"KEI Industries Q3 FY22 Earnings Conference Call"

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MODERATOR: MR. ANUBHAV RAWAT – MONARCH NETWORTH CAPITAL LIMITED

Moderator: Ladies and gentlemen, good day and welcome to Q3 FY'22 Earnings Conference Call of KEI Industries Limited hosted by Monarch Networth Capital Limited. As a reminder, all participant lines will be in listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing * then 0 on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over Mr. Anubhav Rawat from Monarch Networth Capital Limited. Thank you and over to you, Mr. Rawat.

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

Anil Gupta: Thank you. Yeah, good afternoon, everybody, and welcome to this Investor Conference Call. I'll give a brief about Q3 results of KEI Industries. Although you have all these numbers with you now, I'll give a brief. Net sales for the company in Q3 is INR 1,563.85 crore and we have grown in net sales by 35.64% in this quarter year-on-year basis. The company has achieved highest ever quarterly sales in this quarter. EBITDA in this quarter is INR 158.54 crore and growth in EBITDA compared to previous quarter year-on-year is 22.93%. EBITDA/net sales margin is 10.14% as against 11.19% in the same period previous year. EBITDA margin declined mainly because of some expenses normalized back to pre-COVID level and sharp fluctuations in the input costs. Profit after tax this quarter is INR 101.25 crore against INR 76.15 crore in the same quarter previous year. Growth in the Profit after tax is 32.996%. This company has achieved highest ever quarterly PAT during this quarter. PAT/net sales margin is 6.47% versus 6.6% last year same period.

The company's domestic institutional wire and cable sale in this quarter is INR 480 crore and against INR 343 crore in the same quarter last year, the growth is approximately 40%, and the growth in the institutional EHV cable sale is 183 crore, domestic institutional EHV cable sale is INR 183 crore and the growth in this segment is 18%. Export sale this quarter is INR 186 crore. The growth in this is around 34%. Out of this export sales, cables INR 139 crore, EPC INR 15 crore and stainless-steel wire INR 32 crore.

Total cable institutional sale contributed approximately 50% -- 51% in third quarter against last year same period 52%, and sales through dealer network, dealer and distribution network achieved is INR 634 crore in third quarter against INR 410 crore last year. So, growth in this segment, sales through dealer network is 55%. So, from the beginning of year 2021 company has been working on strengthening its dealer and distribution network and has recruited more than 150 manpower upfront in the marketing department from electrical and other FMEG background at different levels pan India, resulting into good growth in the B2C segment business.

The total active working dealer of the company as on 31st December 2021 was approximately 1700, and the total sale contributed through dealer network is 41% of the total sale of the company in third quarter against last year. Same period, it was 36%. The EPC sale other than cable is INR 93 crore against previous year INR 122 crore, decline is approximately 24% in the third quarter. Out of the total sales of EPC, the sale of turnkey contribution from extra high voltage cable projects is INR 38 crore as against INR 30 crore last year same period. The stainless-steel wire sale in Q3 of FY’22 is INR 65 crore against same quarter in the previous year is INR 41 crore, the growth is approximately 59%.

Now, I will give a brief of nine months summary. In -- during nine months, the company achieved a sales of INR 3,935 crore, resulting into a growth of 34% in the nine months period, and EBITDA achieved in nine month is INR 424 crore and the growth is 26.3%. EBITDA/net sales margin is 10.77% as against 11.43% in the same period previous year. Profit after tax in nine months is INR 260 crore and the growth in PAT is 42%. So, the PAT/net sales margin has improved to 6.62% versus 6.25% last year same period in the nine months period.

So, the domestic institutional wire and cable sale has grown by 52% and export sale, however, in the nine months period has declined by 15%. However, the total institutional cable sale in nine months has contributed 50% against nine months -- against last year 55%, and sales through dealer network is grown by 70% in nine months period as compared to the last year of -- last year nine months, and as I mentioned that the sales through dealer network has contributed 41% in nine months against last year of 32%. The EPC sale has declined in nine months period by 19%. This is in line with our previous guidance to lower EPC business and restricted to approximately 10% of the total revenue. Stainless-steel wire sale in nine months has grown by 74%.

Now, the pending orders as on today is -- as on 31st December is INR 2,994 crore. In this, the EPC pending orders are INR 1,038 crore. EHV cable and EPC extra high voltage cables turnkey projects INR 419 crore, cable domestic business is INR 1,429 crore and cable export orders pending are INR 108 crore. Besides that, whatever sales we do through the dealer network in that there is no pendency of orders, because they are generally orders placed and then supplied through from the stock. So, they are ready stock. So, no order book is there for the B2C sale of our wires and cables.

