

ANANDRATHI

**“KEI Industries Limited
Q3 FY16 Earnings Conference Call”**

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MODERATOR: **MR. GIRISH SOLANKI – RESEARCH ANALYST, ANAND RATHI SHARES & STOCK BROKERS LIMITED.**

Moderator: Ladies and gentlemen good day and welcome to the KEI Industries Q3 FY16 Earnings Conference Call hosted by Anand Rathi Shares & Stock Brokers Limited. As a reminder, all participants' 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 -- Research Analyst from Anand Rathi. Thank you and over to you, Mr. Solanki.

Girish Solanki: Thank you, Margaret. Welcome all to the 3Q FY16 Result Conference Call. Today, we have with us Mr. Anil Gupta, who is the Chairman and Managing Director of KEI and Mr. Rajeev Gupta, who is the CFO. Over to you, sir.

Anil Gupta: I am Anil Gupta; I welcome all the participants on this conference call. Thank you very much for joining us. I will give you a brief about the performance in this quarter.

During the third quarter of current year, we have achieved net sales of Rs.559.29 crores against same quarter in previous year Rs.498.77 crores and it is with a growth of around 12% over corresponding third quarter. The growth number is 20.97% in nine months' period of this financial year compared to nine-month period of last financial year. It is pertinent to mention that this growth is after reduction in raw material prices of approximately 10% to 12% in the first nine months.

During the nine months of the current year in our Cable division we have achieved a volume growth of 25% and now the third quarter operating profit is Rs.60.89 crores against Rs.51.72 crores and a profit after tax is Rs.14.86 crores in the third quarter against Rs.8.91 crores in the third quarter of last financial year.

Operating margin in this third quarter is 10.89% as against 10.37% in the corresponding quarter. Operating margins over nine-month period in this financial year is 10.35% against 9.88% achieved in the last year of the first nine months. So on a full nine-month period of this financial year our profit after tax is Rs.41.92 crores. PAT margin has improved from 1.79% to 2.65% in the third quarter and to 2.48% in the whole of the nine months of this current year. In these nine months, we have achieved a growth in export sales by around 28% compared to the corresponding period. The net sales of exports are Rs.132 crores in the nine months of this current year as against Rs.103.5 crores in the corresponding period of nine months in the last financial year. We have also focused a lot on improving our distribution and dealer market, we have grown by approximately 20% in the current financial year in first nine months and achieved more than Rs.450 crores sales from that distribution network. We have also done a significant amount of brand building exercise during this period and has been able to increase our number of dealer by around 100 across India basis.

During the first nine months of the current year our EPC division sale is Rs.235 crores against last year Rs.137 crores with a growth of around 72%. This sale of Rs.235 crores is apart from the Cables being supplied to our own EPC contract so, after adding the sale of Cable to our own EPC division, the total EPC division in nine months has done around Rs.390 crores.

During the nine months of the current financial year, our sales of our Extra High Voltage Cable sales has picked-up and we have achieved Rs.92.86 crores against 34 crores achieved in the same period last year. So it is almost a growth of around 250% as compared to last year. I will say that the percentage growth looks high because we have been able to do well in this division from this financial year onwards and we have present order book position in Extra High Voltage Cable of around Rs.190 crores.

During the nine months of the current year our LT Cable and HT Cable sales is Rs.1,015 crores against Rs.902 crores in the same period of last year so, we have grown in value terms by 12% in spite of raw material and sales price reduction, so volume growth is close to around 25%. We are hopeful to achieve 24% volume growth in the cable business but on overall basis 20% growth in our top-line in value terms in the full financial year. This is in spite of the significantly reduced prices of our raw material and consequently the sales prices of our products. As of today, we have a pending order of approximately Rs. 1,900 crores out of which EPC segment is having a pending order of around Rs.860 crores, Extra High Voltage Cables around Rs.190 crores and Cables Rs.725 crores out of which the export orders booked which are pending to be executed is Rs.200 crores over a period of next 10 months. Most of the export orders are from oil refineries in Middle East mainly Kuwait and Abu Dhabi. We have very strong enquiries from some of the major export projects in Middle East and we hope to book more orders in this segment. We have strong enquiries and we have done good bidding in Extra High Voltage Cables as well.

