



“KEI Industries Limited Q4 FY2017  
Earnings Conference Call”

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**Moderator:** Ladies and gentlemen, good day and welcome to the KEI Industries Q4 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 Share and Stockbrokers. Thank you and over to you Sir!

**Girish Solanki:** Thank you. Good afternoon to all. Today we are hosting the 4Q FY2017 earnings call hosted for KEI Industries. We will be having Mr. Anil Gupta, who is the Chairman and Managing Director at KEI Industries. We also have Mr. Rajeev Gupta, who is the CFO. We will hand it over to Mr. Anil Gupta for his opening remarks. Over to you Sir.

**Anil Gupta:** Thank you very much. Welcome to all the participants and our esteemed investors. I am Anil Gupta CMD of KEI Industries Limited. I will give a brief of the performance of this financial year as well as the Q4.

During the fourth quarter of FY2017 KEI has achieved a net sales of 746 Crores with EBITDA margin of 10.84% and a profit after tax of 31.62 Crores, which is approximately 4.24% of our sales against the same quarter in previous year our net sales was 636 Crores with EBITDA of around 11% and a PAT of 20.29 Crores, which was 3.19% of the sales.

During Q4 growth in net sales is approximately 17% over the corresponding last year fourth quarter. During the 12 month period of 2016-2017 the company has achieved a net sales of 2669 Crores with an EBITDA of 10.67% and a profit after tax of 98.63 Crores which is approximately 3.7% against the same previous year.

In the previous year 2015-2016 net sales was 2325 Crores and EBITDA of 10.65%. So the net profit after tax in 2015-2016 was 62.2 Crores which was approximately 2.67% of the sales. So we have grown our net profit after tax by approximately 1% on sales during 2016-2017.

During financial year 2016-2017 growth in net sales is approximately 15% over the corresponding last year and EBITDA has also grown by 15%. The profit after tax margin has improved to 3.7% from 2.67% earlier during the financial year 2016-2017.

During the full year 2016-2017 our export sales has grown by 96%, net sales of exports of FY2016-2017 is 375 Crores against last year same period of Rs.191 Crores.

During the financial year 2017 our sales through distribution network in volume terms has grown by 15% and in terms of value has grown by around 13%. So the net sales what we have achieved through dealer retail network is 813 Crores as compared to 721 Crores last year during the same period.

The working dealers of the company have grown to approximately 1147 dealers in the 2016-2017. During FY2016-2017 our EPC division achievement is 424 Crores. This is besides the cables supplied by our factories for these projects against last year same period the EPC sales was 323 Crores. So the growth in EPC is approximately 31%.

During the FY2016-2017 our cable division sales has grown by 12% in value terms but in volume terms the growth is approximately 15% over last year. Our LT and HT cable sales have grown in terms of value by 15% and house wires has increased by 13.5%.

As a guidance we are expected to grow by around 15% in FY2017-2018 as well. As on today the pending orders are total 2783 Crores out of which total EPC is approximately 2000 Crores and EHV cables around 200 Crores to balance cables around 600 Crores which also includes export orders of 128 Crores.

During the financial year 2016-2017 the financial charges incurred is 123 Crores approximately as compared to 127 Crores in FY2015-2016 but in terms of finance cost, the finance cost has come to 4.61% of the net sales as compared to 5.46% of the net sales in 2015-2016. The reduction in finance cost by around 0.85% on overall sales during 2016-2017.

Now just a general outlook of the market, we are quite bullish about our markets because our strong presence in all the segments in power, distribution, transmission, wind, solar and other infrastructure projects so we see a good growth in especially power and transmission segment distribution and transmission segment in this financial year as well due to the increased activities in the urban and rural electrification schemes and also the capex done by various discoms throughout the country under IPDS and DDU schemes.

Besides that a lot of capex is there by the companies who are putting up solar power as well as wind projects for evacuation of the power from the power generation. So these two segments are going to give good growth in specialty cables, which are used in their generation, as well as power evacuation, which consumes a lot of LT and HT cables.

We also see a good growth in the cables demand from the metro projects coming up in the various parts of the country and a lot of new projects are going to take off during the financial year.

We are confident that we will be able to maintain our exports and grow it somewhat although it cannot grow by same proportions as we have been able to do in 2016-2017 but we will be able to maintain our exports and we will be able to grow it further.

With this I think I would give it to Mr. Rajeev Gupta, he may brief you on the financial results.

**Rajeev Gupta:**

Thank you, Anil Ji. In this financial year please note the numbers of the product wise sales as we already given to all you. In this financial year our domestic sales was 1481 Crores and the retail sale was 813 Crores and export sale was 375 Crores. So the total sale is 2669 Crores as against product wise sale EBITDA of in this financial year we sold around LT power cable, 1232 Crores as against last year 964 Crores.

In the current financial year HT Power we sold 380 Crores as against 435 last year, extra high voltage we sold 101 Crores as against 134 Crores and house wire we sold 428 Crores as against 377 Crores. Stainless steel wire sale was 104 Crores as against 93 Crores and our EPC sale was 424 Crores as against 323 Crores.

