"KEI Industries Q2 FY22 Earnings Conference Call"

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MANAGEMENT:	**MR. ANIL GUPTA – CHAIRMAN & MANAGING DIRECTOR, KEI INDUSTRIES LIMITED** **MR. RAJEEV GUPTA - CFO, KEI INDUSTRIES LIMITED**
MODERATOR:	**MR. ANUBHAV RAWAT – MONARCH NETWORTH CAPITAL LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to the Q2 FY22 Earnings Conference Call of KEI Industries Limited hosted by Monarch Networth Capital Limited. As a reminder, all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference 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. Anubhav Rawat from Monarch Networth Capital Limited. Thank you and over to you, sir.

Anubhav Rawat: Thank you. Good afternoon, everyone. I hope everyone is safe and healthy. We are pleased to host the senior management team of KEI Industries today and we have with us Mr. Anil Gupta - Chairman and Managing Director of the company and Mr. Rajeev Gupta - CFO of the company. Let us start this call with management's initial comments about the results and then we can take your questions. Over to you, Anil sir.

Anil Gupta: Thank you very much. Good afternoon. I welcome you all to our KEI Q2 Results Conference Call. I will give a brief about the performance of the company in Q2 and the first half of financial year 21-22. Net sales in Q2 of this FY22 is Rs. 1353.43 crores against Rs. 1036.94 crores last year, so the growth achieved is 30.52%. Company has achieved highest ever quarterly sales in this quarter if we compare it with our past history. EBITDA in this quarter is Rs. 148.83 crores against 121.76 crores. The growth in EBITDA is 22.23%. EBITDA/net sale margin is 11% as against 11.74% in the same period previous year. EBITDA margin declined mainly because of some expenses normalized at pre-COVID level and sharp fluctuations in the input costs. Profit after tax this quarter is 91.98 crores against Rs. 68.06 crores in the same quarter previous year. Growth in profit after tax is 35.15%. Profit after tax/net sale margin has improved to 6.8% versus 6.56% last year same period.

The domestic institutional cable sale of high-tension and low-tension cable is Rs. 420 crores against 307 crores, so the growth is approximately 37% and domestic institutional cable sales of extra high voltage cable is Rs. 154 crores in the second quarter against 102 crores in the previous year same period. The growth is approximately 51%. Export sale in this quarter is Rs. 129 crores in which cable 86 crores, EPC 18 crores, and stainless steel wire 25 crores against Rs. 160 crores last year. The decline is approximately 19% mainly because of sales to Dangote Oil Refinery last year against a very large order of 450 crores. The sale to Dangote in the same period was 41 crores.

The total cable institutional sale contributed approximately 49% in the second quarter against 52% in the same period last year. Sales through dealer/distribution network achieved is Rs. 580 crores in this quarter against Rs. 348 crores in the same period last year. The growth achieved is approximately 67%. From the beginning of the year, 2021, company has been working on strengthening its dealer network and has expanded its marketing network by adding around 150 additional sales people from electrical and FMEG product background at different levels on pan

India basis. This has deducted into good growth in the dealer network and this segment. The total active working dealers of the company as on 30th September 2021 were approximately 1700. The sales through dealer network contributed 43% in second quarter against 34% contributed last year in the same period.

The EPC sales other than cable is Rs. 92 crores as against Rs. 133 crores, the decline is approximately 31% in the second quarter. So out of the stainless-steel wire sale in Q2 of financial year 21-22 is Rs. 52 crores against Rs. 33 crores in the same period last year, the growth is approximately 54%.

Now, the net sales in the first half of 2021, first 6 months, H1 achieved is 2371 crores against Rs. 1782 crores achieved last year, so the growth in net sales in the first half, overall 6 months is 33%. EBITDA growth in the first half is 28.4% compared to last year and EBITDA/net sales margin is 11.19% as against 11.59% in the same period last year. Profit after tax in the first half is 159 crores against 107 crores in the last year. The growth in the profit after tax is 48.28%. The net profit margin over net sales has improved to 6.71% versus 6.02% last year.

The sales of domestic institutional cable sales in the first half, the growth achieved is 60% and in the extra high voltage cable sale is 183 crores in the first half against 190 crores achieved in the previous year same period. We had some pending dispatches in the first quarter which were affected in the second quarter in this year. Export sale in the first half is Rs. 222 crores against 343 crores, the decline is approximately 35%.