Now, I will come to the CAPEX plan of the company. Company has planned capital expenditure at its existing plants located in Chopanki, Bhiwadi, Silvassa. In Chopanki, we are investing around Rs.70 crores in doubling our capacity of Extra High Voltage Cables and Medium Voltage Cables. In Bhiwadi and Silvassa, we are adding some new machines to debottleneck the plants. So with this the estimated cost of CAPEX is approximately Rs.120 crores which will be done up to September 2016 and we hope that all these new capacities will be operationalize by September 2015. Company has already incurred around Rs.39 crores on these CAPEX and balance will be incurred in the remaining period up to September so, in next eight months. With the proposed capacity, our capacity of our Extra High Voltage Cable will increase by around Rs.200 crores and overall Cable production capacity will go up by around Rs.450 crores. We expect that in coming financial year we will grow by at least 20% in volume terms and value will be decided by the trend of the raw material pricing.

Now I will explain you give you a little bit insight about our business model. We are manufacturing entire variety of Electrical Cables. The growth driver in this financial year means FY16 as well as FY17

will demand from the Transmission and Distribution project, Solar and Wind Form project and we expect work to start on some of the Smart Cities announced by the government which will also bring some additional demand. So the major growth driver will be Transmission and Distribution projects. In Transmission, we are supplying Cables, LT Power and Control Cables and HT Cables for various Substation projects of 66 kV to 765 kV. These projects are either of Power Grid Corporation or given by State Transmission Utilities and our orders may be directly either from the owner that is utilities or may be from EPC companies. So scope for KEI's Cable supply to EPC contractor or to the utility directly and now we are also bidding for Turnkey contracts for executing Substation. We already have in hand a 132 kV GIS Substations under construction and a 220 kVA GIS Substations in Himachal Pradesh which is again under construction. These two Substations we are doing on Turnkey basis and this includes supply of Cable GIS Transformer and other high voltage equipments along with civil work and erection of these equipments and then integration of the same with the grid.

In distribution projects we are supplying Cable to various projects under earlier R-APDRP scheme which is newly named as IPDS or RGGVY or which is again Rural Electrification Scheme and newly named like Deendayal Upadhyay Rural Electrification Program. So in this case also we are supplying cables to EPC contractors such as HT Cable, Low Tension Cables as well as Aerial Bunched Cables. In this segment, we are also doing various Turnkey contracts which we have done in the past and recently we have been in the first IPDS contract for the city of Banaras for approximately Rs.400 crores from Power Grid Corporation of India who is the executing agency for this project. We are supplying Cables to various industries right from oil exploration, upstream companies like ONGC, refining companies like IOCL and BPCL et cetera LNG and Gas projects, Steel, Cement, Fertilizer, Petrochemicals and various other miscellaneous industry. We are also supplying Cables to construction projects like Retro Rail Project Commercial oblique Residential Complex, this also include even supply of House Wire which is also called lighting wire. We are also supplying Cables to various power generation projects which includes Solar and Wind. We are supplying them HT LT Power and Control Cables instrumentation Cables, Rubber Insulated Wire and also a lot of Cables for material handling systems like for Cranes, for Lifts, we are also supplying cables to mining projects various mines we are approved so, we are supplying to mining projects as well. Apart from this we are supplying Cables to Ship Building industries as well various ship yards including ship yard from navy we are supplying. So we have a good demand for exports and we expect the business to be better in the coming days in the coming financial year specially in the good generation side a good growth is coming in from Solar and Wind forms and in the distribution and in the distribution I see that a good demand should be coming from Smart City project and newly named IPDS Schemes and DDU Schemes for which Central Government will be giving funds to various state utilities in due course.

So with, I thank you very much for listening to me and now if you have any questions please let me know. Rajeev will...

