

Apar Industries Limited
Q1 FY20 Earnings Conference Call
August 13, 2019

Moderator: Ladies and gentlemen, good day and welcome to the Apar Industries Limited Q1 FY20 Earnings Conference Call hosted by Four-S Services. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Nitesh Kumar from Four-S Services. Thank you and over to you sir.

Nitesh Kumar: Thank you. Good afternoon everyone. On behalf of Four-S Services, I welcome all the participants to the Apar Industries Q1 FY20 earnings conference call. Today on the conference, we have Mr. Kushal Desai – Chairman and Managing Director, Mr. Chaitanya Desai – Managing Director and Mr. V. C. Diwadkar – CFO, Apar Industries. I would now like to hand over the call to Mr. Kushal Desai for his opening remarks.

Kushal Desai: Good afternoon everyone and a warm welcome to Q1 FY20 earnings call of Apar Industries. I will start off with some industry highlights and follow that up with some more specific financials and segmental performance details and then we can open the floor for questions.

At the outset, Apar had a relatively good quarter to start the year with profitable growth across all our 3 businesses; the conductor business, the specialty oil business and the cable business. However, the conditions remain reasonably challenging in this environment which has some tepid demand and fairly high level of credit tightness.

I will cover a few highlights in the T&D sector as such. So T&D orders of over 13,500 crores are announced by key companies in Q1 FY20. There is otherwise been generally a reduced order inflow that has been witnessed by most of the companies. Just very recently 6 BOOT projects have been awarded, 2 to Power Grid, 2 to Sterlite Grid and 2 to Adani and hopefully that should start a series of new transmission line orders. 2110 ckms of AC transmission lines and 12,450 MVA of AC Substation transformer capacity was added in the first quarter of FY20. Power Grid has an FY20 CAPEX target of about Rs 15,000 crores, out of which Rs 2909 crores were done in Q1 FY20. This is lower than the average for the past few years which has been 25,000 plus crores. Hopefully as the year passes by, there will be some additions that take place to this target.

In terms of the budget of FY20, we saw increased allocation to some key distribution schemes compared to FY 19, revised estimates such as 5280 crores to the IPDS which is the integrated power development scheme which is 33% more than in FY19. 4066 crores to the Deen Dayal Upadhyaya Gram Vidyut Yojana which is up 7% over the previous year and 1,035 crores to the power system upgradation and development fund which is 90% more than the previous year. However, the total allocation of the power sector in the central schemes amounts to only 11,969 crores compared to almost 14,000 crores in FY19 and lower than what was in the previous years prior to that. So there was the nominal increase of couple of percent even to the renewable energy sector. So still a lot of the growth which is to come is still to be announced as such.

The government is still working on reform 2.0 to solve the endemic issues that are playing the Discoms which are still suffering from losses higher than what is planned. We expect some announcements to come soon, but these unfortunately haven't been announced yet. Proposals include the power sector council to resolve centre and state issues, setting up of a pan India power distributor and building renewable energy management centres across India. The CEAs draft plan for the power distribution sector emphasizes 100% smart metering and an increase in distribution, substation capacity by 38% and distribution transformation capacity by 32% till 2022. However, no specific announcements have been made yet which is what is a little worrisome for the industry. Earlier, there is payment from central and state governments for billing which have been done as early as March 2019 still remains to be cleared which is causing a credit jam throughout the industry. There seems to be no clear visibility in sight for the situation to improve.

In terms of the railway electrification, this continues to be a major driver as electrification products are being planned by the government to electrify the balance 28,810 railway kilometres to broad gauge by FY22. In addition to this, there are also multiple expansions going on and execution happening on the metro rail side.

So based on this overall background, I would like to now just cover more specifically Apar's financial performance. In Q1 FY20 consolidated revenue came in at Rs 1,984 crores which is up 32% year-on-year. EBITDA post Forex adjustment came in at Rs 137 crores which is up 22% year-on-year with a 30% increase in conductor division EBITDA, 42% increase in the oil division EBITDA and 72% increase in the cable division EBITDA. Profit after tax came in at Rs 41 crore which is up 42% over the same period previous year.

