



“KEI Industries Limited Q1 Financial Year 2015
Earnings Conference Call”

August 08, 2014



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Moderator: Ladies and gentlemen, good day and welcome to the KEI Industries Earnings conference call, hosted by Dolat Capital Markets Private Limited. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing "*" followed by "0" on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Priyank Chandra. Thank you and over to you Sir!

Priyank Chandra: Thank you Vivian. Good evening ladies and gentlemen, we welcome you all on the Earnings Conference Call of KEI Industries. From the management side, we have Mr. Anil Gupta, CMD and Mr. Rajeev, Executive Director. Sir I hand over to the call to you for the initial comments and then we can move to the Q&A session Sir.

Anil Gupta: Good evening gentlemen. I am Anil Gupta. We have just concluded our board meetings having declared the first quarter results. We had achieved a gross sale for 418 Crores and the net sale of 393 Crores in the first quarter from April to June.

EBITDA earned his 38.46 Crores and profit after tax is 3.54 Crores. In the present quarter, as on date the company's order book provision is around 1200 Crores, out of which 150 Crores is related to extra high voltage cable and 500 Crores relates to EPC segment and another 550 to 600 Crores is cables from the projects. There is a growth as compared to first quarter of last year we expect better growth in the coming quarters vis-à-vis the earlier years in the financial year. I now leave the forum to you for putting specific questions. Thank you.

Moderator: Thank you Sir. Ladies and gentlemen we will now begin the question and answer session. The first question is from the line of Ankit Babel from Subhkam Ventures. Please go ahead.

Ankit Babel: Good evening Sir. Ankit here. Congratulations for decent set of numbers. Sir I have few queries. The first is that segmental margins in your cable segment have reduced on a YOY basis. Can you just throw some light what was the reason, the profit has come down from 40 Crores to 37 Crores at segmental intervals in spite of a growth in the topline?

Rajeev Gupta: Because the turnover is not up to that which we were expecting so because of the low turnover the profit is low in the cable segment.

Ankit Babel: But it has actually degrown, so was there a miss in the gross margin level or it was just a negative operating leverage?

Rajeev Gupta: No it is basically because of fixed expenditures. Because fixed expenditure has increased in terms of sundry etc.

Ankit Babel: Then in another segment which is turnkey projects your revenue has gone up by around two and half times?



- Rajeev Gupta:** Because the turnover has increased in their segments on 22 Crores to 52 Crores. The fixed expenditure was observed early and that is why the profit is more there.
- Ankit Babel:** So in this segment is it because of execution of contracts in the EHV segment or it is some other reasons?
- Anil Gupta:** Both.
- Ankit Babel:** Because the margins are as high as 14.5%, so I was just thinking that was it on account of EHV?
- Anil Gupta:** It is both.
- Ankit Babel:** So how much would be EHV and if you could say it is bifurcate it?
- Anil Gupta:** EHV is around 25% of it and balance is EPC.
- Ankit Babel:** EPC, which is the HT and LT cables?
- Anil Gupta:** Yes.
- Ankit Babel:** Sir, what is your current debt on books as of now?
- Anil Gupta:** Current debt?
- Ankit Babel:** Yes.
- Rajeev Gupta:** It is around 480 Crores.
- Ankit Babel:** 480 Crores. So it has actually increased on a sequential basis, from fourth quarter to first quarter?
- Rajeev Gupta:** No almost, almost similar.
- Ankit Babel:** The reason why I am asking this question is that your interest cost has actually reduced on a sequential basis?
- Rajeev Gupta:** No it does cost as compared to March, because the utilization as compared to March is going down?
- Ankit Babel:** I am sorry I did not get that.
- Anil Gupta:** The interest cost if you compare it with the first quarter of last year and this quarter is almost same. From March, it has come down because of the lower utilization because of the lower turnover, because most of the debt is our physical debt.



