Apar Industries Limited
Q3 FY 19 Earnings Conference Call
January, 2019

Moderator: Ladies and gentlemen, good day and welcome to the Apar Industries Limited Q3 FY19 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 '*' and '0' on your touchtone phone. Please note that this conference is being recorded. At this time I would now hand the conference over to Mr. Nitesh of Four-S services. Thank you and over to you, sir.

Nitesh: Good afternoon everyone and welcome all participants to Apar Industries Q3 FY19 Earnings Conference Call. Today on the conference we have Mr. Kushal Desai, Chairman and Managing Director, Mr. Chaitanya Desai – Managing Director and Mr. Vivek C. Diwadkar – CFO Apar Industries. I now like to hand over the call to Mr. Desai for his opening remarks.

Kushal Desai: Good afternoon everyone and a warm welcome to the Q3 FY19 Earnings Call for Apar Industries. I will start the call with just running over some of the key industry highlights then review each of the segment financial performance and post that open the floor up for questions.

The quarter has seen Apar deliver a fairly strong growth. In terms of revenues we had a 41% growth for the quarter over the previous period. This growth in terms of revenues has actually been seen across all three segments with cable business delivering higher growth percentage. We have seen that the domestic demand has remained quite robust. Export market for our Speciality oils and cables particularly in the Middle East and the African region has been a bit muted, but sales from the domestic region have more than made up for the drop in the overseas markets.

I would also like to cover a few highlights in the transmission and distribution sector to just give you an overview of what is happening in the sector from our perspective. So in the last quarter the T&D orders have come in at approximately Rs 13,000 crores and this is similar to what was announced in Q3 of FY18. There has been significant progress in increasing electricity access. AC transmission lines capacity has been increased to 3.9 lakh kilometer by December 2018. 100% household electrification has been completed in 25 states by the end of last quarter under the Saubhagya Scheme and under the Integrated Power Development Scheme that is IPDS 48% of physical progress has been achieved till the end of November 2018 which is the last set of numbers that is available in terms of the system strengthening projects.

In terms of the discom reform under the UDAY scheme that has achieved a reduction in book losses of the 32 participating states and union territories to Rs 15,049 crores in FY18 from Rs

51,480 crores which was two years ago prior to the scheme being announced. There is a 42 paisa per kilowatt reduction in ACS- ARR gap which has now reduced to about 17 paisa per kilowatt hour. The ATC losses have declined from 20.7% in FY16 to 18.7% in FY18 so there is about 2% drop. Challenges still remain in achieving the target which was set for March 19 for the ATC loss reduction which was supposed to be at about 15% so we are about 3.7% of that mark and mainly this is due to inadequate tariff hikes. There has also been a very slow implementation of this smart metering and the incremental rise in open access transaction has also reduced. The outstanding from some of the state government department have actually gone up in the last few months. So overall there has been improvement, but there are some of these areas where things are still falling a little bit behind.

In terms of railways electrification there were tenders of over Rs 5000 crores which were awarded in the third quarter of FY19 and from the information that we had gathered over 18,500 crores in the 9 month period of FY19. Power Grid has also achieved about 49% of which targeted annual CAPEX of 25,000 crores by the end of first half.

There is a definite revival in the wind sector. As of December 18 bids for setting up of the wind projects of 8.4 gigawatt has been finalized through solar energy corporation of India and NTPC. Government will soon be auctioning transmission contract so over 8000 crores connecting these renewal energy projects into the grid.

As we go into the next couple of years we are likely to see a slowdown in the CAPEX for the ultra-high voltage transmission system, but this was substituted with a very strong demand for evacuation from the non-conventional energy project and other smaller energy projects. So therefore, we expect that it will continue to have a positive impact on all the three business segments that we have.

I will now like to cover a little bit more specifically in terms of Apar's financial performance. In Q3 FY19 consolidated revenues came in at Rs 2,120 crores for the quarter which is up 41% year-on-year driven by growth in all the three divisions. EBITDA came in at 115 crores which is up 17% year-on-year. There was a fairly steep and unexpected fall in the price of crude and its derivatives and this was actually against our expectation given the fact that the Iran sanctions have been pretty strongly imposed. Our expectation actually was that oil would start moving up it was already moving up prior to the sanctions coming and hitting in this indicating that there was an upward bias, but instead of that there was a very steep fall that took place post 4th of November. This resulted in us actually narrowing our margins across all the oil product lines in December as we had reasonably high inventory. And we wanted a slightly higher inventory at the end of October to just what we are expecting to be an increase in the market price. So even though we had a good October and November our profitability in December was as a consequence impacted.

If you look at the interest cost the interest cost has been higher because there is an increase in the LIBOR rates from about 1.93% to approximately 3.03% year-on-year. So the interest cost has increased as a consequence of that. Profit after tax came in at 35 crores which is down 12% year-on-year. This includes a non-cash impacting translation loss of 4.18 crores from our Hamriyah operation even though the Hamriyah business is actually a fully dollar hedged business where we buy US dollars and sell all products in US dollars. The inventory which is held as it comes into the consolidated balance sheet picks up a translation loss and in this particular quarter it has been reasonably significant at 4.18 but this is non-cash charge which is there.

If you look at the 9-month period which is FY19 our consolidated revenue increase 36% year-on-year to reach 5504 crores and the EBITDA has increased 18% to reach 337 crores. Profit after tax came in at 92 crores with a PAT margin of about 1.7%.

