

KEI Industries Limited

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KEI/BSE/2023-24
The Manager,
BSE Limited
Listing Division,
Phiroze Jeejeebhoy Towers,
Dalal Street, Mumbai- 400 001.

Date: 08.11.2023

Sub: Transcript of Analysts/Investors Call pertaining to the Financial Results for the second quarter ended on 30th September, 2023

Dear Sir/Madam,

Pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, we hereby inform the exchanges that the transcript of audio call recording of the Company's Analyst Call held on Wednesday, 01st November, 2023 to discuss the Un-Audited Financial Results (Standalone and Consolidated) for the second quarter ended on 30th September, 2023 is attached herewith.

The transcript is also available on the website of the Company:

This is for your information and record.

Yours truly,
For KEI INDUSTRIES LIMITED

(KISHORE KUNAL)
AVP (Corporate Finance) & Company Secretary

CC:

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“KEI Industries Limited
Q2 FY '24 Earnings Conference Call”
November 01, 2023



MANAGEMENT: **MR. ANIL GUPTA – CHAIRMAN AND MANAGING
DIRECTOR –KEI INDUSTRIES LIMITED
MR. RAJEEV GUPTA – CHIEF FINANCIAL OFFICER –
KEI INDUSTRIES LIMITED**

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

Moderator: Ladies and gentlemen, good day, and welcome to the KEI Industries Limited Q2 FY '24 Earnings Conference Call hosted by Monarch Network Capital. 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 star then zero on your touch tone phone. Please note that this conference is being recorded.

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

Rahul Dani: Yes. Thank you, Rio. Good afternoon, everyone. On behalf of Monarch Network Capital, we're delighted 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.

We will start the call with opening remarks from the management, and then we'll move to Q&A. Thank you, and over to you, sir.

Anil Gupta: Yes. Thank you very much. Good afternoon to everyone, I'm Anil Gupta, CMD, KEI Industries Limited. Along with me, Mr. Rajeev Gupta, is there, CFO of the company. Thank you very much for joining us on this conference call. I'll give a brief about this quarter's results, which we must have gone through. The net sales achieved is INR1,946 crores. There is a growth in net sales at 21%. EBITDA in this quarter is 10.87%, which has grown by 27.53% compared to last year. Profit after tax in this quarter is INR140.2 crores, so which is 7.2% of the net sales and grown by 31% compared to last year same period.

The major highlight is that the export sale in this quarter has jumped significantly to INR249 crores with a growth of approximately 79% compared to previous period last year. Sales through dealer network has grown by 14%, so it is INR923 crores against INR808 crores last year. So the sales through distribution network is 47% of the total sales in the second quarter.

The sales of extra high-voltage cable is INR169 crores, which has grown substantially compared to last quarter and last financial year. It is mainly because in the first quarter, some cable manufacturers could not be dispatched due to non-player from the customers due to ROW issues, but with significantly healthy trend in the EHV cable in the coming quarters.

The net sales in first half, six months, in H1 in financial year '23-'24 is INR3,729 crores and growth in the net sales in first half is 17.51%. EBITDA has grown by 21% compared to same period last year. And EBITDA/net sales margin is 10.68%. Profit after tax in H1 is INR261.59 crores, so the PAT has grown by 24% compared to the same period last year. Profit after sales/net sales margin is 7% as compared to 6.64% last year.

Total volume increased in the Cable division on the basis of production for consumption of metals in H1 is around 26%. The pending order book at the moment is INR3,363 crores in the

company. This does not include the retail order, which we do not count in the order booking because they come and dispatch from the stocks or from the default within a few days. Rest of the commentary is already available with you, which you may please go through and we are there to answer your any questions.

I'll brief you about the industry outlook. We see a reasonable and good outlook for the Wire and Cable segment in the coming quarters from the government infrastructure pipeline as well as from the real estate. We also are seeing good traction of whole demand from our overseas customers.

I would like to talk about the actions taken by the company for incremental capacity condition. Company has incurred a capital expenditure of INR221 crores during the first half of current financial year. Earlier, the company has planned a Brownfield capex of INR45 crores to INR50 crores at our Chinchpada plant at Silvassa.

Now that we have increased this capex to INR110 crores in Chinchpada plant, which will increase our capacity for house wire and LT, Low-Tension power cables by approximately INR800 crores to INR900 crores per annum, out of which, INR240 crores per annum capacity has been in place in October '23 and balance capacity and another similar capacity will be available by December in this year and the rest will be available for production by end of this financial year.

Another Greenfield/Brownfield expansion is being done at our Pathredi plant in Bhiwadi with an approximate cost of INR110 crores, which will increase our capacity of low-tension power cable by approximately INR800 crores to INR900 crores per annum. It will be operational in the quarter one of '24- '25 financial year, which means by May or June 2024. This will enable us to grow by approximately 16% to 17% in current financial year and also 15% to 16% growth in the next financial year is there.

Apart from this Brownfield capex, in financial year '23-'24, the company has planned INR250 crores to INR300 crores capex on Greenfield expansion for cables and wires in Gujarat at Sanand. The construction has already started. We expect the first phase of the commercial production will commence by fourth quarter of FY '24- '25. Further, we will spend every year in capital expenditure approximately INR300 crores to INR350 crores for next two years to three years and to maintain a CAGR growth of 15% to 16% per annum.

