

ANANDRATHI

**“KEI Industries Limited Q1 FY2017
Earnings Conference Call”**

July 21, 2016



ANANDRATHI



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 Q1 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. 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 “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Girish Solanki. Thank you and over to you Sir!

Girish Solanki: Thank you. Good morning and welcome to the 1Q FY2017 conference call of KEI Industries. Today, we have with us Mr. Anil Gupta, who is the Chairman and Managing Director of KEI Industries. Along with him we also have Mr. Rajeev Gupta, who is the CFO. Without wasting much time, I would like to hand the floor over to Mr. Anil Gupta for his opening remarks.

Anil Gupta: Thank you very much Girish. I welcome all our investors and participants in this conference call on behalf of KEI Industries. I am Anil Gupta. You must have gone through the results. So far during the first quarter of financial FY2016-2017, the Company has achieved the net sales of 560.7 Crores as compared to 518 Crores in the last financial year in Q1. Operating profit achieved is 59.95 Crores approximately 10% of the sales and profit after tax is 16.94 Crores, which is approximately 3.02% of the sales against the same quarter in the previous year. The operating profit was 54.72 Crores approximately 10.56% and a PAT of approximately 11.7 Crores that is 2.26% of the sales in the same quarter of the previous year. So the operating profit in the current financial year is approximately 9.98% against 10.56% in Q1 of last year. The reason attributed is because of the lower sales of Extra High Voltage Cable segment due to current ongoing expansion and restructuring of the factory at Chopanki and we have lost our production for one-and-a-half months in that factory due to reorganization and reconstruction of the factory and installation of new machines, and changing of the layout.

Apart from that we also could not recognise the profits of Varanasi EPC projects because it has not achieved 25% of the threshold limit. In the first quarter of financial year 2016-2017 the growth in sales in terms of value is around 8.16% over the corresponding first quarter of previous year. The growth is after the reduction in metal prices by approximately 15% compared to the first quarter of last year. In this first quarter the PAT margin has improved to 3.02% mainly due to the decrease in the financial cost from Rs.33.14 Crores to Rs.26.7 Crores of the loss in same quarter of the last financial year.

Another highlight of this quarter is that in this quarter, our exports sales have grown to Rs.85 Crores as against Rs.47 Crores in the last year. We have achieved a growth of 81% in the export sales in this quarter. The exports through our dealer network in the first quarter in this year, the growth is around 10% in value

terms. It stood at around Rs.175 Crores as compared to last year. In the first quarter of FY2016-2017, the company has added 91 new dealers, net and total active working dealers of the company have grown to 1017 now.

In the first quarter of FY2016-2017 our revenues from EPC division are approximately 84 Crores apart from cable sales from our factories to our own EPC projects against last year same period revenue of 63 Crores. So the EPC segment has grown by 35%. In the first quarter this year, cable division sales has grown by 4.92% in value terms but in volume growth it is approximately 10% over corresponding first quarter of the same period. LT and HT Cable sales has grown in terms of value by 11%, but Extra High Voltage Cable sales has decreased due to productions suffered in the first quarter in Chopanki because of the reconstruction and because of the expansion going on at the Chopanki plant. The Company is hopeful to achieve overall 15% growth in the financial year 2016-2017.

We have a pending order position as on date of approximately 2500 Crores plus around 400 Crores in EPC orders we are L1 and we expect to achieve these Letter of Awards or Letter of Intent in the next one month and Extra High Voltage Cables, we have pending orders for 142 Crores and in our cables we have pending orders of 695 Crores. Out of the 695 Crores, export orders pending are 190 Crores.

Now I will come to the ongoing capex. We have completed the capex in our House Wire division, LT and HT division except Chopanki. The new production line of Extra High Voltage Cable at Chopanki plant is undergoing installation and it will be operational by end of October or November 2016. Major amount of capex has already been done till date and balance capex of around 22 to 25 Crores will be done in FY2016-2017.

Another highlight of this quarter is that our financial charges of the company in the first quarter of financial year 2016-2017 is Rs.26.7 Crores that is 4.76% of the sales as compared to 6.39% of the sales in the same quarter last year. So it is down by approximately Rs.6 Crores in the quarter compared to last year.

I would like to brief little bit about the business outlook. It looks to be strong and we are gaining substantial new export orders of cables from our export market and also we have received significantly new orders in EPC side from various utilities in DDU and IPDS schemes and that will give a good growth to the Company from this quarter mostly from the third quarter because most of these contracts will come into execution by end of this quarter or from third quarter. So I see a good growth in the EPC business in this financial year and the next financial year as well.