More specifically on the conductor business the conductor business in terms of revenues grew 65% year-on-year to reach Rs 1052 crore for the quarter. Volumes have increased by 13% to reach 47,234 metric ton. The EBITDA per metric ton post FOREX adjustment came in at Rs. 8,269 per ton which is up 18% year-on-year with a higher share of copper conductor and rods.

<Call dropped, restarted>

I will just restart on the conductor business because I am not exactly sure where I dropped off. So conductor business grew 65% year-on-year to reach 1052 crores in FY19. The volumes increased 13% year-on-year to reach 47,234 metric tons. The EBTIDA per metric ton came in at Rs. 8,269 up 18% year-on-year. The EBITDA was partially impacted by some cost which were higher than expected in terms of some of the manufacturing cost related with Jharsuguda facility where there was problem with the power for most of the quarter that is now been settled and restored. Also, the HEC revenue contribution in the last quarter came at its lowest level in several quarters which is at 8%.

In terms of Q3 FY19 the order book has reached an all-time high of 3,226 crores which is up 111% year-on-year and 20% higher over the previous quarter. New intake in the quarter came in at Rs 1586 crores which is up 113% year-on-year. A lot of this has come in from both the domestic and export markets even though the competition for conventional conductors has been a little bit on the higher side. New orders from the railways for copper conductors came in at 616 crores this is in line with the higher outlay of the electrification of the railways. The high efficiency conductor saw a steady demand coming in from the South Asian countries, but there were really no new orders that had come in from the domestic side. This has clearly been a disappointment given that there are a lot of tenders which have already been opened and are still to be finalized and there is a number of tenders which are still sitting in the form of latent demand for these high efficiency conductors.

In the 9 months period FY19 the conductor revenue increased 55% year-on-year to reach 2586 crores the EBITDA per metric ton post FOREX adjustment increased 14% to reach Rs 10,159 crores.

Coming to the Speciality oils, revenue has reached 727 crores in Q3 which is up 28% over the previous year in terms of value growth. Volumes were up 9% year-on-year at 1,15,765 KL. The auto & industrial sub segment delivered good growth levels. On the auto side we grew by 24% year-on-year and on the industrial side we grew 21% year-on-year. . This sub segment has contributed 13% by volume and 20% by value to these specialty oil segments. The volumes for transformer oil were up 7% and for white oils it was up 6%. If you look at the EBITDA performance per KL after FOREX adjustment it came in at Rs. 4,042 per KL which is substantially higher than what it was in Q2 FY19 which was only Rs. 1,312. However, it is 11% down from what it was in the previous year period and this is largely due to as I explained the sudden drop in the price of crude, etc., which led to price correction ahead of reduction in raw materially especially in the third month of the quarter which is a month of December.

Looking at the 9-month period the specialty oil revenue has increased 23% year-on-year to reach 1934 crores. The EBITDA per KL post FOREX adjustment has come in at Rs. 2,853.

On the cable business: The cable business has delivered a revenue growth of 47% year-on-year to 420 crores and within that we have seen the Elastomeric cable grow 22% year-on-year with the revival in the wind sector and additional outlay is coming in from the railways. The power cable side grew by 29% year-on-year. Telecom cable were up 192% as we ended up executing orders for BBNL and some of the other telcos. The EBITDA margins post FOREX adjustment was at 9.8% in Q3 FY19.

If you now look at the 9-month period the cable revenues have increased 51% year-on-year to reach 1,176 crores. In 9 months we have exceeded the annual revenue of the previous year. The EBITDA post FOREX adjustment increased 67% year-on-year to a 120 crores and the EBITDA margin for the 9-month period came in at 10.2%.

As we enter the fourth quarter FY19 we are reasonably comfortable with what we see ahead. The demand remains steady for all segments in the cable division for industrial and automotive oil as well as transformer oil the order book in the conductor business is good and there are a lot of prospects in both the north and Latin American market which have not been traditional markets for us.

The railway electrification projects are also continuing, we are quite optimistic that this latent demand for the high efficiency conductor that has been eluding us for the last few quarters will get converted into orders in the next few months to come. A new CTC which is a copper transposed conductor line which should be used for the transformer industry for the core winding of the transformers is expected to be commissioned by April 19. We also expect improved profitability in the oil division with the more stable outlook on oil prices in Q4. In conclusion we are reasonably optimistic about the future irrespective of development that happens in the forth coming elections as such.

So with this I would like to come to the end of my comments. I would also like to thank everyone for joining our conference call and apologize for the outage that we had in between and now throw the floor open for questions.

Moderator: Ladies and gentlemen we will now begin the question and answer session. The first question is from the line of Pankaj Sabharwal from Kotak Mutual Fund. Please go ahead.

Pankaj Sabharwal: What we have been observing for last few quarters is that the topline has been strong almost for the period, but somehow the cost management or the interest cost is surprising us on the negative side and the only worrying point is that the interest cost is now running at 200 crores per annualized number, can you just help us understand how is the debt position where do you see that number coming down because just 1% LIBOR interest rate may not be explained in the entire interest cost increase, it has the working capital deteriorated a bit out there because whatever you guys have been doing very brilliantly over the top line somehow is getting negated by the cost management and the interest cost?

