

# "KEI Industries Limited Q3 FY2017 Earnings Conference Call"

February 03, 2017







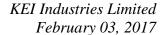
ANALYST: Mr. GIRISH SOLANKI - ANAND RATHI SECURITIES

MANAGEMENT: MR. ANIL GUPTA – CHAIRMAN AND MANAGING

DIRECTOR – KEI INDUSTRIES LIMITED

Mr. Rajeev Gupta – Chief Financial Officer –

**KEI INDUSTRIES LIMITED** 





**Moderator:** 

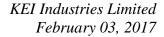
Ladies and gentlemen, good day and welcome to the KEI Industries Q3 FY2017 Earnings Conference Call, hosted by Anand Rathi Shares and Stock Brokers. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by entering "\*" then "0" on your touchtone telephone. I now hand the conference over to Mr. Girish Solanki from Anand Rathi. Thank you and over to you Sir!

Girish Solanki:

Thank you. Good afternoon to all. Welcome to the Q3 FY2017 earnings call hosted for KEI Industries. Today, we have with us Mr. Anil Gupta, who is the Chairman and Managing Director of the company and Mr. Rajeev Gupta. Without wasting much of their time, I would like the floor to Mr. Anil Gupta for his opening remarks.

**Anil Gupta:** 

Thank you very much. Welcome to all the participants. I am Anil Gupta from KEI Industries. I will just give a grief about the numbers of this quarter. During the third quarter of FY16-FY17, we have achieved a net sales of 716.19 Crore with an operating profit of Rs. 77.89 Crore, which is 10.88% of the net sales and a profit after tax of 27.18 Crore, which is 3.8% of the net sales. Against the same quarter in the previous year, our net sales was 553 Crore and operating profit of 60.88 Crore and a PAT of 14.85 Crore, which was around 2.68%, so we have moved up from 2.68% of PAT to 3.8% in this quarter as compared to last financial year. During this Q3, growth in the net sales in around 29% over corresponding third quarter of last year and operating profit has grown by 28%. Q3 growth in sales volume over Q2 growth is 15%. If I look at nine months of FY16-FY17, we have achieved a net sales of 1891.45 Crore with an operating profit of 10.61% and a profit after tax of 67.01 Crore, which is approximately 3.54% of the net sales. Against the same period net sales was 1674 Crore with an operating profit of 10.44% and the PAT was 2.5% of the net sales, so the PAT has grown by around 1% point from 2.5% to around 3.54% in the first nine months of this financial year as compared to same period of last year. The overall growth in net sales over nine month period is 13% and operating profit has grown by 15%. During the nine month period, our financial charges has come down from 96 Crore to 92.5 Crore. During the first nine months of FY16-FY17, our export sales have grown by 130%. The net sales of exports in the nine month achievement is 304 Crore against the last year same period 133 Crore. So from 133 Crore to 304 Crore is the export sales in this nine months compared to the nine months of the last financial year. During the nine months of FY16-FY17 our sales through dealer network, the volume has grown by 15% and in terms of value, it has grown by 10%. Net sales in nine months through dealer network is 564 Crore as compared to 516 Crore last year during the same period of the nine months. The total active working dealer of the company is approximately 1086 and the growth in the number of dealers is 17% over the last year. During the nine months of FY16-FY17, our





EPC division sales achievement is 320 Crore apart from the cables sold by our factories to our own EPC projects against the last year same period Rs. 236 Crore. Growth is approximately 36%. Approximately 50 Crore sale done during this quarter was below 25% completion hence we have not recognized the profits of 50 Crore of the EPC sales. During the nine months of FY16-FY17 cable business sales has grown by 10.47% in value terms, but the volume growth is approximately 15% over the corresponding period of the last year. Our low tension and high tension cable sales has grown by 14.34% and house wire sales increased by 10%, but extra high voltage cable sales has decreased due to the production suffered in nine months because of the extension done in Chopanki plant, which was completed at the end of December and we have commissioned our new line into commercial production in the first week of January. We are very hopeful to achieve 15% growth in turnover over full financial year FY16-FY17 over the last financial year. As on date, our pending orders are 3103 Crore out of which EPC orders are 2052 Crore. This includes substation orders of 202 Crore and EH with 236 Crore and cables are 613 Crore out of which export orders are 110 Crore pending at the moment. The financial cost of charges of the company in the nine months of FY16-FY17 are 4.89% of the net sales as compared to 5.73% of last year, thereby leading to a reduction of approximately 0.85% in the financial cost to the company. A brief of the markets, we are still bullish about our markets created by us and we are hopeful that we will continue to grow with the same pace in the next financial year as well as the order booking is strong in all our business verticals. We expect the substantial growth in extra high voltage cable business also because of the good order booking and a number of new projects or enquires we are witnessing. So thank you very much and I would like you to come out with any specific questions, which you may like to, ask. Thank you so much.

**Moderator:** 

Thank you. Ladies and gentleman, we will now begin with the question and answer session. We have the first question from the line of Tarang Bhanushali from IIFL Wealth. Please go ahead.

Tarang Bhanushali:

Sir, congratulations on a very good set of numbers. Sir my query is that if we see the capital employed on Q-on-Q basis, we have seen a sharp increase in the cables division, is our working capital cycle elongated during the quarter.

**Anil Gupta:** 

Tarang because of the sale in increasing, so that is why the holdings according to the data and inventory are also increasing in the same holding level.

Tarang Bhanushali:

So the numbers of days we are at similar levels as what we were at cables are.

**Anil Gupta:** 

In cable TVs number of days is similar as compared to last year.



Tarang Bhanushali: Oka Sir and Sir what are the debt levels currently. Has it increased or it is flat on a Q-on-Q

basis.

Anil Gupta: It has increased slightly as compared to March, it has increased to 560 Crore now as

compared to March it has increased by close to 903 Crore because of the increase in the

working capital and the inventory.

Tarang Bhanushali: So Sir we do not expect any decline in debt level on Y-o-Y basis. This year in fact, we

would see an increase over here.

Anil Gupta: No term loan has decreased, but the working capital has increased because of the retention

money has increased in the EPC division. Once this rotation of EPC division to the level of

900 Crore turnover has come, then it will remain same.

Tarang Bhanushali: Okay and Sir regarding the EPC orders, Sir by what time are these orders going to be

executed because I think mostly it is related to UP, so what is the timeframe for this

execution.