In the current financial year we have booked one exchange gain actually for 6 Crores in this fourth quarter which was mainly when we import the material the payment due after two to two and a half months by the time the exchange again was there, but the corresponding sale was booked in the export sale. So the sales realization was also less to that extent but because of the accounting standards, exchange gain we had to book in the other income. So that is why the other income has increased but it is more or less part of the operating profits. If we calculate the operating profits plus this exchange gain then it will be comparable with the last year period.

Thank you. If you have any questions we will be pleased to answer you all.

**Moderator:**

Thank you. Ladies and gentlemen, we will now begin with the question and answer session. We have the first question from the line of Siddesh Mhatre from Dimensional Securities. Please go ahead.

**Siddesh Mhatre:**

Good afternoon. Can you just tell me the product sales again? I just missed it out.

**Rajeev Gupta:**

LT Power Cable sale was 1232 Crores for the whole year as against last 964 Crores. HT Power Cable sales was 380 Crores as against 435 Crores. Extra high voltage power cable sales was 101 Crores as against 134 Crores. House wire sale was 428 Crores as against last year 377 Crores. Stainless steel wire sale was 104 Crores as against 93 Crores. EPC sale

other than cables was 424 Crores current year, and last year 323 Crores. So the total of this 2669 Crores current year and last year is 2323 Crores.

**Siddesh Mhatre:** Do you have volumes also?

**Rajeev Gupta:** Volumes we do not have.

**Siddesh Mhatre:** Can you tell me why sales growth is very high but we are not seeing the margin front. What is the reason?

**Rajeev Gupta:** Margin last year also was 10.65% and this year also EBITDA margin is 10.67%.

**Siddesh Mhatre:** But the sales have grown by around 14% to 15%, right. So we thought the margins would expand somewhere near 11% to 12%. Do you have a pass through?

**Rajeev Gupta:** As Anil Ji had said in the concall that if the institutional sale will increase there the capex demand is going up and it will boost then that margin which has now from 8.5% to already it has come to 9% so this will further improve because right now our margin profile like this is mainly in all the retail sale is close to 11% and in the export sale is also close to 11% but in extra high voltage power cable margin is close to 15% but in the financial year you can see the extra high power cable sale was low because the expansion was going on in the plant. So in this current financial year this extra high voltage sale will be more than the double sale. In the EPC division including our cable portion the total margin profile will be close to 12% plus.

**Siddesh Mhatre:** Any margin guidance you would like to give for FY2018?

**Rajeev Gupta:** Margin, right now we can guide only that we will surpass the adjusting EBITDA margin.

**Siddesh Mhatre:** Thank you and wish you all the best.

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

**Tarang Bhanushali:** Sir, you gave a guidance of just 200 Crores on the EHV side whereas it will be that the total capacity is if we produce at full then we might be able to garner around 350 to 400 Crores. So is the outlook not that great on the EHV side or are we guiding on the lower side for this?

**Anil Gupta:** I have not given any guidance of 200 Crores. I said that current order book position is 200 Crores.

- Tarang Bhanushali:** Sir, what are we expecting from the EHV side somewhere around 250 to 300 Crores?
- Anil Gupta:** We are expecting around 300 Crores in EHV this financial year.
- Tarang Bhanushali:** Sir, have we got the approvals for the 400 kV EHV segment?
- Anil Gupta:** Not yet. It should be through by the end of this year.
- Tarang Bhanushali:** Sir on the product side we have seen strong growth in the LT power cable segment, will we continue to see this or there was one-off order and then again the product would see a lower growth in the next year?
- Anil Gupta:** We will continue to see this growth in LT and HT. All segments of the cables.
- Tarang Bhanushali:** HT we have seen a decline of 12% on a YOY basis. So will we see growth over there?
- Anil Gupta:** We will see growth over there also. Actually our production in our Chopanki Plant had suffered in the last financial year so that affected EHV production as well as HT production also.
- Tarang Bhanushali:** Okay. Sir on the finance cost side, do we expect our finance cost to come down or it would be largely flat because of the rising working capital requirements?
- Rajeev Gupta:** Our thinking is that finance costs will not grow on the increased sales. We are trying to bring down the finance costs further.
- Tarang Bhanushali:** So are we looking at some rerating for the company or are we seeing the rates coming down.
- Rajeev Gupta:** Interest rate has already come down that is why this interest cost is flat and in near future also on the increased working capital as our CMD said that we will be able to maintain either flat or it will go further down from here and accordingly our rating in this financial year will also further improve we are expecting that.
- Tarang Bhanushali:** Thanks a lot Sir.
- Moderator:** Thank you. The next question is from the line of Manoj Gori from Equirus Securities. Please go ahead.
- Manoj Gori:** Thank you. Good afternoon and congratulations for the good set of numbers. Sir, I just wanted to touch something on the balance sheet front, can you throw some light our

receivables have increased significantly over FY2016. I just wanted to understand on the balance sheet like few items. If I look at the working capital, it has really increased significantly because of the increase in accounts receivables and inventory and also our payables if you look at the payables like those have again come down so just wanted to understand.