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- Ankit Babel:** Sir you have been guiding for around 45 Crores to 50 Crores of profit in this year. Now you have done?
- Rajeev Gupta:** 40 Crores we have actually revised. We will complete the figure by earning 40 Crores profit after tax.
- Ankit Babel:** 40 Crores right. So 3.5 Crores you have done this quarter, so the asking rate has actually increased for the remaining three quarters, so what will lead to that high profitability in the second half?
- Rajeev Gupta:** Mainly will be the turnover because we have projected the 22 Crores and 200 Crores gross turnover and we have achieved almost 400 Crores, so 1700 Crores turnover there. We have to achieve 1700 Crores.
- Anil Gupta:** We are expecting a substantial growth in turnover from this quarter itself from the second quarter.
- Ankit Babel:** What would lead that kind of high growth, I mean you have that kind of orders which you have received?
- Anil Gupta:** Yes, yes, a very good level of orders in hand and a very good inflow of new orders coming in.
- Ankit Babel:** You were expecting some good EHV orders in the month of August and September, so are they factored?
- Anil Gupta:** Yes, we have already have in hand 110 Crores worth of EHV cable orders, which we have accumulated during April to June and another 47 Crores of orders are expected where already price bids are opened and we are L1. Those orders are expected in August or September.
- Ankit Babel:** You said that your current order book is 1200 Crores and out of this how much is EHV, 166 Crores?
- Anil Gupta:** Out of this, 110 Crores is current and EPC is 500 Crores and HT/LT cables are 600 Crores. We are expecting around 47 Crores of new EHV orders may be in August because there we are already L1 lowest in the tenders opened.
- Ankit Babel:** So 110 Crores is the current order book in EHV and you expect 47 Crores more?
- Anil Gupta:** Based on the fact that we are L1. When they come then we will say that yes, we are.
- Ankit Babel:** Yes, I appreciate that. Sir last question is on your expectations on the interest cost. Now, last year it was around 110 Crores to 112 Crores what kind of growth are you expecting in this segment because it is not directly related to your debt because you pay?



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- Anil Gupta:** We are not expecting any growth in the interest cost. In fact it is likely to remain same, but on the increased turnover. Because we are not increasing our debt anymore and we are able to improve our utilization of inventory and the working capital better, so we do not anticipate increase in the interest cost.
- Ankit Babel:** Thank you so much Sir.
- Moderator:** Thank you. Participants to ask a question kindly press "*" followed by "1".
- Priyank Chandra:** Sir I just want to have like breakup of like what was the export revenue that you did this quarter and how is the movement in the retail segment? Can we see some traction there?
- Anil Gupta:** Retail turnover in this quarter has been 125 Crores. It is a significant improvement compared to last year, second quarter.
- Priyank Chandra:** Can you tell me what was the last year number?
- Anil Gupta:** What was the last year number?
- Rajeev Gupta:** 75 Crores.
- Anil Gupta:** For the whole year.
- Rajeev Gupta:** No for the quarter.
- Priyank Chandra:** See your thing it was 75 Crores last year and this year?
- Rajeev Gupta:** 450 Crores for the whole year.
- Anil Gupta:** First quarter was 75 Crores.
- Priyank Chandra:** You have done 125 Crores in this quarter.
- Anil Gupta:** Exports in this quarter are almost 27 Crores. They are less because some substantial orders could not be dispatched due to pre-dispatches dissatisfaction in June, which are already affected in July, so the export as we envisage will also grow in the coming quarters substantially.
- Priyank Chandra:** Sir you mentioned about your order book in the EHV segments, so has there been some more like EHV tenders which you are expecting and like if you can just share with us what is the total number of tenders which are expected to be in this year?
- Anil Gupta:** We anticipate approximate order booking of around 250 Crores in EHV cable segment in this financial year and at the moment approximately 200 Crores worth of bids are under evaluation and which are yet to be opened and I have said that 47 Crores worth of bids where the price bids



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are opened and we are already lowest, so we expect these orders to materialize either in the August or may be first week of September.

Priyank Chandra: What would be the total number if I remember there are three or four other players in the segment? Is it right Sir?

