"Paramount Communications Limited Q2 FY25 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to Paramount Communications Q2 FY25 Earnings Conference Call. As a reminder, all participant lines will be in listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Sanjeev Singh from Motilal Oswal Financial Services. Thank you and over to you, sir.

Sanjeev Singh: Thank you. Good afternoon, everyone, and thank you for joining the call. We have with us today Mr. Sanjay Aggarwal, Chairman and CEO of the company, Mr. S.K. Agarwal, CFO, and Mr. N.K. Gupta, President, Finance and Accounts. I will now transfer the call to Mr. Sanjay Aggarwal for his opening remarks. Over to you, sir.

Sanjay Aggarwal: Thank you very much, Sanjeev, and good afternoon, everyone. I am Sanjay Aggarwal, Chairman and CEO, Paramount Communications Limited. I welcome you all to this Earnings call.

Let me start with a small background of the company. Paramount Cables, established in 1955, has a complete range of products for every segment of the market, power cables, telecom optical fiber cables, railway signaling cables, house wires, special cables, etc. The company has two state-of-the-art manufacturing plants at Khushkhera in Rajasthan and Dharuhera in Haryana, with a strong in-house R&D team and focus on excellence in design and implementation.

Paramount was a profit-making and dividend-paying company till FY 2008. We were at that time substantially expanding our capacity. In August 2007, Paramount acquired the third-largest cables manufacturer in UK, established circa year 1837 with AEI Cables Limited.

Due to the 2008 global economic crisis, which, beside other issues, resulted in a major slowdown of the Indian and UK economies, meltdown in metal and commodity prices, as also a huge reduction in demand and product pricing. As a result, both the parent Paramount India and the UK acquisition AEI Cables went into losses. Ultimately, after six and a half years of ownership, Paramount exited the UK entity in 2014.

The company suffered a long period of financial stress from FY09 right up to FY18, during which, in the absence of bank funding, the only fresh funding available to offset the losses was the equity injections by the promoters over these years. With the support of additional equity put in by the promoters, Paramount has seen exceptional growth, with revenues nearly doubling from INR316 crores in FY17 to more than INR614 crores in FY19, with a pack of INR29 crores. So this means that actually we had a difficult period of roughly 10 years, but then we were able to double our turnover with the resources put in by the promoters.

The total equity infused by promoters since the year 2010, when the company started facing financial stress, is INR128 crores, which includes INR45 crores infused during the last two years. The company has achieved revenues of INR813 crores and INR1,079 crores respectively, with EBITDA of 7.9% and 9%, with a PAT of INR48 crores and INR85.6 crores during FY23 and FY24 respectively. There is a robust potential for growth as the industry is growing at around 14% in India.

Being a very old and established player in the wires and cables industry, Paramount has had the opportunity to grow strongly in all segments with power, railways, telecom, exports, house wiring etc. Paramount has exported cables to more than 25 countries across Europe, Africa, Australia, Asia and the Americas. Paramount has established a strong presence in the US market after an extensive approval process lasting over 5 years.

We achieved US exports of INR400 crores in FY23 and INR271 crores in FY24, which shows the strength of Paramount product in this vital export market. Paramount raised approximately INR274 crores during the past two years from investors by way of fresh equity. In August 24, we prepaid all our dues to the ARC, the Asset Reconstruction Company and since then we have become a debt-free company.

We are now very well placed to regain our earlier prime position in the Indian cables industry. Paramount is now expected to grow its top line with a CAGR of minimum 25%-30% over the next 5 years with its exports mainly through our distribution network in the US accounting for around 40% of the total revenue. Coming now to a summary of the results for the quarter and the first half of the financial year for the company, I am happy to share that Paramount has achieved its highest ever quarterly and half yearly revenues and profits this year.

For Q2, the revenue from operations is INR356 crores as against INR252 crores in Q2 of the last year, showing a growth of 41%. Our EBITDA is INR33.6 crores with a margin of 9.38% as against INR23.2 crores with a margin of 9.13% in the same quarter of the previous year, with the growth in the absolute amount of EBITDA being 44.7%. The profit after tax for this quarter is INR20.3 crores as against INR19.5 crores in the same quarter of the previous year.

So the growth in PAT is 4.3%. The PAT margin is 5.7% for this quarter versus 7.7% in the previous year. This reduction in PAT margin and the slower growth in the PAT amount have both a reflection of the tax implication coming into our equations for the first time in Q2 of FY25. Prior to that, we were having substantial accumulated losses due to which the company was not paying any tax. Now, once we absorb this change in our tax status, in the future, you will see that we will continue on a more or less similar path, except for this taxable amount having kicked in now.

The domestic sales of wires and cables is INR254 crores against INR184 crores in the previous year quarter, with a growth of 38%. In the domestic cable sales, power cable sales are INR178 crores against INR98 crores for the previous year with a growth of 81%. By the way, the power cable sales have constituted roughly 50% of the total cable sales for the company in this quarter, as against 39% of the previous year quarter.