Even in the cable side, our focus is again towards more and more export volumes coming from various countries and efforts are put in for achieving that. So I now invite you to put any specific questions that you may have. Thank you very much.

- Moderator:** Thank you. We will now begin with the question and answer session. We will take the first question from the line of Ravi Swaminathan from Spark Capital. Please go ahead.
- Ravi Swaminathan:** Congrats on good set of numbers. Sir can you just give a breakup of the revenue in terms of LT, HT, EHV, Housing Wires?
- Rajeev Gupta:** In this quarter we did Low Tension Power Cable 257 Crores, Medium Voltage Power Cable is 81 Crores, Extra High Power Cable is 17 Crores and House Wire 98 Crores. So total Cable is 453 Crores and Stainless Steel Wire is almost 24 Crores and EPC is 84 Crores.
- Ravi Swaminathan:** Can you also give the corresponding figures for the last quarter?
- Rajeev Gupta:** Corresponding quarter Low Tension Power Cable was 221 Crores last year, HT which is 81 Crores it was 82 Crores last year, Extra High Voltage Power Cable, which is 17 Crores which was 32 Crores last year, House Wire is 98 Crores, which was 96 Crores last year and Stainless Steel Wire is almost 24 Crores in this quarter as well as for the last year it was 24 Crores. EPC is 84 as against last year it was 63 Crores.
- Ravi Swaminathan:** Any specific reason we have seen good interest cost fall? Is it like our working capital has seen an improvement?
- Rajeev Gupta:** Actually in the last financial year it has also been witnessed in all the four quarters interest was reduced from first quarter to second, second to third, third to fourth. So now again it has been reduced so it is in the same lines, so it will be in the range of 4.75% to 4.9% of the net sales.
- Ravi Swaminathan:** Has our cost of debt has reduced by any chance?
- Rajeev Gupta:** Cost of debt has also reduced from the last financial year and our rating has also improved in the current financial year. So now our rating has improved by ICRA from BBB+ to A- now. So we are quite hopeful that we will again see a further reduction of rate of interest from our banks.
- Ravi Swaminathan:** Our employee has seen 35% increase year-on-year. What would be the steady state increase for the year, any guidance for this?

- Rajeev Gupta:** Actually employee cost has included the ESOP expenses also 1.86 Crores in this current quarter which was not there in the corresponding quarter but which was in the last financial year, third quarter and fourth quarter there was and some cost of employee increase in the EPC division, because more and more projects are coming in EPC division, it is increasing, so the employment is generating in the EPC division.
- Ravi Swaminathan:** Regarding the domestic market, business wise how are things panning out in terms of your ordering opportunity from states, which states are giving out orders now currently?
- Anil Gupta:** In domestic market at the moment the major driver in the sales are TND, transmission and distribution segment and also the second segment in the generation side is solar and wind power-generating companies. These are the two major segments. The third is the metro. We are doing significant amount of sales in various metros across the country.
- Ravi Swaminathan:** Can you define the opportunity in the TND space from state wise or in the various schemes that are there?
- Anil Gupta:** Actually TND is strong in across India because of the tendering processes initiated by most of the distribution utilities and transmission utilities under IPDS and DDU schemes and transmission is very strong because whatever power we are generating from either thermal or from solar or wind, the transmission system are strong because power has to be evacuated to reach to the consuming areas so that is why the new investments in substations, transmission lines and underground cabling in the transmission side is strong.
- Ravi Swaminathan:** Which are the entities, which are giving out, orders currently, I mean, which state governments, which states are more active than others?
- Anil Gupta:** In the last six months Uttar Pradesh was the most active state, which came out with a most tenders all they are core Discoms came out with several tenders. Now other states like West Bengal, Rajasthan, Karnataka, Madhya Pradesh, Haryana they all have come out with the tenders under IPDS and DDU schemes, which are in the bidding process and Jammu and Kashmir so we expect more order inflow from other states in the coming months may be in the next three to four months.
- Ravi Swaminathan:** From PowerGrid also we had seen good inflows I believe, so how are these orders progressing and how is the pipeline?
- Anil Gupta:** We have bid number of projects in PowerGrid, but technical evaluation is on and we are still awaiting the price bid opening.

