"CMI Limited Q4 FY-18 Results Conference Call"

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MODERATORS: **MR. SALIL UTAGI - EDELWEISS**

Moderator: Good day ladies and gentlemen and welcome to the Q4 FY18 Earnings Conference Call of CMI Limited hosted by Edelweiss. As a remainder 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 '*' followed by '0' on your touchtone phone. Please note that this conference is being recorded. I am now to glad to hand the conference over to Mr. Salil Utagi from Edelweiss. Thank you and over to you sir.

Salil Utagi: Thanks Margreth, good morning everyone we welcome you all to the Q4 FY 18 post results conference call of CMI Limited. The company is represented by Mr. Amit Jain – Chairman & Managing Director, Mr. Rattan Lal Aggarwal – CFO of the company and Mr. Anupam Saxena – Head of Corporate Communication. Now I hand over the call to Mr. Rattan Lal Aggarwal for his opening remarks. Over to you sir.

Rattan Lal Aggarwal: Thank you so much Salil. Good morning, I am Rattan Aggarwal – CFO from CMI Limited. First of all, I would like to present the numbers for the quarter and year ended 31st of March 2018. I will talk on numbers on a consolidated basis.

Company has achieved a net turnover of Rs. 159.72 crores in Q4 as compared to Rs. 134 crores in the corresponding quarter, achieving growth of 19% in the quarter. For the full year, the company had achieved a turnover of Rs. 560 crores net of excise duty because excise duty was only for the Q1 during the whole year. I am comparing the figures net off excise duty, and GST simply because we can see the growth in terms of percentage from apple-to-apple and Rs. 560 crores of turnover, we were having turnover of Rs. 370 crores in the corresponding previous year, showing a growth of 48% this year.

At EBITDA levels, company has achieved EBITDA of Rs. 78.66 crores during FY 18 as compared to Rs. 53.36 crores in FY 17. EBITDA is nearly 14.05% of my net sales for FY 18.

The company has achieved PAT level profit of Rs. 25.80 crores during FY 18 as compared to previous year PAT of Rs. 30.07 crores. There is a taxation impact at the PAT level last year because in case of our Baddi plant, we were having first year of operation for the full year, where we created the deferred tax assets which had an impact for FY 17 as compared to FY 18. We had normal taxation provision during FY 18. So if we see our financials as compared to PBT level then you can see we have achieved a PBT of Rs. 39.38 crores during FY 18 as compared to previous year of Rs. 22.63 crores on consolidated basis. So in that way we have achieved a good performance as compared to the previous year. Particularly for our Baddi plant during FY 18, we have achieved consistent performance, and this is the complete full year where we have varied customer base and we have started doing business with different sort of customers, testing different customers and we were trying to get our plant approved at various good prospective customers during the year. If we talk specifically customer to customer then we have started getting necessary approval from Railway last year, which we are expecting during June first week or second week to get necessary approvals.

At the same time, we are in process of putting all balancing equipment to ensure our capacity fungible at Baddi plant also so that the moment we start getting new business from Railways then we should be in a position to do the business from there. In fact, if we talk about Baddi and we got EIL approval last year where bulk business can be expected in times to come. There are different other customers which we are targeting like PGCIL, NTPC, BHEL we did last year, good business from Baddi and similarly, we are also expecting further good business from BHEL for Baddi plant, NBCC and GETCO; GETCO is again a good customer. We started last year, where we did business of around Rs. 38 crores last year for supply of extra high voltage cable and that is basically prequalification kind of approval which general cable build up in 2014. And based on that, we bought bulk business from GETCO during FY 17-18. So, in similar session, all performance and approval and prequalification that has been build up, it is like a chicken and egg. Again, you know performance is required to have the new business and new business is built up when we have performance and that we are gradually doing targeting all these customers at the same time. We have already decided to setup these balancing (6:16) equipments and again it is a project to be completed by FY 19.

