



“KEI Industries Limited  
Q1 FY2020 Earnings Conference Call”

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**MANAGEMENT: MR. ANIL GUPTA – CHAIRMAN & MANAGING DIRECTOR – KEI INDUSTRIES LIMITED**  
**MR. RAJEEV GUPTA – EXECUTIVE DIRECTOR – KEI INDUSTRIES LIMITED**

**Moderator:** Ladies and gentlemen, good day and welcome to the KEI Industries Q1 FY2020 Earnings Conference Call hosted by Edelweiss Securities 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. I now hand the conference over to Mr. Amit Mahawar from Edelweiss Securities Limited. Thank you and over to you Sir!

**Amit Mahawar:** Thank you. We welcome you all to KEI Q1 results conference call. We have with us today management of KEI represented by Mr. Anil Gupta, Chairman & Managing Director, Mr. Rajeev Gupta, Executive Director to discuss Q1 results. We will begin with a brief opening remark from the Chairman followed by Q&A session. Thank you and over to you Sir!

**Anil Gupta:** Good afternoon, colleagues. Thank you very much for sparing your time. I will give a brief about the results. In Q1 of FY2020 we have achieved net sales of Rs.1081.36 Crores against Rs.884 Crores in the corresponding period of last year resulting into a growth of 22.34% over corresponding first quarter.

Operating profit this quarter is Rs.114 Crores against Rs.86 Crores in the corresponding quarter last year. So the operating profit has improved to 10.54% versus 9.75% in the same period last year. The operating margin has improved due to increase in the sales and better product mix.

Growth in operating profit is 32.27% over corresponding quarter last year. Profit after tax this quarter is Rs.45.81 Crores against Rs.32.17 Crores in the corresponding quarter. Hence, the profit after tax over net sales is 4.24% versus 3.64% in the corresponding quarter. Growth in profit after tax is approximately 42% over last year.

Our sales from domestic institutional customers, is Rs.423 Crores in first quarter as compared to Rs.358 Crores achieved in the Q1 of last year. The exports in the Q1 have grown to Rs.107 Crores against Rs.79 Crores last year in the same period. So the total institutional cable sale plus exports has grown by 21% in Q1 of this year compared to last year.

Sale through dealer network achieved Rs.366 Crores in Q1 against Rs.298 Crores last year. The growth is approximately 23%. We have taken various brand building measures and exercises during the year above the line activity and below the line activity including a large of electrician meets which has resulted into good growth in the dealer distribution network sales.

Total sales achieved through the dealer distribution network, is 34% of the net sales. The total active working dealer for the company as on June 30, 2019, is approximately 1500. The sales of extra high-voltage cable in this quarter achieved, is Rs.78 Crores against Rs.39 Crores achieved same period last year. So growth is almost 100% in extra high-voltage cable sales.

Export sales have improved to Rs.112 Crores against Rs.79 Crores in the corresponding quarter. The growth is now 43%. The sales from EPC other than cable, is Rs.195 Crores against last year same period Rs.158 Crores. Growth is approximately 23%. We are expected to go around 18% in FY2019-2020 approximately.

As on today, our pending order position is approximately Rs.4500 Crores. Regarding our capex at our new plant in Chinchpada in Silvassa, which is being setup at a cost of around Rs.90 to 95 Crores the whole amount will be capitalized in this current financial year. First phase of the project with an investment of approximately Rs.55 Crores has commenced production around middle of July and we hope that it will be normalized in production by August 15, 2019.

First phase of capacity expansion, will give around Rs.300 Crores revenue on a full-year period and second phase will be operational by end of the year that means around February 2020. In our Pathredi plant in Rajasthan we are putting another capex of Rs.14 to 15 Crores in this financial year for our capacity addition of control and instrumentation cables. This capacity addition will give a topline growth of around Rs.10 Crores a month that means approximately Rs.120 Crores a year in our Pathredi plant. Machines will be added gradually starting from August.

