"KEI Industries Limited Q2 FY2017 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the KEI Industries Q2 FY17 Earnings Conference Call, hosted by Anand Rathi Share & 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 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 from Anand Rathi Share & Stock Brokers. Thank you and over to you Sir!

Girish Solanki: Thanks. Good afternoon to all this is Girish Solanki from Anand Rathi. I will be hosting the second quarter FY2017 conference call. Today, we have with us Mr. Anil Gupta, who is the Chairman and Managing Director at KEI Industries and along with him we have Mr. Rajeev Gupta, who is the CFO. Over to you Mr. Anil Gupta!

Anil Gupta: Good afternoon to everybody, I am Anil Gupta.

Rajeev Gupta: Good afternoon, myself, Rajeev Gupta.

Anil Gupta: During the second quarter of this financial year we have achieved a net sales of 635 Crores with a operating profit of around 10.55% and which has resulted into a profit after tax of 22.9 Crores, which is approximately 3.61% against same quarter in the previous year. Net sales was Rs.611.5 Crores with an operating profit of around 9.67% in the same quarter, second quarter of the last year and against the last year PAT of 15.36 Crores, which was approximately 2.5% we have been able to improve the PAT margin by around 1% to 3.61% in the absolute number it is 22.9 Crores.

During the first half of this financial year the total net sales is 1195 Crores with the operating profit of 10.28% and the PAT of 3.33% approximately 39.83 Crores in the first half, first six months of this financial year.

In H1, the growth in terms of value is approximately 5.8% and in volume terms the growth is around 12% over corresponding period of last financial year. This is because in H1 in this financial year the copper prices are lower by approximately 10% compared to same period in the last financial year and aluminium prices are almost at par. The PAT margin has improved from 2.51% to 3.61% due to increase in the operating profit from 59 Crores to 66.93 Crores during the same period.

During the second quarter and as well as the half yearly of financial year 2016-2017 export sales achieved a growth of around 80%. So the net sales of export in H1 is 188 Crores against last year same period of 104 Crores. During the H1 of financial year 2016-2017 our retail sales through dealer network in terms of volume has shown a growth of 18.5% and in terms of value it has grown by approximately 12%. The net sales through dealer network in this H1 reached 381 Crores as compared to 340 Crores during the same period of last year. The total active working dealer of the company is approximately 1020; growth in number of dealers is 10% over last year.

During the H1 of this year our EPC division sale is 179 Crores apart from the cables, which we sold from our factory through our EPC division against last year same period it was 154 Crores. So growth is approximately 16.4% in EPC division.

During the H1 of 2016-2017 cable division sales has grown by 4.39% in value terms, but volume growth is approximately 12% over corresponding period of last year. Our LT and HT cable sales have grown in terms of value by 10.34% and house wire increased by 6.13%, but EHV sales has decreased due to production suffered in H1 because of expansion and installation of new plant and machinery at Chopanki.

We are quite hopeful to achieve 12% to 15% growth in revenue terms in this financial year. Our pending order as on date is approximately 2926 Crores out of which EPC is 2008 Crores and EHV Extra High Voltage Cables around 195 Crores. Domestic cables 672 Crores out of which export orders are 161 Crores.

New Capex done at Chopanki, new Extra High Voltage line will be operational by end of November; major amount of Capex has already been done. With the proposed Capex our capacity of EHV will increase by another 200 Crores approximately. The financial charges of the company H1 in this financial year is 58.47 Crores against 63.45 Crores in the corresponding period of the last financial year. In terms of percentage finance cost during H1 is 4.89% of net sales as compared to last year 5.61% showing a reduction of approximately 0.72% in this financial year compared to the corresponding period of the last year.

In terms of market, we have established such many new markets during this period, we have grown our exports to Australia, we have grown our exports to some of the African countries and we have also grown our exports to Middle East significantly. Our exports to Middle East are primarily to key countries Kuwait, Oman and Abu Dhabi and mainly to oil and gas utilities in these three countries. We are not selling anything in Middle East to the construction sector.

And the growth in business has mainly come from transmission and distribution segment. Secondly solar and wind, which has shown a significant growth during this period and also some of the metro projects, which are underway in the country. We expect these sectors to further grow in the time forward in this H2 as well as in the coming financial year.

With this I will request you to come back with any specific questions, which you may have. Thank you very much.

Moderator: Thank you very much. We will now begin with the question-and-answer session. We take the first question from the line of Ravi Swaminathan from Spark Capital. Please go ahead.

Ravi Swaminathan: Good afternoon sir, congrats for a good set of numbers. Sir just wanted to know we are seeing good demand from TND, solar, wind and metro, what would be the kind of nature of order, ticket size of orders that we would be seeing and what is the cable requirement intensity in these projects if you can give a broader understanding it will be really helpful.

