

Apar Industries Limited
Q2 FY20 Earnings Conference Call
November 08, 2019

Moderator: Ladies and gentlemen, good day and welcome to the Apar Industries Limited Q2 FY20 Earning Conference Calls hosted by Four-S Services. As a reminder, all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing * then 0 on your touchtone telephone. Please note that this conference is being recorded. At this time I would now like to hand the conference over to Mr. Samyak from Four-S Services. Thank you and over to you sir.

Samyak: Thank you, Jenith. Good afternoon, everyone. On behalf of Four-S Services, I welcome all the participants to the Apar Industries Q2 FY20 earnings conference call. Today on the conference call we have Mr. Kushal Desai – Chairman and Managing Director, Mr. Chaitanya Desai – Managing Director and Mr. V. C. Diwadkar – CFO, Apar Industries. I will now like to hand over the call to Mr. Desai for his opening remarks.

Kushal Desai: Thank you. Good afternoon, everyone and a warm welcome to the Q2 FY20 earnings call of Apar Industries. I will start with an overview of our performance. Then cover the industry highlights, and then follow that up with a segmental performance post which we can open the floor to questions.

The past quarter we have seen multiple challenges that we have had to face led by lower domestic demand in our various business segments. This has arisen from a very heavy and extended monsoon that has slowed down project execution. There also continues to be an extreme credit tightness, which has been exaggerated by delayed government payments. And there is a slowdown in various key sectors that we service including the automotive segment.

Coupled with the fact that there has been no other major stimulus or specific policy announcements that the government has made, as UDAY 2.0 is still in the process of being evolved. This has led to fairly difficult market conditions which is reflecting in our results. In Q2 FY20 consolidated revenue came in at Rs 1,830 crore, which is 3% lower than year on year, largely due to a decline in the domestic revenues. With the slowdown in the domestic business, the company has increased focus on exports and export revenues is actually up. EBITDA came in at Rs 109 crore in Q2 FY20 compared to Rs 110 crore in Q2 FY19. The EBITDA margin improved to 6% from 5.8% and profit after tax came in at Rs 34 crore which is up 18% year on year largely owing to a tax benefit which we accrued in this quarter.

I will now cover a few highlights in the T&D sector as such. So transmission and distribution orders of approximately 13,000 crore are announced by key companies in the second quarter of FY 20, which is just marginally lower than the previous quarter. Power Grid has acquired three ISTS transmission projects. Adani Transmission has received two in the quarter, and Sterlite Power has won another two transmission lines. These should eventually percolate into new transmission line orders. However, both Adani and Sterlite Grid are still in the process of financial closure. And the order from these players are taking a lot longer than what had been initially anticipated as a result of it. About 5300 kilometers of AC transmission lines and 28,000 MVA of AC substation transformation capacity has been physically added in the first half of FY20. The government is working on reforms and expects to launch this UDAY 2.0 shortly that is in the next few months. A new tariff policy that includes penalty for delay by this Discoms has already gone to the cabinet for approval. The government is considering extending special loans to save power distribution companies to help clear arising dues to the power generators and constituents in that segment.

Other steps has been taken as requirements of LCs by Discoms has already been legislated. The government has also announced fiscal stimulus including a corporate tax reduction to boost the economic growth. Recent research report from the Freedonia Group has predicted that the demand for electric power transmission and distribution equipment in India is forecast to grow at approximately 8.2% year on year, to hit \$15.8 billion in the year 2023. Government is fully committed to the railway electrification by 2023 the Indian Railways aims to be the world's first railway of it's size to be 100%, electrified. In FY19 about 5200 railway kilometers were electrified.

The largest issue that we face today is really the delay in payments largely attributed to the various government agencies. And this is in the backdrop of pretty tight credit environment and conditions coming through from the bank. Where even growing companies are having trouble getting their limit to the banks extended. So cash flow is what is limiting business and delay in payments is also consequently resulting in an effect on interest cost and other banking related costs.

I now turn over to more specific details on each of the segments and their performance. So our conductor business posted a revenue of about Rs 896 crore in the second quarter FY20 compared to Rs 899 crore in second quarter FY19. Strong growth in exports helped counter a decline in revenues in the domestic market. Volumes increased 8% year on year to reach 43,448 metric tons. The EBITDA for metric ton post forex adjustment however fell to Rs.7789 per metric ton mainly due to lower margin conventional conductor orders and also there were significant delays in dispatches due to customers' tight financial position. There are some more profitable orders that remain in inventory in the end of the quarter, which should be getting executed in Q3. So, this has also sort of adversely affected the specific reporting that falls in the Q2 bucket. The share of new and higher value business was 37% compared to 28% in Q2 FY19. This has included 22% revenue contribution coming from copper conductors

for railways compared to 17% a year earlier and 15% coming from high efficiency conductors compared to 11% in Q2 FY19. Order book at the end of September 2019 stood at Rs 2621 crore, which is comparable to Rs 2696 crore from a year ago. However, this includes about Rs 180 crore from the railways for copper conductors and Rs 520 crore of high efficiency conductor order. New order intake came in at Rs 881 crore which is about 17% lower than what it was in the previous period largely from the domestic inflows having reduced.