So we expect a good growth in the company's business from domestic market as well as exports in the coming financial year and the consequent years. We are focusing on geographical expansion in the export markets and also expansion in the customer base, and we expect, we are getting reasonable and good results from our efforts.

I would like you to now come back with your questions, and we are ready for the questions and answers on these aspects. Thank you very much for listening.

Moderator:

Thank you very much. The first question is from the line of Rahul Agarwal from InCred Capital. Please go ahead.

- Rahul Agarwal:** Thank you so much for the opportunity. Good afternoon, sir. Sir, first question was is there a reclassification of dealer sales because I can see revisions in first quarter number?
- Rajeev Gupta:** Yes, Rahul. You are right. Binding wire product share that we reclassified. Earlier it was shown in the Institutional sales, so it has been reclassified and some other regrouping also. So that said, we have reclassified. But the total sales remain same. Only Institutional versus Retail has reclassified.
- Anil Gupta:** Actually, binding wire was always sold through dealer network. So it was never in Institutional sales.
- Rahul Agarwal:** Okay. Got it. So after this reclassification, could you help me understand overall the dealer distribute of sales. I think my sense was we were growing faster there. What is the full year outlook for this segment?
- Rajeev Gupta:** This outlook is also there because in the wiring segment, if you see, we have grown. In first half level, it's close to 22%. And in the Cable, because of the capacity, we are diverting this capacity to the export now. So it is some time export is higher, sometimes dealer/distributor is higher, sometimes HP is higher. So that will remain the same.
- But as overall, we will grow 16% to 17% in the current financial year and the same kind of growth we will see on the basis of capacity expansion, which our CMD has highlighted in the next financial year also.
- Rahul Agarwal:** Got it, sir. Very clear. Second question on EHV full year, I think INR550 crores to INR600 crores that guidance remains?
- Rajeev Gupta:** Yes. That guidance remains.
- Rahul Agarwal:** Okay. Anything specific on steel wire sales because that looks like it's a bit volatile. Is it more...
- Rajeev Gupta:** Stainless steel wire again it is this thing in metal, it all depends on the pricing. So sometimes it goes up, goes down, but the production level is same.
- Anil Gupta:** The capacity segment, we are not increasing the capacity over there. Our production in quantum -- in quantity has grown. But because of the substantial fall in the stainless-steel prices, the value sales have gone down. But in tonnage, it has improved.
- Rahul Agarwal:** Got it, sir. What is the peak revenue here we can achieve assuming current pricing for steel business?
- Anil Gupta:** We can achieve 750 tons per month at our best capacity. And at the moment, we are operating almost at between 700 tons to 750 tons per month, month after month -- months to months.
- Rahul Agarwal:** Got it, sir. And last question. After this Brownfield, which got completed, I think Silvassa, INR240 crores is completed and it will come in phases. Just to understand this better, the peak

revenue potential for the company overall across all segments put together, if you could help me with that number as of September?

Rajeev Gupta:

As of September, the capacity utilization in the Wire and Cable segment is close to 97% in the Cable segment. But in the case of the house wire segment, it is 89%. So now we are adding the capacity in the house wire also, which Anilji has said that it will be added in -- by March. And in the Cable also, which will be added in the earliest coming December, coming March. And then in the first quarter, our Pathredi plant will add.

So approximately new capacity addition. Like October, we added INR240 crores, another INR240 crores will be added in December and another INR500 crores will be added by the -- our house wire division capacity utilization was 70%, actually. So we have sufficient capacity over there.

So this additional Chinchpada will be there. And then the Pathredi plant approximately INR800 crores to INR900 crores capacity for next year, it will be there. So because of this new capacity addition in our existing locations, we will be able to grow the same kind of growth, which we are growing in this financial year. And after that, our new Greenfield capacity will be available.

Rahul Agarwal:

Correct, sir. So basically, Bhiwadi and Silvassa adds about INR2,000 crores of top line. Is that correct? Approximately.

Rajeev Gupta:

What were you saying?

Rahul Agarwal:

I'm saying Silvassa, the Brownfield additions, are adding up about INR700 crores to INR800 crores of top line and the Bhiwadi is...

Rajeev Gupta:

Basically INR1,100 crores to INR1,200 crores.

Rahul Agarwal:

So overall INR2,000 crores of top line?

Rajeev Gupta:

And plus Pathredi, so you are right, INR2,000 crores additional.

Rahul Agarwal:

Overall INR2,000 crores additional worth of capacity will be available by end of this financial year.

Rahul Agarwal:

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

Rajeev Gupta:

Thank you, Rahul.

Moderator:

Thank you. The next question is from the line of Shubham Aggarwal from Axis Capital. Please go ahead.

Shubham Agarwal:

Hi, thanks for the opportunity. Sir, just a question on the Greenfield capacity additions that are coming. Sir, can you give a sense, what are the percentage increase in capacity of the peak revenue or the revenue potential of these capacities in Phase 1, Phase 2, and Phase 3, similar the way you've given for the Brownfield capacity?

