"KEI Industries Limited Q1 FY'19 Earnings Conference Call"

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MANAGEMENT: **MR. ANIL GUPTA – CHAIRMAN AND MANAGING DIRECTOR**
MR. RAJEEV GUPTA – HEAD SECURITY DIRECTOR

MODERATOR: **MR. AMIT MAHAWAR – EDELWEISS SECURITIES LIMITED**

Moderator: Ladies and Gentlemen, Good day and welcome to the KEI Industries Q1 FY19 Earnings Conference Call hosted by Edelweiss Securities Limited. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal the operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over Mr. Amit Mahawar from Edelweiss Securities. Thank you and over to you sir.

Amit Mahawar: On behalf of Edelweiss I welcome you all to KEI First Quarter Fiscal 19 Business Conference Call. We have with us today Mr. Anil Gupta – Chairman and Managing Director, Mr. Rajeev Gupta – Executive Director.

Without further delay, I now hand over the call to the management for opening remarks post which we will open the floor for Q&A session. Over to you sir.

Anil Gupta: I am Anil Gupta from KEI Industries. I will give a brief summary of the results of Q1. This quarter we have achieved a net sales of 884 crores that is precisely 883.9 crores against sales of 778 crores achieved in the same quarter. In last year published results of the first quarter the sales given were inclusive of excise duty. So, this 778 crores figure of last year we have excluded the excise duty because now after the GST excise duty is excluded. So, with this growth in net sales is 13.62% in the first quarter of current year compared to the corresponding first quarter of last year. Operating profit of this quarter is 86.14 crores against 76.8 crores so the growth in operating profit is 12.16% and corresponding profit after tax this quarter is 32.17 crores compared to 27.47 crores in the same quarter of last year. The growth in profit after tax is 17.12%. Earnings before interest depreciation in tax in this quarter is 9.87 on the net sales. Volume growth in our cable division in Q1 is approximately 17% as compare to the previous year corresponding quarter.

The significant point the institutional sale of cables including EPC is 322 crores in first quarter against last year same period 284 crores for the supply of cables. In institutional sales growth other than EPC is 253 crores against 174 crores in the last year same period. So, the growth of sale of cable the institutional customer is 45% Export sales is 79 crores in the first quarter compared to last year same period sales of 110 crores. This is the sale is less by Rs 50 crores because around 50 crores worth of cables could not be dispatched export orders could not be dispatched because of non-clearance on the customer, but these 50 crores worth of cable has been dispatched during the month of July and we will be able to cover up this shortfall in the second quarter while maintaining the second quarter.

The sales through the distribution network in the first quarter recorded is 326 crores as compared to 210 crores during the same period. So, the growth through the dealer network is 55% in this quarter. The total active working dealers of the company as on 30 June 2018 is 1302. During the first quarter EPC division sales is 158 crores this is apart from the cable sale to our own EPC division against last year sale of 174 crores in the same period. In the shortfall in the sale EPC division will be make up during the subsequent quarter. Company is having a strong order book in EPC and we are already L1 in 850 crores of tender out of which 200 crores letter of intent were received yesterday evening. So, we are quite hopeful that we will achieve the target sales of EPC division at par as compared to that of the last year. Extra high voltage cable sale is 39 crores against last year 59 crores. We have a very strong order book position in the EHV side close to 400 crores and we are expecting a 100% growth of EHV cable business in current financial year as compared to last full financial year.

Total borrowing as on 30th June is 625 crores as against 842 crores as on 31st March 2018. So, the operating cash flow is very positive this quarter approximately 203 crores due to better realization from the debtors. Overall, we are expecting to grow by 18% to 20% in the whole year. Pending order as on date is around 3000 crores we sent a press release mentioning 2600 crores but 400 crores order of exports or have already been received and contracts are already signed. So, the total pending order book position is 3000 crores and we are L1 in 1200 crores out of that 200 crores orders have been received yesterday late evening letter of intent we have received. So, the total order book position stands at 3200 crores as of today and 1000 crores worth of tender we are L1 which we expect to receive these orders within next 2 months' time.