In the first half of FY20 conductor revenue came in at Rs 1,918 crore, this is 25% up year on year. Volumes were up 17% to 85,250 metric tons. EBITDA per ton post FOREX adjustment came in at Rs. 9,921 per metric ton which is 13% lower than the first half of last year. Having said that, in the second half we expect much better execution of high efficiency conductors and also OPGW. Railway copper conductor dispatches are expected to slow down due to stock accumulation that the railways has in their various stores. Execution is actually running much behind the schedule that the railways had predicted and had purchased conductors for. So as a consequence you will see a slowdown in Q3 on account of that. Also the copper transpose conductor business has been ramping up much slower than we have anticipated, which is largely driven by the problems that the transformer industry is facing in these times.

Turning to the speciality oils business. Revenue reached Rs 571 crore in Q2 FY20 which is 9% lower than the previous period largely due to domestic demand which has been lower across multiple segments and include automotive industry, general industrial lubrication, retail and even FMCG. Besides transformer oil being lower from the power utilities largely driven by the payment related issues. Payment of transformer OEMs remains significantly backlogged from the government. Volume came in at 98,156 KL, which is down 6% compared to the previous year. The Hamriyah plant capacity utilization has increased to over 65% in Q2 FY20 which was at 61% a year ago. The auto lubes and industrial business contributed 23% of the revenues. EBITDA per KL after FOREX adjustment was 117% higher than in the same period previous year. We expect a relatively stable rupee and a very stable base all prices for Q3 and the rest of the year leading into Q4.

In the first half of FY20, the oil revenue has reached Rs 1191 crore which is down 1% compared to the previous year. The volumes however are 3% higher than the previous year and close at 204,510 KL. The EBITDA per KL is higher by 57% compared to the first half of last year at Rs. 3,398 per KL. In the second half of FY20 demand generally is still expected to be subdued unless the credit situation improves from the government standpoint and there is some revival in the automotive segment.

Turning to the cable business, where the revenue is declined by 16% year on year to Rs 369 crore. Financial challenges continue in the telecom sector and no new investments are in pipeline either from the government's MTNL/BSNL or the private telecom players. Additionally there was low demand from the windmill, solar and EPC segment that has impacted performance. The addition of solar power is about 42% lower than what it was in

the previous period. The railway segment has also been slow as I mentioned earlier in the conductor section due to the high inventory and that has affected the uptake of cables that are going even into locomotive and into the passenger bogies. Power cables saw an increase demand from exports and in the domestic market we have increased sale of copper cables. So the EBITDA however was sustained at 11.2% despite lower revenues. Once again here several profitable cable order were either in inventory finished goods at the end of the period or in transit, which did not allow us to book it in Q2 but these will accrue in Q3.

In the first half FY20 the cable business reported flattish revenue of Rs 763 crore. EBITDA increased 18% to 93 crore and the EBITDA margin post FOREX adjustment improved to 12.2% from 10.5% in the first half. We expect to close FY20 at a revenue number which is close to the FY19 number in the absence of any strong catalyst to revive the telecom and the renewables demand. Execution of new solar projects is almost down 42% as I mentioned a little earlier.

So in summary, we are currently in the midst of a very challenging market, which can change only post the government actually clearing old dues and announcing new projects. Long term demand drivers still remain strong and we are well positioned to monetize the upcoming opportunities. However the next few months continues to remain a little bit uncertain. Because depending on the financial commitments that customers are able to make our deliveries to them will be dictated. So with this I come to the end of my comments, I would like to thank all of you for joining our call. And I would like to open the floor to questions.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question answer session. We take the first question from the line of Pratiksha Daftari from Aequitas. Please go ahead.

Pratiksha Daftari : My first question was about the conductor segment. So, in earlier calls we have mentioned that as the contribution of HEC and copper conductor grows, the margin will improve. But this quarter you are saying that though the contribution has gone up, the margins has not shown a significant trend, could you just elaborate about what were the reasons for this margin?

V.C.Diwadkar: We have mentioned in the opening remarks also and as well in our investor update also. The conventional conductor orders are having different margins so the order which got executed during this period, they were having very low margins and certain high margin orders about I will say around 120 crore, high margin conventional conductors orders could not be dispatched because the customers had not made financial arrangements. So we made those conductors and those conductors remained in stock, when it is in stock then we value those stock at the cost only. So that is the reason actually otherwise your contention is correct actually, as the percentage of high efficiency conductor increases normally the EBITDA margin should improve and in the last call also we had said that, that time the EBITDA margin was higher, because the more profitable orders had gone. So, the orders which get executed

during the quarter. We are not in control of that actually it all depends upon the customer's requirement and the financial arrangements being made by the customer.

Pratiksha Daftari Okay. And with regards copper conductors what kind of volumes do we expect for FY20?

