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Time: May 31, 2016 12:30 Hrs India Time
Main Speaker(s): Manish Bhatt, CEO, Shilpi Cable Technologies Limited
Ajay Mahajan, CFO, Shilpi Cable Technologies Limited

Total 13 Participants including the Speakers.

Participants List

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“Shilpi Cable Technologies Limited Q4 FY-16
Earnings Conference Call”

May 31, 2016



**MANAGEMENT: MR. MANISH BHATT – CEO, SHILPI CABLE
TECHNOLOGIES LIMITED
MR. AJAY MAHAJAN – CFO, SHILPI CABLE
TECHNOLOGIES LIMITED**



*Shilpi Cable Technologies Limited
May 31, 2016*

Moderator:

Ladies and gentlemen good day and welcome to the Shilpi Cable Technologies Limited Q4 FY16 Earnings Conference Call. Joining us on the call today are Mr. Manish Bhatt, CEO and Mr. Ajay Mahajan, CFO of the company. As a remainder, 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 '*' and then '0' on your touchtone phone. Please note this conference is being recorded. I now hand the conference over to Mr. Manish Bhatt, thank you and over to you sir.

Manish Bhatt:

Yes, thank you, this is Manish Bhatt here. Okay, so we continue to grow at the rate at which we have been growing and we are happy to announce our results. The quarter fourth standalone basis which is our Indian operation, we have grown at 36% with the growth in EBITDA of around 34%. The PBT if you see quarter-on-quarter vis-a-vis the last year same quarter, we have grown from 6 crore to 13 crores, almost 100% jump.

If you see our consolidated sheet, we grew at 23% in EBITDA and PBT of around 46 crores against 42 crores quarter-on-quarter basis, so clearly in our standalone basis in Indian operation, we continue to give the growth which is expected which we have been delivering till now. The International business as we had informed last quarter also has is mostly commodity based and has not been you know very stable but this quarter we have been able to bring it and we are seeing some stability in that business too.

All in all, our plans to go to reach \$1 billion by 20:20, we seem to be going on the same route and we are confident that as of now our journey you know continues to give. We continue to follow that path and we are confident to reach our destination as decided. As you know that our business is divided into various segments and I will take some time to explain you the progress in each of the segment. Telecom, the RF cable demand or application is coming down slowly because of the new technologies which are coming in but as we have entered into antenna our size of business in the telecom continues to grow.

Happy to share that we are progressing well on antenna, we are engaged now with all the operators and we have received RFQ from everyone and we are making good progress in that line.

On the auto side, we have been working as we were informing on the four wheeler side which is almost 40% of the market where we are not a player till now, we have received approval from Tata Motors now and we continue to progress well in all our efforts to get entry into four-wheeler and we see good growth coming there also.

On the energy segment side, which is the mix of all this if you see the end customer whether it is telecom, auto, white goods, we continue to grow and this segment has contributed 8% of our sales last year and this is sounding to be very promising business for us as well.



One of our business which is the B2C foray which we did, we continue to grow and strengthen our propositions in the market. Last quarter we made big progress in our distribution network. Today, we are billing to almost 220 to 230 cities monthly. We are increasing or improving our distribution network strength parallel to the FMCG kind of network. We continue to introduce more product.

We have introduced now along with house wire and full range of wire, multi 4 and flat cable and we have introduced now the switches and modular switches and MCBs and we are moving well to launch our LED products also into the market place. Also, along with it our efforts to take approvals in most of the government agencies and real-estate builders, you know continue to yield fruits and now we getting started getting some businesses in that direction, so whole in whole, this business continues to grow and we are looking forward to this business in coming times.

One of the other area which we were focusing, I am talking about was railways and catenary wire is one of the product where we are making progress and next quarter we expect our plant to be supplied and established and then the approval process will start but that again is a very promising business which we are seeing going forward. Whole-in-whole given the prospects in each of these segments and/or fruits till on efforts continues to tell us that we can continue to grow, there is no reason why we cannot continue growing at the same pace.

With that I will hand over to Ajay to also give you some brief on the financial side.