**Rajeev Gupta:** As earlier we had guided reaching the level of EPC sale of close to 900 Crores to 1000 Crores that kind of retention money and the receivables will go up so in this financial year that receivables includes the retention part, so whatever is the increased receivable is there partly because of the retention money of EPC and partly increased sale of cable division in the month of February and March which will be payable in the month of April, May, June, so because of that the receivables is going up.

**Manoj Gori:** Sir in going forward in FY2018 should it normalize or now if you look at...?

**Rajeev Gupta:** It will be in the same level because in the first week of April only on 3<sup>rd</sup>, 4<sup>th</sup>, 5<sup>th</sup> April we got from EPC division close to Rs.50 Crores because in UP there was election.

**Manoj Gori:** So there might be some delays because of that?

**Rajeev Gupta:** Yes.

**Manoj Gori:** Thanks a lot Sir. That was the only question.

**Moderator:** Thank you. The next question is from the line of Kirti Jain from Sundaram Mutual Fund. Please go ahead.

**Madan Gopal:** Good afternoon Sir. Sir, first on the EPC business you seem to be having Rs.2700 Crores if I exclude EHV you can say or what would be EPC's order book alone?

**Rajeev Gupta:** EPC order book is close to 2000 Crores out of which Rs.1817 Crores is from EPC and Rs.177 Crores is service station business.

**Madan Gopal:** How has been the order intake in the last quarter in this business?

**Rajeev Gupta:** Sir, in EPC order intake is basically whenever it comes it comes 200 to 300 Crores. So order is not the problem. Problem is execution. So we are taking the order on that basis whatever we can execute so we are booking on that basis.

**Manoj Gori:** Are we seeing any slowdown in execution on the ground or things are fine there?

- Rajeev Gupta:** Things are fine and things are improving now because after the BJP government you must be listening a lot of news from UP that they are...
- Moderator:** Thank you. The next question is from the line of Varun Agarwal from BOI Axa. Please go ahead.
- Varun Agarwal:** Sir, you explained about the EPC business execution being slow because of the rupee also wanted to know about your future growth projections for EPC business how do you think the order outlook is or the order intake in EPC in the margin profile? How is in EPC business particularly?
- Rajeev Gupta:** Can you repeat the question please.
- Deepak Agarwal:** I will repeat my question. Basically on your EPC business you explained the execution in the last couple of quarters was owing to demonetization and elections in UP. So going forward what is the execution guidance in EPC business, your order outlook and your margin guidance?
- Anil Gupta:** Now the execution is pretty much on the track and it is going as per the schedule, and we will see a strong execution growth in the EPC sales in this financial year. Last year due to elections in UP lot of funds were not released by central agencies to UP due to which a lot of payments were delayed from PFC and REC. So now they are releasing the funds very fast to UP because there is a complete cooperation between the central and state government.
- Varun Agarwal:** In terms of margin guidance how is your margin guidance?
- Rajeev Gupta:** Our margin guidance on EPC EBITDA level is close to around 12 to 12.5%.
- Varun Agarwal:** So basically the rise in capital employed in EPC business was more due to the funds now being released by the state government?
- Rajeev Gupta:** By the central funding agencies.
- Varun Agarwal:** In cable business as you explained is due to that will normalize in a couple of months, the rise capital employed?
- Rajeev Gupta:** In cable business our debtors has not grown, because you may see it higher because you know very much higher level of sales during March quarter, so in the fourth quarter our sales has grown by around 23% in cables.

- Varun Agarwal:** Last question on EHV side. In EHV side how do you think the orders from SEBs are or how do you foresee the overall order outlook from SEBs?
- Anil Gupta:** Overall outlook on EHV side is good. So we are seeing a good incoming in the EHV orders from the SEBs and we will definitely will do close to around 275 to 300 Crores of EHV sales in this financial year.
- Varun Agarwal:** Sir, one last question from my side. Another impact on your raw material cost from the copper do we see any impact going forward due to change in copper prices or how it will move?
- Anil Gupta:** We are not at all impacted by the copper prices because we are always having two to two and a half months inventory or incoming copper from imports where pricing is already fixed and normally the cable order booking is not more than three months. We are executing most of the orders within three months. So there is a natural hedge between the inventory and the orders booked.
- Varun Agarwal:** Thanks a lot.
- Moderator:** Thank you. The next question is from the line of Deepak Agarwal from Elara Capital. Please go ahead.
- Deepak Agarwal:** Sir, I have a few questions. First is can you help us understand what is the order inflow for the full year FY2017 and how do we expect the growth in order inflow for FY2018 in each businesses?
- Moderator:** Thank you. We also have the line from Mr. Rajiv Gupta connected now. We will take the next question. The next question is from the line of Deepak Agarwal from Elara Capital. Please go ahead.
- Deepak Agarwal:** Hi few questions first is can you help us understand what is the order inflow for the full year FY2017 and how do we expect the growth in order inflow for FY2018 from each businesses.
- Anil Gupta:** Order inflow during last year 2016-2017 was I think all the pending orders at the movement which we are having are have come in 2016-2017 only and which are now under execution, so last year order inflow had been to the extent of around 2000 Crores in EPC and this year order inflow I expect will be achieving close to around 1500 Crores because we are more focused on execution instead of taking further orders to maintain because we do not want in

EPC execution is the key we want to first ensure better execution then keep on taking the new ones.