During Q1 our finance cost has increased to Rs.32.96 Crores as against Rs.28.66 Crores in the corresponding quarter last year, but however, the percentage financial charges on net sales has decreased this year to 3.05% from 3.244% last year. This is a brief. We continue to hold a very positive outlook of KEI's performance in the balance period of 2019-2020 and even going forward next financial year.

With this, I handover the mike back and I am available for any further questions from our colleagues. Thank you very much.

**Moderator:**

Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Manoj Gori from Equirus Securities. Please go ahead.

- Manoj Gori:** Thanks for the opportunity and congratulations on the good set of numbers. Basically what I am trying to understand in the media interview today you highlighted like you are doing some EPC orders in the overseas market. Can you throw some light on that?
- Rajeev Gupta:** We have received EPC order of underground cabling from Nepal in the Kathmandu City. It is purely underground cabling project removing overheads. It is funded by Asian Development Bank, ADB-funded project and this we received in February so it will give a good mileage to us in terms of our cable supplies to Nepal.
- Manoj Gori:** Sir, what is the size of the order and what would be the duration?
- Rajeev Gupta:** It is Rs.450 Crores worth of order and order has to be executed from within two years and we presume that it will be a very good opening for the company in the nearby neighborhood in terms of underground cabling projects.
- Manoj Gori:** Sir, in terms of working capital and the margin profile so how it would be differing as comparing to our Indian EPC orders,
- Anil Gupta:** In fact it will be far better because the payment terms are far-far better and also in case of ADB funded projects the payments are given immediately upon the certification of the bills, upon receipt of material at site. In terms of working capital cycle, it will be far more better than Indian project.
- Manoj Gori:** Sir, now going back current if you look at I think people have been talking a lot on the macro headwinds so you continue to retain your guidance which you normally give it on a very conservative note. So where do you see like your future growth coming from which are the sectors that would be tooling or it would be largely coming from the government-funded projects.
- Anil Gupta:** We are working in every sector of economy right from government-funded projects, in Central Government projects or State Governments through EPC contractors or through our dealer network. Our customer profile is so diversified that we are not dependent on any particular specific sectors that is one of the reason that we are still insulated from any slowdown in the economy. Moreover we are still we finish on the investments in the steel sector, there good new investments are coming up and we are selling a lot to many steel companies in India. Similarly in oil and gas refineries, we are doing a lot of jobs in various refineries of public sector refiners for this fuel upgradation projects to BS-VI and also many refineries are increasing their capacities also so that is another area and a lot of industries which are already established like aluminum companies and they are also growing so our exposure to large industrial manufacturing companies is good and it is unlike the smaller

companies who are recognized in such areas. The second point is the exports we feel that our export markets are growing and it will continue to grow and we are now accessing and trying to access some additional countries in Africa and Middle East also where we are improving our penetration in oil and gas projects in other countries through some international EPC contracting companies for supply of cables. Real estate, we are seeing a good growth of our supply of wires to this affordable housing area and in Q1 also our wire sales have grown by around 25% compared to last year maybe that we are still lower player in this segment and time to grow our business, it may be due to that.

**Manoj Gori:** Sir, of this Rs.4500 Crores the order book that you have indicated, what would be the breakup between the EPC and wires and cables?

**Rajeev Gupta:** EPC is Rs.2210 Crores. extra high voltage cable projects are Rs.532 Crores, cables order for Rs.1029 Crores and export orders pending are Rs.643 Crores as on June 30, 2019, so this makes a total of Rs.4414 Crores and we are L1 in Rs.119 Crores order so that it makes total Rs.4533 Crores.

**Manoj Gori:** So that gives you lot of visibility in terms of revenues also for the rest of the year?

**Anil Gupta:** Yes.

**Manoj Gori:** Thanks a lot Sir. That was great. Wish you all the best.

**Moderator:** Thank you. The next question is from the line of Tarang Bhanushali from YES Securities. Please go ahead.

**Tarang Bhanushali:** Congratulations on a great set of numbers. Sir first can you give us the revenue breakup product wise?