At our Faridabad plant we have been consistent of giving performance in FY 18 also. Some parts of the business which we have done in FY 18, that has been executed from Baddi and finally it was dispatched from Faridabad plant based on our pre-approvals which was there at the Faridabad plant. So we are targeting to enhance our business, keeping in mind our capacity at both the plants altogether. And in similar fashion we are trying to build up our customer base for both the plants. So that the capacity utilization basically we can enhance at Baddi during FY 19 and FY 20, that is our target. At this point of time, I can say CMI is keeping targets, getting enhanced business from various customers for the Baddi plants during FY 18-19 and that business will be considered at both the levels for altogether. We have also put trial run for the Lead Sheeted Cables for the domestic as well as the international markets and we have also done various trial orders from our Baddi plant for overseas market and that market again can be very **(Inaudible) 8:00** at times to come because again Baddi plant has state of art manufacturing facility which can keep the target of export market for its major products, like in case of power cable, if you see in India power cables are being used on aluminium conductor, whereas if you target export market, that segment is making copper conductors. So then copper conductor if you compare with aluminium, then copper is 3x more by weight and 3x more by value. It is having 9X impact on the price rise or whatever cables we can manufacture with the same specification changing from aluminium to copper. So I can have better economy of scales and better price realization changing from aluminium to copper conductors. So that target we are having.

Regarding our merger, we applied last year to have merger of both the companies CMI Limited in CMI Energy India Private Limited and that merger was pending with NCLT. We have gone into passed that through last year to process have it processed fast but there was some issues with the NCLT, and NCLT has guided us to approach under the normal route instead of the fast track route, because we are a listed company we cannot have 9x value that acceptance at each stock level. So now we applied fresh application, just day before yesterday and we are hoping that in a period of 6-8 months' time we will be in a position to get this approval from NCLT.

I'm sure that most of you have gone through the results, which has been published yesterday, we will be glad to answer, in case of any specific questions. With this I thank you all very much for responding to our conference call. Thank you.

Moderator: Thank you. Ladies and gentlemen, we will now begin with the question and answer session. The first question is from the line of Samir Palod from AUM Fund Advisors. Please go ahead.

Samir Palod: This is a question for Mr. Amit, if you can just guide us on why the gross margins in this quarter are lower were both the quarter on quarter as well as year-on-year and obviously there is also a subsequent impact on the EBITDA margins? So, if you can talk about the impact of higher raw material prices and your inability to fully pass through, that will be helpful.

Amit Jain: The thing is that, as you are seeing some stress on the margins as Mr. Rattan has told you earlier also, in this last quarter what really happened is that we had to dispatch some material from our Faridabad unit because of the approvals that we had in the Faridabad unit. So there is a capacity constraint in the Faridabad unit so what we did was we got the material manufactured from our Baddi unit and we sold it through Faridabad unit. So to that extent, you will not find that we will be having the same margins of 14% in Faridabad, since the amount of turnover was upscaling as such and which has been netted in the consolidated results. So if we focus more on our consolidated results that would give you a better picture than if we go for a standalone result. As I told you earlier we do have orders on a price variation basis, so that aspect is not there in, we're not finding any stress on our margins and we have a healthy EBITDA of 14%. I think that is better in the industry, we are doing better than most of our peers.

Samir Palod: So you're saying that the pass on from the raw material has happened but because of the transportation from Baddi to here it is added to your cost and hence a slightly lower margin.

Amit Jain: That is a miniscule percentage. If you go for that, it is hardly 0.2-0.3% of the total value, and Samir one thing if you can check at EBITDA level this year we achieved EBITDA of Rs. 78.66 crores which is nearly 14.05% in FY 18. If you compare it with FY 17, we achieved EBITDA of Rs. 53.36 crores which was 13.69% of the net turnover. Then again on consolidated basis, it is include later simply because gradually this Baddi plant is performing well and that if you see particularly FY 17 Baddi plant was not performing up to the mark last year, FY 17. So that, gradually the movement capacity inflation at Baddi plant will improve, that margin 1-1.5% will definitely improve in FY 19.

Rattan Lal Aggarwal: There will be expansion of margin because of the economies of scale also. And once we are able to achieve say a capacity utilization of about 50%. That will definitely give a boost in the markets.

Samir Palod: Okay the other question that I had was your working capital has even on an IndAS basis like-for-like from last year about 150 odd days has gone up to 170 days, I think primarily driven by the reduction in creditor days. So if you can throw some light because working capital situation at 170 days then effectively means that there is very little, I mean in fact at an operating cash flow level also you are in negative.

