

**Apar Industries Limited**  
**Q2FY16 Earnings Conference Call**  
**November 6, 2015**

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**Moderator:** Ladies and gentlemen, good day and welcome to the Apar Industries Limited Q2FY16 Earnings Conference Call hosted by Four-S Services. As a reminder, for the duration of this conference, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during the conference call, please signal an operator by pressing '\*' then '0' on your touchtone phone. Please note that this conference is being recorded. At this time I would like to hand the conference over to Ms. Nisha Kakran of Four-S Services. Thank you and over to you ma'am.

**Nisha Kakran:** Thank you. Good afternoon, everyone. On behalf of Four-S Services, I welcome all the participants to Apar Industries Q2FY16 Results Conference Call. Today, on the conference call, we have Mr. Kushal Desai – Managing Director; Mr. Chaitanya Desai – Managing Director; and Mr. V.C. Diwadkar – CFO, Apar Industries. I would like to thank the management for giving us an opportunity to host this conference call. I would now hand over the call to Mr. Desai. Over to you, sir.

**Kushal N. Desai:** Thank you, Nisha. Good afternoon, everyone, and a very warm welcome to Q2 FY16 Earnings Conference Call of Apar Industries.

I would like to actually take you through the key highlights of the quarter, then outline our growth strategies and discuss the financial results before opening up the floor for questions.

We are happy to see an improved traction in orders in the Power sector this quarter especially in the segments that we operate, which is the Transmission and Distribution side. As per the initial estimates for the first half of FY16, there have been several announcements of T&D order bookings, which are to the tune of approximately Rs. 11,200 crores, which have been given out, representing growth of about 30% over various tenders and orders that was there in the previous year. This positive increase in spending will definitely bear fruit in the next coming quarters for our businesses which are to some extent back loaded with respect to the capex spending.

The transmission side has been relatively weak link in the whole delivery mechanism of power and it continues to draw sharp attention from the government. The Power Minister Mr. Goyal recently announced that there will be at least \$12 to \$16 billion worth of transmission lines that are expected to be bid out in the next six months with the government looking at an investment of nearly \$50 billion in transmission lines in the next 5 years, also contracts worth

about Rs. 38,000 crores have been sanctioned through the competitive bidding process for green corridor to strengthen the grid system including in the renewable energy sector.

Also, we feel very encouraged by the announcement made this morning, for the proposed restructuring of the Distribution sector. This will form a major boost of investment in the entire sector not just in distribution, given the fact that certain amount of investments have been deferred or delayed due to concerns of recovery from the Distribution sector. This seems like the most comprehensive package that has been announced so far, and if successful it should be really a game-changer for the industry. In our case, our Conductors, Cables and Transformer Oils business which form the bulk of our revenues will all be very positively impacted from these changes. So in line with this increased activity, we have already started seeing an improvement in our Conductors and Cables business, where there has been volume growth in this quarter over the same period previous year. This has actually provided buffer against the lower prices of crude, which have resulted in reduced revenue from our Specialty Oils segment. We have also seen improvement in margins as a result of some of the strategic initiatives that we have taken, especially with respect to the new generation, high temperature conductors and some of the higher margin products that we have across the segments, I should be discussing that in a little bit more detail in each of the individual segments.

Coming to the overall financial highlights for the quarter, we have posted consolidated revenues of Rs. 1,266 crores, which is marginally lower than the second quarter of FY15; EBITDA for the quarter increased by 12% to reach Rs. 92 crores from Rs. 81 crores taking the EBITDA margin to 7.2%. This was largely led by the improvement in profitability in our Specialty Oils business as well as the Cables business. Margin expansion has been driven not only by better cost management but also by improved plant capacity utilization and increased contribution from some of the higher value added products in all the three business segments. Profit after tax has come in at Rs. 26 crores for the quarter as compared to Rs. 19 crores a year ago.

So if you look at the six months FY16 consolidated revenue which has increased by 4% compared to the previous year; the EBITA has increased by 25% from Rs. 150 crores to Rs. 188 crores and the profit after tax has increased by 55% from Rs. 36 crores to Rs. 56 crores for the six months period.

Now coming to each of the business segments, I would like to discuss the Conductors segment first. In our Conductors business we have posted revenue growth of 16% year on year, up from Rs. 564 crores to Rs. 654 crores; exports contributed about 54% of sales in the segment. EBITDA per MT post forex adjustments came in at Rs. 6,316 which is lower than Rs. 10,075 that was a year ago. This is largely due to some of our legacy orders which are now getting executed and should really come largely to an end in the third quarter of this year. We expect profitability to improve in the coming quarters as some of the new orders which have been

booked at a better price and margins start getting executed from Q3 onwards. You will see a larger impact from Q4 onwards where percentage of these orders would be more significant.

During the quarter, we also received our biggest ACCC order from UPPTCL, which is a High Temperature Conductor and the biggest order of AL59 from GETCO. In both cases these orders are in excess of Rs. 50 crores. We have also received an order for GAP Conductors which is another type of High Temperature Conductor from GETCO. So we are seeing clearly that the off take of these High Temperature Conductors is now gradually showing an increasing uptrend in all parameters like with respect to the volume of orders, the number of clients adopting these technologies, the variety of the high temperature conductors being deployed as well as the repeat orders that are coming in are of progressively larger size. So we find all these are positive signs for the business.

