



“KEI Industries Limited
Q1 FY '24 Earnings Conference Call”

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MODERATOR: **MR. RAHUL DANI – MONARCH NETWORK CAPITAL
LIMITED**

Moderator: Ladies and gentlemen, good day, and welcome to KEI Industries Limited Q1 FY '24 Earnings Conference Call hosted by Monarch Network Capital. As a reminder, all participant lines will be in listen-only mode, and there will be the opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

I'll now hand the conference over to Mr. Rahul Dani from Monarch Network Capital. Thank you, and over to you, sir.

Rahul Dani: Thank you, Tim. Good afternoon, everyone. We are pleased to host the senior management 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's start the call with the opening remarks from the management, and then we'll move to Q&A. Thank you, and over to you, sir.

Anil Gupta: Yes. Good morning, colleagues. I'm Anil Gupta from KEI Industries. So I'll give you a brief about the results of Q1. We achieved net sales of INR1,782.5 crores, with a growth in net sales to 13.87%. EBITDA in this quarter is INR186.6 crores, and we have grown the EBITDA by 13.27%. EBITDA of net sales margin is 10.47% against 10.42% in the same period last year. Profit after tax in this quarter is INR121.39 crores. So the growth in the PAT is 17%. PAT holding net sales margin is 6.81%.

Domestic institutional cable sales wires and cables is INR538 crores in the first quarter. So it has grown by 14%. Export sales achieved in this quarter is INR307 crores against INR247 crores last year, and it has grown by around 25%. Domestic institutional Cable sales of extra high-voltage cable is INR50 crores in the first quarter against the INR100 crores previous year. So the total cable institutional sales contribution is 46% against 49% in the previous year same period.

Sales through distribution network, that is B2C, is INR796 crores in first quarter against INR652 crores in the same period last year. Growth is approximately 22%. B2C sale has contributed approximately 45% in the first quarter against 42% in the last year. Sale of EPC division is INR111 crores against INR84 crores last year. Sales of Stainless Steel Wire division is INR58 crores against INR61 crores last year. Volume increased in the Cable division on the basis of consumption of metal in quarter 1 of FY '23, '24 as compared to the previous year, the same period is approximately 22%.

Bending orders as on 26 July, is INR3,567 crores. External rating. The company has got an external India rating and Research Privates Limited has affirmed its long-term rating as AA with positive outlook. ICRA and CARE long-term rating is AA stable. Short-term rating from India rating ICRA and CARE is A1+. Book value of the equity share of the company is 300.86 as on 30th June.

Total borrowing is INR130 crores. This is only for channel finance. Otherwise, all other limit utilization is nil. Cash and bank balances of the company on 30th June is INR306 crores as

against total borrowing of INR135 crores. Cost channel finance and cash and bank – net cash acceptance, credit as on 30 June is INR151 crores against INR219 crores as on 31st March 2022.

So the net cash is INR24 crores as on 30 June against net cash of INR183 crores as on 31st March. The finance cost has decreased to INR8.94 crores against INR9.23 crores last year. Interest income on fixed deposits in Q1 is INR5.92 crores, which is included in the other income. It was INR3.44 crores in the previous year's same period. The future outlook of the company.

At present, the company has repaid all its debts and is a debt-free company and cash accruals will be used for capex for future growth and additional working capital requirements. The company is confident of increasing its top line by 16-17% in the current financial year.

During the year, the company has incurred a capital expenditure of approximately INR114 crores in the Q1. And during the current financial year, doing a brownfield capex of around INR45 crores in Silvassa plant, which will generate the additional top line revenue of LT power cables of around INR500 crores. This will enable us to grow by approximately 16-17% in the current financial year.

Apart from brownfield capex in FY 23-24, the company has planned INR250 crores to INR300 crores capex on greenfield expansions of cable and wires in Gujarat. Commercial production of which will commence in the fourth quarter of FY '25. We have already purchased land in Q1 and we will spend every year in capital expenditure of approximately INR300 crores to INR350 crores each year for the next 3 years to maintain a CAGR of 15% to 16% per annum as against achieved CAGR of 14% during the last 15 years.

Industry outlook. As I said earlier, the demand for our products is strong in domestic as well as overseas markets. India has emerged as the fastest-growing major economy in the world and is expected to be in the top three economies in the world in the next 10 to 15 years. Demand in the infrastructure sector in the solar, wind and other infra projects of the central government as well as industrial projects by the private capex is very strong.

Demand for residential properties has surged due to increased organization and rising household income. Increasing private and government investments in energy-intensive industries such as iron steel, aluminium, cement fertilizer and refinery. The government emphasis on infrastructure development and products such as energy, railway and metro construction, roads and highway building, ports and airports and modernization, among others. So we thank you for your participation, and we'll now invite you to ask any questions, which you may have, and we'll be glad to answer. Thank you.

Moderator: Thank you very much. We will now begin with the question-and-answer session. We take the first question from the line of Mr. Piyush Khandelwal from Bank of India.

Piyush Khandelwal: Just wanted to understand, let's say, at current capacity, what can be the peak revenue that you can do?