**Anil Gupta:** The normal execution period in these orders is 24 months. So at the present level, these

orders have to be executed over a period of 24 months.

**Tarang Bhanushali:** Thanks a lot Sir.

Moderator: Thank you. We have the next question from the line of Ranjit Shiv Ram from Antique

Stock Broking. Please go ahead.

**Ranjit Shiv Ram:** Hi Sir congrats on good set of numbers. Sir if you can throw some light in that EPC order

book of 2052 Crore how much will be from UP.

Anil Gupta: Around 1700 Crores are from UP and 350 Crores are from other states.

**Ranjit Shiv Ram:** And in that other state, is there any bulky state?

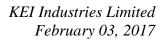
Anil Gupta: One is from Goa, Jammu and Kashmir, and Himachal Pradesh.

Ranjit Shiv Ram: Sir in that EPC segment working capital how has it moved compared to last year, the EPC

working capital.

**Anil Gupta:** Because the sale increasing in the EPC.

**Ranjit Shiv Ram:** No in terms of number of days.





Anil Gupta: In terms of.

Ranjit Shiv Ram: Number of days.

Anil Gupta: Because whatever contacts we have executed, the retention money has accumulated, so

once after three months' time, it will get released then this number will come down.

Ranjit Shiv Ram: So currently what is the working capital days for the EPC business, if you can help us with

that?

**Anil Gupta:** In EPC, it will be close four and a half months.

**Ranjit Shiv Ram:** Four and a half months and this was how much previously last year.

**Anil Gupta:** Previously actually the size of the business was very small last year, so the retention is now

accumulated like Mathura we have completed a project of 300 Crores and Bareilly close to 300 Crore we have completed, almost on the completion stage, so the retention money of

these projects are accumulated.

**Ranjit Shiv Ram:** Okay in absolute term how much receivable.

**Anil Gupta:** Other than the retention money, our receivable cycle is only three months.

Ranjit Shiv Ram: Okay so if you can quantify like how much is the receivable and how much is the retention

in that, if you can quantify the exact number what is the receivable number and how much

is the retention money in that currently.

**Anil Gupta:** I think right now the exact number of the retention money out of the receivable.

**Ranjit Shiv Ram:** So what is the receivable number if you can help us?

**Anil Gupta:** The total receivable number is 300 Crore of EPC.

**Ranjit Shiv Ram:** Okay and of that roughly how much will be retention.

Anil Gupta: Roughly 60 Crore will be retention money.

**Ranjit Shiv Ram:** Okay and is there any more than six months' receivable in this or is it...

Anil Gupta: No basically the retention money is more than six months.



Ranjit Shiv Ram: Okay and Sir just a small understanding like UP elections are coming so after the election

will the order flow tend to come down or what is your view on that because...

Anil Gupta: Orders we are having in hand of close to 1700 Crores, which we have to execute in two

years' time.

**Rajeev Gupta:** We are talking of what we have in hand, so it has nothing to do with the elections.

**Ranjit Shiv Ram:** No after election, will the order flow come down going forward.

Rajeev Gupta: I do not think so. The development spending will continue whichsoever government

comes, but I cannot predict.

**Ranjit Shiv Ram:** Okay, but what is the overall order pipeline you are looking at on how much are you L1 in

that.

**Anil Gupta:** No at the moment. So we have bided, but in the pipeline at the moment in many states the

new tenders are under evaluation, the technical bids, so I cannot predict how much we are L1, but our bidding is strong not only in the IBDS projects, but we are also bidding in some

metro projects also.

Ranjit Shiv Ram: Okay so if you can help us with the quantum of bids so that we will get some idea next year

how much will the order intake and order book will be going forward.

Anil Gupta: In the last three months, we have done a new bidding of close to around 2000 Crore and we

continue to look for the tenders where we had qualified, so we are bidding and I expect the flow of new orders to continue aggressively in the next financial year as well, but at the

moment close to around 2000 Crores of bidding is under evaluation.

Ranjit Shiv Ram: Okay and Sir what was the order intake for the nine months and the three months period

order intake if you have that in EPC.

Anil Gupta: In the third quarter in EPC, the order intake was close to 500 Crore. If I see the whole nine

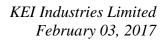
months the bigger order intake of this quantum, which I have said is in this nine months

only, especially in Q2 and Q3.

**Ranjit Shiv Ram:** Okay so for the nine months what was the number for order intake?

Anil Gupta: Around 2000 Crores.

**Ranjit Shiv Ram:** Okay Sir I will join for further questions. Thanks.





Anil Gupta: Thank you.

**Moderator:** Thank you. We have the next question from the line of Deepak Agarwal from Elara Capital.

Please go ahead.

**Deepak Agarwal:** Hello congrats for a good set of numbers Sir. Hello.

Anil Gupta: Yes.

**Deepak Agarwal:** Sir my first question is just a followup from the previous. You are saying this 2000 Crore

order intake inclusive of cables.

**Anil Gupta:** No we are taking for EPC.

**Rajeev Gupta:** No 3100 Crore is inclusive of cables.

**Deepak Agarwal:** No the 200 Crore EPC order inflow, does this include cable portion also.

**Rajeev Gupta:** Yes this is the total order of EPC, so it is the value of the order.

**Deepak Agarwal:** So like we started on 04/01/2016 our EPC order was 700 Crores and now the order book is

2000 Crores.

Rajeev Gupta: Correct.

**Deepak Agarwal:** We executed 320 Crores in the first nine months.

**Rajeev Gupta:** No 320 Crore without cable, so the total execution is around 450 Crores including cables.

Orders has come including cable.

Deepak Agarwal: Okay fine I will take it offline. Sir secondly what is the exact amount of receivables and

inventory if you can just mention as on December 2016.

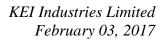
Anil Gupta: Repeat your question.

**Deepak Agarwal:** The exact receivables and inventory as on date total for all cables and EPC put together.

Anil Gupta: Inventory in March it was 432 Crore, which now is 510 Crore and receivables was 567

Crore and now it is 748 Crore.

**Deepak Agarwal:** 748 Crore, so we are almost 100 Crore rise in receivables Q-o-Q.





Anil Gupta: No I am talking of the March 2016.