Kushal Desai: It's a little tricky to be able to lay a finger on the exact execution because for the last two months the railways have suspended taking deliveries of pretty much any conductors and cables, even the stocking of that they have in their stores. So there's no word really out in terms of exactly when they will, start lifting the product. So it's a little tricky to be able to put the exact number in terms of what it would be in this period. Our best guess right now is that as the monsoon got over for most parts of India, some of the stock will get depleted and then they will probably start lifting again and the EPC work which had come to a standstill because of the monsoon that work will again resume. So, but again we don't have an exact number to give you right now, but we hope that in the whole financial year we will sort of have roughly about 15,000 tons.

Pratiksha Daftari : 15,000 tons?

Kushal Desai: Yes.

Pratiksha Daftari : Okay. And my next question is on the oil segment. So, you have mentioned about the slowdown in the application industries, so for FY20 do we expect to do similar volumes as we did in FY19, I think we did about 4.29 lakh KL in FY19 so we expect to do something similar or do we expect on a year on year basis some de-growth. And on realization as well would we going to match FY19 because H1 has been slightly lower than FY19 realization?

Kushal Desai: So, let me answer it in two parts in terms of the demand that is expected for the year the real difference is coming really from the transformer oil domestic market and from the industrial oil segment. So on the transformer oil domestic market is fundamentally dictated by the amount of cash flow that's available in the industry. If you have seen a lot of the transformer OEMs are actually holding fairly good order books, but the execution is not happening in the absence of receipt of payments. So, where I hesitate to give this number is as soon as cash flow starts coming in, the whole cycle will start and call ups will start for transformer oil to go in along with the delivery of transformers. Because of this current uncertainty, specifying a number is little bit difficult. In terms of the second portion, which is the realization of, see there's one realization of value per KL and the other one is the EBITDA. So our sense is that the EBITDA per KL will be as much as the previous year if not marginally higher. Because we are seeing relatively benign conditions in terms of base oil as well as the rupee seems to be also within a certain band. There is also expectation that some of the automotive demands will start picking up in the tractor and commercial segments as we end this year. So if those things hold good our sense is that EBITDA per KL should be in the same range as last year or

maybe marginally better than that. But the volumes are tricky to be able to give an exact number on.

Pratiksha Daftari : But in terms of realization, so we did about 58,000 per KL this first half, you expected to be similar or do we think you will be able to go up?

Kushal Desai: Realization will be driven by oil prices, tomorrow if the oil prices are lower the realization will be lower if the oil prices are higher realization will be higher. So our focus is really on the EBITDA per KL which we believe there is a second half this financial year we should be pretty much in line with the previous financially year.

Pratiksha Daftari : Fair enough. Okay, and my last question so right now what will be our debt and if you could give the breakup with LIBOR not domestics short term debt and also interest cost that we have incurred?

V.C.Diwadkar: Our debt is about 218 crore out of that about 72 crore is short term and balance is long term. And there is about 2000 crore of LC liabilities are there which are also attracting interest out of that about 1250 is attracting LIBOR base and balance is on the local rate actually.

Pratiksha Daftari: Can you just give me the number again 218 crore and the breakup of that?

V.C.Diwadkar: 218, breakup is 72 crore short term and balance is long term, 146 is long term and 2000 crore LC liabilities out of that 1250 is LIBOR based and balances is at domestic rate.

Moderator: Thank you. We take the next question from the line of Gaurav Machiwal from Systematix Shares. Please go ahead.

Gaurav Machiwal: I would like to know about the number on Power Grid CAPEX and their guidance how much capex has been executed in the last quarter?

Kushal Desai: If your question is generally about Power Grid that number we don't have offhand.

V. C. Diwadkar: They have reduced their CAPEX from 25,000 to 15,000 for the year.

Kushal Desai: CAPEX already done 2,909 crore done in Q1 FY20. We are not having Q2 number. I think Power Grid also they are having today meeting actually investor call. 15,000 crore is the targeted CAPEX that they had announced and 2900 basis 3,000 crore has been executed in Q1. They have received three lines. And so the ordering of those lines and the schedule is still be committed.

Moderator: Thank you. Next question is from line of Sachin Shah from Emkay Investment. Please go ahead.

Sachin Shah: I just wanted to understand that for most now two quarters. I think the visibility of the overall business seems to be not very good or probably we don't have too much of visibility let me put it that way. Just wanted to understand on a broader scale of things . How do you think this will actually take up shape in the next 12 to 18 months if somebody has to take a view and what's your sense in terms of because it's been almost a few quarters that we are going through this dillydally one step forward, two step backward kind of a thing. So overall with your experience of so many years in the industry and the way the things are at the ground level. In terms of the new order inflow, how do you see this?