Anil Gupta: Correct.

Priyank Chandra: So like what is the total opportunity size we can see the industry size for this India?

Anil Gupta: Approximately 1500 Crores is the total at present size of extra high voltage cables. Another key for companies which are in this is Finolex J-Power which is a joint venture between J-Power of Japan and Finolex. Second is Universal Cables and another one is LS Cable of Korea.

Priyank Chandra: Thank you Sir.

Moderator: Thank you. The next question is from the line of Ankit Babel from Shubkam Ventures. Please go ahead.

Ankit Babel: Sir I have one followup on your project business. Now your turnover has increased from 22 Crores to 52 Crores, but your capital employed has actually not increased, so what is the reason for that?

Anil Gupta: Because the repayment of term loan.

Ankit Babel: Repayment of term loan.

Anil Gupta: Because the term loan comes in the capital employed.

Ankit Babel: Thank you Sir.

Moderator: Thank you. The next question is from the line of Sandeep Pandey from Aditya Birla Money. Please go ahead.

Sandeep Pandey: Sir, just couple of questions. Just wanted to know about the export number? I missed out. What is the export overall in the amount and what is the growth and how much is the ad spend in this quarter? What is the growth rate in the ad spend in the overall basis for the full financial year?

Rajeev Gupta: 27 Crores is the export figure for this quarter. Ad spend as a whole year basis we have only Rs.4 Crores to Rs.5 Crores.

Sandeep Pandey: What is the growth rate of that export number that you mentioned, 27 Crores?



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- Rajeev Gupta:** Export number for this quarter it has not grown because last year in the same quarter the turnover was close to 30 Crores because as early as our CMD has explained some orders because of the **(indiscernible) 15.11** clause.
- Anil Gupta:** Substantial orders could not be dispatched due to involvement of predescribed **(indiscernible) 15.17**, and otherwise the exports would have been the same what we did last year, but same could not be dispatched so that has already been affected in July, but that number is not there in the first quarter.
- Sandeep Pandey:** How much are you targeting the overall export numbers for this whole financial year?
- Anil Gupta:** Approximately 250 Crores.
- Sandeep Pandey:** Sir, how is the margin profile going forward? This time you have done 9.6 near about, how much, any target expectation for this quarter?
- Rajeev Gupta:** Average margin will be close to 10 to 10.5. High voltage there will be close to 15%.
- Sandeep Pandey:** Any comment on the domestic outlook business? The domestic business how it is growing and how the KEI share is being improving overall in the last couple of years or so?
- Anil Gupta:** Domestic business is showing a growth in this financial year. As already said that we have around 600 Crores worth of order booking from the HT and LT segment and because of our market spread, I feel that we will grow in the domestic business as well this year.
- Sandeep Pandey:** Any rough idea, the growth rate about the domestic?
- Anil Gupta:** We expect to grow by at least 20%.
- Sandeep Pandey:** Sir, my last question would be on depression. Is it at the same level, we can see going forward every quarter basis, because it has been increasing?
- Rajeev Gupta:** It will be the same only.
- Sandeep Pandey:** Roughly around 25 Crores annual basis.
- Anil Gupta:** Yes.
- Sandeep Pandey:** Thank you Sir.
- Moderator:** Thank you. The next question is from the line of Devang Mehta from Canara Robeco. Please go ahead.
- Devang Mehta:** Thank you. There is 480 Crores of debt that you mentioned. Can you break it into term debt and working capital?