Financial charges of the company in the first quarter of this year is 28.66 crores as compared to 29.91 crores of the last year during the same period. So, overall, we see a strong financial year in terms of our performance going forward and we hope that as per our earlier guidance given we will be able to grow by close to 20% in this financial year compared to the last financial year. So, I would like you to raise any specific questions whatever you may have.

Moderator: We will now begin the questions and answer session. The first question is from the line of Adit Makhijani from B & K Securities. Please go ahead.

Adit Makhijani First of all if you could give us the breakup of EHV LT HT and house wire and secondly, I would like to understand why there was a de growth in the EPC business this time and what is your outlook going forward.

Management: So, you can write down the product wise detail this quarter LT power cable is 314 crores and HT power cable sale is 149 crores. Extra high voltage power cable sale in this quarter is 39 crores and house wire sale are 180 crores. Stainless steel wire sale is 31 crores and EPC sale without cable is 158 crores and the other scrap and export incentive is close to 13 crores so the total figure is 884 crores.

Management: So, far as shortfall in EPC business is concerned there was some delay in taking off new orders on the ground that is one reason and secondly the in the first half the execution is little slow due to which because of the early arrival of monsoon we will definitely cover up the shortfall in the subsequent quarters.

Management: The total target will remain same as we earlier guided in this financial year we will be having the export this EPC sale close to 1000 crores that will be maintained in this financial year.

Moderator: The next question is from Abhinit Anand from SBICAP Securities. Please go ahead.

Abhinit Anand: So, of this 3000 odd crores order book what is the deliverable in FY19 you said EPC will be 1000 odd, what could be the number be in FY20 because we have had good amount of concrete and L1 order

Management: In EPC next year we will grow by 15% to 18% in FY20. FY19 will be flat and FY20 we will grow by 15% 20%.

Abhinit Anand: Second is we said that the gross debt has come down from 840 to 625.

Management: Because as on March the gross debt was 842 crores and the cash and bank balance of 76 crores. So, now this has reduced to 624 and the cash at bank balance is close to Rs. 23 crores

Management: It is mainly because of the better realization of debtors in the first quarter and because the fourth quarter sales were also quite high, so the debtor realization was very strong in the first quarter.

Abhinit Anand: So, with this reduction will our interest cost for full year guidance come down sir

Management: You see as our sale will grow this 624 by the end of the year to the closure to the 750 crores. So, interest cost will not increase definitely but it will reduce marginally.

Management: But with the growth in turnover which is likely to be 20 we are able to contain the debt we are not increasing the debt level with the growth of the turnover.

Abhinit Anand: See with the election at the end of FY19 do you see any risk in the receivables from the EPC if we are doing for the government.

Management: We do not see any problem because all are funded projects and we are getting our payments within a reasonable time.

Moderator: The next question is from Manoj Gori from Equirus Securities. Please go ahead.

Manoj Gori: Can you throw some light on the housing wire segment was going around that we are trying to scale up this business.

Management: Housing wire segment we are doing adequate activities and efforts in improving our brand positioning. This year we were already present in IPL on the front chest of Rajasthan Royal which was a significant brand building exercise and apart from some presence on the TV which will continue throughout the year. Secondly, we are doing substantial amount of below the line activities like electrician meets, dealers get together other motivations programs for the dealers, contractors and influencers in this area and apart from strengthening our own retail team who are supporting the dealers across India. So, we are going to see a significant growth in the sales through dealer network. We expect an overall growth of around 35% in our sales through distribution in dealer network in this financial year compared to the corresponding last financial year over a full year period. Although in first quarter we have achieved a 55% growth in the retail sales.

Management: In house wire we have grown by volume terms 59%.

Manoj Gori: So, in this case definitely as you highlighted like volume growth, so it is definitely panning out well for us. So, other than that, if we look at I think like any updates like how we are going to actually debt level should be maintained in the current year is it right.