The company's credit rating from ICRA, CARE and India Rating is AA- for long-term bank facilities and A1+ for short-term bank facilities. The book value per equity share of the company is INR

226.48 as on 31st December 2021 as against INR 197.38 as on March 31st, 2021.

Borrowing and operating cash flows and finance cost. Net debt including LC acceptances is INR 487 crore as on 31st December 2021 as against 407 crores as on 31st March 2021. However, it was INR 922 crore as on 31st March 2020. So, a substantial decline of around INR 450 crore from previous financial year, from FY'20. During the nine months of FY'21-22 finance cost has decreased to INR 30.34 crore as against INR 44.78 crore in the previous year same period. Percentage of financial charges on the net sales has decreased in this period to 0.77% from 1.53%.

The company has used operating cash flows for cash purchases resulting into reduction of trade payables; that means creditors through LC, letter of credits acceptances, substantially by INR 243 crore as compared to March 21, which has further reduced finance costs during the nine months. Though it may impact certain financial ratios like working capital cycles or return on capital employed but it has benefited the company in the form of reduction in the finance cost.

Future outlook of the company. Our strategy is to increase continuously the retail sale and downsizing EPC business which is working well, and in future within two years' time our retail sales will reach around 50% of the total sales of the company with annual growth in the retail by 30 to 35% per annum. In retail business, which is evident from nine months period of FY'22 results, we think that retail business offers superior growth prospects with better margin and lower working capital requirements.

Capacity utilized during nine months of FY'22 is 71% in the cable division, 66% in the house wire division and around 100% in stainless steel wire division. So, the company already has the capacity to achieve growth in the next financial year which is already in place. Company is in the process to expand the capacity for setting up a greenfield project for LT, HT and EHV cables with an investment of

7 to 800 crores will be incurred in three to four years' time to maintain a CAGR of 17 to 18% for coming years. Our last 15 years CAGR is 15% and last five years, CAGR is 20%, except 2021 financial year. Overall, the company is targeting more than 30% growth overall in FY'22 with strong order book in hand and good demand from the government and private CapEx and as well as the real estate.

I'll mention about a little bit of demand drivers. There's a continuous demand from government infra projects as well as private CapEx especially from solar power projects, metro rail projects, oil and gas sectors and steel, cement and refining sector industry, underground cabling projects of transmission and distribution in metro cities, highway projects including tunnel and ventilation projects, smart city projects, steel industry expansion. We expect that we will even grow in the exports as we have seen in the Q3 our exports have grown by approximately 35% compared to last year.

So, this is from the management side. I thank you very much for your valuable time in this conference call. Thank you and you may ask any questions if you may have. I will gladly answer it. Thank you.

Questions & Answers

Moderator: Thank you very much. We'll now begin the question-and-answer session. Anyone who wishes to ask a question may press * and 1 on their touchtone telephone. If you wish to remove yourself from the question queue, you may press * and 2. Participants are requested to use handsets while asking a question. Ladies and gentlemen, we will wait for a moment while the question queue assembles. Participants, you may press * and 1 to ask a question. The first question is from the line of Rahul Agarwal from Incred Capital. Please go ahead.

Rahul Agarwal: Yeah. Hi, good afternoon and thank you for the nice presentation, Anil Ji and Good afternoon, Rajiv Ji. Sir, quick questions. Firstly, to start with, I understand copper was volatile and hence margins were soft for the quarter. Could you help us understand how does fourth quarter look like, how the start to January and then some price hikes are pending here to be taken in fourth quarter? Could you help understand some colour on this please? That's the first question.

Anil Gupta: The price hikes are continuously passed on from whenever the raw material prices are increasing. They are taken into consideration whenever new offers are made, and so far as retail is concerned, prices are practically priced or readjusted every 15 days. So, little bit of effect of 1% margin was there because of some pending orders of extra high voltage and some other orders which were on the firm [ph] prices, and all these orders has been executed and cleared. We do not have any pending orders for -- at old prices in any category. So, whatever orders are now there in the system, they are all booked from the copper and aluminium level which are presently prevailing. So, we do not see any margin erosion in the coming time.

Rajeev Gupta: In the last three months, I think prices are also on for copper and aluminium.

Rahul Agarwal: Will margins go back to 11% in fourth quarter? Is that understanding correct?

Anil Gupta: Yes. I can't say exactly but we hope that it will be maintained because there is no pressure of raw material prices now.