V.C.Diwadkar: The overall long-term debt is about 172 crores and short term debt which comprise of PCFC is about 73 crores plus we are having the LC financing actually where in the 1530 crores is the LIBOR based finance and 686 crores is the rupee finance. As we had said earlier actually the LIBOR interest has increased from 1.9 to 3.03 so almost 60% increase is there in the LIBOR interest plus if you see the overall revenue has grown by 36%. So when there is a growth in revenue either on account of there is a volume increase across all the business plus there is a value increase because of the commodity prices so overall increase is 36%. So because of this the interest cost has increased and from interest cost as we had said the open period FOREX which is now coming to about 19 crores next to be knocked off actually because that we adjust in EBITDA. So the overall interest cost after adjusting the open period FOREX will be about 123 crores.

Pankaj Sabharwal: So has open NCA amount gone up substantially over the last year period?

V.C.Diwadkar: It has gone up actually it used to be about 1800, 1900 crores proportionately but it is proportionately to the business.

Kushal Desai: There is no deterioration that has happened in the working capital number of days. So if you run across the receivables that are there in the businesses individually they are pretty much in the same level plus minus a day and similarly the net working capital also has not changed substantially. On the LIBOR front as Mr. Diwadkar said there is this difference of about 1.1% or 1.2% and proportionate to there has been increase that has been an increase that has happened in proportion to the revenue where the problem has happen so if you see the cable business the cable business actually the EBITDA has gone up even with the higher sales. The conductor business has had a higher EBITDA per metric ton. The spoilers in party has really been the oil business especially in the first half and there has been some improvement in Quarter 3 compared to Quarter 1 and 2, but last year Quarter 3 and Quarter 4 were relatively very good for the oil business so that has been a bit of a spoiler. If you also look specifically at some of the more profitable pieces of the oil business is really been driven by increase in sales of the automotive and industrial products in the past. However, the price increases which we have been able to make in the market has been lagging behind. We mentioned that in the previous calls also both in the terms of OEMs segment as well as on the retail side for us. So those prices increases has now gone through because in the case of OEMs it is formula based so you would probably find in the fourth quarter the higher price with a lower cost and then post that it should start setting into more stable cycle because the increase happens once in a quarter. So the pricing which is there for example of July, August, September forms the basis of what will happen on first of January.

Pankaj Sabharwal: Just for my understanding what was the debtor day on your conductor business and your inventory days on conductor business.

V.C.Diwadkar: Conductor's business debtor days was 107 days and inventory is about 54 days.

Pankaj Sabharwal: And payable should be?

V.C.Diwadkar: Payables will be about maybe 130 but that includes the LC payable.

Pankaj Sabharwal: So that would be 30 days interest free and balance then interest?

V.C.Diwadkar: 30 days interest free and balance interest.

Pankaj Sabharwal: It is running at 200 crore per annualized number now but the profitability has seen the same improvement as the topline so it is hurting our bottom line significantly?

Kushal Desai: 9 month period has been 133 crores. It will be somewhere in the vicinity of 160-165.

Pankaj Sabharwal: Reported number says 140.

V.C.Diwadkar: That is correct but because we have to adjust the open period FOREX which we adjust in the EBITDA margin.

Moderator: The next question is from the line of Prateeksha Daftari from Equitas Investments. Please go ahead.

Prateeksha Daftari: If you could elaborate a little on even the raw material cost last two quarter we are seeing it to be around 80% of the sales so do we expect this to be in range and also you mentioned about some increase in power cost at Jharsuguda, so if you could elaborate further that what was the impact in this quarter, apart from that what kind of execution period do we have for planned for the current order book these are my questions?

V.C.Diwadkar: Current order book is close to about 10.5 month actually as far as conductor is concerned. As far as this Lapanga plant is concerned because of bureaucracy we had not got the grid connection and we had to generate the power based on the diesel generator end of December we got the permission so that impact is about Rs. 350 per metric ton so that much improvement will be there going forward from January onwards. As far as the raw material cost is concerned we have to look at different business actually.

Kushal Desai: It is difficult to capture based on a percentage of topline because a lot of it depends on LME, but roughly speaking depending on the mix of product that comes in our expectation is that as you move into 2019 in the case of a conductor business the high efficiency conductor business has come down to 8% which was already at 13% and the entire last financial year was also close to that number of 13%. So that actually does have a big impact in terms of the conductor side. In the case of our oil business the value should actually improve as we go forward with the margins on the industrial and automotive expanding. On the cable side we see that pretty much at this level our guidance for the year was anywhere between 10.25 and 10.5 and we are at 10.2 for these 9 months looking at the order book which we have which will execute in Q4 it pretty much looks like we will be there between the 10.25% and 10.5%.

Prateeksha Daftari: In quarter three what was the contribution to revenue from railways orders?

Kushal Desai: We actually have both the cable and conductor segment which are significant presence in railways. So if you see the value in terms of it was about 189 crores in Q3 from the conductor side. I do not have handy the number from the cable side, but I can tell you that it was about 100% higher in this quarter compared to the same period previous year. So in fact one of the biggest growth drivers has been the railways. Also if the electrification is resulting in this complete stoppage of diesel, locomotives being build. So you will have to now substitute the diesel locomotives with electric locomotives. So the work that is going on the electric locomotive side is also running at a fairly high level and approximate numbers that we have for the railways is about 110 crores if what we have executed this year versus about 62 crores that we executed in the same period previous year for the railways 9 months I am talking about. You see that the business is up almost 80% in the year-on-year period.

Prateeksha Daftari: And if you could just update about the GST refund the last time in the call you had said about 40, 44 crores are stuck with GST refund so where do we stand right now?