- Rajeev Gupta:** At the current capacity as well as with the brownfield effect, which we are going for the next year, we can generate a revenue of INR9,400 crores to INR9,500 crores.
- Piyush Khandelwal:** This will be able to take care of the growth? That's what I wanted to understand.
- Rajeev Gupta:** Yes. So that's why, Anilji have said that next year also we will grow by 16-17%. As well in the current year also, we will be growing 16-17%.
- Piyush Khandelwal:** Right. Understood. Sir, next question is if I look at the segment breakup in terms of growth. Our domestic cables business has just grown 3% Y-o-Y. I mean just wanted to understand because in the opening of your remarks as well, you mentioned that the demand is good. Then that side of the business is not done well?
- Rajeev Gupta:** In that domestic side, if you talk of the low-tension and high-tension power cables, we are earlier, our turnover was INR472 crores last year. This year, our first quarter turnover was INR537 crores. So we have grown by close to 14% in the local market also. In the case of the dealer/distributor, our growth is close to 22%, as Anilji has said.
- Piyush Khandelwal:** Sir, as I see EHV cables business that is around INR588 crores versus INR572 crores in the previous quarter, it's a 3% growth?
- Rajeev Gupta:** Extra High Voltage power cable, which was earlier INR100 crores, is now INR50 crores. But now the order position of Extra High Voltage power cable is very, very strong. So from the second quarter onwards, again, this will go to INR100 crores to INR125 crores per quarter for Extra High Voltage power cable.
- Piyush Khandelwal:** So you'll be able to do INR550 crores of annualized sales in this year?
- Rajeev Gupta:** Yes, yes.
- Moderator:** We take the next question from the line of Mr. Rahul Agarwal from InCred Capital.
- Rahul Agarwal:** So sir, one question to you. I mean cable segment growth is at 14% Y-o-Y overall, everything put together. Was this in line with your internal planning for the quarter? Because it seems to be a low number when I look at your peer group who already reported numbers, it looks like cables are seeing some exponential demand in the country. So just need some of your thoughts on this. I understand EHV is down for some order execution delays. If you can explain that as well. But what happened on the LT/HT side? Is it material enough to think about market share last year?
- Anil Gupta:** No. I'll explain you. We have grown actually by 22% in volume terms. The revenue growth is 20% because of the decline in the raw material prices and the metal prices of copper and aluminium due to which the revenue growth is only 14%. But in quantitative terms, we have consumed 22% more raw material during this period. Now your second thing is about capacity constraints at the moment, so which we are doing a lot of debottlenecking process in our existing plants so that we maintain a growth of around 16-17% revenue growth and around 20% in volumes this year also. And I'm assuring you that it will be done. It will happen.

- Rajeev Gupta:** And Rahul, as per our earlier guidance, also, we have already guided every time that we will be growing 16%, 17%, 18% kind of thing. And volume terms, it has already grown by 22%. So our sale is as per the guidance actually, which we have given earlier also.
- Rahul Agarwal:** We absolutely agree, sir. I mean, the thing was, actually, most companies are beating guidance, given that there is some exponential demand scenario along the capex lines of the company, both private and public. Hence, I was thinking that in that context, it is low. I'm not saying, obviously, you have guided, and you've met the expectation.
- Rajeev Gupta:** But I'm not aware that the peer group has guided you about the 30% growth for the full year.
- Rahul Agarwal:** No, they haven't. They have not.
- Rajeev Gupta:** Because we always talk of the yearly growth. And since so many years in the past, we always guided you, and we achieved that.
- Rahul Agarwal:** Okay, sir. Moving on, sir, between the copper and aluminium mix, I just wanted to know for KEI in terms of raw material, should we assume equal mix between copper and aluminium?
- Rajeev Gupta:** Normally, it is a 55-45 kind of thing sometimes 60-40. It is like that.
- Rahul Agarwal:** Okay, get it. And one question on balance sheet, your net working capital, it looks like it's up INR250 crores of investment, Q-o-Q the operating cash flow is negative for the quarter? Any thoughts what really happened?
- Rajeev Gupta:** No, no. That is mainly because we have paid more to the creditors because the money is in the business only. Whenever we would like to have increased the creditors that will be there, available. Because right now, the cash is available, so we are purchasing more and more on the cash. If you see our creditors has gone down.
- Rahul Agarwal:** Yes, I understand that, sir. We have been doing that.
- Rajeev Gupta:** So, that is in our hand actually, whenever we want, we can increase creditors. So, basically, the cash flow is available with the company.
- Rahul Agarwal:** Okay, got it. So, no major increase into inventories and debtors, nothing unusual there, right? That's what I wanted?
- Rajeev Gupta:** No, no debtor is already at par. Last year was INR1,387 crores, this year is INR1,322 crores. Because the EPC project, which we have already closed, we are getting our retention money. So, debtor is slowly, slowly decreasing, actually. Even the sale has grown by 14%, even the debtor is low as compared to last year.
- Rahul Agarwal:** Got it, sir. And lastly, on the capex, this Brownfield of INR45 crores, this is the second time we are doing this. Is that correct?

Rajeev Gupta: Yes, yes. First has already completed. And now, the second is going on in the Silvassa which will be completing by September. So, the second half production capacity will be available. And another capex is going on in Bhiwadi and another is going on in the Gujarat. So, that's why, overall, we have already invested in the land. And now, we will invest in the plant machinery advances and the building for Gujarat and Bhiwadi. So, approximately, another INR300 crores we will spent in this financial year.

And for the next two consecutive years, every year, we will be investing close to INR350 crores each year. So, our growth target, whether for current year or for next financial year, we are keeping in our mind 16-17% kind of growth.

Rahul Agarwal: So, there is a Brownfield happening at Bhiwadi also?