Rahul Agarwal: Got it, sir. The second question was we're looking at achieving very good scale on the housing wire side. We're almost running at INR 1600 crores yearly run rate now. How has the pricing behaviour been in the market for KEI for, you know, housing wire versus Havells, Polycab, Finolex. Are we -- now the discount versus these brands have reduced, are we at par? Any colour please.

Anil Gupta: No, no. We are still maintaining the same price levels and we are, I mean, definitely there is a price gap of 3 to 5% from Havells and Finolex, but we are improving our gap, improving our margin and reducing this gap year after year from the stronger brands.

Rahul Agarwal: Got it, sir. So thirdly on the order book. So obviously, as you said dealer sale doesn't have an order book and that is about 40% of top line. So, if I remove that sale from annual sale, we're talking about INR 3,000 crores of sales coming from non-dealer and that is equivalent to -- you know, the average order book has been remaining in that range of INR 2,500 to INR 3,000 crores. I just wanted to get your help on to understand this number that, is that decent enough to run a 12-month order book or you would, you know, you would have -- is this number going to go up or down going forward? Because my understanding is housing wire sales growth is much higher than the non-dealer company level sales. So, obviously, this numbers will stay here. So, could you help me understand this?

Anil Gupta: Yeah, I think you're right that order book -- book order number should remain similar because in this around INR 1,400 crore orders or INR 1,500 crore orders are only of the EPC. So, these orders will be executed over a period of two years. So rest, the cable orders which are in the vicinity of INR 1,550 crore they will be -- and EHV cables, so they will be executed, they are executable within next four to six months maximum. Maximum 90% orders are executed within three months but 10 to 15% goes up to six months also. So, the numbers of the pending orders will remain same because 40 to 42% coming from retail.

Rahul Agarwal: Got it, sir, and lastly any expectation from the budget as in anything specific on cables and wires in terms of duties, etc? Or is it largely going to be again supporting and boosting government and private sector CapEx? That's my last question. Thank you.

Anil Gupta: We are not expecting anything from the government. I think by lowering the income tax they have already done enough. What we expect is the demand which will come through the government spending infra push and other policies like productivity linked incentive, etc. which will create -- bring industry and create demand for wires and cables.

Rahul Agarwal: Perfect, sir. Thank you so much. All the best for the coming quarter. Thank you for answering. I'll come back in the queue.

Moderator: Thank you. Participants, you may press * and 1 to ask a question. The next question is from the line of Lavina Quadrus from Jefferies India. Please go ahead.

Lavina Quadrus: Yeah. Hi, sir. Congrats on a good set of results. I just want to understand there was some delay in offtake, I mean your working capital on inventory side has been impacted a little bit. Could you just explain if there was any delayed offtake on deliveries and reasons for it? Thank you.

Rajeev Gupta: Yeah. Lavina, first of all, if you go by holding period of the debtors and inventory, it has reduced further 0.25 months if we include debtor and inventory as compared to the last year but the working capital hit, you are seeing because of the current liability, the payable which Anil Ji has told. So, the payable has reduced substantially by more than INR 243 crore. So, it comes out to almost one month. So, because of that it is looking like that working capital has increased, but it is not the case because whatever cash flow we were having, we were utilizing to reduce the interest-bearing creditors. So -- and that we did around INR 14 crore of interest costs. In terms of absolute number we have kept for that. Little bit inventory can be reduced further of the finished goods, which definitely will be adjusted in this quarter by increasing the sale.

Lavina Quadrus: Okay. So, because of the environmental issues, what was it exactly that impacted...

Rajeev Gupta: Close to under 100 crore of finished goods was disturbed because of this environmental issue in the month of December.

Anil Gupta: No. Because the -- a big stock manufactured for Delhi Transco and some 50 to 55 crore worth of cables could not be dispatched because there was a ban on entry of diesel vehicles because of the pollution level in Delhi and also in the NCR region. So, a lot of dispatches could not be done for large institutional orders because of the -- because they needed large trailers to transport and they were banned.

Lavina Quadrus: Okay. So, that should…

Rajeev Gupta: It should be in the month of January.

Anil Gupta: That has already been liquidated in January, already been dispatched.

Lavina Quadrus: Understood. Sir, lastly, the interest costs break up please for the quarter?

Rajeev Gupta: You can write down. Interest on term loan for this quarter is 0.67 and the working capital interest is close to INR 4.6 crore. Then LC interest costs it has reduced, oh, sorry. Please note again. The term loan interest is 0.48. The working capital interest is close to INR 4.6 crore, then LC interest is very minimal of just INR 0.03 crore, bank charges on LC is also 0.09, bank charges on bank guarantee is INR 2.43 crore and the other bank charges like processing fee, etc it is 1.27 crore.