Rajeev Gupta: Yeah, I will update about the financial cost of the company and during this nine month our financial charges is close to Rs.96 crores as against the last year in the nine months it is Rs.87.3 crores. We calculate in terms of percentage so current nine-month the percentage is 5.67% of the net sales as compare to last year it is 6.28% last year, 0.5% reduction. And one more point as Anil Ji has already spoken about the volume growth and the raw material prices last year the dollar rate for the average nine month was Rs.61 close to and this year it is close to Rs.65 so almost dollar has increased by 6.6% and average copper LME for this current year nine-month average is close to 5,332 as against it was 6,729 last year corresponding period in nine months. So almost LME of copper has decreased by 22.7% and aluminum prices has also decreased in current nine months it is \$1,620 LME and it was almost \$1,940 in the last year corresponding period. So almost 16.5% has decreased in the aluminum so, if we take our dollar into consideration and the price of the copper at LME so, almost copper price has corrected by 20% less than the dollar rate 6% to almost 14% to 15% it has been corrected on the last year and same case with the aluminum it has corrected almost 16% if we reduce the dollar increase so the correction will be close to 10% to 11%.

Anil Gupta: I now request you to ask any questions, thank you very much.

Moderator: Thank you very much. We will now begin with the question and answer session. The first question is from the line of Sangeeta Purushottam from Cogito Advisors. Please go ahead.

Sangeeta Purushottam: I have a few questions relating essentially first to the numbers some housekeeping questions and then I have some questions regarding the business outlook. First of all, I did not completely catch the number that you gave on your CAPEX, you said that there is a debottlenecking CAPEX of, is that Rs.120 crores in addition to the Rs.70 crores you are going to be spending on Chopanki?

Anil Gupta: No, this includes Rs.120 crores whatever we have earlier for the Chopanki of Rs.70 and in our Bhiwadi factory and Chopanki factory and we have also bought an additional land near our Pathredi it is very near to Chopanki close to Rs.17 crore.

Sangeeta Purushottam: Sorry, how much?

Rajeev Gupta: Rs.17 crores, for Rs.17 crores, this land has been purchased in early January.

Anil Gupta: So this Rs.120 crores is the CAPEX for current year as well as for the next financial year.

Sangeeta Purushottam: So the CAPEX is Rs.120 crores out of which you have already spent about 39 crores so roughly Rs.81 crores will be spent in the next financial year.

Anil Gupta: Yes.

- Sangeeta Purushottam:** Okay. My second question really is on your numbers, we have seen revenue growth on a year-on-year basis despite of falling commodity prices but on a quarter-on-quarter basis there is a decline. Is that because of there is a seasonality in the numbers, could you just shed a little bit light on that? And also, could you give your product wise sales for the quarter?
- Anil Gupta:** We expect a growth of in the overall year close to 22% to 23%, in the third quarter the growth in value terms is 12% because some of the dispatches got stuck and could not be done in December so it will be reflected in better numbers in this quarter.
- Sangeeta Purushottam:** Okay. So for the whole year you are looking roughly at a turnover of about Rs. 2,400 crores, right?
- Anil Gupta:** Yeah, approximately.
- Sangeeta Purushottam:** Okay. And earlier you had given a guidance of about Rs. 2,650 crores is the difference primarily because of the drop in the commodity prices you have experienced?
- Anil Gupta:** No, that guidance was for gross turnover not for net sales. Now here 2,350 we are taking of net sales and definitely minor impact may come due to the reduction in the raw material prices.
- Sangeeta Purushottam:** I see, okay. And in terms of your EBITDA margin because there is a margin improvement also which happens just through pure arithmetic because of the drop in the commodity prices. Do you expect the EBITDA to close at about 10% for the full year any guidance on that?
- Anil Gupta:** Margin has improved because of the product mix like Extra High Voltage Cable and the EPC business.
- Sangeeta Purushottam:** Okay. And if you could actually just give us some sense as to what are the drivers for margins going into next year as well, You have some guidance saying that you expect the volume growth to be about 20% for next year. How do you see the margin trajectory for the company over the next couple of years, what are you really looking at there?
- Anil Gupta:** At least for the next financial year we are looking the operating margin to the level of 11%.
- Sangeeta Purushottam:** 11%, okay. And is that like the optimum margin that a business like yours can achieve or is there scope for that to grow where does it actually end up stopping?
- Rajeev Gupta:** Optimum margin in the past have reached to the 14% also in 2006, 2007 and 2008.
- Sangeeta Purushottam:** Okay. And what actually holds you back from getting back to those levels?