Management: Because you know debt level will be maintained because we are growing our turnover and we are also doing new CAPEX so in spite of CAPEX and growing turnover which require more working capital we are not increasing the debt.

Manoj Gori: What would be a retail and institutional mix.

Management: As we have earlier guided that we are trying to achieve to the level of 40% by next financial year so slowly, slowly we are increasing our retail turnover.

Moderator: The next question is from the line of Pooja Doshi from Motilal Oswal. Please go ahead.

Pooja Doshi: Sir firstly could you give me your orderbook breakup in terms of EPC cable domestic export EHV.

Management: You can note down in EPC order book position as Anil said that 1500 crores in the EPC order book position Rs. 445 crores extra high voltage order book position. In cable institution 667 crores and in export it is 195 crores. There are the L1 position in EPC L1 position is close to 600c crores in NEXA high voltage power cable L1 position is close to 300 crores and in export the L1 position is close to 400 crores this export order LOI has already received which we are telling in the L1 but the formal order is yet to come.

Management: Letter of intent is already received for 400 crores export.

Management: The total order book position put together in hand or in L1 or LOI position will be close to 4190 crores. I think this is the highest order book position we are having right now from the cable side.

Pooja Doshi: Sir specially I wanted to know out of total raw material cost how much is contributed by copper and how much by aluminum if you could breakup.

Management: Approximately 38% to 39% is represented by copper/ aluminum in their respective whatever is the conductor in a particular cable rest is the other raw materials.

Pooja Doshi: Sir I wanted to know like this quarter your raw material as percentage of sale has come down significantly compared to the previous quarter I just wanted to know what your hedging policy is considering our previous quarter copper prices was as high.

Management: See as we have earlier guided that we are maintaining the three months inventory in our factories and we are carrying close to four-month order book position from the institution side. For the retail almost three, four days before we received the order and we supply the contracts. So, almost under the natural hedge we are working. Now the import has increases so there may be some lag effect for one month, but otherwise we are under the natural hedge.

Pooja Doshi: How do you see this trend going ahead.

Management: if the copper price will go up our sales price will go up copper price will go down then our sales price will also go down accordingly.

Moderator: The next question is from the line of Sanjay S from Ampersand Capital. Please go ahead.

Sanjay S: The guidance of 20 is only for the cable business or cable plus EPC.

Management: Sir we are guiding for the total balance sheet 18% to 20% growth. If you see the previous four years CAGR then our 18% to 20% CAGR comes same again for three to four years you will see the same figure.

Sanjay S: Your retail business is going so fast compared to the rest of the business. It looks like there is no difference in profit EBITDA margin of retail versus other but is there a difference in working capital cycle my question is that is the house wire business are better return on capital employed than rest of the business or not.

Management: Yes definitely that is why we have already said as our retail sale is going up our few numbers of days our working capital cycle is going down on the balance sheet. So, the cash flow is already improved while we are selling to the retail sector.

Sanjay S: But you still you guided that your receivable overall will be from current quarter onwards that is why I was just wondering a bit.

Management: March quarter our sale is almost higher in all the years. So, that is why in the year end the borrowing get increased because of the debtor increase as the borrowing increase, but during the year it is getting down because our first quarter is low than second then third, then fourth. However, sale is improving like this only since so many years except the last year because last year sale was in first quarter high because there was a pre-GST sale to the institution because the GST was going to come. So, the institution has got in the first question instead of the past quarter. So, that is why last year was exception in the first quarter higher sale.

Sanjay S: As far as your pricing of house wire is it at par with market leaders or at a discount?

Management: It is marginally lower than the market leader like Finolex and Havells.

Sanjay S: And margin wise do you see any upside to your net margin or EBITDA margin from here on or it will be maintained at this level?

Management: We are working hard to improve our margins but at the moment we have given a guidance estimate 10% of overall business will definitely try to improve upon on it.

Moderator: The next question is from the line of Pratik Kumar from Anand Rathi. Please go ahead.

Ashish: Sir my question is regarding your other expenses which looks on a higher side in this quarter so is there any one off in that?