- Rajeev Gupta:** So in Greenfield, we are spending around INR1,000 crores-plus there. We will generate INR4,000 crores to INR4,500 crores capacity. The Phase 1 will be approximately INR2,000 crores capacity will be added by the fourth quarter of the next financial year. And balance we will be adding in the '25, '26.
- Shubham Agarwal:** Okay. So on the Brownfield, just reconfirming, if I've got it right. In the Silvassa plant, INR240 crores revenue potential capacity has been added in October '24. INR240 crores will be added in October '23. INR240 crores will get added in December '23. And the balance, about INR300 crores, will get added in March '24. Is that right?
- Rajeev Gupta:** Correct.
- Shubham Agarwal:** Okay, sir. And Bhiwadi plant, Q1, the whole INR900 crores will get added in Q1 FY '24, Bhiwadi?
- Rajeev Gupta:** Yes. '24-'25.
- Shubham Agarwal:** Right. Yes, Q1 FY '25. And just a related question, how long does it take us to ramp up these capacities to 100% utilization? I believe Brownfield capacity will be very -- the utilization can come up really fast. So if we add in October 31, we added the capacity, we can reach this peak utilization for that plant in, say, how many days?
- Rajeev Gupta:** Since we are having the order book position, so in the Chinchpada plant, the LT power cable we are adding we will be utilizing immediately.
- Shubham Agarwal:** Okay. It doesn't take -- it's not like a Phase 3. And a question on your answer in the last participant that you're diverting your current capacities to exports, the cable capacity. I believe last quarter you were saying that you'll be focusing on servicing the domestic demand first and then going on to export -- going on to service export demand. With that understanding...
- Rajeev Gupta:** We are serving domestic institution; we are continually serving. But once we get the export order, we have to deliver on time. So that's why I said that we are -- this export has increased. But the dealer/distributor, the Cable division has not increased to that extent. But the market is available.
- And it will always be the case. Sometimes EHV will increase, sometime HT will increase, sometime low-tension power cable will increase within the product. And within this segment also, sometimes the dealer/distributor will increase. Sometimes, the domestic institution will increase. Sometimes, export will increase.
- So overall, put together with the diversified, whether it is a product or it's a customer base, we will be growing in a 16% to 17% per annum basis. It is not the case like in the last quarter where the EHV sales was low, but still we have grown in this quarter. So again, our growth rate will be the same, will be very, very stable.
- Shubham Agarwal:** Right. Sir, yes, I get that. Sir, my intention of asking is that since you were saying that we'll incrementally divert more capacities towards exports, are you sensing any kind of a slowdown

in the domestic demand for cables maybe because of election or something, that was my intention of asking that?

- Anil Gupta:** No. There is no slowdown. But we have to create a balance with our available capacity for -- yes.
- Rajeev Gupta:** See, now we are going to create a INR2,000 crores worth of capacity by next year. And after that, another INR2,500 will be added. So if we are not tapping, right now the new geographies, then how we will grow and we will utilize those new capacities then?
- Shubham Agarwal:** Right. Got it, sir. Thank you so much. That was all from me.
- Moderator:** Thank you. The next question is from the line of Swati Jhunjhunwala from BOB Capital. Please go ahead.
- Swati Jhunjhunwala:** Thank you for taking my questions. First question, what was the B2B contribution in the second quarter?
- Rajeev Gupta:** Please repeat your question.
- Swati Jhunjhunwala:** The B2B contribution for the second quarter?
- Rajeev Gupta:** B2B contribution, 27% the domestic institution and 15% from the export. And dealer/distributor contribution is 47%. Apart from this, there is extra high-voltage power cable contribution is also -- that is also B2B, that is 6%.
- Swati Jhunjhunwala:** All right. And could you give me both mix of the order book in terms of EPC, HP, domestic cable, and export cable?
- Rajeev Gupta:** Yes, you can note down. EPC order book position at INR804 crores. Extra High-voltage power cable includes the little bit EPC portion attached to it, INR725 crores. Domestic cable order book position is INR1,548 crores. And export order book is INR286 crores. Put together all is INR3,363 crores.
- Swati Jhunjhunwala:** All right. And lastly, on the capex front. So H1, we have done INR221 crores. Are the INR45 crores to INR50 crores that we had targeted for Chinchpada, is that already included in the INR221 crores this year?
- Rajeev Gupta:** Yes. Out of the INR221 crores, we spent around INR43 crores in Chinchpada, INR5 crores in Pathredi and INR140 crores in our Sanand plant. And balance is for the maintenance capex and in our Kheda land, which is in Baroda.
- Swati Jhunjhunwala:** Got it. And the increment INR65 crores for Chinchpada, the INR110 crores for Bhiwadi will be incurred in H2. Is that right?
- Rajeev Gupta:** Yes. In Pathredi, H2 will be another INR75 crores and balance INR30 crores will be in the first quarter.