**Deepak Agarwal:** For this EPC orders of 18, 17 Crores which you mentioned now first is what is the state wise it is still UP almost 75%, 80% of this orders?

**Anil Gupta:** Yes it is 75% is UP and rest of the orders is from Goa and Jammu and Kashmir and Himachal.

**Deepak Agarwal:** The next year that you are expecting 1500 is that again see a similar high concentration from UP?

**Anil Gupta:** No we are bidding in all the states and we are trying to improve our spread of the EPC order across India?

**Deepak Agarwal:** What could be the approximate timeframe for this 1800 Crores because you see today we are at about 425 Crores EPC topline so next two years if it is fair enough to say this enter next two years it will get executed?

**Anil Gupta:** The EPC topline is not 424 there is 424 plus the cable is almost 180 Crores.

**Deepak Agarwal:** So this 1817 includes the cable portion also?

**Anil Gupta:** Yes, that cable portion of these EPC projects.

**Anil Gupta:** Yes cable generally you used to mention is about 25%.

**Anil Gupta:** See if we see the total EPC sales including cables we have done close to 650 Crores last year.

**Deepak Agarwal:** And how much do you expect for this basically I want to know that the timeline for this execution of this 1800 Crores?

**Anil Gupta:** Yes this 1800 Crores will be executed in this current financial year and the next financial year so out of which close to 1000 Crores or maybe 1100 Crores will be executed in the current financial year and balance will be in the next financial year because all the orders are for 24 months.

**Deepak Agarwal:** Next thing is now in terms of the house wire sales which we ended the year by about 428 Crores now this is if I see the last three four years it is still around 16% to 17% of our overall business, now this is the one which we have been highlighting in the earlier concalls

also that which is we want to increase it to 35%, 40% so if there is such a strong growth in dealer network why had we not seen the growth?

**Anil Gupta:** 30% we are guiding the dealer sales and through dealer we are selling low tension power cable as well as the house wire. As we said that the total dealer sale was 813 Crores out of which the house wire sales is 428 Crores so the balance is the LT Power Cable sales so we are guiding 35%, 40% sales through the dealer market for all the products.

**Deepak Agarwal:** So combining the two what you are referring actually now.

**Anil Gupta:** Yes.

**Deepak Agarwal:** My last question is on the balance sheet now we have seen the short-term debt they shoot up if you see on a year-to-year basis it is almost double so any specific reason for that?

**Anil Gupta:** Actually the short-term debt includes the bad credit which is practically the part of the creditors, if I purchase materials from Industries locally and then it would go to the creditor, but when we are importing the goods we are taking the bad credit to avail the reduced cost of interest so for that purpose the buyer credit as per accounting norm will be included in the bank borrowing, so last year the bad credit was 51 Crores this year is 140 Crores so increase 90 Crores is due to that actually.

**Deepak Agarwal:** Sir the usual breakup that you give of the interest expense for the full year, can you give this for FY2017 how much is actually ended?

**Anil Gupta:** Yes.

**Deepak Agarwal:** Please you can note down the number.

**Rajeev Gupta:** Term loan interest in the current financial year is 22.63 Crores as compared 23.41 Crores, working capital interest is closer to 42 Crores as compared last year 45 Crores. The LT interest that is 20 Crores as compared to 23 Crores and interest others that is 8.5 Crores as compared last year 10.26 Crores. This interest others is basically the interest on bill discounts of the supplier and the interest on the supplier advance then bank charges on LC the current financial year is 7.3 Crores last year it was 8.7 Crores. The bank charges on bank guarantee the current year is 15.9 Crores because it is 15.09 Crores as compared last year 9.26 Crores and the other playing charges that is basically for second fee to the bank current year is 7.2 Crores and last year is 6.9 Crores. So basically bank charges on bank guarantee increase because the current financial year we got the most of the order as our CMD has said for the EPC division so for that we need to open the bank guarantee to them

so for that the bank guarantee charge increase, including that also we were able to reduce our interest cost to level of 123 Crores as against 127 Crores last year.

**Deepak Agarwal:** So basically this is coming from the lower interest rate that you got the benefit.

**Rajeev Gupta:** Lower interest rate and lower utilization of working capital also. Because the short-term borrowing there you are seeing in the balance sheet it is the basically reflection of the high sale in the March quarter so because of that the debtor is high actually.

**Deepak Agarwal:** Since we are expecting order inflow to in FY2018 to come down this bank guarantee charges and all should actually also come down?

**Rajeev Gupta:** What Anil Ji was trying to say is that the focus is to EPC division to remain between 1000 to 1200 Crores turnover level so for that right now we are having the order so the additional orders in the coming financial in the second half we are expecting close to 600 to 800 Crores which was suffice for the 2018-2019 to maintain our sales level. That answers.

**Deepak Agarwal:** Sorry your voice is breaking Sir I missed in your last say one minute.

**Rajeev Gupta:** Is it now okay.

**Deepak Agarwal:** Yes now it is okay. So you mentioning about 600 to 800 Crores inflow second half?

**Rajeev Gupta:** Yes order inflow will be in the second half because we will be focusing on execution of the EPC contract close to 1000 to 1200 Crores per annum this year.