Ajay Mahajan:

Yes, good afternoon all learned analysts. If you look at our standalone result as well as the consolidated result, we have made another announcement that we are going to set up the manufacturing unit at Abu Dhabi, that manufacturing unit will convert the cathodes into a copper product say copper rod, copper tube, bus bar, busters, copper wires and our main intention is that our overseas operation should come from the manufacturing revenue. Till date what we are doing, we are trading in the international markets, we are trading in the telecommunication product, buying from the China and other country and selling to the Middle-East and African countries there. Besides this, we are also buying the commodity like copper rods, copper tubes and selling it to the Middle-East countries and the African country and some part of the Indian country. Now with this setting up of this manufacturing unit we will get the edge over the other traders because now the manufacturing will be our own and the margins will further improve there. This is one thing that we are growing in the future.

Second, what we are doing in India, we are finding the innovative ways to raise the fund so that the cost of interest and the fund raising will go down. Last year, we have issued the almost 1.5 crore warrant to the promoter, out of this 80 Lakh warrant have been converted into equity by 31st March 2016 and the rest of the warrant will be converting to equity this year, this will infuse the equity fund in the company, so I think this is the financial as well as the business operation



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of the company, now I can ask if any analyst wants to know more anything more about the company they can raise the question.

Moderator: Thank you sir. We have our first question from the line of Vaibhav Bid from Motilal Oswal Securities Limited, please go ahead sir.

Vaibhav Bid: Hi sir, congratulations for a good set of results. Sir, could you give us breakup for your revenues in terms of products.

Ajay Mahajan: Sir, if you see our telecom and the RF technology contributes to around 18% to 20%, but energy segment which is contributing almost 7% to 9%, auto is around 12% to 15% and B2C has grown up to almost 15% now.

Vaibhav Bid: B2C.

Ajay Mahajan: B2C is our foray where we are going through a distributor retailer network, we sell our house wire modular switches and MCBs right now and we are going to enter into LED also soon, so this is a new foray because we are all B2B company till then, few years back we have launched a brand called SAFE and this is what is now growing.

Vaibhav Bid: Sir what is the name of the brand.

Ajay Mahajan: SAFE. We are present in almost 17 states now. We have almost 400 channel partners, so I think we have a good network growing there.

Vaibhav Bid: export of wire and cables.

Ajay Mahajan: Wire and cables and rest is copper conductor wire.

Vaibhav Bid: Okay and sir could you give us the margin profile in each segment if at all, if broad range.

Ajay Mahajan: Yes, if you look at the telecom segment, our operating margin for the telecom segment ranges from 16% to 18% and for auto segment it is ranging from 8% to 10% depending upon whether we are supplying the wire or whether we are supplying the harness, then the we have the power and energy sector where the operating margins are around 9% and for B2C segment includes wires , switches and MCB. With the inclusion of this MCB and switches, we think that the margin will further improve in the future but till date we have the operating margin of about 12% to 14%.

Vaibhav Bid: 12% to 14%.



- Ajay Mahajan:** Yes, and this conductor wire which includes enameled wire and bunch wire, there the operating margin is around 4% to 5% and for export margins are not huge, it is 3% or 4%. The benefit is a natural hedge of foreign currency against import of material from outside India.
- Vaibhav Bid:** Sir how much is the import currently.
- Ajay Mahajan:** Import last month was around 800 to 900 crore Rupees.
- Vaibhav Bid:** Okay and your own overall your basis sir how much would be out of our purchases imports.
- Ajay Mahajan:** Out of purchases it will be approximate we can say 55% to 60%.
- Vaibhav Bid:** Okay and sir any I mean on your product profile which would be the largest of our this thing, RF you told 20%, so would that be the largest segment.
- Ajay Mahajan:** No that is not the largest segment. Largest segment if you look at the is the conductor wire. Basically you have to understand one thing that in our business the main raw material is copper, and the copper is available on LME plus premium, so when you are increasing your size and through economy of sales you are benefitting by reducing the premium, so what we are doing, we are buying the copper in a bulk quantity from the International supplier let say Ducab, Fujairah Gold, and UCR, etc. With increased volume the premium spread reduces and help us to improve the margins going forward. There is a huge demand for enameled Copper wire, bunch wire in the industry. And segment wise the revenue I think Mr. Bhatt has already explained to you.
- Vaibhav Bid:** And sir on the B2C side, what is the vision going forward like what percent of our sale we want B2C 2B in the next 2 to 3 years 3 odd years.
- Ajay Mahajan:** Yes, so in our journey to \$1 billion by 2020, B2C is going to be our major growth engine and you know given the scope there and our progress till now, we are confident that we should be able to take it too much higher percentages.
- Vaibhav Bid:** Okay, I mean any percentages.
- Ajay Mahajan:** We want at least 25% to 30% and the revenue should come from the B2C segment.
- Vaibhav Bid:** Okay 25% to 30% and sir any thoughts on the cash flows I mean the debtor days are increasing so going forward how do we see that and which segment is creating that issue of high debtors.
- Ajay Mahajan:** Sir basically now I explained segment wise to you, then you can easily understand what we are doing and what market is behaving. In telecom segment we are supplying the most reputed operators in the country, any name that you can take we are supplying but there the credit period is almost 90 to 120 days varying from operator-to-operator, so we cannot push them for that,