**Deepak Agarwal:** No even versus September we were 650 Crore, now we are at almost 750 Crore.

Anil Gupta: Yes.

**Deepak Agarwal:** And as against these payables is how much?

**Anil Gupta:** Payable is 482 Crore.

**Deepak Agarwal:** Payable is down, so we are actually getting quite stretched in working capital.

**Anil Gupta:** Our payable is down then the cash flow has improved.

Deepak Agarwal: Yes Sir, but this says that we are seeing hardly any jump in the interest because

incrementally since the payable are flat and the receivables and inventory are up, so ideally

our working capital loan should have gone up significantly.

Anil Gupta: That is what I said approximately 100 Crores have gone up.

Deepak Agarwal: But it is not getting reflected in the interest cost actually. Is their any long-term debt getting

repaid in this quarter?

Anil Gupta: Long-term debt has also been repaid. The utilization is basically on a particular date

because like if the retention money has accumulated and that has not come, so that utilization is basically if you see the interest on working capital or interest on term loans, our interest on term loans is almost flat, but interest on working capital has reduced

actually.

**Deepak Agarwal:** How much is the term loan you repaid in this quarter.

**Anil Gupta:** Total term loan we have repaid close to 40 Crore.

**Deepak Agarwal:** 40 Crores. Okay full year I think we were guiding for 60 Crore.

Anil Gupta: Yes.

**Deepak Agarwal:** We are on track. My next question is if you can give the usual sales breakup that you give

always in terms of LT, HT, and EHV.



Anil Gupta: Our low tension power cable in this quarter for Q3, 330 Crore. Our medium voltage power

cable is 97.5 Crore. For extra high voltage power cable sales is 32.2 Crore and our wire sale, house ware sale is 100 Crore. The stainless steel wire sale is 26.5 Crore and EPC sale

is 141.4 Crore in this quarter.

Deepak Agarwal: 141 Crore, other than cable. Actually on EPC front yes the growth in definitely on a much

high versus last year, but given the size of the order book that we have and even in Q1 we have an order book of almost 1500 Crores and all, so why we are not seeing this in the

revenue for EPC.

Anil Gupta: Because till the level of execution, it took almost six, seven months because we have to

survey, then we have to set up the site, take the approvals like this.

**Rajeev Gupta:** You will see a jump in this from this quarter, fourth quarter.

**Deepak Agarwal:** Does not the code of conduct affect the execution.

Rajeev Gupta: No.

Deepak Agarwal: Okay. One more question I have is what sense are you getting on the growth for your HT

cable business because what is actually driving this growth.

**Rajeev Gupta:** You see the HT cable growth is coming basically from transmission and distribution sector.

A lot of wind farms and solar projects are coming up in the country and power projects are

done through the high-tension cables.

**Deepak Agarwal:** How much would be renewable this solar and wind would be contributing in terms of your

overall revenue?

Rajeev Gupta: Truly speaking I have not quantified it.

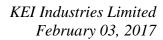
**Deepak Agarwal:** Would it be meaningful like 5% or 10% of overall business.

Anil Gupta: No it will be more.

**Deepak Agarwal:** It will be more than that?

**Rajeev Gupta:** Yes. It will be, I can say around 15%.

**Deepak Agarwal:** Around 15%.





Rajeev Gupta: Yes.

Deepak Agarwal: Okay. My one question unlike what we guided earlier it looks like we are going very

aggressive on dealer additions.

Rajeev Gupta: On.

Deepak Agarwal: On additions of dealers versus earlier we guided that we would be adding approximately

100 every year, so we have far exceeded that number in this year itself, so what is the plan that, are you revisiting that and you plan to take it up to like 200 to 300 every year after year

or how do you see?

**Rajeev Gupta:** We have added around 100 only in this year.

**Deepak Agarwal:** This year close to 17% is our growth.

Anil Gupta: That is, because like last year FY16 we were at 926 and now we are 1086, so still we have

one more quarter to go. So we added almost 160 dealers versus earlier we were guiding of

100 for full year. We have to have added more dealers that is why.

**Rajeev Gupta:** We are opening up newer areas PAN India whenever we open territories, so the new dealers

comes up.

Deepak Agarwal: So even for the next two to three years, we are looking for almost 200 to 250 dealers

addition per year.

**Rajeev Gupta:** No I do not think so. I think it may be the growth will be around 10% to 12%.

**Deepak Agarwal:** 10% to 12%, so about 110 to 120 dealers a year after year.

Rajeev Gupta: Correct.

**Deepak Agarwal:** Any my last thing is how do you see this quarter in terms of the effect of demonetization

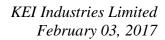
and is there is any change that you see in the way the business is getting conducted with the

dealer and channel part.

**Rajeev Gupta:** No. Our business is very well institutionalized and even the retail sale is all through system.

So we have not seen any effect on our business due to demonetization.

**Deepak Agarwal:** No effects you see.





Rajeev Gupta: Yes.

Deepak Agarwal: Sorry I missed one number. What was the overall order intake in Q3 like EPC you

mentioned 500, but what was the overall order intake.

Anil Gupta: In cables, whatever we sell almost similar orders we book and execute. So the carryforward

is done in next three months.

**Deepak Agarwal:** Okay fine Sir thanks a lot.

**Moderator:** Thank you. We have the next question from the line of Manav Shah from Arjava Partners.

Please go ahead.

Manay Shah: Hello good afternoon I just want to enquire like so in FY16 in the consolidate numbers the

tax saved was 35% and in nine months FY17 was 26% how will it be going forward.

Anil Gupta: Because we are under MAT and the deferred tax. The next financial year the tax rate will be

close to 34%, 35%.

**Manav Shah:** Okay 34%, 35%.

Anil Gupta: The currently we completed in the first week of January the extension. So for that the

differential depreciation and the deferred tax will be there for next financial year.

Manav Shah: So it will be around 34%, 35%.

Anil Gupta: Yes.

Manav Shah: Okay thank you.

Moderator: Thank you. We have the next question from the line of Janani Raj Shekhar from Securities

Investment Management. Please go ahead.

Janani Raj Shekhar: Thank you for the opportunity Sir and congratulations on some great numbers. I have a

question regarding can you give us more detail on the EHV front. Earlier you had

mentioned you had a target of 125 Crores for this year. Is that still on track?