Looking at the segmental performance, our conductor business grew 61% year-on-year to reach Rs 1,022 crores in the first quarter. Volume increased 29% to reach 41,802 metric tonne. The EBITDA per metric tonne post Forex adjustments came in at Rs 12,137 compared to Rs 12,073 in the first quarter of FY19. The share of higher value business which is primarily from the railways and the high efficiency conductors came in at 40%. 27% of this came from copper conductors and 13% from the high efficiency conductor. The order book at the end of June 2019 came in at Rs 2656 crores which is up 9% over the previous year. However, this is lower than the year opening order book which we had which was Rs 3,020 crores and it is basically reflective of a slower pace of orders being awarded. Initially just leading up to the elections, the model code of conduct was preventing finalization of tender and post the budget coming up we have really not seen the kind of pace of activity that one should be seeing. This includes about Rs 373 crores from the railways for copper conductors and Rs 473 crores of high efficiency conductors. The new order intake came in at Rs 594 crores which is well below what we had seen in the first quarter of last year, for some of the reasons that I just mentioned earlier. Our CTC project for the transformer industry, supply of the copper transpose conductors in transformer manufacturing has now been commissioned and trial production has begun.

Coming to the specialty oil segment, the revenue increased to Rs 619 crores which is 8% higher than the previous year. Volumes were at 1,06,000 KL which is up 13% over the same period of previous year. The Hamriyah UAE plant's capacity utilization has increased to 70% from 56% in the first quarter of FY19, this is reasonably commendable given that the Middle East region is still under considerably stressful economic condition. The auto lubes and the industrial oil business contributed to 23% of the revenues. Demand from OEMs and general industrial customers remain quite muted through the quarter and it seems a little bit more difficult in the second quarter of this year. We do not see any visible changes that are likely to happen in this environment in the absence of anything that is announced by the government to spur growth and the investment cycle as such. The EBITDA per KL after Forex adjustment improved by 26% and came in at Rs. 3,907 per KL.

Coming to the cable business, so the cable business did had its best quarter so far and delivered a revenue growth of about 24% year-on-year. So this is at Rs 394 crores. This was driven by a 62% growth in the elastomeric and e-beam cables with good demand coming in for supply of railway cables, railway harnesses as well as the defence segment. Power cable revenue was up 20% year-on-year in a highly competitive market. Telecom cable performance was flat compared to the same period previous quarter, but we expected to be substantially lower due to the financial challenges which exist at particularly BSNL and the condition of most of the

telecom companies where the CAPEX cycle has really been frozen including at Reliance Jio.

EBITDA margin post Forex adjustment came in at 13.2% versus 9.5% in the same period previous year. The demand from non-conventional energy power plants is expected to be strong in the future; however, we see a temporary slowdown in that segment including power cables and telecom cables which are the worst affected as such. And even the elastomeric cables, the current order book remains reasonably strong for Q2 and a part of Q3, but we await new tenders to come in to keep the continuity of flow of orders at the current pace.

So in conclusion, I would like to summarize that we had a relatively good Q1. The visibility for the rest of the year remains a little bit clouded at this stage especially in the absence of more specific in terms of schemes or demand generation incentives in the near term. The government through its annual budget has painted a very aggressive longer term growth targets and numbers, but the shorter term as I said is a little bit unclear. Demand across all segments is weaker than we would like and the credit environment continues to be more challenging than one would expect. Our strategy as a company is to operate relatively conservatively in this environment with a close eye on both the cash flow and the balance sheet. We are hopeful that the demand environment should improve and as it takes place, we are obviously ready to encash on all the opportunities that come by. So with this, I come to the end of my comments as such. I would like to thank everyone for joining our call and now open the floor for questions.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Maulik Patel from Equirus Securities Private Limited. Please go ahead.