- Ravi Swaminathan:** Can you give a sense on the Housing Wire market has it started seeing an improvement?
- Anil Gupta:** Yes, Housing Wire market has grown by 10% in value terms in this first quarter compared to last year. I see a pickup in this activity may be from third quarter because housing activity will pick up from October onwards so at the moment though we have growing, but it is till slow compared to our expectations.
- Ravi Swaminathan:** Market would not have grown as fast?
- Anil Gupta:** Yes.
- Ravi Swaminathan:** Thanks I will come back in the queue.
- Moderator:** Thank you. We will take the next question is from the line of Dheeral Shah from GEPL Capital. Please go ahead.
- Dheeral Shah:** Thank you Sir for taking my question. Congratulations for an excellent result. Sir, my question is regarding off late we have seen there has been our sharp price in metal prices like copper, how it will impact our inventory as well as our bottomline?
- Anil Gupta:** As I had mentioned in my earlier conference calls also that we are playing quite secured in our metal inventories. We are enough inventories with us and for next two months to take care of our present orders and whatever new tenders we bid or new offers we make that is based on the current prices and we always keep some marginally risk factor based on the market conditions while booking the orders. So we are well covered so far as our metals are concerned and the do not see any risk in due to any upward moment of the metals.
- Dheeral Shah:** Lastly my question is regarding your cost of debt? Sir, what is current cost of debt?
- Rajeev Gupta:** 11.95%.
- Dheeral Shah:** Sir, you have said that ICRA has revised your rating from BBB to A- so how is much it is going to improve?
- Rajeev Gupta:** May 0.5% to 1% in this financial year once our proposal spillovers are through the banks with the banks. It may be by October or November.
- Dheeral Shah:** Sir, how much you have reduced the debt in this quarter?

- Rajeev Gupta:** In this quarter we have reduced almost 20 Crores debt in terms of the repayment of the term loan.
- Dheeral Shah:** How much you are going to reduce in this FY2017?
- Rajeev Gupta:** In the FY2017 the total 60 Crores will be reduced.
- Anil Gupta:** 60 Crores is the repayment of the term loans.
- Dheeral Shah:** 60 Crores is repayment and you have reduced 20 so another 40 you are going to reduce? I am right.
- Anil Gupta:** Yes.
- Dheeral Shah:** That is it from my side. Thank you Sir.
- Moderator:** Thank you. The next question is from the line of Anand Purshottam from Cogito Advisors. Please go ahead.
- Anand Purshottam:** Good morning and congratulations for great set of numbers. I just have two questions; one is that what do you think the reason for you are increase in exports? What is it attributable to? Secondly your operating margins fell slightly by 40-basis points. Is that because of the ESOP and also the disruptions in production in your factory for one-and-an half-months or are there any other reasons?
- Anil Gupta:** Yes, it is due to disruption in the production in the factory which is producing Extra High Voltage Cables and I also said that in one of the big EPC project we could not recognize the profit in this quarter because of we have not reached that at 25% threshold limit as per the accounting practice. So far as growth in export is concerned, as we have been mentioning in last two years that we are doing significant marketing exports in various countries to increase our exports and that efforts are showing results now. That is why it is increasing and I am sure that it will grow year after year continuously because this is exports is our major focus.
- Anand Purshottam:** That is all I have. Thank you very much.
- Moderator:** Thank you. We take the next question from the line of Rukund Tarachandani from Kotak Asset Management. Please go ahead.
- Rukund Tarachandani:** Good afternoon Sir, Sir I just had question on the EPC side can you give geography breakdown of your existing EPC orders and order book as well?

Anil Gupta: Existing EPC order book is approximately 2000 Crores out of which 1500 Crores orders are from various Discoms and transmission companies of Uttar Pradesh and another 500 Crores of orders are from Karnataka, Telangana, Jammu and Kashmir, we recently received an order of 100 Crores from J&K for underground cabling projects in two to three more locations and two three more locations, Kerala and West Bengal, now we are bidding in Rajasthan, Madhya Pradesh because their tenders they have just invited so we are bidding in many new states now.

Rukund Tarachandani: What is the reason for this big concentration in Uttar Pradesh?

Anil Gupta: We are very highly established in Uttar Pradesh for last three years. We have done already completed the execution of more than 1000 Crores worth of projects in Uttar Pradesh in last three years and that has given significant confidence in the utilities about our execution capability.