**Anil Gupta:** Yes it is. Definitely it is on the track.



Rajeev Gupta: But the sale definitely because 125 Crores we will not able to achieve in this financial year

because the extension got delayed, so we could complete only in the first week of January.

So now we will be achieving close to 105 or 110 Crores.

Janani Raj Shekhar: Okay and next year you will be back on the...

**Rajeev Gupta:** Yes next year it will be double, more than double.

Janani Raj Shekhar: Double of that, okay and what kind of utilization are you expecting to hit on the factory in

this year and the next?

Rajeev Gupta: Normally our Bhiwadi and Silvassa if we are not counting the extension then we were

utilizing almost 95% capacity utilization, but in our Chopanki plant, we were utilizing only 35% capacity and after the extension in our Silvassa, Bhiwadi, and Chopanki, which has been completed now, so in the future we can increase our growth by 15% to 20% from the

year.

Janani Raj Shekhar: Alright and one more question. So you have this target of reaching 50% sales from retail.

Are you seeing so what kind of timeline are we looking at. It seems to have dropped this

quarter from about 30% to 26%

**Anil Gupta:** I think it will take around three years to reach 250% level.

**Janani Raj Shekhar:** Okay so this quarter the drop is not significant is it.

Anil Gupta: Yes.

Janani Raj Shekhar: Alright and long term what kind of sustainable EBITDA margins are you looking at. You

had said 10.5% earlier. Is there any way it could go up to 12% to 13% kind of thing.

Anil Gupta: That will depend on the institutional sale pickup in the country, but the sustainable margin

as we have guided will be more than 10.5%.

**Janani Raj Shekhar:** More than 10.5%.

**Anil Gupta:** As a whole.

Janani Raj Shekhar: Okay. Thank you Sir. Thank you very much.

Moderator: Thank you. We have the next question from the line of Sachin Kasera from Lucky

Investment Managers. Please go ahead.



Sachin Kasera: Good afternoon Sir, congratulations Sir for excellent set of numbers. A few questions I

have. If I see your segmental number that you reported for the nine months and even for the quarter your turnkey projects has shown a very good growth in revenue, but the markets

seemed to be a little lower, so can you please explain the reason for that?

Anil Gupta: As we said that additional 50 Crore of sale of EPC wherein the completion method after

completion was less than 25%, so the profit was recognized in those projects.

Rajeev Gupta: It was not recognized.

Sachin Kasera: It was not recognized.

Anil Gupta: Yes.

Sachin Kasera: If you had done that then the margins would have been line with what you are having...

Rajeev Gupta: But Sir average guidance of the margin will be close to 10.5% towards the 11%. Our target

in the near future to reach the 11%.

**Sachin Kasera:** That is only for the turnkey or for the company as a whole.

**Rajeev Gupta:** The Company as a whole we are talking.

Sachin Kasera: Sir I am talking specifically of the turnkey division if I see even for the last year full year

your EBITDA margins are close to around 12% to 13% if I am right.

Rajeev Gupta: Yes and also if the new projects are coming and the expenses have started for the new

projects, but it will settle down then will come the profit.

Sachin Kasera: So because you are seeing that some projects got delayed in terms of execution and the

order book is very strong and some projects also could not be built.

**Rajeev Gupta:** Here also we have targeted in this current financial year 650 Crore turnover including the

cable portion for EPC division in the current financial year, so we are on track and we will

complete it.

Sachin Kasera: But that seems to be... because we have done 500 Crores in the first nine months and 200

Crores in the last quarter itself. Normally Q4 is the strongest quarter as far as the turnkeys

goes.



Rajeev Gupta: So we can cross basically 650 Crores turnover of EPC or may be up to 700 Crore as a

whole.

Sachin Kasera: And last year our EBITDA margins were around 12.5%, but now you think it will come

down by at least two basis points. It will now be 10.5% right going ahead. Any reason for why because normally in EPC as you scale up the turnover, the margins improve 200 basis

drop is a very significant drop in margins.

**Rajeev Gupta:** It is not basically because the number of projects has increased we have reasonable income.

**Anil Gupta:** There are around 50 Crore worth sales is from the newly started projects where we have not

recognized the profits because for recognizing our threshold is at least 25% of the project

should be completed.

Sachin Kasera: That I have understood Sir that is why I am asking more for Q4 and more from a FY18-

FY19 perspective Sir. Should we come back to 12.5 because in FY16 we have delivered 12.5% EBITDA margins in the turnkey projects, should we take 10.5% going forward in the next one to two years or is it like 12% to 12.5% once all these projects comes because

order book is very strong.

**Anil Gupta:** It will improve.

Sachin Kasera: And next year Sir what is the revenue that we should look from turnkey, can we see a

significant jump because by the time the new project would have started can you look like a 40% to 50% jump in revenue because we have a 2000 Crore order book and you said it will

be executed over two years.

Rajeev Gupta: Next year we are targeting 900 Crore revenue from the EPC division out of which 600

Crore will be the total net if you see and close to 300 Crore cable. So the total turnover in

EPC division will be close to 900 Crores.

Sachin Kasera: And the order book that you have given of the cable of around 600 Crores that is excluding

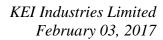
the order book of the EPC right.

**Rajeev Gupta:** Yes, that is excluding all the book of EPC.

Sachin Kasera: Okay so this is...

Rajeev Gupta: Non-EPC I had included in the 2000 Crore EPC

**Sachin Kasera:** And in that 2000 Crore how much cable Sir the 2052 Crore.





**Rajeev Gupta:** Almost 25% to 30% is the cable.

**Sachin Kasera:** Okay 1750 Crores of cable order is in...

**Rajeev Gupta:** Close to 25% you can say the average is basically 25%.

Sachin Kasera: Around 500 Crores will be debt and 600 Crores for this, so total 1100 Crores okay.

Secondly Sir how much have we spent on this EHV expansion.

**Rajeev Gupta:** 70 Crore rupees.

Sachin Kasera: And with this expansion what is the peak revenue now we can achieve in EHV, currently

we are at 100 Crores a quarter right.