Anil Gupta: In metros the estimated cable requirement is around 3% to 4% or maybe even 5% of the project cost, total overall project cost. So for where wind and solar are concerned there also the procurement of cable is to the tune of around 5%. In TND transmission and distribution, in distribution side it is much bigger it is approximately 15% to 20% of the investment and in transmission side also it is approximately 5% to 7% depending on the nature of things. So for as underground transmission of Extra High Voltage Cable is concerned that is a standalone investment, which is coming up in the larger cities because of the ROW issues in most of the towns in India and so there because Extra High Voltage cable is also a part of transmission segment of power.

Ravi Swaminathan: And these metro and solar wind orders as to what percentage of the overall your revenue in LT and HT cables would generally, they would be contributing now, any rough sense idea that is there.

Anil Gupta: Exact working has not been done, but I can send you this data later on.

Ravi Swaminathan: Sure sir and for EHV cables what is the pipeline that currently we are looking at now, what would be the ticket size of orders and what is the overall pipeline that we are looking at, has it increased substantially and from which phase are we seeing this.

Anil Gupta: The ticket size of the orders is between Rs.20 to Rs.50 Crores each order and at present I have said that our present order book is around 195 Crores and the pipeline at the moment is approximately 80 Crores, which is expected to be finalised in next two months and we are also bidding substantially now and a lot of new requirements are coming up and with the new Capex which has been done at Chopanki our capability level in the voltage grade will go up from 220KV to 400KV, but maturing 400KV cables business will take another six months to one year, because we have to undergo the type testing of the product and prequalification test of the product. So that will take little time, but the investments which had been done our split for making cables from right from 66KV to 400KV cables so the assets created are common for the entire voltage grade range of the Extra High Voltage Cable.

Ravi Swaminathan: And which are the states, which are taking efforts to implement EHV across there, major states.

Anil Gupta: Major states are Maharashtra, Gujarat, Tamil Nadu, Karnataka, Kerala, Andhra, Telengana, Delhi, Haryana, Punjab, Uttar Pradesh and even Orissa I have seen now especially in Bhubaneswar and Cuttack lot of underground 132KV transmission has been done underground and as well as West Bengal.

Ravi Swaminathan: And are you seeing an increasing trend that imports are slowly being shunned off and domestic players are given preference by these SEBs?

Anil Gupta: Yes.

Ravi Swaminathan: Okay that trend is going on.

Anil Gupta: Yes.

Ravi Swaminathan: Okay, and sir on numbers if you can give a broad breakup between LT, MH, HT, EHV, housing wires and EPC it will be good.

Rajeev Gupta: This quarter we did LT Cable around 293 Crores and HT cable is around 103 Crores, Extra High Voltage Cable is 16 Crores and House Wire, winding wire is 103 Crores. So total cable is 515 Crores, the Stainless Steel Wire is 25 Crores and EPC without cable is 95 Crores.

Ravi Swaminathan: And it would be really helpful Rajeev sir if you can give the corresponding number last quarter.

Rajeev Gupta: Corresponding number last year LT Cable was 238 Crores, HT Cable was 124 Crores, Extra High Voltage Power Cable was 41 Crores and House Wire sale was 93 Crores, Stainless Steel Wire sale was 25 Crores and EPC sale was 91 Crores. So total was 612 Crores.

Ravi Swaminathan: Okay sir, thanks a lot I will come back in the queue for more questions.

Moderator: Thank you. We take the next question from the line of Abhijeet Dakshikar from L&T Mutual Fund. Please go ahead.

Abhijeet Dakshikar: Sir the EHV segment is entirely order book driven right.

Anil Gupta: Yes.

Abhijeet Dakshikar: So when this expansion was happening and we said that our sales have gone down from 41 to 61 has there been any delay from our side or have we handled it in terms of taking lower orders which will rise now.

Anil Gupta: No, we had time we managed the orders in such a fashion that we are not delayed in terms of contractual deliveries and yes we had also gone slowly on taking orders especially from EPC contractors who want quicker deliveries.

Abhijeet Dakshikar: But no delays etc., right.

Anil Gupta: No.

Abhijeet Dakshikar: Second question is we have been saying that as our retail part grows working capital should ideally come down whereas what we see in this quarter September balance sheet is that our working capital has actually gone up. So is there any one-off in this.

Anil Gupta: Actually working capital increases mainly because of two or three reasons, the finished goods supply because of exports also the inventory of finished goods has increased, which has delivered in the first week of October actually and there was two more orders from Chopanki, this was a government order so they have also supplied in the month of October. So because of that around 50 Crores inventory was higher.

Abhijeet Dakshikar: So 50 Crores is what. But the debtors have actually risen.

