earlier calls, we are staying cautious and selective in our bidding approach given the intense competition. Our priority in Railways is to complete the existing projects at hand and reduce the capital employed for the business.

In the Urban Infra business, revenue grew by 31% in Q2 '25, driven by a stronger backlog in the metro rail sector. We have focused on elevated underground metro projects, bridges, flyovers, elevated roads corridor and tunnelling works. Our order book in the Urban Infra business is at a very healthy level of INR2,600 plus crores and we expect our order book to improve further.

In our Road BOOT projects, daily revenue has increased to INR56.5 lakh in Q2 '25. In the first half of '25, we invested INR39 crores in Road BOOT projects primarily for debt repayment. As mentioned earlier, we've signed an agreement to divest VEPL for an enterprise value of INR775 crores with the expectation for the deal to close in FY '26, subject to requisite approvals and closing adjustments.

Given our healthy order book, improved visibility on project fronts, a diversified portfolio, along with the strong execution team, we are confident of delivering healthy growth with improved margins from Q3 onwards.

With that, I'll wrap up my opening remarks. I'd also like to extend my warm wishes for Happy Diwali to you and your loved ones. I would request now the moderator to open the line for Q&A. Thank you.

Moderator: The first question is from the line of Bharat Sheth from Quest Investment. Please go ahead.

Bharat Sheth: Congratulations, Manishji and team on a very good result. Manishji, I have two questions. First one is on, if we really look at, I mean, our core EPC business which grew as per business revenue slide by around 10% and EBITDA is also improved by almost 18%. So how do we see this business going ahead kind of a traction that we have on the order book?

Manish Mohnot: Good morning, Bharat bhai. I think, typically, Bharat bhai, Q2 is always a subdued quarter when it comes to EPC execution given the monsoons, given all of that, right. The good part is that across all businesses now visibility is very, very good, except railways where we have cautiously taken a call. I believe going forward, we should be doing much better in terms of delivering on all our projected numbers, delivering on our budgeted numbers. And also the next 2 quarters, visibility on every front is very good, right, whether it is cash flow, whether it is labor availability, whether it is a wide mix of portfolio.

So I think growth as well as improving the margins is visible. We've also said in the past that margins are going up because the entire new order book, which we have built over the last 2 years is obviously at better margins than what we had in the past. And that impact you should see it coming in years, you already see some portion of it coming in Q2 and you'll continue to see that over the next 6, 8, if not more than that quarter.

So our own belief is that from a 2-year perspective, I think growth and improvement in margins is visible, and we should be able to deliver at least whatever we have committed in every form. Yes, there are some challenges in the first 6 months primarily in water business, right. And as I explained earlier that is something which is beyond us because we have not been able to collect anything in a few states, right.

It was the election drive. It was this government change, whatever. We've been in continuous touch with them. And whatever we have lost in the first 6 months might not come back in the current year. But on an overall front, that's something which will be delivered going into the next year.

Bharat Sheth: Is that, I mean, based on your comment, again, I mean, on the stand-alone or core EPC business, slowly we see the reduction in the borrowing, correct?

Manish Mohnot: Yes.

Bharat Sheth: Okay. And sir, would you...

Manish Mohnot: Bharat bhai, typically, our business first 2 quarters, you see always borrowing and working capital being high. It's slightly higher than what we've projected for us because given the collections which got delayed in the water business. We are confident that going forward, Q3, Q4 the debt level will only come down from where we are today. It will not go up. And as we stand committed to keeping our working capital days below 100 even at a stand-alone level by the end of Q4.

Bharat Sheth: That's good. Sir, and would you like to revise, I mean, our order intake growth as well as top line growth?

Manish Mohnot: Bharat bhai, clearly, as far as order intake growth is concerned, we stand committed to the number which we gave earlier because our focus right now is improving margins because we have a very good visibility on order book. So while today, we have visibility of around INR19,000-odd crores, including L1, we believe that for improving margins, even if we have to compromise slightly on the absolute value, we are happy to do that. So we stand committed to the same number, INR22,000 to 23,000 crores. We will revisit that number at the end of Q3 once we have more visibility coming through.

As far as revenue growth is concerned, I think Q3, Q4 will be very healthy. And I think that will help us deliver healthy growth compared to what we did in the previous year. We definitely could face some challenges on whatever we have not been able to achieve in the water business in Q1 and Q2. But on an overall basis, we still believe that you'll see healthy growth going forward.

Bharat Sheth: And last question, sir, on order inflow. In first half, we have seen that mix changing towards more towards the domestic. So strategically, are we focusing more on the domestic in view of geopolitical problem, or so if you can like to say throw more color on that?

Manish Mohnot: I do not think consciously we are doing anything driven by geopolitical. Yes, we continue to be risk averse on areas where we know that things would go from bad to worse. The T&D growth in the domestic front was visible right from March-April onwards and those have got converted now. We continue to stay bullish on the international front also, but we continue to be risk averse based on the volatile environment. So I wouldn't say strategically, it's changed a lot. You will see international order book going up in Q3, Q4.

But for us, I think more important, Bharat bhai, is looking at return ratios more than anything else because today everyone has a healthy order book. Revenue and margins are good where we can deliver on time, where those are high margin orders we are allocating our resources. And that's why I clearly articulated that T&D and B&F, if you look at whatever orders we have got in the first 6 months are in those businesses..