Anil Gupta: Yes.

Rajeev Gupta: Yes.

Rahul Agarwal: And how much is the spent there?

Rajeev Gupta: It will complete by the first quarter of the next financial year. So, it will take care for the next year 17% growth.

Rahul Agarwal: What is the capex there, sir?

Rajeev Gupta: Close to INR110 crores.

Rahul Agarwal: Okay. So, if I understand this correctly, you have spent about INR114 crores this quarter. You will spend another INR300 crores in the balance 9 months. And from next year onward, it will be INR350 crores each?

Rajeev Gupta: Yes, yes.

Rahul Agarwal: And this includes Bhiwadi capex also?

Rajeev Gupta: Yes, yes.

Rahul Agarwal: Okay. Perfect, sir. I will come back in the queue. Thank you so much. All the best.

Rajeev Gupta: Thank you, Rahul.

Moderator: Thank you, sir. We take the next question from the line of Mr. Shubham Aggarwal from Axis Capital. Please go ahead.

Shubham Aggarwal: Hi, sir. I think most of my questions got answered during the last interaction with the last participant. Just on the capacity itself, what is the capacity utilization right now for you?

Rajeev Gupta: Sir, close to 90% capacity we are utilizing in our low tension and power cable capacity. And since our Silvassa plant in our house wire capacity we have already increased. So, that capacity

utilization is close to 63%, 64% now. And our extra high voltage power cable capacity from the current quarter, it will be touching close to again 90% to 95% now.

- Shubham Aggarwal:** Right. And this new capacity in Silvassa is LTHT. I heard it right?
- Rajeev Gupta:** It is only for LT cable in Silvassa, which is the Brownfield capex is going on. It is only for LT power cable.
- Shubham Aggarwal:** Okay. And sir, can you just give me some detail on the pending order book, the breakup that you gave?
- Rajeev Gupta:** Pending order book, as Anil ji has said that it is INR3,567 crores rupees which includes the EPC pending order is INR832 crores. Extra high voltage power cable is close to INR809 crores and the domestic cable for low tension and high tension is close to INR1,690 crores and export order is INR236 crores for the cable. So, put together all, it is INR3,567 crores.
- Shubham Aggarwal:** That is all from my side, sir. Thank you.
- Rajeev Gupta:** Thank you.
- Moderator:** Thank you. The next question is from the line of Mr Achal Lohade from JM Financial. Please go ahead, sir.
- Mr Achal Lohade:** Yes. Thank you for the opportunity. Sir, I just wanted to check on the margins. If you look at the margins for the cables in terms of the EBIT margin, we see that it has contracted on a Y-o-Y as well as Q-o-Q. The number, it is not large, but given we are as you know we have capacity constraint, which implies that we are utilized fully. Why would the margin contract? Is it to do with the raw material? Is it to do with the product mix?
- Rajeev Gupta:** It is mainly because of the advertisement and IPL expenditure during the first quarter only because of that, nothing else.
- Mr Achal Lohade:** Can you be able to quantify what is the quantum?
- Rajeev Gupta:** Close to INR10 crores to INR12 crores we spent on the advertisement and the IPL, which was not in the last year quarter.
- Mr Achal Lohade:** Understood.
- Rajeev Gupta:** Actually, all the expenditure were relating to the quarter one only. So, we have to book in the same quarter actually.
- Mr Achal Lohade:** And how do we look at the spending from a full year perspective? What is the spending we would look at in terms of percentage?
- Rajeev Gupta:** No. Actually, the other expenditure on business promotion advertisement will remain same as we were doing in every quarter. Last year, we did not participate in the IPL and we did not done the TV advertisement for IPL. So, because of that, additional INR10 crores was the

expenditure in this quarter. Otherwise, overall business promotion advertisement, year-on-year basis, it will be close to INR35 crores.

Mr Achal Lohade: Annually. Okay.

Rajeev Gupta: Yes.

Mr Achal Lohade: Understood. And secondly, can you talk a bit more on the exports, which geographies have we got more customers now signed up in terms of the margins for these exports and what is the mix in terms of exports in terms of wires, cables and within cables if there is LT/HT, etc.?

Rajeev Gupta: See, as Anil ji has earlier also guided this year, this last year our export was contributing close to 10%. So, he has within this export within two years, three years' time to go to the level of 70% to 20%. So, in the current financial year, we are targeting a 17% kind of total contribution from the exports. So, even in this quarter also, if you see, the contribution from export has reached to 17% in the current financial year also. And the export order book position is strong. It is INR236 crores exports and we are exporting mainly the cable part, low tension, high tension, and little bit extra high voltage power cable.

Mr Achal Lohade: Right. And just a clarification in terms of the execution period, what is the typical period for the domestic cables as well as for these exports, is it 3 months?

Rajeev Gupta: Yes, it is normally 2.5 months to 3 months.

Mr Achal Lohade: 2.5 months to 3 months from getting the order to the delivery?

Rajeev Gupta: Yes. So, whatever pending order is there, we have to supply within 3 months almost.

Mr Achal Lohade: Got it, sir. This is very helpful. I will come back in the queue, sir. Thank you.

Rajeev Gupta: Thank you, sir.

Moderator: Thank you sir. The next question is from the line of Mr. Venkatesh Balasubramaniam from Axis Capital. Please go ahead, sir.

V. Balasubramaniam: Yes. Thank you for the opportunity. Now, I had a few questions. The first question is on copper. Now, can you please highlight how much percentage of the copper that you use, you procure from India and how much you import?