- Rajeev Gupta:** The demand is increasing from the market from the industry from the T&D section so margin may reach to that extent.
- Anil Gupta:** May be when the overall growth in the economy on a overall basis improves that will definitely impact our margins also.
- Sangeeta Purushottam:** Okay. And also if you just give some sense about the competition in each of the segments that you are in who are your key competitors in this and what is your broad market, it just gives us a sense of about how the industry is structured?
- Anil Gupta:** In manufacturing business we have key competitors in the name of Polycab Wires, Havells, in Housing Wires segment FinolexCables these are our key competitors. In Extra High Voltage Cables our key competitor is Universal Cables Limited and in Turnkey projects you know that in different states, different verticals we have competition from different companies. We are facing L&T at various places now-a-days but the competitors are staggered in some of the projects like RGGVY and R-APDRP we have Bajaj Electrical and Godrej as well. In Substation segments we have KEC International or Techno Electric, IPDS is again the same R-APDRP so it is a new name only.
- Sangeeta Purushottam:** Okay. The household cables the path which we actually end up advertising is what you show as HW/WW and Flexible Wire?
- Anil Gupta:** Yeah, it is lighting Wires which are used for wiring inside homes, wiring inside offices for lighting or computer purposes, we also manufacture Flexible Wires which are used in the panel manufacturing or used in various industries, these may be Single Core Wires or Multi Core Flexibles which has a lot of industrial uses as well.
- Sangeeta Purushottam:** Right. And here the turnover in the nine months will be approximately Rs.270 crores - Rs.280 crores for this segment?
- Rajeev Gupta:** Last year nine months turnover was Rs.459 crores and this year is Rs.502 crores in this segment through the dealer distribution segment for House Wire as well as for the dealer. But if you talk of only House Wire segment so, last year nine months' turnover was Rs.243 crores as against this year turnover is Rs.274 crores.
- Sangeeta Purushottam:** Right, okay. And also on your export side, where do you export and what is the competitiveness that you have in these markets where you are exporting?
- Anil Gupta:** Can you repeat your question please?
- Sangeeta Purushottam:** On exports my question was that which market are you exporting to and what is your competitive trends in being able to export to these markets?

- Anil Gupta:** Our major exports in this year and next year will be Middle East specially the refineries in Kuwait and Abu Dhabi. Apart from that Electrical Cables we are exporting to some of the African Countries which includes Nigeria, Gahanna, South Africa and Mauritius and some more countries. We are also exporting our Electrical Cables now to Australia and Singapore.
- Sangeeta Purushottam:** And have you been impacted by the currency fluctuations in these countries? How do you do your pricing and what are the margin like in your export?
- Anil Gupta:** We are getting all contracts in U.S. dollars so, in fact we have not been adversely impacted due to fluctuation in the currency because dollar has appreciated. And what was your second question?
- Sangeeta Purushottam:** Have you been impacted by...
- Anil Gupta:** But you were talking of margins.
- Sangeeta Purushottam:** Yeah, margins.
- Anil Gupta:** On an average we are having a EBITDA of around 10% in exports also but the cash flows are better.
- Sangeeta Purushottam:** Okay. And so your collections are faster, is it?
- Moderator:** Thank you. The next question is from the line of Dhiral Shah from GEPL Capital. Please go ahead.
- Dhiral Shah:** Sir, what is the current debt of the company?
- Rajeev Gupta:** Debt is almost Rs.530 crores, term loans as well as the working capital debt.
- Dhiral Shah:** And what is the working capital requirement?
- Rajeev Gupta:** Working capital debt out of which is almost Rs.315 crores.
- Dhiral Shah:** Okay. And rest is long-term debt?
- Rajeev Gupta:** Yeah.
- Dhiral Shah:** And sir, is there any plan for debt reduction in coming years?
- Rajeev Gupta:** Every year the repayment is going on, in next three years it will be zero.
- Dhiral Shah:** Okay. In within next three years we will be debt free.
- Rajeev Gupta:** Long-term debt-free.
- Dhiral Shah:** Okay, long-term. And sir, what is your guidance for finance cost for the FY17?