Again, the reason explained through large sale of 137 crores done to Dangote Oil Refinery last year in the first half of the last financial year. The total institutional cable sale contributed 49% in the first half against last year same period 57% and the sales through dealer network contributed 41% against 30% last year. The sales for 6 months through dealer network is 967 crores against 534 crores. The growth is approximately 81% in the first half of this financial year.

Similarly, the EPC in the first half is 178 crores against 211 crores, decline is approximately 16%. This is in line with our previous guidance to lower EPC business and restrict it to 10% to 12% of the total revenue. Out of the total sales of EPC, the sales of extra high voltage cable execution portion is 55 crores. Stainless-steel wire sale in the first half of the financial year 21-22 is Rs. 100 crores against 54 crores, so the growth is approximately 83% during first half in stainless-steel wire business.

The current pending order position is overall 3296 crores out of which 1077 crores is EPC orders. In this, 663 crores are export EPC which are World Bank and ADB funded projects in Nepal and Gambia in Africa. The pending order position of extra high voltage cable and its execution portion is 532 crores. Domestic orders against domestic customers is 1525 crores and export orders pending are 162 crores of the cable. The company's credit rating from ICRA, CARE and India Rating is AA- for Long-Term Bank Facilities and A1+ for Short-Term Bank Facilities.

The book value per equity share of the company is Rs. 215.16 as on September 30th 2021 as against Rs. 197.38 as on 31st March 2021. The total borrowing including channel finance of Rs. 144 crores as on 30th September, the total borrowing including channel finance is 340 crores and cash and bank balance is of 64 crores as against borrowing of 305 crores and cash and bank balance is Rs. 221 crores as on 31st March 2021.

Acceptance that means creditor against letter of credit as on 30th September is Rs. 128 crores as against 323 crores as on 31st March 2021. So the net debt including acceptance is almost at bar at Rs. 405 crores as against 408 crores as on 31st March 2021. It was 922 crores as on 31st March 2020. During the first half of financial year 21-22, finance cost has decreased to Rs. 21.36 crores as against 31.74 crores in the previous year same period. Percentage of financial charges on net sales has decreased to 0.9% of the net sales from 1.78% a year ago. So the company has used operating cash flows for cash purchases resulting into reduction of trade payables, acceptances, substantially by Rs. 195 crores as compared to March 21 which has further reduced finance cost during the first half. Though it may impact certain financial ratios like ROCE, return on capital employed and working capital cycle, but it has benefitted the company in the form of reduction in the finance cost.

Future outlook. Our strategy is to increase continuously retail sales and downsizing EPC business is working well and in future within 2 years' time, our retail sale will reach at 50% of the total sales of the company with annual growth of 30 to 35% per annum in retail business which is evident from H1, first half results of financial year 2022. The retail business offer superior growth prospects with better margins and lower working capital requirements.

The capacity utilized during first half of 21-22 is 67% in cable division, 62% in house wire division and nearly 100% in stainless-steel wire division. So the company already has capacity in place to achieve growth for the next financial year. The company is in process to expand the capacity by setting up a greenfield project for LT, HT and extra high voltage cable with an investment of Rs. 700 to 800 crores which will be incurred in 3 to 4 years time to maintain 17 to 18% CAGR growth for the coming years. Our last 15 years CAGR is 15% and in last 5 years, the company has achieved a CAGR of 20% except financial year 2020-21.

Overall, company is targeting more than 25% growth in the current financial year with strong order book in hand and good demand from the government and private CAPEX. Further, the company is also exploring various options/opportunities to launch some additional FMEG products at appropriate time and probably at the end of financial year 2022. We will be able to give some more concrete details on FMEG later.

The industry outlooks and demand drivers, we have seen strong demand coming from government CAPEX as well as private CAPEX, broad base growth across all categories and sectors. We have seen good upside in real estate projects and demand from residential sector in the Metro cities as well as the Tier-2 and Tier-3 cities. CAPEX in the industrial sector continues a good demand from solar power projects and oil and gas sector, refinery expansion, fuel upgradation and capacity upgradation projects. Lot of investment is coming up in tunneling and tunnel ventilation projects for railways as well as highways which offers a good opportunity for the supply of cables to reach these projects. Underground cabling projects of transmission and distribution in Metro cities and Tier-3 cities. Conversion of overhead cable and overhead lines into underground cabling, metro rail projects, bullet train projects has been executed between Mumbai and Ahmedabad, modernization of railway stations, smart city projects and also modernization of new airports, ports, etc., and construction of highway resulting into elimination of overhead network into underground cabling, steel industry expansion and the expansions in other industrial sectors.