Conductors six months revenues stand at Rs. 1,294 crores which is 31% higher than the same period previous year. The six months EBITDA per MT post forex adjustments came in at Rs. 6,541. The segment's order book is at Rs. 1,602 crores as on September 30, 2015 compared to Rs. 1,794 crores as on June 30, 2015. However, we are seeing a much more rapid execution of the supply cycle happening, as a consequence we feel that the order book is actually quite adequate because from the time the order is placed to delivery, the cycle times have shrunk considerably. Export orders contributed about 46% of this order book of Rs. 1,602 crores. The Conductors capacity utilization has been maintained at approximately 100% for the fourth consecutive quarter. Work on our new plant at Jharsuguda is in full swing and we expect production to commence from that plant sometime in September, October of FY17.

Coming to our Transformer and Specialty Oils business, we have posted revenue of about Rs. 471 crores, which is down by 21% compared to the previous year and this is largely due to the price of products. The volume growth is 2% above the same period previous year. There are early signs of demand improving for products across the board, for example, in the last two quarters we have seen improvement in demand for Rubber Process Oils and White Oils. Total shipments for this quarter are up by 2% to reach 82,100 KL compared to 80,300 KL a year ago. The EBITDA per KL after forex adjustment for the quarter came in at Rs. 5,590 which is up 82% from the same period previous year. The revenue for six months came in at Rs. 951 crores which is 22% lower than the same period previous year. However, the EBITDA per KL after forex adjustment has increased to Rs. 6,099 from Rs. 3,315. This we can attribute to better cost controls, product and client mix improvements. We are optimistic that the demand for the second half will be better than the first half.

As we come to Auto Lubes segment, we did see some slowdown in the quarter with volume being 4.6% lower than the same period previous year. This we would largely attribute to slightly sluggish market conditions especially in the Agriculture and the Commercial Vehicles segment and the sales to various automotive OEMs being lower. Having said that October seems like a better month and we are hoping that in the third quarter, there will be a reversal

in terms of Automotive demand. The demand from the rural sector has also been especially low. However, profitability has been significantly higher from discipline pricing, lower raw material cost and improved product mix. We are focused on increasing distribution reach along with selling more high performance products. Our expectation in terms of volume sales is higher in the second half compared to the first half. We feel some of this can come from the reduction in interest rates which can catalyze increase sale in all segments of Automobiles.

Coming to the Cables division, the division has posted revenue of Rs. 134 crores in the second quarter FY16, registering 21% growth from Rs. 111 crores in the previous year and this is in spite of lower metal and commodity prices as well as lower polymer prices. The EBITDA margin post forex adjustment came in at 4.5% which is up from 2.3% a year ago. We believe the demand for Elastomeric Cables which has improved will further witness more improvement in the third and fourth quarters with fresh orders coming in from the Windmill and Solar customers, including Suzlon, Adani, Azure, Welspun, etc. The Optical Fiber and Elastomeric Cables contributed about 58% of the revenues in the second quarter of FY16 compared to 49% in Q2FY15. The order book has also increased by 34% to reach Rs. 221 crores as on 30<sup>th</sup> September compared to Rs. 165 crores a year ago.

So six months FY16 revenues for the segment increased by 10% to reach Rs. 274 crores. We expect to do about Rs. 325 crores in the second half of FY16. EBITDA margin post forex adjustment for the segment came in at 4.7% compared to 3.8% in the previous year. We also expect EBITDA in the fourth quarter to actually reach between 7% and 7.5% in the Cables segment which should be a reflection of better product mix as well as higher volumes. The revenues from the Power Cables also seem to have improved given that there is more spending taking place from the discoms. So given this fact with the package getting implemented which should hopefully happen in FY17 we should see increased demand taking place. The company is going to further expand capacity in cables to meet with this demand.

So as we move into FY16, we are overall optimistic that there will be better growth prospects in all segments. In our Conductors business, the demand is expected to improve from the various government initiatives.

In the Specialty Oils segment with specific focus on the Transmission sector and the Automobile sector, we expect the demand scenario to improve in the coming quarters.

The Two Wheeler and the Passenger Car segments have already started showing signs of picking up from the month of October following the recent cut in interest rate which can catalyze all the segments in the Automobile sector. We also expect crude prices to remain within a range that should help in terms of stabilizing margins, particularly in the Industrial and Automotive side of the business.

As we look at the Cables segment, we are very well positioned in the Renewable Energy sector, and now with the current government's focus on increasing share of Renewable Energy both for Wind and Solar, we see increased demand taking place. As I had earlier mentioned, the order inflows from these two segments have improved and we will see a substantial jump in the second half of the year coming from those two segments. There is also an increased inflow from the Defence and Railways, but most of that execution is expected to happen in FY17. So, as a result the Elastomeric division is expected to do well during the year. We are also expecting Bharat Broadband Nigam Limited to release fresh orders for Optical Fiber in the fourth quarter of FY16.

So, in short, looking at all the three sectors that we operate in, we feel the prospects seem better at this point in time for our company than it has been for the last eight quarters.

So with this I would like to come to the end of my comments. I would like to thank everyone for joining our conference call. We would be happy to take questions at this stage, but before that I would like to wish everybody a Happy Diwali and Prosperous New Year ahead.

