



“Shilpi Cable Technologies Limited Q1 FY-17
Earnings Conference Call”

August 19, 2016



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*Shilpi Cable Technologies Limited
August 19, 2016*

Moderator: Ladies and gentlemen, good day and welcome to Shilpi Cable Technologies Limited Q1 FY17 Earnings Conference Call. Joining us on the call today are Mr. Manish Bhatt – Chief Executive Officer, Shilpi Cable Technologies Limited and Mr. Ajay Mahajan – Chief Financial Officer, Shilpi Cable Technologies Limited.

As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing ‘*’ and then ‘0’ on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Manish Bhatt. Thank you and over to you, sir.

Manish Bhatt: Good afternoon to everyone and thank you for joining this call. So Shilpi’s first quarter continues to show the journey towards \$1 billion ambition. We have a reasonably good start, this year. We had a growth of 12% on consolidated basis and more importantly of 25% on standalone Indian operation. All our segments whether it is telecom, automobile, B2C segment or energy cable all of them continue to show good growth in this quarter.

We have in spite of all the competitive situations and the way the market is, we continue to maintain and slightly grow our margins and hence even the PAT has grown by 13%. I am very happy to share that our foray into B2C continues to get right traction. We have launched our product modular switches and MCVs. MCVs has picked up and we are seeing its penetration also growing in the market. On the distribution side in B2C our focus has been to now penetrate further into the markets which are the 18 states which we have got into and grow this further and I think as we are speaking they are increasing the penetration further and further.

On the telecom side, our major focus had been to get into antenna business. We are doing well. As you know we are into the field trials and lab trials with most of the top operators. There is one more change which is happening with as you know immediate auction of new frequency bands which is coming in. So presently the bands for which antenna are used ranges from 900 to 2300 which is now going to be 700 to 2600. And hence there is a need for new broadband antenna which augurs well for us because in the existing antenna to that extent there are established players but this gives us a chance to enter into this new market. Of course there is a gestation period for getting into this and we are going through that phase. On the auto industry, our foray to get into four wheelers is progressing well. We are at a very progressive stage better than what we were a quarter back in terms of progress with all these operators and we continue to do well.

On energy segment with all this 4G, 3G rollout one of the biggest consumption of energy cable is coming through telecom industry itself. All this 4G rollout where we had a good share continues to do well and we expect this rollout to continue in coming times too.



So all in all, we continue to grow in each of the segments which we are in and our performance in the first quarter gives us confidence that we will be able to achieve the targets which we have set for ourselves in this year. With that I will ask Ajay to also share details on this quarter financials.

Ajay Mahajan:

Thank you, Manish. As Manish explained that our growth towards \$1 billion continues and we are making our presence felt in each and every segment. If we break down our Indian revenue into the various segments we will see that in the telecom segment we derived almost 19% of the revenue around Rs. 102 crores of the revenue out of Rs. 532 crores have come from the telecom segment. If we look at the revenue of the Quarter one of 2015, it was Rs. 81 crores. So the revenue from the telecom segment has grown from Rs. 81 crores to Rs. 102 crores in this quarter. If we look at the automotive segment where we are dealing in the automotive cables and harness business, there the revenue contribution is around 14% and it has grown from Rs. 64 crores to Rs. 75 crores in this quarter.

In the power and energy cables, revenue has grown from Rs. 34 crores to Rs. 44 crores which constitute almost 8.4% of the total revenue derived from the Indian operation. B2C segment we are continuing to strengthen our positions. Last quarter in June 2015, we derived only Rs. 42 crores of the revenue from the B2C segment and most of the 95% of the revenue came from household wires and cables. This quarter we derived around Rs. 84 crores of the revenue from the B2C segment which constitutes around 15.7% of the total revenue.

Copper conductor and wire where we are manufacturing the copper wire, bunch wire and enameled wire this quarter we derived Rs. 190 crores of the revenue which constitute around 35% of the total revenue. Whereas in the last quarter June 2015 it was Rs. 171 crores and constituting 40% of the total revenue. In export this quarter we derived around Rs. 38 crores of revenue which constitute around 7% of the total revenue. Whereas in the last June 2015 it was Rs. 35 crores. So this is basically the constituent how we have grown from quarter one 2015 to quarter one 2016. This is about the Indian operation.

If you look at the international operation, as we have already told that in international we are doing the trading of telecommunication products and the copper products and the consolidated revenue of the company as Manish explained has also grown from Rs. 1,010 crores to Rs. 1,128 crores. We have already explained that in international operations we are setting up a manufacturing unit in Abu Dhabi with an investment of around \$150 million and we hope that the first commercial production of this plant will come from April 2017. So in the year 2017 and 2018 mine trading revenue from overseas operation will start reducing and will get replaced by the manufacturing revenue. This is all about the segment wise revenue and the international operations.