Rattan Lal Aggarwal: Regarding working capital Samir I can explain you there are two basic things; one is that we have to arrange funds for our growth plans, which we are having on a year-to-year basis because again whatever working capital is required that we have to have with us otherwise we may not be positioned to execute whatever growth business we have. Secondly, regarding creditors if you talk, whatever funds we have arranged during FY 18 and during the current year what we are targeting is that we should be in a position to have competitiveness and competitive prices with all of our suppliers whether making payment well in time, secondly you can have sort of credit facility a little less, so your pricing can be better. And fourth important part is that the debtor days which you're talking about that again if we see the debtors level on the turnover which is there net of GST that we have to calculate on gross value. For example, if I have done net sales of Rs. 159 crores net of GST during FY Q4 that is the gross sales post GST comes to around Rs. 190 crores. So Rs. 190 crores mean Rs. 65 crores of monthly turnover. Then my debtors' days are coming around 105 days, which is, you know reasonably good because the mix of with which we are having electricity board, utility customers all sorts of customers for our Baddi plant for power equipment segment that have to have. Otherwise you might not be in a position to have growth so that is those situation which we need to face in order to lever to all the prospective customers which you can have. But make it selective to some extent where some of the customers may have some problems for example, UP last year we may not have good experience then we are reducing some business, but we are exploring other states. So, in that way maybe I am looking these levels of working capital looks to be reasonable keeping in mind that we have growth plans only 2-year basis nearly a 50% label.

Amit Jain: The turnover what we have is the net off our GST and the debtors' figures what we have in the balance sheet is inclusive of GST. That is 80%.

Samir Palod: Sir, in fact, my question was not on the absolute level of working capital or on inventory or receivable days I more talking about the number of days. So, number of days has increased from 150 to 170 days why has that happened? We understand that you are growing at 40-50% but if the number of days of working capital increases from 150 to 170 the operating cash flow get impacted.

Amit Jain: That is what I am telling you 150-170 which we are talking there is a straightway impact of GST which you have to calculate. What we are talking for example, last year the turnover which is there in balance sheet for Rs. 21 crores that is inclusive of excise duty and if we talk this year, the Rs. 574 crores of turnover which is net of GST. So it is having an impact of 20%. If you calculate days from 150 to 170 days or whatever so that is just 20% growth and 20% growth it gets covered. I can say that there is a slight increase simply because there is a change of business mix. In case of Baddi plant we are doing more business with the electricity boards where numbers of days are a little more but at the same time there is another impact on this working capital days that is on account of GST that is what I would like to mention here.

Samir Palod: And if I can squeeze in one more question, no, with respect to your tax will this tax actually going to be paid or is this a provision for the FY 18 tax that we will see?

Rattan Lal Aggarwal: Samir regarding tax, when we acquired this Baddi plant on 28th February 2016, on the very next day when the acquisition happens, we planned to merge both the companies keeping in mind that all carry forward losses and depreciation at our Baddi plants. The scheme of merger that was there with the NCLT for quite long time and now whatever scheme we submitted with the NCLT that scheme is very clear that appointed date for merger is 1st March 2016 the date of acquisition practically and the whole taxation which is there that is provision which we had made and it will not be paid, the moment our merger happens then whatever provision we have made that will be reversed and all the necessary restatements will be done.

Samir Palod: Any light that you can throw on the current order book position?

Rattan Lal Aggarwal: The order book is (+350) as on date and we are in the process of acquisition of more orders but it is a continuous pipeline what we get.

Samir Palod: So, on a composition of state base if you can tell us that how you expect what was FY 18 and going forward how we will see the composition of sales changing both across your plants Baddi and Delhi as well as from Railways and Power, etc.?

Amit Jain: Going ahead to the composition, as on date we are fully booked with our Faridabad plant and we had a turnover of around Rs. 220 odd crores from our Baddi plant. Going ahead there will be an increase in turnover from our Baddi plant which we are primarily focusing on. But simultaneously yes, there would be some turnover which we have in our Faridabad facility, but goods would be manufactured in Baddi plant. So going ahead we are targeting our turnovers from Baddi plant to make double within this year and going ahead that kind of increment may come in every year.

Samir Palod: When you say doubled it will be from Rs. 220 crores to Rs. 440 crores.

Amit Jain: Yes, we expect that.

Samir Palod: Okay and how much of this will be towards, so if you can just give a breakup of FY 18 sales between Railways, Power and others and how do you expect that to change?