Other domestic sales comprised railway cable sales of INR37 crores, house wire sales of INR22 crores, telecom cable sales of INR8 crores and other sales of INR9 crores. Export sales in Q2 have been INR102 crores as against INR69 crores last year, showing a growth of 49%. Export sales constituted 29% of our total sales in this quarter versus 27% in the previous year's same quarter.

Now, we will come to the summary of the first half, that means April to September 24. The revenues from operations in H1 in this financial year are INR677 crores as against INR463 crores last year. The growth in revenue amounts to 46%.

EBITDA is INR63.5 crores as against INR41.7 crores in the previous year, the growth being 52%. EBITDA margin is 9.31% for this current H1 as against 8.94% the previous year. Profit after tax in H1 is INR45.6 crores as against INR34 crores in the previous year. The growth in PAT is therefore 34%. The PAT margin in 6 months is 6.7% versus 7.3% again as I mentioned earlier because of the first time that the tax implications have come into our workings. Domestic sale of wires and cables in H1 FY25 is INR487 crores as against INR311 crores in the previous year, showing a growth of 57%.

In domestic cable sales, power cable sales is INR298 crores as against INR171 crores in the previous year, showing a growth of 75%. Power cable sales constituted 44% of the total H1 sales as against 37% of the previous half year. Other domestic sales comprised of railway cables having a sale of INR101 crores, house wires sale of INR41 crores, telecom cable sales of INR22 crores and other sales of INR25 crores.

Out of the total domestic sales, the total sales through our distribution network domestically was INR56 crores in the H1. Export sales in H1 is INR190 crores as against INR152 crores last year, showing a growth of 25%. Export sales constituted 28% of our total sales in H1 versus 33% in the previous half year.

All our export sales to US were through our established distributor network spread across US. I must say that H1 last year was more or less a continuation of the previous year FY '23 in terms of market demand. It gradually came down and H2 last year was very difficult in terms of exports.

So therefore, we are finding a small percentage reduction at least in our export sales versus total sales, although the absolute number of exports has gone up from INR152 crores to INR190 crores in H1. The total sale of the company through its distribution network which includes domestic and US market has therefore contributed 36% in H1 as against 39% in the previous year's sale period. The company prefers to measure its production capacity in terms of metals consumed, that is copper and aluminium tonnage consumed.

The company consumed a total of 10,757 tons of metal in this H1 FY '25 as against 7,035 metric ton for the last year, showing a growth of 53%. So I would like to stress here that this is in real terms the volume growth that we can say the company has achieved in H1 which is 53% over the previous year in terms of metal consumed because raw material prices can go up and down but ultimately the metal that we process is a measure of the machine capacity and utilization.

The pending order as on 1st of October 2014 was INR619 crores out of which domestic cable orders was INR427 crores and the export orders were INR192 crores pending. As mentioned earlier, Paramount is a debt-free company as on 30th of September '24. There is some very small loans of INR15 crores odd against surrender value of certain insurance policies and certain vehicle loans etc. which therefore result in showing a debt equity ratio of 0.02 that appears still

on our financial numbers. The company has incurred a capital expenditure payment of INR62 crores in FY24 and INR27 crores in H1 of FY25.

With this I think we have given you a fair bit of idea about the performance of the company in the second quarter and the first half of FY '25 and I think we will now throw the floor open and we will be very happy to answer any queries, any questions that any of the attendees might have. Thank you so much.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Natasha Jain from Nirmal Bang. Please go ahead.

Natasha Jain: Hi. Thank you for the opportunity. While the introduction was quite detailed, sir, I just want you to throw a little more detailed colour in terms of numbers. So when I see from FY '11 to FY '18 onwards, your numbers have been slightly inconsistent and the operating margins have been in the negative territory. So a little colour there would definitely help. That's my first question? Thank you.

Sanjay Aggarwal: Could you please mention the period in which you wanted me to clarify about?

Natasha Jain: So historically, basically from FY '11 to FY '18, that period.

Sanjay Aggarwal: FY '11 to FY '18, in fact, I myself mentioned. In fact, it's not only FY '11, I would rather say FY 2009, right up to FY 2018, the operating margins of the company were under stress, under a lot of difficulty. The process started with the meltdown, the global meltdown which happened in September 2008, exactly one year after we had made our acquisition in UK.

This was the AEI cables which we acquired in UK, as I mentioned. And the company, of course, we had made a comparatively larger acquisition because AEI cables in terms of revenues was about nearly equal to the revenues of Paramount. We had revenues of roughly INR450 crores at that time and AEI cables was of a similar size.

So when we acquired it, it was with a view that Paramount is increasing its capacity and we wanted to have a large chunk of our capacity utilized towards exports across the world. And the sort of entry barriers that we would face in trying to get large orders from prestigious customers, mainly comprised of your track record and your performance, which was totally answered by our having acquired AEI cables. So in fact, in the first year of our acquisition, we did benefit to quite an extent by having acquired AEI cables where we got some very good export orders.