- Rajeev Gupta:** Finance cost will be like this year we will be closing approximately Rs.130 crores finance cost but for the next year it may reach to Rs.140 crores.
- Dhiral Shah:** Okay, Rs.140 crores. And sir, secondly, what is your outlook on EHV business going ahead?
- Anil Gupta:** Our outlook on EHV business is very strong because we expect a strong market for underground cables transmission project based on the tenders and biddings we have been doing. On the basis of that only we are doubling our capacity in Extra High Voltage Cable with a CAPEX of Rs.70 crores in our EHV Plant at Chopanki which this capacity expansion will be over by around September 2016.
- Moderator:** Thank you. The next question is from the line of Bhalchandra Shinde from Centrum Broking. Please go ahead.
- Bhalchandra Shinde:** Sir, in exports I would like to know what will be bifurcation I mean like in Middle East how much we cater and in other regions how much we cater?
- Anil Gupta:** Normally, until this year we were having a bifurcation of around 50% in Middle East and 50% in the other regions but in FY2017 we expect 60% coming from Middle East because we have very strong orders from two countries especially Kuwait and Abu Dhabi and balance will be coming from the Australia where we are bidding a lot and also African countries. Actually, we have already developed a good base in a few countries in Africa so due to uncertainties in the currencies the business is not peaking up in Africa. But we know that these regions are developing and we expect that pick-up there also.
- Bhalchandra Shinde:** So sir in Middle East because of this lower crude oil prices, are we facing any executions slippages or is there any risk on that?
- Rajeev Gupta:** Sir, this year practically, speaking for our Cable point of view I think in the history we have the largest pending order right now we are having. We are having at present Rs.200 crores worth of export orders in which Rs.100 crores are from the Kuwait only.
- Bhalchandra Shinde:** Okay. But there is no as such risk in that?
- Rajeev Gupta:** No, sir.
- Bhalchandra Shinde:** Okay. And sir, in current exports growth which we have mentioned, how much will be the volume growth in that? And especially, what we export which Cables? Is it HT Cables or EHV Cables?
- Anil Gupta:** To Australia we are mostly exporting HT and EHV cables to Singapore also we have exported EHV Cables. To Gulf, to Middle East and we are mainly exporting Control and Instrumentation Cables.

- Bhalchandra Shinde:** Okay. And sir, in India when we talk about this CAPEX of Smart Cities and IPDS and all of this CAPEX, in IPDS and Smart Cities what kind of Cables will be utilized? Will it be a EHV Cables or HT Cables?
- Anil Gupta:** No, there will be mainly HT Cables and LT Cables because these cities will be mainly requiring Cables meant for distribution. So distribution goes up to 33 kV which is HT Cable and also Low Voltage Cables. Extra High Voltage Cables are always used in transmission projects.
- Bhalchandra Shinde:** Okay. So largely on the transmission CAPEX, EHV cables will be utilized.
- Moderator:** Thank you. The next question is from the line of Priyank Chandra from Dolat Capital. Please go ahead.
- Priyank Chandra:** Sir, just wanted to understand a little bit traction from the orders in the EPC segment that you are getting especially from the Power Grid side. So how has been the intensity from the Power Grid side? Has it been like increasing or we are expecting some like you can say a bit of slow down on that front?
- Anil Gupta:** See Power Grid is not slowing down, I think Power Grid has been mainly focusing on the transmission business long-term interstate or intercity they are getting some of the distribution projects like the one we are doing for IPDS Banaras on contract basis from the State Utility for some considerations for which they are doing the execution and inviting tenders and getting it executed from the contractor. I do not think that Transmission and Distribution strengthening is the main focus at the moment because we have enough power generation available in the country but we have reach that power to the actual user point so Transmission and Distribution will continue to grow for long time to come.
- Priyank Chandra:** Okay, thanks a lot, sir. And sir, you mentioned in your opening remarks about the Smart Cities. So like have there been some steps which have been talking or you are feeling that there are some steps taken by the government to initiate that process?
- Anil Gupta:** Yeah, I think some of the tenders will start coming very shortly for some of the Smart City projects like Gurgaon or in some other cities, we have the data but I do not have the right at the moment.
- Priyank Chandra:** No, problem that. And sir, regarding your retail channel like you mention, you have 100 dealers added this year. What is the actually volume growth that you are witnessing in this segment?
- Rajeev Gupta:** Priyank, volume growth is almost as we have earlier said, that is 25%-30% because in terms of the value we have increased by 10% to 12% the dealer sales.
- Priyank Chandra:** Okay, right, sir. And sir, one last thing on this like order book on the EPC side that you mentioned it is around Rs.860 crores so, what is the period of that during which it can be executed?

