

Q2 FY09 Post Earnings Conference Call Transcript

Management Rep.:

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Moderator

Ladies and gentlemen, good evening and welcome to the KEI Industries Q2FY09 conference call hosted by Prabhudas Lilladher Pvt. Ltd. As a reminder all the participant lines will be in the listen only mode. There will be an opportunity for you to ask questions at the end of today's presentation. If you need assistance during the conference please signal an operator by pressing * and 0 on your touch tone telephone. I would now like to hand over the conference over to Mr. Apurva Patel from Prabhudas Lilladher. Thank you and over to you Mr. Patel.

Mr. Apurva Patel - Prabhudas Lilladher

Thank you. Good evening everyone. I would like to welcome Mr. Anil Gupta and Mr. Rajeev Gupta on the call. We will start with Mr. Anil Gupta giving us a brief on the numbers and then open the floor for a Q&A session. Over to you sir.

Mr. Anil Gupta - KEI Industries

Good afternoon everybody. I am Anil Gupta, Managing Director of KEI Industries. You must have the opportunity to review the results of Q208-09. And I would like to brief that the period between April to September, specially April to August was a really turbulent period in respect of sky high prices of all the commodities including steel, plastics, polymers and non ferrous metals like the copper and Aluminium. In spite of all the tools available with us regarding hedging or contracting before hand, still we have been able to cover up with time to get marginal regards to the result. Definitely we are little bit hit by the hefty increase in the raw material prices due to which the raw material consumption as a percentage to sales has increased by approximately 3% then the normal one, which has reflected into less profitability during this period. Besides increase in the expenditure on account of rising interest cost and also increase in the man power cost due to implementation of new projects which have now been commissioned. Although the company's order book position at present remains healthy and we have an order book of around 350 crore at present and we foresee a reasonably good quarter in terms of top line during October to December. But we are seeing a lot of volatility in the material prices due to international situation. But I am very sure that at present the outlook on the demand side on the company is positive and since our exposure is to all sector of economies, including power sector, industrial projects, infrastructure projects, definitely we also have a some exposure to real estate sector. But that is very small to the extent of 5% of our sales. There is an exposure to real estate sector. So far as forex is concerned we have exposure towards forex rising dollar towards imports but we also have a partial hedge on account of pending export orders which gives a partial hedge to importation of raw material, in dollar currency or other currencies. So I think this is a, both our on going projects at Bhiwadi and Chopanki in respect of capacity and commencement and installation of ST projects that our 100% EOU at Chopanki are complete and Chopanki is now, high tension capable is likely to commence production in next 4-5 days. We are already on the trail run now. And Bhiwadi expansion project is fully complete and wholly started commercial production from 1st of October. So with this I leave the floor to you for the questions and answers. Thank you.

Moderator

Thank you. We will now begin the question and answer session. At this time if you would like to ask a question please press * and 1 on your touch tone phone. If you want to withdraw your question from the question queue please press * and 2 to remove yourself from the queue. Please use only handsets while asking a question. The first question is from the line of Rohit Shimpi from SBI Mutual Fund. Please go ahead sir.

Mr. Rohit Shimpi - SBI Mutual Fund

Good evening sir. When do you expect impact of lower raw material prices to impact you? Will it be somewhere in the third quarter or fourth quarter?

Mr. Anil Gupta - KEI Industries

It will be mostly in the fourth quarter because third quarter raw materials are already mostly contracted. We have always said that we are hedging the copper. So copper is being hedged and already contracted. We will definitely see the impact of fall in the prices in fourth quarter.

Mr. Rohit Shimpi - SBI Mutual Fund

Ok so third quarter margins you expect to be at similar levels as Q2?

Mr. Anil Gupta - KEI Industries

No. I expect that it should be little better. Exact numbers will be, we cant predict at the moment because there is a huge volatility in the currencies etc. but we are sure that it will be better than Q2.