Management: As a percentage it has slightly changed not much change because of some exchange fluctuation gone into this quarter otherwise rest are common.

Ashish: So, there is no FOREX related thing?

Management: No some exchange fluctuation I said in this quarter it has gone.

Ashish: So, how has been in the previous quarter if you can give some highlight over last three, four quarters?

Management: In the last year if we talk about total currency gain was close to 8 crores to 9 crores the whole year, but in this quarter this exchange loss hit to close to 10 crores to 11 crores, but it is only one-off basically because the dollar rupee difference from Rs. 65 crores to Rs. 69 was in this quarter alone actually.

Management: In one quarter alone, there was a significant exchange fluctuation and the whole exchange fluctuation impact has come in this quarter on the imports.

Ashish: So, against 8 to 9 crores of gain last year we had 10 crores to 12 crores of loss in this quarter itself this is what you are saying?

Management: But we do not see for the remaining 9 months this kind of anything.

Management: Whatever open position was there it already nullified, and we have huge export order book which will give us a better realization of exchange because of the gain in the appreciation in the dollar compared to the rupee, but our export orders are in the US dollars.

Moderator: The next question is from Harshit Kapadia from Elara Capital. Please go ahead.

Harshit Kapadia: Just wanted to ask we have simply LT cable revenue has been flat on a YOY basis can you give some insights on that?

Management: Because LT power cable capacity was 100 utilized actually last year. So, we have recently started the operation in the new plant of LT power cable by end of May. So, now from here onward the LT power cable production will be available to the company to sell.

Harshit Kapadia: So, this facility is now completely operational?

Management: Yes, it is now completely operational.

Harshit Kapadia: But there was an issue on the demand side and it is just that we had a supply constraint from our side?

Management: Once we have the good strong order book position from exports, from retail, from EPC everywhere we have the demand.

Harshit Kapadia: Second question is on EHV your revenue has fallen that was because of non-clearance of that customer?

Management: Yes because of the non-clearance from a certain site, we were not able to execute those orders. We have got some clearances, so we will see a significant growth in the EHV cable turnover.

Management: I think as far as the capacity concern and the order book position almost for one year we are booked now.

Harshit Kapadia: On EPC you had mentioned you expect 15% to 18% growth in next year would that also mean that your guidance of EPC in order inflow of 1000 crores which you wanted to maintain it now you are also looking to garner more order in that segment?

Management: Because we are taking the order on the basis of the sale we are going to do so accordingly we are maintaining the order position always in EPC division. Last year we have told that in this year financial year we will be going flat in EPC because we are doing some CAPEX and focus on retail. So, because of that we are doing the 1000 crores only in this financial year. And our team of EPC execution team was engaged in the Banaras. So, they are freeing by August end. So, we have taken the new order of position and opening the new sites. It always depends on the team which we are having to execute the contract. Our focus for execution of the contract not only on the orders.

Moderator: The next question is from Dhruv Bhatia from AUM Advisors. Please go ahead.

Dhruv Bhatia: So, first year the clarity on the EPC revenues of 1000 crores does it include the cables or is it excluding the cable?

Management: It always includes cable because last year out of 950 crores turnover of EPC there was 300 crores worth of cable.

Dhruv Bhatia: So, without this you are expecting 650 crores of EPC?

Management: Yes close to 650 to 700 crores.

Dhruv Bhatia: Could you talk about the capacity utilization of the other product?

Management: Capacity utilization like in almost in LT power cable and almost 100% just I am updating you the capacity. HT power cable is also now almost 90% capacity utilization we are having. But if we talk of the total cable division capacity utilization on the basis of increased Pathredi project and we are at level of 81% and in-house wire division we are utilizing almost 90% capacity and in stainless wire we are almost 100% capacity utilization.

Dhruv Bhatia: Could you talk about the CAPEX plan going forward because you are talking about 20% top-line growth?