**Rajeev Gupta:** We can achieve 350 Crore.

**Sachin Kasera:** And current year you are trading 100 Crores.

**Rajeev Gupta:** Current year, because our extension was going on and so the productivity got suffered.

**Sachin Kasera:** And you are expecting next year to be almost double jump from 100 Crores to 200 Crores.

**Rajeev Gupta:** Next year will be close to 250 Crore.

Sachin Kasera: And Sir what are the margins in EHV, are they much better than your overall segment cable

margins.

**Rajeev Gupta:** EHV margin is close to 15%.

Sachin Kasera: Okay, can you tell us what is the margins in the various segment, EHV is 15% what about

HT, LT, they are more like 8% to 9% margin.

**Rajeev Gupta:** That will be basically 8% to 9% margin.

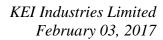
**Sachin Kasera:** And the household cables.

Rajeev Gupta: The dealer distribution market and export is close to 11% and our EPC division is close to

12% including our cable division.

Sachin Kasera: And Sir, the working capital actually in the dealer distribution business is much lower than

the B2B business.





Rajeev Gupta: Yes, much lower.

**Sachin Kasera:** What is the difference in the working capital?

**Rajeev Gupta:** Average receivable in the dealer distribution division is less than one month as compared to

the cable division; it is close to 95 days.

Sachin Kasera: And EPC is how many days Sir, four and a half months.

Rajeev Gupta: EPC is close to four and a half months on an average, but without attention it will be close

to three months.

Sachin Kasera: And you mentioned in the previous query that the receivable will come down significantly

because you are expecting some big projects to release their retention, so this four and a half months of receivable cycle in the EPC, once all this retention money is released by end of

March how do you see this number coming down, we will be...

**Rajeev Gupta:** Then the coming projects will be the retention money

Anil Gupta: So whatever we will be executing the new retention money will be blocked. So until we

reach the level of 1000 Crore level, our working capital till that time will be increasing in

the division.

Sachin Kasera: Once we cross 1000 Crores then four and a half months can come down to three to three

and a half months.

Rajeev Gupta: Because by that time our old money will be recovered and the new will be blocked so like

in the cable division now more than 180 days figure is almost set.

Sachin Kasera: Okay and you mentioned that in the last quarter you had made bids for roughly around 2000

Crores of fresh EPC. It is only EPC right excluding cables.

Rajeev Gupta: Yes.

Sachin Kasera: And normally this is again mainly concentrated in UP or now we are trying to diverse these

2000 Crores.

**Anil Gupta:** It is in many states.



Sachin Kasera: Now it is in many states. So over a period of two, three years today like 75% to 80% of the

order book is from UP, is it fair to assume that next three you can target to at least 50:50, 50

UP and 50 non-UP, is that an achievable target?

Anil Gupta: Oh yes.

**Rajeev Gupta:** It may be reverse also.

Sachin Kasera: Okay secondly can you just give us the figure of the acceptances plus the term loan plus

working capital, all three put together.

Rajeev Gupta: Pardon breakup.

Sachin Kasera: Break up of term loan, working capital loan, and acceptance as on December.

Rajeev Gupta: Bank barrowing is close to 320 Crore and term loan is 227 Crore right now and the

unsecured loan and the hire purchase loan is close to 11 Crore.

Sachin Kasera: Okay and acceptances, you also have some acceptances on.

Rajeev Gupta: Acceptances will be close to 120 Crore to 125 Crore because that is part of the creditor

actually.

Sachin Kasera: I understand it, but this financial charge also includes the... finance cost includes some of

the payments made on acceptances correct Sir.

**Rajeev Gupta:** You are right.

Sachin Kasera: So that makes it roughly about 675 all included acceptances plus working capital and what

would be the interest cost on all these. Today what will be the average cost for term loan,

average cost for working capital, and average cost for acceptances?

**Rajeev Gupta:** In nine-month level our interest on term loan was 17.6 Crore. Interest on working capital

was 20.67 Crore and bank charges total will all be 18.59 Crore and the processing fees of 5

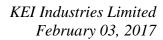
Crore, so put together all is 92.55 Crores.

Sachin Kasera: No Sir I had missed the figure, can you just say the 20 Crores you said is for working

capital right.

Rajeev Gupta: Working capital interest is LC and etc is a 20.67 Crore and interest on working capital is

31.20 Crore.





Sachin Kasera: Okay and acceptance on how much Sir you said.

**Rajeev Gupta:** Acceptances is 20.66 Crore. That is interest on LC and etc.

**Sachin Kasera:** Sir have we seen any reduction in terms of the rate of interest that we are being charged on

all these.

**Rajeev Gupta:** Now the rate of interest has reduced by 1.5%.

Sachin Kasera: Okay and do you see any scope for improvement in our rating post the FY17 numbers and

have you seen any upgrade in the last.

Rajeev Gupta: Last year our rating was improved from BBB+ to A- and definitely in this financial year it

should move to A.

Sachin Kasera: How much can be the benefit once we move from A- to another 50 basis point we can see

improvement.

Rajeev Gupta: The interest has already reduced and in this current quarter we have negotiated with our

banks on the basis of the... NPLR has been reduced by various banks so instead of using the CC limit now close to 60% to 70% limit we are utilizing through the working capital demand loan wherein we are getting the rate of interest between 9.75% to 9.15% to almost

2% and 2.5% reduction.

Sachin Kasera: Is it possible for you next year bringing down the interest cost to double digit.

Rajeev Gupta: If the fourth quarter the interest rate has reduced, it will continue for the next financial year,

so the average interest rate will go down as compared to the current year.

Sachin Kasera: Okay next year when you look at the interest cost, interest in finance charge of around 100,

110 Crores Sir to just 115 to 120 Crore.

Rajeev Gupta: Already if you are comparing in this financial year the interest cost is basically... in this

92.5 Crores includes the bank charges on bank guarantee is 11.59 Crore. If you compare last year 95.9 Crore this bank guarantee charge is only 4.87 Crore. This bank charges on bank guarantee has increased mainly because of order received in EPC division wherein we have to issue the bank guarantee, so if you include this without this bank guarantee charges,

so the interest cost is much, much lower now.

Sachin Kasera: Okay and we will see significant benefit going ahead because this 150 basis reduction has

happened in this Q3, so major benefit will be.



Rajeev Gupta: And the utilization level has also gone down in some quarter like due to certain base in EPC

division and sometimes payment get delayed for 15 days, so that is why for particular quarter the borrowing goes up, but otherwise based on utilization level the interest cost I

have shared with you, you can calculate what kind of utilization level was in the year.