Manish has also explained about how we will grow in the future. In the telecom segment I want to add one more thing like we announced in the last analyst meet that we are entering into



the antenna segment. So in the antenna segment we have got the approval from the various operators and we hope and think that our supply for the antenna will commence in the last quarter of this financial year. We have already explained that the antenna market is around Rs. 600 crores market and we are targeting around 20% of the market in next one to two years with a strong operating margins in telecom segment. In automotive segment as Manish explained, till last year we were in the two wheeler segment and we were manufacturing as a Tier-two operator whereas we are giving our cable and harness to the Tier-1 manufacturer.

Now this year we have got the approval from four wheeler segment for our automotive cables and harness. So this segment will also show a growth in the coming period. Third major segment is the power and energy cable. In the power and energy cables, with the growth in 4G segment as Manish explained order for the energy cables has increased tremendously, number first. Number second; in the consumer segment we have also witnessed a growth from the consumer segment like AC industries like refrigeration where we are manufacturing the cords from those companies also.

In B2C segment, we introduce our MCV and switches in the second quarter of last financial year. Now our products these MCV and switches has got acceptance in the market percentage of that has also increased as a result the operating margins of that segment has shown the growth. In the copper conductor wire business, we have doubled our capacity. We presume that with the growth in the industrial segment the demand for enameled bunch wires will also increase tremendously and we have also seen in the Quarter one also. This is all about the company's financials. And Manish would share about our future.

Manish Bhatt:

So as you know each of the segments the task is very clearly laid out. Of the existing business revenue segment telecom definitely we have our present business of RF cable and the accessories and to which we are trying to add telecom and also looking at the business in east for IDFs in Philippines and nearby countries. There also we have the pool from the operators now we are waiting for operators to now start the new funding for the new expansion and we are sure we will be able to garner some share out of that. So telecom these are our foray. In automobile four-wheeler segment is what we are looking at and also in harness as a Tier-2 player we are gaining market share now and become the most reliable supplier in terms of assemblies whether it is lighting or blocks or you know where there is a small harness is used.

So we continue to grow in that segment. B2C definitely we want to by the end of this year cover the whole India and also reach 5,000 plus retail outlets. And in fact 5,000 now and go up to almost 10,000 to 15,000 outlets by the year end and create a strong network so that whatever future products which we are thinking of we can launch through this distribution network. All in all I think lot of work to do. A good start for the year and I think we will carry on this journey. Thank you.

Ajay Mahajan:

This is all about our company. Now we can open the session for question-and-answer.



Moderator: Thank you. We will now begin with the question-and-answer session.

We will take the first question from the line of Rajeev Kota, an individual investor. Please go ahead.

Rajeev Kota: We wanted to know your outlook for 2017?

Ajay Mahajan: Well as Manish explained that what we believe that we are growing with a CAGR of almost 25% plus for the last three, four years and we hope that this growth will continue in the coming two to three years. Why this growth will come we have already explained because in each and every segment we have chalked out the strategy for growth. In telecom segment we explained that till date we are in the RF cables and jumper and connectors, now we are entering into a new segment of antenna where the market size is almost double of the RF cable size market. And we hope to get 20% of the market share in next one to two years. So definitely growth for telecom segment will continue in next two to three years.

Now in second segment in automobile segment till fiscal 2016 we are in the two wheeler segment and operating as a Tier-2 supplier. Now this financial year in April and May we got the approval for four-wheeler automotive segment and we got the approval from the reputed manufacturers of vehicles. And we hope that by getting these approvals now we are entering into the four wheeler segment and this four wheeler segment is almost 75% of the total market share of automotive business. Till last year we were in the 25% market segment. Now we are in the 100% market segment, so definitely in automotive segment the growth for next two to three years will come from two-wheeler as well as from the four wheeler. In four-wheeler segment when you are entering as a Tier-1 supplier, so definitely your operating margin will also improve.

Number third we explained in the other segment like power and energy cable segment with the growth in the 4G segment we are expecting orders from the other telecom operators as Manish explained like other telecom operators, Airtel, Vodafone, they are also very aggressive in the 4G segment. B2C segment Manish has already explained how we are penetrating and I request Manish to add on our future outlook.