Kushal Desai: If you actually go to see the slowdown as we have seen has actually come up only at the end of Q1. So if you see the Q1 numbers they were quite robust in terms of volume as well as in terms of profitability. Is really led by and it's a little inexplicable to us why the government is still so much backlogged on payments even after so, many months have passed by, finance ministers has made several statements and announcements that they have been cleared. But physically the money hasn't gone to the participants in the industry. So, even though we are holding order books and our products are really building blocks that go into transmission networks, distribution networks, transformers, the cables go into various industries. So if you see for example solar is down 42%, if you see the railways It was very strong and last two months they have just completely stopped taking delivery. So these are, reactions which are coming in that are something that is not easily predictable. So, even though we are all holding order books, the entire industry is having order books. It's not that there is no order book available in the industry, it's not that there isn't business out there in the industry, it's just that the timing of this is so uncertain. A customer was pushing you to give you fast delivery and then after the product is made the problem of opening LC and financial arrangements. So this uncertainty as our sense is it will still take a few more months for it to get settled. I would love to put a exact date on it, but I think it's a bit too tricky to say.

Sachin Shah: No, it's fair enough. So what you are saying is, that as far as demand is concerned it's all set in place it's now just a question of cash flow coming in and moving around the system right?

Kushal Desai: Exactly the cash flow has just jammed everything if you go to, for example you take transformer OEM, we have seen a big decline in the domestic sale of transformer oil. It's largely being limited from being able to receive money from transformer OEMs and they in turn are waiting for moneys to be received from various companies. Like for example, if you take the Discoms accumulated dues at the end of June that itself a 72,000 crore of which 53,000 crore is overdue. Now the government is pushing them to open letters of credit, which means that there will be some diversion of funds to honor some of these entities. So, as a consequence the cash flow that's coming into the industry has really got affected badly. So, the recent IEEMA AGM some of the leadership in IEEMA which is the Apex electrical body were saying that about 35,000 crore is the overdue to the industry as such, when the AGM took place within the month of September. Post that money's have come in but it's trickle not like a large amount coming in. On the other hand, if you see the order books which are

there our conductor order book is at 2600 crore. If you see below the projections which are there from the railways or the projections which are there for addition of solar power, wind power is actually getting award again. The numbers look all good, but we don't know when it will get executed as such.

Sachin Shah: Right and for us the new order inflow?

Kushal Desai: So we have, there is an order inflow that is coming in, but I think it'll pick up once financial closures happen because I mentioned earlier in the opening remarks, you had six transmission lines 13,000 crore which was awarded in the last quarter but the downstream orders have still not come through. If you look specifically at the conductor orders received by us in the last quarter it's 881 crore. Of which 530 crore is from exports and 340 crore is from domestic or 350 crore is from domestic.

Sachin Shah: The other thing is now that we have not seen much of volatility in the crude oil, right. And earlier we used to have a margin of EBITDA per liter of closer to about 4.5 – 5 when the market, when it used to be a stable environment both on the crude and the currency side. Do we expect to get back to that level at some point in time or the overall market is now so much disrupted in terms of pricing or whatever that now 3400 is a more realistic thing.

Kushal Desai: So, there is, we should get back to that level when the demand starts picking up. Currently what's happening is that people who are solvent and are ready to open letter of credit or confirm instruments of payment they everyone wants to sell to those customers. Competitive intensity of pricing to those customers is very high. Customers who are relatively slow in terms of being able to pay, etc they are on credit block. So there is a bit of a disruption. But our clear sense is that when these conditions are stable like they are today, it's a matter of time before we will start seeing margins coming back to those levels.

Sachin Shah: Fair enough. And on the cable side, do you still believe that the wind and the solar will actually come back in the way that we have seen in the last one or two years? What is your story generally?

Kushal Desai: My discussion that happened with SECI and NTPC and a few of these other people, because most of it has been in the nature of technical discussions. But along with that you get some idea in terms of the announcement that they will make on the volumes. So volume numbers are staggering in terms of what they are talking about of implementation. But there is a whole lot of execution problem that's there because of policy uncertainty there is no clarity in terms of the exact duties on solar panels coming in. They want to now create two classes of tenders, one which allows you to have imported panels and one which has a larger indigenous content. So, a few of these things they are not yet stabilized because of which some of these contracts which are planned have not either been tendered or being finalized. There are also some of these tariff glitches which there where suddenly contracts have been

unilaterally canceled etc. So, that has resulted in some more disruption taking place. But our sense is that this policy uncertainty in the next few months will get sorted out. So the solar will take off. They have recoupled solar and wind because the development of wind is along a different corridor. And there have been some improvements in terms of wind tariff and even the solar tariff which they are willing to pay in today's context. So we are seeing that some companies like Siemens Gamesa, etc are giving better projections for the second half of the year.

Sachin Shah: Right. So if I have to sum it up, will it be fair to say that Q3 will be little better than Q2 because some spillover of orders of Q2 came into Q3, and Q4 could be even better because of certain challenges in terms of whether cash flow or policy and all of that might just get sorted all in the next one or two months. Will that be a fair assumption?

Kushal Desai : Our sense is that Q3 will be better than Q2. And as I said for two reasons we know one is something that is already there in the bank which is that, due to the monsoons and due to the financial tightness which was there we have a fair amount of conductors as well as cables, both of which are these may be profitable sitting in the inventory, which will go out in Q3. Secondly, there were genuine delays that happened because of a very brutal monsoon. And even those raining quite heavily today in Mumbai I think we should see the back of it for most of this for the remaining part of this quarter. So as Chaitanya mentioned earlier project execution also will start picking up. And once that happens, then generally most of the Indian companies are quite flexible in terms of working longer hours and trying to make up for lost time. So our sense is that Q3 will be better than Q2 and hopefully Q4 will be better than Q3 with project execution happening plus all these policy issues getting sorted out, because I think the government at the moment will speed up if they want to reach anywhere close to the projections that they have.