Rukund Tarachandani: Sir, with these new orders coming would this composition change materially or will you still remain largely a UP focused? I was saying that with these new orders from this states that your referring to will the composition of order book change materially or will it still remain largely dominated by Uttar Pradesh?

Anil Gupta: No, it will definitely change significantly because Uttar Pradesh utilities are quite early in floating the tenders and the very fast and finalizing the orders. Other states the utilities are still in the process of advertising their tenders and inviting the bids, but may be because in Uttar Pradesh elections are due next year, so state government wants to show early results.

Rukund Tarachandani: Thank you.

Moderator: Thank you. We take the next question from the line of Deepak Agarwal from Elara Capital. Please go ahead.

Deepak Agarwal: The opening order book which we had at the start of year was about 700 Crores in EPC and now we are about 2000 so the inflow is about 1300 Crores during the quarter?

Anil Gupta: Yes, this inflow has happened in June and July overall inflow is there in the EPC in the months of June, from June 1 to July 15 because these tenders are bidded in March and April.

Deepak Agarwal: So this 2000 Crores is on June 30 is the order book and what is the execution timeline for this order book?

Anil Gupta: Two years.

- Deepak Agarwal:** So the EPC basically will form a disproportionate share of the revenue in the next two years because if we have to execute 2000 and if see the overall topline of the next two years of about 3500 or 6000 2000 will come from EPC itself?
- Anil Gupta:** Because in these projects 20% to 25% is the share of the cables itself which will be self-manufactured item so that turnover will go into the cable business or may be it gets reduced in the intersegmental revenue so this will give a boost to our own factories as well.
- Deepak Agarwal:** What kind of margin do you think in this latest tenders that you are factored into?
- Anil Gupta:** We are confident to achieve an EBITDA 11% plus in these tenders.
- Deepak Agarwal:** My second question is like first quarter now we have House Wire revenues almost flat and now we have been adding almost 90 dealers which is a substantial jump versus what we added last year so how do you see the House Wire sales panning out?
- Anil Gupta:** In volume terms we have grown in this quarter by 10% because the copper prices were low by 15% in this quarter compared to the same quarter of last year so actually in volume terms we have produced and sold 10% more wire compared to last year.
- Deepak Agarwal:** So do you think that 10% growth is sustainable for in the rest half of the year or it will be more to like?
- Anil Gupta:** More than that. It will be sustainable.
- Deepak Agarwal:** My third question can you give a breakup of this interest component line how much is the interest linked to working capital and term loans versus difference between the LC and all?
- Rajeev Gupta:** The term loan interest is 5.97 Crores in this quarter and working capital interest is 8.64 Crores. In the corresponding quarter the working capital interest was 12.64 Crores so the 4 Crores saving in the working capital interest as compared to the corresponding quarter.
- Deepak Agarwal:** This is primarily due to the lower fall in the prices of raw material?
- Rajeev Gupta:** Because of lower utilisation of the working capital limits and the interest cost reduction both, LC interest is 4.85 Crores and other interest 2.17 Crores, bank charges is on LC is 1.61 Crores in this quarter, bank charges on bank guarantee in this quarter is 2.31 Crores bank charges others is 1.15 Crores, so put together all 26.7 Crores.

- Deepak Agarwal:** So this working capital reduction, which is where the substantial reduction happens, is sustainable?
- Rajeev Gupta:** In March quarter also it was Rs.9.56 Crores. It was reducing from first quarter last year to second quarter then third quarter than fourth quarter.
- Deepak Agarwal:** My last question is now we have a fantastic quarter for exports market, so how do you see the growth for the full year and the year after that and which countries you are getting this kind of traction?
- Anil Gupta:** We are hopeful of bringing a growth of 60% to 70% in exports in this financial year compared to last financial year and most of the exports are in the Middle East to the various refinery projects and Africa and also Australia.
- Deepak Agarwal:** Thanks and all the best.
- Moderator:** Thank you. We will take the next question from the line of Sandeep Dixit from Investor Capital. Please go ahead.
- Sandeep Dixit:** I just wanted to understand a little bit on the EBITDA margins. If your revenue is going to be driven primarily by EPC in the coming quarters, will we see an EBITDA ever cross 11% at all? Do you have any guidance on EBITDA margins for FY2017 and 2018?
- Rajeev Gupta:** EBITDA margin will be close to 10.5% plus as we have earlier guided also for the full year. It may vary quarter-to-quarter, but at the end of the financial year it will be 10.5% plus.
- Sandeep Dixit:** And will copper prices play any role in any upside or downside to these?
- Anil Gupta:** I have already commented.
- Rajeev Gupta:** Natural hedge we are working.
- Anil Gupta:** We are having natural hedge and we are having enough inventory to take care of the existing orders.
- Sandeep Dixit:** Thank you Sir. Thank you for that.
- Moderator:** Thank you. We will take the next question from the line of Utsav Mehta from Ambit Capital. Please go ahead.