Anil Gupta: No debtors has increased slightly because as we are aware that retention money in the EPC division comes only after the completion of the project so the two last contracts of Mathura and Bareilly is almost complete now. So their retention money is accumulated, which we will clear within the next four months' time.

Abhijeet Dakshikar: So probably March balance sheet will be much lower.

Anil Gupta: Yes March balance sheet the debtor will come down.

Abhijeet Dakshikar: Sir lastly on tax rate it is lower year-on-year for both the quarters, so how much can we?

Anil Gupta: Earlier the deferred tax was higher so now all the provision was made of the deferred tax only this year we had gone for expansion, but the Extra High Voltage Power Cable plant expansion was not capitalized in September, so because of that the deferred tax provision has gone down again so in the first quarter we did around 150 lakhs of provision, but in this month only 100 lakhs provision. So the total tax rate will be close to 26% to 28% on a whole year basis.

Abhijeet Dakshikar: And for next year also it will be similar or…

Anil Gupta: Next year it will be close to 28% to 30%.

Abhijeet Dakshikar: Okay, thank you sir that is all from my side.

Moderator: Thank you. We take the next question from the line of Kirti Jain from Sundaram Mutual Fund. Please go ahead.

Kirti Jain: Sir what would be the portion of the EPC retention money sir out of the total receivables.

Anil Gupta: Retention money will be close to Rs.70 Crores.

Kirti Jain: Okay, out of the 655 Crores right sir.

Anil Gupta: Yes.

Kirti Jain: Sir in our retail trade channel, which we operate in what is the kind of receivable we give in sir, how many days of credit we give sir.

Anil Gupta: In the retail the average credit period will be below one month, because we are utilizing the channel finance wherein we are getting our money within a day.

Kirti Jain: So it is less than one month of your retail sales.

Anil Gupta: Yes for retail sales.

Kirti Jain: So what is the net receivable you are targeting Sir?

Anil Gupta: Our average receivable cycle on a balance sheet basis year-on-year basis is close to three months' time, so sometimes it gets to 2.8 months, sometimes it gets to 3.1 months.

Kirti Jain: Sir as the copper prices move and what kind of volatility in the earnings due to say inventory loss or gain component you see sir.

Anil Gupta: No as we have earlier said that we are under our natural hedge because we are having the three months inventory in our factory and we are having order book position of three to four months and we are buying almost on a monthly LME average. So neither we are gaining anything neither we are losing much.

Kirti Jain: Okay sir. Sir you highlighted that 12% to 15% is the overall growth we are targeting for full year FY17, right sir.

Anil Gupta: Yes, because last year our sale was 2325 Crores and this year we are hopeful that we will be achieving around close to 2600 Crores so the growth will be close to 12% to 12.5%.

Kirti Jain: So the ask rate for the H2 becomes slightly heavier rate it comes around...?

Anil Gupta: Always in our company the first half will be close to 45% and second half is close to 55%.

Kirti Jain: So will there be a benefit of operating leverage also key in the expense line item, sir.

Anil Gupta: Yes, sir.

Kirti Jain: Okay, sir. Thanks a lot sir, very helpful Sir.

Moderator: Thank you. We take the next question from the line of Tarang Bhanushali from IIFL Wealth. Please go ahead.

Tarang Bhanushali: Congratulations on the good results sir. My question is we have seen the finance cost jump on a Q-on-Q basis, I believe that is because of bank charges. So what would be our normalized finance cost going ahead.

Anil Gupta: Our normal finance cost will be close to on a year basis of total is close to 125 Crores on a year basis.

Tarang Bhanushali: So that would be same as what last year we had incurred.

Anil Gupta: Yes.

Tarang Bhanushali: So we would not be benefiting from lower debt and also lower interest rates.

Anil Gupta: No but incasing working capital at the same time also because of increasing in sales also.

Tarang Bhanushali: Sir and second as we previous we have clocked just 5% in H1 so again to manage our target of 12% to 15% the rate looks quite good so what is the sector where we are looking such strong growth.

Anil Gupta: We have a good order book position and I mentioned that we received substantial orders in EPC and EHV in the last quarter and the billing has not started because of the production constraint in the factory and also in EPC side the billing starts after three to four months after the site survey and BOQ approval from the customers. So the billing will go up significantly in this quarter and the next quarter of the available orders.

Tarang Bhanushali: So sir, EHV and EPC is where we are looking to gather some lost ground in H1.

Anil Gupta: Yes.

Tarang Bhanushali: Sir when will be the new capacity come online commercially.

Anil Gupta: Around end of November.

Tarang Bhanushali: Thanks a lot sir.

Moderator: Thank you. We take the next question from the line of Sangeeta Purushottam from Cogito Advisors. Please go ahead.

Sangeeta P: Good afternoon and congrats on a good set of numbers. My question really was about the margin within when do we think we can actually see the margin trend to say about 11%, 12% which has been the direction that you all have guided in the past. How long do you think that is likely to take?