**Moderator:** Thank you. Ladies and gentlemen, we will now begin the question and answer session. First question is from the line of Divyata Dalal from Systematix Shares. Please go ahead.

**Divyata Dalal:** I wanted to get more view on the Conductors business in terms of domestic market. How have you seen the improvement in the ordering environment and pricing for Conductors?

**Chaitanya N. Desai:** The domestic business has been picking up from Power Grid as well as the state transmission companies and in some cases the state transmission companies buy it through the EPC contractors. So Apar is well placed in terms of relationship with the EPC contractors and we have been getting decent amount of business from them. Overall, the market seems a little better. So even the margins levels are improving in the domestic market now.

**Divyata Dalal:** Earlier, we were guiding to reach around EBITDA per MT of Rs. 10,000 by Q4. So do we see that the new orders are at these levels, where we will be able to achieve around EBITDA of Rs. 10,000/MT?

**V.C. Diwadkar:** We have not talked about Rs. 10,000 per MT EBITDA for fourth quarter actually, we have always said that the average EBITDA will be between Rs. 6500 to Rs. 7500 per MT, something like that, and as we go towards fourth quarter the EBITDA is likely to improve.

**Divyata Dalal:** In terms of volume, what kind of growth are we projecting for FY16?

**V.C. Diwadkar:** We are going at rate of 1,60,000 MT actually. In the half year we are closed to around 83,300 MT something like that. So we will be at the same level in third and fourth quarter, so for entire FY16 will be around 165,000 MT.

**Divyata Dalal:** In the Oils business, what has led to the improvement in EBITDA margins? I understand this is mainly because of product mix but what will be your view on Transformer Oils business in domestic as well as export markets?

**Kushal N. Desai:** Actually, the improvement in the margins has been on three counts - one is that there has been stability in the pricing of raw materials. So wherever we have higher value added products and products which we are selling at premium prices, the margins on those products have been relatively good. We have also had a better client mix where in Transformer Oils, even though overall volumes are down, the Power Transformer sales have been higher particularly for the higher voltage level. Similarly, we have had higher margin sales of Industrial Oil and Automotive Oils. So across the board, we have seen improvement in client mix as well as product mix besides having favorable raw material prices. So, the improvement has actually been very broad based, it is not because of one specific product segment.

**Divyata Dalal:** In terms of Cables business, we are guiding for around 7% EBITDA margins. So what will lead to this improvement – will this be the new Specialty Cables or the Power Cables also?

**Kushal N. Desai:** Actually, the improvement in margins is coming from both, Specialty Cables obviously carries much higher margins than the Power Cables. But having said that given that there has been improved demand on the Power Cables side, the margins there have also improved. So as a consequence given the current order book, which we have in place, we see that the EBITDA Margin should be between 7% and 7.5% by the fourth quarter and in FY17 we could start seeing even better margins as a lot of the Railways and Defence execution start, some of these LOI's and orders have started just coming in at the end of Q2 and beginning of Q3, but only one delivery will happen in this financial year and all the rest of it will happen in the next financial year. So logically, we see a progressive improvement in margins. So the strategy with the company focusing quite heavily on Elastomeric and Specialty Cables is actually starting to pay dividends.

**Divyata Dalal:** In FY17, what is your outlook on the Conductors business – will it be more domestic driven in terms of growth?

**Kushal N. Desai:** We expect it to be balanced. The demand on the domestic side will certainly be much higher but the company has always maintained a judicious mix. So we would like exports to be at least 25 to 30% of the business which we do, even when the domestic segment is strong. Right now the exports is much higher but FY17 we would expect it to be between 35% and 40%.

**Divyata Dalal:** In terms of current order book of Rs. 1600 crores which we have in Conductors, what would be the quantum of legacy orders? You mentioned in the opening remarks it will get completed by Q3.

**Kushal N. Desai:** So these legacy orders in terms of their proportion, Q3 still has a significant amount of legacy orders, but by Q4 you would start seeing them taper off quite significantly.

**Divyata Dalal:** This would be mainly the low pricing orders in the domestic market and not exports, right?

**Kushal N. Desai:** Not only on the domestic side but also in the exports because they were booked during a period where the LME premiums were relatively high which have now been corrected. So as a consequence both domestic as well as exports new order booking has better margins arising from that.

**Divyata Dalal:** Would you like to put any numbers in terms of the order book for legacy orders?

**Kushal N. Desai:** We do not have that exact information handy but of that Rs. 1,600-odd crores, significant portion of the legacy orders will get executed in Q3 and Q4. So we probably really have a very little carrying into FY17.

**Moderator:** Thank you. The next question is from the line of Sandeep Baid from Quest Investments. Please go ahead.

**Sandeep Baid:** Kushal, just wanted more color on your expansion plans. You mention that at Jharsuguda work is going on in full flow and production will start in middle of the next calendar year, right?

**Kushal N. Desai:** Actually, we are running pretty much at full capacity in our facilities in Silvassa and Athola. So the work in Jharsuguda has started, the expectation is that by September of 2016, we should be able to commence production at Jharsuguda site. In addition to that in our Oils business we have expansion work going on in Hamriyah which is being expanded by our wholly-owned subsidiary, which is a Singapore-based company. So that plant will also get commissioned around September of 2016. In addition to that, we are looking at increasing some capacity on our Elastomeric Cables by putting in some debottlenecking of equipment as well as increasing our Power Cables production.