Maulik Patel: Few questions. You mentioned that there is a significant credit crunch in the systems and particularly the customers are not paying. How long the situation has been and as you mentioned that you do not see any near-term solution to that. So worst what could it get because what you understand that there is a cascading effect across the value chain not only in sector which Apar operates, but there are other sectors which the government or the PSUs are the large customers.

Kushal Desai: So Maulik, we are seeing that payment side is slowing down post February 2019 and the industry's initial feeling was that it is maybe as the elections are approaching etc., but post the elections having got completed, we are still seeing payments on some of the utilities mostly state related utilities which have not yet come in from March of 2019 onwards. As a consequence resulting in a lot of credit jam in the industry as such. You find for example, transformer manufacturers not wanting to manufacture fresh transformers, even though they may have certain orders in place

in the absence of receiving previous payments coming in from the utility. So this is resulting actually as the time is passing by, more difficult situation in terms of even demand coming from that segment. We have also seen even the highway projects which are running at a very rapid pace, they have also slowed down to some extent. So that has an effect on some of the industrial lubricants and some automotive lubricants which actually go to these operators. Finally on the fiber optic side, you have BSNL which seems to be also in very serious financial trouble. So even previous orders have been supplied by the industry, the balance 10% payments have not been received for more than a year. So of course Apar is relatively not the largest player in that segment. There are some very large players in the fiber optic side who probably have been affected much more than us. So when you add on this up, it means that some of these areas where in 2019, demand was very strong, the cycle has got a little bit hurt. On the other hand, we are finding that as far as railways is concerned, the work is still going on at a reasonably rapid pace. In fact, the supplies have outstripped the speed with some of the EPC contractors have been able to string and complete their projects, but otherwise the demand continues to remain strong. So both the copper conductor side as well as the cables which supply railway cables, railway harnesses etc. seem to be reasonably on track. The government spending on the defence side continues to remain good. But it is the power side where we are seeing the slowdown and problem at the moment largely coming from payments that should be coming through.

Maulik Patel:

And specifically in a conductor, I think the order inflow which was expected to improve significantly post the election, has it happened?

Kushal Desai:

So the silver lining is that as I mentioned in the call, very recently 6 BOOT tenders have been awarded, 2 have gone to Adani, 2 have gone to Power Grid and 2 have gone to Sterlite Grid, of HEC conductors of approximately 100,000 metric tonnes. So they will then come out now in the next few months for bidding. So that is like the beginning of and plus as I mentioned some new awards have taken place for substation. But this seems like the beginning. It needs to be at a much more rapid pace as the government is to execute what they have planned and so hopefully in the next few months, the pace of this activity should pick up. On the other hand, we have seen some finalization of the high efficiency conductor tenders. We had been in our previous calls saying that some of these will start because of the model code of conduct even though the tenders had opened. So we have started receiving some of those. We received about Rs 103 crores in the first quarter and we expect a larger amount of it to come in the second quarter. So things are starting to show some signs of picking up, but the pace of this is still not something that we can calibrate yet.

Maulik Patel: Guys, so in all this uncertainty from the government in terms of payment in that and probably that is in a longer cycles the players like you have it, but will this translate into some kind of margin or it will improve the margin, if you can throw because there is category of smaller players who won't be able to sustain this liquidity crisis, but they will make an exit and then subsequently there is better competitive position for you?

Kushal Desai: Actually to tell you honestly, things are little bit unclear right now. So we are just hoping that in the next month or so, more clarity that prevails, when we have the next call, we should be in a better position to be able to gauge the environment as well as the competitive scenario. All I can say is that as the high efficiency conductor demand comes up, then you will see a weighted average improvement taking place on the conductor side compared to we were expecting or what we had in the previous financial year and if the pace of activity with the railways and defence continues through the years and our cable business which has delivered 13.5% EBITDA, you see numbers which are better than what we had seen last year which is closer to 11%. But otherwise to get into more specifics when things are so, it is not very clear right now. I think it would not really be correct on our part to make a more definitive sort of statement.