Once this meltdown happened in 2008, both AEI cables went into losses and Paramount went into losses and slowly, slowly, although the balance sheet of the company used to be very strong at that time, but over a period when the companies both were incurring losses and Paramount was having to support the 100% subsidiary in UK, by two, 2.5 years, in any case, even financial stress in terms of liquidity stress started happening.

So these 10 years during which we, the company had a -- you know, we went into corporate debt restructuring at one point, that debt restructuring again put in lots of restrictions on the working of the company, we had to dispose of our Greenfield project which was under construction at

that time at some very low values and all. And of course, the continuing losses in UK, the losses in UK were exacerbated by the fact that the market demand having gone down, it was a very high expense operation.

The salaries in UK were very high and we had more than 300 employees there. So when we disturbed -- when the whole equation gets disturbed and there is no liquidity coming into the company from any quarter except for the promoters, so we did keep on adding whatever we could and that is what kept the company afloat. But ultimately, by '20 -- till 2018, we did end up having almost constant or reducing turnovers and which, of course, clearly meant losses also.

It's only after 2017-2018 that we gathered up a lot of whatever liquidity, whatever resources the promoters could manage as a family. We put in that money into the company, we put in around INR58 crores in that period and then we were able to pull up the company by the socks and, you know, bring it from INR314 crores or INR317 crores in 2017 to INR600 crores, INR620 crores odd with a profit after tax 5% PAT in FY19.

So after FY19, the company has been a profit-making company. So and we have, after that the only difficulty we faced was that in the absence of any funding or outside funding or banking, we were constrained in our growth. And that also barrier was surmounted during the last two years when we started getting some investments into the company. And now we are a debt-free company and we have grown 30%, 37% in FY23.

And 35% in FY24. So 37% and 35% growth in two consecutive years and our balance sheet is now looking pretty good and pretty strong. And we now are, therefore -- we feel that we are in a strong position now to regain the position among the top cable manufacturers in the country because the market still recognizes the quality, the product that Paramount has, the track record that Paramount has.

And even during the worst of times, Paramount never allowed its reputation in terms of either product quality or in terms of our commitment to our contracts to suffer.

Natasha Jain: Understood, sir. So that was helpful and quite detailed. My second question is in terms of your working capital days. Now, that is about close to 130 days as in FY24. Just wondering why is it higher compared to peers where the average is approximately 65 days?

Sanjay Aggarwal: You see, peers, I think there is a variety of peers having variety of working capital cycles but the peers that we usually do end up being compared to are the market leaders who luckily because of their strength over the years. And their -- also combined with the large -- large distribution network sales which they are doing through channel financing that in most cases that receivables do not appear on their balance sheets at all because of the channel financing.

We have a domestic B2C market or distributor channel market or sales which is much smaller. We have done roughly INR56 crores in this H1 in terms of B2C which is house wires and, which is house wires and telecom optical fiber cables which we sell through our distributor channel. So these don't really substantially -- in any case that even that channel financing even for that INR56 crores is currently at least not available to us.

This will come as the company regains some more heft and more strength on the balance sheet side. And the channel financing partners start coming in to the company. So currently we are seeing a balance sheet in which the receivables are comparable to those who do not have any distributor market sales, right, distribution network sales. So if you look at that then the numbers look comparable.

But then at the same time our exports which are through distributor network and in which we can -- if we wish, we can wish, we can get some factoring done, that can also help us. But one interesting number that I would like to share with you in terms of our working capital days, is that even now our H1 working capital days have come down to 100, just let me put out my notes.

So our working capital has come down from 137 days for 31st March 24 to 109 days in -- for H1, right. So we are continuously working on reducing the working capital cycle but it is also a fact that we have been comparatively comfortable in terms of liquidity during the past one year or so because of the fundraise that we did and it always takes a bit of time for the funds to be getting absorbed into the other uses that really help.

So practically we could, we will be fighting a battle again overall on a continuing basis to reduce our working capital days, but again I would say those who have a distribution network combined with long track record slash strong balance sheet have the automatic advantage of being able to get channel financing which reduces their receivables very, very substantially.

Natasha Jain: Thank you so much. That's all from me end.

Moderator: Thank you. The next question is from the line of Praveen Sahay from Prabhudas Lilladher Capital. Please go ahead.

Praveen Sahay: Thank you for the opportunity. Sir, in your revenue growth of 41% in the top line for Q2 and 46% for the first half, if you can give some color on how much is volume growth?

Sanjay Aggarwal: Okay. So volume growth, I think that's a very, very -- I would say welcome question from my side because volume is something which really tells you about how a plant has operated, how the machines have been sweated. So we usually look at volumes in terms of the metal consumption and this is what I mentioned when I was giving you my introduction also.