V.C.Diwadkar: GST refund have now become reasonable actually. The GST refund at the end of December were about 17 crores earlier that number at one point of time it was 100 crores later on it was 80 crores then 55 crores and now it is reasonable at 17 crores plus the pre import condition they had put because of which this refund gets accumulated that condition also they have removed with effect from first of January and they have said this has been removed till 31st March. Hopefully they will extend that period but now that refund should further go down actually.

Prateeksha Daftari: I could not hear you properly if you mention your LC credit which is link to LIBOR the number?

V.C.Diwadkar: That was 1530 crores.

Prateeksha Daftari: And non LIBOR base?

V.C.Diwadkar: Non LIBOR base is 686 crores.

Moderator: The next question is from the line of Girish Raj from Quest Investment. Please go ahead.

Girish Raj: When I look at your new order inflow excluding the railways also it comes to around 3367 crores. When I look at the market there is a subdued sentiment in terms of the transmission side, but our number suggest good, so Kushal bhai can you give your views as to what is happening in terms of international and domestic when we see that TBCB players, private players are under pressure?

Chaitanya Desai: You are correct that the transmission in the country domestic market is generally down but that is more so for the interstate transmission business. The distribution business and the sub transmission are actually fairly compensating the drop in the interstate transmission and with regard to Apar we are as you know doing lot of exports also so that has helped us and this new business of Apar conductor then some of the optical fiber ground wire, OPGW so all these things put together has helped us to increase our order book and also we have done some high efficiency conductor which actually went down somewhat, but this is another avenue which is not linked to the new lines. It is more for the Reconductoring cases. So in times to come our growth drivers may be other than the interstate business.

Kushal Desai : If we actually go back and look at some of our comments in previous earnings call the conductor business a few years ago was very dependent on just conventional, just overhead conductors. We now have basically five areas from where the business is coming in follow which is running in the fifth is the CTC which will start in April. So we have the conventional conductors and we have the high efficiency conductors then we have brought in the copper conductor line which from the railways and we have increased our alloy sales the aluminium rods and things which go into specialty fixtures for electric hardware, etc., and besides these four there is also the OPGW which actually is little bit smaller in terms of this value but is another diversification that exist. So the whole conductor pie the pie has been broad based and in FY20 you will start seeing higher and higher percentage of all this coming in compared to the conventional conductor that is also being reflected in current order book to some extent except for HEC where we have not physically received the order we are L1 on a number of jobs and there is whole lot of new tenders which have been published but not opened yet.

Girish Raj: So 3226 crores of order book majority would be conventional and how does it break up?

V.C.Diwadkar: HEC is about 255 crores and this copper conductors 686 crores and 255 as I said is HEC conductor and balance will be this conventional conductor domestic and export both.

Girish Raj: I would appreciate if you can share your view on exports because that is a market which is driving our order book I would guess so because domestic is under pressure and which are the countries that is driving?

Chaitanya Desai: So basically, like in India the same phenomenon is worldwide where lot of renewable energy is coming in that is actually driving the worldwide transmission and distribution business where the generation is happening in some part and they have to create new grid to feed into the main grid. So this is one of sort of drivers secondly some of the countries which are traditionally underdeveloped or they now have better sort of political situation so even the world bank and other financial agencies are supporting the government with lot of more infrastructure projects so we are seeing that as another major driver in some of those African countries then also in some countries where they are developed, but they had not really upgraded their system for many decade. So there also we see that they are now trying to make the system more robust and strengthening their respective grid.

Girish Raj: So what I am getting is you are getting growth from the market expansion and geographic expansion?

Chaitanya Desai: Absolutely right. So even the America including Latin America we are seeing some growth in Europe also of course as I explained in some of these developed countries it is more to do with renewable energy grid that kind of goal. While in Africa, in some Asian countries it is more new grids completely bit conventional products also.

Girish Raj: A domestic sentiment would remain subdued for some time?

Chaitanya Desai: Overall I would say it will not be too much down. There were different type of client and different type of business so earlier we used to have Power Grid as our main client doing interstate work now, we will have lot of EPC parties doing intrastate and also private sector BOOT companies, developers. So there is a different sort of requirement nowadays in the market place even some HEC OPGW so I would say overall the sentiment is down but is for different nature.

Kushal Desai: The nature of the beast is different. As Chaitanya said here that previously you had these ultra and I mentioned that in the opening comments you have a lot of ultra-high voltage lines 765 lines, 800 KV, etc., so that is very little of new lines coming in. It is mostly execution of the existing line which are there which may last for another couple of year, but a lot of new business is being generated from the non-conventional energy sources as well as within the state and these phenomenon is a worldwide phenomenon as Chaitanya said. We are seeing opportunities coming up in countries which we did not export to so much in the past. This includes Scandinavia, this demand in Australia coming up, Canada, North America etcetera. The ball game has changed a little bit fortunately our manufacturing is very flexible and in fact some of these cases there is high efficiency conductors going into some of these developed countries so we are in sort of pitching in that. So if that comes through then obviously we have higher value addition as we go forward.

Moderator: The next question is Rukun Tarachandani from Kotak Asset Management Company. Please go ahead.

Rukun Tarachandani: As per the numbers that you shared it appears that copper conductor is about 20% of the order book, so is this high margin product similar to the HEC conductor?

Chaitanya Desai: It has been between conventional and the HEC in terms of margins.