Bharat Sheth: Thank you very much, sir, and I wish you Happy Diwali, you, and your team and all the best for future.

Manish Mohnot: Wishing you also Happy Diwali.

Moderator: Thank you. The next question is from the line of Amit Anwani from PL Capital. Please go ahead.

Amit Anwani: Sir, my first question is on the non-core assets, if you would like to update on for the quarter, Shree Shubham Logistics and Indore Real Estate. And third part is VEPL, how much was our investment? And what are the expectations on exit gains?

Manish Mohnot: Okay. So I think let me start with VEPL first. As mentioned earlier, our enterprise value is around INR775 crores. And over the period of the next few quarters till we hand over the asset, whatever cash flows come in would get adjusted to this enterprise value. So we get the benefit of whatever cash flows happen from now until that time.

We expect this deal to be closing in the next 6 to 9 months depending upon the necessary approvals. We believe with that at the current enterprise level, we have a gain of approximately INR100 crores over the equity which we have invested. And this gain could be different depending upon the closing, whatever happens at the closing time, but it should be in this range.

As far as the Shubham business is concerned, we are looking at more Shubham from a revenue perspective or more or more from a profit I can give you both. As far as Shubham business is concerned, H1 '25 we've done around INR62 crores, a growth of 10%. And on an overall basis at a PBT level, we have become positive. The margins are closer to INR1.3 crores on a Q2 basis and half-year basis, around INR7.8 crores. So margin of around 28% and a top line growth of 10% as far as Shubham is concerned for first half.

On the Indore front, we have not done much sales in Q2, given that Q2 has always those challenges and all of that, but we expect sales to improve significantly in Q3 and Q4. We are expecting the OC of the last building to come anytime in the next 1 month. In addition, once that happens, we should be exiting Indore fully in the next 2 to 3 quarters itself. We're seeing healthy traction there, and we believe that, that would definitely be possible.

Amit Anwani: Sure, sir. And just to reconfirm, are we maintaining our guidance given during Q1 on revenue front because I can see H1 is about 5% revenue growth and H2 ask rate is quite high? So that is one. And second on PBT, last time we guided 4.5% to 5%. So are we maintaining this guidance for consol level?

Manish Mohnot: So at the PBT level, we definitely believe that we should be in that range what we have guided for an annualized basis. At a revenue level, we've seen some challenges in the water business, and that could impact some of our guidance on an annualized basis. Although on the next 2 quarters front, we are pretty confident of a very healthy growth.

Amit Anwani: Sure. And lastly, on international T&D, you said there's been a pretty strong development there. Any specific geographies where you are sensing this because we are seeing geopolitically, things have been unstable. So just wanted to understand which geographies in international market for T&D and other businesses are really becoming fruitful now?

Manish Mohnot: For KPIL, I think our opportunities on the international front, primarily a lot more in our 2 subsidiaries, which are Linjemontage and Fasttel, which are doing extremely well, driven by Sweden, driven by the Nordic and the Brazilian market. We continue to stay bullish on the CIS and Americas market also where we today have leadership position with projects across Chile, Guyana, Suriname, all of that.

Finally, we are seeing good traction in Africa and Middle East also, although we are not so much bullish on Middle East in the T&D business driven by profitability constraints, but we are seeing good opportunities coming up there also. So if you ask me priority-wise, Europe continues to be the first. Latin America continues to be the second, driven by Africa and then Middle East.

Amit Anwani: Thanks for taking my question and all the best.

Moderator: Thank you. The next question is from the line of Ashish Shah from HDFC Asset Managers. Please go ahead.

Ashish Shah: Hello, good morning. Sir, just had a couple of questions. One, on the Water business, you did say that the first half was slow because of the water, collections being delayed. How are things looking on the ground now? Has the government started disbursing the money and releasing payments? And are you seeing an improvement as we speak on the ground on Water side?

Manish Mohnot: Good morning, Ashish, we have significant presence in 5 states. I'm not getting into the detailing of each of the states, but I can say out of the 5 states, 3 states we have seen good traction in the last 15 days, where more than 70% or 80% of whatever was billed has been paid. However, the other 2 states, we're seeing zero traction, right. So with the other 2 states we have a huge amount which is outstanding for more than 180 days. Therefore, we believe they would, it should change soon. One of the states is just going into election, and one of them, we've seen a government change, which happened 3 months ago. So we are working along with the states.

If you personally ask me, maybe it might take 2 to 3 more months for those states to come back to reality. But the 3 states, which is more than 70% of our order book, we have seen traction coming back. And to that extent, at least you'll see delivery improving in Q3. But are we back to, let's say, normalcy across the entire business. The answer would be no as of now.

Ashish Shah: Okay. So would you expect this business or this segment to end at a similar level as last year or it may be actually lower?

Manish Mohnot: So our own drive is to make sure that at least we grow slightly as compared to last year, right. It's good for the division. It's good for our employees. It's good for the organization as a whole. That's the drive. But realistically, if collections don't improve, right, after a point, it will be difficult for us to keep on pumping cash flow to continue delivery. But, yes, as of today, our internal drive is to make sure that they at least do minimal of what they did in the previous year. And as an organization we're driving towards that.