**Sandeep Baid:** How much capacity are you adding on the Conductors side in Jharsuguda?

**Kushal N. Desai:** It is about 36,000 MT p.a. We are currently at about 1,60,000 MT p.a. So, in the name plate capacity for the Conductors plant is between 140,000 and 150,000 MT. At the moment we are running in about 160,000 MT and the Jharsuguda capacity would add 36,000 MT p.a. So we hope to capture about half of that in the next financial year.

**Sandeep Baid:** In the last call you had mentioned that if GST comes, then there will be some clarity on tax issues in Jharsuguda and you probably will wait for that but you have decided not to wait for that now.

**Kushal N. Desai:** We believe that this GST matter should get resolved by the time the third quarter of next year comes in. In addition to that, there are certain steps that the Odisha government themselves are taking which would result in the level playing field, with more neutrality coming in to manufacturers from Odisha who would have to sell in Odisha as well as export the product out of the state. So that also becomes a bit of game changer and it reduces the dependence on what the government's position is on the GST. So we have basically planned to sort of build the capacity irrespective of the GST because you always have the lever in terms of how much we want to load that plant versus get product manufactured in the western part of the country.

**Sandeep Baid:** On Cables, what is the capacity utilization that we are working at currently?

**Kushal N. Desai:** It is varying across different segments; so if you look at medium voltage and high voltage Cables we are running at full capacity. Our low voltage Cables are running at about 60% to 65% capacity which is fundamentally limited by certain minimum level margins below which we have not prepared to sort of run the plant. On the Elastomeric Cables side, if you take the first half we were running at about 70%-odd capacity, in the second half we should be close to full capacity. That is the reason why we are looking at wanting to put in some debottlenecking. If you pick up the numbers which we spoke about, the first half we have done Rs. 274 crores on Cables, in the second half we expect to do between Rs. 325 crores and Rs. 350 crores. So there is a substantial jump happening in the second half which would then result in the capacity utilization being almost at full capacity. We still have capacity on an E-Beam machines which at the moment are running at approximately effective utilization of around 60%-odd. So there is still some room to do more E-Beaming. So, as a consequence, if the downstream Cables capacity is increased, there is still room to increase high value margin products.

**Sandeep Baid:** With debottlenecking that you are planning on the Cables side, is it fair to say that 100% capacity utilization you can do a turnover of close to Rs. 900-1,000 crores?

**Kushal N. Desai:** I think with whatever we are putting in place, this year we will be closer to about Rs. 600-odd crores, but if you run the full complex flat out, we will be at between Rs. 750 crores and Rs. 800 crores. But then the product mix starts playing a very important role. What has happened is that more and more companies are shifting to using aluminum versus copper and the value of the final Cable when you run aluminum versus copper is less than 50% of the value just because of the difference in the metal itself. But in terms of amount of metal and fiber and stuff that we will process, at today's prices, we are looking at about Rs. 750- 800 crores if everything runs fully.

**Moderator:** Thank you. The next question is from the line of Maulik Patel from Equirus Securities. Please go ahead.



**Maulik Patel:** In Transformer, we are seeing around 2% volume growth in last two quarters. Is there any likely improvement we see in volumes and as you mention earlier that export is doing much better in Transformers, is that the domestic volume has declined substantially?

**Kushal N. Desai:** The domestic volume has been lower than in the same period previous year. We have seen that the Distribution Transformer segment has been more sharply affected given the financial situation of the discoms. The Power Transformer side has been doing relatively better and more stable given that it is largely driven by Power Grid and the state transmission companies. Having said that, this package which has been announced goes through then you will see a big surge in the demand for Distribution Transformers. In addition to that, generally, the second quarter is subdued on large Power Transformer commissioning because of the monsoon and unfavorable weather conditions. So, we see quite an optimistic scenario in Q3 & Q4 in terms of volume from the Power sector side. So our estimate is that we should catch up and we should be ahead of the volume on the domestic side this year compared to the previous year. On the exports side, two critical markets have been a bit slow – one is Australia and the other one has been South Africa, both of which have been affected due to the mining business being a bit slower than it was previously. However, the other big markets that we have which is Saudi Arabia which was a bit slow has really picked up in volumes from the month of September onwards. So I think overall we should see a good growth in the second half on the export of Transformer Oils also. So overall Transformer Oils second half looks much better than the first half in terms of volume.

**Maulik Patel:** This margin expansion which we have seen in Transformer for which you generally give guidance post forex adjustment of close to around Rs. 4,000 per KL right, but we have been doing much higher than that?

**Kushal N. Desai:** That is correct.

**Maulik Patel:** You mention that it is a product mix or probably margin expansion which we have been seeing in Auto Lubricants business, is that sustainable?

**Kushal N. Desai:** I think the improvements that have happened actually is across the board except in the case of White Oils where margins have continued to be under pressure. In Transformer Oils, it has come essentially from Power Transformer and Specialty Type Transformer Oils, but we have also seen a very good margins coming from our Industrial and Automotive businesses and some of the Specialty Rubber Process Oils which we supply. So, as I mentioned earlier in the call, the improvement in margins have been reasonably broad-based, it is not just restricted to one category or product. We have constantly been working on innovating and improving the mix of products that we are bringing to markets. So, that is also playing an important role because most of the newer products which we have introduced are higher performance products and they are priced based on the value that it delivers to the client.