Rajeev Gupta: We have guided in the past also we will cross the last year margin base that was 10.5% so we are in that direction and our capability utilization is increasing and our mix is increasing like retail and export is increasing in future as Anil Ji has said that extra high voltage power cable after the line setup, which will increase so on an average our whole year basis we will cross 10.5% margin.

Sangeeta P: So our second half margin should be much better than our first half because of the increased capacity coming in and operating leverage right.

Anil Gupta: Yes it should be.

Sangeeta P: And do we expect given what we are doing in terms of product mix and other things that next year also we will continue to see some improvement in margin.

Anil Gupta: Yes, we are working on maintaining our product mix with respect to our capacities because for every product there is a distinct capacity available, we have to maintain that product mix.

Sangeeta P: All right. Thank you.

Moderator: Thank you. We take the next question from the line of Tejas Shah from Unique Stock Broking. Please go ahead.

Tejas Shah: We wanted to know is there any plans to reduce debt and decrease the interest cost either through QIP placement since the company has seen a lot of traction with mutual fund holdings in the last 12 months, so there is appetite for it, so is there any plans on that.

Anil Gupta: Because we did our all capex requirement last year major capex was done and whatever ground filed capex we could have done we have done and in this year we do not have any further capex plan at least for one year, so we do not require additional funding, but the term loan is repaying every yearly by 65 Crores so to the tune of the repayment of term loan the debt will be reduced.

Tejas Shah: But no plans of QIP or any promoter placements.

Anil Gupta: Not right now.

Tejas Shah: Not right now, okay, thank you.

Moderator: Thank you. We take the next question from the line of Bharat Taparia from Lech BNS Investment. Please go ahead.

Bharat Taparia: What would be the impact of GST on the company?

Anil Gupta: I think the impact on GST will be only positive because we will be able to reduce the logistic point for holding the stocks at different locations, which has been done at the moment for the VAT billing in different states and once GST comes then it will be purely on the logistic or transportation angle the stocks will be created. Also I do not think any major impact on the company or any negative impact on the company due to GST.

Bharat Taparia: How about the growth in exports going forward. How do you foresee it?

Anil Gupta: We already had said that we expect an overall growth of around 12% to 15% of top-line in this financial year and on a conservative side we will be definitely growing by 15% or more in the next financial year as such.

Bharat Taparia: What about the growth in export what percentage growth in export do you see going forward?

Anil Gupta: This year we expect to grow by 80% compared to last financial year. I can give an estimated guidance of around 20% because every year you cannot go by this percentage.

Bharat Taparia: How is your competitiveness in terms of quality and price compared with China now from export point of view?

Anil Gupta: See wherever we are selling we are facing any competition from China. So far as quality is concerned you see we are supplying to the prime customers like oil and gas companies. We are not supplying to any, the products are engineered products and made to specification, so unless quality is acceptable we cannot sell and the quality is just over a period of long time of association with these large customers, which are large projects. So our quality is well accepted across the world.

Bharat Taparia: But generally speaking how has your price competitiveness compared with Chinese companies.

Anil Gupta: We are well competitive because so far as raw material prices are concerned they are at par in every part of the world. So it is only the efficiencies of production and cost of production, which matters and we do not see any problem in that aspect.

Bharat Taparia: How about your, whether your market share is increasing in India on the retail side and other segments.

Anil Gupta: Yes, on retail side our market size is increasing we have grown by in volume terms around 18% in this H1 compared to last financial year at the retail side and our overall market size is also improving.

Bharat Taparia: And what about your market share is it also improving in India.

Anil Gupta: I think we are maintaining our market share; it is not increasing because other companies are also growing.

Bharat Taparia: Since you have a distribution network in place now in India do you have any plans to add some related products also like maybe switches or some other electrical products like Havells and other companies?

Anil Gupta: Not at the moment.

Bharat Taparia: Okay, thank you.

Moderator: Thank you. We take the next question from the line of Karthik VK from Suyash Advisors. Please go ahead.

Karthik V K: Good afternoon. Couple of questions on the EPC business one is what is the execution cycle and two of the order book that is and secondly what would be the normative working capital in this business. Thank you.

Anil Gupta: Execution cycle in most of the EPC projects is 18 to 24 months and order book at the moment is Rs.1850 Crores in EPC side and working capital cycle Rajeev?

Rajeev Gupta: This is also for three months basically because here the up payments term is 10% advance, 60% against supplies and 30% against erection.

Karthik V K: So the 30% is being outsourced by you right.

Anil Gupta: No.

Karthik V K: What percentage of the overall…

Anil Gupta: Yes, against installation of material at the site.

Karthik V K: What percentage of this EPC book is being outsourced?

Anil Gupta: Approximately 70%.