Manish Bhatt: Just one based on auto segment though we are a Tier-2 player for wire supply, so in four-wheeler we continue to be Tier-2 supplier but definitely getting entry into four wheeler segment will definitely help us increasing our share overall. But there is these small accessories which we are supplying to various players where there is a chance for us to become a direct Tier-1 player also. On the B2C side see we have chosen the model which is purely a FMCG model we will be creating a dealer distributor network where we are creating a feet on speed which can cover almost 100 to 150 outlets and is able to service those outlets regularly with the ground level activities which are required to get your product selling.



I think we have got a very good traction we have a good scheme running electricians right now overall wherever we have gone response to our product has been very good. So we are following the same thing and taking this particular concept now deeper and going to the nearby towns of the big cities which we have covered. So I think as we grow our distribution network, we definitely see the growth in business also coming.

Rajeev Kota:

Sir and one more thing I wanted to check on the overseas expansion plan

Ajay Mahajan:

In overseas expansion plan as we announced in the first quarter that we are setting up a manufacturing unit in Abu Dhabi. We have already acquired the land and construction is in full swing and we expect that by the end of September our construction will get completed. The machinery order has already been placed and we hope that by the end of November or December we will start getting the machineries for our plants. And most probably our target for commercial productions are from April 2017. We are setting up a capacity of 60,000 tons of copper products there whereby we will be manufacturer the copper rods, copper tubes, bus bar, bus strips and copper wires from cathodes.

So with this whatever we are doing in overseas market we were doing the trading of copper rods there. Now we are entering into a segment where we can sell the copper rods, copper tubes, bus bars, bus strip copper wires. When you are manufacturing these kind of products your margins go on increasing. Till date we are getting around 4% to 6% margin on the copper trading. But now with the setting of this manufacturing unit our margins will be in the range of 9% to 10% on a consolidated basis. So this is about our overseas expansion.

Moderator:

Thank you. We take the next question from the line of Ashutosh Garud from Reliance Portfolio. Please go ahead.

Ashutosh Garud:

I just wanted to see if you see we have been at this Rs. 1,000 odd crores of top line run rate for some time now and previously we were growing at a much faster pace so just wanted to understand what is the capacity utilization level and when do you see the quarterly run rate notching up again?

Ajay Mahajan:

Last year we have gone for a capacity expansion with an investment of around Rs. 50 crores out of this Rs. 15 crores was funded internal accrual and Rs. 35 crores we have got a term loan. Part of the expansion got completed last year and part of the expansion is happening this year. Already we have added around Rs. 13 crores of investment machinery in this first quarter of this financial year. What we believe for Indian operations the capacity which we have added is sufficient for next three years. So next two to three years we do not any capacity expansion and this will help us to grow with the same rate as we are growing for our Indian operations.

Now in the overseas market we are doing the trading. Now with this setting up this 60,000 ton of copper product what we believe that a 100% capacity utilization which will happen in the



year say 2019 and 2020 can have around \$500 million of our revenue. So what we believe in next three years we do not need any kind of capacity expansion in our Indian and overseas operation.

Ashutosh Garud: So and what is the mix in revenues in your Indian and overseas operation?

Ajay Mahajan: So last year we got a revenue of around Rs. 3,800 crores, out of this Rs. 1,900 crores of revenue came from Indian operations and Rs. 1,900 crores plus is coming from overseas so around 50:50 ratio was there. So what we believe in the coming years the ratio will be in the same maybe 50% or 55% from India and the rest from the overseas market.

Ashutosh Garud: So when exactly is the capacity expansion going to come?

Ajay Mahajan: I think in Indian operation I am saying in the third year means from this financial year to next two financial years we do not require any expansion unless and until some major business I mean we are seeing one another major business has come. Otherwise for our existing capacity we got a revenue of Rs. 1,900 crores. So next two years I mean this financial year plus two years we do not require capacity, we have to grow with say 20%, 25% for Indian operation.

Ashutosh Garud: Then why is your top line hovering around Rs. 1,000 crores or Rs. 1,100 crores for last four, five quarters now or maybe slight below that also?

Ajay Mahajan: Slightly below that also sir if you look at the revenue of this quarter it is Rs. 1,128 crores.

Ashutosh Garud: Yes I am just trying to understand what is the run rate you are expecting going ahead since you do not need to do much of CAPEX so what would be the run rate going ahead?

Ajay Mahajan: I have already added my capacity. If I am saying I am growing with a CAGR of 25% now in India if you look at the 25% last year my revenue for first quarter was Rs. 427 crores, this year it is Rs. 532 crores and my overseas operation if you look at that I am saying I am setting up a manufacturing facilities. When I am setting up a manufacturing facility now what we are doing we have reduced our trading operations in the overseas market because now we do not want to expand in the trading, we want to expand in the manufacturing operations.