**Deepak Agarwal:** One clarification when you mentioned this guidance of 15% growth for FY2018 this you are talking in terms of value and not volume?

**Rajeev Gupta:** In terms of you can say volume, because we always focus on the volume actually, because right now the prices are maintained actually if you compare the last year LME prices and the current prices it is almost maintain actually.

**Deepak Agarwal:** Any price raise we have taken in April?

**Rajeev Gupta:** Price is almost similar to the last year level actually but as Anil Ji had said that we are working under natural hedge we are having the 2.5 months inventory and we are having three months order book position so in that way.

**Deepak Agarwal:** Okay Sir fine and all the best.

- Moderator:** Thank you. The next question is from the line of Rishikesh Bhagat from LIC Mutual Fund. Please go ahead.
- Rishikesh Bhagat:** Sir I just want one clarification regarding the note number 3 which mentions to your revenue recognition change that has happened in the EPC business.
- Rajeev Gupta:** Yes.
- Rishikesh Bhagat:** Just some more clarity on that?
- Rajeev Gupta:** Because earlier we were recognizing the profit then our project was on the completion stage of more than 25% so because of that what had happened the quarterly numbers were fluctuating actually so what we did is if the project is completed 10% then we will start recognizing the appropriate in that project.
- Rishikesh Bhagat:** Okay so just for smoothening effect that so that is the only reason?
- Rajeev Gupta:** Only reason.
- Rishikesh Bhagat:** Thank you.
- Moderator:** Thank you. The next question is from the line of Sachin Kasera from Lucky Investments. Please go ahead.
- Sachin Kasera:** Sir my question was regarding this guidance of 15%. The CMD mentioned that in case of EHV you are looking at a very robust growth. We could end up with around 250 to 300 Crores of revenue and you are also guiding for a very strong growth in EPC of almost of almost 40% to 50% if I just to the math it would mean that even if you grow at 8% to 10% cable so growth rate should be closer to 20% so wherein my missing here?
- Rajeev Gupta:** No your calculation is correct. I am very conservative in increasing growth guidance. I am pretty sure that we should be achieving 20% plus of the growth.
- Sachin Kasera:** Secondly Sir was this question regarding receivables was which the couple of people also previously ask can you give the breakup of almost of this receivables in because of the EPC division and how much it because of the cable business?
- Rajeev Gupta:** Actually if you see the receivable shows 739 Crores in the current financial year as against 567 Crores last year so increase sales, increase receivable is 172 Crores but if you see the current liability wherein it has not appeared here the 44 Crores advance from EPC supplier is also there so if you net that that it will be 695 Crores receivable actually so the increase

on the corresponding figure will be the 550 Crores after netting advance so the increased receivable is 145 Crores out of 144 Crores the EPC increase is 86 Crores and the cable increases 59 Crores.

**Sachin Kasera:** If we achieve this 60% to 70% growth next year of which 45% to 50% income from the EPC business EPC we are talking about almost 40%, 50% increase is there do we expect to see the receivables again next year to around 755 Crores this is maybe raise to 1000 Crores how does you see that number?

**Rajeev Gupta:** The receivable figure should be close to from here it should add at least 75 to 80 Crores but not more.

**Sachin Kasera:** The maximum we can look it is around 825 to 850 Crores next year growth.

**Rajeev Gupta:** Yes as I earlier have said once we will be able to maintain a sale of 900 Crores to 1000 Crores level so the debtor will be set as we had set in the cable division because by the time the old retention money will come.

**Sachin Kasera:** My second was regarding the order inflow on the EPC side you mentioned that this year you won around 1800 Crores of order. Next year regarding around 1500 Crores if you could just tell us what is the type of normally order win ratio we are achieving in the last one two years and what is the type of pipeline we are seeing for the next year which gives us the confidence that next year also we should be able to achieve around 1500 Crores of order inflows?

**Rajeev Gupta:** It depends on how much bidding we are doing so it is the bidding as well as is done according to our aim and goals and it is normally every month we are bidding a number of tenders and the success ratio in the tenders is always around 10% to 15% so some more we bid we keep getting success in the process.

**Sachin Kasera:** As of now in terms of the funnel and in terms of the order visibility the type of order which are coming in tender we do not see too much risk in terms of able to achieve the 1500 Crores type of order.

**Rajeev Gupta:** I do not see I do not foresee any risk in fact.

**Sachin Kasera:** Secondly Sir you mentioned that next year the EBITDA margin in EPC should close to around 12% did I get that right and what was the number for the current year EBITDA margin?