Karthik V K: Okay, thank you so much and just one clarification what would be the profitability in this business according to you excluding the cable component.

Rajeev Gupta: Actually we are calculating in the EPC as a whole. Within the cable portion our average margin is close to 12% including our cable portion.

Karthik V K: Understood, thank you so much.

Moderator: Thank you. We take the next question from the line of Ankit Jain from Mirae Assets. Please go ahead.

Ankit Jain: Thanks for the opportunity. Sir if I look into our EPC execution rate, has been pretty much 80 to 90 Crores per quarter while if I look into the order book which is continuously going up. So when can we see significant uptake in this line item.

Anil Gupta: These major orders we get in the month of June, July, and August. So these orders will be executed over a period of next two years of time. So our average turnover in the EPC division in this financial year will be 650 to 700 Crores including our cable portion.

Ankit Jain: If I look into an EHV post this Chopanki commissioning in November like what could be the quarterly run rate, because first half if I look into is debt 50% to 55% roughly so going ahead what kind of a quarterly run rate we can see.

Anil Gupta: For another six months our run rate will be Rs.50 Crores per quarter, but in the next financial year the run rate will increase once our capacity operational and we get the production smoothly and everything will be all right.

Ankit Jain: So that will be how much in 2018 at peak utilization.

Anil Gupta: Peak utilization we can reach on a yearly basis 400 Crores turnover from 66KV to 220KV.

Ankit Jain: And you mean 50 Crores per quarter, which is up from right now whatever 16, 17 Crores we have been doing.

Anil Gupta: Yes, on the basis of the order book and because whatever EHV order we are telling in that the raw material as well as the other equipments as well as the erection portion is also available, because 195 Crores is not the only stable order, that is the total order. So wherein major portion of Extra High Voltage Power Cable then the jointing kits and the service portion.

Ankit Jain: And how much is the debt repayment during first half.

Anil Gupta: Debt repayment period is totally 65 Crores in the first half is close to Rs.30, Rs.32 Crores.

Ankit Jain: Great. Thanks and all the best.

Moderator: Thank you. We take the next question from the line of Nirav Shah from GeeCee Investments. Please go ahead.

Nirav Shah: Good afternoon, Sir. Congrats on a steady set of numbers. Most of the questions have been answered, but on the capex front Sir how much capex did we do in the first half and what is the full year target?

Anil Gupta: Actually total capex we had projected last year was 120 Crores so out of which already 105 Crores is spent till 30th September and only remaining 10-15 Crores that is only for retention money for the machine, we have to give them the payment only after the installation of the machines.

Nirav Shah: So that was at end Q4 most likely or end of Q3 and FY18 capex should now fall to 20 to 25 Crores.

Anil Gupta: FY18 the capex which would be close to 15-17 Crores not more than that, that is the normal maintenance Capex.

Nirav Shah: And sir on the core interest cost front, what is the blended interest rate that we have been charged by banks.

Anil Gupta: The interest right now charged by bank is 11.45% as against last year it was 11.95% and we are discussing with our banks to a level of 11% now so hopefully by third quarter end they will reduce to the level of 11% rate of interest as compared to 11.45% now.

Nirav Shah: Okay, so most likely the quarterly run rate of 30 to 32 Crores is the peak and it should despite our scale increasing, but our last part of the scale will be coming also from the retail part where our working capital block is very minimal.

Anil Gupta: Yes, that is why I said that we would be not increasing the interest, which we have paid last year.

Nirav Shah: But from FY18 onwards it should start declining?

Anil Gupta: It will be declining because our profit is flowing back into the company. We are not going for any capex in the next financial year.

Nirav Shah: Great, great Sir. Thank you sir and all the best.

Moderator: Thank you. We take the next question from the line of Ankit Babel from Subhkam Ventures. Please go ahead.

Ankit Babel: Sir good afternoon, sir my first question is there is a slight confusion about your net sales figure. In the press release you have mentioned it is 634 Crores, but in the table our calculation suggests it is 624 Crores.

Anil Gupta: Net sales whatever we are giving in the press release is on the basis of the earlier calculation, this year because they have combined the excise duty.

Ankit Babel: I mean if I deduct 51 Crores of excise duty.

Anil Gupta: So, if it is a new calculation then each and every quarter, the figure will change, because earlier some excise duty was into expenditure side and some excise duty was reduced from the sales. So now they have clubbed each and every thing.

Ankit Babel: No I agree that I have to reduce…

Anil Gupta: Whatever we have compared, compared around the basis of last year also.

Ankit Babel: Okay, but as per new accounting norms it is 621 Crores.

Anil Gupta: No, if you will recalculate then you have to recalculate for all the past last quarter also.

Ankit Babel: I agree, but for this quarter it is 621 Crores right.

Anil Gupta: Yes.