- Swati Jhunjunwala:** Okay. And lastly, the INR250 crores for Greenfield, how much that will be done in the second half?
- Rajeev Gupta:** Repeat your question, please?
- Swati Jhunjunwala:** The INR250 crores for the Greenfield capacity that we are adding, how much of that INR250 crores will be incurred in the second half of FY '24?
- Rajeev Gupta:** On Sanand projects, we have already spent INR140 crores for the land. Another INR150 crores will be spent in the second half and close to INR400 crores will be spent in the next financial year and INR300 crores will be in '25-'26. That's how this INR1,000 crores will be spent over there.
- Swati Jhunjunwala:** All right. That was all my questions. Thank you so much.
- Rajeev Gupta:** Thank you.
- Moderator:** Thank you. The next question is from the line of Alok Deshpande from Nuvama Institution Equities. Please go ahead.
- Alok Deshpande:** Good afternoon, Anilji, Good afternoon, Rajeevji. Two questions. One, on the margins, we have seen a good margin expansion this quarter. Can this be attributed to the EHV revenues going up sharply or is it just the operating leverage playing through? That was question, sir.
- And sir, second question was, if you could just give me the volume versus pricing breakup for this quarter, that would be helpful?
- Rajeev Gupta:** See, now the EBITDA level will improve towards 10.75% to 11% range because of the top line is increasing. So this kind of EBITDA level will be maintained in future also. And what was the second question?
- Alok Deshpande:** That was the -- so it was about the volume and pricing breakup for the quarter?
- Rajeev Gupta:** In the first half of the current year, as well as compared to the last year first half, copper price more or less is same. It was hardly 1% to 2% differences here. So these prices are stable. Only aluminium prices had reduced by more than 10%, 12%. Otherwise, prices are stable now.
- So close to 26% volume growth on the basis of the consumption of metal, on the basis of production we did because our production is higher also. So that will also because our level of production has also gone up because now, we have to improve our sales more than INR2,000 crores a quarter. So because of that.
- Alok Deshpande:** Okay, sir. Thank you so much. All the very best.
- Rajeev Gupta:** Thank you, Alokji.
- Moderator:** Thank you. The next question is from the line of Koundinya Nimmagadda from Jefferies. Please go ahead.

Koundinya Nimmagadda: Hi, sir. Thanks for the opportunity. Sir, firstly, a bookkeeping question. Can you provide us with the interest cost breakup for 2Q and first half?

Rajeev Gupta: This cost is very, very less right now. But still, you can note down. Because practically, all interest expenditure only for the bank charges right now. So in first half, the working capital interest is close to INR12 crores and then charges is close to INR2.86 crores. And processing fee of the bank is close to INR1.57 crores. So put together all in H1 is INR16.47 crores.

Koundinya Nimmagadda: Sir, what was the pickup...

Rajeev Gupta: And INR8.8 crores, close to INR9.83 crores is the interest income on FDR.

Koundinya Nimmagadda: Understood, sir. Sir, can you provide some of the breakup for the second quarter as well?

Rajeev Gupta: Second quarter, the working capital interest is close to INR5.4 crores and the bank charge is close to INR1.5 crores and processing charges, INR0.5 crores. So put together all is INR7.53 crores. And interest on FD is INR3.8 crores.

Koundinya Nimmagadda: Understood, sir. Sir, my second question is on the outlook front. You did speak about real estate front. On the infra part, what are the key segments that are driving growth for your domestic side? Also, if you can provide some more color on the exports? I mean we saw a strong growth during the quarter.

Anil Gupta: See, on infra side, metro rails, suburban trains, NCRTC, etcetera, that is number one. Number two is power distribution and transmission. And thirdly, solar developers, solar power projects. They are the major drivers.

But in fact, all segments are contributing, including industries, but I just mentioned some of it. And real estate as well and the construction sector and the new industry.

Koundinya Nimmagadda: Understood, sir. Sir, how about exports?

Anil Gupta: Export is definitely there. And exports are from solar plants, solar wind farms and power distribution and transmission.

Koundinya Nimmagadda: Fine. Thank you, sir.

Moderator: Thank you. The next question is from the line of Keyur Pandya from ICICI Prudential Life Insurance. Please go ahead.

Keyur Pandya: Thank you. Congratulations for good results for the team. Sir, just want to understand on the house wire side where we are speaking about faster growth, historically we have spoken about faster growth since we are growing on a low base. What kind of demand are we seeing? So first is the inherent demand because of a lot of real estate completions?

And second, what kind of growth we envisaged for ourselves assuming it would be higher than the rate at which industry is growing? So first question is on domestic house wire.

Rajeev Gupta: In house wire segment, as we have earlier guided also to grow by 22% to 25%. So we are in line with that also. With regards to real estate sector demand, which we all are witnessing in the top metro cities since last 1.5 years, so that demand is already there on ground now. Apart from that, individual bungalows are being made in each and every city and town. So that demand is continuing since last so many years and it will be continuing.

For our case, since we are increasing our geography, we are increasing our reach also in the house wire segment, we are adding more and more number of retailers under the dealer/distributor, so we are growing 20% to 25%.

Keyur Pandya: Just one follow-up. So against that 20% to 25%, what would be in the inherent industry growth? I mean, industry itself is also growing at healthy pace?

Rajeev Gupta: See the industry will be growing 12% to 13%, since all the smaller players around this segment, they don't participate in the industry growth because of the management bandwidth and the capital they are facing the scarcity. So the smaller company does not grow their sales to their customer.

Keyur Pandya: Okay. And second on export, the kind of growth that we all, including KEI, and all the Indian companies are seeing, it is -- anything that gave any kind of tariff or non-tariff barriers on imports from some specific country? Or this is just that there also capex spend is driving growth for companies in India? So any structural change has happened?

Rajeev Gupta: See the before COVID also, in our case, our export was close to 13% before COVID. During the COVID, we were not able to add new customers and new countries. So that's why sales were up to 10% of the total sales. Again, now marketing team was able to add more geographies, more new countries. So Anilji had said that this year will be close to 12% to 13% of total.

And by next year or another year, his focus is to grow exports close to 15% to 17% of our total sales irrespective of the market of our sale. So that's why the focus is there. So now Anilji can contribute more about the -- what the US is going on and the Europe is going on or the other oil and gas sector products, which we are selling there going on. So Anil, please.

