KALPATARU PROJECTS INTERNATIONAL LIMITED
(Formerly Kalpataru Power Transmission Limited)

"Kalpataru Projects International Limited
Q3 FY'25 Earnings Conference Call"
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Moderator: Ladies and gentlemen, good day, and welcome to Kalpataru Projects International Limited Q3 FY '25 Earnings Conference Call hosted by DAM Capital Advisors. 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.

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

Bhoomika Nair: Yes, good morning, everyone, and a warm welcome to the Q3 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, President Finance and CFO.

I'll now 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: Good morning, everyone and thank you for joining our earnings conference call for the quarter ended December '24. I will start with a quick update on the operating context, followed by the key highlights of the quarter.

The operating environment continues to laden with challenges related to labor shortage, geopolitical issues and stretch working capital in the Water business. In this backdrop, we continue to focus on scaling up our execution and improve our competitive position. I'm happy to share that we have delivered a strong performance for Q3 '25 with robust revenue growth, healthy margin levels, record order inflows and noteworthy improvement in working capital.

In Q3 '25, we have delivered a consol turnover of INR5,732 crores with a Y-o-Y growth of 17%. Similarly, at the stand-alone level, revenue growth was 16% for Q3 '25. The growth in revenue was led by strong execution in healthy order backlog within T&D, B&F, and Oil & Gas business.

In Q3 ‘25, T&D business delivered strong growth of 42%, B&F business was up by 26% and Oil & Gas reported Y-o-Y growth of 123%. The sluggishness in the Water business has led to an impact on the overall growth. Collections from JJM projects continue to remain slow. However, with the recent announcement in the Union Budget for 100% tap water coverage an allocation of INR67,000 crores for FY '25,'26, we expect speedy recovery in collections and improved execution in coming quarters.

Our EBITDA grew by 13% at consol level and 17% at stand-alone level in Q3 '25. Our EBITDA margin for Q3 '25 remains healthy at 8.4% at consol level and 8.3% on a stand-alone basis. Our consol PBT grew by 5% Y-o-Y to INR202 crores. At stand-alone level PBT was up by 12% Y-o-Y to INR218 crores with a margin of 4.5% for Q3 '25. In Q3 '25, we faced some constraints in margin improvement due to lower revenue in the Water business. The depreciation of the Brazilian real impacting USD-denominated loan in Fasttel, and higher maintenance spending on road SPVs.

We continue to remain on track to imporve our margin going forward. Our net debt at consol and stand-alone level have come down significantly both as a resultant of QIP and efficient working capital management. Consolidated net debt declined by 27% Q-o-Q to INR2,694 crores. And stand-alone net debt is down by 35% Q-o-Q to INR1,820 crores as of 31st December '24.

Our net working capital days decreased by 6 days Q-o-Q to 112 days at the stand-alone level while at the consol level net working capital days was down by 4 days to 94 days. We managed to keep our finance cost as a percentage of sales at around about 2.2% at the stand-alone level despite significant capital employed in the Water business. This very well indicates our focused approach and ensuring robust working capital management and maintaining a strong balance sheet.

We continue to focus on improving our competitive position with an equal weightage and ensuring that fundamentals of our business remain strong. The strength in our business model is underpinned by a diversified business profile, disciplined capital management and proven execution capabilities for large size EPC projects. The same is reflected from the solid response which we received to our QIP issue in December '24. Our QIP saw participation from marquee domestic and international investors.

On the order inflows front, we have secured orders worth INR20,185 crores, including the INR824 crores announced yesterday. Additionally, we have a healthy L1 position with over INR2,500 crores, mainly in the domestic T&D business. Majority of these order wins in L1 nearly 80% to 90% are our flagship T&D and B&F business, which gives a reasonable confidence of the execution and improved margin levels going forward.

Notably in Q3 '25, we have strengthened our competitive position by securing prestigious order in the HVDC space. Major order win is Sweden, last size B&F orders from a reputed developer and further expanding our reach in the metro rail segment with securing orders of Nagpur metro.

On the capability front, we achieved first breakthrough from our Tunnel Boring Machine (TBM) in the Kanpur Metro Line 2 project. Additionally, numerous mechanization and technology initiatives on the civil construction side are helping us to improve our productivity and lead time for slab casting.

We continue to invest in capex in-line with robust order backlog, improved business visibility and our philosophy of owning our own construction equipment in order to be competitive and have better control on execution.

Coming to the order backlog. Our order backlog has record high of INR61,429 crores as of 31 December '24. We have a fairly diversified order book, providing us with good visibility of execution and growth going forward.

We remain positive on the opportunity pipeline in power transmission, residential, commercial building, airports, metro rail and international Oil & Gas projects. Moreover, the traction in the domestic and global T&D market remains robust on back of a multi-decadal opportunity led by widening gap between demand and supply of power, grid upgradation and modernization, push for renewables and improving electrification in developing markets. This represents a good opportunity for KPIL going forward.

On the international subsidiaries front, LMG Sweden revenue has doubled Y-o-Y for Q3 as well as 9M ‘25. LMG's order book is at a all time high of INR3,143 crores. In Fasttel Brazil, we have achieved revenue growth of 18% for Q3 and 35% for 9M ‘25. Our Fasttel order book stands at around INR1,000 crores as of December '24.

In our Road BOOT project per day revenue reached INR64.3 lakhs in Q3 '25 compared to INR56 lakhs in similar quarter last year. We are working towards closure of the VEPL transaction in FY '26.