Ankit Babel: You already answered my question on capex. Another question is your debt levels. At the end of this year, how much debt we can expect in your books including working capital debt.

Anil Gupta: You see our debt level right now whatever as it is mainly we will be having in this level because some term loan will be paid and some working capital will increase because if the turnover is increasing some working capital will also be increasing and it will depend if we get the retention money within this year, so then that will be further reducing and the working capital will be reducing. So, if we get our retention money in the April or May then it will remain in the balance sheet and it will be reduced when our retention money we will get. It is all depending on the working capital position on the reporting date.

Ankit Babel: So the full 70 Crores of retention money you expect to get realized in next four five months, 100% of it.

Anil Gupta: 35 Crores we are expecting within three, four months and another 35 Crores within another six months' time, because Madurai has completed, Bareilly is completing in the month of December so that will take another up to April or May.

Ankit Babel: So basically retention money is for how much period post completion of the order.

Anil Gupta: Almost six months.

Ankit Babel: By June definitely they will receive all the retention money.

Anil Gupta: But by that time Banaras will be there.

Ankit Babel: So that is why I was asking that earlier we always used to guide that we will try to maintain the debt levels below 500 Crores.

Anil Gupta: The retention money will be on rotation because some will come and some will again accumulate.

Ankit Babel: Exactly, so can we curtail our total debt below 500 Crores which was the level last year.

Anil Gupta: Yes we will try for that; we will aim for that also.

Ankit Babel: Okay, but the chances are less or, I mean…

Anil Gupta: No because now we are not going for any Capex so whatever we will be adding into profit will be flowing back into the company.

Ankit Babel: Okay. Sir, my next question is how much sales are we expecting in our EHV division for this full year.

Anil Gupta: This full year will be close to 125 to 130 Crores.

Ankit Babel: And next year.

Anil Gupta: Next year will be more than 250 Crores.

Ankit Babel: So basically it will take another, say in FY19 we will reach the 400 Crores level, which is the peak utilization.

Anil Gupta: Yes.

Ankit Babel: Sir my another question was I believe the current prices of Copper is almost same that of the last year, so can we now expect that from Q3 onwards our volume growth and value growth would be the same or if not then by which quarter we should expect the same assuming that the copper prices remain at current levels.

Anil Gupta: It all depends on the valuation of the copper, but what we can achieve is volume growth so we are maintaining that. In this quarter also we have achieved around 12.5% exact number of 12.5% volume growth. So we will be continuing growing by 12%, 12.5% to 15% in terms of volume growth. Value terms will be only known when the period ended.

Ankit Babel: No, I agree, but if we assume that the copper remains at these levels alone then can...

Anil Gupta: I can speak only on the volume growth right now.

Ankit Babel: And sir your interest cost which you expect to be flat at around 125 to 130 Crores, in this have you already factored in that your cost of debt will reduce from 11.45% to 11% in the next couple of months.

Anil Gupta: Everything cannot be factored because some bank charges may be added, some tenders if we get then we have to give the bank guarantee so everything cannot be factored, but on an average basis we will be achieving close to 125 Crores.

Ankit Babel: And next year same level.

Anil Gupta: Next year we will try for the same or may be below, because our term loan will be repaid and the 65 Crores, so to that extent we can reduce the term loan interest.

Ankit Babel: Okay. And sir last question is what is your current tax rates on your cables now including excise and average VAT rates in different states.

Anil Gupta: Excise duty is uniform 12.5% on all products and CST is 1% from Bhiwadi and 2% from Silvassa now so for our VAT is concerned in 95% of the states VAT is 5% on our cables in one or two states only on house wire, building wires the VAT is 14% otherwise on cables it is 5% only, so I can generalize that it is 5% VAT in all the states entire country.

Ankit Babel: So suppose that in GST if the cables are charged at 18% GST, so it will be neutral for you.

Anil Gupta: Yes it will be at par but we are paying now.

Ankit Babel: So it will be beneficial only if it gets reduced to 12%.

Anil Gupta: In what way it will be beneficial, ultimately it will be beneficial. The tax is always extra, so it will be beneficial only to the customer, not to us if it is reduced.

Ankit Babel: Okay you will pass it on.

Anil Gupta: Yes.

Ankit Babel: Okay, thank you so much and all the best.

Moderator: Thank you. We take the next question from the line of Harshit Kapadia from Elara Capital. Please go ahead. As there is no response we will move to the next question. It is on the line of Ankush Mahajan from Edelweiss Securities. Please go ahead.

Ankush Mahajan: Sir could you throw some light that how are the tendering activities are happening under these two schemes IDPS and what is the working capital under these two schemes?

Anil Gupta: Our most of the orders which we have secured in the last three months is out of IPDS and DDUY and now we are also bidding wherever new tenders are coming up in different states so that the activity is on and it is quite well, going well at the moment.