This is a broad outlook and I would now invite you if you have any questions, we will be glad to answer. Thank you very much.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Rahul Agarwal from Incred Capital. Please go ahead.

Rahul Agarwal: I had three quick questions, firstly on the housing wire, the sale was 400 crores, I think that beats your own guidance as well as our estimate as well, first question on that, is this the normal quarterly run rate going forward or this had some element of pent-up demand for 1Q and obviously second half generally is better than first half for cable and wire company, so what kind of run rate are we looking for the housing wire, that is my first question?

Rajeev Gupta: No doubt, there is a pent-up demand, but the run rate will improve from here, we expect an improvement from this number in the coming months.

Rahul Agarwal: So, for full year, what kind of numbers we should look at for housing wires?

Rajeev Gupta: We have earlier guided that in the house wire segment for this year we will be close to 2x sale we are planning to do, so already we are in the path and we have engaged the consultants for guiding us for the policy and making the strategy, we are taking the help of the digitalization, so now we have developed an app, wherein all the retailers, electricians and distributors are in that page, so we are able to guide them where we are lagging behind, so that the whole centralized monitoring is going on while we are doing the dealer sale of house wire. So that project is going on, so there our focus is to increase the number of distributors all across the country and each distributor has to increase the number of retailers in their folds and we are also going to engage more and more electricians and architects because they are influential.

Anil Gupta: To specifically answer your question, I expect a growth of around 50% to 60% in this financial year as compared to last financial year.

Rahul Agarwal: Sir, secondly on the gross margins, they were down, but you maintained EBITDA margins quite decently, but given Havells and Polycab both reported suboptimal cable and wire margins, what was your strategy in the second quarter because what we understood was copper was easier to pass through because that is the very established method, but other metals like steel, aluminium as well as PVC was very tough, so what really happened in terms of price hikes and how did you manage that?

Anil Gupta: It is better purchase management and inventory management linking to the order booking.

Rahul Agarwal: And lastly on the CAPEX, so first half looks like you just spend 22 crores, my sense was this was in the first year to basically start our large CAPEX, if you could just guide please for the current year and next year CAPEX, I think some delay of this year will be caught up in next year, so any sense on that?

Rajeev Gupta: We are in the process of acquiring the land because we are buying the agricultural land, so little bit small hiccups are there, so now it is being resolved within this quarter itself, so then we are going to spend around, as we have earlier guided also Rs. 200 crores per annum we will be investing, so in that case, once we got the land, then the major investment will start over there, land, building, plant machinery etc.

Rahul Agarwal: So, for this year, it looks like the CAPEX is going to be below 100 crores and next year it will be higher than?

Rajeev Gupta: Below 100 crores, definitely it will be below 100 crores now because it is the land and when the construction will start.

Rahul Agarwal: And next year we should assume 200-250 or how is it?

Rajeev Gupta: Yes, close to 250 crores next year.

Moderator: Thank you. The next question is from the line of Naval Seth from Emkay Global. Please go ahead.

Naval Seth: My first question is on EHV segment on first half basis, if I look at, the number on average is lower than pre-COVID number on last year also, so what kind of growth you are expecting in H2 in EHV? Second on stainless-steel, you are already at 100% capacity utilization and strong numbers in H1, so is this run rate sustainable or there were some one-off orders in first half which led to this kind of run rate?

Anil Gupta: First of all, stainless-steel wire, this run rate is absolutely maintainable. I think if we have more capacity, we can sell as much what we can produce, so we are adding some additional capacity of 15% in the same plant by debottlenecking. That process is on and I think within next 1 to 2 months, that capacity will come. So the growth will further come in this division in the fourth quarter. So far as EHV is concerned, because of the lot of turbulence in the commodity cycles, lot of customers are not finalized orders during the second quarter, so lot of orders are under discussion and I think in the first quarter in commentary, I had mentioned that we were not able to dispatch lot of cables because of the nonclearance from the customers, so that were dispatched in the second quarter and hence the 51% growth has come in the second quarter. So we hope that some more orders are in the pipeline and which will be materialized and overall growth in this segment looks to be 10% to 15% only in the whole year.