Amit Jain: Actually, we cannot comment on that particular but what we target is that from the Baddi plant there may be some 22-25% incremental turnover from Railways and we are expecting some good approvals from PGCIL, which is in the anvil, NTPC we had some small orders but through BHEL and NTPC we are expecting some good orders, I mean orders are in the pipeline, so it is very early stage to comment upon the product mix which is about to come.

Since we have lot products, lot of verticals and we are targeting only value-added products so that much we cannot comment but yes, definitely the amount of business is there in the market. If anything particular you have in your mind Samir, feel free to call us.

Moderator: Thank you. The next question is from the line of Megha Hariramani from Pi Square Investments. Please go ahead.

Megha Hariramani: My question is on the margin side as Mr. Jain said that 14% EBITDA margin is what we are looking at, so do we see this improving going forward, or will it be at the same levels for FY 19 and 20?

Rattan Lal Aggarwal: I think margin is at 14% EBITDA level we are targeting there may be slight change from 1-1.5% or may not change simply because the kind of business growth we are talking for our Baddi plant, whatever economies of scale, we will be building up, then margins may be little different based on both volumes a little less. So whatever less percentage of margin will come that will come out of economies of scale. So we are targeting anything from 14-14.5% for FY 19.

Megha Hariramani: Okay. And in terms of clients that you are targeting for Baddi you said you were looking at PGCIL, NTPC so all these clients I'm sure the receivable days will again be high, so our working capital is expected to under stress for a while, is that what we can expect?

Rattan Lal Aggarwal: Working capital requirement will be in line with what we have been doing in the past. All these clients since they all are PSUs and they have a perfect system, a proper system within themselves. So that working capital cycle will remain in them and we have been doing with Railways and BHEL that will remain in sync with other PSUs would do.

Megha Hariramani: No, so for our calculation the overall working capital base which post adjusting for GST and whatever adjustments we are making, for us, it stands at 172 today. Will it be the same going forward or there could be some improvement that we can expect?

Rattan Lal Aggarwal: We are in the process of getting approvals, some new mechanisms are coming up like in government. Also, there are taking some initiative to improve the vendor season cycle and in fact railway is also coming up with some net worth credit kind of thing. So we expect that yes from 170 days there will be decline in the working capital receivables days but it may not be very substantial gains but there will be improvement.

Megha Hariramani: And how about our cash flow from operations, is it positive as on FY 18??

Rattan Lal Aggarwal: Megha actually regarding cash flow positive we can target in FY 20. But FY 19 again is going to be in line with what we have done in FY 18. Because again growth path is there and the working capital which you have rightly mentioned, that working capital is required whatever segments we are targeting upon. So that keeping in mind that thing that cash flow will be of course a little less as compared to the working capital requirement for the growth business.

Megha Hariramani: So sir is it positive at the end of FY 18 or we expect that to be positive in FY 19?

Rattan Lal Aggarwal: For this year, I'm not very sure it is going to be positive.

Moderator: The next question is from the line of Nikunj Doshi from Bay Capital. Please go ahead.

Nikunj Doshi: I just wanted to understand this standalone numbers is Rs. 390 crores if we exclude excise and for full year and the consolidated is Rs. 560 crores, excluding excise duty. Is it that Baddi has done only Rs. 170 crores because earlier you mentioned is Rs. 220 crores so I was not able to understand?

Rattan Lal Aggarwal: Actually, as a group company once the consolidation is done, we have to keep out the interest on the turnover. We have a capacity of around Rs. 300- Rs. 350 crores in our Faridabad facility and the rest of the turnover was achieved from the goods manufacturing in Baddi plant, so that Baddi we have Rs. 220 crores and in Faridabad, we have Rs. 340 crores, that is the figure.

Nikunj Doshi: And for this FY 19, you were saying that Baddi will contribute another Rs. 200 odd crores to the top line?

Amit Jain: Yes.

Nikunj Doshi: So our revenue guidance for FY 19, will be around Rs. 750-Rs. 800 crores?

Amit Jain: Yes, absolutely we contemplated that it should be achieved comfortably.

Nikunj Doshi: But I think our guidance is lowered, I suppose because earlier you were talking of around Rs. 900 crores for FY 19.

Amit Jain: But we are in the habit to keep it lower this Rs. 900 crores was the figure when the excise duty was included. Now we have to report figures, net of GST.

Nikunj Doshi: And this Baddi Rs. 220 crores revenue what you were saying can you give the breakup of the major segments, like Railway, Power and high tension, low tension.