Ashish Shah: Right, sir. And also on the Oil and Gas business, the big pipeline contract that we have now, how do you see that shaping up in terms of the development cycle? When do the revenues hit the P&L? And how would you expect that contract to flow through our numbers?

Manish Mohnot: Ashish, the revenues have already started hitting our P&L and at least our revenue and not profit till now because we do not recognize profit till a project which is 10% of its revenue. But on the revenue front, we've already seen Saudi Aramco coming in. Execution on the ground actually started on all the key projects which we've got. The team is fully there, the equipment have been mobilized, and more than 50% of the design is already done. So if you ask me as of now, the traction has started.

What would be the peak? The peak would be next year, the entire 2025-26 in terms of delivery. But in terms of revenue visibility, we've already seen that. That is why you see a 170% plus growth in Q2 in the Oil & Gas business. And you see that similar traction going on in revenue for the next 4 to 6 quarters.

Ashish Shah: Sure. And just one last thing. On the domestic T&D pipeline, obviously, you've indicated that a lot of your L1 orders are from the domestic T&D. How is the margin outlook for some of these orders? Is the competitive environment still benign as it used to be, and we are able to get these orders at a good margin?

Manish Mohnot: Ashish, compared to what we have seen over the last 5 years, the margins are much better. It might not be those days which were there 15 years ago, right, of 15% plus, but definitely, we're reaching that double-digit margin as far as T&D is concerned. It's a very healthy visibility today.

And given the kind of work, which is available, I think there's enough work for everyone whoever is in this field. So it's not a competitive drive, it's your ability to deliver, which defines what work you can take. So today, margins are improving, visibility is good, and competition is what it is. There's so much visibility that I don't think competitive intensity would change the margin profile.

Ashish Shah: Thank you, that's all, and I wish you all a very happy Diwali. Thank you.

Manish Mohnot: Thank you, I wish you and your family a very happy Diwali.

Moderator: The next question is from the line of Subhadip Mitra from Nuvama. Please go ahead.

Subhadip Mitra: Good morning, sir, and thank you for the opportunity. Thanks for the comments that you mentioned on the overall order inflow and margins. My understanding is that you are clearly focusing more on execution and margins given that there is ample order inflow to be had. So just to focus on the order inflow piece, right? Given that you have a larger component that's coming from the India business, are you looking at very large chunky orders, which would potentially come from the 2 or 3 HVDC projects which are currently under tendering? And what kind of potential TAM can you build in for yourself?

Manish Mohnot: So we are already L1 in 1 large HVDC project, which has 2, 3 specific components of that project, a substation and a couple of transmission lines. We're already L1 in that, and we expect that order to come in any time in the next 2 to 3 weeks itself.

Going forward, yes, lot of HVDC projects we are bidding along with Powergird and along some of the private sector players. We do believe that we should be getting some more orders getting into the next 2 to 3 months. I do not understand the meaning of chunky, but for us, any order which is above INR500 crores with a reasonable margin, with a double-digit margin is as good as anything else.

So to put it differently, we definitely believe T&D order book will further go up in the next 6 months. We definitely believe we'll have some more orders coming in the HVDC space. The orders would be in the strength of INR500 crores to INR700 crores individual orders, could even be slightly less. And the next 6 months clearly looks like T&D domestic on the order front on all aspects.

Subhadip Mitra: Understood. So if I heard you correctly, I think you mentioned that each of these packages would be around INR500 crores to INR700 crores. And typically, if an HVDC project is worth, let's say, INR15,000 crores to INR20,000 crores, would it be right to assume that roughly 50% of that is what falls in the EPC bucket?

Manish Mohnot: Yes, I think it might be different. Including substation at times, it could even be more than that. But if you remove, for example, the transformer side of it, the HVDC instruments which are given, which are bought directly by Power Grid, then 40% to 50% would be EPC is the right estimate, including substation.

Subhadip Mitra: Understood. And in this specific HVDC bucket, my understanding is that there are very few qualified EPC competitors, right? So probably maybe 3, 4 or 5 players. So would there be a possibility of naturally seeing better margins given limited competition on a large TAM?

Manish Mohnot: I think, there are 2 aspects, I repeat to what I said earlier, that competition is healthy, and we're happy with the healthy competition given that we have advantage on everything right from supply chain to design to delivery. As far as improvement in margins is concerned, definitely, that's the intent.

But let's be very clear that whoever the developer, they also compete in a TBCB environment. So you cannot expect unrealistic margins because suppose you try with a developer, and he loses, and he loses the EPC projects. So, yes, margins are going to be healthy. They will improve, but they will not be unrealistic because it's a competitive market.

Subhadip Mitra: Understood. So you did mention in earlier comments that you were looking at close to double-digit margins at least in the T&D segment. That's more or less what we should assume?

Manish Mohnot: Yes, for sure.

Subhadip Mitra: Perfect, sir. Perfect. That is understood. My last bit is on the international orders, especially the large chunky orders that you saw from Middle East earlier in the year. Given where hydrocarbon prices are headed currently, is there any risk of a slowdown in terms of, let's say, incremental ordering or even execution of existing order book from the Middle East exposure?