**Rajeev Gupta:** You can note down the product wise breakup. In this quarter the low tension power cable is Rs.404 Crores and HT Power Cable is Rs.156 Crores, Extra High-Voltage Power Cable Rs.78 Crores and house wire is Rs.219 Crores, stainless steel wire sale is Rs. 31 Crores, EPC is Rs.195 Crores and rest is miscellaneous.

**Tarang Bhanushali:** Last quarter we had seen our working capital going down because of some repayment and advance from an export order so has that normalized or we are at the same level end of April 2019?

**Rajeev Gupta:** It has normalized. Right now our working capital that as compared to Rs.600 now it is operating at a level of Rs.700 to Rs.750 Crores level as it was, so our working capital cycle

will be in the same range. By the end of the year, it will again go down because this financial year profit will also be built in the working capital.

**Tarang Bhanushali:** Have we seen some delays in payments from the institutional side because of the election part?

**Rajeev Gupta:** Payment cycle was same as it was earlier.

**Tarang Bhanushali:** In early TV interview you mentioned that we have increased margin guidance almost to 10.8% to 11% so is it only back of the strong Q1 performance or are we expecting something for the next part of the year?

**Rajeev Gupta:** Margin we are trying to maintain more than 10.5%. It may go up to anywhere else, but our guidance will be more than 10.5% depending on the product mix which we are going to improve through Extra High Voltage Power Cable actually, balance of the year.

**Tarang Bhanushali:** Sir, what would be the volume growth this quarter?

**Rajeev Gupta:** Volume growth in terms of metal it is 14% only, but overall raw material is close to 19% volume growth including the plasticized and galvanized steel wire everything.

**Tarang Bhanushali:** Thanks a lot Sir.

**Moderator:** Thank you. The next question is from the line of Kunal Shah from Carnelian Capital. Please go ahead.

**Kunal Shah:** Sir, first question you have answered partly. I just wanted to understand the growth that we are envisaging is coming from which sectors per se also the growth which we have already come in and also the order book which was built up, you answered that partly in the previous call. The second question is if you could throw some light on the debt level as on June 30, 2019, and the repayment schedule for the same and the third question is on capacity utilization levels since we are doing quite a capex as well? Thank you.

**Anil Gupta:** We are operating at around 90% of the capacity utilization and that is why we are adding capacities in all plants and including debottlenecking and Chinchpada is a new Greenfield facility which we have built and it will take another month to complete, by August end we should be completely streamlined in terms of production and you said which sectors we are getting the growth, I think I have already explained that we are working in all the sectors like power industries, infrastructure like railways, metros and oil and gas refineries, upstream projects like ONGC, etc., and then the exports so we are consistently present in a very diverse sector so far the growth is coming from all around and the power sector is

definitely doing better especially solar, wind. Solar sector is doing better than the wind at the moment.

**Rajeev Gupta:** The bank borrowing is close to Rs.745 Crores apart from this the cash balance is close Rs.215 Crores so net of cash balance will be Rs.529 Crores.

**Moderator:** Thank you. The next question is from the line of Ankit Babel from Subhkam Ventures. Please go ahead.

**Ankit Babel:** Good afternoon Sir and congrats on the good set of numbers. There are few questions, was there any order cancellation in your EHV segment in this quarter?

**Anil/Rajeev Gupta:** No not at all. No order has been canceled.

**Ankit Babel:** Actually the fourth quarter press release mentioned the order book was Rs.684 Crores in your EHV cables and if I deduct the execution of Rs.78 Crores the order book should have been more than Rs.600 Crores but it is Rs.532 Crores?

**Rajeev Gupta:** This 78 Crores sale is only for the cable and the order book is basically cable plus EPC portion so whatever EPC was there that is included in the EPC sales.

**Ankit Babel:** Sir, second is your depreciation this quarter is higher by around Rs.5.5 Crores due to some change in method?

**Rajeev Gupta:** Because policy has changed that disclosure is also there in the press release.

**Ankit Babel:** I read that just wanted to know what would be your quarterly run rate from here on? I mean is 15 or 16 Crores would be the new run rate per quarter?