So that is why you are seeing that we are not growing with a faster rate in the overseas operation. So once my plant will come into existence, first year of revenue you yourself will see that because we are investing around \$150 million there so first year of revenue will be in the range of around \$200 million.

Ashutosh Garud: And when is the plant going to get operational?

Ajay Mahajan: Sir April 2017 is the target date where our first vertical will get operational. We have four verticals that is the copper rods, copper tube, bus bar, bus strips and copper wires. So first



verticals that is the copper rod that is converting cathode to copper rod will commence from April 2017. And the second vertical will get operational most probably in the month of June. Third vertical will get operational in the month of August and the fourth one will get operational in the month of September 2017.

Ashutosh Garud: And what is the proportion of trading revenues out of your total overseas operations right now?

Ajay Mahajan: In overseas operation 100% is trading revenue.

Ashutosh Garud: And how do you plan to scale this down going ahead?

Ajay Mahajan: We have the trading operation in two areas. One, we are doing the trading in the Middle East. Second, we are doing the trading in the South Asia in Singapore. So in Dubai whatever the revenue that we are deriving of that 95% of the revenue will get replaced with the manufacturing. In Singapore definitely the trading for this commodity will continue till we plan to set up another manufacturing unit maybe after three years, four years down the line.

Ashutosh Garud: So basically the growth will be seen from the domestic side and overseas operation you would be going through a phase where you would be replacing your trading business with the manufacturing?

Ajay Mahajan: Yes, Sir.

Ashutosh Garud: So all in all on a total this thing do not you think that domestic business would actually start contributing more because your overseas revenues may not grow at the same pace as your domestic should be growing according to the plan which we have?

Ajay Mahajan: If we have to get \$500 million of revenue from overseas from my manufacturing unit in three years, so if we convert this \$500 million into Indian rupees around Rs. 3,500 crores of revenue will come from this overseas operation. And if I look at the trading operation from the overseas last year from Dubai it was in the range of around Rs. 1,500 crore of the revenue came from the trading operation. So now you can yourself imagine that the Rs. 1,500 crores of revenue will go to Rs. 3,500 crores of revenue in 3rd year. That will be the manufacturing of this cathodes, copper products; number one.

Number second, with this trading I am doing the trading of copper rods and to some extent of copper tube. Now what we will do not only we are manufacturing the copper rods, copper tubes, we are also adding the other products like bus bar, bus strips, copper wire. So we are serving to the various industries like real estate, like transportation industry, like AC industries like the other industrial products like wires. So our revenue you can yourself see from the overseas operation. In Indian operation you are 100% right that our revenue will grow very



substantially because we have the segment in the telecom segment we have the segment in the B2C segment.

We have also announced last year that we are entering into the railway segment with the manufacturing of catenary wire. So this revenue will start contributing from the next financial year. So our growth from Indian operation as well as overseas operation I think will be equivalent.

Ashutosh Garud: And what is your view on because the segments which we plan to get into and the ones which we are already in these would be very competitive I understand so what is your view, I mean still you are confident of the kind of growth rate you are seeing?

Ajay Mahajan: So Manish first will explain what kind of things that we look to differentiate ourselves.

Manish Bhatt: So I think for each of the business so for example B2B business is so all the B2B business which we are in, has a high entry, high exit kind of model. We being in already there and have the experience of the customer with us in terms of delivery, quality and our approach to help them in developing their new products, I think will take us through in the B2B market. In B2C market as you know we have just started two years back, we are trying to develop our USP. And one of the USP which we are trying to develop is our distribution network. And of course we have plans to further differentiate ourselves with the product offering and also the way we want to have the customer experience.

So given that our present focus this year will continue to be creating a strength on the distribution network. You are right that the competition is tough and the differentiation opportunities to that extent is getting diminished. But I think the market is also growing at very fast pace and there is place for all the players.

Moderator: Thank you. We take the next question from the line of Anita Gandhi from Arihant Capital. Please go ahead.

Anita Gandhi: Though I am not an industry expert and partially my question is answered, I just want to know the margins which our company is having is lesser as compared to the peer group companies like Finolex Cable, Sterlite Technologies. So just want to know your views on the same and with this kind of manufacturing set up overseas would we be having better margins going ahead and when will it happen?

Ajay Mahajan: Basically thanks for your appreciation about the result. We have already clarified that we have different segment and the operating margins for the different segments are different. Like in the telecom segment we have the margins ranging from 16% to 18% and with the introduction of this antenna business our margins will further improve. In automotive segment as Manish explained, we are a Tier-2 supplier we are giving our automotive cables and harness to a Tier-1



operator. And the margins for this segment is in the range of 8% to 9%. Power and energy cable the margins are the same in the range of 8% to 9%. In B2C segment yes, definitely our margins has improved a lot because our product like MCV and switches have started getting accepted in the market and the traction is good where as the margin for these products are more than the margins for the wires and cables. And the margin ranges from 15% to 16%. And our 30%, 35% of the business is coming from the copper conductor wire business.