Before I conclude, I would like to highlight our specific performance in the Water business. Over the last 5 years, our Water business has grown from INR642 crores to INR3,500 crores, reflecting a healthy CAGR of 52% with healthy margins and working capital consistently below 100 days. At the start of this year, our Water business had an order book exceeding INR10,000 crores with a projected revenue of over INR3,700 crores for the year and a 9M revenue target of more than INR2,700 crores with reasonable margins and efficient working capital days.

However, in Q1 we faced challenges as payments from clients were delayed due budget constraints impacting our targets. Despite these challenges, we made a conscious decision to continue executing projects as slowing down or stopping work would have had wider implications on cost and profitability. Over the past nine months, we have infused approximately INR1,000 crores on this business. With the budget allocation now in place, we expect cash flow to start improving Q4 FY '25 and Q1 '26.

In the Water business from Jan onwards we realized over INR240 crores, and we anticipate collecting the remaining INR500 crores to INR700 crores, which is already billed in Q4 or Q1

'26. While we remain cautious in the short term on this Water business, we're confident about our long-term growth prospects.

Finally, looking at outlook, execution across most businesses, including T&D, B&F, Oil & Gas and Urban Infra is expected to remain strong going forward. We're targeting growth of 15% to 20% in Q4, with margins expected to be around 5% at the PBT level, at the stand-alone level. Similarly, consol performance is also expected to show significant improvement.

Before I conclude, we believe that had the Water business issue has not been there, we would have reached our targeted numbers of 15% to 20% growth in the current year. We also believe that this should be behind us soon for us to capture for our projected growth going forward.

With that, I conclude my opening remarks and open the floor for Q&A. Thank you.

Moderator: Thank you very much. The first question is from Sumit Kishore from Axis Capital. Please go ahead.

Sumit Kishore: My compliments on a strong overall execution performance in the quarter and strong inflow performance as well. My first question is on the water segment. Of the INR100 billion order backlog, how much is under the Jal Jeevan Mission? How much is under other irrigation or other water segments?

You've mentioned some improvement in the directional velocity on collections. But how should we be looking at this segment for Q4 and the next financial year in terms of execution and you also made comments on the JJM allocations in the budget for FY '26, so how soon is the improvement going to be visible? That's my first question.

Manish Mohnot: Our JJM allocation for order book is closer to 75% to 80% and the balance would be from the other utilities. As I mentioned in my opening remarks, we have seen traction already, some traction in January. But we still have closer to INR700 crores of unbilled -- or billed certified uncertified line with various water utilities. We believe that, that should start coming in from March onwards or it could even go to April, May, depending upon when the budget allocation is actually done by the center.

Post the budget, our discussion with all the water utilities have been very positive because now it's a clear road map given in the budget by our honorable finance minister on the entire segment in terms of both capital allocation and the goal of achieving 100% taps to the entire country. So as I said earlier, while we remain cautious in the short term, given the huge capital deployment, which has happened, but from a long-term -- medium and long-term perspective, we remain very, very confident about this business.

Sumit Kishore: Okay. The second question is when we evaluated your Q3 result, we possibly were -- saw a higher net interest cost during the quarter than what we expected. The other income was down sharply quarter-on-quarter at the consol level while the interest cost was up 9% quarter-on-quarter. The QIP happened around 18th Jan -- 18th December, so the benefit might have been for a few days. But shouldn't the net interest cost now improve, so your net debt is also down about INR10 billion quarter-on-quarter? Was there any one-off in interest?

Manish Mohnot: No, I do not think we had any one-off in interest. And as you rightly pointed out, getting into Q4, obviously, interest costs would come down given that we've got the QIP proceeds and given that there's some recovery happening on the water business also. So our Q3 interest costs had no one-offs, it was primarily driven by the capital deployed and the water business as I said earlier, and the growth in revenue which happened in Q3. And definitely, as a target, we should be middle 2% of interest cost in Q4, and that will be a target going forward also.

Moderator: Next question is from Mihir Manohar from Carnelian Asset Management.

Mihir Manohar: I wanted to understand on the water side, what is the total pending which is there on the water? And how much is billed and how much is unbilled, some color around that?

Also, you mentioned, I think, INR240 crores has been received in Jan, right? And the expectation is that by either April or May some collections should materialize? So I just wanted to understand how does it work? Is there a central authority? Is it more granular? Or it is just 1 single authority or 3 single authorities working. Just wanted to get some color.

Manish Mohnot: Sure. Mihir, our total billed, which is certified lying in the finance is closer to -- in the finance department of the various utilities is closer to INR450 crores to INR500 crores. There are another INR250 crores to INR300 crores, which are in the process of reaching the final stage. With the water typically in all the utilities, they are 6 to 7 levels of approval. So believe it by the end of February or maybe by beginning March, we should have that number in the range of INR700-plus crores as far as bills lying at the various utilities for payments only for budget allocation.

Your second question, yes, we have received INR240 crores, but that's not only in January. That's January and February YTD. So,the data is as of day before yesterday. The INR240 crores has come across various utilities. So we've got good collections coming in from Orissa. We have got good collections coming in from MP. We've not seen much traction right now happening in UP, but Orissa and MP, we've seen some traction in January and February.

As I said earlier, our discussion with all the utilities, post the budget has been very, very positive, and they believe that it could happen -- the collections could be paid in March or latest April depending upon when the budget allocation happens.

Mihir Manohar: Understood. So out of INR700 crores, how much would be UP on a broadcard basis?

Manish Mohnot: In order book, my UP order book is closer to 40% of my order book. So I'm just using a benchmark that 40% to 50% would easily be UP. I don't have the exact detail, but just being -- producing the benchmark 40% to 50% will definitely be UP.