So coming to the metal consumption, we have consumed 10,757 tons of copper and aluminium combined showing a growth of 53% over the previous years. That was the consumption was 7035 tons. So this is the real point that even when I say that my revenues have gone up by 40%, my actual capacity utilization or my consumption has gone up by 53%.

Praveen Sahay: Okay. So related to this -- a lot of companies also have reported so far the numbers and with the fluctuation in the RM prices, copper and aluminium, we have seen there is a contraction in the gross margin for them, whereas I can see in your numbers, there is a sequential improvement in the gross margin for you. So is that any product mix change or because of a higher inventory is that the number is looking?

Sanjay Aggarwal: See, the reason is that these companies which have shown a reduction in their margins have very, very substantial exposure to the distribution network. In which case, on one hand they have a control over the price but on the other hand, they also tend to -- be in a position where they have to absorb losses also when there is unnatural increase or sudden jerks in the metal prices and this is exactly what has happened.

As I told you, our total distribution network sales are just INR56 crores out of INR600 crores and therefore, maybe we are not subject to this reduction. As our house wire sales in India also go up, go to the next level and maybe we have some more of optical fibre sales in which, of course, there is no metal but there could be variation in the optical fibre prices.

In both these cases, yes, we would have a similar position but not as of now, because the numbers here are very small. The U.S. exports is also through distributor network but the U.S. exports, we are not, all our pricing is done on the firm price basis that once we price an order, then we don't change the pricing and the pricing, the delivery is normally not more than 4 months and at the same time, we are always booking our metal practically on the next working day of finalizing the order with our distributors there in U.S.

So in some ways, of course, one has to try and do better things more efficiently and one might claim better operational efficiency but I think these are temporary things. Sometimes I might do something better, sometimes the other person might do something better, but I think we all try to do whatever best we can in this circumstance, right?

Praveen Sahay: Okay, got it. Next question is related to the capacity. At the current capacity, how much is the revenue potential you have and also in a Press Release, you had mentioned that the INR52 crores, INR53 crores of investment you had done and increased around 33,000 metric ton annually. So how much is the percentage increase in your capacity with this and if you can give the, colour on post this expansion, how much potential of a revenue you have?

Sanjay Aggarwal: You see, first let me talk about revenue. The existing two plants of our company in which we are now spending, doing a lot of brownfield capex to ensure that we can optimize the capacities of both these two plants. Last year we have spent more than INR60 crores into capex and this years, we have already spent, I think INR27 crores in H1 and something similar or maybe more will be spent in H2 also.

So what we are trying to do is optimize, maximize, de-bottleneck and balance our plants in whatever way possible to extract every possible increase in revenues that we can from these two plants. That is the first intention. So in terms of tonnage, we are looking at roughly 33,000 tons of metal processing capacity, by FY '26 and this should mean revenues of roughly INR1,800 crores.

Now, INR1,800 crores will also be in line with our stated aim of having a 30% CAGR, over the next over 4 or 5 years starting FY '23. So FY23 has done its bit, FY26, FY24 has done its bit. We are quite online this year also. Our H1 numbers show that we should be very much online to show our 25%-30% growth and for us to achieve a similar 25%-30% growth in FY26, we should be looking at a number of around INR1,800 crores. But that is a very rough estimation.

Of course, these things one is not committing to at this point, but we do commit ourselves to a growth of 25%-30% CAGR basis and therefore those are the numbers which we should achieve hopefully.

Praveen Sahay: Lastly, sir, on the order book which you had mentioned around INR619 crores out of which you have INR192 crores of export order. So what is the timeline for these orders?

Sanjay Aggarwal: Typically, we do not encourage order book more than 4 months in our company. From our experience on the way the market has behaved over the past and we have suffered substantially in the meltdown that happened in the year 2008. Having learnt our lessons from that, we do not try to have any long-term long delivery exposures on metals or commodities.

So therefore, we mainly encourage 4 months max of firm price orders. There is a substantial chunk of orders that we get on variable basis also in which since there is no exposure to metal price from our side, we do not have any value limit as such on the orders that we book. So a variable price order can go up to 2 years.

Why should it matter to me? Because if metal goes down, it goes down, it goes up, it goes up. But as far as firm prices are concerned, we try and restrict ourselves to a total of 4 months delivery.

Praveen Sahay: And this 619 is for a 4-month delivery order?

Sanjay Aggarwal: Mostly. In some cases, we cannot have an absolutely firm unviable rule. In some cases, if there is some resistance by a customer, you do relax it a bit. But as a rule, we do not wish to have long delivery orders on a firm price basis. Because if I accept, let us say, an 8-month delivery order, and today I book my metal, and just the same as it happened in 2008, the metal crashes by that time, there will be no customer left to lift that material, and I will be left holding the expensive material. So we do not want to do that.

Praveen Sahay: And one clarification, sir, because this quarter, we have seen a power cable contribution has increased to around 50%. But over the years, you expect to be in the range of 40%-45% only?