Lavina Quadrus: Okay, thank you sir.

Moderator: Thank you. The next question is from line of Amit Mahwar from Edelweiss Financial Services. Please go ahead.

Amit Mahwar: Thank you. Anil Ji, Rajeev Ji, congratulations on great retail-driven growth. Sir, I just have one question. Sir, technically, if you see the way we are going, we will be crossing retail revenues especially on house wires around INR 2,000 crore by maybe '24. That should translate a significant, you know, cash flow in our business and if I take on a three-year scale, am I right in my understanding that generally we should be able to, you know, clock more than INR 250 to 300 crore plus worth of operating cash flow, average in the next year. That's my first question, sir.

Anil Gupta: So, you're right Amit. Because of increasing of the retail channel sale, our cash flow is improving every year-on-year basis and because of that, we are able to utilize our cash for the cash purchase which had reduced the already [ph] the interest cost, and from here onwards for next three years, our capital expenditure is in pipeline, approximately every year INR 200 crore to INR 250 crore in the new CapEx area for low tension, high tension and extra high voltage power cable. So, that will be made through this cash flow only. So, because of this heavy operating good cash flow, so we are able to generate this kind of through the retail as well as we are going to spend into the CapEx without taking any further loan, etc.

Amit Mahwar: Yeah. Thanks, Anil Ji.

Rajeev Gupta: That is only possible because of this business model.

Amit Mahwar: Sure, sure. Sir, maybe one more question, if Anil Ji can help. Sir, typically beyond our cable expansion, which I'm sure, you know, should happen in the next two years, generally beyond one to two years, how will you think of the retail franchisee, maybe around once you attain a critical mass in wires, you will think of FMEG but am I right in my understanding that maybe beyond '23 -- maybe beyond '24 is where we will have a bigger FMEG plan. Before that anyway it's not feasible? Am I right, sir?

Anil Gupta: Actually, FMEG plan are there, but still we are more focusing on grabbing the market share for the existing product of house wires. So, that's why we are a little bit conservative for adding new products, but still that is on the radar and in the planning stage also. That's why the 150 people whosoever inducted into the retail team of house wire they have been taken from the various backgrounds of the electrical FMEG products. So, in future within a year time, definitely it will be done but in the meantime, we are able to grow our house wire business.

Amit Mahwar: Maybe -- thank you, thank you very much. Sir, maybe one last…

Anil Gupta: In this year also we in nine months, we have grown close to 70% of our dealer distributor business.

Amit Mahwar: Yeah, and if I exclude the pricing impact, it is still more than 30, 35% in value growth sir?

Anil Gupta: Yes. Yes.

Amit Mahwar: Volume growth, sorry?

Anil Gupta: Volume growth is close to that.

Amit Mahwar: Okay. Okay. Sir, maybe one last question from my side. Of the current sales force that we have for branded wires, what percentage is there in northeast and in south in general?

Anil Gupta: Yeah, we have given their percentage also in the breakup of the revenue. Then the 37% comes from the north, second followed by west that is 31%.

Amit Mahwar: Yeah, I saw that. My question is different. Basically in the current sales team, northeast and south would account for what percentage of the manpower deployed for marketing and dealer distribution?

Rajeev Gupta: So now we are – Anil Ji is deploying more and more manpower in the south and eastern side.

Anil Gupta: Already, we have a good amount of manpower in the northeast and eastern India. And now, we are increasing our strength in the south. South, we still have lesser people, but eastern India, we have already strengthened in last nine months, and that will show results in the coming quarters, and south, we are now, this quarter is our focus, we will be strengthening our marketing team.

Amit Mahwar: Got it, got it. Thank you. Thank you, Anil Ji. Rajeev Ji, Thank you.

Rajeev Gupta: Thank you, Amit Ji.

Moderator: Thank you. Participants, you may press * and 1 to ask a question. The next question is from the line of Naman Parekh from NSS Securities. Please go ahead.

Naman Parekh: Am I audible?

Anil Gupta: Yes, yes, Naman.

Naman Parekh: Thank you for the opportunity. Good afternoon one and all. My question is regarding the CapEx plan for the company like how much CapEx has been done for the quarter?

Rajeev Gupta: We are in the process of acquiring the land and within one month's time, we will do the registry. So, the advances are given. So, now, the registry will start from the first of February and then within one month registration will be done. So, the land will be acquired, then we will be start doing the CapEx in terms of the building and advances for plant machinery, etc. So, it will take another 15 to 18 months' time to set up fully this project in phase one.