- Utsav Mehta:** Good morning Sirs. Just couple of questions, first one is a pretty basic one on Varanasi project. Just wanted a download on how the project is progressing? Is there anything that was unexpected, which has led to delays, anything that you can give on the progress of the project?
- Anil Gupta:** Project is progressing very well and we have almost achieved 20% of the execution so far. The project was awarded to us in end of December and in six months, initial four months have gone into the project site activation and BOQ approvals and various other pre-execution activities and procurement of materials. We are quite satisfied with the speed of execution and getting good cooperation from all the authorities for that.
- Utsav Mehta:** Would it be unfair to assume that this could be done before time or do you think the timelines that were elucidated earlier would be the ones that it would end up with?
- Anil Gupta:** I am confident that it would be done well before time, but how much time we will be able to prepone maybe by two, three months will be seen because rains are there, a lot of in this kind of cities, a lot of work gets disrupted due to various festivals from time to time and we are two steps back on the road but we are still confident that we will be able to perform very fast.
- Utsav Mehta:** My next set of question is around DDU and IPDS tendering that you mentioned, which is coming from states directly. Are these turnkey projects or are they splitting the supplies and the contracting parts, doing it separately?
- Anil Gupta:** No, they are turnkey projects including supplies.
- Utsav Mehta:** They are turnkey projects, so recently in fact today itself there was a report in the media that there has been an issue in terms of centralized procurement that the government was trying to do where the states are saying the procurement should be at the state level. I cannot seem to marry the fact that on one hand there is issues with procurement, but on the other hand they are giving turnkey projects, are there any issues in terms of where the procurement should be done from...?
- Anil Gupta:** In most of the states the bidding got delayed by more than six months due to this issue because the central government Ministry of Power was insisting that some two, three items like transformers, conductors, cables and meters are procured centrally by utilities and give it to the contractors and rest of the items are procured by the contractors, but it was insisted that the responsibilities on the two entities will need to build in the projects that because they will not be able to match the timeline of procurement by the utility and execution timelines set by the contractor, so these things are undergoing change and that is why the bidding processes in many states have got delayed.

- Utsav Mehta:** What is the competitive intensity now that you are seeing in these kinds of projects and what is the ticket size of these projects that is coming out?
- Anil Gupta:** The ticket size of these projects is ranging from Rs.50 Crores to Rs.500 Crores, Rs.500 Crores is very rare, but it is ranging from Rs.50 Crores to Rs.200 Crores.
- Utsav Mehta:** So you would say for larger towns they just give you one large contract of let us say Rs.300 to Rs.400 Crores whereas the smaller towns
- Anil Gupta:** Correct.
- Utsav Mehta:** And how was the competitive intensity? How many bidders typically do turn up for this?
- Anil Gupta:** Normally I have seen three to five bidders are coming in.
- Utsav Mehta:** So it is relatively lower competition, I would assume that a lot of local contractors would be turning off especially for the smaller projects, but that does not seem to be the case here?
- Anil Gupta:** Correct, smaller contractors for the smaller value projects, two three contractors.
- Utsav Mehta:** In terms of payment are the state related project payments cycle slightly longer than what you would normally anticipate in these projects?
- Anil Gupta:** Our experience so far has been very good because the payments are quite fast, once the bills are become payable and they got certified normally the payment is made within three weeks because the funds are coming for each projects, the funding is earmarked and separate funds are allocated by the PFC and REC for each projects, so those funds cannot be utilized by the utility for any other projects.
- Utsav Mehta:** Okay and a large projects I am guessing is also coming from the central government and therefore that helps.
- Anil Gupta:** Yes.
- Utsav Mehta:** Just one last question if I may, in a typical contract let us say for a relatively larger town, are you seeing that a bulk of this project is underground cabling or do you think it is just a