Maulik Patel: One last question is on the utilization side. In cable, the growth has been fantastic over the last many years and the efforts which have been put for this e-beam conductors and the e-beam cables and I will tell you what, now it is about 1700-1800 kind of an annual revenue, do we need to put more capacities and utilization gives the large CAPEX to be planned for the cable to take a next stride of growth?

Kushal Desai: We have planned in this financial year a total CAPEX of about Rs 160 crores across the 3 divisions. So that is something which has already been in the plan. The cable business we see a total of about Rs 70 crores of investment going in which includes putting in a new electron beam because the two existing ones, one is running pretty much at full capacity. So there is a CAPEX program which has already been planned. But going into FY21 and FY22, you will see a significant slowdown in CAPEX required across all the 3 businesses. Then you pretty much end up putting just some balancing equipment and things to take us through with the 20%-25% growth over the next couple of years.

Maulik Patel: And in conductors, the first quarter growth has been very strong at around 29%-28% kind of a volume growth. So can we expect such a high growth for throughout the year or this will definitely moderate in the coming quarters?

Kushal Desai: We see it is quite likely that it will moderate in the second quarter for sure and then it all depends on all these awards getting their funding closed and the ordering starting to take place.

Maulik Patel: What will be the good number for the full year to estimate in terms of the volume?

Kushal Desai: So as I said, our target has not changed as such. We are still targeting a volume of about 190,000, but depending on finally what happens in Q2, it may close at maybe 180 or something, but do not hold us to the number yet because the visibility is still a little bit weak in terms of the speed of execution that will happen.

Maulik Patel: So in case of 190, you are looking at around 4% growth and in 180, we are looking at a flattish number?

Kushal Desai: That is in a per tonne basis. But as I said, we are very optimistic that this year our high efficiency conductor volume as well as our copper conductor volume will both be up. We are still looking at about 18,000 metric tonnes for copper conductors and 15% plus revenue to come from our high efficiency conductors.

Moderator: Thank you. The next question is from the line of Prateeksha S. from Equitas Investment Consultancy. Please go ahead.

Prateeksha S.: Sir, this question is relating to the interest cost. So just for the Q1, I realized that the interest cost is about 2.89%. Essentially, it shows me that our finance cost or the outgo for the debt stakeholders is higher than our PAT margins. Is this the way of looking at these numbers and also if I compare these numbers with 2 years back, our profit numbers are in line with what we did average quarterly in FY18 or some second half of FY17, but with the significant revenue growth that we have seen over the years, FY19 we did about 33% revenue growth, nothing is translating down to the profitability. So just wanted to have your comments on that. Secondly, data point if you could just share the LC borrowings for this quarter as on June? I will have another question later.

V. C. Diwadkar: The long term borrowings is about Rs 159 crores and the short term is about Rs 150 crores. So that is about Rs 308 crores or something like that. And apart from that we have the suppliers credit actually, with interest actually. So in that their LIBOR based credit is about 1100 crores and the domestic credit with domestic interest is about 1000 crores. As you have seen actually that the interest cost has gone up actually that we have said in last 2-3 calls we have been saying actually because we have lot of LIBOR based borrowings actually and the LIBOR rate which used to be about 1.8 or so had gone up to about 3.25 something like that actually. So there was a substantial increase in the interest rate. That is why the interest cost has gone up. If you see as far as this quarter is concerned, business revenue has gone up by 32%, compared to Q1 of FY19. The main revenue is on account of the railway conductors actually. In conductor division the revenue has gone up by 61%. So that is mainly driven by the railway conductors actually which are fully domestic and which are to be financed through domestic borrowings only.

Prateeksha S.: Right. But having said that are we contemplating any change of strategy in managing our working capital or reducing our supplier's credit because the interest outgo is essentially increasing every quarter and when the revenue growth is not translating to profit growth. My concern is coming from the fact that today 2.89% of our revenue is our interest outgo and I think is significantly contributed by the supplier's credit.