Naman Parekh: Okay, thank you so much. Can you let me know the amount of the CapEx that might be done like in the 15 to 18 months' period that you mentioned?

Rajeev Gupta: So, the 15 to 18 months as I said in every year our target to spend around INR 200 crore to INR 250 crores in a year. So, in the current year it will go to close to INR 60 to INR 70 crore and then the next year, it will go INR 250 crore, then again next year more than INR 200 crore.

Naman Parekh: Okay. Thank you so much for answering.

Moderator: Thank you. The next question is from the line of Harshit Kapadia from Elara Capital Plc. Please go ahead.

Harshit Kapadia: Thank you for the opportunity and congratulations on good set of numbers, Anil sir and sorry. So, just wanted to check with you. Sir, in terms of margin, we've seen a quite deterioration on a YoY basis or in a QoQ basis. Can you share, you know, in terms of product segment wise, what are the margins that you have clocked that would help us to understand how fast can you be able to recoup the margins in the coming quarter.

Rajeev Gupta: See, in the institutional sale, as Anil Ji explained, especially for extra high voltage power cable where the orders are pending for six to seven months, so that got hit because this time the fluctuation was the sudden rise [ph] [00:30:16] ____ time actually, at one side actually. When the copper adjusted goes up and goes down but this time it is going up and up again, so because of that, it got hit 1, 1.5%, but we were able to recover our margin by reducing the expenses versus sales to reduce the percentage. So, because of that, we were hit only by 1% in this quarter and now since last three months, all the copper and all the metal prices are stable. So, in future it will be normalized now.

Harshit Kapadia: Sir, can you say what kind of a price hike you have taken in Q3 for the business segment?

Rajeev Gupta: In terms of retail?

Harshit Kapadia: In terms of retail, yes.

Anil Gupta: See, in terms of retail, I think price hikes are around 5 to 7% because there was not much hikes in the Q3. Hikes were especially in copper. Copper had peaked in, I think, May or June. So far as institutional business is concerned, it is every time we make an offer, we are always considering the existing price levels of raw materials. So, the price hikes are passed on continuously, on a continuous basis.

Harshit Kapadia: Okay, and just final question on the expanding your wire segment into different electrical business. So, can we expect any launch in the next financial year in terms of product categories, and then you can scale up your business. If you can share some insights on that will be helpful.

Anil Gupta: We are not expecting any launch of any other product in the next year but we will be -- presently we are focusing on our wire business in the retail segment but definitely it is in our radar to add some other category products in the electrical goods, which we'll let you know whenever we feel [ph] [00:32:27] ___ these products.

Rajeev Gupta: You see, we are not in a position to earn the money from cable and burn the money into the new products. So, because little bit debt is still in the books. So, first our focus is to run the company without any debt and almost on the 75% to 80% we have covered our effort to reduce the debt, balance 25%, the hard work that is left with us, that we are doing, still doing and we are hopeful within 1, 1.5 years' time we will reduce this debt also whatever little bit debt is left. So, because of that we are going very conservative. So, and at present we are more focusing on the wires. So, we are at present, suppose in house wires segment, we want to grab the market share up close to 10%. So that is a focus. We want to increase our sale through retail whether it is from new products or from existing products. So existing product sales increase is better because it is giving us the good profit and good cash flow.

Harshit Kapadia: Thank you, Rajeev sir, for these extremely insightful answers. Thank you, Anil Ji and wishing you all the best.

Anil Gupta: Thank you, sir.

Rajeev Gupta: Thank you, Harshit.

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

Shrinidhi Karlekar: Yeah, hi, and thank you for the opportunity and congratulations on good set of numbers. Sir, a couple of questions from my end. Firstly, on sir, the guidance, we see quite a strong guidance over medium term and if I see next year a lot of this growth that you're guiding must come from volume growth. So, just wondering where are we drawing confidence in terms of this growth.

Rajeev Gupta: As Anil Ji spoke about the various sectors wherein he is saying the growth and the orders are coming and very good order pipeline we are having around INR 1,500 crore worth of from domestic institution and INR 100 crore worth of order from the export market for the cable segment. So, that is visible for us, these kinds of demand and capital expenditure the government is focusing whether it is in the power sector or in the infra sector. So, everywhere this capital goods are required where the cable will be sold. Actually, in the past experience of the last 15 years, wherein the economy was strong or economy was week, still we were contributing close to 15% CAGR belonged to us and now if we'll see for five years it is close to 20%. So, 17, 18% growth was never a challenge to KEI. Because of the setup we are having, we are having export, we are having domestic institution, we are having the extra high voltage, we are having retail. So, because of this in institutional size, we are serving in a year close to 1500 customers, 1700 dealer distributor, then 50 countries to export. So, very wide diversified customer base we are having. So, because of that we are always confident to grow at least 17, 18%.