Naval Seth: And thirdly, on volume growth, if you can bifurcate in house wires or LT cables, so how has been the trend, because LT cable I believe the volumes are still under pressure, so by when we are expecting things to normalize?

Rajeev Gupta: See, if we talk of only house wire sale, then close to 16-17% in first half was the volume growth, through the volume growth out of the total incremental sale, but if you talk of the company as a whole, on the basis of the protection we did, we have grown close to 24% in terms of volume because whatever production we had made which will be going into the third quarter because now our run rate of permanent sale has increased, so that is why little bit finished goods inventory has got also increased, so this is the time wherein we are consuming the material more as compared to last year, so overall volume growth is close to 24%.

Naval Seth: Sir, last question on retention money, any update you want to share what you have stated that 150 crores will be covered this year, so anything on that incrementally?

Rajeev Gupta: From that Rs. 50 crores has already come, already we have received around Rs. 50 crores and by end of this year, additional 100 crores will come.

Moderator: Thank you. The next question is from the line of Lavina Quadros from Jefferies. Please go ahead.

Lavina Quadros: Two questions, one is, again the standard, what is the interest rate breakup across different hedge for the quarter?

Rajeev Gupta: Lavina, you can note down. In this quarter, our term loan interest is only 0.5 crore and working capital interest is only 2.27 crores and the other interest on LC, etc., 1.81 crores. So, the October working capital interest is 4.08 crores and then we have the health interest is very nominal, just only Rs. 5 lakhs and then charges hardly close to 1.73 crores and the processing fee of the bank is close to 3.5 crores. So overall, it is 9.95 crores is the interest cost.

Lavina Quadros: And sir, just to understand your working capital when I look at it, your current liabilities has come down, that is because you all are choosing to pick cash and reduce interest, I am just trying to understand that, so that is the only reason, there is nothing else there, right?

Rajeev Gupta: That is the only reason because we are getting the target benefit by way of the interest saving which is already evident from the balance sheet itself, but the negative side of this is you must be seeing the cash operating flow is the negative because we have paid extra to the creditors actually.

Lavina Quadros: Yes sir, that is the reason I asked, so basically that is the reason and sir, the other thing is, I know on retail you all have mentioned that 50-60% is the outlook for the full year, but just wanted to clarify again, there is nothing one-off in this quarter on the revenue line, right, so therefore this run rate should continue to improve like you are saying?

Rajeev Gupta: Lavina, we will be again up from this quarter, that I can say.

Lavina Quadros: And you think it is the market size growing or it is you all gaining share if you have to put your finger on it?

Rajeeev Gupta: Market is growing, demand is increasing, our retail dealer/distributor network is increasing because as you know we are having the different verticals of the sales like in exports, sale is increasing, retail is increasing, our other low-tension, high-tension power cable sale is increasing, so some of growth is coming from the volume and some growth is coming from the value, so both has contributed.

Lavina Quadros: And sir, last question, on your EPC side of the business, you all have still done reasonable numbers in this quarter, so on a full year it is possibly be 7 to 8 billion, you think it ends this year?

Rajeeev Gupta: Our total sale of EPC was like last year other than the extra high voltage, EPC close to 500 crores, it will be below the 500 crores this year also.

Anil Gupta: Because we have not booked any new orders in last two years in EPC side except one order from Gambia which is a World Bank aided project.

Rajeeev Gupta: We are doing only the profitable business, that is it.

Anil Gupta: And having complete price variation on all element for our project including steel, cables, everything.

Moderator: Thank you. The next question is from the line of Charanjit Singh from DSP Mutual Fund. Please go ahead.

Charanjit Singh: My first question is, in terms of the competitive intensity from smaller players, how you are seeing that in this quarter, unorganized versus organized and in terms of our market shares, will you able to share some numbers? That is the first question.

Rajeeev Gupta: Unorganized sector is already reducing because of their personal issues like working capital availability and the capital they are not having and also the management bandwidth we are not having, so because of those additional demand is coming to the top companies, number one and they are losing market share by 2-3%. They have already reduced to 27% as compared to 30% and by end of this year, we will come out to 25% market share by all the unorganized sector in the house wire segment.