Amit Jain: It was primarily done for Solar cables and Power cables, extra high voltage cable and cables for BHEL that is Instrumentation and Control cable and Power cable for BHEL, then we did for utility, then we did for extra high voltage cable for like GETCO – Jharkhand and rest was for the solar cables players like ReNew, Schneider, ACME for the solar cables.

Nikunj Doshi: And our guidance for the expectation of Baddi doubling this year, is it dependent on any kind of approval that we are likely to get or it is irrespective of any further.

Amit Jain: No it is there, actually with the growth we have to target the EBITDA margins also. It is not simply we go and continue with our work whatever clients we have we may not be able to achieve that kind of EBITDA margins. What we are targeting is constantly and consistently targeting new clients like railways will be added in this year, then PGCIL is added in this year, NTPC will be added in this year, for BHEL we have approval of six units, others are also going to follow. We had approval for NBCT, present approvals which are in the line, and what we have eventually targeted they are of good value addition. So the amount of mix what we will get we don't know, but the thing is we have opened all our verticals so that where we get the better value added margins, better value businesses we may target on them. And it is the start of the year and you never know how you may end up in the end of the year.

Nikunj Doshi: But what can be the negative surprise to this expectation, any kind of set back that can happen to our expectations?

Amit Jain: As far as our expectations are there they are in sync with the government spending and government initiative for infrastructure development. If any thing negative happens on that side yes, we would be affected. But that effect will take another 2-3 years. Because the kind of projects we work on, these projects generally have a gestation period of say 3-4 years cycle and any project that we start now it needs to be completed, it may get delayed, there may be some delay, but the project has to be completed before any disruption happens. So we don't see any problem as far as our business is concerned even if this government doesn't come till FY 20-22. If this government comes there will be a plenty of opportunities would be in the business.

Nikunj Doshi: And this Railway approval. We are expecting from Baddi so if that comes then, is there any positive surprise that can be expected?

Amit Jain: Yes, definitely, the cost of manufacturing is less in Baddi plant as compared to as our Faridabad plant. There may be some improvement in the margins, margins may expand.

Nikunj Doshi: And implemented working capital is it's tied up or are we looking to raise funds by way of equity, any thoughts on that?

Amit Jain: We are not in a plan to raise any equity and working capital as far as next year is concerned majority of our working capital has been tied up with our existing bankers and rest we have seen that we may get it within June itself.

Nikunj Doshi: And just last one, what was the exports during FY 18 and what is it expected during FY 19?

Amit Jain: During FY 18 we touched around 10-15 overseas customers, where we did some like small orders execution orders, where they were testing us and we were testing them and in percentage terms, we can say that it was between 4-5%. And going ahead we are targeting in the expected turnover this may expand from 5%-10%.

M**oderator:** The next question is from the line of Abhishek Jain, he is an individual investor. Please go ahead.

Abhishek Jain: Earlier we had a revenue guidance for fiscal '20 of Rs. 1000 crores, what do we expect from now on for 2020?

Amit Jain: Well, as we have already stated that the guidance for FY 20, I think we should be able to achieve it.

Abhishek Jain: So we will be doing the revenue of Rs. 1000 crores in FY 20?

Amit Jain: Yeah, it should be in the range of Rs. 900-Rs. 1000 crores.

Abhishek Jain: Okay and with the EBITDA of 14%, will margin of 14% around, we will be getting on that revenue?

Amit Jain: We are striving for that, even we are striving to get it better. We should have the luxury of economy of scale and margin expansion.

Abhishek Jain: So worst comes to us we will be having 14%. EBITDA margin on a revenue of Rs. 10,000 crores is what we can expect for FY20?

Amit Jain: We are trying to be hopeful on that.

Moderator: The next question is from the line of Navin Kumar, an individual investor. Please go ahead.

Navin Kumar: My question is for current financial year what revenues are we targeting and any expected breakup of clients which we are targeting for this current financial year and whether railways would be one of them?

Amit Jain: Railway as you know Navin, railway was our major customer in our Faridabad unit, and we are trying to get it online in our Baddi plant also. And the revenues what we are expecting say another Rs. 250 odd crores of addition in this financial year.

Navin Kumar: Okay sir and apart from Railways are we targeting any other government clients?