Rukun Tarachandani: And HEC the order book is less than 10% of the overall order book, so what gives us the confidence that we might see a better contribution from this segment going forward?

Chaitanya Desai: As Kushal explained in our opening remarks that there is a latent demand. So already the lines have been identified by the respective customer, but either due to bureaucracy or funds not being allocated this year for these various projects this demand have got postponed so the government was trying to push for more of the connection to each of the villages and lot of more work was happening on the distribution side, but as the urbanization mode is increasing definitely the power to the respective cities or state capital have to also go up. So lot of strengthening of the grid has to happen to feed the power to the cities. So that is why this latent demand exists and these lines have been identified. A lot of these lines are today running at more than their existing capacity and it is actually not a very healthy safe kind of operation so they will have to be upgraded in times to come.

Kushal Desai : In fact, in some cases there is a political issue because when you reconduct, you shutdown for a period of time so that reconducting can be done on those lines and that is a little bit politically inconvenient given the impending elections so that also has been a slight contributory factor. So our sense is that there is no real room to postpone this and it is just a matter of time before it comes it is a bit frustrating and disappointing from a high of 13% has come down to 8 when the trend was expected to go to 20% of our revenues, but I think we just have to wait little bit more patiently for a few months and it is going to fall in place. In the meantime other countries like Nepal and particularly Bangladesh have completely standardized on these High efficiency conductors especially in difficult terrains. So the demand from there is continuing to come, but obviously we will see higher profitability in the domestic market as compared to an export market with all the logistics and other cost which are involved. So we see this only as a postponement, but not something which will not happen.

Rukun Tarachandani: On the cable side do you share an order book or what kind of visibility you have on the revenues and within that on the Elastomeric cables as well?

Kushal Desai: We do not really have the cycle of execution is a lot faster than the case of conductors which is a much more long cycle business. So even though we have about 700 crores of pending orders it is not reflective of judgment on how much the business will end up doing. The Elastomeric cable is actually growing as I said earlier it has grown 22% in terms of volume and we continue to see growth there because the driver for it the wind energy is just coming in after having a lull for about two years. So the main drivers for Elastomeric business are wind, solar wire paneling, defence ships and the larger segment emerging now is the railways whether it is used for both for coach as well as locomotive wiring. So our expectation is that next year also we will see about 20% growth in the Elastomeric segment.

Rukun Tarachandani: One final question you said that for oil segment December was bad considered you had some higher price inventory of raw material how do you see that situation in the current quarter is that higher price inventory largely out or that is the situation continuous?

Kushal Desai: So we will have a problem in the month of January which is just a past month as most of that hangover gets sold out. So you will start seeing better margins from February onwards the more important thing is that it seems like the outlook for both the currencies as well as for the crude thus the brand in which it will probably operate will be a lot tighter than it was in 2018 you would not see such wild swings taking place. Now no one can actually predict it to perfection but if that does happen there are oil business profitability will be similar to what it was in 2017 when we ended up having a more stability on that front and the benefits of our growth in the automotive industrial side I am not manifested. So the moment we are able to catch up on the cycle of the inflation which will happen in the fourth quarter you will start seeing an improvement taking place on margins.

Moderator: The next question is from the line of Saurabh Patwa from HDFC Mutual Fund. Please go ahead.

Saurabh Patwa: Just throw more light on the segmental volumes within conductor this would help us understand how the blended realization would have improved and some outlook on the same going forward.

V.C.Diwadkar: Actually we are not giving the volumes we were giving values only.

Saurabh Patwa: Because our realizations have improved dramatically in last one and half years the part of it would be because of the copper conductor which would have higher realizations.

V.C.Diwadkar: Copper conductor is about 13% of revenue and steel is about 10% of revenue and rod is about 10% of revenue so here you see about 33% coming from the other than the conventional conductor and copper is almost three times the aluminum that is why you are seeing the realization improving mainly on account of copper plus the steel realization is also higher.

Saurabh Patwa: And how about be the margin profile for these products?

V.C.Diwadkar: Steel is highest copper is in between and then the last one is conventional. So rod is between copper and conventional.

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

Maulik Patel: Couple of question in cable side if you can elaborate breakup of the revenue between the power, telecom and the elastomer for the 9 months that could be helpful?

Kushal Desai: The growth percentages are out if you look at the segmental increase or the values which are there. So approximately for the 9 months period is about 1100 crores is a total sale that has happened 1131 crores. So elasto was around 265, optical fiber is about 185 and XLP is around 685. Approximately you can say 23% to 25% is elasto, 15%, 16% is OFC and around 62% is the XLP.

Maulik Patel: And from margin perspective elastomer will be highest right followed by OFC and then the power?

Kushal Desai: Absolutely.

Maulik Patel: Second question is again on the conductor side and so can we have the ramp up in the copper conductor is much better than what we initially thought about and also it is now reflecting in your order book though you have some specific HEC conductor has been down, but from a guidance perspective at EBITDA per ton what could be the number for coming years. I am not looking for the near term though there could be a volatility because of the raw material prices because the way your mix is now going to change or the copper is increasing so what could be that guidance which we can look forward?

Chaitanya Desai: Our hope is that we can increase our quantities of the more specialty product with the better value addition and definitely the latent demand as I mentioned is there on the HEC, copper we are seeing the real demand on the railway side also some of the specialty alloy products and some of the other new product like the CTC which will come out in April. So keeping this in mind we see the value addition EBITDA improving in the business, but we have to sort of be little cognizant that we do some changes in the market place from time-to-time.