Mihir Manohar: Understood. My second question was on the profitability for the subsidiary, when we see profitability for the subsidiary for this quarter, now this number is like consolidated minus parent. When I do the balance number, which is subsidiary as well as JVs, the EBITDA margin for 3Q FY '25 was at 8.5% versus 10.7% on Y-o-Y basis even for 9M basis like 9.1% versus 10.3% on a Y-o-Y basis.

And this is like consol minus parent. So I mean just wanted -- broadly wanted to understand how should we see the profitability of our subsidiaries improving from here on. And why should that happen? Some color around that?

Manish Mohnot: Sure. The standalone to consol has 4 or 5 critical components, right? And I'll first give you the macro picture and then get into specifics. One is Linjemontage which is Sweden, I think they have done very well both on revenue as well as profitability. Second is our road assets where we have had a dent in profitability in Q3 primarily because our focus on O&M in a big way given that it's more scientific in nature and given that we also have plans to divest few of them.

Third is Fasttel Brazil where we had losses coming in primarily due to the devaluation of the currency on the USD loans given by Exim India. This does not have an overall impact in the long run because on an overall basis, at an organization level we are net export surplus, so it's more a timing issue. Shubham has been more at a breakeven level because we have not had an impact there. So what has had a dent in the Q3 is only by 2, primary dent, when the Brazil devaluation in currency and lost it on the road assets, primarily on O&M.

Going forward, we believe that the losses on road assets should come down given that collections have also improved, and we are divesting the largest road asset in the next few quarters itself.

Going forward, we also include -- I expect Brazil losses to be coming down because currency has come back from 6.2 levels on 31st December, it's already back to 5.7 levels while we speak now. So we believe that it's more a timing issue. So I won't believe that going forward to the next year, the consol should only be better than stand-alone and not be worse in any form.

Moderator: Next question is from Parikshit Kandpal from HDFC Securities.

Parikshit Kandpal: Congratulations on a decent quarter. So my first question is on the India T&D piece. So if you can help us understand how much has been the total wins which has been announced by the utilities? And how much is pending award for the EPC or the equipment players as per your understanding?

Manish Mohnot: So Parikshit, if you look at our T&D order inflow in the current year, it's around INR6,000 crores. Our actual inflow is around INR5,300 crores and we are L1 in INR1,750 crores. Plus, I think we have bid for projects worth around INR4,000 crores to INR5,000 crores, which should all get decided in the next 2 to 3 months.

So from my perspective, including L1 today, we are at around INR7,000 crores as far as domestic T&D is concerned and INR2,000 crores to INR3,000 crores -- including L1. And INR2,000 crores to INR3,000 crores is what we have already bid, which should get decided in the next maybe month or maybe latest by April.

Typically, we've been around 20% to 25% of the market share. While I don't have the exact details of everyone else, but I'm assuming that for the space where we are the order inflow could have been in the range of INR35,000 crores to INR40,000 crores in the last 6 months. Out of which we are at around about INR7,000 or INR7,500 crores.

Parikshit Kandpal: How is the bid pipeline looking at for the year -- next year and maybe over the next 2, 3 years when we have large numbers being spoken on by the government. So in your own understanding and estimate, how is the pipeline looking for FY '26 and in the near term 2 to 3 years?

Manish Mohnot: So I think the pipeline is looking extremely good, right? And if you go back to history in the last 4 years, we've been very bearish on this pipeline. But now it's looking extremely good because if you even look at the projects in -- floated by REC and PFC in their website, if you look at the kind of details which Powergrid has given for capex.

If you look at the projects already identified which will get into tendering in the next 6 months itself, I think the pipeline looks like growing by at least -- it might be double in the next year. The next 2 years look very good from a pipeline perspective and then after that from an execution perspective.

So -- and we have presented in our presentation also, so INR2.5 trillion to INR3.5 trillion is what we're expecting by 2029. And it's driven by renewable energy, connection, system upgrades and capacity addition. So to what -- if we look at this business growing at minimum 20% to 25% from the next 3 year perspective, and we expect next 12 to 18 months to be very, very good in terms of order inflow.

Again on this business, our biggest challenge continues to be labor availability, and that's why we would like to be also cautious at times in terms of we are taking projects which have very stringent delivery time line. So we remain very optimistic in the position of this business as of now.

Parikshit Kandpal: What is the HVDC pipeline, sir, in the near term, say, next 1 year, which all projects do you think can come in the market and get awarded?

Manish Mohnot: So at the beginning of the year, we were looking at HVDC of around INR50,000 crores to INR60,000 crores, right, is what we have looked at. Out of which I think around INR25,000 crores worth of projects have already been rewarded. So I would see another INR20,000 crores-INR30,000 crores happening in the next 3 to 6 months minimum.

Parikshit Kandpal: Okay. Just last question on the margin, sir. We were -- so when do we -- now the share of new orders have been increasing and T&D as a share has been going up, so when do you expect to revert to double-digit margins? Any guidance on how will the FY '25 revenue and EBITDA would be and what margins will be for the next year? What kind of growth and margins you've been baking in?

Manish Mohnot: So as I mentioned in my call earlier, we are targeting to reach closer to 5% margins at the PBT level in Q4 itself, and I don't see us going down from there at least for the next couple of years given the healthy visible order book today. So at the stand-alone level, you should see margins reaching closer to 5% in Q4 itself.

And I mentioned that in my speech itself with a 15% to 20% growth minimum on top line also. So I believe that we should be at this as a minimum level going into the next year. But obviously, for the next year numbers, we will have more clarity when the budgets are fully frozen and we come back in May post our Q4 numbers.