Charanjit Singh: So this is you are talking only about the housing wire or both housing wires and cables, put together?

Rajeeev Gupta: In cable, mainly the organized player because there are quality issues and the inspection issues, so all the companies those who are having in the range of 200 crores to 600 crores, they are also competing, but yes, they are also struggling with the working capital issues and the management banker issues, so the additional demand we are getting.

Charanjit Singh: And sir, from the current capacity utilization perspective, can you tell us like what are the articulations right now across different plants within that?

Rajeeev Gupta: Current capacity utilization in the cable segment is close to 67% and in the case of house wire that is 62% because we have added the capacity 1-1/2 year before and in stainless-steel wire, the division almost we are operating at 100%.

Charanjit Singh: Sir, now Anilji also talked about the overall outlook is extremely positive and we could see may be a longer cycle in terms of how the infrastructure overall things are taking up, would you be able to give us more from a 3 years perspective how KEI looks itself in terms of one is the topline and how our margin profile can change over the years as we scale up the top, additionally the retail thing in terms of house wires where we are trying to scale up in a big way, how that contribution will be in next 3 years timeframe?

Anil Gupta: I think we have already given some guidance about that we expect retail business to grow by 30% to 35% year-on-year because our complete focus is there, I am talking of house wire, flexibles and cables through retail network and outlook look strong. I think that good amount of CAPEX is coming up all over the country and it will further expand from government as well as private CAPEX and including the solar power projects. So we are confident that a growth of 18% to 20% or 17% to 18%, but we are projecting for coming financial year is feasible and retail growth of 30% to 35% because the focus is there. This year because of the lower base last year, we are expected to grow overall 25 or may be even 30% because of the lower base of the last year.

Charanjit Singh: And sir, on the retail side of the business, the housing wire, if you can just give us update in terms of the addition of manpower or the distributors what we have added in this quarter and for the second half what is our brand structure on the housing wire segment? That is my last question.

Anil Gupta: We have already mentioned that we have added close to 150 sales people all over India in the retail network in the company and our total dealer numbers are 1700, but more than number, the number may not have increased, but our whole aim is to strengthen and increase the output from the already existing dealers, means we are trying to increase their volumes, each and every dealer must grow by 50% to 70%. That is the endeavor what we are doing and our teams are helping them in doing secondary sale and other tertiary sale and then the business development process including reaching out to the influences which may include architects or consultants or the electricians in the lower segment. So, this is the whole process we are undergoing at the moment and similarly, the intense training of the sale staff towards that direction.

Moderator: Thank you. The next question is from the line of Nigatia from SINPL. Please go ahead.

Nigatia: Sir, in case of retail wiring, if you can just further dwell on our understanding, since you are guiding strong growth outlook, of this how much would you attribute this 30-35% targeted growth on let us say stronger industry demand, market share gains from unorganized or let us say from other leaders in this category? Also, if you can just throw some more light on what exactly when we say we are acquiring market share of even from some organized players, what is the value proposition largely is price we are competing on or is it something else, so if you can just elaborate on some soft points there?

Anil Gupta: Definitely, there is an increase in the market demand, to some portion will come there and some growth we are shifting from unorganized to organized sector and little bit of market share from the existing large players, the shifting of market share. So it is difficult to quantify that what growth is coming from where because that minute data, micro data is not available at the moment.

Rajeeev Gupta: We have increased the reach because we have added the number of people, almost 150 people on the ground all across the country, so wherever we were not present or our manpower was not sufficiently was having time to handle because earlier they were having only 5 cities, 7 cities, now they have come to setting more on city or two cities, so these kind of penetration and the time they are giving to the secondary market, so it is improving the sales.

Moderator: Thank you. The next question is from the line of Ankit Kumar from Alpha Capital. Please go ahead.

Ankit Kumar: Sir, my first question would be, we have done really well on managing the cost in terms of margins this quarter compared to peers, so any guidance on how our second half is going to be because the copper prices are still quite volatile?

Anil Gupta: Our margin earlier also basically maintained between 10.5% and 11.5%, so we will be in the same range actually because we don't have much margin. So that is why we are operating in a very tight situation and we have the markets like as an export, extra high voltage power cable, little bit EPC and low-tension and high-tension power cable and dealer/distributor sale. So, each and every segment we are taking care, so the same kind of range will be there.