**Maulik Patel:** But if I have to look at the broader picture, is this business work like more as a percentage margin or it will be in a per unit margin?

**Kushal N. Desai:** The Transformer Oils and White Oils, the bulk part of the business works not on a percentage basis, but on a per KL margin. When you get into industrial and the retail side of the Automotives then there we have more control in terms of the pricing on the products.

**Maulik Patel:** It should be reverse, because when crude prices fell, people do not cut the prices and they see the gross margin expansion. So the Industrial probably has more pricing power over the retail, it was per unit basis where you will see the margin expanding, it will not be gross margin, your gross margin let us say looking 5% but after the fall in crude it probably be between 10% margin.

**Kushal N. Desai:** As some of the raw material costs have fallen on the base oil front, we passed on some of the benefit but not the entire benefit. So there has been improvement in unit margins on that front. But where the real impact has come is where products have been priced based on the value that it delivers to the clients. So as a consequence, the pricing mechanism is not strictly based on the cost. So when the cost structure is lower, then there is obviously a margin expansion that happens. Given the fact that the way we look at the outlook on crude and base oils, etc., through till March at least we do not see any major changes taking place. So, as a consequence, the stability in terms of profitability seems to be relatively better right now.

**Maulik Patel:** On the Conductors part of the business, there is some dip in order book on a sequential basis. But as you mentioned earlier, more and more orders are coming up and there has been a consolidation in the Conductors industry also. So do you think that we are going through one of the best times for the Conductors industry in terms of the margin and volume over the next one year?

**Kushal N. Desai:** The way we look at it is that there will be a progressive improvement. I do not think I would be in a position to say that next year will be the best year because I am hoping that the momentum will continue still further into the year after that. Given the fact that compared to what plans the government has announced and what they need to do, the various bidding that has been awarded right now is still small proportion of that. So, I would imagine that progressively in the next few years the demand will continue to improve and that is the reason why we are taking a step of actually putting up a new Greenfield facility which is located in such a place where we can service the entire geography of India more effectively. The Jharsuguda expansion of 36,000 MT is also just one half, this is the first phase and essentially the plant can be expanded as one keeps investing further. So I think next year will be better than this year, but there is still more room for further growth to take place on the Conductors side. In addition to that we are quite encouraged by the way High Temperature Conductors are starting to take shape. When we started off with these orders two years ago, a good order would be between Rs. 5 crores and Rs. 10 crores in terms of value. The last two

orders that we bagged are now over Rs. 50 crores each. So customers who have used the product the first time they are progressively placing larger size orders as time goes on. Secondly, the breadth of customers also has been increasing. Volume going up on the Conductors side, we see the mix of product also starting to change and every year that passes by you will start seeing more number of customers placing orders in this Rs. 40 crores-Rs. 50 crores range. So I would think FY18 would be better than FY17 looking at the way things stand today.

**Moderator:** Thank you. The next question is from the line of Chirag Muchhala from Nirmal Bang Equities. Please go ahead.

**Chirag Muchhala:** Sir, basically we are in the process of expanding across all the three segments. So, in value terms, can you give the capex outlook for FY16 & FY17 and if you can break it up in the three segments it would be nice?

**Kushal N. Desai:** Commitment that we made at the moment is on the Conductors side, this plant in Jharsuguda is having a financial commitment of approximately Rs. 36 crores for a capacity of 36,000 MT. The plant which we are putting up in the Middle East which has been actually put up through overseas subsidiary, would entail capex of approximately \$15 million, but that entire funding is coming from the subsidiary, so it is not coming from the parent Apar Industries balance sheet, and then in addition to that whatever commitments we have made on the Cables side is approximately Rs. 10 crores at this stage. We may make some further investments in debottlenecking, etc., as we get into FY17 but the commitments we have right now is approximately Rs. 10 crores on that front. Besides this there is about Rs. 7 to Rs. 8 crores worth of capex which is a continuous improvement sort of capex.

**Chirag Muchhala:** In Cables segment, basically what kind of capacity expansion we are going to witness over the next year? So you mention based on current facility we can do Rs. 750- 800 crores revenue encompassing all the Cables segments.

**Kushal N. Desai:** We will get to the Rs. 750- 800 crores including this investment of Rs. 10 crores which we are putting in, but this investment is largely going to increase the capacity of medium voltage and high voltage Power Cables. We already have adequate capacity in place for Elastomeric and for Fiber Optics. So investments have happened, there will be some just bottlenecking type investments, to sort of debottleneck certain processes that are involved there. So with that we should be able to get to Rs. 750 crores to Rs. 800 crores in revenue if run on a full year basis.

**Chirag Muchhala:** In terms of Conductors, for the Power Grid ordering, can you give out our market share currently in PGCIL and also how much in MT point of view they have ordered in first half of FY16 and what is likely that they will order in FY16 and FY17 next year?

**Chaitanya N. Desai:** In terms of market share, our approximate market share is about 15% currently and in terms of MT I do not have the number handy, but it should be in the vicinity of about 40,000 MT in terms of our orders on hand.