Management: In this financial year after the completing of this LT power cable project at Pathredi now we have planned Rs. 35 crores expenditure for HT power cable over there in the same plant of Pathredi. There is an extra 5 crores will be invested for building work and another 30 crores will be for plant and machinery. This plant will be operational by February end which will enhance the production of HT power cable by another 200 crores. So, this plant capacity then total will be LT and HT will be Rs. 500 crores. Apart from this, we are also planning to enhance the capacity for house wire division because we are already operating it 100% capacity utilization in our house wire and our demand is very strong, dealer network is very strong. So, we are looking for some land near Silvassa, as soon as we get this land we will be announcing the same to you also. There investment will be apart from land and building will be close to Rs. 35 to Rs. 40 crores which will enhance the production capacity of house wire close to 500 crores to 600 crores which will be sufficiently available for next two financial year.

Moderator: The next question is from Varun Arora from Auroville Investment Managers. Please go ahead.

Varun Arora: My question is regarding your retail business, you pointed out earlier that our pricing is lower on the retail side if you could actually give some more qualitative color in terms of the competitive intensity in that part of the business, geography wise also if you could give some color that would be helpful?

Management: We may be a lower in our pricing compared to the brands like Havells or Finolex by 3% to 4% but we are trying to penetrate our markets by keeping our prices lower. This is a deliberate strategy to gain the market share. So, far as our geographical strength is there Pan India, now we are becoming very strong in Eastern India, North and West. South we are doing very strong follow up on the branding especially the below-the-line activities to increase our market share. So, presently the purpose of keeping the prices marginally lower than the top brands is to have deeper penetration the market and increase our market share so that we are able to get stronger foot hold in the market.

Varun Arora: Just a follow up on that are you also seeing a response from the other players in terms of pricing especially like Polycab if you could throw some color on that.

Management: We are almost at par with the Polycab, so we do not see any better competition with any of these players so far as pricing is concerned.

Moderator: The next question is from Darshikha Khemka from Edelweiss. Please go ahead.

Darshikha Khemka: Sir actually just wanted to ask about the EPC division it has seen a decline, but you said that the shortfall will be recovered in the next quarter, what is the exact reason for decline in EPC sales?

Management: A little slower execution during first quarter and it may remain so in second quarter due to early arrival of monsoon in some areas. So, during the monsoon the utilities they decline the road cutting permissions and other ROW issues arise so that is the main reason. And we have also focused a lot in this first half in closing the ongoing contracts so that the contract closure we are doing almost contract closure of almost 18 to 20 projects which has been going on for last 18 to 24 months so that once we achieve this contract closure we can push for the recovery of retention money. The focus was one on the closure of the contracts and also due to the monsoon the execution remained slow.

Darshikha Khemka: Is there any accounting impact on the sales?

Management: Yes Darshikha there is some accounting impact also of AS115 wherein they say If the installed material is there then it is not to book in sales and not to book the profit, so the few crores rupees is also belonging to that also.

Darshikha Khemka: Sir if you could quantify that it will be really helpful?

Management: It will be close to Rs.45 crores

Moderator: The next question is from Deepankar Sati from Magadh Capital. Please go ahead.

Deepankar Sati: Sir I just missed on that CAPEX numbers of your so if could just please repeat it once?

Management: CAPEX number will be 35 crores additional CAPEX in the Pathredi project for high tension power cable project and another is still planning for additional capacity of house wire in Silvassa wherein the plant and machinery CAPEX will be Rs. 40 crores and some land and building. So, land and building yet to be finalized. So, once it is finalized we will update you.

Deepankar Sati: It is like 75 crores?

Management: In a year it will be close to 75 crores to 80 crores.

Deepankar Sati: So F19 will be around 75 crores.

Management: As Anil ji has said earlier that the debt remain will be same, debt will not increase in the balance sheet. Whatever we are increasing CAPEX or increasing working capital we are planning only to the extent of internal accruals available to the company. So, that is why we are slowly, slowly improving the capacity and gaining the sales from the market.

Deepankar Sati: Do we have plans after that this initial 35 crores or we will plan next year probably?