Sachin Kasera: And Sir today the dealer distributor you have done is around 565 Crores for the nine

months. You are targeting to take it to 50:50 in the next three years, is it the target?

Rajeev Gupta: Pardon.

Sachin Kasera: This revenue from dealer and distributor in the nine months is around some 565 Crores,

which is around 25%, 26% of sales.

Rajeev Gupta: We are targeting close to now I believe we were targeting 800 Crore, but because of the

reduction in the copper, etc., in the first six months was there so due to that so now we can

target close to 775 Crores.

Moderator: Excuse me Mr. Kasera. I am sorry to interrupt, but Sir you will have to come back in the

queue.

**Sachin Kasera:** Sure. I will come back in the queue. Thank you.

Moderator: Ladies and gentleman, before we take the next question and answer you are requested to

limit your questions to a maximum of three per participant. We have the next question

from the line of Deepak Poddar from Sapphire Capital. Please go ahead.

**Deepak Poddar:** Thank you very much Sir for the opportunity. Sir my first question is on your debt levels.

We are currently looking at debt levels of about 560 Crores and we are also growing, so basically even if we maintain the same kind of days so we will need higher working capital and as you mentioned we would be repaying I think 60 to 65 Crores per annum term loan

for the next three years right.

Rajeev Gupta: Yes.

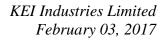
**Deepak Poddar:** So we are basically on combination of both what kind of net debt levels we are looking at.

**Rajeev Gupta:** Also earlier we have said that we will be maintaining close to 600 Crore of debt, so we will

be within that level.

Deepak Poddar: This 600 Crores level of debt even includes you working capital on that you might be

taking.





**Rajeev Gupta:** Everything.

**Deepak Poddar:** Okay that is it from my side. Thank you.

Moderator: Thank you. The next question is from the line of Tarang Bhanushali from IIFL Wealth.

Please go ahead.

Tarang Bhanushali: Sir when you said that receivable days for us are almost constant on Y-o-Y basis, but when

we look at the number you just mentioned of 758 Crores then I think the cycle has elongated by 15 to 20 days, so will this continue going forward or is it expected to go down.

Rajeev Gupta: It is expected to go down as I said in the EPC division the retention money, which now

accumulated close to 50 Crore, which is to received within a month or within two months'

time, so it will get reduced by the same amount.

**Tarang Bhanushali:** Okay Sir you also said that with the new projects also the retention money... so the levels

will be constant throughout, so the number of days will be on the higher side for us.

Rajeev Gupta: In EPC division it will be higher like as I said four to four and a half months, but in the

cable division it is close to three months.

**Tarang Bhanushali:** Okay and Sir have we taken any price hike in the retail side this month or during the earlier

month.

Anil Gupta: Yes we had increased our selling prices right from the middle of November, then we did

have a rise in December and also in January.

Tarang Bhanushali: Okay and Sir the full impact this revision in interest cost was it in a phased manner or it

came only in Q3 or was at the start of Q3.

**Rajeev Gupta:** The start of Q3 end.

**Tarang Bhanushali:** Sorry Sir so was it at the end of Q3.

**Rajeev Gupta:** End of Q3.

**Tarang Bhanushali:** So the major impact will be seen from Q4.

Rajeev Gupta: Yes.

**Tarang Bhanushali:** Okay thanks a lot Sir.



Moderator: Thank you. We have the next question from the line of Ranjit Shiv Ram from Antique

Stock Broking. Please go ahead.

**Ranjit Shiv Ram:** Hello Sir regarding, a small data point you had given the breakup of three months. This

cable division can you help us with the nine-month breakup of LT, medium, EHV

consumer.

**Rajeev Gupta:** You can note down Sir. For nine month sale of low-tension power cable is 878.8 Crore,

medium voltage cable ST Cable 282 Crore, extra high voltage is 65 Crore, house wire is

301 Crore, stainless steel wire is 75 Crore, and EPC is 321 Crore.

**Ranjit Shiv Ram:** And can it give us the Y-o-Y growth of this nine month segment wise.

Rajeev Gupta: I can give right now is the full year sale of last year, nine month last year sale product wise

sale it is not right with me.

**Ranjit Shiv Ram:** Okay and Sir one small thing of this 2000 Crore of bids in pipeline how much of that will

be from UP.

**Rajeev Gupta:** Because it is an L1 concept, so there may be the chances out of 2000 Crore we can get only

200 Crore and out of 200 Crore we can get any 200 Crore.

Anil Gupta: I can expect our success rate in this anywhere between 15% to 20% in case of bidding, so

we can expect anything between that.

**Ranjit Shiv Ram:** Okay and the commodity prices have gone up, so what kind will that impact our margins in

customer business you take price hike, but in the other B2B business of EHV, LT, and all

how does it pan out.

Anil Gupta: In our cable business we have an inventory of around two months in the metals and we also

always have in pipeline at least one-months material, either under shipping or under transit, so we are fully covered so far as metals are concerned with respect to our order booking. So far as the EPC projects are concerned more than 50% of the order there are prize variation

clauses remains in respect of especially copper, aluminum, or steel, etc., in these orders.

**Ranjit Shiv Ram:** Okay so there would not be any major impact in the margins.

Anil Gupta: Yes.



Ranjit Shiv Ram: And EHV we hear some of the players are getting aggressive like KEC is planning to come

aggressively so because of this competition will you see some impact on the pricing and

margins on that portion of the business.

Anil Gupta: But market is also growing and they have to whatever aggression they may show, but

ultimately they will have to spend a few years to get prequalified. Our qualifications are

much stronger than KEC because of our old experience.

Ranjit Shiv Ram: Okay Sir thanks.

Moderator: Thank you. The next question is from the line of Suresh Panchal from Leg bins Investment

& Trading. Please go ahead.

**Suresh Panchal:** Hi what kind of export growth do you see going forward?

Anil Gupta: See this year, we have exponentially grown. Our growth in this year will be almost close to

80% to 90% of the previous full year. Since our base was low, so this year we expect to touch around 400 Crores in export. I can give a conservative guidance of around 15% in export growth because every year we cannot go by leaps and bounds, but we will definitely

aim to grow by 15% to 20% in the year after year.