Sanjay Aggarwal: Sir, these are only expectations. But we are ultimately there in the market, and we are calibrating on a daily basis. We are calibrating, we are recalibrating. Whatever business is coming our way, we have to look at the contributions in terms of margins available on an individual product line. We have to look at the volumes available. So these are rough estimates.

And tomorrow, we could have a large opportunity coming out of railways, for example, and we might be looking at having to reduce, if not in absolute rupees terms, but at least in percentage terms, the power factor in railways could go up. So we are there across three sectors, you see. Telecom is not a very large segment for us.

But over the years, after every 3-4 years, there comes a year in which there is a huge demand for optical fiber cable. And then we do it, and then for that year, the percentage goes up for optical fiber cable. So like BharatNet is coming up next year.

And BharatNet, once it comes, okay, fine. So again, we are there. We have given our authorizations to a lot of bidders and all. Once the requirement comes, there is a bulk demand, yes, we'll be interested. So percentages in terms of product mix excite us less. What excites us, end of the day, is what is our growth, what is our margins.

Praveen Sahay: Right, right. Correct, sir. Got it. And thank you for taking my question. All the best.

Moderator: Thank you. The next question is from the line of Rakesh Pal from Peace Wealth Capital Limited. Please go ahead.

Rakesh Pal: Yes, thank you. Thank you, sir, for taking my question. Sir, my first question is, are we seeing any effect of sectoral tailwind in railway transmission and distribution and telecommunication for our products as we have significant portion of revenue coming from power cable and railway cable and telecommunication cables? That's my first question.

Sanjay Aggarwal: You see, power cable has got currently the strongest tailwinds, number one. The reason is that there is so much activity happening in the country. Our GDP is growing at roughly 7% compared to, you know, much lower GDP rates.

I think it's some 4 point something for China and all. The, you know, when the GDP growth is happening, what it actually means is there's a lot of infrastructure spend also happening alongside. And that infrastructure spend is being, you know, done both by the government and by the private sector.

Private sector had been hesitant to put in capex still two, three years back. Now, that full flow of private capex is also coming into play. And when all these things, and when all these things happen, you know, we have to appreciate that wires and cables typically constitute at least one and one to one to two percent, depending on the type of product or project of any capex.

Right down to even a roads project like NHAI road even needs cables because they want to lay their cables alongside when they're building a highway. So the energy sector, which is becoming huge day by day, the renewable sector, the renewable energy, especially the solar energy companies have become our very large customers in the past two years. We are already there in distribution and transmission.

So everywhere, any, let's say there's a steel plant coming up or a steel, you know, any large plant, any large capex happening, everywhere they still need cables. Metros are being constructed all over the country. Whenever you do metros, again, you need cables.

So all this demand for cables is, even if a percentage of the infrastructure spend, but it is all piling up into a pretty big number. So because what you, what we call a power cable is not just for power sector, it's anything, anywhere where you need a power cable to be installed. So even in the railways, where I, for example, I mentioned metro, but even why metro, any other railway network, if I supply a power cable, I call it a power cable. I don't call it a railway cable.

What I call a railway cable is a very limited, you know, definition of, which covers the signaling cables and the axle counter cables that railways uses for its signaling network, right? So power

cable, by definition, has to be the largest chunk of any cable company, except for those who, by choice, do not want to do anything except telecom cables.

So like, there's one particular company which does 100% optical fiber cable only. So then, other than that, or there are one or two other companies that I know of, one or two or three, maybe. But, other than that, people will be doing power cables, will be doing optical fiber cables, and those who are not having, you know, who are having power in other items in their range, usually find the telecom business a bit chunky, that some years there's demand, some years there's not, right?

Rakesh Pal: Okay, sir. My next question is, sir, this quarter, we have paid taxes. So in spite of our revenue going up, the profit before tax going up, our PAT has not seen any growth uptake Q-o-Q as well as year-on-year. So how long do you think it will take us to continue -- how long it will take to see PAT level growth? So how long it will take, that's my second question.

Sanjay Aggarwal: I think to my guess is that for the next two quarters, we will see a similar position, because every quarter will be compared with the previous year's quarter in which there is zero tax, and now we'll be paying tax in these quarters. So once this financial year is over, after that, the numbers will be compared to the tax paid year, right? So at maximum, we can look at three quarters, because the quarter Q1 of next year -- because Q1 of this year has been tax-free.

So Q1 of next year will be also facing the comparison with this year's Q1, right? So one is looking at three quarters, where the PAT growth will be less. And once that is over, then you see it in the same fashion. The basic point is that every -- when your revenue goes up by X, your EBITDA goes up by X plus something, and your PAT goes up by X plus plus something.

Rakesh Pal: Yes, right, understood, sir. My last question is, in US, what sectors do we cater?