Anil Gupta: There is a good spending in power distribution and infrastructure in the United States. And capacity over there are definitely lacking because for over many years, they have not increased their industrial base for manufacturing of cables. And definitely, we are getting some benefit out because of China Plus One policy, followed by Europe and USA. So we are getting the opportunity, and those opportunities are converted into business.

Keyur Pandya: Okay. Understood. Sir, thanks a lot and all the best.

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

Shrinidhi Karlekar: Yes. Hi, thank you for the opportunity and congratulations on good set of numbers. Sir, I have a question on exports business. There seems to be significant investments happening in the Saudi Arabia market, both in hydrocarbon sector as well as overall infrastructure. Wondering, does

KEI have presence in that market from both certification point of view, business development team point of view and execution capabilities?

Anil Gupta:

We have all the certifications in place. But at present, our sales to Saudi Arabia is not significant. But in other Middle East countries, we are present significantly like Abu Dhabi, Kuwait, Qatar, etcetera.

We are trying to make some inroad in Saudi Arabia, but -- especially focusing on oil and gas sector, Saudi Aramco, etcetera. And we hope that, we will get a breakthrough very keen soon over there.

But in other markets, like in US and in Europe, we are steadily getting inroads and we hope that we will be doing a reasonably good work in next few years in these markets.

Shrinidhi Karlekar:

Is there any legacy reasons why we are less present -- the company is less present in the Saudi market versus rest of the Middle East countries?

Anil Gupta:

Actually, Saudi has already a substantial local capacity of manufacturing cable. There are several companies producing cables in Saudi. And it is only because of the excessive demand at the moment we can get opportunity. Otherwise, they are themselves a large producer of cables within. And they don't allow imports easily when they had their own manufacturing capacity.

Shrinidhi Karlekar:

Understood, sir. Yes. We have seen EPC business scaling up in this quarter. Is it in tune with the EHV business scale-up we saw? Or is the company trying to scale up the EPC business?

Rajeev Gupta:

No, it is mainly because of the EHV. Because in EHV, almost 20% of the supply goes to the EPC, so because of that only. Where the pure EPC contribution of the total sale has remained 4%. Earlier, it was 5%. This year, it will be less than 4%.

Shrinidhi Karlekar:

Right. And last one, if I may. I just want to understand, would you say that in Q2, you missed some of the revenue because of capacity constraints. And if yes, is that a meaningful number?

Rajeev Gupta:

See, our target which we have earlier said for the current financial year to grow 16% to 17%. So we are maintaining that irrespective of the market is available because we want to run a debt-free company that we are running. So under risk mitigation plan and capital allocation, we cautiously have made the strategy that a 16% to 17% to 18% kind of growth we will be continuing maintaining for next five years to seven years. Not for one year, but we are saying for next five years.

Shrinidhi Karlekar:

Last one, sir, if I may. Again, the 16% growth -- the 16% to 17% growth that you're guiding for the next year, does it factor in the Greenfield plant commissioning in Q4 and there's some dependence on that? Or even if that, unfortunately, if it slips into the following years...

Rajeev Gupta:

For the next year, we are not taking because only the end of the fourth quarter they're coming. That's why we have increased the capex in our existing Chinchpada, Silvassa plant so that we will have the sufficient production capacity to grow 15% in the next financial year.

- Shrinidhi Karlekar:** Right. Thank you for answering my question and all the very best.
- Moderator:** Thank you. The next question is from the line of Amit Mahawar from UBS. Please go ahead.
- Amit Mahawar:** Hello, Anilji and Rejeevji. Great execution again. Sir, I just have one specific question on your expansion and export strategy. So exports may -- can you just help us understand and maybe, Anilji, can help here, next two years, three years, how will we move in LT, HT, and maybe branded house wire also that you're targeting because you will eventually start developing channels there, maybe in US market and non-US market. So how will we -- how should we think about the composition of export business for KEI for the next three years?
- Anil Gupta:** Our exports will be mainly focused on export of cables. We are not targeting export of wires to anywhere because wire in every country, there is a lot of local capacity and competition from the local suppliers is there and also a lot of stocking is required everywhere to sell this product because of the instant delivery requirement from the market. So we are not -- we have no sales for house wires from our plant anywhere and we are not focusing this.
- Rajeev Gupta:** We are only focusing on LT, HT and EHV cables.
- Amit Mahawar:** Sure. So nobody -- I think I would definitely even don't have any doubt on the potential we have for export market. But generally speaking, if you compare with the conditions that you have, the terms of contract that you have in supplies in India, vis-a-vis the export market, generally, how is the working capital different for us in exports?
- Rajeev Gupta:** So in export, also the same. We are supplying to institution over there. Same case with India, we are supplying to institution. So close to 2.5 months or three months is the normal period for this.
- Anil Gupta:** Normal payment period is 60 days to 75 days even in exports also.
- Amit Mahawar:** Sure. Thank you, very much and good luck.
- Anil Gupta:** Thank you, Amitji.
- Moderator:** Thank you. The next question is from the line of Natasha Jain from Nirmal Bang. Please go ahead.
- Natasha Jain:** Good afternoon, gentlemen. My first question is more of a follow-up from the previous participant's questions. Sir, I want to know on a more macro term as to what is the demand supplied for cables in the international market? And what kind of time frame visibility do we have in terms of getting very good orders? So like we have strong tailwind in the domestic market for cables. Is it also internationally? And can we assume that for the next many couple of years, that will continue to be? So first question is that.
- Anil Gupta:** See, we don't have any data about demand and supply in the international market. It varies on the country to country. But the kind of markets and the customers we are developing or we have developed so far, we see a consistent demand of cables into several projects over there, which we are doing like wind farm -- I mentioned in wind farms, solar farms, solar power developers

and also a lot of customers who are using our cables in manufacturing plants over there and also in the power transmission and distribution side.