Parikshit Kandpal: But EBITDA on double digit -- any guidance on EBITDA reaching double digit margins?

Manish Mohnot: No, I think we've stopped guiding on EBITDA for the last couple of years. Our focus is a lot more on PBT. So definitely EBITDA should improve in relation to the way where it is today. But given that our average is too low in every term, we focus more on the PBT guidance going forward.

Moderator: The next question is from Bharat Sheth from Quest Investment.

Bharat Sheth: Sir, I missed the Water business part, which you said that in Q4, how do we really look at the full year and next year?

Manish Mohnot: So Bharat bhai, in Q4, we will continue to focus on projects which are under closure in the Water business and also start refocusing from the next year perspective as we expect cash flow to come in sooner than later. We have closer to INR400 crores to INR500 crores of bills lying at the final stage for payments, another few hundred crores, which are at final stages where it would reach the final figure.

So as I said earlier, we still -- we stay cautious in the short term in this business in terms of taking new orders and focusing a lot more on the execution. It might be only this quarter where we be cautious, but getting into next quarter given that budget allocation is done and the vision by the finance minister -- honorable finance minister was very clear, we believe that we should be going back to that double-digit growth in that business from next year onwards.

So Q4 still looks slightly not very good because out of our -- we've just got INR240 crores out of whatever the INR700 crores of bills lying there. I'm hoping that this would improve by March, but this could even get to April, May once the budget is finalized and allocated by the center.

Bharat Sheth: So earlier, I mean, if you can give working capital intensity which -- earlier in water business kind of you are operating at negative, you are very nominal level. So what extent it has now gone up, I mean, in net working capital cycle?

Manish Mohnot: So water business has been 1 business, which has been very, very efficient in working capital if you forget this year, right? They've been working at days, which have been more in the 60 to 90, at times less than 60 days. The current year, they've gone up to -- they're in excess of 140 days while we speak, right, and for reasons known to all of us.

We believe that this business for the last 5 years was more in the 60 to 90 days. We believe that getting them back to that would be very easy once we get our collections back. But currently, that big impact on both working capital days as well as our debt position primarily driven by noncollection on that business.

Bharat Sheth: Okay. And, how do we, sir, I mean LMG and Fasttel PBT margins going ahead and how much is actual for the 9M? And where do we see it stabilizing?

Manish Mohnot: So you if you look at our Linjemontage business, it has been a very focused business in terms of EBITDA margin, always in the range of 4% to 6% and EBITDA is typically is equal to PBT because they hardly have any interest cost.

So if you look at our numbers from a 9M perspective on Linjemontage, our revenue has been around INR1,300 crores, which is double in terms of from INR664 crores to INR1,337 crores. EBITDA has gone up from INR22 crores to INR64 crores in the same period. So EBITDA is around 4.8% as far as Linjemontage is concerned.

If you look at Fasttel, our revenue has gone up from INR560 crores to INR755 crores in 9M, and our EBITDA has gone up from INR6 crores to INR56 crores in the same 9M. PBT is negative. We are a negative INR43.5 crores last year, it's only INR16 crores negative this year. But the INR16 crores negative is primarily due to the currency devaluation which we believe is having impact.

Bharat Sheth: Okay. And sir, on -- one bookkeeping question. In this quarter, particularly our other expenses have shoot up Q-on-Q substantially. So any one-off there or...

Manish Mohnot: No, I don't think there's been a one-off there. It could have slightly gone for maybe specific reasons driven by growth only. But as I've not seen any one-off there to the best of my knowledge, but I can ask my team to come back to you. So I think it's only in relation to the growth and nothing more than that.

Bharat Sheth: I mean on guidance side LMG will remain around 5% kind of PBT margin, 4.5% to 5% and Fasttel where do we see PBT margin?

Manish Mohnot: So I believe on the guidance front going into the next year, Linjemontage margins should definitely reach towards -- more towards 5.5% plus from 4.8% at EBITDA level in the current year. And as far as Fasttel is coming, our aim is to -- we have improved the EBITDA margins from as low as 1% to 7% in the current year, and we believe it will stay at this levels of 7% to 8% going forward also.

Bharat Sheth: PBT margin will be approximately...

Manish Mohnot: PBT margin as far as Linjemontage is concerned, it could be more in the range of 3.5% to 4% and Fasttel we will try at breakeven because -- so more range of 1% to 2% because the interest cost is much higher.

Bharat Sheth: And Water will also start making money. Is that fair understanding?

Manish Mohnot: Yes, definitely. Well, to be very frank Bharat bhai, Water was completely beyond our control. We really worked hard to reallocate resources to other businesses to achieve our targeted growth because for the last 5 years, we've never had these issues of payment. And you could see the budget numbers also.

Last 5 years, INR60,000 crores. This year only INR22,000 crores allocated to the water business at the center level. So this was completely beyond our control, but now with the budget allocation back, we're reasonably confident that this business should start delivering both growth and margin getting into the next year.

Bharat Sheth: Sir, can you give some color on the international T&D as well as Oil&Gas, and railway?

Manish Mohnot: Sure. We stay -- we are bullish on all international T&D, Oil&Gas, Urban infra all 3 businesses, as I said earlier, I think we'll see both growth and margin improvements in all 3 businesses.

As far as railways is concerned, we been very cautious on this business for the last 2 years, and we would like to be like that. I don't see any growth happening in the railway business at least for the next year. But definitely, we don't see any margin deterioration happening in that business going forward.

Moderator: Next question is from Chinmay Kabra from Emkay Global Financial Services.

Chinmay Kabra: So just really wanted to understand what would be the typical time line for the repayment of borrowings against the INR7.5 billion that we have kept separately from the QIP?