Whereas we are manufacturing of cables, copper wires, bunch wires, enameled wires where the margins is in the range of 5% to 6%. So in a consolidated basis our margins in this quarter is around 9.5% and we believe that with the economy of scales and with the increase in the contribution of our products our margins will further improve. In this quarter our operating margin if I compare it with the Q1 of last financial year it has shown an improvement of almost 40 basis points. And we believe that this improvement in the margin for Indian operation will continue. And overseas operation as already explained to you that we are converting our trading operation into the manufacturing operation.

Till date we were doing the trading of copper products like copper rods and to some extent copper tubes. Now we are going to manufacture the copper rods, tube, bus bars, bus strips and wires where the margin for bus bar, bus strips and wires are much more than the copper rods and copper tubes. So we are expecting that from this manufacturing operation our margins will be in the range of 9% to 10% whereas in the trading operation we are getting the margin of 4% to 6%. So definitely in the international front our margin will also show the improvement in the coming period.

Anita Gandhi:

And sir, I would like to know the debt as on date in the balance sheet?

Ajay Mahajan:

Debt we can classify into two categories. One is the Indian operations and the other is the overseas operation. In Indian operations we have two kinds of debt one is the working capital debt and the second is the term loan, long term debt we can say. So in Indian operation we have a long term debt of almost Rs. 17 crores and if I look at the short term debt in the form of cash credit we have a debt of almost Rs. 212 crores whereas as on 31 March 2016 this debt was in the range of Rs. 195 crores.

And for the other thing is that the LC acceptance in my creditor around 80% of the debt is in the form of LC acceptance. So my creditor at present is around Rs. 540 crores, out of this 80% is the LC acceptance, whereas we have given the LC where the acceptance has happened either the material has come or material is yet to come. So this is about the Indian operation. In overseas operations, we have the short term debts of around including the LC acceptance around Rs. 240 crores. This is all about the debt.

Anita Gandhi:

And any further CAPEX plan?



Ajay Mahajan: The CAPEX I have already clarified that last year for Indian operation we have chalked out the CAPEX of Rs. 50 crores out of this Rs. 35 crores we will take the term loan from the banks. Partly we have taken in the last year partly we will take it this year. In the overseas operations we are setting up the manufacturing unit with an investment of \$150 million out of this \$100 million will be in the form of debts. We are tying up with the banks, we hope that by the end of September our financial closure will happen and the disbursement for the machines and everything will be there. So what we are doing in overseas operations we are reducing our debts and converting that debts into the manufacturing operations.

Moderator: Thank you. We take the next question from the line of Jagal Gandhi from Cipher Plexus Capital. Please go ahead.

Jagal Gandhi: My question was basically in the light of Bharat Net and the National Optic Fiber Network. In terms of the optic fiber the OFC cables and the FRP rods, what is your take on it and how much this should be related in that like how are you all focusing on that, is that your focus area and going forward what do you think about OFC and FRP and optic fiber network?

Ajay Mahajan: We are not present in optic fiber. We believe that there is enough capacity for the demand which exists is already there and we have presently this is not in our radar. We are looking more at now in terms of B2B growth in products which are technologically backed rather than getting into commodity item. So our focus is more on futuristic products which we are presently working on.

Moderator: Thank you so much. We take the next question from the line Veena Kambatte, who is an individual investor. Please go ahead.

Veena Kambatte: Sir, I want to know from your current category in the B2C products are you planning to diversify the product range apart from MCBs and the switch gears?

Ajay Mahajan: Yes, definitely. So once we have our network it makes sense to now introduce more products which goes through the same channel. Presently under consideration is LED which we are working. We are also looking at various organic as well as inorganic way to grow our product portfolio.

Veena Kambatte: Sir and what is the order book presently?

Ajay Mahajan: We continue to hold enough of orders to meet our 25% growth here.

Moderator: Thank you. That was the last question. I now hand the conference over to the management for their closing comments.



*Shilpi Cable Technologies Limited
August 19, 2016*

Ajay Mahajan:

Thank you very much for all the questions which you have raised. We believe that we have been able to answer to the extent we could. If anything you believe you can write to us and we will be more than happy to answer to you. Thank you very much for attending this conference.

Manish Bhatt:

Thank you.

Moderator:

Thank you. On behalf of Shilpi Cable Technologies Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.