Rajeev Gupta: So, for us input volatility is there, we are managing it well by taking good position on metals and other raw material also in terms of vis-à-vis order's book, so we have not been hit by any input cost volatility so far.

Ankit Kumar: Next question would be, there has been decent level of promoter selling in the last 3 months, any reason for that and what can we expect in terms of that?

Rajeeev Gupta: Whatever selling was there, there was 20 lakhs share. He wants to sell because he wants to use for the personal use, so he want to buy the house and at the lease, so he has bought also.

Anil Gupta: And that money has been used for buying a residential property for our use.

Ankit Kumar: And sir, no more plans to selling?

Rajeeev Gupta: No.

Ankit Kumar: And sir, on Dangote, there was nothing done in the last half of last year, so am I right on that, second half there was nothing on Dangote?

Rajeeev Gupta: There was nothing.

Ankit Kumar: And sir, overall guidance for second half would be as in we have done 30% for the first half and we used to guiding 18-20% long-term, so second half would be equally strong in terms of 30% odd or how should we look at it?

Rajeeev Gupta: We see as our overall guidance earlier was 20% growth, now our guidance has grown more than 25%.

Anil Gupta: Actually, we are very conservative in giving guidance, but we have always performed better than the guidance.

Rajeeev Gupta: So whatever extra will be there, extra will be there.

Moderator: Thank you. The next question is from the line of Samer Patel from AUM Finance. Please go ahead.

Samer Patel: Sir, can you highlight on the working capital cycle as in because our inventory has increased by 150 crores that I have to understand with the increased sales, but our tables have also reduced by around 150 crores, so what has currently happened?

Rajeeev Gupta: Table has reduced because of the lowering of the interest cost, so whatever cash we were having, so we have utilized for cash purchase and reducing the creditors, so there we have saved the interest cost. As far as inventory finished goods have increased because of the higher valuation as well as the higher run rate now and sometimes in a single order sometimes inspection got delayed, so it will be dispatched in the next month. So these are the normal things actually.

Samer Patel: So what is your target on number of days for the quarter cycle?

Rajeeev Gupta: So number of days for the inventory is close to 2.25 months and for the receivable close to 3 months. Already, it has reached to 3.5-4 months, it will further come down to 3 months by end of this year.

Samer Patel: And on the payable end?

Rajeeev Gupta: Payable because we are having the cash, so we are saving the interest cost. That is why we are paying to payable, otherwise in the earlier we were having the 3 months payable, now it is only 1.25 months payable.

Samer Patel: So that means that our working capital cycle will increase to almost 4 months by large by the year end, that is your?

Rajeeev Gupta: That is in our hands, because if the one to pay creditor, then it is working capital cycle looks like high, but if you don't want to pay creditors then working capital cycle will go down to 2.8 months or may be less than that because that is the creditor which is the available period is 3 months, but we are paying because we are getting extra benefit.

Samer Patel: And sir, currently the term loan that we have, what is the interest percentage on that?

Rajeeev Gupta: It is close to 6%, ECB loan, close to 32 crores is the outstanding term loan.

Moderator: Thank you. The next question is from the line of Rahul Agarwal from Incred Capital. Please go ahead.

Rahul Agarwal: Sir, just couple of questions, one is debtor balance as you highlighted it higher, is it related to that extra EHV order dispatch or is it something else?

Rajeeev Gupta: No, debtor holding is getting down, earlier it was 3.87 months, so it is going down, now it has come to 3.42 months by end of this year, it will go down to 3 months level only.

Rahul Agarwal: Sir, I understand, I was referring to the absolute number, 1380 crores?

Rajeeev Gupta: Absolute number that depend on holding because the effect will be there.

Rahul Agarwal: And lastly, you said your current capacity is enough to cover fiscal 23 growth, is that correct?

Rajeeev Gupta: Yes, financial year 22-23, we will be having the capacity close to achieve the topline of 6200 crores plus.

Moderator: Thank you. The next question is from the line of Rajiv Mehra from Phantom Wealth. Please go ahead.

Rajiv Mehra: Sir, obviously you spoke and touched upon the margins, I just wanted to understand the sustainability of margins going ahead should be in the range of 10.5 to 11% as you mentioned, is that correct?