Manish Mohnot: I think we've already started that process, a significant portion of that. So, the repayment of borrowings also includes repayment of working capital element and short-term loans. I think we have already started that process and significant portion of that would have already been done by 31st December because it's working capital and that's why you can see our debt numbers have come down.

So it's nearly fully done. It's not nearly, I would say fully done. We just repair our working capital and some of our CPs and some of our short-term loans, which we have.

Chinmay Kabra: Understood, sir. So factoring in the payments that we have done in the recent quarter, what is the net working capital guidance that we are building in for Q4? And going ahead as well? Do we still maintain it to reach approximately the 100 days?

Manish Mohnot: Yes. We still are targeting it to reach the 100 days and hopefully, we will be there even without Water connection being significant in Q4, we're still targeting to be in that 100 days level and at stand-alone level and consol maybe 90 if not below 90 days.

Chinmay Kabra: Understood, sir. Coming to the railways segment. So just really wanted to understand how is the execution going ahead in railways? I mean we do see the sustained degrowth even in this quarter.

And going ahead also, we are building in a decline for FY '26 as well. So just really wanted to understand that from when can we see a growth in the railway segment? And how is the current tendering opportunities coming up?

Manish Mohnot: So from our perspective, I don't think we see any bullishness in that business for the 3, 4 segments that we are, right, whether it is electrification, whether it is civil in terms of expansion, whether it is metro electrification, we're not seeing very bullishness in that business, primarily for 3 reasons. One, there is a lot of competition coming into that business.

We see 20-plus players competing in majority of these tenders. Second is, the businesses have gone back decentralized to the various zonal railways. We have created coal which are dismantled and now it's gone back to zonal railways, so the functional style in terms of price of orders all of that has become very different.

And third, with competition the margin profile is not exactly where we want to be. So personally, from a 2-year perspective, I don't see that business growing in any form. The good part is our order book has limited to around INR4,000 crores on that business, so it's not very high from our order book and delivery perspective.

Parallelly, we're exploring international opportunities in that business in 5 or 6 countries at a global level. We've not reached anywhere closer to saying that we should be signing or doing something soon. But I believe getting into the next year, maybe Q2, Q3 of next year, we should be targeting a win at the international level.

So from a 2- to 3-year perspective, we continue to be very cautiously optimistic in the business with minimal growth -- or I would say with negative or zero growth. But yes, margins do not look like deteriorating further from here as far as that business is concerned.

Chinmay Kabra: Understood, sir. So just if I can take one last question. So, coming to the EBITDA or the PBT level, if -- or if I can look at it on a segmental level, T&D, B&F, and Oil are the only contributors in terms of the expansion. Meanwhile, Railways and Water will continue to be a laggard if I can summarize it.

Manish Mohnot: No, I think I would summarize this differently. T&D business would continue to be the largest growth, continued by B&F and oil & gas. Oil & gas is at a lower base going forward. I also expect Urban Infra to do very well in terms of the revenue growth because it started with a low base, and they have a very order book and good visibility going forward.

So the only business I believe we might not do well is Railways in terms of revenue growth. Even on Water we believe that next year would see very good revenue growth because we have a healthy order book and now cash flows are visible given that the budget has given so much allocation. So getting into next year, except railways, I think all businesses should be at a double-digit minimum growth if not very high double digit.

Moderator: The next question is from Vaibhav Shah from JM Financial.

Vaibhav Shah: Yes. Sir, how much have we infused in the road assets in Q3 and 9M.

Manish Mohnot: So I think just before I give you the exact number, our majority investment in road asset has been primarily to repay debt because in majority of the road assets debt happens is to be done in the next 2, 3 -- we have full payments has to be made in the next 2, 3 years. Our total investment in the last 9 months is around INR69 crores on all 3 assets or all 3 assets put together. In Q3, you can say closer to INR30 crores.

Vaibhav Shah: I didn't get the number, INR59 crores or INR69 crores?

Manish Mohnot: INR69 crores. INR69 crores.

Vaibhav Shah: Okay. And sir, how much do we expect for the entire year this year and next year?

Manish Mohnot: So my belief is that Q4 also we should see investment closer between INR29 crores, INR30 crores because we are investing in O&M as well as some repayments of debt on WEPL. It should be in the similar range. Going forward, it should only come down. So for example, if we do INR100 crores this year.

Going forward, I don't think we should be doing more than INR50 crores. As VEPL will be divested by Q2. So going into the next year, we'll come back with an exact number, but my own belief is it should be less than 50% of the current year.

Vaibhav Shah: Okay. Sir, I missed 1 number. For LMG, you said that EBITDA margins have been around 5.5% and for Fasttel around 7% in 9 months.

Manish Mohnot: For LMG I said EBITDA margin in the range of 4% to 6%, it was 4.8%. The exact EBITDA margin I gave was 4.8% in LMG, Fasttel, 7.4%, road assets was negative, and there are some international subsidiaries like Saudi where we had some losses. So LMG is 4.8% 9M and Fasttel is 7.4% EBITDA 9M.

Vaibhav Shah: And for LMG, what is the guidance for '26 in terms of margins or our targets.

Manish Mohnot: So we've still not finalized the targets for next year, but I personally believe that this number should go up by at least 100 basis points getting into the next year because their current order book is much healthier than what they had in the past.

Vaibhav Shah: Okay. And sir, secondly, we have seen some degrowth and though it is a very small number in the overall scheme of things in the Urban Infra side. So the growth can be much, much higher in '26 and '27?