Manish Mohnot: Today, we are largely working in the Oil & Gas from the Saudi Aramco order, right? We have started work on that entire -- all the 3 packages which we have. There obviously could be some changes in the value there, right? That's driven by the nature of the business. But the size of the order itself is so big for us that at least from the next 18 to 24 months perspective, we have our hands full. We're already qualified and now we're there in Aramco, we're there in a few more countries in Middle East Oil & Gas business.

We're seeing good traction there for various reasons, one, because the capex in majority of the countries is on the up drive. Second, there are limited players globally who are doing this kind of projects. So I'm not so much worried about getting in orders there. And at the current environment and the current speed things are happening, I think delivery in terms of projects will also not be a challenge.

Subhadip Mitra: Understood sir, thank you so much for answering my questions.

Moderator: Thank you. The next question is from the line of Vaibhav Shah from JM Financial. Please go ahead.

Vaibhav Shah: Thanks for the opportunity. Sir, firstly, when do we expect the cash inflow to come from the VEPL deal?

Manish Mohnot: So there are a lot of approvals which we need to take. Right now back to the authorities and to a lot of other agencies. We ourselves believe it could be anywhere between 6 to 9 months. We'll work hard to see if it can happen before March. But realistically, it would get into FY'25-26.

Vaibhav Shah: And what would be the usage? So will we repay the debt in the other 2 assets, the third-party debt?

Manish Mohnot: It is primarily for working capital.

Vaibhav Shah: And what could come in for the standalone company after repaying those third-party debt?

Manish Mohnot: I think out of the enterprise value of INR775 crores, the external debt is closer to INR350-odd crores. It's closer to INR300 crores if I'm not mistaken. So the balance should come to the company. So if my team is correcting me...

Manish Mohnot: INR260 crores is our external debt and everything else should come to the company.

Vaibhav Shah: Okay. Sir, secondly, you mentioned that you want to do a QIP of INR2,000 crores. So what could be the usage of those funds? And when are you targeting to do the QIP?

Manish Mohnot: I think the Board has yesterday approved that QIP process and now we'll be going to the shareholders for approval. The primary reason for the QIP would be utilizing it for working capital for the growth, which is visible now. We are not in a position to give you the timeline right now, except that the Board has approved it and we'll be going to shareholders for approval. And the value of the QIP is INR1,000 crores and not INR2,000 crores. I think what has been approved is up to INR1,000 crores.

Vaibhav Shah: Yes. Sir, and lastly, on the revenue guidance front, we had mentioned 20% plus kind of growth in the previous call. So can you give a particular number right now, what can we built in for the entire year for FY '25 on the stand-alone basis?

Manish Mohnot: So given the current challenges we have on our Water business where it was very different when we started the year versus what it is today, becoming difficult for us to give guidance in totality. As I mentioned earlier, all our businesses except Water have done 20% plus in the first 6 months, except Water and Railway. I believe those businesses will continue to do well. I also believe that Q3, Q4 will be much better than what we have seen in Q1, Q2.

But given the current volatility of that situation in the Water business, I'm not able to give you indicative number, but I definitely believe that we might not be able to achieve what we had targeted at the beginning of the year. We would be slightly lower than that.

Vaibhav Shah: Okay. And sir, you had mentioned in the PPT that around INR40-odd crores funding we have done for the road portfolio in first half. So what would be the number for the entire year? And what would be the same for the next year as well, given the cash inflows would be coming maybe in first or second quarter next year?

Manish Mohnot: I think we have targeted for around INR75 crores of inflow in the current years. And where we stand today, I believe we should be at similar numbers plus, minus INR5 crores to INR 10 crores.

As I mentioned earlier, this entire majority of this amount is going to repay the debt because all projects, the debt will be repaid over the next 3 years max. So it's only a timing mismatch more than anything else. So I think we will stand at a budgeted number of INR75 crores and should be in that range as far as road projects is concerned.

Vaibhav Shah: And for FY26?

Manish Mohnot: Our FY'26 numbers, we have not yet articulated those numbers. But in case the deal happens, obviously, the numbers would in case the cash flow comes in, which we are hoping it will, the numbers will reduce significantly. It would be opposite, right. The funding would come from them to us.

Vaibhav Shah: Okay. And sir, lastly, over a longer time frame, what kind of EBITDA margins are we targeting? So currently, we are roughly around 8.5% on EBITDA on a stand-alone basis. So what could be our target over the next couple -- 2 to 3 years in terms of margin expansion?

Manish Mohnot: So I think clearly, we have articulated in the past also that we are more focused on PBT margins now. And I think that margin, we definitely expect to improve by at least 25 to 50 basis points getting into the next year and that's what similar you see at EBITDA level. I think the more important thing is also to look at the consol margins, right? Because today, consol business has a significant business which comes from our core T&D in Sweden, core T&D in Brazil, our Chile subsidiary, a lot of them.

So I think it's important going forward that to look at the consol numbers also where margins have reached EBITDA margins closer to 9%, and I believe that number should only go up because there are no surprises left on that margin anymore. So on a consol basis, I think the number should go above 9% sooner than later. On a stand-alone basis, I think you'll slowly see margins improving with a clear 25 to 50 basis point improvement coming into the next few years.

Vaibhav Shah: Okay. Thank you, sir. Those are my questions.