V.C.Diwadkar: Maulik it is really difficult at this stage to tell you the number, but we can only say the trend the trend will be upward because of the increase product mix of higher EBITDA product.

Chaitanya Desai: See our idea is to use our common facilities and to debottleneck areas for making the more value added product actually that is our basic strategy.

Maulik Patel: The last question again in the first question there was an interest component was that right. Now historically what we have observed one I think is the rupee volatility along with the commodity price volatility increase your interest expense because the hedging cost goes up. This time also the LIBOR has also moved up as mentioned in the commands and also the revenue base is increase so obviously the working capital and hedging cost has gone out. From purely the number perspective what we are currently around 170 CR, 180 CR of an interest expense, will it go up or go down just from a trend perspective.

V.C.Diwadkar: See with the revenue going up it will go up actually the revenue going up it will go up, but the LIBOR we are told that the LIBOR is likely to go down actually. In years to come means now the LIBOR will not increase that is what is the trend which we have been indicating.

Kushal Desai: I think Maulik at the end of the day the measure that we would see as a management is the ratio of interest to the value addition that we drive in the business. what has happened is that the figure looks worse in the 9 month period because the oil business is actually running at an EBITDA per KL which is only 60% of what it is in the previous year. Moments that changes and comes back to a more normal level you will see a big jump that is happening on the overall value addition of the company. The interest per se is not going to reduce because the customers are pushing for longer days of payment and they are ready to open LCs, etc., but they say okay you give me 30 days extra or 60 days extra or LC versus on open credit and given the current scenario as a management we would prefer a confirmed instrument which is irrevocable and without records as opposed to open payment terms even if we have to give a few more days of credit just to manage the cash flow. So the key thing that we have here is that is not something that is going to change very much but what hopefully we will be able to achieve in FY20 and all the blocks have pretty much lined up for that is with the mix of the business will be able to improve the value addition. It is very difficult to tell you what the EBITDA will be exactly next year for the conductor business. We have designed the product mix for it to get to Rs. 12,000 per ton so when you have the HEC there when you have copper in there the three year odd business, etc., and all of that contributing to over 40% of our revenues then we should be hedging towards 12,000 per ton.

Moderator: The next question is from the line of Nimish Shah from Emkay Investment. Please go ahead.

Nimish Shah: Sir if you could just explain what is the translation loss at the Hamriyah plant?

V.C.Diwadkar: See the functional currency in Hamriyah is US dollar actually. We maintain the books in US dollar but translation loss comes in when you convert that to rupees actually.

Nimish Shah: This is a booked loss?

V.C.Diwadkar: This is just a paper loss actually because all the operations are operated in US dollar only.

Kushal Desai: So what has happened here and why the loss is a little bit more prominent it is a dollar business but as you consolidated it gets translated into rupees the inventory levels that we were holding at the end of the quarter was relatively high. So as a consequence, the translational loss becomes more.

V.C.Diwadkar: And inventory has to be translated at the quarter end rate whereas the purchases are to be booked at the average rate of the quarter?

Nimish Shah: So is this 4 crores loss included in the EBITDA number in FY19?

V.C.Diwadkar: It is included in the EBITDA number.

Kushal Desai: It is from EBITDA it is coming all the way round to PAT there is no taxation effect in that jurisdiction. So if you take the cash impact as opposed to book impact where it would go up by that 4.9 crores.

Nimish Shah: So is that the reason why the tax rate is higher this quarter?

V.C.Diwadkar: Yes.

Nimish Shah: Any guidance on the tax rate for the full year?

V.C.Diwadkar: Tax rate is almost full rate is there actually Indian rate actually. As far as this subsidiary is concerned this is not having any tax. So if it makes profit then the overall tax rate will go down if it makes loss then the tax rate will look to be higher.

Nimish Shah: Sir on the 9 month basis what will be the HEC contribution to the overall contribution?

V.C.Diwadkar: 10%.

Moderator: The next question is from the line of Shraddha from Edelweiss. Please go ahead**.**

Shraddha: I think this is asked earlier, but just wanted to reiterate in conductors while you said with all the measures that we are taking and as HEC and all pick up we will be going eventually towards 12,000 EBITDA per ton, but as of now looking at the run rate I think somewhere we have indicated that we will be somewhere in the 10,000 range for the year because last quarter we were talking about somewhere upwards of 11,000 so that looks difficult in the current scenario right?

Kushal Desai: In the current scenario it does primarily from the fact that high efficiency conductor even if the orders start coming in there is very little time for execution and the execution is also a function of getting as I mentioned earlier line outages which was a little bit politically sensitive because if we have long line outages and its equivalent to not having power for those household. So that is why I say that it is a little disappointing that some of this business got postponed but it is clear that this business out there and as Chaitanya has mentioned earlier in the call many of the lines which had been identified as priority for changing our running at dangerously high levels of transmission it should not be running transmitting that much power on those lines. So it is very likely that some of this stuff will fructify. So we are at this point in time we have no other options but to sort of patiently wait and be on top of the customers to make sure that when the opportunity comes up we are ready to execute.

Shraddha: And also you twice indicated that there is slowdown of new lines and ultrahigh HVDC and all so I mean is it that it is like topping out for us an opportunity and hence the product mix will now be mixture of all these newer opportunities like copper conductor and work conventional conductors?