Sachin Shah: Fair point. And any sense where will this cash flows come from?

V. C. Diwadkar: That I think you have to ask the finance minister.

Sachin Shah: No, jokes apart, but just a sense that are you seeing any catalyst in the system which will probably help this thing this log jam to get unlocked. Or we should keep an eye on

Kushal Desai : We are not seeing any catalyst on the transmission side the good thing is that you have got Power Grid that has three lines which are there and they are financially solvent they should not have any problems in bringing about financial closure. Similarly, Adani has a pipeline of making arrangements for their finances. And so some of these lines should continue, Sterlite Grid we are not exactly sure where we stand on this financial closure thing. The railways piece has been delayed simply because of the speed of execution. So in fact they have new tenders which are out there which has been opened but they are not awarding those tenders until there is more movement taking place on the older tenders. So I think the railway side

will start picking up execution, in Q3 and definitely in Q4. So usually it's a little bit brighter, but the cash flow side is something that's not very clear to us yet. Railways of course they are well funded so we don't have a problem of collection from the Indian Railway side.

Sachin Shah: Right. Just one last question if I can squeeze in. If you can just elaborate a bit on the finance cost it's always been a bit confusing. This thing 124 crore for just the six months. Can you give us some sense how should we look at it on a full year basis and how do we see things moving?

V. C. Diwadkar: As far as the finance cost is concerned see basically we have to remove the open period FOREX, say for this quarter there was a open period FOREX of about 15 crore, which we are if you see our investor update actually we are giving EBITDA before adjustment of open period FOREX and after adjustment of open period FOREX. So difference between these two numbers if you see the EBITDA numbers, we are capturing about close to about 15 crore in this quarter. In this quarter itself, so that is why although the number you will see that this number is about 67 crore is the number for the quarter finance cost, out of that 1 crore interest income is there which statutorily we are required to show in other income, but we should be adjusting that, so if you want to see the position. So you have to remove that actually and after that if you remove 15 actually the finance cost will come to about 50 finance charges. What has happened is that actually we could have done in the same cost, a turnover of close to about 250 crore more, which we missed out actually. As we said that 120 crore of conventional conductors about 100 crore railway conductors and about 30 crore of cables which were in transit. So, as far as cables is concerned the cables were in transit actually and this could not be accounted because it was a CIP contract, when in unless the material reaches the project site. In case of conventional conductor also we have already made those conductors & were sitting in stock and we could not dispatch. As far as railway conductor are there we had not manufactured the railway conductor, but we had taken the raw material. So, all that if you say so the financing cost of this entire 250 crore is there is in this finance charges.

Sachin Shah: Okay, so we should get the benefit of that in the next in this Q3?

V. C. Diwadkar: Yes, definitely.

Sachin Shah: The 250 crore will not have any?

V. C. Diwadkar: Yes, correct.

Sachin Shah: So on a nine month basis it should even out more or less.

V. C. Diwadkar: Yes.

Kushal Desai: The second quarter had a really bad, a very difficult environment. So, I think a better judgment would be looking at a YTD nine months which will then hopefully give a true picture to the current situation.

V. C. Diwadkar: And otherwise also normally in our case actually, the last two quarters are much better than if you see last year also we were at this level only, same PBT level but ultimately we reach close to about 236.

Sachin Shah: No, fair enough. Sir just one last thing that this year you have given us a fair good sense of how things can move. If I take a little longer view say FY21, FY22, FY23 this to two, three years. How do you really see things shaping up if you can just walk us through each of these segments in the next two, three years?

Kushal Desai: So, we will start off with the conductor segment. So where you see some of the value drivers which we have, which is really the high efficiency conductors, the optical ground wire and then the copper conductors for the railways, where they need to complete their plan. And then, also the copper transpose conductors which we are planning to do. All of those should actually end up doing better than what you know, you have seen in the last few months. Already the high efficiency conductor business has started picking up after the lull that was there last year and it was mentioned earlier it contributed 15%, the profitability of that is not seen due to problems with the conventional conductors, but the trend is clearly upward. This OPGW there are number of contracts which are likely to be tendered over the next couple of years because now every earth wire is actually carrying a fiber optic core given the value of data that's there today. The copper conductor plan is a very defined plan by the Indian Railways and they have given a clear announcement that they want to complete it by 2023. And then on the Indian Railway front, if you go in and look at the railways plan of adding locomotives as well as passenger bogies, a lot of the current passenger coaches are getting rewired to be more relevant to what is required today. So we are quite happy with the business segment that we are in and the demand for that is not going away anywhere. If you look at the speciality oil side.

Sachin Shah: Sir, just one second on this cable side. How is it a competitive scenario are we still in a very good shape in terms of high value added products still remain to be value added or are they becoming now more commodities, are you seeing competition?