- Rajeev Gupta:** Current year it is also more than 12%.
- Sachin Kasera:** Because we can see the EBIT margin that is closer to around 10% the EBIT margin speaking to that your report it is around 10%?
- Rajeev Gupta:** But what we are saying is including the cable portion, our overall full year EBITDA margin is 10.65% on the net sales.
- Sachin Kasera:** I am talking that specifically to the EPC business if I see your segment reported, your reported EBIT margin of 66 Crores on 677 Crores of sales which comes to roughly less than 10% and next year you have guided for EBITDA margin of 12% EPC is my understanding correct first of all.
- Rajeev Gupta:** You are talking for the full year.
- Sachin Kasera:** For the full year yes.
- Rajeev Gupta:** So this is basically 10% after intersegment elimination.
- Sachin Kasera:** Yes. And instead of 10% we are looking at 12% next year 200 basis points improvement in EBITDA margin?
- Rajeev Gupta:** Yes.
- Sachin Kasera:** Even EHV, which is also a 52% margin, so overall the margins that we should improve next year because of higher margin in EPC as well as higher contribution from EHV itself for better margin.
- Anil Gupta:** Yes.
- Sachin Kasera:** Thank you very much Sir.
- Moderator:** Thank you. The next question is from the line of Tejas Shah from Laser Securities. Please go ahead.
- Tejas Shah:** I have just a couple of questions. One is the promoter has sold some shares in the last quarter any particular reason.
- Rajeev Gupta:** No there was any specific reason. It is just whatever he have sold and put his money to the company without any interest actually so if you are seeing the balance sheet wherein the long-term borrowing, yes the 25 Crores is from the CMB that is also included here.

- Tejas Shah:** Now in this quarter the Turnkey projects the quarter-on-quarter the sales are down any particular reason?
- Rajeev Gupta:** No sale is basically as you said due to the election in the UP the sale was down because of the election.
- Anil Gupta:** Because of the execution problems in the various towns we were not allowed to work means digging of roads was stopped by most of the municipalities and the local authorities.
- Tejas Shah:** Now your other income is going up what is the component of the other income?
- Rajeev Gupta:** As I said in this quarter the other income includes the exchange gain of Rs.6 Crores this exchange gain is basically it is a nature of operating income actually because whatever the material we had imported by the time the dollar rupee was in favor of us, but by the time the sale goes so accordingly the export sales has also reduced, but because of the accounting norms it has to show into the S&GA actually so debt has to be shown in the other income.
- Anil Gupta:** Means when we book our export order see we booked our export order with respect to Rs.66, Rs.67 to a dollar but when we shipped it due to a strengthening of rupees we shipped it at around Rs.64.5 or Rs.65 so whatever the gain has to be reported as per accounting standard in the imports but whatever loss we have incurred due to a lower dollar that has reduced the operating profit so if we balance it actually that the import whatever gain has come that is because of the export orders, so it is actually operating income.
- Tejas Shah:** Operating each other or there is a pure gain on this.
- Rajeev Gupta:** There is no any gain. It is not a pure gain. It is a in the sense it is a pure gain but it is a gain on the outstanding import payment. So generally if we purchase the material we make the payment after two and a half months by the time our export sale goes so the payment time and the export sale time is almost same so the export also relies the reduced number so the EBITDA export reported into the sales so but the exchange gain reported to the other income so that is why we are saying that it is a more kind of operating in nature.
- Tejas Shah:** Last quarter you had announced a tie up with the Switzerland or somewhere for some technological tie-up so what is the progress on that line?
- Anil Gupta:** That type we had a tie-up with Brook Cables since 2010 and initially it was up to 220KV cable and that product line has very well established now. Now 400KV we have now done a tie-up and the plant has been set it is completed it is producing now, but it is we are now in the process of getting the product initial product manufactured and it is being sent to in

some international laboratories for type testing and qualification testing which is since it is a very extra high voltage cable so it will take almost another six to eight months to get the type test report from the international labs. Till then the plant is well used for cables up to 220KV from medium voltage 33KV up to 220KV so the plant is fully utilized but 400KV production will start maybe from the next year, commercial production the trial productions has been done and the samples has been sent for product qualification and type testing to some international labs.

**Moderator:** Thank you. The next question is from the line of Manav Shah from Arjava Partners. Please go ahead.

**Manav Shah:** Thank you all my questions are answered. Thank you.

**Moderator:** Thank you. The next question is from the line of Ankush Mahajan from Edelweiss. Please go ahead.

**Ankush Mahajan:** Sir can you throw some light the ordering activity for under the scheme the IPDS and DDU the India is now and what about state transcoms they are spending Sir how is basically the ordering momentum would you throw some light on it?

**Anil Gupta:** Under IPDS scheme most of the states have come out with the tenders for Phase I and the some states have already placed orders last year like UP and many states are in now in the process of awarding the contracts tendering has been done and some have already placed order and some are in the process.

**Ankush Mahajan:** Can you quantify the order Sir what is the exact the total number of orders that are coming under these two schemes across India?

**Anil Gupta:** Under IPDS I think it the total ordering is close to 6000 Crores and in DDU scheme also around 4000 to 5000 so total 11000 Crores worth of orders has been placed under these two schemes.

**Ankush Mahajan:** This is per year opportunity?

**Anil Gupta:** Yes at the moment this is this year so once next plan is under making for the next year plan so that should start by end of this year second trade.