Manish Mohnot: Yes, we definitely expect the growth to be much higher because we have got 2 large projects in the last 6 months, which will get converted to revenue going forward. So definitely in the next year, I see this business going up by 20%, 25% if not more than that because they were lower rate. They might even go closer to 40%.

Vaibhav Shah: Sir, in terms of order inflows, are we confident of looking for some growth in FY '26 as well, maybe a 10%, 15% growth on the current base because YTD number is quite strong right now, and we are on track to achieve our '25 guidance.

Manish Mohnot: So we will be coming back to the guidance for '26 later part of this year, but as we stand today, if I look at the majority of our business, right, transmission domestic looks like very bullish, transmission international looks bullish given that opportunity in Africa, Middle East, LatAm are back.

B&F driven by residential, commercial, data centers, airports, a lot of tenders. So that also we stay bullish. Urban Infra focus has been on select space where we're seeing a lot of traction. Water should be coming back given the budget allocation. So I don't see challenges. But in terms of exact numbers, you'll have to give me a few more months to come back and I'll give a target for the next year.

Moderator: Next question is from Samarth Khandelwal from ICICI Securities.

Samarth Khandelwal: Sir, congratulations on a very good execution this quarter. My question is on the noncore assets, specifically, what has been the update for Indore assets in Q3?

Manish Mohnot: Samarth, Indore assets, what is unfolded is primarily large building inventory which is with us. We believe that OC of that building could come in anytime now. It could be a few days. It could be a few weeks not beyond that. Our sales team has indicated that the moment the OC comes, we would be able to sell out the entire inventory within a period of 60 days, not even beyond that because the other 4 towers have sold off and people have come, occupied all of that.

So my own view is, in the next 3 to 4 months, we should be getting back our entire investment on Indore maximum 90 days after we get the OC. We're just waiting for OC. And before March, actually we believe we would be able to sell off the entire thing. So it's just a matter of time, which is days, weeks and not even months. So by March or by May, we should be done fully in terms of selling up the entire inventory in Indore. And cash flows coming in latest before June '25.

Samarth Khandelwal: Right. Sir, my last question is on I read a news article saying Kalpataru Limited has received IPO nod from SEBI. So how will that impact our company?

Manish Mohnot: I also read that news article the way you said it. I do not see any impact on our business in any form because as far as we are concerned, we are 2 different organizations and Kalpataru Limited is a separate organization in every form. So I do not see any impact in any form. If all it will be a positive impact, but no negative impact on any from the IPO plans of KL Limited.

Moderator: Next question is from Gaurav Uttrani from Axis Capital.

Gaurav Uttrani: Sir, we've seen that order inflow has been largely driven by T&D segment and other segments like B&F and all are largely flat on a year-on-year basis if we have look on a 9M basis also. So is it like we are selective in taking order for the B&F? And we have also seen like there's an order inflow in railway segment of almost like INR364 crores. So what sort of orders we are taking in railways as you mentioned that we'll be very cautious in the segment going forward?

Manish Mohnot: Let me answer the last question first. First, railways order we have taken primarily as metro electrification. So the overhead metro lines for which electrification projects we have taken. These are reasonably good margins to be delivered in the next few years. So they are much better in terms of margins compared to what we have now.

As far as being cautious on order book, yes, I think that's been our strategy always because our biggest challenge is resource allocation, whether it is resource in terms of labor availability, resource in terms of capex, in terms of working capital, all of that.

Today, the way -- the environment as we see much better opportunity in T&D, on everything, on profitability, on ability to deliver, on plant utilization, resources as well as labor.

So our focus is trying to focus on large projects in building and factories and by way also -- we have large projects in T&D. But why have been saying so, it's not that we've not been focused on the B&F business. That business has also done reasonably well in terms of revenue growth, but that business is very labor-intensive and capex intensive. So we're focused on much larger size orders instead of looking at orders of INR200 crores, INR300 crores.

And we believe that there is a huge opportunity for large size orders going forward. So it's just strategy for the time being, but in terms of bullishness, I think both the businesses were equally bullish getting into the next year.

Gaurav Uttrani: Got it, sir. And sir, if you talk about the railway segment specifically so our order book, which was outstanding like at INR3,700 crores, that remains largely flat. So are we seeing still challenges in execution for that legacy projects or backlog, which you already we have, which is being on our working capital and margins? And when do we expect that to be get over like, say, for in terms of next quarter or say for the next 6 months?

Manish Mohnot: So if I divide the railway business, the railway business has 1 large order in Bangladesh anda domestic order. We have not seen many challenges on execution on the domestic projects, but the Bangladesh order book -- the Bangladesh project which we have, obviously, got stalled for 4, 5 months for reasons known to all of us. It has picked up back in terms of revenue, but still not to those levels which happened before the Bangladesh debacle which happened.

So to answer your question, I don't see challenges in the Indian order book. We are on track in terms of delivery. Bangladesh were a setback in the current year, not significant from a larger perspective, but a setback from a railways perspective and we expect that to start improving from next year onwards.

Gaurav Uttrani: Okay. And sir, which international territory would we will be targeting in railways as you mentioned earlier.

Manish Mohnot: Primarily the African zone. Primarily, a lot of countries in Africa.

Moderator: Next question is from Bhoomika Nair from DAM Capital.

Bhoomika Nair: Yes, sir. Sir, I just wanted to understand how the Oil & Gas order of Middle East from Saudi is progressing. I know it is yet -- we got it at the end of last year, the execution time line is elongated. But nevertheless, just wanted to understand how has your experience been? What margins are we seeing on that project? How is the working capital? If you can throw some light on that project, sir.