**Chirag Muchhala:** Any indicative market size likely for FY16 for the domestic market in terms of MT from Power Grid?

**Chaitanya N. Desai:** It would be approximately 200,000 MT or so.

**Chirag Muchhala:** This you expect within this FY16 or including next year also FY17?

**Kushal N. Desai:** I am talking about total Power Grid ordering in this year, and next year also they are sort of planning in a similar fashion. But, Power Grid is also having other projects besides whatever is in their plan right now. So if that happens then there may be about 10%-15% growth in the Power Grid side of it. But in addition to Power Grid now there are a number of private sector companies also and we are sort of getting a much bigger market share in that business. So there our market share may be more like about (+30%). There is a fundamental difference between the two, in the case of Power Grid once you clear the technical bid, then it is purely based on whoever is L1, there is no further negotiation, discussion or anything else possible. Whereas in the case of EPC contractors and the private players, there are many other dynamics that come into play, which includes your ability to deliver, the quality of products, it does not go purely on the basis of somehow is technically approved, then whoever is just the lowest bidder based on the first quotation that is given in. Also, we are finding that the delivery cycles are getting a lot shorter; so if you see the order book which we have of Rs. 1,600 crores, today order book would get executed much faster than Rs. 1,600 crores order book which we had one or two years ago because the delivery cycles are also much shorter. Apar does have a reputation of being able to deliver based on whatever commitments which we have given on deliveries. We are one of the highest rates of compliance on that in the industry. So these are the factors which do play an important role in terms of some of the way ordering is done from particularly the EPC contractors and the private players. There will be more and more tendering which is now done on a competitive bidding basis. So as a consequence, I think we would also tend to stand a better chance in terms of the whole negotiation and ordering process.

**Chirag Muchhala:** As I understand our focus would also be on the higher end that is 765 KV in terms of private EPC contractors, what we would be targeting more in terms of Conductors, right?

**Kushal N. Desai:** In Conductors actually there is not such a huge technology difference, when you move up from 400 to 765 KV like in the case of Transformer Oils if you move from Distribution to Power there is a big jump, and then within Power from 220 to 400 KV it is a major step forward and then 400 to 765 KV is an even bigger technology sort of leap to take, and then when you shift from 765 KV AC to 800 KV DC, then that is the biggest technology bridge to sort of cross. So on

the Oils side the situation is very different than on the Conductors side in terms of the change in technology involved.

**Chirag Muchhala:** But in terms of Conductors, like for example, for 800 KV HVDC, I believe we have Conductors and if I am not wrong, we are the only company here who has the Conductors for the same?

**Kushal N. Desai:** No-no, this is for Transformer Oils. As far as Conductors is concerned, others are also in a position to deliver it. On the Conductors side as you move up in terms of voltage level you do not see such a huge change in technology. Where you see the change in technology on conductors is when you move to High Temperature Conductors where as in the case of Transformer Oils as you go up in voltage level you need different products to be able to meet the Insulation requirements of the Transformer.

**V.C. Diwadkar:** For the first line, we had given the Conductors 800 KV HVDC.

**Kushal N. Desai:** We were the first to give that but it is not something that is a big technology leap to take.

**Chirag Muchhala:** But even margin wise those would be similar, I mean 800 KV HVDC would not be a significant margin compared to others?

**Kushal N. Desai:** Yeah, on the Conductors side, but that is not the same case in terms of Transformer Oils.

**Chirag Muchhala:** So sir for Transformer Oils, this 765 KV, 800 KV would be constituting roughly how much of our total Transformer Oils portfolio?

**V.C. Diwadkar:** Around 30% actually, we measure it from 220KV onwards actually; one is below 220KV and one is above 220KV; above 220KV is around 30%-35% of the total Transformer Oils across domestic and export together.

**Chirag Muchhala:** In HTC for Conductors, is the same breakup available?

**Kushal N. Desai:** High Temperature Conductors are forming only 2% of our revenue historically. But, as the value of these orders are going up we should start seeing that go to 10% and then 15%, like 4% to 5% increase every year.

**Chirag Muchhala:** For FY17, is it possible to give any kind of margin guidance for Conductors and Oil Segment in terms of EBITDA per KL and EBITDA per MT?

**Kushal N. Desai:** We are still dealing with FY16 at this stage, and in FY16 what we can see is relatively stable margin on the Oils side and increasing margins on the Conductors and Cables side. So Conductors so far is running around Rs. 6,500/MT, you will see similar margins in Q3 but higher margins in Q4. On our Cables side from the 4.7% we will get to between 7% and 7.5% by Q4. Everything will depend on how the business levels that will finally get settled in FY17

because if these announcements of the government in terms of proposed restructuring of the Distribution sector etc. does take place, then the volume increase will be quite substantial. So I would imagine that these would all have positive effects on both volume and margin. But it is difficult to predict it today unless there are some more data points available on its implementation.

**Chirag Muchhala:** But the Conductors orders we must be winning right now, will be executed in FY17?

**Kushal N. Desai:** Some are in FY16 fourth quarter and some are in FY17, because as I said the execution cycle is also getting shorter.