Moderator: Thank you. The next question is from the line of Deepak Krishnan from Kotak Institutional Equities. Please go ahead.

Deepak Krishnan: Just wanted to check the Q-o-Q increase in our finance costs when our sort of debt levels have gone down due to improved collections. Any FX or any other factor that has caused our interest expense to increase on a sequential basis?

Manish Mohnot: No I think it's primarily driven by 2 aspects. One is our borrowing was significantly higher for the first 2 months of the quarter. As I said earlier, the Water money started coming in later part of the quarter. Second, interest cost has been slightly higher driven by customer advances where interest rates are more in the range of 9% to 10%. And given our improved order book, we have advances also which has slightly gone up.

But as I said earlier, on an annualized basis, we're still targeting our interest cost as a percentage of sales to be below 2% with net working capital as a percentage. So it's only a timing issue of

Q2, and I expect this to improve getting into Q3 onwards. On an absolute amount, obviously, with the growth, the interest cost has gone up, right, as it was expected because it's slightly higher than the revenue growth, but timing issue more than anything else.

Deepak Krishnan: Sure, sir. And maybe just from a revenue perspective, I think we understand this year, water has been slightly slow, and we may be lower than the 20% number. But given that the backlog is closer to INR60,000 crores, should we see a sharp uptick in '26 and '27? How are we looking at it ex of water if you look at all of it? How do we see growth beyond the current year as well?

Manish Mohnot: I think the current order book clearly gives us good visibility even for next year in terms of very good growth with improved margins. I would not like to quantify that growth at this stage given that we still have the next 5 to 6 months to build an order book or to get into a definitive situation on various aspects. But with the current order book visibility, I think a healthy growth with improved margins is visible for sure.

Deepak Krishnan: Sure, sir. Those are my questions.

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

Parikshit Kandpal: Hi, Manishji. Congratulations on a decent quarter, sir. So my first question is on the domestic T&D. So you said that there's L1 sitting in your order book on HVDC side. So if you can quantify that? And what is the HVDC pipeline right now?

Manish Mohnot: So in the domestic business, we have L1s closer to INR5,000-odd crores, as I said earlier, around INR5,500 crores. And HVDC of that would be closer to INR3,000-plus crores. It's in front of me, it's closer to INR3,000 crores, including the substation business. So out of the INR5,500 crores, INR3,000 crores plus is HVDC, where Powergrid has already won reverse auction or the TBCB bid, and they've got clearance from the government to go ahead with the project. So we expect the tender awards to come in any time in the next 2to 4 weeks.

Going forward, there are a couple of large HVDCs under bid now. I think the value would be in the range of INR15,000 crores to INR20,000 crores, all this happening in the next couple of months itself. We are working, as I said earlier, with Powergrid and with some private developers on those projects. I will not be able to quantify our scope of what we are working on given the confidentiality at this stage. But definitely, in the next 3 to 4 months, I think the tenders were at least INR15,000 crores to INR20,000 crores in HVDC, which are to be bided under REC and PFC.

Parikshit Kandpal: Okay. So what is the name of this project? Is it the Khavda-I or which one what is this project?

Manish Mohnot: Yes. This is Khavda.

Parikshit Kandpal: Okay. And the other question, connected question is beyond the HVDC pipeline which may be very healthy for this year. So how do you think would the next year look from the HVDC side and beyond HVDC, what are the other transmission opportunities in domestic, if you can quantify it?

Manish Mohnot: See, I think the entire environment on T&D has changed significantly in the last 6 months. This is by a lot of aspects. I can remember the first aspect has been a refocus on thermal power generation where you can see a lot of tenders coming by NTPC and other private sector developers on coal, the mega tenders coming in for which they will require the capacity to make sure that the delivery happens. Second, strengthening of the HVDC which will continue going into the next year or so.

Third, looking at projects, which are coming in Northeast as well as Jammu & Kashmir and fourth is strengthening of the system itself. I'm sure you would have seen the NEP which just came up last month where they have clearly said that the transmission capacity need to improve by around 40% in the next 5 years to what it is today. So given that I think visibility looks very good and it's only about making sure that we can deliver on the stringent timeline because today majority of the projects are 24 months to 36 months. There's nothing beyond that. And that's more important for us to ensure that we deliver on stringent timelines.

So for me, the next 2 years clearly looks like a very big bullish time on T&D domestic, driven by all aspects which I mentioned earlier. We could easily see orders about INR50,000 crores to INR60,000 crores only for EPC T&D coming in only on these three, four states besides the state level orders, which will be different. So we continue to stay very bullish. It's completely opposite to what it was in the last 3 years where you would have heard me, I used to say that in the T&D business, if it does 5% to 7%, we'll be happy. But now I'm saying that business definitely can look at a 20% plus growth at least from a 3-year perspective, if not beyond that and with improved margins.

Parikshit Kandpal: Got it. So what is the timeline of this HVDC execution? I think you said in the next couple of weeks or 3 weeks, you will get the order. So from then, how much time do you need to complete?

Manish Mohnot: I think majority of these projects are 36 months to 42 months. Part of this substation which will be slightly low, but otherwise 36 months to 42 months.