Kushal Desai: So there is increase competition coming on electron beam products, because there are number of other players who have now added electron beams but the market size of these cables is also growing as they are getting more and more adopted.

Sachin Shah: No, sorry on the conductor side are we seeing competition in terms of?

Kushal Desai: No, there is competition in terms of all the segments. It's not that they are without competition. But the intensity of competition in the segment is much lower than it In the case of conventional conductors. And we don't see any, very large players coming in to disrupt the market overnight in any of these five segments that I just mentioned.

Sachin Shah: And this OPGW, it will be largely telecom companies who are our customers?

Kushal Desai: No, they will be transmission companies, there is an earth wire that's connecting every two towers. And so that earth wire actually will in this OPGW carries a fiber optic cord. So, that data can be transmitted, so the largest OPGW installations in the country are today with the Power Grid and the Indian Railways.

Sachin Shah: But they would do it for telecom companies.

Kushal Desai: Sorry, not the railways the Power Grid.

Sachin Shah: But Power Grid would do it for telecom companies finally.

Kushal Desai: They charge, they have a charge for transmission of data over there network.

Sachin Shah: Okay so they rent it out. You were saying something on the transformer oil side?

Kushal Desai: Yes, so on the transformer oil side it's a direct proportion to the amount of electrification work that goes in both on the transmission side and the distribution side. And if these electric vehicles and things need to come up over the next few years, then the demand for particularly transformers and cables is going to really increase dramatically.

Sachin Shah: Sir, that is a really long shot and that is at least 5, 10 years.

Kushal Desai: The other thing which is there is that more non-conventional energy that comes up which is between solar and wind, the networks requires more amount of transformers to go in and it requires more evacuation, unique evacuation systems. So the demand for mid-range transformers for midsize conductors also will proportionately go up with the amount of solar installations. Of course there is a fair amount of cables that go into the installation also. So non-conventional energy is actually a big boost in terms of demand for all three of our product segment.

Sachin Shah: Okay, so you are fairly optimistic about these moving in the right direction?

Kushal Desai: We feel that the demand for the product will continue to remain. We are only hoping that the choppiness of this execution gets a bit even.

Moderator: Thank you. We take the next question from the line of Pratik Kothari from Unique Asset Management. Please go ahead.

Pratik Kothari: Sir having this 200 crores of high value conductors mentioning which we couldn't ship it from our it's lying in our inventory had already been shipped in October?

V. C. Diwadkar: About 120 crore I said actually. 120 crore of the conventional conductors we could not ship actually in September it is still not shipped actually, because of the financial arrangements have not been made, customer has not made the financial arrangement they have not opened the letters of credit. So, we are sitting on that inventory that is how the finance cost increases. And as far as the copper conductor is concerned another 100 crore copper conductor we have not made as railways have reduced their offtake. So, we are trying to see actually and yet dispose of some coppers also. Some copper will get consumed, on the cable side.

Kushal Desai: And the cable delivery days are, they have already they are in transit so they already now have it. So that recognition of that 30 odd crore will definitely come. Has already come into October.

Pratik Kothari: Okay. And sir of which 1.92% PAT margin in the first half I think we have tried it 3% for the full year. Where do we stand in terms of that?

V. C. Diwadkar: Normally we said that actually the second half is always better, if you see we are more or less line with the first half of last year. First of all last year was about 87 crore PBT and this time we are about 85 crore PBT around that. But second half normally is better for our business.

Pratik Kothari: So, you mean in terms of PAT margin or PBT margin will be?

V. C. Diwadkar: In terms of EBITDA margin basically and then accordingly the PBT margins.

Pratik Kothari: So we will be in line with FY19?

V. C. Diwadkar: Yes, we will be in line.

Pratik Kothari: Okay, I sir just to understand I think this is a petition but between quarter one and quarter two in term saying conductors of high value the share of high value is almost the same and in volumes also high value is almost the same. But the EBITDA per ton or EBITDA per liter has gone down significantly. So, maybe it's a repetition but if you can just throw some more light?

V. C. Diwadkar: See as I have said earlier actually it is driven by a different type of conductors, which are going. So the conventional conductors which went in quarter two actually they were having very low margin as compared to the conventional conductors which has gone in quarter one

actually, and some conventional conductors which were having better margins they could not go actually as I told you that 120 crore. So conventional conductor there are different orders are there every order has got different margins. And which order will get executed in which quarter that is not in our control. It all depends upon the requirements of the customer and the financial arrangement made by the customer.

Kushal Desai: So the bottom line is that Q2 is a little bit difficult to analyze because of all these various other issues which were there. We are probably better off looking at YTD numbers that comes for the three quarters that will start ironing out some of the things.

Pratik Kothari: Yes, mainly coming from we are not seeing any margin pressure as such on copper conductors or HEC conductors?

Kushal Desai: Whatever margins were there in Q1 they continue to be there. So the thesis on those five products haven't changed, really that is happening on either execution or on the conventional aluminum conductor. So let's see what happens in Q3 and then take a stock on YTD nine months basis.