Sanjay Aggarwal: In the US, we are very much comparable to the B2C businesses that you hear of in India, that, that go through the distributor networks, or whatever one wishes to call them. Point is, the product in the US is being sold on the strength of, through a distributor network. The distributor network is buying cables from us, independent distributors who are all coast-to-coast distributors, mostly.

My product is being sold across -- it's not that big numbers, if you honestly ask me. This year, we are looking at something like INR500 crores of exports to the US, but even with INR500 crores, we are practically covering every nook and corner of US. Our cables are going to every port in the US, and there is a quality appreciation and acceptance of the quality of Paramount, which has put us in a very strong position.

The same country which was not interested in importing anything from India till FY '19, we made our first breakthrough in FY '20, and today, of course, we have to appreciate that the factor in play here is China Plus One, because a lot of these cables, what we are supplying, were being imported from China earlier, and then the customs duties were imposed, so the American buyers started looking at other sources.

Now, we are not the only source. There are many other countries. We are competing with Vietnam. We are competing with Cambodia. We are competing with South Korea. We are competing with Mexico, and China still remains in place somehow for some of the items. So the point is that these are the customers who ultimately are going to buy the product that they want, because these are all customers who are educated customers, these are all electrical contractors, who prefer a product, and then they ask for it.

And when they ask for the product, then the distribution network gears up. I had only two distributors for selling into the US in 2020. Today, I have got eight. So while I was earlier pushing my product into the US, today there is a pull, because individual distributors approach us, because it is their supply network, their supply chain, which is asking for the product.

Rakesh Pal: Okay, sir. Got it. That's all from my side, sir.

Sanjay Aggarwal: And by the way, let me just add that US market is many, many times the size of Indian market. The current estimate is roughly $47 billion of market is there in the US. And 30 billion is their imports, they make their own 30 billion, 60 out of which something like 12 they export, so roughly 47, 48 is their net consumption in US.

And if one is able to be a part of that market, where one is having the luxury of an established respected quality name, then we can keep on increasing A, our volume; B, our product range. And all of them, when we do both of these things together, we have got a pretty, pretty huge market to cater to. So I think that is something that we are very, very happy to have uncovered in the last four years.

Moderator: Thank you. The next question is from the line of Sanjana Mittal from RatnaTraya Capital. Please go ahead.

Sanjana Mittal: Hi. Thank you for the opportunity. I have a couple of questions. So one is on the power cable business. In 2023, if I look at the power cable segmental revenue, so it degrew by roughly around 20%. So can you throw some light on that? Like, what was the reason for that?

Sanjay Aggarwal: FY '23, the reason was that we focused our total energies on the US market. It was the opportunity which we could not have compromised on. The US market was demanding product day and night. And we did not want to reduce our supplies to the US market to buy even 1% because this was the relationship that we were wanting to build and the product presence that we were wanting to have in the US. And therefore, we had to cut down on our domestic sales for that year. But the interesting part is, in FY '23, out of INR400 crores, of course, INR399 crores of our exports was to the US.

Only INR1 crore we did to other countries. Till '22, if I recall correctly, we had done INR132 crores of exports, out of which INR32 crores was to UK and other countries and INR100 crores was to US. So why we have to strategically focus every time that we have an opportunity on the market and see where we have the maximum long-term gains coming for the company.

Now, coming to the next year, FY '24, the export value to US shrunk by 30% from INR400 crores to INR276 crores. Although the volume shrunk only 4%, the US exports, we had done

500 containers in FY '23 and 483 containers in FY24. Only 4% reduction, but the value reduction was so steep because of A, the reduction in measured prices and B, the huge reduction in freight to the US, which came down from 16 lakhs a container to 4 lakhs a container.

Now, even if my US revenues went down from INR400 crores to INR276, my revenue overall went up from INR800 crores to INR1,076 crores. So which means my domestic sales increased from INR400 crores doubled to INR800 crores. So this is only because Paramount has a presence which is much bigger in the market compared to our current size in terms of capacity or sales.

The name, the presence, the track record in the domestic market especially has been there for so long, for so many decades that we can sell what we want. The problem is we have to produce and you have to get the orders at the right margin.

Sanjana Mittal: Understood. And so, what you're saying is that in '23, we had sort of a capacity constraint that we could not cater to both the markets with the capacity that we had and that's why we chose to focus on the export side and then eventually invest in building the capex. Is that correct?

Sanjay Aggarwal: Absolutely. You're absolutely right.

Sanjana Mittal: Okay, got it. One more question I had, like two more if the time allows. Yes, if I look historically, like you mentioned, we have gone through a little bit of a troublesome phase, but I'm just looking at the standalone numbers from 2013 to 2018.

What I want to understand is what are we changing since, what has changed in our strategy internally since then? What was it entirely like an external environment situation which was causing a degrowth in the overall top line? Or was it also internally, were we losing like, you know, wallet share from our clients? And from there on, like, what has changed, like, which has brought such significant improvement in our growth trajectory? Yes.