Mr. Rohit Shimpi - SBI Mutual Fund

Ok and how do you see yourself placed in terms of pricing power because in these volatile times there have been some problems on the margins side? How much of pricing power do you have in your key segments?

Mr. Anil Gupta - KEI Industries

Pricing power is there in terms of the priority wise the customer for placement of others because of our fast track record and our quality of services given to them and the reliability of executing the contracts in time with perfection. So we have the priority and to that extent we always get a priority pricing power to, by a few percentage point to the customers because they don't want to risk going to unknown and unreliable.

Mr. Rohit Shimpi - SBI Mutual Fund

You know we had, we used to always say rightly that this earlier because of other competitors not having the approvals in place from all the customers, etc. I mean how do you see this situation? Has more competitors managed to get more approvals from key customers or is it getting core competitive?

Mr. Anil Gupta - KEI Industries

No. The competition may rise among the existing approved players maybe because of more of a panic and not because of actualities. There is more panic in the minds of everybody that there maybe a delay in projects or there maybe lesser projects due to the financial volatility. But how much actual impact it has to be seen because we are in the capital goods industry and we always have an order book position of 3-4 months and at present our future inquiry flow is also good for which we are quoting everyday. So that shows that there is no reduction in the enquiry flow in the present month of October also except that customers are little bit holding onto the decisions thinking of better prices due to the raw material situation being very, very volatile.

Mr. Rohit Shimpi - SBI Mutual Fund

Ok and do you see the competitors also having expanded capacities significantly like you?

Mr. Anil Gupta - KEI Industries

Yes, I think 3, 4 major players which we have always talked like Polycab, Havells and etc. they have expanded capacity but we are all in the industry working responsibly, not to hurt the margins in the panic. The companies are in continuous talks with their peer manufacturing groups to share the ideas and ensure that the market behaves in a, the pricing is done in a responsible fashion.

Mr. Rohit Shimpi - SBI Mutual Fund

Ok and do you see any stress in terms of profitability in first 2 quarters getting lower? So is there any stress in terms of debt repayment or interest costs?

Mr. Anil Gupta - KEI Industries

No. we are absolutely paying our, all our interest in time and also all our debt, our whatever term loan installments we are paying to the bank, that is all paid on time. All LC's are retired on due date.

Mr. Rohit Shimpi - SBI Mutual Fund

Ok and what's your current rate at which we are borrowing and what's the current debt on balance sheets?

Mr. Rajeev Gupta - KEI Industries

The current rate of interest from the nationalized bank is at 12.25%. but from the non nationalized bank is from 14%-17%. And the total debt is 202 crores is the working capital debt and 28 crores is the term loan.

Mr. Rohit Shimpi - SBI Mutual Fund

Ok and the FCCB's around 150 crore.

Mr. Rajeev Gupta - KEI Industries

Yes.

Mr. Rohit Shimpi - SBI Mutual Fund

Any thoughts on FCCB now because of market price is slightly lower than, although I know that there is still some away, to repay but do you have any thought on whether what you would be paying is more than what eventually be?

Mr. Rajeev Gupta - KEI Industries

No because this FCCB repayment is due in 2011, 3 years ahead from this time.

Mr. Anil Gupta - KEI Industries

We have not applied our mind on because we still have 3 years. It is repayable during November 2011. but we will definitely apply our mind that how to get this liability reduced or reworked upon in coming few months.

Mr. Rohit Shimpi - SBI Mutual Fund

Ok and last question. In the first two quarters kind of numbers, margins, are looking fairly similar to what they were in say 2003-2004 for us in terms of EBITDA margins and related numbers and do you see that the industry is getting back into that kind of a tough period for the business or is it do you feel that it is more of a?

Mr. Anil Gupta - KEI Industries

No. at present doesn't look that scenario because the demand is robust. During that period the demand was low, demand of the product because of the economy. Now the profitability gets impacted mainly in last 2 quarters because of huge volatility in the raw material prices. You can't foresee everything that tomorrow the way the raw material prices have behaved in last 6 months until September that they have gone peak highs and then suddenly during October they are slumped. Whatever decision we take today, they become bad 2 days later.