Shrinidhi Karlekar: Fair enough, sir. Thank you for elaborating on this. And sir, on this dealer and distribution network, would it be possible to throw some colour on what this number could be from current level of 1700 that you have. And sir, second is some of your peers, major retailer reach, okay, a number close to lakhs or some company it is 150,000, do we measure that number?

Rajeev Gupta: Yeah. So, you see this year our CMD sir has focused and given direction to all the marketing people, to maintain the dealer distributor number, to exchange with the strong dealer numbers and to replace the weak candidates. So, the whole system was overhauled and the new dealer distributors were engaged by replacing the existing one but his vision was to first increase the sale of the existing dealer distributor so that their ROI can be increased.

Anil Gupta: No, I think, your question was regarding mapping the -- whether we are mapping the retailers. Yes, we are mapping the retailers which are working under a distributor and many of our distributors are having 25 to 50 retailers to whom that distributor is catering, the retail shops. So...

Rajeev Gupta: And the number of retailers has increased.

Anil Gupta: Our retailer should be around 20 to 25,000 at the moment but exact numbers I'm not having at the moment.

Shrinidhi Karlekar: Fair enough, sir. And sir, couple of more questions if I may.

Rajeev Gupta: Yeah, please.

Shrinidhi Karlekar: Yes. On the retention manager, sir, would it be possible to throw some light on how it has progressed? Is it as per your expectations?

Rajeev Gupta: Yeah, it is our expectation. As we guided earlier, the INR 150 crore will be recovered from EPC division. We have already recovered INR 100 crore. So, outstanding of EPC has gone down by INR 100 crore already and within this quarter the balance INR 50 crore we'll also be receiving.

Anil Gupta: And I mean, we can just say that next from FY'23, the company will be able to generate strong cash flows for the -- in the company. We have already in this board meeting we have already declared an interim dividend of INR 2.5 per share, which is corresponding to 125% of the equity capital. So, as the cash generation will improve, the dividend may also improve.

Shrinidhi Karlekar: Fair enough, sir. And last one if I may, sir. Rajeev sir, can you update us on how much of our retail business is already under channel finance and how much of that channel finance distribution businesses with recourse? And yeah, those two numbers.

Rajeev Gupta: I think, right now in channel finance without recourse, enough limit has been sanctioned and we'll cover the rest by March in channel finance, and within a year time under recourse will be very, very less. Only will be the without recourse by next year, because already Yes Bank, IndusInd Bank, Axis Bank, they have already sanctioned without recourse. So, it will not show in the balance sheet to that extent. So, when it will be replaced in next three months, so the new channel finance will be without recourse.

Shrinidhi Karlekar: But sir, how much – yeah, that's helpful, sir, but how much is as of now, business.

Rajeev Gupta: As of now, say suppose INR 200 crore plus was the channel finance amount but under recourse it is under -- it is close to INR 150 crore.

Moderator: Sorry to interrupt you, Shrinidhi. I'll request you to come back on the question queue for a follow-up question. I request to all the participants please reset to two questions per participant. If time permits, please come back in the question queue. The next question is from the line of Neerav Basa from Anand Rathi Financial Services. Please go ahead.

Neerav Basa: Hello, sir, and thank you very much for the opportunity. Sir, my question pertains based on the order backlog that we have, what percentage of order backlog is protected with price variation clause?

Rajeev Gupta: The price variation is almost -- 10 to 15% orders are with price variation which is from the PSU side.

Neerav Basa: And sir, what kind of price hikes have been taken in first nine months and what kind of price hikes are you planning to take in fourth quarter for the retail channel?

Anil Gupta: I had already mentioned that in the third quarter the approximate price hikes were around 5% to 7.5% in different -- of wires and cables depending on the raw material configuration, and I have said that we are adjusting the retail pricing every 15 days, and so far as projects, our B2B business is concerned every time we are making an offer, it is done on the existing price level and during -- considering execution period we are building enough safety margin and/or else we hold the top -- or we hedge or book the copper and aluminium for that.

Neerav Basa: So effectively if I can say that the gross margin compression that we have seen in third quarter in nine months FY'22 can be attributed mainly to the institutional business which are fixed price in nature and will have been executed in third quarter with high commodity prices?