Amit Jain: We are targeting a lot of government clients. Our major focus is on the PSUs like NTPC, PGCIL and the utilities are there through utilities we target their contractors like KEC, then L&T, and **(Inaudible) 35.19**, Kalptaru. Once we get the approvals from these units, they indirectly open us to various turnkey contractors also. They have the payment cycle slightly better than what we have in the PSUs. So that is our target and since we are in the early stages of our approval, they may get in line within this year. So the proper product mix, we cannot comment on. We are having an order book of 350, next 350 is in the pipeline, and we are quoted a lot of tenders where we may succeed that we need to see.

Moderator: The next question is from the line of Samir Palod from AUM Fund Advisors. Please go ahead.

Dhruv: You said the Railway approval, when can we expect it, you were mentioning in a week's time on something like that. So exact any particular time frame that you have in mind?

Amit Jain: We have submitted all the formalities, we have completed all the formalities it is pending on their end. They take their sample and they test it rigorously at their own laboratory. The thing is pending at their end and we are expecting that within June, maybe by this 10-15 days we may get the ready-made approval for our Baddi unit.

Dhruv: And sir once you get the approval, how quickly can you start the supplies to Railway from the Baddi plant and does you Rs. 200 crores your doubling of revenue from Baddi factor in orders from Railway?

Amit Jain: No, the Railway is not factored in that big way because hardly changes, what we will be getting from Railways will be the executional orders what we need to execute. And in that also, there will be a rigorous testing procedure would be followed. The bulk revenues from our Baddi plant we can expect in the next year. This year there may not be bulk but yes, they will be good enough to give us reasonable revenue.

Dhruv: And sir, just on your debt level, you know you had a fund-based limit of Rs. 120 crores and I believe you have probably reached that limit. So, you have been able to increase the fund limit from the banks?

Rattan Lal Aggarwal: Yes based on our requirement for FY 19, we have already got our distinct lenders to assess our requirement for the current financial year, most of our banks have already assessed the enhanced requirement and have also enhanced their part of their shares. And we are expecting that all the banks will be completing their process by June end and that whole department will be in place,

Dhruv: Sure, just one clarity on just the payable days, the payable days as a percentage of revenue in terms of days has come down from 99 days to 59 days, the creditor days. So, what has led to that?

Amit Jain: This is the way things work if we take credit in the open market like, if we take, say, purchase raw materials at a certain level there is some inbuilt margin, which is build up by the traders or the manufacturers. What we have done is we have substituted that payable days with the money we have, and the creditor level has diffused and wear in immediately some benefit in the purchases also. By reducing the payment day there is some margin what we have added.

Dhruv: So your margins should increase in the future because of this?

Amit Jain: Yes, definitely.

Dhruv: And sir the tax that you have for FY 18 the total tax was Rs. 13.6 crores how much of that is an actual out flow and how much of it is just a provision?

Amit Jain: It is just a provision as per the accounting standards; we have to maintain the provision. That tax is not payable and once the merger gets approved, then all these taxes should be reversed.

Dhruv: And sir just a last thing, under IndAS could you just help us what the changes in accounting is? Because what I can see from the numbers is the receivables which were earlier Rs. 141 crores in FY 17 under the GAAP method, it has become Rs. 161 crores and the short-term debts which was Rs. 84 crores has become Rs. 99 crores. So could you just explain what this change exactly is?

Rattan Lal Aggarwal: That exactly is basically on account of we have some bill discounting limit for the debtors that till last year it was whenever we get bill discounted that is credited to the customers and the debtors are the net of bill discounted, whereas under IndAS we have changed this method. Now the debtors are the gross up and whatever bill discounting amount is there that is appearing under the head borrowings. Rs. 19.95 crores we have shown under contingent liability last year that will not be there this year.

Moderator: The next question is from the line of Megha Hariramani from Pi Square Investments. Please go ahead.

Megha Hariramani: Sir just two questions; on the cable that you mentioned that is there under approval from Baddi for domestic and international market what kind of cable is that?

Amit Jain: They are different kinds of cables, for export market we have orders for some HT cables also, extra-high voltage cable also from North African countries and the approvals, I mean in the current year we are going for approvals on all the products what we used to manufacture in Faridabad plant plus the product what we have on our table as on date. So the products would be you can classify broadly into power, telecom, and instrumentation projects. These are some of the products which we have got under process and for railways they are particularly Signaling cables, Axle counter cables, Power cable, Catenary contact wires, these are some of the products that we are looking at.