Mr. Rohit Shimpi - SBI Mutual Fund

Fair enough. No issue on that. but what will be your guidance for 09 in terms of top line?

Mr. Anil Gupta - KEI Industries

The topline, I will be expecting around, somewhere around 1250 crore rupees. Earlier we were always considering 1400-1500 crores the last time when we gave guidance. But I see that there will be some definitely a reduction to 1200 crore mainly because of the raw material prices. Because when the prices have slumped ultimately our selling price is for the same km of cable will go down. So the topline will be impacted to that extent but we will see that how to get the best opportunity out of this situation to improve the margin.

Mr. Rohit Shimpi - SBI Mutual Fund

And how much will the debt repayment due in the current year of term loans?

Mr. Rajeev Gupta - KEI Industries

6 crore rupees.

Mr. Rohit Shimpi - SBI Mutual Fund

Ok thank you very much. All the best.

Moderator

Thank you. A reminder to all participants. If you wish to ask a question please press * and 1 now. Mr. Patel would you like to ask few questions while participants join the questioning queue?

Mr. Apurva Patel - Prabhudas Lilladher

Alright. Sir I just wanted to know how much capex has been incurred in this year?

Mr. Rajeev Gupta - KEI Industries

In this year basically we have already did approximately 50 crores rupees, by the end of this year.

Mr. Apurva Patel - Prabhudas Lilladher

Ok fine and this will be funded by?

Mr. Rajeev Gupta - KEI Industries

This is the fund available with the FCCB account. So this will be done from that only.

Mr. Apurva Patel - Prabhudas Lilladher

Ok sir and could you just throw a little more light on the extraordinary items, forex loss? Could you just explain how that transaction works?

Mr. Rajeev Gupta - KEI Industries

Yes this transaction was an equivalent amount of 20 crore term loan. It was Japanese Yen interest transaction, USD. So because the Yen was going down in the, USD rupee was open in the transaction. So because of that the mark to margin loss is there as on 30th September. So that is 2 crore 72 lacs. Apart from we have already booked the loss, 3.67 crore in March 08.

Mr. Apurva Patel - Prabhudas Lilladher

Ok sir. Got it and sir you have given us a revised guidance for the top line. So what about the margins? How do you see them panning out for the next 6 months and maybe in the next year? I understand you said 4th quarter, the advantage of raw material decline will come. But would it mean that we will pass on that advantage to the customer or get increased margins?

Mr. Anil Gupta - KEI Industries

No. We definitely mean that it will bring benefit to the company in terms of increased margins. I think at this moment our guidance will be that we will, we should be able to maintain our EBITDA margin as per the earlier guidance during the 4th quarter.

Mr. Apurva Patel - Prabhudas Lilladher

Ok sir. Moderator do we have any further questions?

Moderator

That's right sir. We have a question. The next question is from the line of Mr. Sharad Tripathi of B&K Securities. Please go ahead sir.

Mr. Sharad Tripathi - B&K Securities

Good evening sir. Sir can you give us the break up of the revenue?

Mr. Rajeev Gupta - KEI Industries

Yes, for this quarter we did net sale of 260 crore. Of that LT power cable is 171 crore and HT power cable is 47 crore and house flexible wire is 20 crore rupees and stainless steel wire is 23 crore rupees.

Mr. Sharad Tripathi - B&K Securities

Sir how much is stainless steel?

Mr. Rajeev Gupta - KEI Industries

23.

Mr. Sharad Tripathi - B&K Securities

And sir regarding our EBITDA margin, how much we are looking for in FY09? On an average how much we can expect?

Mr. Rajeev Gupta - KEI Industries

As Anilji has said the previous EBITDA margin we can achieve in 4th quarter because these quarters which are going are under volatility now.

Mr. Sharad Tripathi - B&K Securities

And sir any margin expenses from the coming capacity which we have recently expanded, in Bhiwadi and Chaupanki? So are we going to see any margins from that also?