Anil Gupta: Yeah, you can say that.

Neerav Basa: Thank you, sir. My queries have been answered.

Moderator: Thank you. The next question is from the line of Devang Patel from NAFA Asset Management. Please go ahead.

Devang Patel: Hi, sir. What is the volume growth we have seen for the cables and wire business in Q3 and nine months on a YoY basis, if you can give that please?

Rajeev Gupta: In Q3, the volume growth was 18% YoY, nine months it was close to 22%.

Devang Patel: And secondly, what is our aspiration levels for the EBITDA margin, once our retail share is 50% in a few years. Will we be reinvesting higher margins into marketing for new products on the FMEG side?

Rajeev Gupta: Particularly, EBITDA Anil Ji has told you that the 11% EBITDA will not be a problem. And year-on-year basis because our prices of the wire is lesser than our peer group. So, we will be improving by 0.25 to 0.5 bps year-on-year basis.

Anil Gupta: Yeah, 1% around, we will be able to improve in the retail side.

Devang Patel: Sir, and overall…

Rajeev Gupta: It will be journey for next three to four years to reach or to bridge the gap of the prices.

Devang Patel: Are you saying that overall EBITDA margin therefore will increase to 12% or only on the retail side, you're saying that will increase by…

Rajeev Gupta: In two years' time we can say.

Devang Patel: Overall.

Rajeev Gupta: Yeah, in two years' time we can reach to that level also.

Devang Patel: Okay, that's all from my side. Thank you.

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

Rahul Agarwal: Yeah. Hi, thanks for the follow up. Sir, I wanted to discuss a thought. Being debt-free is obviously great. I mean, as you said, about one, one and a half year you will be debt free but given the term rates for project debt today, for the size of CapEx you're looking for and based on your credit rating, my sense is it will be lower than 7%. Is it possible to retain this cash in the balance sheet and look for distressed assets for FMEG or even cable wire assets if available in the country? Obviously COVID would have had some impact on MSME and these companies sometimes are also bought for acquiring land assets and -- or they have obviously, the plants are not attractive enough and they have old machines which are redundant anyway. So, any thoughts on the way we are going to utilize our capital and make better use of cash. Just a thought, it would help understand this.

Rajeev Gupta: Yeah, first of all Rahul Ji, it should be very, very clear from our side that we don't acquire the assets, rather than we believe to grow and develop in an organic way. So, that's how we are doing since last 30, 40 years and our base is we are, whether we had started EPC, whether we had started extra high voltage power cable or we will start in future FMEG, we will start from our scratch, from our own manufacturing on a very strong footing. So, we are into very conservative mode for that purpose. As far as the cash whatever will be available, we are utilizing. We are not keeping or not investing in any mutual fund or any other activity other than the operation. We are utilizing only in the operation wherein we can get the direct benefits rather than the here and there. Whatever cash we were having, still we were utilizing for the cash purchase and in future also we will be utilizing in the operation purpose only because debt reduction doesn't mean we cannot borrow. Because we are having these sanction limits and we will be having the sanction limit, so at any given point of time any good opportunity for growth is available, that money will be available to us.

Rahul Agarwal: Sir, I understand that but even after accounting for CapEx, whatever range we're talking about, we still will have more cash and obviously even after paying all these payables, you know, you got it down significantly now.

Rajeev Gupta: Sir, our growth…

Rahul Agarwal: Even after that, you will have money left.

Rajeev Gupta: Honestly speaking, our growth book is only 25%. It's just that we have to say conservatively with you. So otherwise, you see, we are not be happy with less than 25%. So, as it is, we will also increase our growth.

Rahul Agarwal: Okay, sir. So, is there -- there's nothing in India which is available which attracts you. Is that, like have you seen some assets in India or you don't have to do anything or you want to do it yourself like manufacturing.

Rajeev Gupta: No, no, sir. We don't have to do that. Why we'll not do it? You see, the assets that are bad is because of some reason. Sir, see, the merger or acquisition has a success ratio of not more 25, 30%.

Rahul Agarwal: No, sir. I was more coming from the land angle. Right now, because of COVID it took time in land acquisition. So, is there is any asset where land is available, is that attractive?