Kushal Desai: So you know there is no change really in the number of days that one is managing. If we look at the number of outstanding there and net working capital, it has increased to some extent but it has not increased very substantially. So I won't look at it from that perspective because each business requires funding of its own type. If you have suppliers credit coming in from overseas the net interest rate is lower than if you are funding it in Indian rupees. So the way we fund is, we have to fund it such that we end up hedging the currencies and we borrow money as far as possible in the same currency or we need to take forward cover hedges. Going forward I would see that if the interest rate regime becomes a little bit more benign, then you would see some amount coming off from that. But today what this covers is just not interest at all, it ends up covering bank charges.

Prateeksha S.: Which would be for your supplier's credit borrowings, right?

Kushal Desai: That is one part. But a lot of customers today are also paying on letters of credit and in the current credit environment we would rather pay LC opening charges and discounting charges and things like that and make sure that our credit is secure as opposed to, we don't have open terms or terms which are relatively more open ended with customers. So what you see here is not only credit that comes from purchase but it also includes credit that is going out on sales and the coming environment I don't see any change happening in this regard because it is just a very difficult credit environment at this stage.

Prateeksha S.: Right. But see, when you say that your working capital days are in control or the working capital days are not that high, that is because your receivable days are low as you are discounting your sales, right, you are discounting your debtors which is coming at a cost and that is impacting my profitability.

V. C. Diwadkar: When we give number of days actually we give the full cycles actually. We take the discounting also which is on our account.

Kushal Desai: Just to close this chapter, in today's credit environment it makes sense for us to pay the extra cost for securing our receivables and that is what is being reflected over here and I don't see that scenario changing in the next, at least for the remaining part of this year. So it is a management call in terms of whether you want to

increase interest and bank charges to make sure that credit delivery is a bit better under control.

Prateeksha S.: Okay. My next question is regarding the oil segment. So we had some high cost inventory that was impacting our margin for last couple of quarters. So are we sorted on the high cost inventory and now can we expect a consistent margin improvement. How much do you anticipate the margins to improve on this front?

Kushal Desai: If you look at the margin portfolio that we have across products, we end up delivering higher margins on our automotive and industrial relative to, next comes transformer oils and then finally process oils and white oils. So it is little tricky to say how margins are going to improve over the next few quarters because the automotive and the industrial side is little bit more under question. Even transformer oil demand has been affected as I mentioned earlier in the call and while answering the previous questions that due to lack of payments the movement of transformers has been relatively slow. So in this whole oil portfolio we are little bit, it is not very clear in terms of how the margins would stack up in the absence of how demand itself would stack up.

Prateeksha S.: So would you be able to give any, like you mentioned that the volumes might be impacted, the demand is impacted going forward, would you be able to give any, what quantum or any specific detail around it?

Kushal Desai: Not really ma'am. The orders are there with people but depending on the cash flow coming in, the execution will then takes place, so that is something which you know is difficult to lay our finger on. In terms of the automotive side, it has been little affected across the board. So you have first fill business going down because production of all categories of automobiles have come down. The retail side has held up relatively well for us. But therefore the overall volume is lower on the automotive side. On the industrial side it is a straight function of the amount of industrial activity that is going on and definitely that activity is affected right now. So the more you run the machine the more lubrication that goes in and it is clear that the machines aren't running as much as they were. So it is very difficult to tell exactly what the volume will look like but maybe at the end of another quarter there will be more visibility in terms of how this will pick up.

Prateeksha S.: Okay. And if I can squeeze this one question on cable front, if you could just give some hierarchy of margins, like what kind of cables at the margins like just you mentioned about the oil, similar way?

Kushal Desai: So you have the elastomeric cables which basically go to railways and defence, they are at the top of the stack. Then you have cables are grown in two way, solar

installation and things which come next. And following that is really fibre optics and finally power cables.