**Suresh Panchal:** So in exports you have competition from China also.

Anil Gupta: In exports we have competition from across the globe and China is also one of them.

**Suresh Panchal:** Okay and how do you manage your currency risk?

Anil Gupta: Current.

Suresh Panchal: Currency exchange rate risk.

Anil Gupta: You see we are exporting as well as importing, so we are maintaining a sort of a natural

edge between our receivable in foreign exchange and payable in foreign exchange, so we

are quite comfortable with it that both way we save the heading cost.

**Suresh Panchal:** So currently your imports are more or exports are more.

**Anil Gupta:** Exports are more.

Suresh Panchal: How much percent of your orders are government orders and how much are from industries

and private players.



Anil Gupta: In case of cables, our order from the government is hardly about 15% to 20%, but in EPC

orders, they are mainly government orders.

Suresh Panchal: Okay going forward is the company planning to also go into other appliances electrical

appliances like Havells is doing or Finolex has started, so can the company also source from

China or other places and sell it through the same channel that you have now.

Anil Gupta: We have not conceived that so far, but maybe after a year or so we will review it and

consider it, but at the moment there is no plan.

Suresh Panchal: And for the next year what kind of top line growth and volume growth are you expecting?

Anil Gupta: We expect a growth of 15% in our sales turnover next year as well. It may be plus or minus

depending on the commodity prices.

**Suresh Panchal:** So 15% volume growth.

**Anil Gupta:** Yes even the sales growth yes 15% volume growth.

Suresh Panchal: Okay thank you.

Moderator: Thank you. We have the next question from the line of Deepak Agarwal from Elara Capital.

Please go ahead.

Deepak Agarwal: Yes Sir just one small clarification. The term loan you mentioned is about is about 227

Crores. Now I think FY16 and we were at about 188 Crores and we have already repaid

almost 40 to 50 Crores in the first nine months, so why is this term loan going up.

**Anil Gupta:** FY16 it was 242 Crores.

**Deepak Agarwal:** 242 Crores. Ok there was 60 Crores that was in the current maturity of long term. Okay that

is fine. That is the only clarification. Thanks.

Moderator: Thank you. We have the next question from the line of Dhananjay Rawat from Pi Square

Investments. Please go ahead.

Julie: Hello this is Julie from Pi Square Investments. Sir, a few questions I have from my end.

First, the EHV market size in India, if I am not wrong it is around 800 to 1000 Crores out of which we do 250 and the rest approximately 250 and the rest is Universal Cables, so what is the future going forward in EHV specifically for KEI Industries and what exactly is the

extra high voltage side market in India only 800 to 1000 Crores.



Anil Gupta: No madam it is 1500 to 2000 Crore market size and we are currently having 236 Crore

order position already in hand, so we will be comfortable to do our booking capacity in the

next financial year.

**Julie:** Sir could you please repeat 1500 Crore market in India.

Anil Gupta: In this area a lot of imports have been coming till now because Indian manufactures are not

qualified in getting the prequalification criteria of certain utilities. A lot of contractors do take that turnkey contracts, they import the cables. So we are trying our best to succeed in major areas by getting the qualifying requirements changed to suite the Indian companies under Make in India program. We have been knocking at the doors of all the authorities for

that and we have been quite successful at most of the places.

Julie: Okay then in the current quarter it is like around 236 Crores out of our total revenue right

EHV.

Rajeev Gupta: Yes.

**Julie:** Okay and further looking in 2018-19 it could reach where exactly on a broader number.

**Rajeev Gupta:** Depending on the capacity we will build it up.

Anil Gupta: I expect next year we should be doing close to 300 Crore in EHV cables.

**Julie:** Okay and our Chopanki plant the new plant is specifically for EHV.

Anil Gupta: It has a lot of flexibility. We produce right from low voltage to medium voltage and low

voltage high-tension cables and EHV. All products we manufacture so that we utilize the infrastructure fully and machines are all flexible and interchangeable in terms of usage.

**Julie:** Okay and the EHV imports, China is the larger player.

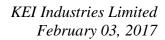
Rajeev Gupta: No it is mostly coming from Korea not from China. Yes some from China as well, but

Chinese contribution is quite low in India and it is more Korean.

**Julie:** Okay and our capacity utilization at the Chopanki is what 30% at present.

Rajeev Gupta: 35% at present, but we will definitely take it to the level of 70% to 75% now from the

current quarter onwards. Capacity utilization was low because a lot of production hindrances were there due to construction activity and commissioning on new machines.





**Julie:** So we are expecting it like a robust 70% capacity utilization by the end of FY17.

Rajeev Gupta: Yes.

**Julie:** Ok Sir that is it from my end.

Moderator: Thank you. We have the next question from the line of Ankit Babel from Subhkam

Ventures. Please go ahead.

Ankit Babel: Good afternoon Sir and congratulations for an excellent set of numbers. Sir I just has a

couple of questions. First Sir assuming a 15% growth in FY18 what would be your finance

cost in absolute terms.

**Rajeev Gupta:** Finance cost as you are already witnessing from our balance sheet that it is not increasing in

the proportion of the sales. Rather it had stopped last year we did 126 Crores and in this financial year we will be below the 126 Crore. So in the near future also we will be

maintaining at the same level or it will be reduced. Definitely it will not increase.

Ankit Babel: Okay Sir in FY18 also in spite of a 15% growth you expected interest cost to be around 125

to 127 Crores only.

**Rajeev Gupta:** Yes it will not increase.

Ankit Babel: Okay and Sir you have already expanded your capacities in the EHV segment. Now what

would be your capex for FY18?

Rajeev Gupta: Not yet planned.

Ankit Babel: But for this 15% growth in FY18 you do not need any capex, so whatever capex you would

be doing in FY18 would be for FY19- FY20.

**Rajeev Gupta:** So the maintenance capex in any way every year we do around 10 to 12 Crore rupees.

**Ankit Babel:** That is fine, but for capacity expansion.

Anil Gupta: Because of that every year we increase the capacity of more than 150 to 200 Crore also.

Ankit Babel: But is it fair to assume that your current capacities can take care of only FY18 growth and

beyond for FY19 growth you will have to go for a capex in FY18.