Megha Hariramani: So the revenues we are targeting for double up would come up from the new approvals that are expected or from the existing approvals that we already have?

Amit Jain: In both ways, from the existing product profile also and the new one also.

Megha Hariramani: And second one, on the raw material sourcing sir we source copper partly from Sterlite. So the plant shut down has that any impact on our raw material sources?

Amit Jain: Well Sterlite has been really kind enough. They are giving us material keeping in mind the relationship what we had with them. But Sterlite has shut down in their copper smelting plant where they just used to smelt copper cathodes from concentrates. And they had another plant in Silvassa where from the copper cathodes they used to convert it into copper rods and copper rods where our raw material, what they used to supply us. What Sterlite has been doing as on date is they are importing cathodes in their Silvassa plant and getting it manufactured and supplying into their all customers so that impact we are not seeing.

Megha Hariramani: So even going forward, we won't have any issue in sourcing raw materials.

Amit Jain: Well, we are in the process of scouting for new vendors like Indo Gulf. Fortunately, Hindalco has come up with a double capacity and they have increased their capacity and simultaneously we are importing some raw materials also from Sterlite Group company that is called Fujairah Gold. They have a copper rod plant in Fujairah that is a part of UAE, so we are sourcing from there also we are sourcing from like Hindalco, we are sourcing from Hindustan Copper also. So other avenues are there, that way we are not impacted.

Megha Hariramani: And the cost from all these different sources would be similar, it would not lead to any hike in prices going forward?

Amit Jain: They are similar.

Moderator: The next question is from the line of Tarun Sisodia from Chanakya Niti Consultancy. Please go ahead.

Tarun Sisodia: Just let me summarize what I have just heard, if I'm not mistaken. You are saying that your revenues are going to grow by Rs. 200 crores per year for at least the next 2 years, am I right?

Amit Jain: That is what we are expecting.

Tarun Sisodia: Your net debt position currently would be about Rs. 200 crores?

Rattan Lal Aggarwal: Our debt is around Rs. 165 crores, borrowings, you are talking about right?

Tarun Sisodia: Yeah, borrowing. So net borrowing would be about Rs. 160 crores.

Rattan Lal Aggarwal: Rs. 165 crores, yeah.

Tarun Sisodia: Do you any major CAPEX plans for the next 2 years?

Rattan Lal Aggarwal: As on date we don't have any major CAPEX plan. But going ahead we may go for some expansion.

Tarun Sisodia: And so this Rs. 200 crores per year what you are looking at addition is not based on any further CAPEX?

Rattan Lal Aggarwal: No. It is the expansion of our existing capacities.

Tarun Sisodia: In terms of your working capital, we have already mentioned, but I just want to get clarity, your revenues increased roughly by slightly more than Rs. 100 crores for this financial year, the past financial year which is FY 18 right?

Rattan Lal Aggarwal: Yeah.

Tarun Sisodia: And your working capital has gone up by roughly about Rs. 60 odd crores in the same time.

Rattan Lal Aggarwal: Yes.

Tarun Sisodia: Was this incremental Rs. 200 crores, because the ratio I am saying increase in revenue of Rs. 100 crores and increase in working capital of RS. 60 crores or Rs. 70 crores, will this same ratio be there for future also, you think an improvement can be achieved?

Rattan Lal Aggarwal: See whatever enhance working capital we are having that is basically for our future business plan also. For example, if we are targeting more business on a quarter-to-quarter basis, then of course it has working capital in the form of inventories and in the form of your overall setup to use it, that is being build up. And ultimately, whatever those we target upon, for that working capital is already in place. So whatever working capital requirement is there that will be for incremental business we are targeting for the next year.

Amit Jain: Whatever future cash flow would be generating that may not be in the same proportion as it is of this year or last year. Going ahead, our working capital requirement may decrease.

Tarun Sisodia: In terms of financial cost this year, you had about Rs. 29 crores and you are saying your gross debt is about Rs. 160 crores, I would assume there is some financial charges related to probably paying in cash for decreasing your payables, etc., involved in this thing. So can you give…?

Rattan Lal Aggarwal: Our finance cost in terms of percentage will remain at the same level or it is going to be a little less, because that is running at present at nearly 5% of my turnover, that I believe it is going to be at the same level.