**Rajeev Gupta:** Run rate will be close to Rs.12 Crores, for the additional because of the change of the policy has come in this quarter.

**Ankit Babel:** So you are expecting around Rs.50 Crores to 52 Crores of depreciation this year?

**Rajeev Gupta:** Yes.

**Ankit Babel:** Okay and next year also depending on the capex it will increase?

**Rajeev Gupta:** Yes.

**Ankit Babel:** Lastly on your finance cost including the financial charges in absolute terms what you expect for the full year?

**Rajeev Gupta:** Will be at par with the last year.

**Ankit Babel:** 136 around that level.

**Rajeev Gupta:** But it in terms of percentage will be less as compared to last year.

**Ankit Babel:** Yes, great. Was there any forex gain or loss this quarter?

**Rajeev Gupta:** We have got very small gain of Rs.95 lakhs in this quarter.

**Ankit Babel:** Correspondingly last year first quarter.

**Rajeev Gupta:** Close Rs.11 Crores loss last year.

**Ankit Babel:** Last year Q1 is Rs. 11 Crores was what, gain or loss?

**Rajeev Gupta:** Loss.

**Ankit Babel:** Loss.

**Rajeev Gupta:** Last year there was so much volatility Q1 and Q2.

**Ankit Babel:** Great Sir. Thank you so much.

**Moderator:** Thank you. The next question is from the line of Tanish Mehta from Dalal & Broacha. Please go ahead.

**Tanish Mehta:** Congratulations on the good set of numbers. Sir, I wanted to know how much of our total EPC business we have government contracts on a rough estimate?

**Rajeev Gupta:** All the EPC contracts are government contracts only.

**Tanish Mehta:** All are government?

**Rajeev Gupta:** Yes, but mostly they are the funded projects.

**Tanish Mehta:** All are funded projects?



**Rajeev Gupta:** Yes, through PFC and REC.

**Tanish Mehta:** Okay then what percentage of our cable sales would be in real estate, I mean we have exposure to real estate?

**Rajeev Gupta:** We do not have any direct exposure to real estate we sell through the dealer, so our dealer is selling to the builders or may be to the others.

**Tanish Mehta:** Sir how much of the cables and wires have captively consumed for our EPC business as well?

**Rajeev Gupta:** In our company?

**Tanish Mehta:** Yes, let us say the cables sales total?

**Rajeev Gupta:** That is already shown in the segment revenue that is total 102 Crores was the cable sold to our EPC division.

**Tanish Mehta:** What is your capital work in progress till date after our Silvassa plant we will be starting?

**Rajeev Gupta:** Capital work in progress will be close to Rs.25 Crores so that capex is going on.

**Tanish Mehta:** So then new capex will also be adding?

**Rajeev Gupta:** The total capex of Silvassa will be close to Rs.90 Crores. Already we have spent till date Rs.54 Crores so balance to be spent by February. As Anil Ji has said that this commercial production of second phase will start by February end so it will be capitalized in this financial year.

**Tanish Mehta:** Sir in all of our products that is our low-tension, high-power extra high-voltage, high-voltage which is the one which is the most margin-lucrative because right now we have seen growth?

**Rajeev Gupta:** In terms of margin lucrative it is extra high voltage power cable where the margin is close to 15% EBITDA margin.

**Tanish Mehta:** Sir, the lowest one, I mean, the one where we do not see much?

**Rajeev Gupta:** While we are selling low-tension and high-tension to the institutional side the margin is close to 9% to 9.25%