**Ankush Mahajan:** Sir how is the competition for these standards.

**Anil Gupta:** Competition is there in everywhere, but competition is relatively healthy.

- Ankush Mahajan:** So Sir these are the scheme basically these are funded by the central government?
- Anil Gupta:** Yes Power Finance Corporation and REC.
- Ankush Mahajan:** If these are executed by the state governments?
- Anil Gupta:** Yes.
- Ankush Mahajan:** Sir what about the functioning of state Transcoms about their spending. I am not talking about Discoms the state Transcoms?
- Anil Gupta:** You mean to say transmission companies?
- Ankush Mahajan:** Yes state Transmission Companies.
- Anil Gupta:** These two schemes are not meant for state transmission company.
- Ankush Mahajan:** Agree and that is why I am saying Sir transmissions are doing an investment at their own so how do you see that investment?
- Anil Gupta:** That investment is going on very well because this transmission companies are always profit surplus because they never lose money because their job is only to transport the power from one so taking from generator to deliver to a Discom company so they take their billing charges so our extra high voltage cable is sold to for to Power Transmission Company and even the substation projects also are executed for the Transmission Companies.
- Ankush Mahajan:** Sir can you tell us that who are the states who are aggressive these are the transmission companies and what is the opportunity size?
- Anil Gupta:** The exact number, I do not have but there is a strong opportunity. I think every year transmission company spends close to 15000 to 20000 Crores every year and specially PowerGrid itself does a capex of 25000 Crores every year which is purely a central transmission utility and beside state transmission company do their capex separately.
- Ankush Mahajan:** Sir who are these state transmission companies that are aggressive at this time?
- Anil Gupta:** UP is aggressive; Karnataka is aggressive, Telangana, AP Transco and Andhra, Gujarat, Punjab, Delhi, Haryana. UP is definitely aggressive these are the main states, which are quite aggressive, and there is a lot of capex being done by central government in northeast of India through PowerGrid Corporation.

- Ankush Mahajan:** Thank you Sir. That is it from my side.
- Moderator:** Thank you. The next question is from the line of Dhruv Bhatia from AUM Advisors. Please go ahead.
- Dhruv Bhatia:** Sir I just wanted to know what is the capex plan for FY2018?
- Anil Gupta:** Actually for FY2018 there is no large capex plan maybe around 15 to 20 Crores of Capex may be there for debottlenecking of the plants so which will be from the internal resources but the major Capex plan we will draw after in the second half of this year.
- Dhruv Bhatia:** But what is the full, what is the current utilization level?
- Anil Gupta:** Current utilization level is close to last year it was 75% and they were to take it to the 90% level in this financial year.
- Dhruv Bhatia:** Sir this year we have sales in LT cables has degrown what is the reason behind that?
- Anil Gupta:** No LT cable sales has not degrown, EHV cable sales has degrew because we lost a few month of production in our Chopanki plant because of the installation of new lines.
- Dhruv Bhatia:** Sorry HT cables, not LT cables.
- Anil Gupta:** Yes, so our Chopanki plant suffered production losses for four to five months because of the installation of the new machinery and reconstruction and modification of the building.
- Dhruv Bhatia:** So the sales will resume I mean this would go back to the normal level.
- Anil Gupta:** Yes, the production has resumed in the end of December and it will be at the normal level this year.
- Dhruv Bhatia:** Sir and on the house wires front the competition has become aggressive in terms of advertisement spend so what is your plan? Do you expect what kind of growth do you expect?
- Anil Gupta:** We expect a growth of around 20% in the house wire segment this year and the growth can be even more if the real estate sector improve and grow faster because the house wire normally goes into the real estate sector.
- Dhruv Bhatia:** Thank you so much.

- Moderator:** Thank you. The next question is from the line of Deepak Agarwal from Elara Capital. Please go ahead.
- Deepak Agarwal:** Sir I just had one follow up question can you quantify how much could be railways as a segment contributing to the topline amongst various products?
- Rajeev Gupta:** See at the moment our contribution to railways is very small but to the metro projects we have a very large contribution. Our sales to metro projects every year is close to Rs.150 to Rs.200 in our cable segment in our institutional business.
- Deepak Agarwal:** Approximately 7%, 8% of the overall business is towards metro.
- Anil Gupta:** Yes and but in railway segment it is low but we are pushing ourselves into railway segment also we have initial approvals of first buying of railways in many cable but as the activity in the capex goes up in railways will be able to go there.
- Deepak Agarwal:** And this metro how much do you think can grow in FY2018?
- Anil Gupta:** Metro will be able to maintain this quantum because there is too many metros coming up in various cities in the guide so some or the other states metro will offer that opportunity.
- Deepak Agarwal:** Any of this just like metro renewable could be what proportion of your business?
- Anil Gupta:** That is very strong. The solar sales of cables to solar as well as wind power project are very strong.
- Deepak Agarwal:** And any number if you can give some approximate range.
- Anil Gupta:** At the moment I do not have exact numbers sorry fragmented number.
- Deepak Agarwal:** Okay no I will take it separately, thanks a lot. That is it.
- Moderator:** Thank you. The next question is from the line of Siddesh Mhatre from Dimensional Securities. Please go ahead.
- Siddesh Mhatre:** All my questions have been answered thank you.
- Moderator:** Thank you. The next question is from the line of Dhiral Shah from Asit C Mehta. Please go ahead.
- Dhiral Shah:** One is other income and other is other operating income so what is the other income Sir?