Moderator: Thank you. The next question is from the line of Anuj Upadhyay from Emkay Global Financial Service. Please go ahead.

Anuj Upadhyay: Sir my question pertains to the margin across the conductor segment. I mean based on the calculation the realization has gone up by almost 20% to 24% this quarter and we have around 40% of our execution been towards the high profitable conductors that is the copper conductor and the HEC. In spite of that the numbers not reflected on EBITDA per metric tonne basis. Even on adjusted basis it is flat on a year-on-year basis. Could you just explain the reason behind that? Even in the margin front, it is down by around 100 bps.

V. C. Diwadkar: The EBITDA is about Rs. 12,000 actually. If you see our whole year EBITDA last year it was about Rs. 9000. Only in this quarter actually the EBITDA was about 12,000. Later on for the whole year if you see the EBITDA was 9000. So the EBITDA has improved really actually.

Anuj Upadhyay: Not on Q-on-Q sir, on year-on-year actually.

Management: It is actually on Q-on-Q.

Anuj Upadhyay: So do we have a high base in Q1 FY19 as well?

Kushal Desai: In Q1 FY19 we had relatively higher EBITDA relative to the remaining three quarters because that is where we had a good percentage of execution of these high efficiency conductors. Subsequent to that it is actually tapered down. This year we are expecting that with the current order books which are there as well as what awards are expected in the pipeline the high efficiency conductor side should be better than in the previous year. So that is reflected in the first quarter and hopefully if this continues through the year, we will see a better EBITDA coming in, a proportion coming in from the high efficiency conductor. Well, as Mr. Diwadkar says the average for last year was about 9000 versus this first quarter which is at 12,137.

Anuj Upadhyay: Okay. So can we expect a much, not 12,000 but at least a better margin compared to what we had in the last year?

V. C. Diwadkar: Yes.

Kushal Desai: I think it should be the case. As I said some of these new, even BOOT projects and all which have been awarded, the financial closures need to take place on these which will then dictate the pace at which the ordering will happen. So there are a few, the environment is a little tricky as all of us know, so it all depends on the, the orders

are all in place and we are expecting more high efficiency conductor orders to come through the year. So the execution then gets a little bit more dependent on the finances which are being allocated for execution of these projects.

Anuj Upadhyay: Okay. And this order book of Rs 2656 crores is to be executable over what period of time?

V. C. Diwadkar: About 8 months.

Moderator: Thank you. The next question is from the line of Dheeraj Shah from PhillipCapital Private Limited. Please go ahead.

Dheeraj Shah: Sir my question is regarding what kind of revenue guidance you give for FY20?

Kushal Desai: So honestly it is a little tricky for us to give the guidance as you know we have been saying through the call because we don't know the pace at which execution will take place at this stage. So Q2 has been relatively soft, so far at least for the month of July and we don't see any major phase of activity picking up in the month of August at least in the absence of any major triggers. There are some segments or some pockets which as I mentioned earlier in the call which is railways, defence, that seem to still moving at a fast clip. So it is difficult for us to give an exact revenue guidance at this stage. Maybe at the second quarter when we have the call, things will be a bit clearer.

Dheeraj Shah: But maybe a double digit kind of, is it doable?

Kushal Desai: We have prepared ourselves for double digit growth across all the businesses. But it is really a function of execution right now.

Dheeraj Shah: Okay. And sir in terms of margins, at least 6%-7% is it sustainable?

Kushal Desai: In terms of the EBITDA margin?

Dheeraj Shah: Yes.

V. C. Diwadkar: Yes. Around that number. It is possible.

Kushal Desai: Yes. It is sustainable. The only caveat would be that if demand really starts falling off in which case the allocations don't really happen to utilities then the total execution itself will then come down. The total sales will come down, so as a consequence it will have an effect on the EBITDA. Our sense is that the government will have to come up with more specifics, we have been talking long term, but we have to come up with more specifics for the short term to kick start, you know the slack that happened just pre-election. So as soon as that kicks in then I would imagine that the

flow of business will start increasing and we will get better visibility to give guidance.