- Rajeev Gupta:** Some debt is close to 150 Crores and balance is the working capital.
- Devang Mehta:** So that is more or less in line with 150 Crores FY 2015 end of term debt that we are expecting? Are we expecting anymore reduction in term debts by the end of FY 2015?
- Anil Gupta:** Because every quarter it will be reduced because of the quarterly repayment schedule is there.
- Devang Mehta:** In terms of exports you were having aggressive plans in Australia and Kazakhstan CIS countries. So what is the status you were looking at almost doubling, but right now we have torn down a bit so can you highlight what is exactly happening in exports?
- Anil Gupta:** These two countries are at the moment stagnant. Growth is a little slow, but as I said we definitely will grow in exports significantly, but there maybe some uncertainties but overall numbers we will be able to maintain, because sometimes it happens that the numbers from a particular country do not fall in like as we expect, but we are definitely making up that number from the other sources.
- Devang Mehta:** In terms of margins you mentioned that 10.5 for cables?
- Anil Gupta:** Around 10% for the cables and around 15% from the extra high voltage cables.
- Devang Mehta:** All this extra high voltage we are there till 220 KVA only, right?
- Anil Gupta:** Yes.
- Devang Mehta:** This 1500 Crores market that you mentioned is 220 KVA?
- Anil Gupta:** Correct.
- Devang Mehta:** Any plans to up this capacity going forward maybe two year down the line or anything like that?
- Anil Gupta:** Definitely we will increase the capacities, but this year we have not envisaged any capital expenditure but we will take a call on the expansion by this financial year.
- Devang Mehta:** What could this year capex, FY 2015?
- Anil Gupta:** Debt will be normal capex of around 12 Crores to 15 Crores which normally happens for maintenance or debottlenecking of capacities.
- Devang Mehta:** That is it from my side. Thank you.
- Moderator:** Thank you. We have a follow on question from the line of Ankit Babel from Subhkam Ventures. Please go ahead.



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- Ankit Babel:** Sir, in the housing cable segment you were expecting a turnover to double this year, what was the performance in the Q1 pure housing cables, housing wires?
- Anil Gupta:** 74 Crores in the Q1.
- Ankit Babel:** Versus.
- Anil Gupta:** 74 Crores.
- Ankit Babel:** Last year how much it was?
- Anil Gupta:** Last year it was 65 Crores.
- Ankit Babel:** So, it is a growth of around 15% but we were expecting a 100% growth in this.
- Anil Gupta:** I do not think we said that 100%.
- Ankit Babel:** I mean the three segments, one was exports, one was housing and one was this EHV in these three?
- Anil Gupta:** Housing from 250 to close to 400 Crores we are saying. So in the second half it will grow further because more and more dealer distributor network will be created and the area where we were not there earlier, in that area the dealer and our sales will be there.
- Ankit Babel:** So, 250 Crores will go to 450 Crores?
- Anil Gupta:** 400 Crores.
- Ankit Babel:** Exports you said that it will go to 250 Crores?
- Anil Gupta:** 250 Crores.
- Ankit Babel:** From 200 last year?
- Anil Gupta:** Last year it was around 197 Crores.
- Ankit Babel:** 197 Crores going to 250 Crores?
- Anil Gupta:** Our internal target is to take it to the level of 300 Crores, which we said to you earlier in earlier conference. We are still hopeful of achieving it, but since because the first year numbers were a little less that is why I am little toning it down.
- Ankit Babel:** EHV last year if I am not wrong was around 20 Crores to 25 Crores?
- Anil Gupta:** Last year it was only 15 Crores. This year we are expecting a sale of around 120 Crores.



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- Ankit Babel:** This year you are expecting 120 Crores.
- Anil Gupta:** 120 Crores sales though we will be having order close to 200 Crores, but the execution of EHV cable will be up to only 120 Crores.
- Ankit Babel:** So, is this the reason that now since you are expecting less revenue you have toned down your profit estimation from 50 Crores to 40 Crores?
- Anil Gupta:** 40 Crores we have already told to everybody in the month of May first week.
- Ankit Babel:** Thank you so much.
- Moderator:** Thank you. There are no further questions.
- Priyank Chandra:** We thank you all for participating in the conference call and hope it was fruitful for all of you. We specially thank Mr. Anil Gupta and Mr. Rajeev Gupta for taking out time for this call. Thanks a lot Sir.
- Anil Gupta:** Thank you everybody.
- Moderator:** Thank you. Ladies and gentlemen on behalf of Dolat Capital Markets Private Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines. Thank you.