Rajeeev Gupta: Yes, but normally since we have crossed the bridge of 11%, so hopefully we will be targeting 11%.

Rajiv Mehra: And sir, if you could touch upon your export business going ahead, what kind of traction are we seeing there and what could be the contribution going ahead say in the next financial year or may be in the next coming couple of years and also in your opening remarks you touched upon launching of couple of products on the FMEG side, if you could just touch upon your CAPEX plan or how much spending have you done on that segment and what could be the contribution going ahead in the next couple of years from this side?

Rajeeev Gupta: In export front, Anilji has a specific focus and we will be maintaining close to 10% to 12% export, overseas. Our run rate will be close to 500 crores this year and next year will be more than 600 crores export. With regards to FMEG, we are in the planning stage and just we are waiting to settle down our house wire business to grow by 100% this year, so that we will be on the path of 50% contribution through the dealer/distributor business of the whole company. So we are in the process and hopefully by end of this quarter or may be in the fourth quarter call, we will be giving you certain guidelines for which product we are going ahead. Definitely, we will be going ahead because all the manpower which we have taken has come from the various background of FMEG. With regards to CAPEX or the new FMEG product in the initial 2-3 years, it will be through outsourcing model only. So whatever CAPEX we will be doing, we will be doing only for our existing product range of cable.

Moderator: Thank you. The next question is from the line of Manoj from Equirus Securities. Please go ahead.

Manoj: Sir, you already mentioned about the support to dealers that you have been offering, can you elaborate more like what is the exact role that you are providing to your dealers other than the engagement with the influences, so what are the other kind of support that you are offering?

Rajeeev Gupta: Support in terms of the incentive to the electrician and incentive to the retailer directly, so that we can map the sales.

Anil Gupta: The support we are providing to the dealers by way of through our business development team, so that we are helping them to sell to create demand for them in their area by approaching them by mattering the live projects, residential projects or whatever live projects where they aim to sell and then helping them in tertiary sale, reaching out to incidences like architects or consultants or electricians, this is the help we can provide to them.

Rajeeev Gupta: Searching for them to more retailers also because the distributor will have more retailers.

Manoj: Sir, secondly, see you have been guiding and you have always outperformed your guidance and you have been guiding for the sustainable growth, but currently obviously there seems to be some pressure on volumes from the cable side, whereas post COVID if you look at demand for volumes have definitely picked up and the volume growth has been pretty robust for the industry as a whole, how do you look at the cable's demand with regards to volume in the coming time and what do you think would be the key triggers over there?

Anil Gupta: We have already mentioned that key triggers are the CAPEX outline of government and private CAPEX, so actually the demand will always come from the CAPEX in the infrastructure, in the industry, new industries, in the new real estate buildings, construction sectors, the demand will always come, they are the demand drivers. I think in my initial commentary, I have mentioned the demand drivers and the business outlook.

Manoj: No, I do understand that, but with regards to volumes obviously even when the last year we were expecting some demand to pick up, so not KEI in specific, but the industry as a whole from fourth quarter, so I was just trying to understand on that?

Anil Gupta: See, for the industry as a whole, the demand pick up benefits everybody, not only KEI.

Manoj: Sir, you did mention on the gross margin pressure that obviously because of the volatility, there was some sequential impact on gross margin, so would you attribute the total impact on sequential basis purely on the basis of volatility or there has been some channel hesitancy as well with regards to price hike?

Anil Gupta: There are mixed reasons, the volatility of the prices as well as when the prices goes up very high, definitely there is some deferment of purchases by the customers, but eventually then the price settles down in 15 days or a month's time, that purchase comes back because they cannot indefinitely delay their purchases.

Moderator: Thank you. The next question is from the line of Shree Nidhi Karlekar from HSBC. Please go ahead.

Shree Nidhi Karlekar: Sir, my first question is on the government's recent scheme on power distribution sector where they plan is spend about 3 lakh crores, lot of it goes in cables and high voltage distribution infrastructure, so just wanted to know your perspective, does that really improve the volume growth or outlook for the power cable segment and does it improve the visibility as well or it is just the packaging of the existing demand that anyways come?