- Anil Gupta:** It is executable in basically 18 months to 24 months.
- Moderator:** Thank you. The next question is from the line of Manoj Gori from Equirus. Please go ahead.
- Manoj Gori:** I just wanted some outlook on the Cable division I think where you are competing with Polycab and Havells over the next two years? And also some outlook on the Housing Wires where you are competing with Finolex so, that is all from my end?
- Anil Gupta:** What outlook, what is your specific...
- Manoj Gori:** For the domestic demand, like how you see the industry over the next two years in FY17 and FY18 as well.
- Anil Gupta:** I have already mentioned in my business outlook that we expect to grow in volume terms by 20% because of the strong growth coming from T&D and some other businesses so, that is the way the other companies will also be focusing on the same sectors so, I see a good growth in our Cable business.
- Rajeev Gupta:** More over the Electrical industry in country is growing almost 15% to 20% in the same pace from the Transmission and Distribution is going on as well as now the PMO has rope in the Power Grid Corporation also into the distribution large projects like which we have done there.
- Manoj Gori:** Okay. No, my simple point was like when you say like the industry is growing at 15% to 20% so I expect with a lot of efforts taken regarding the expansion and distribution and everything like we should be able to grow faster than what the category is growing right now.
- Rajeev Gupta:** The large company is basically Polycab and KEI when we are talking about the institutional segment and if we are talking of the retail segment then there is a Havells, Finolex and KEI.
- Anil Gupta:** See at the moment we have guidance of around 20% in our volume growth in the next year but as you say that we will definitely aim to grow faster. We are just watching the actual investments coming up in these projects but we want to be a little conservative.
- Manoj Gori:** Right. Sir, one last thing just a simple like have you seen the investments picking-up on the ground?
- Anil Gupta:** Yes, because now-a-days even State Governments are quite focused on doing these projects in T&D side to reduce the aggregate technical and commercial losses, number one. Number two, to take electricity up to inside the villages basically that is the major election plan used by various State Governments in the State Assembly Elections. Even in the Bihar Election was also mainly the work done in the rural electrification by the State Government that was the major achievement projected by them.

- Moderator:** Thank you. The next question is from the line of Navin Trivedi from Trust Research. Please go ahead.
- Navin Trivedi:** Sir, can you break down the quarter third sales in terms of domestic and export and how has been the last year sales corresponding quarter?
- Rajeev Gupta:** Our domestic in Q3, the total sale was Rs.559.29 crores out of which the export sale is Rs.28.29 crores and the dealer distribution division sale is Rs.169.88 crores and the institutional sale is Rs.361.12 crores.
- Navin Trivedi:** And the export sales how much was is last year?
- Rajeev Gupta:** Export sale last year was same quarter of December last year is of Rs.34.15 crores.
- Navin Trivedi:** So 34 has become 28?
- Rajeev Gupta:** 28, because as earlier Anilji has said that some of the material was not able to dispatch in the month of December it will be dispatched in the month of January though the material was ready.
- Navin Trivedi:** So despite the weak export numbers we have shown decent healthy growth in the quarter three?
- Rajeev Gupta:** Quarter three but the export pending order is almost Rs.200 crores.
- Navin Trivedi:** Rs. 200 crores. So considering the 22% guidance which we are giving for FY16, we should be doing around 25% both in the quarter four.
- Rajeev Gupta:** Yes.
- Navin Trivedi:** Around Rs.780 crores - Rs.785 crores kind of number. So assuming that number do you think Rajeev Ji that we will be able to register around 10% kind of EBITDA margin?
- Rajeev Gupta:** Yeah, EBITDA margin as I earlier said that now it is moving from 9.5 to 10.5 so, now if you compare the nine month result so EBITDA margin is already there 10.35%.
- Navin Trivedi:** But considering fourth quarter we typically have lower margin in the previous years, we will be maintain the 10% margin?
- Rajeev Gupta:** In fourth quarter also the EBITDA margin will be in this range only, it will not go down.
- Navin Trivedi:** Great. Your guidance for FY17 you are saying 20% growth in sales and around 11% EBITDA margin considering...
- Rajeev Gupta:** 10% to 11%.

