Revenue should be close to Rs450 cr this year, says KEC International

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KEC International Ltd has bagged railway orders worth Rs1,100 crore and hopes to end the fiscal year with an order intake of Rs1,500 crore, triple of what it had a year earlier, said Vimal Kejriwal, managing director and CEO of the company. In an interview, he said the company's revenue is likely to grow from Rs450-500 crore this year to Rs800 crore or so next year. He said his confidence in the numbers stems from the company's robust order book and the ambitious overhead electrification targets of the railways. Edited excerpts:

KEC International MD and CEO Vimal Kejriwal.

One of the brokerages, Edelweiss, says your company is one of the best beneficiaries of an anticipated spurt in transmission and distribution (T&D) and railway spending. You have started bidding for railway contracts and those are expected to have higher margins than your usual 8-9percent. Could you give us some colour on the railway orders, what percentage of your book are they and the pipeline and margins you enjoy there?

This year we have already got railway orders of Rs1,100 crore and we are L1 in another Rs400 crore. So hopefully, by this year-end we should close with an order intake of Rs1,500 crore which is more than double or I will say triple of what we have got in the earlier years.

Similarly, on the revenue front, we were at Rs200 crore odd last year and we should be closer to Rs450-500 crore this year and maybe Rs800 crore or so next year. So, railway is moving up in the size and all that.

As far as margins are concerned, yes, we have had a relatively lesser level of margins as compared to T&D during this year, but hopefully next year onwards we should be at the same range with volumes picking up.

You are saying that the railway margins were lower than the company average margins?

They were lower than the T&D margins. T&D average between 8 and 10%. Railways were slightly lower than that and that is mainly because of the volumes.

This hectic rate of growth in orders as well as revenues, what is it predicated on? What gives you the confidence that revenues will go up from Rs450 crore in FY17 to Rs800 crore. What is the kind of order pipeline from the government and private players?

There are two things on which this confidence is based. One is obviously existing order book.

Hopefully we should close the year-end with and unexecuted order book of Rs1,500 crore. So, a large part of that—Rs700-800 crore—will come from that. Second, if you look at what the Railway Minster and his ministry has been saying, this year they have tendered out 2,000km of overhead electrification.

Next year, the target 4,000km and year after, they are talking about 6,000km.

So, the very fact that they have such ambitious targets and they have actually been able to tender out an award and also start execution on some of the projects—that gives us a lot of confidence that we should be able to easily increase our revenues to Rs700-800 crore, if not more.

This 2,000km of overhead electrification has been ordered out already. Is that what you are saying or was that the plan?

Yes or it will be ordered by March.

How much of this has already been ordered out?

I do not have the exact number but I will say from the number of orders which we have got and all, we would have got almost Rs1,000 crore of orders in railway electrification this year itself which is more than double of what we would have got earlier.

This year we have already got railway orders of Rs1,100 crore, says CEO Vimal Kejriwal

INTERVIEW

How much approximately does one kilometre of electrification cost?

This would probably be around Rs2-3 crore or something.

So, we are talking about Rs5,000 odd crore in terms of the size?

The numbers would vary upon the type, whether it is a single track, double track and all that stuff, but what I am very clearly seeing is the numbers are going up and that is one thing.

The second thing what is also happening is on the execution front there has been a lot of delegation of authority, power and all from the Railway Board down to the circles and to the Divisional Railway Managers (DRM) and Chief Regional Managers (CRM).

So, if you have problems in projects, they get resolved very fast. The responsibilities are getting fixed. So, execution is picking up significantly, like the timeframe from between a tender to an award to a start of a project earlier would be anything between six months to 12 months. Now, in the last order which I got, within 60 days of tendering, we actually started work. So, that is a significant change.

2,000km of electrification, roughly we are assuming about Rs 5,000 crore of revenue. What would be your market share in that?

It is around 15-20%—that is where we got into a Rs1,000 crore of orders.

Next year, when the government electrifies 4,000km of lines, that is roughly Rs10,000 crore of revenues, we should expect Rs2,000 crore coming in for at least KEC International, if not more?

Hopefully, yes.

What are the operating margins on this work?

Now they are inching up to 8-9% and all that. Earlier, it was slightly below 8 percent.

What is the average for the company?

Average for the company, this year we should end up with around 8.5%.

So, it should be better next year with more volume of work and as you are saying, margins will inch up?

Definitely. Especially in the railways what is happening is that because the volumes are going up, the overheads and all will come down also.

If you could just come in on your full-year growth numbers, when we last spoke to you, you had indicated a 10 percent expectation on revenues for FY17, but the first half of the year has been quite lacklustre for KEC. Are you still on track to hit 10% for the year?

It has been lacklustre in terms of revenue growth. Margins have been growing very significantly. I do not know honestly whether we will be able to achieve 10 percent now because the demonetisation piece has had an impact on the revenues with revenues shifting due to non-availability of trucks, workers not being there.

So, clearly, Q3 will not be great in terms of revenue growth. We do expect that this impact should peter out and we will be able to dispatch everything and get our workers back.

So, if that does not happen then probably 10 percent may still not be achievable. If things really pick up immediately then we may still be able to stick to 10 percent or maybe slightly below that.

So, you are saying that you will close FY17 with an unexecuted order book of close to Rs1,500 crore?

In the railway business. Overall, we should be close to Rs10,500 crore or something like that.

When we last spoke to you, you also told us that you are one of the five-six bidders interested for Jyoti Structures. If you could give us an update on what the plan is? Are you still interested or have you backed out? At what stage has the deal reached?

A lot of things have been covered in the press. I do not want to comment beyond that.

But you are still interested?

No comments.