- Anil Gupta:** Major town it is always underground cable. In the smaller towns, it is overhead either through aerial bunched insulated cable or through bare conductors, but in the larger town it is always underground cables.
- Utsav Mehta:** It is always underground cables, and just in case if you cannot participate in these projects, let us assume that you max out your EPC capacity and you cannot participate what sort of market do you see opening up for your manufactured products that could come out of these programs?
- Anil Gupta:** Can you repeat your question?
- Utsav Mehta:** If you cannot participate as turnkey contractors here, the person who still takes it up as a turnkey would need to source all the materials from the players like you right?
- Anil Gupta:** Yes.
- Utsav Mehta:** What sort of potential market do you see from DDU and IPDS for your cabling business?
- Anil Gupta:** Very, very significant because it is true that we cannot overall contracts which will be finalized across India will be close to Rs.40000 Crores in the whole year by all the state utilities and our capacity will not be able to go beyond Rs.3000 or Rs.3500 Crores, so rest of the projects, but whosoever takes he will come in the market to buy the cable, so there will be big opportunity for selling cables to the other EPC contractors.
- Utsav Mehta:** Recently we heard some news in terms of PGCIL is starting reverse tendering or reverse bidding process for its contract, are you sensing any margin pressure that could be coming out of those?
- Anil Gupta:** So far we have not seen that, but we will see if that happens then what then what kind of, ultimately contracting companies has to maintain their pipeline somewhere, even in L1 bidding if a person quotes whatever best he can quote, same thing is going to happen and the reverse option as well.
- Utsav Mehta:** But the reverse option opens up the possibilities of people being more aggressive to build up their order books?
- Anil Gupta:** We will still have to observe that.
- Utsav Mehta:** Just one last question, so based on your commentary earlier it seems that the growth in the EPC segment is going to be really, really strong over the next two years, I am talking about more than 30% or so, what are the steps you are taking to build up the requisite manpower capacity, systems, processes to ensure that these projects do not go awry?

- Anil Gupta:** I have already mentioned sometime back today that we have recruited almost 250 people in the EPC business in first quarter and in that lot of senior people have also been added mainly in the execution side to handle the different sites and the project managers and project engineers, so whatever need based projects are there is there based on the projects that we are getting, we are increasing the requisite manpower resources.
- Utsav Mehta:** Are you relying on subcontracting heavily or is it largely doing sort of a project?
- Anil Gupta:** Labour part, the actual labour work is, we are hiring subcontractors, but the planning, designing and supervision part is handled by our own people.
- Utsav Mehta:** I think that sort of answers my questions. Thank you so much for your time.
- Anil Gupta:** We have also uploaded the press release in the stock exchanges also.
- Moderator:** Thank you. We will take the next question from the line of Ritu Chaudhary from Trust Capital. Please go ahead.
- Naveen Trivedi:** This is Naveen Trivedi. Good afternoon everyone and congratulation management for the strong numbers. Sir my question as you mentioned in your remarks that there was some production loss happened during the quarter, how has been the impact on the sales and EBITDA if you have?
- Rajeev Gupta:** Because Extra High Voltage Power last year, we have sold for 32 Crores and this year we have sold only for 17 Crores and you know the Extra High Voltage Power Cable the operating margin is higher than all the other cables?
- Anil Gupta:** To answer your question, we lost approximately 20 Crores worth of production in Chopanki, Extra High Voltage Cables and it might have resulted in EBITDA loss of 0.3% to 0.4% or may be 0.5%, I mean I cannot value it so quickly, but the loss of production, we could have produced 20 Crores worth of cables more in the quarter had our line not been down and in this month also, the production will be commencing by end of this July only.
- Naveen Trivedi:** Suppose if that 20 Crores is being added it for the topline, the growth is upwards of 10% and when we add another there is a 15% price deflation on the copper prices. From that context the performance is much better. So can we share this volume growth number also?
- Rajeev Gupta:** Volume growth as we have said on the metal side consumption if we take into consideration it is more than 10% in terms of volume growth for the whole cable division.