- Navin Trivedi:** I am saying the profit margin because you are saying commodities again playing a lot because this quarter also you are saying despite nine months you have reported a very strong number but commodity and the currencies being slightly unfavorable to us. So In that scenario while we are giving guidance for 2016-2017 are we also assuming that there can be further correction in the commodity or you are expecting a stable commodity prices?
- Rajeev Gupta:** It may be stable or it may be here and there. But we have to watch very closely and accordingly we quote actually.
- Anil Gupta:** See I will explain it to you. We are keeping ourselves very much away from the currency risk. All our imports we are keeping a natural hedge with our exports. So we not taking any risk or neither paying any forward premium for hedging the currencies so we are keeping a natural hedge between our imports and exports because we have lesser imports then actual our exports that is number one. So for us commodities are concerned, we are always having a inventory of close to 90 days of in various raw material WIP and finished goods and that much of order booking also we have so that also create a natural hedge with whatever we are buying and with whatever we selling. So we have not experienced any major hit on our margins due to the lowering of the commodity prices. I think I am able to answer your question.
- Navin Trivedi:** Yeah, fair point. Only last one question on the working capital. As retail portion is increasing what is your assessment is that how has been the working capital cycle in FY17 as compared to FY16?
- Rajeev Gupta:** As our sales through retail network is increasing in some number of days our total working is capital is decreasing.
- Navin Trivedi:** What is the assessment for FY16?
- Rajeev Gupta:** FY?
- Navin Trivedi:** FY16.
- Rajeev Gupta:** FY16, we have only the fund base limit from 360, we have raiseonly to Rs.410 crores.
- Moderator:** Thank you. The next question is from the line of Ravikiran Suranafrom Infina Finance. Please go ahead.
- Ravikiran Surana:** What I basically wanted to know that you mentioned that there is a 25% volume growth in Cables in first nine months for us. So how does this growth rate compare with let us say volume growth experienced in the industry with some of your bigger competitors?
- Rajeev Gupta:** We do not have the data of the competitor.

- Ravikiran Surana:** But your assessment, so basically is....
- Rajeev Gupta:** No, Polycab is not a listed company.
- Ravikiran Surana:** No, what I qualitatively wanted to understand that is segment itself is growing at such a high volume growth or you are gaining market share?
- Anil Gupta:** I mean there is a growth in the demand as well but we are also gaining market share mostly by improving our distribution network.
- Ravikiran Surana:** Okay. So basically you are saying that in Housing Wire segment your market share is growing?
- Anil Gupta:** Yes.
- Ravikiran Surana:** Okay. Did you book any inventory losses in this quarter?
- Anil Gupta:** No.
- Ravikiran Surana:** No, inventory losses, okay. And can you give us the break-up of the revenue which you generally give between basically LT, HT, EHV?
- Rajeev Gupta:** Yeah, please note down. In this current quarter Low Tension Power Cable is Rs.229 crores; High Tension Power Cable means up to 11 kV and 33 kV are Rs.121 crores; and Extra High Voltage Power Cable in this quarter is Rs.20 crores, House Wires Flexible Wire is Rs.85 crores; Stainless Steel Wire is Rs.22 crores and EPC division is Rs.82 crores.
- Ravikiran Surana:** Okay. And one last thing I wanted to understand, our margins in EPC segment for this quarter are pretty high I mean almost if I look at segmental reporting almost 17% so are they sustainable or these are quarterly aberration?
- Rajeev Gupta:** No, this is quarterly aberration because in this quarter the erection was higher.
- Ravikiran Surana:** Okay. So what are the sustainable margins?
- Rajeev Gupta:** Sustainable margin is close to 13% to 15%.
- Moderator:** Thank you. The next question is from the line of Sunil Jain from Nirmal Bang Securities. Please go ahead.
- Sunil Jain:** Sir, this is more related to the debt which was there at the end of FY15 was around Rs.450 crores and which you said has come down to Rs.375 crores, if I am not wrong.