There are -- it is very difficult to, I mean, predict -- our capacities are not that large that we are trying for large international markets.

Natasha Jain: Understood, sir. But then there is -- what I wanted to know is, there is a strong opportunity, right, from the international market as well for cables particularly?

Rajeev Gupta: The possibilities are there. As we said that, we have the strategy to grow 16% to 17% per annum. So our focus is to add more and more geographies and add more and more customers in our kitty. So that any given point of time, at any time the retail is lower, domestic institution is lower, so that this, too, then can be contributed to exports. Otherwise, we have to grow only 16% to 17%. Our target is not to grow 30%.

Natasha Jain: Understood. And sir, one follow-up on this question itself. Sir, is the international market a more brand-conscious market for cables? Or is it not that? Just some light on that.

Anil Gupta: International market is not brand conscious. International market is qualification conscious. Where the kind of segments we are supplying, we have to get our products certified by the regulatory entities over there. Like in US, we have to get mandatory UL-certified cables. In Europe, we have to take their Construction Protocol Registration in different countries, CPR certifications. So in every country, there are some certifications required, which we have obtained and using for that -- or to that country.

So the certification is given to the company. So naturally, that brand got registered in their system. But if we see that, we are selling branded products, like Louis Vuitton like that, that is not the case in case.

Natasha Jain: Understood. Sir, why I asked this question was, I understand that wires is absolutely not -- it's perceived more as a commoditized product internationally. So just wanted to understand where R&D spend for cable is more...

Anil Gupta: First of all, I mentioned that we are not selling or trying to sell wires in the international market. We are only selling cables in oil and gas, in power transmission where it is -- if the product is approved by the -- using the institutions or authorities and the product is certified to be used in that country. Like in India, we need mandatory BIS certification. In every country, there are some certifications required.

Natasha Jain: Understood. Sir, and my last question is on the margins over a longer period, not in the medium term or short term. So given that all your Greenfield and Brownfield capacities will come into play, say, by FY '26-'27 at good utilization levels, so then I believe that sharp operating leverage benefits should kick in. Sir, so then where can we see these margins, EBITDA margins, moving to probably in the medium term, say, over three years to five years?

Rajeev Gupta: At least, 1%, 1.5% will improve by '27-'28.

- Natasha Jain:** Understood, sir. All right. Thank you so much and all the best, sir.
- Moderator:** Thank you. The next question is from the line of Manoj Gori from Equirus Securities. Please go ahead.
- Manoj Gori:** Yes. Thank you for the opportunity. And congratulations on good set of numbers, sir. Sir, my question would be, so obviously you've already commented a lot on the demand front. But there is one bookkeeping question. So if I look at the unlikable expenses, has there been any change in classification? Because when I look at the EBIT margins for Wire and Cables have improved significantly. But on the other side, unlikable expenses have also shot up. So can you throw some light? Or this is just one-off quarter?
- Rajeev Gupta:** No. Expenses depend on the raw material, operating expenditure, and the EPC division. Because in EPC division, some quarter our sale is higher because their raw materials is very, very less. Expenses is mainly. So that's why, you see the EBITDA margin.
- Manoj Gori:** Okay. But there is nothing exceptional or probably it should be normal in the due course?
- Rajeev Gupta:** Yes, it is normal.
- Manoj Gori:** Okay. Right, sir. Sir, and also when I look at from an export point of view, obviously, this quarter on Y-o-Y basis, numbers look very strong. So probably, how should we build in, in the coming quarters and probably from '25 perspective as well, if you can throw some light. Because obviously, you've thrown a lot on the demand side?
- Rajeev Gupta:** First of all, Manojji, as we have earlier spoken also to you or some other investors, we have to grow 16% to 17% to 18% kind of thing. So we need to take care. It should not miss whether for a particular geography demand is heavy or not heavy. That's why we have developed over a period of time the domestic Institutional sales, which is high entry barrier; and international export sales, which is again a very high entry barrier. Then we developed to maintain a working capital -- low working capital for the dealer/distribution segment.
- And every time, all the three segments will not gradually increase. Sometimes, one will expand more. Sometimes, another will expand more. So that's how we maintain the overall growth like you are maintaining the portfolio.
- So we are maintaining the portfolio. Sometimes export increase, sometimes domestic increase, sometimes dealer/distributor increase. So here, reshuffling will be there between them. A lot of time, you asked about even if it has not increased, we have done the same growth. Like, last year, we did not have EHV, then too we did 20% growth.
- So these basically additional working towards customers, towards geography, towards segment, towards product is mainly to insulate the risk overall. So that because of this, our sustainable growth model is there and we are happy with 16% to 17% to 18% kind of growth. To maintain that we are working there effectively.

Manoj Gori: Right, sir. Sir, lastly, so when we do our checks at the ground level. So probably one thing what we are able to figure out is that Cables are doing better than Wires and B2C has been a bit sluggish on a related basis versus in...

Rajeev Gupta: Nothing is better or worse. Cable demand is in different factor and wires demand is in different factor, first of all. No product is comparable to each and every product. We are running a portfolio of the products. Whether wire sells more, EHV sells more, LT sells more, HT sells more, like this. Like what I said to you, product wise they will go up and down, segment wise also, there will be up and down and geography wise also, up, and down. But we need to take care a 17%, 18% kind of growth.