**Chirag Muchhala:** Has the pricing improved to an extent where we can get back to our normalized margin of roughly Rs. 8,500-9,000 MT in FY17?

**Kushal N. Desai:** Yes.

**Chirag Muchhala:** In first half FY16 we have actually seen a significant improvement in working capital and compared to around 5% increase in net sales in first half on a YoY basis the ex-cash net working capital has actually declined 25% YoY. So just wanted your outlook on going forward the debtor days, inventory days, basically the entire collection cycle and also any further plans of debt repayment, gross debt has actually already come down by 10-11% more to Rs. 4.2 billion, so over next 1-1.5 years your outlook on working capital cycle and debt repayment if any?

**Kushal N. Desai:** In terms of number of days outstanding if you add receivables and inventory, it has not changed significantly, there have been some improvements in some of the segments and a slight deterioration in others, but overall it is about the same. The value of the goods have come down particularly on the Oils side which is what has contributed towards lower working capital involvement happening. So we continue to remain disciplined, we are very conscious of the number of days outstanding and the net working capital that the company uses. So we have been maintaining fairly tight leash. In fact we have lost sales prospects because the credit terms were not favorable because the client seem to be risky. I do not think that scenario is going to change definitely not for the next six months but probably not for FY17 either because the guys who are financially sound continue to remain financially sound, and the guys who are financially weak seem to be getting weak and weaker. So I think our policy will remain the same when we will probably work towards similar number of days outstanding, etc. So working capital percentage of utilization will remain about the same. As commodity prices move up and down you will have plus and minus movement in.

**Chirag Muchhala:** Specifically, creditor days witnessed a strong jump from 146-days to roughly around 166-days. That is attributable to what factor?

**V.C. Diwadkar:** In Conductors we have been taking some higher credits from the aluminum manufacturers by opening some local LCs and all those things. But, overall the debtor scenario is not that good actually, in the sense, stress position is there as far as the customers are concerned. So some increase is there in the debtor's days. That scenario as Mr. Kushal Desai said actually is not likely to improve for the next six months. But once the Power sector improves all these plans government is announcing, once this is affected and actual delivery takes place, at that point of time it will improve.

**Kushal N. Desai:** The working capital should definitely improve if these changes happen because in most cases it is not that the OEMs or the EPC contractors are really at fault as much as their ability to collect from Discoms.

**V.C. Diwadkar:** Their ultimate customer is always discoms. So once this discoms get restructuring and all that is done actually, in that case at that point of time we will see the improvement in the working capital number of days.

**Chirag Muchhala:** Any plans of debt reduction further?

**Kushal N. Desai:** We are not taking on any significant further debt. So as the repayment schedule comes up, we continue to repay. There will be some debt which we will take on in the subsidiary to build the plant in the Middle East, but that is not coming in the books of standalone Apar as they are coming on books of subsidiary.

**Moderator:** Thank you. The next question is from the line of Pawan Nahar from Religare. Please go ahead.

**Pawan Nahar:** Just wanted to know about your EBITDA expectation on the Oils business. You have already done more than Rs. 6,000/KL. For the full year what do you think this number could be?

**Kushal N. Desai:** Our expectation is to be in the same vicinity. So our earlier guidance was to do between Rs. 3,500 and Rs. 4,000/KL. I think we would be in a relatively safe territory to be stating a figure of about Rs. 5,500 to 6,000 through the rest of the year.

**Pawan Nahar:** What is your expectation on volumes?

**Kushal N. Desai:** We expect higher volume in the second half compared to the first half.

**Pawan Nahar:** On Conductors, what would be a good number to assume for the full year?

**Kushal N. Desai:** Conductors on the EBITDA front, as we mentioned earlier that we expect Q3 profitability to be similar to what it has been in the first half with an increase in Q4 getting closer to Rs. 7,000-7,500 EBITDA/ MT. In terms of volume we expect the second half volumes to be similar to the first half volumes; they are running pretty much flat at the moment.

**Moderator:** Thank you. The next question is from the line of Utsav Mehta from Ambit Capital. Please go ahead.

**Utsav Mehta:** Just curious as to two comments that you made earlier; one on delivery cycles getting shorter. I was just wondering why that is happening – if you could just provide some sense on, that would be useful?

**Kushal N. Desai:** In the past, the delivery cycles were longer primarily being driven by what was happening with Power Grid and the state transmission companies. Today, the client mix is spread across EPC contractors as well as private developers besides these other two traditional channels. So most people they actually have been wanting to mitigate risk. So given that commodities have in the past been volatile, etc., people have adjusted their capex cycle so that from the time they place the order to time they get delivery of the product either it is sort of fixed price basis in which case the hedging cost is passed on to the client or it is on a variable price basis in which case the client is picking up the entire variation of the metal. So in either case there are costs associated with the cycle being longer. So that is primarily what is driving the shorter execution cycle. It seems the changes are here to stay because as future ordering is happening the cycle is remaining at the lower level, it is that of further shrinking.

**Utsav Mehta:** My second question is just on the Saudi Arabia bit. You said that there is a significant pick up that you witness especially in the last quarter. Given that we have been hearing some pretty negative things about the business environment over there, it came across as a bit of surprise, do you think this is specific to your clients or do you think that is generally happening?