Rajeev Gupta: So, normally major copper and aluminium is we are using domestic only against the advanced license. Few orders we take from the import side. Otherwise, most of the cases, there are the validation. So, we take even the duty-free from the domestic supplier that is Hindalco and Vedanta, etcetera.

V. Balasubramaniam: Okay. So, because the reason I am asking you this question is primarily because the market leader actually claims that when you go to the -- when you actually, if you import copper, there are contracts available where, let us say, you place the order for copper today, the price does

not have to be decided on that day. Let us say you will take the delivery of the copper after three months. You have the option of deciding how you want to price the copper, whether it be at spot or, let us say, if the prices have actually risen over the three-month period, you can take the average price. So, are these kinds of contracts available in the international market, first of all? And secondly, why is somebody like KEI not participating in the international market if these kinds of contracts are available?

Anil Gupta: Sir, these types of contracts are available that we can definitely do the copper LME pricing on a forward note when the actual delivery is taking place. But ultimately, it is a call which we have to take, what kind of risk it carries. We do not know why we are not playing blind. We do the forward booking only in case we have a forward contract on firm prices. So, that our actual supplies matches with the prevailing copper prices at that time.

V. Balasubramaniam: Okay. Thank you. That is very helpful. The second thing is a couple of years back, there were talks about you had mentioned that you were evaluating an entry into the FMEG business. But I guess, I do not know, is there any thought process on that because it does not look like FMEG is that greater business now with almost everybody entering the business. So, have you completely scrapped plans on the FMEG entry or is it like you still have a thought process that you will enter that business?

Anil Gupta: We have no plans to enter that business.

V. Balasubramaniam: Okay. Thank you very much. And one last thing, one last question from my side. You know, obviously, some of your peers like somebody like Havells who is more wires heavy as grown at around 25%. Polycab whose cable heavy has grown at 40%. And we have grown at a lesser pace. Is it basically only because of the capacity constraint that you are already operating at almost 90% utilization that is why you could not grow. Was there a possibility that if you had that capacity, you could have also grown at let us say 25%, 30%? Is the demand environment that strong?

Anil Gupta: Yes, yes, you are right. Demand environment is strong and it is only the capacity constraint due to which we have grown lesser.

V. Balasubramaniam: Okay. If I could just ask one more, pardon me for it. Some of your competitors have started talking about China plus one in wires and cables that a country like U.S wants to diversify our supply chains in terms of buying wires and cables. Are you facing these kinds of, are you getting queries from international clients that can you please export to us because we don't want to buy from, we want to buy less from China. So, this is something some of your competitors are actually highlighting.

Anil Gupta: Yes, you are correct. We are also getting lots of inquiries and in the coming quarters and months and years, the export will go substantially. We have also started exports to U.S.A since February this year. And quarter-after-quarter, you will see our export has jumped to 17% of our sales, which was in earlier years it was only 10%. So, it will definitely be growing subject to, I mean, whenever we are able to feed them with our capacities.

- V. Balasubramaniam:** Okay. How does the export margin compare with the domestic margin, is it higher, lower, same?
- Rajeev Gupta:** It is almost 1% higher.
- V. Balasubramaniam:** 1% higher. Okay. Thank you, all the very best for the future.
- Rajeev Gupta:** Thank you.
- Moderator:** Thank you, sir. We take the next question from the line of Mr. Praveen Sahay from Prabhudas Liladhar. Please go ahead.
- Praveen Sahay:** Yes, thank you for taking my question. So related to the export only, as there is a good growth, we had seen for a quarter you are guiding also for a 17% contribution for this year. Is it because largely of a geographical expansion or you are seeing in the existing locations there is a growth is coming in?
- Anil Gupta:** No, no, it is coming from existing customers in existing countries also, and also from newer directories also. But I mean, the traction is definitely strong for the cable products from international markets.
- Praveen Sahay:** So, as you also highlighted in the export that the U.S. in the last call also, you had said that the U.S. approval, everything is done. How much is the U.S. contributing right now in the export?
- Rajeev Gupta:** So that figure-wise, we cannot disclose country-wise, but overall it is strong.
- Praveen Sahay:** And one clarification related to your capex. So, two of the Brownfield expansion capex for this year is lined up or for the next year?
- Rajeev Gupta:** Actually, Silvassa was doing earlier also. So in the last year, we invested around INR50 crores in Silvassa, and this year we are again investing INR45 crores in Silvassa plant. And in our Bhiwadi, plant, we will be investing around INR100 crores to INR110 crores, and then Ahmedabad, Gujarat, we are investing in the greenfield project. So overall the current year, close to INR400 crores, we will be investing put together all whether it is Ahmedabad or it is Bhiwadi or it is Silvassa.
- Praveen Sahay:** Okay. And one more clarification on the greenfield. Last quarter, you said it will be operational by Q3 FY '25, now it's delayed by a quarter.
- Rajeev Gupta:** It will be operational by Q3 end actually. So the fourth quarter sale, we will be started taking from there.
- Moderator:** The next question is from the line of Mr. Sandesh from HSBC.
- Sandesh:** Sir, I wanted to ask you regarding to the timelines of the capex. So the Silvassa will be done by September, right? And the brownfield expansion will be done by Q4 this year.
- Anil Gupta:** By the first quarter of the next financial year.