- Rajeev Gupta:** Actually in this current year some debt has increased for the working capital because of the increased sales and some debt has increase of term loan for the CAPEX.
- Sunil Jain:** Yeah. So what is the current debt?
- Rajeev Gupta:** Current debt is Rs.530 crores.
- Sunil Jain:** Okay, Rs.530 crores. And sir, against that the total interest seems to be quite high.
- Rajeev Gupta:** That I earlier also explained the interest figure, you can note down the interest break-up of the last financial year, there is LC Interest we buy the metal against the LC so we have to pay the interest on the LC also.
- Sunil Jain:** So what is that? How much is that in the current year?
- Rajeev Gupta:** Last year if you talk of financial year 2014-2015 out of Rs.120 crores LC Interest was Rs.31 crores.
- Sunil Jain:** Rs.31 crores. And rest is on our total overall loans?
- Rajeev Gupta:** Term Loan Interest was Rs.21 crores; Working Capital Interest was Rs. 47 crores; Bank Charges on LC was Rs.7.7 crores; Bank Charges on Bank Guarantee was Rs.7.51 crores and Bank Charges and Processing Fee for others was almost Rs.6.1 crores. So it was total Rs.120 crores for 2014-2015.
- Sunil Jain:** Okay. So since the metal prices and everything is coming down so is this likely to have an impact on all these LC charges and LC?
- Rajeev Gupta:** But sir, we are procuring more because of the increase in volume.
- Moderator:** Thank you. The next question is a follow-up from the line of Sangeeta Purushottam from Cogito Advisors. Please go ahead.
- Sangeeta Purushottam:** I just had one question that the CAPEX that we are going to incur are we going to borrowing anything against it or it will be financed through internal accrual?
- Rajeev Gupta:** No, it is a mix finance through internal accrual as well as the term debt.
- Sangeeta Purushottam:** So we will take some fresh term debt?
- Rajeev Gupta:** Yeah.
- Moderator:** Thank you. The next question is a follow-up from the line of Priyank Chandra from Dolat Capital. Please go ahead.

- Amit:** Yeah, hi this is Amit here from Dolat. Just want to clarify, I mean we are going to be reducing our debt as you suggested earlier on the call over the next few years against that we also have growth which seems to be quite supportive. So is there any thought in terms of further strengthening the balance sheet because one would expect a faster reduction on debt in general but it seems you are still a little more measured on that part. So any plans to sort of look out for other options on reducing debt?
- Rajeev Gupta:** Sir, we are already repaying some debt which were earlier taken and as our profit is increasing we are repaying the debt. As I said, that in the next three financial years our total term debt at Rs.210 crores will be paid-off.
- Moderator:** Thank you. The next question is a follow-up from the line of Dhiral Shah from GEPL Capital. Please go ahead.
- Dhiral Shah:** Sir, what is your cost of debt?
- Rajeev Gupta:** Cost of debt right now is almost 11.95%.
- Dhiral Shah:** Okay. For the long-term debt right?
- Rajeev Gupta:** For long-term debt cost is 12.5% to 13%; for the working capital it is 11.95%.
- Moderator:** Thank you. As there are no further questions, I would now like to hand the floor over to Mr. Girish Solanki for closing comments.
- Girish Solanki:** Thanks a lot. I would like to thank the management Mr. Anil Gupta, thank the management Mr. Rajeev Gupta for taking the time out. Thanks a lot, sir.
- Anil Gupta:** Very much.
- Rajeev Gupta:** Thanks Girish Ji. And thank you to all.
- Anil Gupta:** All the participants thank you.
- Moderator:** Thank you. On behalf of Anand Rathi Shares & Stock Brokers Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.