- Tanish Mehta:** Sir, last question, our raw material prices they were a bit volatile last year. So now are they same?
- Rajeev Gupta:** It was always volatile since history. It has already passed on. We are having a three-month inventory and we are having a three to four month order book position from the institutional side so it is already a passed on basis and we are keeping natural hedge.
- Tanish Mehta:** Okay sir. Thank you and good luck for the coming quarters.
- Moderator:** Thank you. The next question is from the line of Ritesh Sheth from CRISIL. Please go ahead.
- Ritesh Sheth:** Congratulations on the good set of numbers. Firstly on growth side, your domestic cable growth, which is 18% year-on-year and if I compare that to your peers, one of your peers have reported 15% growth, one of your peers have reported 4% growth in cables and wires combined so I want to know would you accentuate this growth for your company. Is it because of exposure to different set of sectors or geographies within India like are you more inclined to any particular state where demand is higher or should you say you are gaining shares overall?
- Anil Gupta:** We have already improved our exports significantly. You can just see and sale of extra high voltage cable also has improved significantly almost by 100%, these are the reasons for our growth by around 20% to 21% in the cable segment as compared to our peers. I know 4% growth has come in Havells you might be talking about Havells. Neither they have extra high-voltage cable in their segment nor do they export so these are the two areas where we have grown.
- Ritesh Sheth:** Our mix for wires will also be different versus Havells right?
- Anil Gupta:** Wire is almost similar. I see that we are definitely more aggressive in the market in growing our wire business maybe due to that.
- Ritesh Sheth:** Secondly is the margin front, this quarter's improvement in margin is because of mix, so can you provide which segment you have higher margins and which segment you have lower margin?
- Rajeev Gupta:** Margin is improving because of the overall growth in the sales and the product mix, like extra high-voltage has increased and export has increased because of that.
- Ritesh Sheth:** Extra high-voltage you said you have 15% margin?

- Rajeev Gupta:** Extra high voltage is increasing, overall sales budget is increasing by 20% or more, operating margin has to improve little bit.
- Ritesh Sheth:** Right and what would be your margin range for your export orders does it vary a lot?
- Rajeev Gupta:** Export close to 11% EBITDA margin is there and retail side is also it is 11% EBITDA margin.
- Ritesh Sheth:** Thank you. That is it from my side.
- Moderator:** Thank you. The next question is from the line of Mr. Amit Mahawar from Edelweiss Securities. Please go ahead.
- Amit Mahawar:** Sir I just have one question so broadly if you see last couple of years the way we have grown across cables and wire EPC, it seems it has been much better even on the balance sheet side we have done a good job. Going ahead taking cues from dynamic mix and challenging macros so on the cable side product and on the wire side, both might have slightly different drivers how do you think next one to two year strategy is going to be especially given that we have larger mix of turnkey and gas integration and interest cost, working capital so broadly just wanted your colour on next one to one-and-a-half year if the scenario is more challenging. What will be our approach? That was the only the question.
- Anil Gupta:** Our major export basket is cables. Wires we are not exporting. In cables as said already that we are well diversified across sectors in India and across sectors in overseas markets also and EPC projects are also focused on mostly cable related EPC projects what we are doing. I do not see any problem in our outlook of growth in this segment. So far as wires are concerned, we feel that we will continue to grow because at the moment our base is low as compared to if we see the Havells or Polycab their base is very high already our base is close Rs.220 Crores in first quarter, so on a full-year basis it may be Rs.1000 Crores so we still have appetite to grow by extensive brand building exercise, although brand building everybody is doing but we are confident that we will be able to bring that kind of growth in the wires also.
- Amit Mahawar:** Thank you.
- Moderator:** Thank you. Ladies and gentlemen that was the last question. I now hand the conference over to the Amit Mahawar from Edelweiss Securities for closing comments.
- Amit Mahawar:** Thanks. Do you want to have brief closing remarks?

**Anil Gupta:** Thank you very much ladies and gentleman for participating in this earnings conference call of KEI Industries Limited. We hope that we are able to answer all your queries. If you still have anything you are welcome to send queries through e-mail or by phone to Mr. Rajeev Gupta and will be happy to answer. I again thank you very much for kind support in the capital markets to our company. Thank you.

**Rajeev Gupta:** Thank you very much Amit Ji and thank you to all.

**Moderator:** Thank you very much Sir. Ladies and gentlemen on behalf of Edelweiss Securities that concludes this conference. Thank you for joining us. You may now disconnect your lines.