- Sandesh:** Q1 FY '25?
- Anil Gupta:** Yes. And Gujarat, the first phase will be completed and the sale will start from the fourth quarter of next year (FY 25)
- Sandesh:** Okay. And sir, on the EHV side, sir, are we confident of reaching revenues of INR500 crores to INR600 crores this year? Would that be reasonable?
- Anil Gupta:** From this quarter onwards, you will see that there is a growth and we will cover up the deficit of first quarter also in this quarter.
- Sandesh:** Okay. And sir, one last question from my side. Sir, there has been a slight receivable improvement this quarter. So is it sustainable? Or should we...
- Anil Gupta:** Receivable will be in the same range. As I earlier said, because of the change in the mix of the house wire. The retail dealer/distribution division will be contributing in the current financial year close to 46%-47%. So because of that, last year, our receivable has reached to 2.5 months. And the current financial year, it will be going down and holding will be close to 2.2 months. In last 3-4 years, if you see continuously, from 3.85 months to 2.9 months, from 2.9 it has come down to 2.4 months. Now it will be closing 2.2 months, actually.
- Sandesh:** Sir, one thing on the margins.
- Moderator:** I am sorry to interrupt you, Mr. Sandesh. May we request you to join the question queue, sir?
- Anil Gupta:** No, no. He is asking. Please continue.
- Sandesh:** Thank you, sir. Sir, one thing on the margins. You mentioned that there has been a slightly higher A&P spend this quarter and it would normalize in the subsequent quarter. So can we expect the margin expansion in line with Q4 for the rest of the year?
- Anil Gupta:** Yes, yes. Definitely.
- Moderator:** We take the next question from the line of Amit Mahawar from UBS.
- Amit Mahawar:** Sir, my question is for Anil. So this year, FY '24, what kind of volume growth do you see for the industry in HTLT cable?
- Anil Gupta:** Now I expect close to 20% volume growth. Overall for the industry, I don't have figures at the moment, but we can provide you an estimation, it will be only an estimation.
- Amit Mahawar:** Sure. And second thing is, FY '24 has started on a very strong note. We saw all the peers in volume growth in cable reporting very strong volume growth. It also tells us that a lot of states are inviting supply tenders. We've seen a lot of states where some of our peers have supplied very large quantities. Do you think in your assessment and understanding this year, it's going to be a very heavy first half and a relatively slower second half considering we are going to also enter the election period? Is it right to say for cable is larger?

- Anil Gupta:** No, no. I think the year will be good and strong, even in H1 and H2. And I think overall, it will remain a good period.
- Amit Mahawar:** And maybe last question for Rajeev. Sir, what's the target by next year for debt levels and interest cost to sales that you targeting?
- Rajeev Gupta:** Amit, as we earlier said, at debt level, we will be maintaining a debt-free company now from here onwards. So debt will not be there. Because of that, we are having a disciplinary approach wherein we are maintaining a growth target of 16-17%. Accordingly, whatever internal accruals we are generating, we are investing in the capital expenditure as well as keeping for working capital requirement. So to maintain a certain kind of discipline and capital allocation, the same kind of growth we are targeting for the next 5 years or 10 years as a debt-free company.
- Moderator:** The next question is from the line of Akshay Kothari from Envision Capital.
- Akshay Kothari:** Just wanted to know regarding the earlier participant's question. If we are seeing a very good demand on the -- very good demand tailwind on cables, wires and everything is going good. And why not go for that forward contract LME? Because in that case, we won't be playing blind because we are actually seeing a lot of tailwinds across the sectors.
- Rajeev Gupta:** In the past also, as we have earlier communicated that we don't run the treasury, number 1. Whatever natural hedge is available to us. We are having a 3 to 4 months kind of pending order book position. And we are having 2.5 months to close to inventory in our shop floor. So it is under natural hedge. Only in the case of the contracts from the customer, which is the longer period only against that only if we do forward the contract, otherwise, we don't do it. So that's why the -- neither we lose, neither we gain from the copper purchase.
- Akshay Kothari:** Okay. And Rajeev, we are also planning the capex on the EHV side, right?
- Rajeev Gupta:** Yes, in the new Greenfield project.
- Moderator:** The next question is from the line of Natasha Jain from Nirmal Bang.
- Natasha Jain:** So this is regarding one of the earlier participant's questions. So you said that in this quarter, there has been a higher ad spend of about INR10 crores to INR12 crores. So even if I add back that number to your EBIT, your margin expansion only improved to 50 basis points. I just want to understand. So is it fair to understand that most of the expansion was let go because you had to take a price reduction?
- Rajeev Gupta:** Repeat your question? We are not able to understand.
- Natasha Jain:** So if I do not consider the higher ad expenses in this quarter, which you said you incurred of about INR10 crores to INR12 crores. I mean your margins would definitely expand, but probably from 9% to say 9.5% to maybe 9.7%, whereas the peers have shown a very strong growth in terms of margin. So I just want to understand, is it because the raw material pricing softened and that's where we took the hit.