Manoj Gori: Right, sir. Sir, my question was like this is for the industry. So industry we are getting this feedback. Obviously, you guys are doing far better. So probably, how do you see the overall demand picking up, especially for Wires?

Rajeev Gupta: Overall demand earlier, it was 11% to 12%. Now it is 12% to 13% with respect to the industry as a whole for Wire and Cable segment because lots of infrastructure capex from the government side going on like in the road, in the rail, in the metro rail, in the airports and the seaports. Then the government is pushing towards affordable housing. Then government is pushing towards the generation of the power through the solar, through the wind and through the traditional route of the thermal.

Then the government is focusing on to attract the manufacturing -- all the manufacturers worldwide to create the manufacturing hub in the country. For that, they have started through the PLI scheme. And slowly, slowly, they are adding more and more products under PLI scheme. That's why the private capex from overseas market is coming in India.

Apart from this, lots of various expansion is going on because of local consumption. Lots of fertilizer units, lots of cement units, steel industries, pharma, IT, everywhere you are seeing the -- or you are witnessing lots of investment is going on because the affordable generation is there. Because of that, the consumption is higher, the demand of consumption is higher, so suppliers will clear the supply.

Manoj Gori: Right. Got it, sir. Thanks a lot and wish you all the best.

Rajeev Gupta: Manojji, thank you.

Moderator: Thank you. The next question is from the line of Pulkit Patni from Goldman Sachs. Please go ahead.

Pulkit Patni: Sir, thank you for taking my question. Sir, just one question in order to understand the industry better. Like if I look at the last many years, the sector wasn't generating a lot of cash and which means everybody had to do a balancing act between how much is involved in inventory, how much is involved in capex and how much is the free cash flow that every company in the sector was generating.

Now last two years, three years have been phenomenal for the sector. It seems everybody is making money. Do you worry that we could get to a stage where there is more investment in the sector, i.e., you are adding capacity, some of your peers are also adding capacity. Do you think this could be a challenge? Like today it's not a bad problem to have where you are saying, I'll grow 16%, 17%, but that's because of capacity, not demand.

So I'm just trying to understand, do you foresee that there is over investment happening in this sector today, but maybe in some time we could be in a situation where industry is oversupplied? Just wanted to get your sense based on whatever you've seen and you have heard from competition.

Anil Gupta: It may happen. But it will not happen that rapidly. The kind of investment and capex required to augment the capacity is substantial and not many companies have that kind of capabilities to invest, present existing players. And I don't see any new players are coming up in this.

And to insulate ourselves from variation in the demand in the domestic market, that is why we are creating export markets also in different geographies so that we are not dependent on any particular area, although domestic will always be our main bread and butter.

But maybe so that sometimes if the demand is less or many players are there, margin may be impacted by 1% or 2%. But we are already working on very low margins and working -- and operating a debt-free company. So I don't see any risk factor so far as to us is concerned, and I don't foresee any new players coming up in this way.

Pulkit Patni: Okay. So no new players you've seen really come on or out?

Anil Gupta: Yes.

Pulkit Patni: Yes. This is very helpful, sir. Thank you.

Moderator: Thank you. The next question is from the line of Keyur Pandya from ICICI Prudential Life Insurance. Please go ahead.

Keyur Pandya: Thanks for the opportunity. Sir, just to get clarification. You mentioned about 16%, 17% growth for this year and going ahead also. Now of this overall growth, how yours is growing faster and export is also growing faster. So domestic Institutional cable business should steady-state grow at 12%, 13%. Is that correct understanding?

Rajeev Gupta: It always depend on the mix, which we are having the order book for this. Because ultimately, we have to grow 16% to 17%, whether from a export market we get or we are serving our domestic we are serving. We have to balance because, as Anilji has said, that we will maintain all the customers so that any given point of time, we should not be having any risk.

Keyur Pandya: On a low base, you are growing faster in the house wires, I think 20%-plus you have mentioned. So that portion of the sales is growing faster. Export also is growing as a percentage of sales, so that is also growing faster?

Rajeev Gupta: See overall, it will remain same. In market, demand is not less, but we have to grow as per our capacity. We have to continue with our capital allocation.

Keyur Pandya: Okay. Got it. Perfect. Thanks a lot.

Moderator: Thank you. The next question is from the line of Anupam Goswami from SUD Life. Please go ahead.

Anupam Goswami: Hi, sir, can you tell me about the outlook on your EHV cables? And give me a little breakup of your segment-wise, let's say -- margin breakup, like say, what was in the EHV, what was in the Cables and Wires this quarter? And the next question is on the...

Rajeev Gupta: Yes. Anupam, I can't give you the broader figure at the average level because we don't have any calculation on a product wise margin because our facts are same. But normally, while we are selling to domestic institution side, which is a high entry barrier and tender-driven sales, their EBITDA is 10% to 10.5%. And while we are selling to export market, EBITDA margin is close to 11%.

In extra high voltage power cable, because of the low competition in the domestic market, EBITDA margin is 15%. And the dealer/distributor business, whether it is a wire or cable, its EBITDA margin is close to 11%. So in EPC division, the margin is close to 12%.

So put together all, the margin comes between 10.75% to 11% kind of range.

Anupam Goswami: And sir, what is your outlook on the EHV segment?