Chaitanya Desai: In India to some extent what you said is correct although as I explained earlier some of the 765 KV business which was there in a big way will be replaced by low voltage classes 220, 132 KV per line, but elsewhere in the world there will be definitely the normal demand so that is also driven by lot of new work happening on the renewable energy side.

Kushal Desai: So Shraddha saying is that you will have a slowdown happening on the 765 KV and 800 KV in terms of new awards. Having said that this is quite a bit in the pipeline. So ABB is executing a fairly large transformer order and you have got 765 KV transformer being executed pretty much pretty much by all the big players, but we do not see the pace of that being as high as it was in the last five years it will start falling off at this stage, but it will be more than compensated in terms of the total business out there by the other electrification that is going to come up.

Shraddha: But in terms of profitability as you said copper conductor is somewhere in between HEC and the traditional conductors so I mean going forward what is the kind of optimum profitability we can look at with the current mix or potential mix?

Kushal Desai: With the potential mix we are trying to target 12,000 a ton.

Shraddha: And just lastly copper conductor if you can just highlight what is the kind of opportunity we have and our positioning in that space?

Chaitanya Desai: So for the next five years or so we see a lot of electrification happening. We are converting all the diesel system to the electric system lot of new tracks are being put in place there is some Rs. 35,000 crores of investment in the railways segment and in terms of the copper conductors it translates to close to 25,000 tons per annum requirement. So we see this is a steady demand in the next few years because traditionally in India the EPC and the other supporting players have been doing hardly one fifth of whatever the current goals are of the government. So there will be a fair amount of demand in the next few years plus our business we would like to do export also. So after sort of getting ourselves established in the local market we will also start exporting. So there is a huge demand outside India for the railways it is just that we have to get moving in that direction too there is some effort being made by us from there.

Moderator: The next question is from the line of Anant Jain an Individual Investor. Please go ahead.

Anant Jain: The first question I think it must be a repeat question but still like I want to just look at our EBITDA and PAT margins we have a historical load at this point of time, so can there be a normalized assessment of what the margins could be over next two, three years what one should handle with this some kind of normalization there?

Kushal Desai: Other than the cable business our oil segment and conductor segment is difficult to talk about as a percentage of so that is why we always hear something about per ton or per KL basis. So our target is to get the conductor business to 12,000 per ton and oil business to cross sale of 5,000 per kl that is what the target is. The product mix which you are targeting is capable of supporting that and so that is what our endeavor would be as we move into 2020 to get as close to that number as possible and on the cable side we are at double digit we have crossed the 10% now on a steady basis this year. We expect as I mentioned earlier between 10.25 and 10.5 and as we get into the 2020 we are looking at revenue of 2000 crores and delivering 10 plus percent EBITDA.

Anant Jain: The next question is you said number around two concall back you said one of our competitors was going out of business because of very aggressive pricing has that happened?

Chaitanya Desai: One of them has gone out of business the other one is not taking on new business but they are completing some of the orders on hand.

Anant Jain: But that would also imply that the margins should increase because of lesser amount of competition that has not happened?

Kushal Desai: If you look at the addressable demand which is out there that also has not been growing and there has been a change in the composition as we have been talking on this call where you had traditional 765 KV and 800 KV where the tonnage is very high. So you know in one shot you end up actually executing large tonnage that is moving into a much more distributed mode way you have 132 KV and 220 KV but the volume that finally that comes up of that will pretty much compensate for the 765 KV. So you are in a period where the change is actually taking place. Now we have one business as you can see from the order book the copper side is up even the conventional conductor side particularly from the export side. So the domestic side is a bit soft, but as far as Apar is concerned we are not really worried because the export has actually and what is coming from the non-conventional energy side will compensate for any drops that are there on the conventional 765 KV-800 KV market.

Anant Jain: The next question is it fair to assume that Savita Oil technologies is one of our competitors on the oil side?

Kushal Desai: Yeah we have them as main competitor for our transformer oil, white oils.

Anant Jain: But the margin profile of Savita oil is far better than yours is there kind of a significant product difference is what I wanted to understand and if yes then I mean otherwise they are kind of operating at 30% PBT margin in their business if you go. I was just interested in why is this kind of difference?

Kushal Desai: I do not want to get to talking about specifics with respect to competitors so there is fundamentally they have a similar product mix as ours. They have a fundamentally different hedging policy so you may have some periods where with the volatility is happening on the foreign exchange they handle it differently. We take plain vanilla forward covers and so typically if you take range forward or you take any of these things where the upsides are open like what has happened in the last quarter you may see a certain sort of boost taking place where you take a historical view of the last four, five years our product mix are actually been richer in this where we have a penalty right now is the Hamriyah plant which has come up there is an additional overhead from the plant and volumes from there have not actually fully played out because the middle east the GPC and the African region is a bit subdued in terms of as I mentioned in the very first paragraph of today's comment that market has been subdued like Saudi Arabian market is down 50% Iran which can actually be service very well from there is under sanctions and most of the African countries the buyers are rich and have the money to purchase, but the country does not have adequate foreign exchange because of that the profitability expected coming out of the Hamriyah facility is a lot lower than what have been planned. Also the automotive business the nature of our business may be different than theirs. So when you have a more steady state sort of situation then the actual number start showing up.

Anant Jain: Last question is on HEC the reason I am asking this question because at the end of Q2 the guidance for HEC was 15% and in this quarter we did only 8% and up to Q2 we did around 10% to 11% I think 11% is what we did the assumption was that the next two quarters we 20% in HEC to make 15% guidance for the whole FY19.