- Rajeev Gupta:** No, no. It is not like that. In the earlier also, in the house wire product, our margin is 11%. Their margin is 14%, 15%. We have already also communicated. So our margin range for EBITDA is 10.5% to 11%. So we will be maintaining the margin in our balance sheet level.
- Anil Gupta:** As far as advertisement is concerned, normal advertising will continue. It is only the IPL expenditure, which we incurred in the first quarter, may not be there in the subsequent quarter.
- Natasha Jain:** All right. Understood. And sir, my second question is more on a longer-term basis. So we hear the infrastructure development that's going on, and then there is a decadal tailwind in the cable sector. And the infrastructure is not something that's going to end in 1 year. It's a multiyear project that the government and private capex, etcetera, is going to be done. So, sir, understanding from a 3- to 5-year perspective, given FY 24 start was very strong. How do you see midterm? In the next 3 to 5 years, the demand, is it going to remain as strong? How do you see it?
- Rajeev Gupta:** Definitely, demand will be as strong. And just in the last 15 years, KEI has grown at a CAGR level of 14%. In the next 10 years, we are planning to grow by 17% a year because now we are a debt-free company. So we are talking of a longer-term perspective, not for 1 year but for a 5- to 10-year basis that we will grow by 17% CAGR.
- Moderator:** We take the next question from the line of Mr. Prashant Kothari from Pictet Asset Management.
- Prashant Kothari:** I just had this question on the capacity, like you're constrained for the capacity today. Does it mean that you have the ability to maybe prioritize your customers better and therefore kind of retain more tire margin business? I just wanted to understand how you are kind of thinking about it, how you are prioritizing which clients to kind of supply towards, which dealers to supply to and dealers not to.
- Rajeev Gupta:** But we are among the second largest company in the country. So we cannot deny our old customers. So we have to maintain the relations with all of our customers. So we cannot choose and pick only for higher margin because business has to grow for a longer period. So it is not the case. The case is that we are serving our customers. We are having the patronage from of our old customers, and we will be maintaining that. EBITDA margin, we will be maintaining, as we said, 10.5% to close to 11%, definitely, we will be taking. And that is our goal also to reach 11% EBITDA margin, with a growth rate of 17% kind of CAGR. Accordingly, the capital, which we are earning, which we are allocating.
- Prashant Kothari:** Okay. And just in terms of your future capacity planning, sir, how do you think about kind of having more spare capacity than what you have today? What is the downside if you were to invest rate than INR30 crores, INR40 crores if you are to invest maybe a bit more...
- Rajeev Gupta:** So you see, we cannot see that only in 1 year if a competitor has increased, we should chase them because then the accident will happen. In the past also, in the last 14 years, whether it is a competitor or it is a KEI, all have grown 14% to 15% CAGR. We know that in future also, we may grow by 17%. So CAGR level 16-17% for the 10 years.

- Moderator:** The next question is from the line of Ms. Sangeeta from Cogito Inc.
- Sangeeta:** So wanted a little more colour on our margin. We have talked in the past and also said that one of the reasons you gave by the margins have not grown despite the growth in sales was that you were investing in advertising, etcetera. But now that ad business has also grown a lot, when can we start beginning to see some meaningful expansion in the margins? Because if I look at my last 5, 6 years, you've been very stable around a 10%, 10.5% level. Is it possible to take it a notch higher?
- Rajeev Gupta:** We earlier also spoke about that, that when our capacity will increase from the new greenfield projects and the existing downfield capex, our EBITDA margin will expand by 1.5%. So within next -- but it will be next 3 years kind of thing. Because one capacity when this greenfield capex will be there due to economy of scale, where the marketing expenditure and the head office expenditure will not increase to that extent. So one EBITDA expansion will be from their side. And another, we are bridging the gap of our houseware price versus our peer prices within the next 2 to 3 years' time. So because of these 2 reasons, our EBITDA expansion will be 1%, 1.5% in the next 2 to 3 years' time.
- Sangeeta:** Okay. So over 3 years, so roughly 50 basis points a year kind of thing and what we should expect?
- Rajeev Gupta:** For the current year and for next year, it will be 11% range. But after that, it will start increasing because the commercial production in the greenfield project will start only in the next financial year.
- Moderator:** The next question is from the line of Mr. Anupam from SUD Life.
- Anupam:** Sir, my question is again on the margin side. But can we say earlier, we have seen a margin of like 12%, 12.5%? What sort of environment will that provide that because at some point, our ad expense will also stabilize and as well as we'll get some operating leverage. So, shall we expect from FY'25 a good growth in margins?
- Rajeev Gupta:** FY'25-26 financial year, we may reach to 12%.
- Anupam:** Okay. Okay.
- Rajeev Gupta:** Sir, we are very, very transparent with all of our investors, all our bankers that whatever we are doing, we are communicating. So, there is a no surprises in the negative side or positive side. We always communicate to all of you well in advance.
- Anupam:** Okay. Because given that we are also increasing in our export as well as EHV. So, the margins are sort of looking like to improve from here?
- Rajeev Gupta:** Sir, on the industrial side, we have to maintain the quality while we are doing exports, we are doing institutional sales. Since, we are doing the institutional sales, please appreciate in each and every institution, all the sale goes through the inspection process only. We are not a 75% selling to the dealer distributor wherein no inspection agencies are there. So, any company can

sell anything. So, we are selling in an institution side where all the inspection clauses are available, all the companies are appointing the inspection agencies to our company. So, the quality of products is at an international level, which the KEI as KEI is giving to all our customers.

Anupam: Okay, sir. And sir, what is our margin difference in retail and institution sales?

Rajeev Gupta: Like in the retail is close to 11% and institutional sale is close to 10% to 10.5%.

Anupam: Okay. Thank you, sir. I will join back in the queue.

Moderator: Thank you, sir. We take the next question from the line of Mr. Venkatesh Balasubramaniam from Axis Capital. Please go ahead, sir.