Dheeraj Shah: Okay. And sir after these 170 crores of CAPEX, you don't think FY21, maybe FY22, you require any further CAPEX?

Kushal Desai: See our conductor business and oil business, specialty oil business actually the CAPEX will fall off very substantially. Our oil business we would have completely gone through with expanding in all the product line including our automotive and industrial site. So the CAPEX will be very limited there and even on the conductor side we have come to the end of the major CAPEX cycles. So it is really just the cable business to focus on, the cabling side, so the E-BEAM capacity is going in this year, etc. So we see CAPEX falling off quite substantially in FY21.

Dheeraj Shah: Okay. So then focus would be on debt reduction, right?

Kushal Desai: Yeah. We don't have a lot of long term debt. It would really be the focus would be more on then extracting asset turnover from the CAPEX and the asset base that we have.

Dheeraj Shah: Okay. And sir what is the current capacity utilization right now across the plant?

Kushal Desai: So it varies across product lines but you take the weighted average in the cable business, it is close to about 90%. We have capacities that is available on the optical fibre side. The elastomeric cable is running at 90% capacity. The power cable business is running at around say 75% to 80% capacity utilization right now. The oil business has plenty of capacity available. 70% in the plant that is in UAE and here we are somewhere in the 60% range in terms of capacity utilization. Conductor plant first quarter has went pretty much flat out but in the remaining 3 quarters we are focusing actually on a change in the mix to happen as more high efficiency conductors and as the copper conductor also continues to increase.

Dheeraj Shah: Okay. And sir let us say next 2 to 3 years can we expect, our revenue or topline to touch around 10,000 crores?

Kushal Desai: It is difficult to predict that but I can only say that CAPEX will fall off and asset extraction will improve. So that should hopefully enable more free cash flow in the business.

Dheeraj Shah: Okay. Along with margin is to be around 6% to 7% or it may also improve with utilization going up?

Kushal Desai: So we are focusing on high efficiency conductors and all these other copper and things which provide better profit per metric tonne basis. Similarly on the cable side

also continuously we have been improving margins based on the mix that we have. On our oil side as our automotive and industrial business grows, right now it has hit a really rough patch, but I am sure that it will also climb out of it. So as that happens then the margins even on the oil side, specially oil side will further expand. So our sense is that in the future we should see better profitability across all the 3 product line.

Dheeraj Shah: And sir last one if I may. Sir, out of the 3 business which is the highest margin business, let us say from cable, conductor or oil?

Kushal Desai: So at the moment cable business is delivering the best profitability across the 3. As you can see the EBITDA is also at about 13.5% for the quarter. Our target was 11% - 11.5% for the year which is up you know from 10.5% of the previous year. But if things continue like this then hopefully we will beat that number.

Moderator: Thank you. The next question is from the line of Prateeksha S. from Equitas Investment Consultancy. Please go ahead.

Prateeksha S.: Just a follow-up question on conductors. So what are the ramp plans for CTC conductors that we have for FY20 and maybe FY21 if you have any visibility there? And secondly we were envisaging some Rs. 1000 per tonne cost savings after the Hindalco agreement. So how much of that is already reflecting in our margins or do we expect some amount of because there were some grid issues and connectivity issue in Jharsuguda. So do we expect any more cost savings benefit Q2-Q3 onwards?

Chaitanya Desai: So as far as the CTC ramp up, this would be the year where we are getting approvals from various utilities and also the clients. So we hope to get about 2000 metric tonne business this year and next year will be more like 4500 or so and then the following year we hope to reach full capacity utilization of about 7000 tonnes plus we are adding on some balancing equipment for PICC. So that will also help in utilizing our capacity better. On the Jharsuguda side we have been getting this benefit. In fact the benefit has gone little bit more because of the furnace oil prices having increased. So that realization is happening. We also now have the grid powers. So on the operational side the savings have all been accrued and will continue.