- Naveen Trivedi:** My next question is on the employee side, which basically we have seen the last five, six quarters, there is a strong growth. We are spending so much on the employee side, so can we give the breakup between the ESOPs and other cost this quarter Y-o-Y comparison?
- Rajeev Gupta:** Y-o-Y comparison, it is like in the salary, in this quarter 16.67 Crores as compared to 14.49 Crores, so mainly increase is adding some new employee as well as the annual increase. In the salary of EPC division is now currently is 5 Crores as compared to 2.85 Crores in the last quarter of the corresponding quarter. So, mainly the increase and the new appointment as CMD Sir had told and the ESOP expense which was not in the last year first quarter, which is in the first quarter of the current financial year is around 1.86 Crores.
- Naveen Trivedi:** So this ESOP expense will continue for the next quarter also?
- Rajeev Gupta:** Yes.
- Naveen Trivedi:** What is amount that basically if you can give?
- Rajeev Gupta:** Close to 1.8 Crores per quarter.
- Naveen Trivedi:** Thank you so much. That is all from my side.
- Moderator:** Thank you. We will take the next question from the line of Govindlal Gilada an Individual Investor. Please go ahead.
- Govindlal Gilada:** I got only one question Sir. In proportion to sales growth, the other expenses have gone up little disproportionately any one-off in that?
- Rajeev Gupta:** This is 85 Crores as it was in the last quarter 72 Crores, the major increase is 6 Crores in excise duty on the closing stock of finished goods and increase in freight of 3.4 Crores because of growth in the volume sales and increase in the export sales and same in the job work charges and advertisement charges Rs.3 Crores.
- Govindlal Gilada:** Going forward, shall we presume this will be the ratio comparing to sales, because sales have gone up I think less than 10% and the other expenses we have gone up almost 15% I think?
- Rajeev Gupta:** But this in proportion to the volume sale basically like advertisement, job work charges, freight directly connected and excise duty on closing the stock this is expenses which is to be set off, because on one side it increase in the closing stock and at one side it increase in the expenses, so it is not expenses actually.

- Govindlal Gilada:** Thank you very much. That helps.
- Moderator:** We will take the next question from the line of Sandeep Dixit of Investor Capital. Please go ahead.
- Sandeep Dixit:** I am just looking at the EBITDA margins again, sorry to come back to that. I see that the steel wires margin actually fell to 7.9% in this quarter from 11% in the previous quarter whereas EPC margins were 8.9. EPC margin I can understand that Varanasi project will bring them back to each level, but can you just explain to me why steel margins around 8% and can you expect them to stay at those levels?
- Anil Gupta:** It will just stay at the same level of 8% to 9%.
- Sandeep Dixit:** So 11% last quarter was an aberration Sir?
- Anil Gupta:** Yes.
- Sandeep Dixit:** Thank you.
- Moderator:** Thank you. The next question is from the line of Sanjeev Panda of Sharekhan. Please go ahead.
- Sanjeev Panda:** Sir, we observe that your EPC business will go up substantially, in that context how working capital days will shape up compared to what it is today in terms of days or in terms of size if you can just help us to understand?
- Rajeev Gupta:** Working capital cycle is basically except the retention money other things are the same as we are in the cable division, because we supply our cable also to all the EPC contractors like L&T, Siemens, BHEL, Alstom etc., so they are also paying in 90 days and here also we are recovering our money within 90 days time.
- Sanjeev Panda:** So basically you are saying the retention money would be the incremental working capital requirement. How much that could be around 10%?
- Anil Gupta:** Around 10%, so basically in the old concept we had executed we will receive that money and then new contact will be there for another period.
- Sanjeev Panda:** Do you think this public sector on Distribution Companies that we are going to deal with the receivable will not be stretched given the historical evidences?

- Anil Gupta:** We have mentioned that whatever projects we have taken they are centrally funded projects in the central scheme and the funds are earmarked. We have not experienced any fund shortage. It is only the processing of the bills from the sites, which takes time, and once this has done, we are receiving the payment in three to four weeks' time.
- Sanjeev Panda:** Typically how much time it actually takes us to get the project and then deliver it in terms of execution cycle from our side?
- Anil Gupta:** For bigger projects, we are estimating execution cycle of 18 to 24 months. For the smaller projects it is maximum 9 to 12 months.
- Sanjeev Panda:** Thank you. Best of luck.
- Moderator:** Thank you. The next question is from the line of Kush Mahajan of Edelweiss. Please go ahead.
- Kush Mahajan:** Would you throw some light on under these two schemes IPDS and Deen Dayal Upadhyaya Yojana. The investment is going major to a distribution segment or transmission side?
- Rajeev Gupta:** These schemes are for distribution not for transmission.
- Kush Mahajan:** In the earlier remark you said that the transmission is very strong, so from where the investment is coming from transmission side in case the states are investing in the transmission then how the states are getting funding for these projects?
- Anil Gupta:** Transmission companies are as it is profitable in every state, because transmission companies never lose money, because they are only transporting power from one place to other and they are separate companies. Secondly, in every state government is allocating substantial funds to the transmission companies of the state and also transmission companies are getting projects funded through REC and PFC also.
- Kush Mahajan:** They are also funding a transmission.
- Anil Gupta:** Yes, there is no specific scheme name for that like IPDS or DDU, but they are getting specific project funded by REC and PFC.
- Kush Mahajan:** Who are the major states that are spending more on the transmission side?