V. Balasubramaniam: Yes. Thanks again, once again, for this opportunity. I just had a follow-up question. Now, I am aware that historically, KEI, a very long time back, used to have leverage problems. But over time, you've done fantastically. You've executed very nicely. You've reduced working capital. You've reduced debt. Now, you are at almost net cash. Now, one participant earlier asked that, why not do more capex, for which you had replied that over longer term the growth is 14% 15% only.

So, we should target that kind of growth only. But you are also aware of the fact that this China plus one is a new opportunity which is coming up. And normally, when a country like U.S or large countries move supply chains to a different country, it is not a one-time opportunity. It could be an opportunity for the next decade. So, is there any merit to go back to the drawing board and perhaps do double the capex than what you are doing, maybe even borrow for it, and maybe have slightly higher leverage over the shorter term because you might actually miss out on a large opportunity if you don't do the necessary capex? So, is there any...

Rajeev Gupta: Sir, we will not miss out anything. The longer term, sustainable growth for any company, please note my words, will be 16-17%. That is, I am talking for the next 10 years. So, we are not planning for one year. We are planning for the next 10 years. And we are raising our CAGR growth from 14% to 17% now on a sustainable basis for next 10 years. We will be running a debt-free company, that is for sure. So, neither we will borrow and we will be maintaining a 17% CAGR. We are very, very transparent to all of you.

V. Balasubramaniam: Okay. Thank you very much, sir. All the very best. Thank you.

Rajeev Gupta: Thank you very much, sir Venkateshji.

Moderator: Thank you, sir. The next question is from the line of Mr. Rahul Agarwal from InCred Capital. Please go ahead.

Rahul Agarwal: Yes. Thank you for the follow-up. Rajeevji, one question on creditors. I am just trying to understand that better. I know the company strategy in terms of reducing payables. So, I know

that. What I am trying to calculate is, when I look at March balance sheet and June balance sheet, the creditor balance is down about INR160 crores. Is that correct?

Rajeev Gupta: Yes, sir.

Rahul Agarwal: So, you are saying that because we did this.

Rajeev Gupta: This has nothing to do with it, Mr. Rahul. What happens with creditors is whenever we have the extra cash, we buy the material on cash, prefer to buy on cash because where we utilize the money in fixed deposit because we don't run the treasury, so we don't invest anywhere. We don't invest in capital market as a company. So, we want to remain within the business. Now, we are going for capital expenditure. So, whatever money we are generating, it will be putting only there. So, what happens in creditors is whenever you want, you increase, whenever you want, you decrease. If it is necessary, increase the creditor, but the debt will not increase in the company.

Rahul Agarwal: Sir, I understand that. My question was, can we quantify the savings we have done on this INR160 crores?

Rajeev Gupta: No, savings is only if we are opening the letter of credit, it is interest bearing. If we are not opening the LC, then it is a non-interest bearing. So, if the 14% growth is there or 16-17% growth we are going to do, but interest cost is not increasing. Otherwise, the interest cost will increase.

Rahul Agarwal: Yes, I understand that. Okay, no problem. I will take it offline.

Rajeev Gupta: Sir, it is directly in proportion to that only.

Rahul Agarwal: I understand that, sir, because I was looking at the acceptance number, it has gone down by INR70 crores Q-o-Q. So, is there a linkage between the difference of creditors being repaid and acceptance going down?

Rajeev Gupta: No linkage, sir. It is a simple case study because copper and aluminium always purchasing on cash. So, if we are having the cash extra, we are paying them directly. If we are having sometimes going for letter of credit, but if the import is increasing, then definitely we have to open the letter of credit because in the import, we need to open the letter of credit.

Rahul Agarwal: I understand that, sir. And just last question on again..

Moderator: Sorry to interrupt you, sir. May we request you to join the question queue.

Rahul Agarwal: Okay, I will come back. Thanks.

Moderator: We take the next question from the line of Mr. Raj Shah from Ambit Capital. Please go ahead, sir.

- Raj Shah:** Sir, just one question on the capacity again. So, I just wanted to understand that if in the short term, we have a capacity constraint, so is there any possibility of outsourcing for the incremental growth that we get?
- Rajeev Gupta:** Sir, to maintain the quality of the cable, we need to manufacture in our company. But again, as we earlier said also, whenever we have planned for growth of 16-17%, so it is a well-defined process we have already communicated to you as well as communicated to in our company, internal board also. So, the same way we are growing 16-17%, it is not the case somebody is having more growth, we should jump into that, we should not do that. We know our strength and we know what quality of products we need to produce and supply, whether in the domestic market or in the export market. So, accordingly, and ethically, we are doing our business.
- Raj Shah:** Okay, sir. And just one additional question. So, if I just look at the margins of the market leader over the last 10 years, so then we have gone from around 9% to roughly 14%, 14.5% for FY23-24, while we have maintained margins at around 10% to 11%. So, just wanted to understand, so going forward, what are we spending more on branding, what are we doing differently on the branding and advertising part, so that we can reach, as we reach a good decent scale, we can also reach margins comparable to this.
- Rajeev Gupta:** Sir, we are not competing with anybody, we are competing only with ourselves. As we said, our margin in 25-26, 26-27 will reach to 12.5%. So, we are not guiding that we will be catching up the peer group or something else, we will be growing with a 17% kind of thing for a CAGR group, having EBITDA margin is close to 11% right now, which will be reaching within 3 years' time 12.5% and we will be running at debt free company. So, these three things we are maintaining.
- Raj Shah:** Okay, thanks a lot.
- Moderator:** The next question is from the line of Nirav Vasa from Anand Rathi. Please go ahead.
- Nirav Vasa:** Hello sir and thank you very much for the opportunity. So, sir end FY22 our installed across all the multiple cable options that we have was 14.95 lakh kilometres Would it be possible for you to share what is it that number currently and what can that be number end of this year and end FY'25
- Rajeev Gupta:** Sir, this I will communicate. Right now, I'm not having the kilometre number. In my presentation, you will see which will be in the website by evening. So, we are already disclosing the capacity in our every presentation.
- Nirav Vasa:** Thank you, sir. Next question is from the line of Mr. Siddharth Purohit from InvesQ Investment Advisors Private Limited. Please go ahead.
- Siddharth Purohit:** Yes, hi sir. Sir, any bifurcation you provide, how much of business normally we get from government related projects and how much from non-government and particularly from railway side?