Pratik Kothari: Fair enough. And in terms of oil? My question was on oil also sir. Again high value oil share being taken 25% between quarter one and two but EBITDA has shifted substantially so if you can throw some light on that also?

Kushal Desai: So it's actually just driven by as I said competitive intensity which is there, where which has been there in particularly the second quarter where because of the tight financial situation the customers that were solvent the competitive intensity with them is extremely high. So, however segments like some of these automotive including tractors and things would start picking up in Q3 and particularly in Q4. So you will start seeing better movement taking place on that, so our sense is that profitability will be better in the second half in the speciality oil segment compared to the first half.

Moderator: Thank you. Next question is from the line of Dhiral Shah from Phillip Capital. Please go ahead.

Dhiral Shah: Sir my question is regarding you said UDAY 2.0 government is likely to roll out. So, what kind of benefit we are expecting from the same or is there any kind of benefit we derived during the launch UDAY, starting of initial UDAY, which launched maybe few years back?

Kushal Desai: So, what happened in the first in UDAY was that there were certain stimulus that amounts of money that the government spent to accelerate electrification particularly in the rural areas. So, they are in the process of trying to put something together for the coming few years, but that has not been announced and there are some prerequisites which are coming with that, which include Discoms having to make more discipline payments, penalty to come in if tariffs

aren't being charged at a certain level, etc. So the scheme is not out yet. It's still in a work in progress form.

Dhiral Shah: Okay. And sir what was the quantum expenditure done in UDAY 1.0?

V. C. Diwadkar: Basically they have not spent on UDAY, there was Deendayal Upadhyay scheme and IPDS scheme and all those scheme were given, whoever sign the MOU they were given benefit of this scheme. What basically happened in UDAY the original UDAY was that, financial restructuring happened because of which the interest cost went down overall.

Kushal Desai: And so there was, we have taken an outlay in the region of about 40,000 odd crore was directly put in those Saubhagya scheme and the IPDS. And so what Govt. is planning to do in the second version of stimulus is not exactly outlined yet.

Dhiral Shah: And second question taking a long term view let say next two to three years sir in terms of revenue mix the cable is the high margin business. So where do you see this mix changing in the next two to three years?

Kushal Desai: So within the cable business, we see that at least in the next two, three years demand will continue to remain fairly strong from the railways and defense these two segments will continue. Power Cables is where the competitive intensity is high, optical fiber we are not at all optimistic given the current state of the telecom companies and such. So, bottom line is that, this year we will see a revenue which is similar to what we did last year on the cable side, but the profitability will be a bit higher we already running first half at about 12.2% versus 10.5%, which was in the previous year. So, we continue to see a similar sort of mix of product going forward over the next two to three years.

Dhiral Shah: Around 20% range in terms of revenue and conductor will continue to maintain 50%?

Kushal Desai: Okay, you mean mix of our business. Business revenue mix you are saying within Apar Industries. So we see the cable business growing at a faster pace than the conductor and the oil segment because the addressable market itself is very large. At this stage it's difficult to comment on where these margins will reach because, as I said there's so much of uncertainty right now. But if you ask me the general trends, cable business has grown at a pace which is faster than the conductor business and the speciality oil division.

Dhiral Shah: We are witnessing some kind of a commodity softness. So does it help us to gain some kind of margin benefit?

Kushal Desai: Not really at this stage because you know the commodity softness which is there is available to every player that's in the market and given the current competitive intensity it's pretty

much getting translated into price. So, the end customer is benefiting from getting products at fairly competitive price.

Dhiral Shah: Okay. And sir what will be the overall capacity utilization across the plant?

Kushal Desai: So in our cable side we have capacity utilization is around 85% at the moment overall, there are a few product categories where it's a little bit higher and a few lower but overall it's at about 85%. In terms of the conductor side, we are at about 88 or 89% based on what we did last quarter, but there we have a very high degree of fungibility between high efficiency conductors and conventional conductor. So, our objective would be to get after as much of the high efficiency business as possible and if we run out of capacity then to just reduce the amount of conventional products and on the oil side we have adequate capacity to meet demand. So, we are running, the Hamriyah plant is running at around 65% capacity, our domestic plants are running at also somewhere around 70% range.

Dhiral Shah: And sir what will be the CAPEX plan for FY20 and for the next year?

V. C. Diwadkar: FY20 CAPEX plan is close to about 168 crore total plan is there.

Dhiral Shah: Okay, and sir what will be the utilization, where we are utilizing this?

V. C. Diwadkar: We are utilizing it across all three businesses close to about 35 crore is in oil, close to about 90 crore is in cables and close to about 32 crore is in conductor.

Dhiral Shah: So, sir we are increasing the capacity or is it for maintenance purpose?