Management: These are the sales for '19-20 because '18-19 we have already planned and 18% to 20% growth. Whatever CAPEX we are doing the sales will come only in the '19-20. So, again the '19-20 will be growing by more than 20% because of this capacity addition.

Moderator: The next question is from Abhinit Anand from SBICAPS Securities. Please go ahead.

Abhinit Anand: We missed around 50 crores on the exports you said and around 40 crores on the EPC because on IndAS 115 so around 100 odd crores is broadly is what looks like?

Management: Abhinit ji whatever small sales happened it goes more or less but as a year-on-year basis we will grow by 18%-20% because we are supplying to institution. So, sometimes we get clearance sometimes we do not give the clearances. So, if that sales do not come in June then those sale comes in July. So, ultimately what year-on-year basis 18%-20% growth that you would definitely get.

Abhinit Anand: Secondly if in terms of rupee depreciating and we have exports why do we a FOREX loss of this 10-12 crores?

Management: Since last three, four months the import of copper has increased because of the Sterlite.

Management: Because the Sterlite Tuticorin plant was shut down, so the import has increased.

Management: If you see it throughout the year in average there will be not much difference in some year there is gain and in some years there is loss that is why whenever we talk we always talk with you that it is an operating gain or operating loss because directly related to the raw material or directly related to the sale. Now going forward from here we have the export order close to 600 crores now including L1.

Moderator: The next question is from Dhruv Advisors from AUM Advisors. Please go ahead.

Dhruv Bhatia: On the retail sales could you just talk about of this 55% sales growth, how much would you attribute to the distribution increase as well as GST rates coming down from 28% to 18% so probably the organized market has grown faster, so could you talk about that?

Management: It is purely on account of market penetration and increasing our distribution network. It has nothing to do with the GST rate coming down. If somebody has to buy something GST rate is same for all the companies all the competitors, so it does not increase or decrease the sales. So, whatever growth is there it is because of the marketing strategy and market penetration in the respective geographical territories.

Dhruv Bhatia: Sir on the top-line growth you have grown the quarter by 17% in volume terms and value terms the growth has been 13.5%, so is there a realization dip or what is led to the volumes being higher than the over value growth?

Management: See we consume metal, aluminum and copper so aluminum and copper prices there is a price difference of three times.

Management: The volume growth actually we have mentioned is in the cable business. An overall growth has come 13.62% the EPC has not grown which is where there is a decrement that is why the volume growth we have mentioned 17% but the turnover has increased is 13.6%. I think I am able to clarify.

Moderator: The next question is from Shikha Mehta from Equitree Capital. Please go ahead.

Shikha Mehta: Can you please clarify the stainless-steel sales this quarter again?

Management: Stainless steel sale in this quarter is Rs. 31 crores.

Shikha Mehta: Sir out of our raw material how much percentage would be import?

Management: For stainless steel wire?

Shikha Mehta: No, sir in general overall.

Management: In general, overall like aluminum, copper, PVC compound, GI wire these are the basic raw material in our cable actually.

Management: No the question is how much is the import in the total raw materials.

Management: Import is mainly copper and XLPE compound actually almost 50% copper.

Management: In overall raw material the import content will be around 25% in overall raw material.

Shikha Mehta: Sir we had given a guidance of around 250 crores of CAPEX so is that still maintained over the next two years?

Management: Not 250 crores. We have said that 35 crores in the Pathredi and close to 40 crores to 45 crores in house wire business. So, close to 75 crores to 80 crores in this financial year.

Moderator: Thank was the last question in queue. I would not like to hand the conference back to the management for closing comments.

Anil Gupta: Thank you very much for this interactive session and for your precious time interacting with KEI Management. I really reassure you that during the company performance will be better than what we have had and whatever we have said we are little conservative in our approach what we say, but we do always have done better. So, if you still have any further questions you can reach us on email or phone we will be glad to clarify you. Thank you very much.

Moderator: Thank you very much. On behalf of Edelweiss Securities that concludes this conference. Thank you for joining us ladies and gentlemen you may now disconnect your lines.