- Rajeev Gupta:** Sir, we don't have that kind of number, but we are having a segment type of number wherein the institutional business for low tension, high tension power cable contributing 30% of our total sales. Dealer distributor business is contributing 45% of our total business and export is contributing around 17% of our total business. Because the institutional business includes not only railways, metro-rail projects, EPC contractors, because when the L&T is giving the order, we don't know whether it is a distribution and transmission order or it's a metro-rail project order or it is any refinery order or it's any railway project orders. So, we supply lots of cables to these EPC contractors like L&T, Siemens, ABV like companies, large companies.
- Siddharth Purohit:** Okay. The reason I was asking is that there are very few large companies like yours and the government is on a massive expansion mode both on railway as well as non-railway.
- Rajeev Gupta:** Sir, you are seeing the government expansion now. We are always telling you since last three years that demand is good, but since the capital allocation basis and the capital availability to us, we are in a mode wherein we will grow 17%, 18% kind of growth.
- Siddharth Purohit:** Okay, sir. Thank you, sir.
- Moderator:** Thank you, sir. We take the next question from the line of Drashti from Thinkwise Wealth managers. Please go ahead.
- Drashti:** Thanks for the opportunity, sir. When you say that you are foreseeing a growth of 16-17% for the period of next 10 years, is there any particular segment that you see this growth with or you know skewed towards one particular segment or this is going to be a broad-based number that you are projecting?
- Rajeev Gupta:** Madam, nobody can predict like this. Actually, we are running a complete profile portfolio like you. So, we are having low-tension, high-tension, extra high voltage power cable. We are having wires and we are having the segment like we are supplying to institutions, supplying to export markets, so, product and segment. No one can know that which of the product will be higher, which of the product will be lower like you. So, as a whole, we will be growing like this.
- Moderator:** Thank you. We take the next question from the line of Ritika Gupta, an Individual Investor. Please go ahead.
- Ritika Gupta:** Hi, sir. I just had one question. I want to know that you are bullish. Which is the geography that you are most bullish on? U.S. market, we started in February. So, what percentage of our exports are going to the U.S. market?
- Rajeev Gupta:** Close to 10% of the or maybe more because I cannot disclose those numbers actually to you for a country-wide actually.
- Ritika Gupta:** Okay. But which geography are you most bullish on?
- Rajeev Gupta:** You see, we are in the geography of Africa, in the Middle East, Australia, U.S. These are the major geographies wherein we are operating.

- Ritika Gupta:** Okay. And you see mainly growth coming from...
- Rajeev Gupta:** No, growth is coming from every sector, everywhere. It is not the case that the Middle East is not growing or Australia is not growing or Africa is not growing.
- Ritika Gupta:** No, but if I have to ask you for FY24?
- Rajeev Gupta:** For U.S. we have added. Because of that, our CMD sir has already increased the contribution target from 10% to 17% actually.
- Ritika Gupta:** Okay. That is the reason. Yes. All right. Thank you.
- Moderator:** Thank you. The next question is from the line of Mr. Rahul Agarwal from InCred Capital. Please go ahead, sir.
- Rahul Agarwal:** Sir, thank you. Thank you. This is my last question. Sir, just one question on channel finance. The INR130 crores number, if I understand this correctly, this is a recourse debt which is basically related to your dealers who have taken channel finance. Is that correct?
- Rajeev Gupta:** Yes, you are right, sir.
- Rahul Agarwal:** So, my understanding was generally when I look at other balance sheets, typically this is shown as a contingent liability, right? It is not part of the balance sheet. So, is there any difference in accounting policies what you follow and others?
- Rajeev Gupta:** No, sir. Everywhere accounting policy is same. The recourse level is also same. Sometimes KEI or such companies give their recourse directly. Others give indirectly. There is no difference. Otherwise, banking channel is for everybody same.
- Rahul Agarwal:** Okay. Got it, sir. Got it. Got it. Thank you so much. All the best.
- Moderator:** Thank you. Ladies and gentlemen, that was the last question for the day. I would now like to hand the conference over to the management for closing comments.
- Anil Gupta:** Thank you very much, friends, for participation and listening to us. If you end having faith in us, if you still have any further questions, you can reach out to us. Thank you very much.
- Rajeev Gupta:** Thank you very much to all of you.
- Moderator:** Thank you. On behalf of Monarch Network Capital that concludes this conference. Thank you for joining us and you may now disconnect your lines.