may be market situation will improve as I think the debtor period will come down, but in the auto industry very well. Auto industry we are supplier to a Tier-2 supplier, we are not the Tier-1 supplier, may be to some extent now we are entering into a Tier-1 market but till date we are supplying to a Tier-2 market, so there the auto industry very well. The credit period is say 100 to 120 day, minimum period is there, but we are supplying to a reputed supplier and the payments are secured there, then we come to the power and energy cables. For expansion in this 4G segment this power and energy cables are required and there the debtor periods are less, it is 60 to 90 days is there. Then we have the B2C segment. B2C segment now we started our venture in the year 2014 and we are expanding very aggressively in the market, so in B2C segment till date our collection period is around 70 to 90 days but slowly and slowly once we are fulfilling our basket of products so we hope that in the coming days this credit period will come down.

- Vaibhav Bid:** Okay and sir, what are the margins dealers get in this B2C segment, I mean of broad range?
- Ajay Mahajan:** That varies from product to product, region to region, depending on competition.
- Vaibhav Bid:** Okay, so are we giving higher margins to get into the market probably that will be the question?
- Ajay Mahajan:** I think margins would be competitive but it is more of for activities which we are doing with the electrician at display counter and below the line activity which is our focus area.
- Vaibhav Bid:** Okay and sir, CAPEX for next 2 years?
- Ajay Mahajan:** In last year we announced that we required a Rs. 50 crores as a CAPEX for 2-year that is say FY15-FY16, FY16-FY17 and that is sufficient and we have already arranged the funds from the banks, some has to be through equity and some has to be through debt and everything is tied up.
- Vaibhav Bid:** Okay and sir debt, how much would be the debt portion?
- Ajay Mahajan:** Debt portion is short-term debt is around Rs. 190 crore, long-term debt in the form of term loan is say Rs. 10 crores and our payables is basically is LC-backed payables that is around Rs. 500 crores is the payable and around 80-85% is LC-backed payables, if we took that as a debt so almost 600 crore otherwise the short-term debt is Rs. 190 crores.
- Vaibhav Bid:** And sir, what about the tax rates going forward?
- Ajay Mahajan:** Till date we are paying the full tax 34% approximate that comes after surcharges and everything but we have the overseas company that is in UAE where there is no tax, so whatever the profit is there that is tax-free, if you look at our cash out flow also as compared to consolidated profit, you will find my tax rate is very low because.
- Vaibhav Bid:** Yes, that is what, the overall tax rate comes up to 10% to 12%?



- Ajay Mahajan:** Because the overseas profits from UAE is tax free.
- Vaibhav Bid:** Okay, and sir how much profit would UAE be bringing in I mean on our consolidated basis?
- Ajay Mahajan:** If we look at this our consolidated profit, it comes to be Rs. 165 crore, out of this the Rs. 57 crores is from the Indian company and around Rs. 10 crore is from Singapore company where there is a tax and the rest is from the this UAE based company.
- Vaibhav Bid:** Okay, and sir on the Tata Motors, Tata Motors, sir how much would be the order side, new order that we have gotten?
- Manish Bhatt:** We have just now, as after approval, we get a sample thing and then you slowly grow the markets so we are at the sample stage right now.
- Vaibhav Bid:** Okay. Sir last question on the margin front, what is the respectable margin that we can see in the next 2 years?
- Ajay Mahajan:** Sir this year we have shown almost 60 basis improvement in our operating margins. When we are saying that we look around 25% to 30% from the B2C market definitely margin will further improve number 1, number two – in our telecom segment antenna last in August 2015, we announced that we have entered into a joint venture with a New Zealand based company, at antenna there is almost a 20% operating margin is there, so what we believe that in the future the margins of the company will improve further.
- Vaibhav Bid:** Okay, and sir the growth rates of our revenues that we can easily grow at the current rate run rate?
- Ajay Mahajan:** Yes, basically as Mr. Bhatt explained to you that we are entering into a catenary segment, we are entering into the antenna segment, so what we think that in next 2 to 3 year, our growth will continue to be there with the same rate.
- Moderator:** Thank you Mr. Bid. We have our next question from the line of Parth Bhatt an individual investor, please go ahead.
- Parth Bhatt:** I just had a question regarding the Dubai facility, can you just give us the timeline on when the facility is expected to come out?
- Ajay Mahajan:** Yes, in the next 8 to 12 month, our productions will come from that factory.
- Parth Bhatt:** Okay and can you give me just the rationale behind setting the factory in UAE and not in India or any other location?