V. C. Diwadkar: Which one? As far as cable is concern we are putting electronic Beams.

Kushal Desai: Cables capacity is being increased and even on the speciality oil, we have actually gone through this in greater detail in the last call. The CAPEX is happening on the oil side is to increase blending and packaging capability on automotive and industrial products. In the case of conductors it has been also some backward integration for some OPGW product and in the case of cables expansion of high electron beams and some of the cabling capacity that is required for the flexible elastomer type product. There is also consolidation of some of our buildings and warehouses and all because the multiple plants were there which we inherited from Uniflex. So that consolidation of some of that manufacturing is also taking place. But more importantly is that from the next year from FY21 onward you will see a significant drop in the CAPEX.

Moderator: Thank you. Next question is from the line Maulik Patel from Equirus Securities. Please go ahead.

Maulik Patel: Sir few question. We have a sizable acceptances right. For working capital what we have historically carried on the books. Any plan to taper down any prepayments, something because it's been pretty much stagnant since last couple of quarters if I have to say.

V. C. Diwadkar: That acceptances which is there it is driven by the level of business you have seen that the turnover has also been increasing across all the divisions. As the turnover increases, you require more Working capital in the form of Debtors/Inventories. Accordingly, Acceptances also increase to finance their increased working capital.

Maulik Patel: So, out of the total debt how much is the long term debt related to this related with non-working capital debt?

V. C. Diwadkar: 146 crore long term.

Maulik Patel: And the remaining is all working capital debt?

V. C. Diwadkar: Remaining is all working capital debts. See our sector is stressed, the power sector is stressed tomorrow if I am able to get my payments in 30 and 60 days actually, I will not require that type of acceptances.

Maulik Patel: I got it. And sir in terms of CAPEX what kind of CAPEX we are looking for the remaining half year and the next year?

V. C. Diwadkar: We have done about close to about 72 crore and as our CAPEX plan is about 168 crore the balance will be done in H2.

Maulik Patel: Okay. And as part of the CAPEX is going into the new e-beam machines which we are procuring?

V. C. Diwadkar: Yes.

Kushal Desai: This is a third e-beam machine which is coming in plus there's been additional land and building facilities also that have been built on the cable side. So that as we do expand then the machines can be installed.

Maulik Patel: Okay. And so I understand that long back when we had in the chat in China, there were more than 200 or 400 e-beam machines at one point of time, right and in India there were hardly any few e-beam machines. What is this scenario currently, and in past couple of years back lot of Indian players were sending their cables to the China for various kind of process. So what's right now is happening in that sector?

Kushal Desai: So, there has been an increase. There are other players that have now started setting up e-beam machines, all the e-beam machines coming into the country are largely focused around

the cable side of the business. So you had an addition coming in from Polycab side, you had LEONI which is a German company who has added some e-beam machines. There's a Universal Cables that has added one, there is Thermo Cables at Hyderabad that has added one. So there are about six, seven new machines that have been added. But then the demand also has started growing for these cables. So, in China, the machines are not only going towards cable it goes towards many other segments like the auto cable there are all e-beam now, whereas in India its just starting in fact we are one of the few people who are now pushing e-beam cables to be used to increase safety in wiring of passenger vehicles and commercial vehicles. So, it's going in number of other segments. There are a lot of e-beams in China used also for food processing, for sterilizing food. So, in India they have an alternate system, but we believe that over a period of time these e-beams systems will work out to be more cost effective.

Maulik Patel: So, in a way what I understand that, there are the new applications of the e-beam which will come, which are already there in the developed world or the China, which are not there in India, but this application probably can be a big growth driver going forward?

Kushal Desai: Yes, you can actually get into e-beam products which are outside of cables and Apar already does some amount of service revenue for so, we do e-radiation of jointing kits for example which are used for joining the EPC work of laying cables. So, we have RPG, is for example a customer that supplies, plus that gets their jointing kits beamed by us. So we have about between four and five crore revenue a year that comes from services on e-beam side and this is a business which can theoretically grow as we add more machines.

Moderator: Thank you. Next question is from the line of the Pratiksha Daftari from Aequitas Investment. Please go ahead.

Pratiksha Daftari: Just two book keeping questions. In the balance sheet we see some item called right to use asset for 53 crore just wanted to know what that would be and what we see our ETR to be that is tax rate going forward?

V. C. Diwadkar: As part of this 53 crore is regarding you are aware that this new leasing standard has been implemented from 1st of April actually. So whatever items which are there on lease you need to bring it on the books. So, they will be coming in the form of right to use actually and accordingly there will be liability will be there and as against the lease rentals which used to be come in the profit and loss account, as against that you will have interest and depreciation. The second question, I have not understood, please can you elaborate on that actually?

Pratiksha Daftari: After the new tax regime coming in what will be the effective tax rate?

V. C. Diwadkar: Effective tax rate. Our effective tax rate will be closer to 25.17%.

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

Kushal Desai: I thank all of you for taking out the time to be on our call. And just as a quick summary, Q2 has been a very difficult quarter. We see hopefully Q3 and Q4 having a, being better with at least climatic conditions being something that's more conducive to project execution and then look forward to some of these government schemes and cash flows coming through. With that the visibility should then improve and maybe as we have our earnings call at the end of Q3, we may have better visibility in terms of being able to predict what the next few quarters would look like. So thank you very much for your time.