V.C.Diwadkar: Actually, what happens in case of HEC even the orders which were on hand did not get executed actually because as explained earlier on the call actually because you had to get the outages and during this election period, they may not like to give the outage plus the orders which were open actually those tenders which were open they were also not finalized.

Kushal Desai: There is a huge amount of latent demand it is running in 100 plus crores including tenders which have opened but not awarded and tenders which have been published but not opened so that is the reason why this particular quarter even last quarter has been lower than what we had originally envisaged, but from 2020 I do not think being in the industry we can see that the lines are running at dangerously high levels of utilization. So it is a matter of time before which come election or no election will have to do something about it and the lines have been identified the technology has been identified it is an execution issue from the government side So our sense is that 2020 we will see a slightly different picture on this HEC front.

Anant Jain: Last question is on the cable side now if one tracks most of the cable companies what has happened over a period of time is that all of them had great demand and we can clearly see the numbers and everything and there is a significant capacity expansion happening all through the industry so do you see some kind of an excess capacity developing in that segment?

Kushal Desai: The power cable side is described by whatever you have said where power have put in a lot of capacity or have started adding capacity. The real bottleneck in the cable business today is access to working capital so it is not a question of how much physical capacity you have but how much business you can do given the fact that is difficult to access increased borrowings from banks etcetera. The power cable has always remained competitive our margins have improved not because selling prices have improved but because of economies of scale as production has got larger and the productivity which you will be able to drive. The main difference that has come is actually come from the elastomeric and the OFC side where the margins are intrinsically higher and that has contributed a large portion of the pie. In terms of the elastomeric side is not a question of just putting in just cabling capacity because you do your own compounding. So you have also got to have the compounding capability and then have approval from customer and it is a lot more involved and difficult process on the power cable side where the product mix is relatively straight forward. So I do not see that impact coming in and hitting our cable business for at least the foreseeable future.

Moderator: The next question is from the line of Lalaram Singh from Vibrant Securities. Please go ahead.

Lalaram Singh: My question is on the elastomeric cable you said that you have seen good demand from renewable especially wind however based on rating of industry article it seems that the execution have not been in line with the biddings which have happened, so what is your take on that or execution picking up on the ground?

Kushal Desai: In this financial year the contribution which has come from wind is still very small it has only started picking up in the last few months and some of the key customers as we have they have got orders and have started executing the supply of the wind business. So if you see this year we have done a little over 40 crores in revenues for the windmill sector which was in line with what was there in the last year. The only difference is that last year all of the revenue came in the first quarter and then everything shutdown pretty much. Now the business has started reviving so we have seen increased order booking that comes from Suzlon, from Gamesa even from INOX projects have started taking off by customers in some cases are actually picking up the cables and ordering them on a direct basis. So across the board we have seen that windmill side has started picking up.

Lalaram Singh: And within this segment with whom do we compete the competitors within elastomeric cables?

Kushal Desai: The main competitor that we have is universal cable of Satana then to a smaller extent there is KEI and few others depending on the sizes of the cables involved, but by far we are the dominant player on the wind side in the country. We have over 60% share in this.

Lalaram Singh: And this business also works on a tender basis?

Kushal Desai: The windmill supplier would probably either tender or negotiated because finally there is an EPC player or utility that bids on power tariff then that translates into an order that has been placed on the windmill company and we are basically supplying the cables which actually go into the windmills. So ours is a pure negotiated deals there is no tender that we have with our customer.

Lalaram Singh: The last question is on the conductor side you said there was an impact of around Rs. 350 to Rs. 400 per ton because of the lack of availability of grid power, so after adjusting for that still our EBITDA per ton say below 9000 per metric ton if you compare with the first quarter of this year and even second quarter it is much below that, so are there any other reasons also which are responsible for the drop apart from the product mix and this power availability?

V.C.Diwadkar: See one is the product mix as you said actually HEC is 8% as against that last year it was much higher actually as I have 13%, but there is a cost in that in case of furnace oil also because of the oil price increasing the furnace oil impact is about Rs. 460 per ton and there is impact on steel also which we have said in our investor update also that is about Rs. 430 per ton this is for 9 months this is not for the quarter actually the entire 9 months.

Lalaram Singh: So could you give us some commentary on the current situation of raw material across your different business segment cooper, steel, aluminum and Oil.

Kushal Desai: So as far as copper and aluminum is concerned they are both hedgeable commodities. So in that we managed the volatility or the movements up or down by actually taking back to back positions on LME. This impact has come from steel which is not hedgeable and then the higher consumption of furnace oil as well as diesel because of the lack of this electrical connectivity is there. So that issue has got sorted out as I said generally 2020 we see a more benign environment in terms of impact on these factors.

Lalaram Singh: Also on the interest cost I think although on a YoY basis there is an increase per sequentially this time we have shown an improvement which is a very good sign so should expect the interest cost to stabilize at this quarterly run rate going forward?

V.C.Diwadkar: Generally, it will stabilize but it will also be driven by revenues suppose tomorrow if the revenue increase then the interest cost is going to increase. It will be in line with the revenue percentage wise.

Moderator: Ladies and gentlemen that was the last question. I now hand the conference over to the management for their closing comment.

Kushal Desai: Thank you very much for being on our call and patiently sitting through the Q&A. So thank you very much, good bye.

Moderator: Ladies and gentlemen with that I conclude today’s conference. Thank you for joining us and you may now disconnect your lines.