Ankush Mahajan: Sir what is the working capital under these two schemes.

Anil Gupta: Almost same because we are doing under EPC mainly job under IPDS and DDUY in the past also and we are doing in the same division.

Ankush Mahajan: So we are getting payment after three months that may be in part, but it is almost three months.

Anil Gupta: Yes, except retention money.

Ankush Mahajan: Thank you Sir that is it from my side.

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

Deepak: Sir my first question if I go by your 12% guidance on the top-line and 80% guidance that we are seeing in the exports and which we have seen in the first half also does the implied growth in H2 for the domestic business is around 25%, 27% which looks to be quite a tough task. So what will drive such a performance?

Anil Gupta: Repeat your question?

Deepak: See if you are guiding for a 12% overall revenue growth and exports you are saying should be growing around 75% to 80%, which we have seen in first quarter.

Anil Gupta: That is also a part of that.

Deepak: Yes this is also a part of it. So which we have seen 80% growth in the first half and maintaining in the second half also. So if we remove the exports then the domestic implied growth to meet the revenue guidance should be in excess of 25% in second half, so which looks quite a tough task so what will drive this kind of a growth.

Anil Gupta: No, we expect a larger growth in EPC and extra high voltage and so far as domestic growth is concerned it will be close to 15%.

Deepak: But then it does not match actually because if the exports are growing at 80% then the domestic 15% then it would be difficult to meet the number actually.

Anil Gupta: Because right now we have achieved the 1200 Crores turnover. And we are targeting 2600 Crores, we have already achieved a 46% turnover.

Deepak: And but the exports is already 190 Crores of 1200.

Anil Gupta: We have already achieved the total number of 46%, so we have to achieve only 54% in our past record also almost 45% we achieved in first half and more than 55% we achieved in second half.

Deepak: Okay, fair enough. Second question is this thing continuation with one of the rear questions on EPC now we like I understand you got a large chunk or order in June this year, but our opening order book as on 1st April was also quite heavy at 700 Crores despite that we are not seeing a pickup in the turnover, like just around 80 to 90 Crores kind of a run rate so what exactly if we go by the judgment that you are saying that will do 650 Crores this year then what is the observation period because then it will be in excess of three years for the existing 2000 Crores order book.

Anil Gupta: First of all 80 to 90 Crores what you are saying is without the cable portion, which we supply from our own factory…

Deepak: This order book is also without odd cable right.

Anil Gupta: No, the EPC order book when we say it always includes that value of the order, which includes cables also. Certainly you would know that July to September is the rainy season where the execution slows down everywhere, so that is why the billing is also slow.

Rajeev Gupta: Including cable the sale was 145 Crores in this quarter in Q2.

Deepak: So when you are saying 650 to 700 that includes cables.

Rajeev Gupta: Includes cable, if you see it includes always cable and everything.

Deepak: So then where is the growth because if the run rate is around 150 Crores every quarter we are just increasing it to 160 odd Crores in the second half, so where is this order book showing up in the revenue.

Rajeev Gupta: No, this order book whatever we have got has supplied in three financial year because so they were completed in 24 months so some will be supplied in this financial year, some will be supplied in next financial year, some will be supplied in the 2018, 2019 financial year, but this 24 months will be covered in three financial years.

Anil Gupta: We will see a good growth in the third quarter and fourth quarter in EPC sales because the most of the orders the order book has grown in June and July in fact in July and August.

Deepak: What is the order inflow in Q2?

Rajeev Gupta: Order inflow in Q2 was more than 1200 Crores, because major orders I received in the June to August.

Anil Gupta: Not even in June, July and August.

Deepak: So in Q2 it is 1200 because Q1, it was over 1000 right.

Rajeev Gupta: Yes some has executed the old orders and the new orders, which we got, have to be building in end of third quarter.

Deepak: Okay, and my last question is how is the retail distribution network you increased to over 1000 now, so how are the plans progressing for the retail growth accelerating momentum because we have guided for 45% kind of volume revenue share should come from retail in next three four years, so how has been the first half.

Rajeev Gupta: Every year we are going by close to 20% to 25% growth in the dealer distributor market.

Deepak: In the second half how do we see the distribution, we already added run rate in the first half and we guided for 100 in full year so are we adding another more dealers in the second half.

Rajeev Gupta: Dealers, this is a normal process to increase every year in each and every part of the dealer and from the replacement of the old dealers to the new dealers those who are not working good, then we had to replace them. So our goal is to increase the revenue through the dealer distributor market on year-on-year basis 20% to 25%.

Deepak: That is around 200 dealers.

Rajeev Gupta: We are talking the value not the number of dealers. Number of dealers basically we are adding 100 we are closing down 90 dealers and the net addition will be only 10 dealers, but ultimately those dealers who are not working properly, who are not selling our products focused so we need to replace them.