Moderator: Thank you. The next question is from the line of Levin Shah from ValueQuest Investment Advisors. Please go ahead.

Levin Shah: Sir my question is on this cables division, so whatever improvements in the margin we have seen, is that because of the mix change that has happened during the

quarter or it has also to do with the raw material benefit or any pricing decision that we might have taken?

Chaitanya Desai: So it is to do with mix as well as with the larger actual volume that we produced of cables. So there is an economy of scale effect as the mix. As I mentioned earlier we have seen a 62% growth in the elastomeric and E-beam cables and you know in terms of the profitability stack that is right at the top. That is one of the main reasons for it. We expect it to continue as far as railways and the defence is concerned. There is also very ambitious plan that the government has and has announced a lot of solar projects as well as wind projects. But given the current environment of what is happening in Andhra and with scrapping of projects and things, I guess environment is a little bit more difficult in terms of raising funding for some of the EPC players and some of the guys developing these projects. But if that comes through then even the solar side will be very strong. So we expect that the margins will, if the demand remains like the way it has been in the first quarter, then the margins will come in at levels which are not very far from the first quarter.

Levin Shah: So does that mean if you are able to grow like 20% plus for full year, we might see margins which are similar to this?

Chaitanya Desai: So 20% for the full year and the elastomeric cable business also needs to show strong growth. Two out of the three legs are doing all right which is the railways and the defence. It is really the non-conventional energy side where if that does what is expected in the year then we will see good profitability on the cable business.

Levin Shah: And sir, how much of this, so elastomeric and E-beam cable would be contributing to the total segment sales?

V. C. Diwadkar: This is about 27%.

Kushal Desai: 27% by revenue. The largest portion of us come from the power cable side which is around 60% and the optical fibre is around 12% approximately.

Levin Shah: But in terms of margins, so this elastomeric and E-BEAM would be much higher as compared to the other two, right?

Kushal Desai: It will be at least 1.5 times more than the power cable side.

Levin Shah: Right. Then one more question on more sort of longer timeframe. So if we see from 2-3 years perspective how do you see this overall cable segment and in that elastomeric E-BEAM and power cable growing over next 2-3 years?

Kushal Desai: So we see actually the cables, the cable side of the business will continue to grow, in fact the rationale that we had of buying into this cable business, the acquisition was

that the maximum amount of money and reform need to come on the distribution side and we continue to feel that over the next few years that is where lot of money will still have to be spend. Because the last mile is still the weakest link that we have even today. So the government has come up with various schemes, some of them are worked, something haven't work. They will have to keep on working on it until you find the right solution. So we see that the cable side the demand should continue to remain. Now competition may also heat up, but the demand will remain for cables for the next two years.

Levin Shah: Right. And for this elastomeric and E-BEAM, over here the main driver would be the railways and defence, right?

Kushal Desai: Railways and Defence and Solar. See, this is non-conventional energy. There is a lot of elastomeric cables that go into a windmill itself and all the solar panelling requires elastomeric cables. So as the non-conventional energy goes up we will require cables. In fact one of the biggest growth drivers for the cable for this specialty oil business and the conductor business is really the green corridors which will come up as more and more of these non-conventional energy project had executed because each one of them needs unique evacuation into a grid. So they are all spread out. Unlike a thermal plant which is, or a nuclear power plant or a hydroelectric plant which is very concentrated in terms of where it generates power. Any of these non-conventional energy plants are spread out quite geographically spread out. So each one of them requires a link to come into the grid. So as this proliferates around the world, it is not just an India phenomenon, around the world we see that all these 3 business demand will be there, over the next few years.

Moderator: Thank you. As there are no further questions, I would now hand the conference over to the management for closing comments.

Kushal Desai: Thank you very much for all of you to be on this call and we hope that there will be more visibility in the next couple of months. So when we have our second quarter earnings call, hopefully we should have better visibility in terms of the second half as well as for FY21. So thank you all for time and good bye.

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