Rajeev Gupta: Sir, there are some things which are very much clear in our mind, like we don't use any derivative in any currency, hedging mechanism, Only we do normal hedging, in which we are having natural hedge cover. See, in our factories we are in natural hedge. So, at least we have the guarantee that we are going to at least a sustainable EBITDA margin, or slowly we're decreasing our interest cost, so our PAT level has already reached 6.5%, and we'll take this PAT level to 8% in two to three years. You go by EBITDA margin. We go by PAT margin because for us cash profit is important. Ultimately for us ROC is not so much important because ROC is such a factor that if I increase the creditors to show you then the ROC and working capital cycle are immediately reduced and ROC will increase immediately but cash profit will not increase. So, we genuinely work for our investors and management and for our 5,000 employees so that we can successfully run the show and by '26, '27 which is our target to safely reach at INR 10,000 crore is most important. Sir, without any accident we should reach and we should reach the target.

Rahul Agarwal: Perfect, sir. Good to know that. Thank you so much. Thanks. All the best.

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

Devansh: Yeah, sir. Thanks for the opportunity and congratulations on great sale up in retail wiring. Sir, just if you can just throw some light on...

Moderator: Line from the participant dropped. Ladies and gentlemen, you may press * and 1 to ask a question. The next question is from the line of Harish Kumar, an individual investor. Please go ahead.

Harish Kumar: Yeah, sir, you mentioned that capacity utilization in one of the segments is 71% and in another 60 and the last one is 100%. So, can you please categorize like if we utilize 100% of capacity in all the segments, how much revenue we can scale up?

Rajeev Gupta: Close to INR 6,400 crore revenue we can scale up.

Harish Kumar: With 100% capacity utilization in a year?

Anil Gupta: Around INR 7,000 crore, we can reach.

Harish Kumar: Yeah, because like if I analyze particularly revenue already we are around INR 6,000 crores revenue. So, why only 65 or 7,000. I think it can go much higher.

Rajeev Gupta: That's why I say sometimes it is not able to 100% utilize because…

Harish Kumar: Hello.

Rajeev Gupta: Hello. As Anil Ji has told that we can be reach to the 6,800 to 7,000 also, but it is very well safe but it is the conservative. So, for the next year, we are targeting a 17% to 18% growth.

Harish Kumar: With the current capacity?

Anil Gupta: Every year we do some debottlenecking in the existing plants and improve the efficiencies and increased production by replacing older machines with the newer, faster machines. There also be built a little bit of capacity year after year in the existing factories, and we have mentioned that we are going to do a CapEx and setting up a new greenfield project from April onwards this year, in FY'23.

Harish Kumar: Okay, got it, and my another question was like, because we are increasing retail sales every quarter on quarter, so can we expect some time maybe in two three years, net profit margins of 10% because it is higher margin product?

Anil Gupta: I think we are already able to generate 6.7, up to 6.5% net profit after tax. So, improving it by a percent or one and a half percent should not be a problem, but we can't give any guidance for this. It will be on always on the best effort basis. We will definitely improve on that.

Harish Kumar: So, are we setting internally some ambitious target for net profit margin or for sales?

Anil Gupta: No, no, we have given a guidance for sales growth by a CAGR of 17 to 18%. So that and given the EBITDA of 11 to 11.5%, that itself will grow the net profit margin year after year. So, how much in percentage it can grow in terms of net PAT is difficult to say but any PAT anywhere between 6.5 to 7% net profit after tax should be a good net profit on a bigger turnover, on a bigger sale.

Harish Kumar: Okay. Thank you.

Moderator: Thank you very much. Ladies and gentlemen, you may press * and 1 to ask the question. The next question is from the line of Devansh from SIMPL. Please go ahead.

Devansh: Yes, sir. Thanks for the opportunity.

Moderator: The line for the participant again dropped. Ladies and gentlemen, you may press * and 1 to ask a question. The next question is from the line of Dhananjai from ASK Investment Managers. Please go ahead.

Dhananjai Bagrodia: Hi, sir, congratulations for good set of results. I wanted to ask you, what -- could you give the capacity utilisation numbers please?

Anil Gupta: Capacity utilisation in the wire and cable segment is 71% and in the house wire division it is 66% because we have added another factory in 2019 and our stainless-steel wire division is operating at 100% capacity.

Dhananjai Bagrodia: Okay, sure. Thank you.

Moderator: Thank you. Participants, you may press * and 1 to ask a question. A reminder to all the participants, you may press * and 1 to ask a question. As there are no further questions, I now hand the conference over the management for closing comments.

Anil Gupta: So dear colleagues, thank you very much for, I mean, spending time with us for this question-answer session. I, again, express gratitude to all of you to having invested with us and having faith in us, and I assure you that the company will give a good growth and a good cash flow in the quarter-on-quarter basis in the coming years to reward its investors. Thank you very much.

Rejeev Gupta: Thank you very much to everybody.

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