Manish Mohnot: Sure, Bhoomika. Bhoomika, on the Saudi projects, which we got in last year, we've still not reached a threshold of 10% to recognize margins. We would be reaching that threshold in the current quarter. We're on track to achieve our targeted numbers for the current year. Next year, out of the $800-odd million on that project, we believe that closer to 40% would get delivered in the next year and the balance should go into the year 2 and 3.

In terms of margins, I think this is our high single-digit margin market business, as we said earlier also. And we believe we should be able to achieve that. In terms of working capital, we have just started the business. We are still in that range of 50 to 60 days, but typically international order book working capital always is less than 50 days, but we just had less than -- we've just reached the 10% level in February while we speak about it.

So I do not see any challenges. The biggest challenges in any Saudi Aramco project is to make sure that the initial things in terms of setups, in terms of third camp facilities, in terms of client requirement are all done. It's all done.

The pipes have been received by us. We have started the welding already and it's on track as far as our internal targets of achievement are concerned. So, I do not see much challenges. We would see good numbers coming from that business getting into this quarter itself and the next 7 to 8 quarters. Amit, do you want to add something?

Amit Uplenchwar: No, I think -- yes, next year. Now that the stage is set, as Manish mentioned the facilities for camps, et cetera, ready, the mainland welding has started. So now is when the pace picks up and hopefully, the next 4, 5 months will be good visibility in terms of work that gets actually executed...

Bhoomika Nair: Got it. Sir, when you say high single-digit margins, that means on the EBITDA side, right?

Manish Mohnot: Yes, on the EBITDA side. Yes, on the EBITDA side.

Bhoomika Nair: Okay. Okay. Got it. So the other thing is on Fasttel, the order intake has been fairly muted in the 9M period, are we being cautious a little bit on our end to kind of not take too many orders? What is the outlook in terms of growth there? Because as you mentioned that the working capital and thereby interest is high, which is where the profitability is getting impacted.

So how are we seeing that both revenues, margins expanding and thereby a turnaround where you spoke about Fasttel that from next year, we should see a breakeven to 1% to 2% PBT margin. What will drive that? And how do we see that progressing thereafter?

Manish Mohnot: Bhoomika, you got that right. While we're very bullish on Linjemontage in terms of both revenue growth and margin, we continue to be cautious as far as Fasttel is concerned, both from a political perspective, the country zone plans perspective and our ability to take that order book to a different level.

So we will be cautiously optimistic on bidding for projects there. We do not expect huge revenue growth coming in Fasttel in the next year because we have seen good growth in the current year, but our intend would be slowly to improve margins and get back to the standard levels of the organization level. So yes, you're right, we will be cautiously optimistic and the focus would be not revenue but margin improvement getting into the next year.

Bhoomika Nair: Okay. And lastly, on the B&F side, the order backlog remains healthy. We've seen recent inflows as well. Now are you seeing any improvement because there was a bit of a slowdown in terms of private capex. Any sense you can throw on the ordering activity out there?

Manish Mohnot: So we've not seen any slowdown in the B&F ordering in the last 2-odd years, right? So maybe private capex at a country level could be different. But when I look at B&F, whether it is residential, commercial, data centers, airports, even industrial plants, PSUs, we've seen good traction. So to me, this business looks very attractive from at least 2- to 3-year perspective, if not even beyond that, right?

So you're seeing all large developers doing large scale projects. Thanks to RERA, cash flow looks very healthy because money comes in much faster than required. Our ability in terms of having a huge capex mix helps us in terms of delivering on or before time. So we've not seen any traction coming down in this business in any form, Bhoomika.

Moderator: Next question is from Parikshit Kandpal from HDFC Securities.

Parikshit Kandpal: Given that we had weakness in the water segment, sir, for FY '25, what kind of guidance -- I mean, is there any revision in the guidance or we'll be able to deliver that 15% growth for FY '25?

Manish Mohnot: So if I look at -- our growth for 9M is closer to 10% at a stand-alone level, right? Q4, we believe that it should be in the 15% to 20%, inching towards the 20% mark revenue growth level. So if I look at consol, obviously, we would be remitting a growth of 12% to 13%, and the shortfall if at all is only in the water business where instead of doing a number of INR3,700 crores, which we have planned, we might restrict ourselves to INR1,600 crores, INR1,700 crores only.

So the entire shortfall of closer to INR2,000 crores would be in the water business. Had that shortfall not been there, you would have been very closer to achieving a 18% to 20% guided revenue growth for the year. So right now, we believe we should be more in the range of 13% to 15% for annualized basis at a consol basis and standalone maybe 12% to 13%, Q4 growth will be 15% to 20% both stand-alone and consol.

Parikshit Kandpal: For next year?

Manish Mohnot: For the current year. Next year is something which will come back given the healthy order book, we should be doing very well. But we'll come back on the next year's numbers by the end of Q4.

Parikshit Kandpal: Just on the stand-alone debt, if we are able to materialize the pending receivables from the JJM, so where do you see FY '25 ending in terms of stand-alone net debt?

Manish Mohnot: So currently, as I said, stand-alone we still have a huge outstanding on JJM, and I mentioned that earlier also. So current year except Water business, every business has done well on whatever we had projected, right? So in the next 2 months, I don't see significant improvement in revenue coming on the water business. Next year, with the budget allocation there should be no reason why that business should not be even going at 20%, 25% is not better than that on a lower base of current year.

Parikshit Kandpal: So but more on -- I mean, earlier before the merger of JMC, we had plans of making Kalpataru net cash. So now the combined business, what kind of peak that do you think for delivering 15% kind of a growth should be there in FY '26, FY '27? So any plan, any sense on whether we can be some net cash over the next 2, 3 years?