Deepak: Okay, fair enough that is it. Thank you.

Moderator: Thank you. We take the next question from the line of Dhiral Shah from GEPL Capital. Please go ahead.

Dhiral Shah: Good afternoon sir and congratulations on a great set of numbers. My question is regarding sir what is your outlook on TND segment as a whole.

Rajeev Gupta: Transmission and distribution as a whole as government has focused for power for all in next three four years' time so in each and every state it is going on and government is committed for that and this IPDS and DDUY these are the central government funded scheme only for those purposes.

Dhiral Shah: Do you receive any kind of order from this IPDS and all that?

Rajeev Gupta: Our all the orders under IPDS and DDUY only.

Dhiral Shah: Okay, so do you receive any order from power grid side?

Rajeev Gupta: Power grid is basically into overhead lines. So we are not going overhead lines or service stations. We have received some order from power grid for this IPDS project, which is Varanasi or one of them, but power grid is not mainly in the distribution business.

Dhiral Shah: Okay, that is it from my side sir, thank you.

Moderator: Thank you. We have a follow-up question from the line of Tejas Shah from Unique Stock Broking Private Limited. Please go ahead.

Tejas Shah: What will be the market share of KEI in terms of the metro projects?

Anil Gupta: I think we have to work it out and we will come back to you.

Tejas Shah: Because a lot of metro projects are announced in Maharashtra and other cities also where I think earlier you had told you had around some 10% or 15% market share in think a year back if I am not wrong.

Anil Gupta: Yes, we have and even I think we should have more than that, but we will work it out exactly.

Tejas Shah: But are we expecting good growth from there or how.

Anil Gupta: We are already doing a good growth in this metro segment and we are supplying to most of the metros in India, which are at the execution stage at the moment like Delhi metros, Lucknow metro, Bangalore, Chennai, Hyderabad, see so far as metros in Maharashtra are concerned they are at the moment most of the projects are in the tendering stage so execution should start maybe after six months.

Tejas Shah: But there the orders would come to us only mostly or how it is?

Anil Gupta: No, ultimately we cannot get every order.

Tejas Shah: Of course I am saying mostly means around 20% to 25% ratio at least.

Anil Gupta: Yes.

Tejas Shah: Thank you.

Moderator: Thank you. We take the next follow-up question from the line of Nirav Shah from GeeCee Investment. Please go ahead.

Nirav Shah: Sir on the acceptances front we had acceptances of close to 180 odd Crores as of March 2016 so what is the kind of level that you are targeting by FY17 when you say our debt level should be more or less the same by year end.

Rajeev Gupta: Which will be the acceptance is as per the balance sheet or accounting standard it is showing under the creditors.

Nirav Shah: Absolutely. So this 180 Crores I mean any further, because you have been constantly reducing your acceptances over the last three years from 260 Crores to 180 Crores and that has led to partly you will not being able to repay the debt to the extent that you could have, so just wanted to understand your views that over the next couple of years how will this 180 Crores, I mean how much lower can it go.

Rajeev Gupta: I could not comment on this because it is again a situation whether in that quarter we bought some import or some cash basis because if the purchase against the LT then the acceptance will be there.

Nirav Shah: Okay. So, if I look at the payables number from 432 Crores to 490 Crores as of September, the state payables is that increased partly due to acceptances or it is other core creditors.

Rajeev Gupta: It may be partly due to acceptance also, some part is raw material and some part is others.

Nirav Shah: Absolutely, and sir what is your net debt as of September 2016.

Rajeev Gupta: Net debt is close to 600 Crores.

Nirav Shah: And gross would be Sir.

Rajeev Gupta: Yes gross debt is what I am talking.

Nirav Shah: Okay gross debt is close to 600 Crores.

Rajeev Gupta: Bank barrowing you are talking.

Nirav Shah: Yes and we have cash of 70 so net debt should be somewhere around 530 Crores.

Rajeev Gupta: I am talking of the bank borrowing.

Nirav Shah: Yes Sir, so that is the gross debt you are talking about.

Rajeev Gupta: Yes.

Nirav Shah: Thank you.

Moderator: Thank you. We take the next question a follow-up question again from the line of Harshit Kapadia from Elara Capital. Please go ahead. As there is no response we will move to the next question. Mr. Solanki, sir we do not have any questions for now. Shall we make one more announcement?

Girish Solanki: As there are no further questions from the participants, I would now like to hand the conference over to the Management of KEI Industries for closing comments.

Rajeev Gupta: I thank you very much for the investors and the participants in this con call. If you have any further queries, you may write back to us. Thank you.

Moderator: On behalf of Anand Rathi Share & Stock Brokers that concludes this conference. Thank you for joining us. You may now disconnect your lines.