Mr. Anil Gupta - KEI Industries

Yes. Definitely. The increased turn over what we are projecting, part of it will come from that expansion.

Mr. Sharad Tripathi - B&K Securities

So how much we are targeting from both the fronts in second half of FY09?

Mr. Anil Gupta - KEI Industries

Close to around 200 crore.

Mr. Sharad Tripathi - B&K Securities

Around 200 from both the capacities?

Mr. Anil Gupta - KEI Industries

Yes.

Mr. Sharad Tripathi - B&K Securities

Ok sir. And whats your 1200, 1250 crore is basically gross sale revenues?

Mr. Anil Gupta - KEI Industries

Yes.

Mr. Sharad Tripathi - B&K Securities

And how much is for FY10?

Mr. Anil Gupta - KEI Industries

FY10, we will be expecting a revenue of, now because of the, it will all depend on the raw material prices. How they, because the way they are slumped at these levels, we can predict a top line of around 1500-1600 crore.

Mr. Sharad Tripathi - B&K Securities

Ok sir. Despite huge capacity addition.

Mr. Anil Gupta - KEI Industries

If I was selling a cable at Rs.100 and if I have to because of raw material prices, tomorrow if I sell at Rs.75 then the top line will be inducted. Unless I increase the kilometerage.

Mr. Sharad Tripathi - B&K Securities

Ok sir. That's all from my side. Thanks a lot.

Moderator

Thank you. The next question is from the line of Sudhakar Prabhu of Span Capital. Please go ahead sir.

Mr. Sudhakar Prabhu - Span Capital

Hi. Most of my questions have been answered. I had just one question. Your other expenditure seems to have gone up significantly from 19 crores to 30 crores and any reasons for that?

Mr. Anil Gupta - KEI Industries

Because we have added 2 more units in the expansion. So that expenditure has been increased. Rajeev can you throw some light?

Mr. Rajeev Gupta - KEI Industries

Yes. Basically we had the expenditure as you have rightly said 2 sites we have added in the 3i. But the top line which we were expecting earlier to the tune of 350 crore for this quarter which we could not achieve this because of the delay in expansion. So all the infrastructure in place and the expenditure is there. So once this expenditure will be justified when the turn over we will be achieving by 350 crore. Because expenditure will remain to this level actually.

Mr. Sudhakar Prabhu - Span Capital

Ok and just on the EBITDA margin. What are the margins you are targeting for this year and next year?

Mr. Rajeev Gupta - KEI Industries

Because for this financial year as Anilji has said, in the last quarter we will definitely be achieving 12% EBITDA margin. But 3rd quarter between 8-10%, there we will be seeing after a months time because once this volatility is over so then only we can predict actually.

Mr. Sudhakar Prabhu - Span Capital

And just on the hedging of your raw material, how exactly, this increase in raw materials you could not pass it on to your customers?

Mr. Anil Gupta - KEI Industries

No increase in raw material has been passed on but like imports are done. Imports are done of copper but then dollar has increased. The price at which the material was conceived, the prices have gone up because of the dollar increase. Even if the LAV remaining the same.

Mr. Sudhakar Prabhu - Span Capital

This increase you could not pass it on, right?

Mr. Rajeev Gupta - KEI Industries

What we are doing is we are passing on a day to day because we are quoting so many tenders on a daily basis. So we are quoting the tenders on the prevailing market price. So once we quote we cannot change the price. So what we are doing once we are getting the order we are hedging our copper with our copper supplier. So in that way we are passing onto the customer. What Anilji is saying is suppose we are hedging the copper but in the copper we have only the LME rate but the US currency is open there. Like in this month we have seen the dollar move as, dollar has moved up drastically. So because of that we have suffered the additional loss. That's why this raw material consumption is going up actually.

Mr. Sudhakar Prabhu - Span Capital

This 2.7 crore loss which you are saying is because of.

Mr. Rajeev Gupta - KEI Industries

No. that loss is basically pure interest of loss. This was the filling of interest swap. Japanese Yen.