Manish Mohnot: The first -- there are 2 philosophies which we're driving. One was reducing our debt, which we have constantly reduced through working capital management and QIP, but primarily, we have been also pushing our capex significantly. You look at our capex for the last 4 years including now. The number is in excess of INR2,500 crores. The focus was that given the huge opportunity, should we be looking at keeping our net cash zero? Or should we be looking at building a balance sheet for the future?

So we have tried and managed both of them. So when the debt levels are under control. Our net debt will be equivalent to EBITDA very soon. It's not we have already reached there and the capex has been significant. So we balance that looking at the long-term and not even focused on only one of the 2 parameters.

Parikshit Kandpal: So you'll try to maintain net debt to EBITDA 1 time, that is what the guidance is?

Manish Mohnot: Yes. So we -- as I cited earlier, our focus would be more on net working capital days below 100 and that would drive a lot of our debt numbers as well working capital numbers.

Parikshit Kandpal: So over the next 1 year so what kind of monetization conversion can happen? I mean you have already entered into definitive agreements for the road assets. So both from Indore and from the road assets and from the balance claims, the arbitration claims in our favor. So if you can help us break up these 3 things in terms of how much potentially receipts could be from these 3 revenues?

Manish Mohnot: So I'll be happy to guide out on Indore as well as VEPL, which we have already signed off. The claims is something which we -- I would not be able to guide because claims is a long process. So Indore and VEPL we definitely expect closer to INR500 crores to come from both of them net excluding debt in calendar year '25 and also Water receivables which have been overdue should be a huge surplus, that could be another INR500-plus crores which could be a positive.

As far as claims are concerned, as I said earlier, I don't want to give a target because these are largely driven by long, long processes, it can't be driven by a specific target. But definitely on VEPL, Indore and Water backlog, we should see INR1,000 crores of improvement in cash flow getting into the next year.

Parikshit Kandpal: And debt reduction because of Indore and water?

Manish Mohnot: Is that what I said, Indore, Water and VEPL I said -- gave you all 3, right?

Parikshit Kandpal: Okay. So you are talking about that including in inflows it should be INR1,000 crores

Manish Mohnot: Yes.

Parikshit Kandpal: And how much of this would be debt out INR1,000 crores?

Manish Mohnot: No, no, no. This is the equity component I've given you. There's a further debt component reduction on VEPL, which would be closer to INR350 crores -- what is the number -- sorry, let me -- INR250 crores, sorry.

Parikshit Kandpal: Okay. So INR250 crores will get knocked off from you consol debt?

Manish Mohnot: Yes.

Parikshit Kandpal: Okay. And what is the total value of the claims which are in our favor. So I'm not asking about what you will realize, but what is the total claims available, arbitration claims in our favor?

Manish Mohnot: I will not be able to give you that number today because a lot of that is confidential in nature and a lot of that includes interest component and other components. It's a significant number, but we -- as a rule of corporate governance and ethics, we typically do not disclose this number unless the claims are finalized.

Parikshit Kandpal: Okay. Just the last thing on that -- so pledging, any stance on -- any guidance from the promoter now that the IPO is almost near. So directionally from here on, how do you think the pledging of shares will play out?

Manish Mohnot: I think we've had the same guidance which we had in the end of Q2, that pledge will only come down and we have seen pledge come down in Q3 also. So if you look at the fair price level, we are at around 24% levels while we are now from high -- as high as 50% a few years ago. So the guidance to us is exactly what it was in the past of being at the pledge levels will only come down going forward and not go up.

Moderator: Next question is from Uttam Kumar Srimal from Axis Securities.

Uttam Kumar Srimal: Sir, my question pertains to capex guidance. So how much capex we had incurred this year and what would be our capex guidance for FY '25 and for FY '26?

Manish Mohnot: So I think we have already included capex in excess of INR450 crores for the current year. We expect capex to be more in the range of INR600 crores to INR650 crores on the balance sheet in the current year.

Going forward, next year we expect capex to be below the current year because this year has significant capex coming from TBM and significant capex on B&F. It should definitely be lower than this year, but the exact numbers I think we will be able to give you once we have finalized the business plan.

Uttam Kumar Srimal: Okay. And sir coming to the Urban Infra business is considered only 5% of our total order goods. So what kind of growth you are doing in Urban Infra business, particularly on the side of metros because already we have got 2 projects. So where do you see this urban infra business panning down in the next 2 to 3 years?

Manish Mohnot: So we've been a late entrant in this business, although we did some components 7, 8 years ago in terms of Delhi Metro and Bangalore Metro, but last 4, 5 years, we have not done much. Only in the last 2 years, we have got traction again. And in the last 2 years, the team has already bid an order book closer to INR3,000 crores what we speak as of now.

We believe that traction in everything on metros, the underground metros where we see good traction, overhead line metros where we see good traction, we see traction coming in. Other cities as well as second tier cities and we believe that getting into the next 2 years, it looks like a very good opportunity.

So in terms of growth I expect that business, as I said earlier, to grow at 20%, 30% definitively in the next few years. In terms of order book, being optimistic, being cautious in terms of our capex targets, we still should be growing this order book at 30%, 40% if not higher in the next couple of years.

Moderator: Thank you very much. We'll take that as the last question. I would now like to hand the conference back to the management team for closing comments.

Manish Mohnot: Thank you, everyone, for being on the call. Thank you.

Moderator: Thank you very much. On behalf of DAM Capital Advisors, that concludes the conference. Thank you for joining us. Ladies and gentlemen, you may now disconnect your lines.