Sanjay Aggarwal: You see, the problem, unfortunately, that the company suffered was not a little bit, although one would have loved it to have been a little or a small or a minor problem, but it was huge in the sense that once a company gets into a vicious circle of losses and thereafter the financial institutions, you know, pulling back and the sort of restrictions that keep happening and with the total lack of support from any financial institution or from the market, that becomes a problem.

The company was surviving through these 10 years practically on a starvation diet. And what is a starvation diet? We were starved of funds. So whatever little working capital we had, we had to, we were still always invited to negotiate, whether it was telecom, power, railways, anywhere, we were there on the table to talk and discuss the business. We would be only doing cherry picking. We would be looking at the product slash customer with the best margin, with the fastest payment, with the lowest bank guarantee requirement.

All those were our constraints and we just kept on surviving through that period because our expenses never went down. We, our revenues went down, our expenses could not have gone down in the same proportion. We were trying to reduce, but we could not have reduced beyond a point because that would have meant totally destroying our capability or capacity.

So beyond a point, if you are not able to get your sales rolling in and that is not happening because you don't have the working capital. So it was, that's why I said a vicious circle. Once we were -- our debts were practically, I would say, fixed into a fixed amount with the amount being settled to the asset reconstruction company, to the ARC. We, for the first time, had a clear visibility that, okay, this is the amount I am required to pay.

Before that, the banks were simply adding any number of charges or which would be to our interest -- which we could never challenge or even ask. We simply ended up adding it to our balance sheet. So that was not taking us anywhere. Once we had a settlement that, okay, this is the amount you have to pay, then we gathered up all the, all possible money as promoters we could from all our resources.

Put it into the company, right down to our personal, very important liquid assets. And put that money into the company and that is the time we were really able to actually get out of the vicious circle. After having put in that INR58 crores, we were able to make that INR619 crores of revenues and INR30 crores of PAT for the first time after 10 years of losses. So we were -- all these years, only doing cherry-picking because somebody is going to pay me after three months.

I can't afford. Somebody is giving me a lower margin but larger volumes, I can't afford because I don't have the working capital. All those things we would manage, still try and get some minimum survival starvation diet, as you say, and we survived. But once the company got into a position to get out of this vicious circle and that was in FY19, we were doing pretty well.

After that, the only constraint that we as a company had was that there -- sourcing or sources of funding for the company available and therefore, again, our revenues started stagnating at around INR619 crores, INR620-odd crores. So we were at no point not able to produce. If we were not able to produce, it was only because of lack of working capital. And now, for the last two years, the pressure is that we have to produce actually what business we are getting.

So maybe the product mix that I was making in FY19, if I was making the same product mix, I could have some larger capacity. But my product mix has also changed dramatically and therefore, now my constraint for the last two years, FY23, FY24, even today, is how much I can produce because now I have the working capital. My constraint today is how much machinery I can change, de-bottleneck, balance, do things to maximize my production out of these two plants.

Shrinjana Mittal: Understood. Thank you very much. That's all from my side. Thank you for taking the call.

Moderator: Thank you. The next question is from the line of Hardik Gandhi from HPMG Shares and Securities Private Limited. Please go ahead.

Hardik Gandhi: Sir, congratulations on a good set of numbers and a great turnaround story happening for you guys. So just wanted to know a few things that first that the promoter stake has gone down below 50%. So are there any intentions in the future to gain back at least the 50% stake?

Sanjay Aggarwal: I would love to have my stake go up to 50% plus. I don't think currently I see any of the promoter family having the resources to try and increase our stake. In fact, we have learned our lesson that

it's better to have a smaller chunk of a much larger cake rather than all of a very small cake. And that cake, when it is too small, it starts shrinking. And that's what happened to us. You know, that was not because of our willingness to dilute or not.

But the problem was that, yes, unless you have a certain size in today's day and age, a company must have a muscle, must have a size, must have the strength to be there in the marketplace. If you look at the way the market is there, not only in the cable industry, but probably all across. EBITDA margins, for example -- are maybe practically a function of your revenues.

If A, has got 100 and B, has got 200, maybe B will be at least 2%-3% higher EBITDA than A. Right now, currently, we are, we have, I would say very comfortable EBITDA. In fact, if you simply do the equation of EBITDA percentages versus revenues in the most players, then maybe we are a bit better off.

But as we start looking for larger and larger shares of the market, maybe we'll also have to make some compromises on the percentage of margins. So end of the day, the way our EBITDA margins have grown in the last three years, probably it may not grow in that speed. But absolute numbers will grow at a much higher speed.

And the percentage growth in the absolute numbers also would be very good, but not in terms of EBITDA as such. Right?

Hardik Gandhi: Understood. Definitely, sir. So going forward, at what level can we expect a Greenfield or an acquisition? Like, I do understand you've already mentioned that unless and until we are touching INR1,800 crores top line, that will all be provided by the internal efficiency and you're trying to get internal efficiency up to the max level. So, at what level can we expect that, this is the time that the company will be looking for expansion?