**Kushal N. Desai:** What we saw is that towards the end of the first quarter of our financial year and in the second quarter there was a tremendous slowdown in terms of execution in Saudi Arabia. Those orders which we have received they were just getting postponed in terms of delivery for Transformer Oils, but now we have got clear visibility with specific call updates which are coming from September onwards. The other thing that we have seen is the projects which have been awarded in Saudi Arabia, they are continuing to be executed. So there were some fear that may be these guys will go slow and some of these projects will get cancelled, but that does not seem to be the case because the call ups are happening and now we have got more clarity in terms of dates on which clients want delivery at their sites.

**Utsav Mehta:** So basically it has gone back to the normalized run rate after a short period of shrink?

**Kushal N. Desai:** Yes. In addition to that we have seen some of our clients who are the OEMs and the EPC companies who have actually increased commitments of personnel, etc., in Saudi Arabia, given the fact that you they are either winning more tenders or they have already won more tenders for future delivery. So I think in the shorter term it seems that market is still going to remain reasonably strong at least for us.



**Moderator:** Thank you. The next question is from the line of Aditya Wagle from Equitus. Please go ahead.

**Aditya Wagle:** I just wanted to ask about this High Temperature Conductors. On a per MT basis, how does it compare in terms of realization and margins with normal Conductors?

**Kushal N. Desai:** It depends on the format of Conductors that are involved, but the margins are certainly higher and gross margins would go up to almost 2-3x but they are on standard conductors, simply because of the technology that goes into manufacturing these products and the level of competition, and there are a handful of players globally available that can deliver the full range of a product.

**Aditya Wagle:** Any export orders on High Temperature Conductors?

**Kushal N. Desai:** There are a few, we have exported some High Temperature Conductors into Namibia and some of the Sub-Saharan countries, in fact, we started off by actually exporting before the Indian market picked up, but our focus has largely been on the Indian market because we see a big need coming up in the years to come as electrification on certain lines have already started reaching saturation. We see the driver coming from the domestic business and we have been spending a lot of time and money marketing these products and clearly, some of those signs are now starting to show up.

**Aditya Wagle:** Sir, in terms of your Elastomeric Cables that is now contributing more than 50% of your total Cables turnovers, can you just give an idea about the future in terms of growth or the landscape for Elastomeric Cables especially...?

**Kushal N. Desai:** Actually, that 58% is coming from the Elastomeric plus the Fiber Optics. But in terms of landscape, the segments where these Elastomeric Cables really go in is Railways, Defence, Wind Mills, Solar plants and the Coal and Mining sector. So these are the five sectors where essentially these Cables go in and so depending on the capex that happens in these sectors you will have a proportional increase in the business that is coming up. So the current jump has taken place is essentially from non-conventional energy, that is the Wind and Solar and a little bit from the Mining side. As we get into FY17 and FY18, the portion coming from the defence side which is the Navy and the Railways are both going to get much more significant.

**Aditya Wagle:** Are you planning any expansion for Elastomeric Cables?

**Kushal N. Desai:** We were running in the first half at only 70% capacity utilization; in the second half we will be closer to 100% and then we are going to invest next year in some debottlenecking of certain processes, which would then prove to be a bottleneck in terms of total delivery of Cables. So, we would not allow capacity to really be a major constraint. So as and when things come up, we will keep debottlenecking. The main constraint is on the ability to do radiations with the E-Beam machines where we have substantial capacity available with us on hand.

**Moderator:** Thank you. The next question is from the line of Aman Batra from Goldman Sachs. Please go ahead.

**Aman Batra:** On the Oils segment, just wanted to clarify, is there any kind of expectation of our inventory loss or something going into the next quarter because of the oil price corrections?

**Kushal N. Desai:** Actually, Aman, the pricing on base oils which is the main raw material has been relatively stable. The corrections which were taken were pretty heavy in the third quarter and the fourth quarter of the last financial year. In Q2, there was obviously some impact that came due to the correction in the exchange rate which slipped and then it has improved to some extent. But after factoring all that in results are available in front. We see more stability in Q3 & Q4 with base oil & exchange rate both looking more stable.

**Aman Batra:** Your guidance of Rs. 5,500-6,000 margin per KL on Oils, is slightly higher than what you used to guide earlier. So on a longer-term basis, like two-three years scenario, how do you look at this margin?

**Kushal N. Desai:** As the Automotive business and the Industrial business grows, we carry a better margin on a per KL basis on that. We also carry a slightly better margin on a per KL basis on the higher voltage levels of Transformer Oils. So our sense is that if you are looking at typically Rs. 3000-4000/KL as a steady margin, the bias of these three are growing would bring it closer to the Rs. 5000 to Rs. 6000 sort of range. Some of the margins of the performance based products is basically also based on the cost of the raw material because we sell on value. So, the value to the client is what we sell on. So if the raw material costs are lower, then the margins do get expanded. Having said that, at least in the foreseeable future, crude prices and all seem to be in this current range. So, we feel reasonably comfortable at least next six months or the early part of next financial year base oil prices remain within a certain band.

**Moderator:** Thank you. As there are no further questions from the participant, I would now like to hand over the floor to the management for their closing comments. Over to you, ma'am.

**Nisha Kakran:** Thank You, everyone for joining the call.

**Moderator:** Thank you. On behalf of Apar Industries Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.