Parikshit Kandpal: Okay. Sir, second question is on the fundraise, you have announced INR1,000 crores fund raise. So now if I look at the context, so you have monetized, announced a deal, wherein you will get some money. You have claims upwards of INR300 crores which may get realized over the 2 years. So roughly after repaying everything, you still have INR750 crores to INR800 crores and then Indore adds on top of it. So you will closely touch about INR900 crores to INR1,000 crores of inflows in next 2 years.

So what are you seeing? Are you seeing a deterioration in net working capital in the near future because even a growth of 15% to 20% I think you will still be NWC positive in a scenario when you are looking at going below 100 days. So what is driving this fundraise? It's just that the market sentiment is favourable. That's the reason you're looking at it or so how do we read into it?

Manish Mohnot: So I think it is a very good question and this was the exact question which the Board raised yesterday and good to spend a few minutes on this. I think first thing is that it's important to understand that majority of the business where we are, are capex intensive in nature. And look at a what we have done in the last 3 years, we've done INR1,500 crores cost of capex out of our free cash flows. 30% to 35% of our free cash flow has gone only capex in the last 3 years, around 40% has gone in working capital and the balance 30% has gone as dividend and interest payment and all of that.

So I think when we look at the next 3 years, given the healthy order book, we realize that it's a combination of three to four things which we need to take care. First is the capex because without capex, a lot of projects might not be delivered whether it is B&F whether it's Oil & Gas, Saudi where you need equipment's, whether the international transmission line requirements where you have to spend because there is no capex base in those countries or whether it's a plant expansion.

Our capacity of around 220,000, 230,000 tons we might need to revisit that to look at an expansion there also. So it was first driven by a requirement of saying that how much do we need in terms of capex to make sure that the healthy growth continues. Second, the reality also is that while we've been able to manage working capital, it's becoming more intense because a lot of projects are now milestone-based payments which are back dated. We always have the 10% retention, but we also have milestone-based payments. So given that also, it was important to make sure that given the growth phase for the next 3 years, we have enough liquidity with that.

Third, the timing of all that cash flow which you said could be 9 months, could be 12 months, could be 15 months because they depended on external factors, while we work hard to get it. Because remember the same projects we have arbitration also which we have won that we have declared in the last two quarters. Now obviously we have arbitration award to be taken from the client and we go to them for NOC and approvals, it is not going to be an easy journey. Yes, we want to walk through it, it's not going to be an easy journey. So to that extent there is a timing issue which would also be there.

And fourth, given the current environment we believe that better to be on the right side of the banking environment with stringent norms on a lot of ratios. As such it's better to be on the right side of all the ratios from banking environment and this would help us achieve that also and fifth and the most important last QIP we did in 2010. And from 2010 to now, the organization has grown more than 15x through internal cash flows. So I think it was a mix of all of five, six of them which drove back. The market has been like this for the last 12 to 18 months. So it's not driven by externally the market sentiments. They are there to help for sure. It was a mix of the four, five things.

Added to that, clearly, we have opportunity of acquisition also in the manufacturing space within where we are. We're not going to diversify anything. And that's something which we have not looked very closely given that all the cash flows were already block for working capital and capex. So I think it's a mix of all of those five or six things which help us to say that what do we do. And that's why the Board approved saying that this could be a good step looking at 3 year, 5 year perspective.

Parikshit Kandpal: And sorry you said manufacturing, into manufacturing. Sorry, your voice was a little bit -- was not...

Manish Mohnot: Yes, manufacturing opportunities within the sectors where we are. There's no diversification but getting into the value chain within that. So our plants, we are already doing staging and shuttering, we are doing girders, we are doing our T&Ds. We could do a lot more in oil & gas. We could do a lot more in water. We could do a lot more in urban infra.

Parikshit Kandpal: So what do you mean by manufacturing then? I mean is it like you're looking at something on the solar side or the conductors, I mean, looking to increase set of conductor capacity. So what do you mean by manufacturing?

Manish Mohnot: So right now our focus is within the steel sector, within the steel vertical or I would say within the fabrication, galvanizing and high-end fabrication sectors is what our focus is. So let's say the railway girders, the staging shuttering which we use for B&F, the pipes for water where welding is required; oil & gas whatever is required. So those things can potentially be manufactured in the plant at Raipur where we have huge land available with us and that's an expansion which we could look at. We've not zeroed down on anything as of now. But this is a possibility which we could look at, but it is within the value chain of the businesses where we already are in. And I again want to remind you, majority of this plant expansion would be for our own EPC business.

Parikshit Kandpal: Not into conductors and setting up a conductor line? I'm asking you, are you also looking to set up a conductor line like some of the peers are doing conductor for backward integration and also to sell in market. So you have tower capacity. So looking at setting up -- you have any plans to set up conductor capacity as well?

Manish Mohnot: We're not looking at that opportunity as of now, but I do not know how things turn up in the future. But as of now, we're not looking at that.

Parikshit Kandpal: Okay. And just lastly, sir, any exposure to Bangladesh? I think you were doing something on the power evacuation site for the Rooppur power plant. So anything there, any update on that?

Manish Mohnot: On the power transmission side, we had completed the projects 2 years ago. We have a small retention which is pending, but since it's funded, we do not believe a challenge in getting that money. On the railway side, we have a project which is on which is funded by EXIM where it's in JV along with Afcons we're doing that project. Again on that project also we are cash flow positive, and I do not see any challenges on that project also.