Sanjay Aggarwal: You see, the 25% to 30% CAGR that we had mentioned is meant not only for the next two years, which is FY'26, we hope it will be for at least five years, which is FY'29.

Hardik Gandhi: Fingers crossed. Yes, sir.

Sanjay Aggarwal: Right. Fingers crossed is absolutely the term because the people who have in any case have seen such difficult times know much better than others to cross their fingers well in advance. Right?

Hardik Gandhi: Yes, sir.

Sanjay Aggarwal: So considering that, you see, our existing two plants can at max do INR1,800 crores, but give or take a few numbers, but roughly INR1,800 crores is what after we are doing all our capex, we can achieve in the existing two plants. And thereafter, for the growth in the year after that, let's say FY'27, I would need at least INR600 crores-INR700 crores of growth, additional revenues to come in from a new plant. Now, whether that's a Greenfield facility, or I acquire some other existing facilities, something or the other has to be done. And we are very much working on that initially. Right now, we are thinking mainly on the lines of Greenfield.

Although if there is a good opportunity of an existing unit that would suit our requirements, that could also be done. So, that would happen. But we have to, because you see, to grow at this 35% CAGR, one would be looking at some much larger numbers. So, we would need to set up a new Greenfield facility with a capacity roughly equal to the existing two plants.

Hardik Gandhi: Understood. And just last question, if I could squeeze in, what are the challenges you are seeing right now in your industry? I heard that in the previous question, you mentioned that, the exports are suffering in a way because of the reduced price in the raw material, as well as reduced freight prices, right?

So although we have a volume growth, there is a reduction in the top line of the export. So, on similar lines, what are the key challenges we are seeing right now? Given the demand, there is a huge demand for power cables and cables in general, but what are the challenges you are seeing right now?

Sanjay Aggarwal: Let me just say that export is not suffering. It suffered last year in terms of value, although not in terms of volume. But this year, we expect to do at least INR500 crores in exports. We have sufficient order book and sufficient visibility for the current year. But, in terms of volume, again, it should be, if not double, maybe slightly less, but because there has been some increase in the metal prices. So, if I, let's say, if I double my value of exports, maybe the volume would be not double, there might be a bit lower.

So in terms, in export. So, these things, what we are very sure of is the current visibility that we have is, we should be crossing INR500 crores in exports to the US this year. So, exports is not suffering. In fact, this is our major, I would say, strategic market, which we intend to fully nurture in every way possible. We are going to work on increasing the volumes of the current product range. But at the same time, there are at least three other product ranges that we have got approvals already, which we are going to now launch.

And so, we are looking at not the typical 10%, 20%, 30% percent growth, which, if you look at the Paramount records, we, in no way that you find our percentages to be moving in the range of 10%, 20%, 30% anywhere. Like, to give you an example, our first export year to the US was FY'20, which was a million dollars, roughly INR7.5 crores. FY'21, again INR7.5 crores. And FY'22, it was straight away INR100 crores. So, what percentage would you say? 700%, 600%, right?

And then FY'24, this, sorry, FY'23, INR100 crores becomes INR400 crores. So, 400 %. FY'24, INR400 crores come down to INR276 crores, but this is not volume reduction, as I said, only value reduction, which is very surprising. Because anybody who exports anything to the US, and I think you are all professionals who have exposure to so many sectors, anybody exporting anything to the US suffered hugely in terms of volumes to the US for FY'24, because in FY'24 was a total destocking year for the US market.

They had bought like crazy in FY'23, and they were destocking by the same level of commitment, I would say, in FY'24. So these if despite that, I was able to maintain my volume, I was pretty happy. And in any case, I was not really that anxious for the volumes, because my

problem now for the last two years has been how much I can produce, not because I have the working capital. Previously also, my problem has become the first time how much I can produce only in the last two years. So, that was not the issue.

Hardik Gandhi: Understood sir. So, but any tariff, like, because going forward, seeing that, seeing the economic, political instability, and the elections looming in US, you expect any import duties on the cables?

Sanjay Aggarwal: Let me tell you, we are already disadvantaged when we export to the US. My competitor from South Korea gets zero duty, my competitor from Vietnam gets zero duty, my competitor even from Cambodia gets zero duty. And Mexico gets zero duty, I pay 5%. Right. So, probably if there is any sweeping change that happens in the custom duty rates, let's say 10% custom duty is imposed across the board, then I'll be happier because my competitor will also be paying 10%, right, and I'll be also paying 10%.

Hardik Gandhi: Definitely, definitely. Understood. That's it from my side, sir. All the best for the future. Thank you.

Sanjay Aggarwal: Thank you.

Moderator: As there are no further questions, on behalf of Motilal Oswal Financial Services, that concludes this conference. Thank you for joining us and you may now disconnect your lines.