**Rajeev Gupta:** We will plan FY18 basically.



Ankit Babel: Okay and Sir is it right that you said that by the end of the year you will have a debt level of

around 600 Crores.

**Rajeev Gupta:** Yes 600 Crores I mentioned close to 600 Crores debt will be there including the working

capital and the term loan.

**Ankit Babel:** Okay. Thank you so much Sir. All the best.

**Moderator:** Thank you. We have the next question from the line of Janani Raj Shekhar from Securities

Investment Management. Please go ahead.

Janani Raj Shekhar: Hello Sir just one more question. I just wanted to understand a little bit more on this export

growth. What is it really that is driving this kind of growth that you are seeing in export.

**Ravjeev Gupta:** See first this export growth has come because of our efforts in developing various export

markets over the last three to four years. Our export base was quite low, so with the efforts of last four years we have got ourselves approved in many utilities, oil and gas utilities in Kuwait, Abu Dhabi, and Oman and also many utilities in Africa, Mauritius, Sri Lanka, and so suddenly that has resulted into a good growth in this financial year and which is on firm footing and sustainable. So it is not that it has just suddenly come. The efforts were going

on for the last four years or five years on this.

**Janani Raj Shekhar:** Right so how much of this would be from the Middle East.

**Ravjeev Gupta:** Approximately I will say 50% is from Middle East.

**Janani Raj Shekhar:** 50% and you obviously cannot keep growing at this rate, so what kind of growth are you

looking at from the Middle East.

Ravjeev Gupta: From Middle East, I do not think it will grow beyond this because we have to face

competition from the local manufactures also in the Middle East, which are there, but we are developing many other countries. You know we are putting efforts in a number of new countries so that we are able to grow in exports and we are not dependent on any particular

region or country for our business.

Janani Raj Shekhar: Okay right okay. Thank you.

Moderator: Thank you. We have the next question from the line of Sachin Kasera from Lucky

Investment Managers. Please go ahead.



Sachin Kasera: Sir just a couple of followup questions. You mentioned that next year you are targeting

around 250 to 30 Crore revenue from EHV against 100 to 110 Crores this year. Is that

correct understanding?

Ravjeev Gupta: Yes.

Sachin Kasera: And you also mentioned that you are looking at around 900 Crores from EPC against 600 to

650 in the current financial year.

**Ravjeev Gupta:** Yes, including the cable portion.

Sachin Kasera: Correct. So when I add up these two numbers itself, our gross rate comes to 17% to 18%

and you are guiding for the overall growth of only 15%.

**Ravjeev Gupta:** If I grow by 18% and say less, I think I will be better off.

Sachin Kasera: No I am just trying to do math Sir in the sense that if we are looking at going from 100 to

300 in EHV and 50% growth in projects than assuming given 8% to 10% growth in the remaining business and we have been getting a top line growth of more like 20% to 25% not 15%. So is it not that you are trying to be a little conservative when you give the

numbers.

**Ravjeev Gupta:** You may be right, but because exact number of predication is not possible.

Anil Gupta: We always remain a little conservative in our guidance so that we are on always a positive

side.

Sachin Kasera: Tell me Sir on the 1500 Crore to 2000 Crore market of EHV you said exports is a good

portion, if you could just tell us who are the two or three key players and how big is the import market in that and can that over two to three years few people like you., Universal,

KEC capacity can it more or less be stopped.

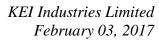
Anil Gupta: Yes it will vanish. Over a period of next three to four years as our Indian companies start

getting qualified even with the toughest conditions put by the utilities. Although we are working hard for the relaxation of these norms to suite the new companies, who do not meet

that three or five years manufacturing criteria normally coming in the tenders.

Sachin Kasera: And how big right now Sir is imports in this 1500 to 2000 Crore how much will imports be?

**Anil Gupta:** It should be more than 600 to 700 Crore.





**Sachin Kasera:** 600 to 700 Crores and the market is going at 15%.

Anil Gupta: Yes.

Sachin Kasera: Or more?

Anil Gupta: I think I do not have the exact numbers, but what we see, the market is growing. I cannot

quantify it.

Sachin Kasera: And the largest player is Universal. We are what the third largest player Sir or the fourth

largest today.

Anil Gupta: Universal and we are almost at par in terms of qualifications and market penetration.

Sachin Kasera: Sir just one last question regarding your consumer business because the working capital in

terms of receivable there is only 15 days versus say 90 days for your cable business and may be four to four and a half months for EPC, margins are also around 10% the turnaround capital is far better than in case of your dealer distribution business. Is that correct

understanding?

**Rajeev Gupta:** Yes Turnaround capital employed definitely it is far better.

Sachin Kasera: So has the proportion of the dealer distributor...

Rajeev Gupta: But there is a limitation to increase every year the business, we can grow by 20% that is we

are doing. Same 25% every year we are growing in that sector.

Sachin Kasera: And Sir I just want a followup and somebody also asked this question in the call. See we

are almost at 1100 dealers now. In three years, we should be close to 1500 dealers. If you see most of the companies in this sector, you know what everybody has done is capitalize

on this network as try to get into new products, so it could be appliances.

Rajeev Gupta: Once we stabilize our base and we will be having close to 1500 dealer distributor network

at that time, we will think actually for that.

Sachin Kasera: And Sir this break up of 564 Crore is how much of this is household cables and how much

is industrial cables in this 564 Crores that you have done for the nine months or all of this...

**Rajeev Gupta:** It is close to 290 Crore. 270 Crore is the house wire and the rest is the cable.



Sachin Kasera: But even when you do the house cables then also you have the same. This dealer

distribution all products you have 15 days working receivable right.

**Rajeev Gupta:** That is the same.

**Sachin Kasera:** And the margin also the same, cable and wire both right.

Rajeev Gupta: Yes.

Sachin Kasera: Okay thank you very much Sir.

Moderator: Thank you. Ladies and gentleman that was the last question and we will now close the

question queue. I would like to hand the floor back to the management for closing

comments. Please go ahead.

Anil Gupta: I thank you all for your patience and for this conference call. If you still have any further

queries, please write to us or can call us for any clarifications. Thank you very much.

Moderator: Thank you gentleman. Ladies and gentleman on behalf of Anand Rathi Share and Stock

Brokers that concludes this conference call. Thank you for joining us and you may now

disconnect your lines. Thank you.