Parikshit Kandpal: Are you've been getting payments after the change in government there? Are you seeing any delays, or the payments are on time or has the work stopped or restarted? So any update on that?

Manish Mohnot: So we've not, so we first had to remove the entire deal which was done when all this happened. Now the teams have gone back in the last 2 weeks. We've obviously not made any invoices because last 3 months, we've not done any work. So I think the teams have just gone back and I believe Q4 onwards the revenue should also start, and collections should also start because they're all funded by EXIM. So I do not see a challenge in that in any form.

Parikshit Kandpal: Okay sir. Thank you and wish you Happy Diwali.

Manish Mohnot: Thank you. Wishing you also a very Happy Diwali.

Moderator: Thank you. The next question is from the line of Ashwani Sharma from Emkay Global Financial Services. Please go ahead.

Ashwani Sharma: Yes, thanks for the opportunity. Most of the questions of mine have been answered. Just a couple of things. One is that if you can comment, Manish, sir, on the tendering on the metro side. How are the activity over there? Secondly, on the water side, we understand this year, it is a little bit of challenging, how do you see pipeline in FY'26 and thereafter? Yes, those were my questions.

Manish Mohnot: Sure. Let me first answer the water side. And on the metro side, I will ask my colleague, Amit to answer. On the water side, clearly, as I mentioned earlier, the first 6 months, we've not seen many tenders come out. So post elections, what we were expecting a lot of tenders, they have not come up. We believe it's only a timing issue because as far as the Jal Jeevan Mission data is concerned, there's a lot more which needs to be done at a country level.

So current year, maybe it could be subdued in terms of tenders. But getting into next year, we believe that those tenders should be back in every form. On the metro side, I would request my colleague, Amit Uplenchwar to just respond to this question.

Amit Uplenchwar: So today, so far as metro business is concerned, if you look at our population and our usage of metro per person compared to most of the other countries like China, US, and all that, we are far, far behind. Now that there is no other option as most cities that cross 25 lakhs to 30 lakhs in terms of population, mobility is becoming a huge problem.

And now that barrier is gone. Most of these are funded projects by JICA, EIG, ADB, etcetera, and they see that as a long-term stable sovereign guarantee from the Indian government to lend at very, very attractive rates. We've got this metro in Nagpur, which we've just become L1, it's a 17-kilometer elevated metro.

So the size and scale of these metros are becoming large in individual packages, which make them very attractive for large players like us because the sensible competition prevails there with 5 or 6 people who are all similar kind of peer groups. There is now a metro coming in Lucknow, Delhi, Bombay, Pune, all of these cities with a mix of underground and aboveground metros, Kolkata, are expanding.

So I think from the next 2 to 4 year perspective, we already have visibility of which metros are coming, and then we believe it's an attractive business to be in.

Ashwani Sharma: Sir, I just want to understand, is there any slackness in the current year as far as tendering is concerned? Is there a slowdown?

Amit Uplenchwar: Typically, unlike a transmission, a metro takes a long time from a bid to an award cycle because, one, they have to go to their funding agencies and multilaterals for approvals, etcetera, at every stage. So that adds time to -- from tender to award. Also, second, the time required for bidding because these are very, very complex projects in terms of engineering during tendering phase.

The entire tendering period also is much longer than conventional projects in other businesses. So while there is -- so a number of projects that have been announced this year, they've been a little slow because of government and a lot of code of conduct, etcetera. But I think next year onwards, as the cycle picks up, you'll have 5 or 7 bids across various metros at any given time going on.

So I think that little sluggishness that could have been there this year was not because of demand, but because of elections, etcetera, should ease out.

Ashwani Sharma: Okay. And last question, Manish, Ji sir, at a company level, how do you see supply chain? Have we -- has our supply chain fully completely improved? I mean it's at a pre-COVID level or still we are facing some challenges?

Manish Mohnot: I think we're back to what we were at pre-COVID, if not better than that with a lot of people expanding their capacity also. We still have some challenges in some equipment's, but that has reduced from a scale of, say, I would say, to 2. Yes, at times, the global uncertainties do impact us, the entire thing what happened at Red Sea and all of that. But again, it's just a timing issue, a few months here and there, but we are back to normalcy in 9 out of 10 basis, if not 10 out of 10 basis.

Ashwani Sharma: Okay, sir. Those are my questions. Thank you, very much.

Moderator: Thank you. The next question is from the line of Anuj Upadhyay from Investec. Please go ahead.

Anuj Upadhyay: Yes, hi. Thanks for the opportunity. Sir, it's a follow-up on the INR60,000-odd crores of opportunity you referred on the T&D space. So this is spread across over the next 2 years kind of a time period. And with such a scalability of opportunity, how do you see the competitive intensity out here? Just to get a sense on how the margins could be across this project because the overall market size has scaled up significantly?

Manish Mohnot: As I said earlier, the competition in T&D continues to stay healthy. And to me, actually, the competition is healthy across majority of our businesses except railways, right. And healthy competition is always good for everyone. Everyone in the sector, everyone in the business, it's good for them. As I mentioned earlier, while we definitely see margins improve from what we have seen in the past.