Mr. Sudhakar Prabhu - Span Capital

Thank you.

Moderator

Thank you. A reminder to all participants. If you wish to ask a question please press * and 1 now. Our next question is from the line of Mr. Satish Mishra of Pinc Research. Please go ahead.

Mr. Satish Mishra - Pinc Research

Sir in terms of volume growth what are you expecting for different segments?

Mr. Anil Gupta - KEI Industries

Different segments?

Mr. Satish Mishra - Pinc Research

Cable, Steel wires and house wires? In volume terms because selling price and all will decrease as you get.

Mr. Anil Gupta - KEI Industries

No. actually our all major growth will be there only in cables. Because in stainless steel wire we have not done any capacity expansion. So our core business is cables and when you say volume growth, you are asking in terms of quantity or top line. Can you repeat it please?

Mr. Satish Mishra - Pinc Research

Sir in terms of quantity km wires, what growth are you expecting in cable and housing wires in terms of kms?

Mr. Anil Gupta - KEI Industries

We have projected a volume growth of around 25% in both the segments. In the housing wire segment our earlier presumption was that we should grow more because of the addition of extra capacities but it will all depend on how the real estate sector behaves in the next 6 months. Still our major revenue comes from cables and I am very confident that due to on going expansions in the power sector and infrastructure projects we will be able to maintain expected top line in spite of the fact that even if the sales in real estate may not be booming.

Mr. Satish Mishra - Pinc Research

Sir in terms of margins, what are the margins for HT and LT segments? Relative.

Mr. Anil Gupta - KEI Industries

I think relative margins are, in HT 1-1.5% extra margins compared to LT.

Mr. Satish Mishra - Pinc Research

And sir whats the development in front of transformer business?

Mr. Anil Gupta - KEI Industries

No, transformer business, it was basically anticipated line to be added but we could not find a successful acquisition and presently we have our, we are not considering any idea to invest further for atleast next 1 year. So we will be focusing only on our core business of cables.

Mr. Satish Mishra - Pinc Research

And sir, what about extra high tension which we are planning to venture?

Mr. Anil Gupta - KEI Industries

That extra high voltage cables capability upto 132 KV, we have already done in our existing factory at Diwadi. We have installed all related technology equipments and balancing equipments and we are equipped with that. so we have already achieved the capabilities to make cables upto 132KV and we are now participating in the tenders to get entry into that.

Mr. Satish Mishra - Pinc Research

Thanks a lot sir.

Moderator

Thank you. At this moment there are no further questions. Mr. Patel would you like to add a few comments?

Mr. Apurva Patel - Prabhudas Lilladher

Sure. I would like to thank everyone and thank Mr. Anil Gupta and Mr. Rajeev Gupta for taking time out and all the very best to you for future quarters.

Mr. Anil Gupta - KEI Industries

Thank you.

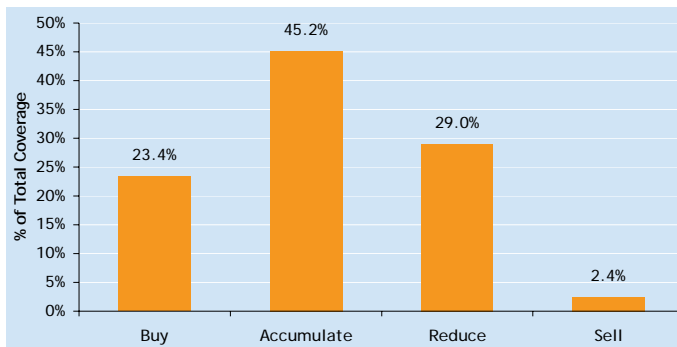


Moderator

Thank you. On behalf of Prabhudas Lilladher Pvt Ltd, that concludes this evenings conference. Thank you for joining us. You may now disconnect.

END

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Reduce	: Underperformance to Sensex over 12-months	Sell	: Over 15% underperformance to Sensex over 12-months
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