Rajeev Gupta: The outlook on EHV segment, we have the capacity of INR550 crores to INR600 crores capacity. So that we are utilizing.

Anupam Goswami: Do you see a strong traction going forward? Or do we see some slowdown as the election year is coming or in the last quarter or so?

Rajeev Gupta: At the last quarter, you saw our EHV was less, then too we made growth and in the last year also, our EHV was low then too, we had a growth. In the second quarter, EHV was more, then too we had the same growth 20%, 21%. So, that is only the growth normally. Because factory manufacturing is depended on capacity, capital allocation, how much we need to put in working capital.

So everything is required through the capital only. Even though the market is there, if we target for 25% to 30% growth, then what will happen, we will again end up with the debt position, which we don't want.

And we are clearly guiding to every investor that whatever internal accrual we will be generating year-on-year basis, we will be deploying to increase our capacity to that extend and it will be sufficient for 16% to 18% kind of growth.

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

- Rahul Agarwal:** Sir, thank you for the repeat opportunity. Just wanted to take this point on EHV forward, nothing related to KEI, but overall, what would be the EHV consumption today in India? I mean, this current year, would you have any idea, sir?
- Anil Gupta:** Should be close to around INR2,500 crores to INR3,000 crores.
- Rahul Agarwal:** And India still remains a three-player market?
- Anil Gupta:** I think three or four players are there totally.
- Rajeev Gupta:** Rahulji, any new player comes, it will take another three years to four years to five years kind of time to put the factory and then the fastest approval and the prequalification process. Any new player comes in the EHV, it will take at least four years to five years.
- Rahul Agarwal:** Yes, sir. I completely understand that. I was just trying to understand, KEI did like INR400 crores of EHV sales in fiscal '20. Today, this year, we should do -- we'll utilize full capacity. We have a large import available there. Can we increase our capacity and take advantage and do more EHV sales? Is that...
- Rajeev Gupta:** What we don't need to do, we have said earlier. Whatever growth we have in the market, it might be 50%, 100%, our growth of 16% to 18% is in disciplined approach moving ahead. And this is the same sustainable model for next 10 years, 15 years, we will work on. Last 15 years, KEI CAGR growth was 14% and at that time, we had debt also. Now, we don't have debt, which is the reason, 10 years to 15 years for CAGR growth is projected, not for one year or two years.
- Rahul Agarwal:** Sir, very clear. And EHV, last question was, who is the end client? Is it power grid only? Or is it other state?
- Rajeev Gupta:** The client, power grid only.
- Anil Gupta:** High voltage cable is purchased by either the state transmission utility and central power transmission utilities. And now it is purchased substantially by the companies who are developing data centers and also, the solar power development for evacuation of power, which they are generating in their solar plants.
- Rahul Agarwal:** So this is not a government business, right? I mean, to be very clear on this.
- Anil Gupta:** No. The state transmission utilities is a government business.
- Rajeev Gupta:** So almost 50% is government and 50% is...
- Anil Gupta:** Yes. Central utility like power is government business.
- Rahul Agarwal:** Yes, of course, as Rajeev just said, I think 50%- 50% as of now. And incrementally, it should remain like this, right?
- Rajeev Gupta:** Yes.

- Rahul Agarwal:** Got it, sir. Thank you so much. All the best.
- Moderator:** Thank you. The next question is from the line of Koundinya Nimmagadda from Jefferies. Please go ahead.
- Koundinya Nimmagadda:** Thanks for the follow-up opportunity. Just one question I had. You spoke about INR221 crores of capex in 1H. So just wanted to reconcile, what is the full year capex for FY '24 and FY '25 that we are now looking at? And what was this number earlier?
- Rajeev Gupta:** See, earlier, the Greenfield capex is not all there. So now the Sanand project, which is the major Greenfield project, wherein we need to invest INR300 crores to INR350 crores each year. So in the Greenfield, we are investing INR300 crores this year and the next year INR400 crores and in '25-'26, INR300 crores.
- For the Brownfield capex, we are -- we have incurred in first half INR48 crores and we will invest another INR150 crores in the current financial year in the second half in our Bhiwadi, Pathredi plant as well as in our Chinchpada, Silvassa plant.
- Koundinya Nimmagadda:** Understood. So that roughly translates about INR500 crores of capex for FY '24?
- Rajeev Gupta:** In the current financial year because the land value is also there in that.
- Koundinya Nimmagadda:** And what was this number earlier, sir?
- Rajeev Gupta:** Earlier means?
- Koundinya Nimmagadda:** I mean prior to?
- Rajeev Gupta:** Only there was maintenance capex. And plus the -- at Silvassa, a little bit Brownfield capex. Not more than INR40 crores, INR50 crores.
- Koundinya Nimmagadda:** Understood, sir. Thank you very much. All the best.
- Moderator:** Thank you very much. That was the last question in queue. I would now like to hand the conference back to the management team for closing comments.
- Anil Gupta:** To summarize, thank you very much for this question-and-answer session and in listening to us. We are available for any further questions, which you may have. Overall, I can say that the company is on a healthy trend to grow and in a disciplined manner with its own internal generation of resources and the money. And we'll be growing in a disciplined manner so that to remain largely debt-free over a period of time. Thank you.
- Rajeev Gupta:** Thanks, everybody.
- Moderator:** Thank you very much. On behalf of Monarch Network Capital, that concludes this conference. Thank you for joining us, ladies, and gentlemen. You may now disconnect your lines.