Tarun Sisodia: So on an incremental basis you're saying gross per year can be an increase in finance cost, if you take 5% of your Rs. 200 crores incremental?

Rattan Lal Aggarwal: Yes, right

Tarun Sisodia: And no further dilution plan over next 2 years, you intend to tap market because you don't have any CAPEX or anything done, I would assume that.

Amit Jain: Immediately, we don't have any CAPEX plans but if the opportunity comes, we may.

Tarun Sisodia: And that opportunity would be related to any CAPEX or you are looking more on inorganic part of it?

Amit Jain: Maybe some acquisition, maybe some CAPEX it depends upon the kind of revenue, we will be seeing from that.

Tarun Sisodia: Generally, as a policy, you would pre-empt these fund raising and then look at opportunity or you see yourself in an advanced stages of opportunity and then will follow it up with fund raising?

Amit Jain: We first have to see the opportunity then only we can go forward.

Tarun Sisodia: Any comments on the dividend policy going forward?

Rattan Lal Aggarwal: We will continue with our existing dividend policy.

Tarun Sisodia: So your dividend policy is based on per share or is it based on payout ratio?

Rattan Lal Aggarwal: It is, what we're trying to do we have a dividend policy. But till such time we are having this level of growth. So we would like to keep the dividend at stable level, which is 10% right now. So we may continue with this 10% for at least 2 years.

Moderator: The next question is from the line of Samir Palod from AUM Fund Advisors. Please go ahead.

Dhruv: Sir just again, you mentioned that the net debt is Rs. 165 crores. Is that right?

Rattan Lal Aggarwal: Sorry it is Rs. 165 crores working capital limit is there and this Rs. 44 crores term loan we have.

Dhruv: So it is Rs. 210 crores of debt no right now?

Amit Jain: Rs. 165 was the working capital what we were talking, and it was accompanying with working capital only.

Dhruv: Sure so just to understand if you do an incremental turnover next year that you're expecting of Rs. 200 crores, on that, you make a 14-15% EBITDA margin that'll be around Rs. 30 crores of EBITDA and you require a working capital based on current number of working capital as a percentage of sales it comes to around Rs. 65 crores which means you need Rs. 35 crores of funding for this extra sale of Rs. 200 crores. Is that the fair way to look so that much of incremental debt will increase?

Rattan Lal Aggarwal: Yes, it is not practically working like this simply because whatever business we are having currently is one. Let's say Q4 of FY 18, we did business of around Rs. 160 crores which is catering Rs. 640 crores of annual turnover if you just equally manage it. So practically whatever working capital incremental is required, that gradually come up and that we've already investments are planned and most probably it is not absolutely proportionate, it is coming a little less.

Amit Jain: It is the tempo what we maintain. It is always an incremental turnover from quarter on quarter say in last quarter we may get best turnover and for that the requirement maybe much more and that will keep up for the next quarter do come for FY 20 so that kind of incremental comes but you get the figure of 19 which will be at the higher….

Dhruv: So we can we see FY 19 debt level to be at?

Rattan Lal Aggarwal: Yeah it is going to be increased by Rs. 40 crores or so, Rs. 40-Rs. 50 crores.

Amit Jain: Within the vicinity of Rs. 40- Rs. 50 crores, it will be incremental borrowings for working capital during FY 18-19.

Dhruv: Sir just one last thing could you just give us you mentioned Rs. 220 crores of revenue from CMI Energy, could you share the EBITDA and PBT level?

Rattan Lal Aggarwal: CMI Energy EBITDA level we did Rs. 220 crores of turnover for the whole year and our EBITDA level is around 12.31%.

Dhruv: Sir and PBT?

Rattan Lal Aggarwal: PAT level we have around 1.75%, which is around Rs. 4 crores. PBT Rs. 3.81 crores which is 1.75%

Moderator: As there are no further questions from the participants, I now hand the conference over to Mr. Salil Utagi for closing comments.

Salil Utagi: Mr. Jain or Mr. Aggarwal would you like to give a closing remarks?

Amit Jain: Yes, definitely. Mr. Anupam would like to go for it.

Anupam Saxena: Thank you so much for participating in this conference call. I believe most of the queries were answered satisfactorily. In case of any future questions we will be glad to answer them in the future as well. Please, you can mail us or call us, whenever required. Thank you very much.

Moderator: Thank you. Ladies and gentlemen, on behalf of Edelweiss, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.