Ajay Mahajan:

Yes, there are basically the four things that we have considered, why we choose that Abu Dhabi. Number first is that this Abu Dhabi UAE is in between the Europe and the Asia, so when you are setting out the factory there you are getting an access to the European market as well as to the African market and to the Asian market. Number second, we appointed Frost & Sullivan to have the market survey there, then as per the Frost & Sullivan report there is a huge market gap in the Middle-East country for product, like copper rods, copper tubes and other things, so by setting up the factory, you can sell your production within GCC country there itself. Number third, for setting up the manufacturing unit, you required a huge investment in land, but there the land is available on the lease basis from the government for 30 years and that can be renewed for another 30 years on a continuous basis. Number 4 for setting up that manufacturing unit, you require at least 20 to 25 megawatt plant for setting up the manufacturing unit. In India if you decide that you will have to set up your own captive power plant, so that is very difficult but there the electricity supply is in surplus, in plenty and the rate of electricity is almost Rs. 3 or Rs. 3.5 per unit as compared to India in say Rs. 6 to Rs. 8 and in this commodity market, the margins are very low, and power cost contributed a lot, so this is the reason that we have chosen the Abu Dhabi and moreover we are in the operations in UAE since for the last 4 years. We are doing the trading activities, we know the buyer, we know the supplier, and now the buyer has the confidence on the Shilpi, so the moment we start manufacturing product from our facility, immediately the sales will be from there, so this is the reason.

Parth Bhatt:

And sir since we are foraying into so many business segment, so do we see top level management hires happening at Shilpi?

Manish Bhatt:

Yes, sure, we are focusing so presently our structure is that each of the business unit has a business head, which is from the respective industry with almost 15 to 20 years' experience, so we have been focusing majorly on developing our leaderships within the company because obviously if you want to grow this big cannot be run without the right management bandwidth. We are also getting all the best practices in HR to attract and retain best of the talents. I will tell you the in the last 3 to 4 years, we have been getting good attraction to the employment market, we have started getting good people attention to our company now.

Moderator:

We have the next question from the line of Aditi Deshpande, from JM Financial, please go ahead.

Aditi Deshpande:

In terms of your client profile, I would want to know who are your top five customers and how much of the revenue do they contribute?

Manish Bhatt:

So if you see each segment wise, in case of telecom for example our customer would be Airtel, Idea, Vodafone, this three would be constituting almost 70% of our business, similarly if you go to auto, its Minda, Minda Uno, and Jay Ushin those are the customer which would constitute, so every segment has some 3 or 4 big customer who constitute 60% of our business.



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Moderator: Thank you Ms. Deshpande. Ladies and gentleman that was the last question, I would now like to hand the floor back to the management for closing comments, over to you sir.

Manish Bhatt: Yes, thank you very much for your time. I think what we are looking at in Shilpi is a great potential to grow further. I think our ambition to become \$1 billion by 2020 is our mission objective. I think we are cruising well and there are a lot of work to be done. The critical would be how we are able to manage and grow our management bandwidth as somebody asked us, I think good focus is going. Second, I think there is a split between professionals and entrepreneur and we have been allocated right job to the right people without too much interference within the two bands and that is helping us well as in the operation is fully run by professional team today and getting reviewed every month basis the annual operating plan. So some good practices which have come into play right now here. Second, of course is our working capital challenge and we have a good financial team and good planning to support all our future growth, so as of now looking at the plan and our past track record and the confidence which we have we are sure that we will be able to carry this forward. Thank you for your time once again.

Moderator: Thank you very much sir. Ladies and gentleman, on behalf of Shilpi Cable Technologies Limited, that concludes this conference call. Thanks for joining us, you may now disconnect your lines.