But it can't go beyond a point because whoever the developer you are writing with, they also TBCB environment have to fight against the large developers. So yes, the margins are more than that. They have reached a particular level. Personally if you ask me, look, significantly higher from there, my answer is no, because it's still a very competitive environment, both at TBCB as well as EPC level, but it's healthy competition.

Now, you don't see differences in tenders which are like 20%, 25%, 30%. You now see differences which are more 2%, 3%, 4% and healthy competition is very good for all of us.

Anuj Upadhyay: Got it, sir. And this INR60,000 crores opportunity you referred is over the next 2 years' time period because last week, one of the developer -- asset developer had referred that close to around INR1 lakh crores of bidding is scheduled to happen over the next 6 to 7 months kind of a time period. So just wanted to get sense that 60,000 you referred was...

Manish Mohnot: I believe this could happen in the next 12 months itself. I said INR50,000 croresto INR 60,000 crores on an annualized basis for the next 3 years is visible. So this is INR 50,000 crores to INR 60,000 crores on an annualized basis minimum. I think it could be higher than that. But on an annualized basis, it's not for 2 years. It's on an annualized basis.

Anuj Upadhyay: That's helpful, sir. And lastly, on the pledge share, sir. In the last call, you had mentioned that probably the percentage of the promoter share might come down to a single digit. So any thought or update on that front?

Manish Mohnot: No. I think you've got the wrong words. I never mentioned the single-digit word, right. I was very clear what I mentioned that they would come down below 30%. Right now, they're at around 23.46%. Clearly, the intent is to continuously reduce it, and we believe that over a period of time, this will come down. But overall with history of this pledge, 18 years I've been with the organization, it's always been in excess of 30%. Now they're at 23%, and this will continue to go down.

Anuj Upadhyay: Got it, sir. Thanks for this. And wish you all a very Happy Diwali sir.

Manish Mohnot: Thank you very much. Wishing you a very Happy Diwali.

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

Parikshit Kandpal: Sir, thanks for the follow-up. Sir, my question is on margins. If I go a little back in the history, so three, four quarters back, I mean, you were more confident on doing a double-digit margin. Though your commentary on segment-wise margins improvement are reaching double-digit even in domestic T&D sounds to be positive, but the signalling on the blended EBITDA margin at the stand-alone level, it doesn't look like you are guiding for double-digit margins. So why is that? And is that now the peak margins could be 9.5x?

Manish Mohnot: So Parikshit, as I said earlier, I would be happy to guide margins at the PBT level given that our leveraging issues are very different. I definitely believe margins would go up, right? I'm not exactly quantifying how much going into the next year. Currently, we've given a range of 4.5% to 5%. Next year, definitely, I see 25 to 50 basis points going up. It could further go up depending upon how activities happen across some of the sectors where we have been, last six months, we've seen some challenges.

So I can confidently say, moving up with a healthy top line growth. Would it reach 10% in the near future, it could be difficult. But maybe from a two-year perspective, we might be back there where we were at some point of time. Difficult in the current year and even the next year. Yes, on a consol basis, we would be driving our margins to reach that over the next 12 to 18 months itself, if not earlier than that.

Standalone could take some more time. And Parikshit it's important for us to realize that for us now consol business is equally important. In my T&D business, there is more than 25%, if not more than 35% of my revenue which comes from the consol operations, whether it is looking at Sweden, whether it's Brazil, whether it's Chile, whether it's Saudi, all of that.

So I think we should be looking at both of them. So on an EPC business, consol could take some time, but we are in that direction.

Parikshit Kandpal: Okay. And just one more question on the clean energy side. So any plans of doing anything on the solar or hydrogen or battery storage either on the EPC side or the manufacturing side or hydrogen side. So any color on that over the next two, three years, how are you thinking this entire clean energy thing because it aligns with your T&D segment and the energy segment, which is a part of the order book?

Manish Mohnot: So on the renewable side, we have done a few projects already on the international front, not in the domestic front. We have built a team where we continue to explore opportunities on solar at the international front. As far as the other businesses whether it's green hydro, battery storage all of that. But we have small teams which are looking at it. But in the near short term, I do not see much happening on that front.

But from a three-year perspective, we definitely look at opportunities there. Also today, Parikshit for us, given the huge order book and visibility as I mentioned earlier, right, 60% of our cash flow generated goes in working capital and capex. I think from a two to three-year horizon, we have enough on our plate. While we say so, we continue to explore some opportunities in this space and at the right time, we will announce that to everyone.

Parikshit Kandpal: Thanks. And are you now open to do any equity intensive projects something like a Solar KUSUM or something or you will stay away and continue to focus on EPC only?

Manish Mohnot: No, I think we will continue to focus on the EPC business, and that's our big focus as of today.

Parikshit Kandpal: Okay, sir. Sure. Thank you.

Manish Mohnot: Thank you.

Moderator: Thank you. As there are no further questions from the participants, I would now like to hand the conference over to Ms. Bhoomika Nair for their closing comments.

Bhoomika Nair: Yes. On behalf of DAM Capital, I would like to thank the management for giving us an opportunity to host the call. And wishing you all the very best and a happy Diwali as also to all the participants. Thank you very much, sir.

Manish Mohnot: Bhoomika, wishing all of you a very happy Diwali. Thank you, everyone.

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