- Anil Gupta:** Other operating is basically like the scarp sale and other job work are there and export benefit.
- Dhiral Shah:** Sir any guidance for debt reduction plans?
- Anil Gupta:** Debt reduction almost every year 50 Crores of the term loan will be repaid.
- Dhiral Shah:** Sir for export market?
- Anil Gupta:** For export as Anil Ji has said that it will be maintain or it will grow by at least 10% to 12%.
- Dhiral Shah:** Sir you said your cost of interest is also coming down so what is your current cost of interest?
- Anil Gupta:** Current cost of interest actually earlier it was 11.45% but now most of the almost 80% of our working capital we are utilizing under working capital demand loan where the interest cost is from 9.05% to 9.6%.
- Dhiral Shah:** That is it from my side. Thank you.
- Moderator:** Thank you. The next question is from the line of Karan Rathod from B&K Securities. Please go ahead.
- Karan Rathod:** Sir I wanted to understand two things firstly in the EPC you mentioned that executable is 1000 Crores right Sir?
- Anil Gupta:** Yes.
- Karan Rathod:** So that is inclusive of cables right.
- Anil Gupta:** Yes.
- Karan Rathod:** So that we are expecting to move from 650 to 1000.
- Anil Gupta:** Yes.
- Karan Rathod:** In the cable, cables as a segment what overall blended growth are we expecting for FY2018?
- Anil Gupta:** In cable segment we will be expecting growth of around 10% to 12% and because you see we our objective is to feed our EPC project also from our cable factory.

- Karan Rathod:** Sir could you just help me with the breakup of this growth in LT and HT terms as well?
- Anil Gupta:** Because in LT, HT also we will grow by 13% to 15%.
- Karan Rathod:** Wherein those we will be able to grow by 13% to 15%.
- Anil Gupta:** Yes, but extra high voltage power cable it will be more than double.
- Karan Rathod:** It will be more than double right.
- Anil Gupta:** Yes.
- Karan Rathod:** So then effectively your cable should go at much higher right that is more than 10% to 12% right Sir, because you mentioned House Wire will grow at around 20%.
- Anil Gupta:** Yes growth will be close to 13% to 14% as a whole.
- Karan Rathod:** And this 13% to 14% is when you consider the cable that are used for and it maybe this segment as well?
- Anil Gupta:** Yes.
- Karan Rathod:** Thank you.
- Moderator:** Thank you. We have one last question. The last question is from the line of Akash Manghani from BOI AXA Investments. Please go ahead.
- Akash Manghani:** Most of the questions were answered. One question is on the retail segment what is the receivable cycle in retail and if you can quantify the return on capital that you make in the retail segment.
- Rajeev Gupta:** Actually in retail particularly the averagely one month is the receivable period it was 50% of the sales are under channel financing so the average receivable in the retail side is only one month.
- Akash Manghani:** How would it have increased in the last one-year receivable period?
- Rajeev Gupta:** Receivable in the retail side it is close to one month only.
- Akash Manghani:** Has it gone up in the last one year the number of days?

- Rajeev Gupta:** No.
- Akash Manghani:** Can it go down from this level in the next two three years and you bring down it?
- Rajeev Gupta:** Actually retail yes it may go down as our channel financing will be going up then it will be further going up it may reduce the 20 days time also retail sales.
- Akash Manghani:** What is the ROCE that you mix in this segment in retail?
- Rajeev Gupta:** Separate wise the ROCE is not there because our accounts are combined, but as a whole ROCE is for current financial year is 25% and ROE average is 23.5%.
- Akash Manghani:** I understand but you cannot bifurcate it, give me a broad number for retail to what is the number be.
- Rajeev Gupta:** No we are not calculated about the retailer separately. But I can say the working capital in our retail will be negative because the inventory is less creditor is three months receivable is one month at least one will be the negative working capital cycle for the retail because of the good cash flow over there.
- Akash Manghani:** The other question is on the export bit, your exports doubled in FY2017 so first of all what is the main reasons for that and you are guiding for only I think 10%, 12% growth in exports?
- Rajeev Gupta:** No because every year export cannot be doubled because this last three four years our team was working in the market so we have opened office in Singapore, Australia and Nigeria apart from the Abu Dhabi office and Singapore also. So all there the approval process were going on in it and it went well so we got the kind of order so now from here we will maintain this export sale from there.
- Akash Manghani:** So next year you are guiding for 10% to 12% growth.
- Rajeev Gupta:** Yes.
- Akash Manghani:** And what is the working capital cycle in exports?
- Rajeev Gupta:** Working capital cycle in export is also close to two and a half month.
- Akash Manghani:** That should be all from my side. Thanks.

**Moderator:** Thank you. That was the last question I would now like to hand the conference back to the management for any closing comments.

**Anil Gupta:** Thank you very much to all the participants and esteemed investor's. Thank you very much for sparing your time. Thank you.

**Moderator:** Thank you very much. On behalf of Anand Rathi Shares and Stock Brokers Limited that concludes this conference. Thank you for joining us ladies and gentlemen. You may now disconnect your lines.