- Anil Gupta:** I think most of the states are building up transmission side like we have seeing major activities in Karnataka, Tamil Nadu, Telangana, AP Transco, UP Transmission Corporation, I think Kerala. Most of the states are augmenting the transmission capacities apart from PowerGrid Corporation who is our central transmission utility.
- Kush Mahajan:** If you compare from last year activities have gone up in the transmission side this year?
- Anil Gupta:** Yes.
- Kush Mahajan:** Thank you Sir.
- Moderator:** Thank you. The next question is from the line of Ankit Jain of Mirae Asset. Please go ahead.
- Ankit Jain:** Thanks for the opportunity. Sir if I look into our unallocable capital employed which has gone up by almost 100 Crores Q-o-Q, so what it pertains to?
- Rajeev Gupta:** Unallocable expenditure is the head office expenditure because all the borrowings etc., in are in this segment only.
- Ankit Jain:** No I am talking about capital employed, not expenses?
- Rajeev Gupta:** Because capital employed in the last corresponding quarter you are talking, but if you are comparing to the March quarter, it will not jump because the capital employed on the balance sheet as I said, the retention money and the receivable is increasing when we are increasing our sales also. In the last year, the sales have gone up so the receivables cycle has gone up.
- Ankit Jain:** But then retention money should come under turnkey project capital employed?
- Anil Gupta:** As compared to the March if you compare, so you will not see that kind of growth like in March capital employed was 316 and it went to 369 only basically it depends on the balance sheet, because receivables, creditors and borrowing.
- Ankit Jain:** Thank you.
- Moderator:** Thank you. The next question is from the line of Utsav Mehta of Ambit Capital. Please go ahead.
- Utsav Mehta:** Thanks for the followup. This is just one very brief question. You mentioned retention money but do not these projects also have advances?

- Rajeev Gupta:** We got some advances also 5% or 10% as the case may be.
- Utsav Mehta:** Should that net out working capital cycle?
- Rajeev Gupta:** It will net out, but again the 5% will be recovered in the adjusted when we are billing.
- Utsav Mehta:** Thank you.
- Moderator:** Thank you. The next question is from the line of Kaustav Bubna of SKS Fincap. Please go ahead.
- Kaustav Bubna:** Could you just quickly brief also, how are you aim to achieve this 15% annual revenue growth rate?
- Anil Gupta:** We have the sufficient orders with us.
- Kaustav Bubna:** How much will you EHV segment total revenue be approximately per year?
- Anil Gupta:** As a whole LT, HT and dealer distribution division, our sale is growing. Export sale is increasing. Our EPC sale is increasing. So as a whole in all the products our sale is increasing. We have sufficient order position. So, we are hopeful to achieve 15% growth.
- Kaustav Bubna:** Is this uptick coming post quarter two towards the second half of the year?
- Anil Gupta:** Last year you see we have also achieved this kind growth. In the cable industry first quarter is lower then up second quarter, then third quarter and fourth quarter. Our sales will pick in each and every coming quarters. Now we have the TV interview also, so we can finish within two minutes time.
- Moderator:** So we will just have one last question that is from the line of Harshad Kapadia of Elara Capital. Please go ahead.
- Harshad Kapadia:** Thank you for taking my question Sir. I just have one question will you be able to give us sales mix in terms of retail and institutional in this first quarter?
- Rajeev Gupta:** In the first quarter, the retail sale is 175 Crores and export sale is 85 Crores and rest of the institutional sale that is 301 Crores.
- Harshad Kapadia:** Thank you.
- Moderator:** Thank you. Sir that was the last question would you like to add a few closing comments?

Anil Gupta: Thank you very much for all the participants.

Moderator: Thank you. Ladies and gentlemen on behalf of Anand Rathi Shares and Stock Brokers that concludes this conference. Thank you for joining us. You may now disconnect your lines.