Anil Gupta: See, all these packages of 3 lakh crores what government is giving, basically, definitely improves the demand of electrical product for these power utilities indirectly. What happens is that this money is given to them for cleaning up their balance sheets, so that they become eligible for fresh borrowings because all these utilities are incurring losses due to lower tariff than their costs or whatever technical and commercial losses they incur due to the tariff or to the theft, etc., for electricity. So, year-on-year basis, government keeps on giving them new packages to clean up their balance sheet and when they clean up, they need CAPEX, so they come up with the fresh CAPEX, they have again become eligible for further roles from power finance corporation, REC or bank and then they are able to pay back to the generating companies for the power purchase, so everywhere, ultimately the money rotates back in one form or the other.

Shree Nidhi Karlekar: But sir, this time it sounded like it is very project specific and they want to spend it only on two areas, one is like smart metering and other is they typically talk about cabling, so I was just wondering is it different or it is like UDAY 1.0 where balance sheet is getting improved?

Anil Gupta: I don't have much detail about, smart metering I am aware, but cabling is definitely will there, because it is only through cable that we can eliminate the theft and reduce the technical losses in the transmission. So the purpose of the credit is to reduce the technical and commercial losses and improve the metering.

Shree Nidhi Karlekar: And sir, I just wanted to know how large is the solar cable business for KEI and how large is this overall solar cable industry in India and sir, related second question in the past, you have highlighted that how utility solar power plant increases demand for cable business because evacuation of power happens through cables as against over a transmission, so just wanted to know how much percentage of the case is actually the evacuation of power happens through cables and how much happens through transmission?

Anil Gupta: This industry has now become very big and you must have seen that even Reliance industries and Adani are coming up in a very big way in manufacturing of solar panels and battery storage systems. As on now, the yearly targets are 20,000 to 25,000 megawatt additional capacities in the solar power generation and so far these developers were mainly dependent from import from China. Now, indigenous capacities are coming up which will give more stability to this factor in times to come. So for us, cable demand in these projects is concerned, I think there is roughly 6% to 8% of the CAPEX goes into cables because the entire evacuation of the power is done through 33KV cables and then connected to the grid for further transmission.

Shree Nidhi Karlekar: And sir, how large would it be for KEI already this business in terms of percentage?

Anil Gupta: KEI is already, I think exact numbers I have no quantification at the moment, but at least 250 to 300 crores worth of cables are going into solar business directly or indirectly through the developer.

Shree Nidhi Karlekar: And sir, in the past, company did collaborate with company to get the capabilities on EHV side, I was just wondering are some schemes or just partnerships are in the works to build capabilities on the offshore wind power evacuation cables because there I think you need submersible cables, just wondering, I know it is not an immediate demand in market, but come few years out, you would have demand for these, so I was just wondering our plan is there to develop these cables?

Anil Gupta: At present no, but we also are looking for opportunities. Whenever the good demand comes, we will also try to grab that.

Shree Nidhi Karlekar: And just last one sir, if I may, so just wanted to understand this EHV cable, is it fair to understand that the entire EHV cable directs us as well as through EPC, it goes to the distribution utilities, eventual customer is distribution utilities, right?

Rajeev Gupta: No, extra high voltage cables are always sold to transmission utilities because these cables are used for underground transmission by power and the transmission companies in various states and the central sector transmission company like power grid corporation of India, they buy it, they transmit the cables through this to the distribution companies. So it is not a distribution product.

Moderator: Thank you. Ladies and gentlemen, this will be the last question for today which is from the line of Amit Nahar from Edelweiss. Please go ahead.

Amit Nahar: Sir, I only have one question, typically it seems the dealer network and ground presence of the sales force is more Eastern focused, you can correct me if I am wrong or can you give some details of which regions have driven this growth of more than 50% in first half in house wire retail?

Rajeev Gupta: I think all regions across the country has given this growth, but strongest regions are North and Eastern India and even West is also performing very well and we are also ramping up the marketing positions in South India. They have also done decently well and we will also come up to the level within next 3 to 4 months.

Moderator: Thank you. Ladies and gentlemen, as this was the last question for today, I would now like to hand the conference over to the management for closing comments.

Anil Gupta: I thank you all our investors who have joined this conference call and I wish all of you a very Happy and Prosperous Diwali and the New Summer. So, thank you very much. If you still have any further questions, you can reach out to us. Thank you.

Rajeev Gupta: Thank you very much and wish you all Happy Diwali.

Moderator: Thank you. On behalf of KEI Industries and Monarch Networth Capital Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.