Apar Industries Limited
Results Conference Call
November 2, 2018

Moderator: Ladies and gentlemen good day and welcome to the Apar Industries Limited Q2 FY19 earning conference call 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 at the end of the day's presentation. Should you need assistance during the conference call Please signal an operator by pressing * then 0 on your touch tone telephone. Please note that this conference is being recorded I would now like to hand the conference over to Mr. Nitesh Kumar from Four-S Services. Thank you and over to you sir.

Nitesh Kumar: Good afternoon everyone. On behalf of Four S Services I welcome all the participants to the Apar Industries Q2 FY19 Earnings Conference Call. Today on the conference we have Mr. Kushal Desai Chairman and Managing Director, Mr. Chaitanya Desai- MD and Mr. V C Diwadkar- CFO, Apar Industries. I would now like to hand over the call to Mr. Desai for his opening remarks.

Kushal Desai: Good afternoon everyone and a very warm welcome to the Q2 FY19 earning call of Apar industries. I would like to begin with giving a few industry highlights followed by a discussion on the financial and segmental performance of Apar. And then open up the floor to questions.

So, for us the Q2 FY19 has been a little bit of a mixed quarter, even though there was an increased pick up in T & D ordering. The profitability was impacted by a multitude of macro headwinds. Input costs were rising. There was imported coal due to domestic short supply. Rising volatility in terms of crude prices, steep depreciation of the rupee and also some increased financing cost particularly LIBOR based, as well as you know in the domestic market due to some of the credit crunches. So, at the macro level there were a number of challenges, many of which had affected the business. However, we are pleased that our diversified model across the three businesses and the large clientele that we have as well as the strategy that we had of focusing and driving the business to more value-added products and sectors has helped us to some extent hedge against these macro headwinds and still deliver a performance, which in the relative environment, seems to be not too bad.

Let me walk you through some of the key high lights in the transmission and distribution sector. T &D Orders worth of approximately Rs 10,250 crores were announced by key companies in the second quarter FY19. This is substantially higher than ~Rs 6,000 crores which were announced in the same period previous year. This is also having a reflection in terms of the order book which we have, that we will get to, under each of the segments subsequently. Some of the regulatory initiatives undertaken by the government have translated into some amount of visible traction. If you look at the Integrated Power development scheme, which is IPDS, 44% physical progress has been achieved till October 2018, in terms of the system strengthening projects. So out of the sanctioned system strengthening projects, that ran in 32 states, and was estimated at about Rs 28000 crores, orders have been issued for about Rs 26000 crores. As per the 13th 5-year plan, there was a plan to add ~102,000 ckms of AC transmission line. Out of this about 36000 CKMs have already been added as of August 2018. Approximately, 1.65 crore households have been connected since the launch of the Saubhagya scheme, that targets electrification of over 3.08 crore household by December 2018. Whereas that number may not be hit, we have seen that this is an uptick in terms of cable side, particularly in the distribution aspects of the discom companies. And that is again reflected in the performance of the cable business.

In terms of Power Grid, Power Grid has completed CAPEX of around Rs 6500 crores out of its Rs 25000 crore annual target that they have. This was in Q1 FY19. So, they seem pretty much on target to hit that Rs 25000 crores for the year. If you look at Q2 FY19, we also saw a lot of increased tendering from the railways, and in the first half approximately Rs 8000 crores of orders have already been awarded compared to about 5500 crores which were done in the first quarter of this year. Again, this is reflected in the business which APAR has seen both in the conductor and the cable side with respect to the railways.

We are also seeing some basic revival in the wind energy side, which had been extremely slow for the last one and half years. So SECI has awarded about 1200 megawatt tenders,or rather 1200 MW of tenders has been received in terms of bids. And therefore, we see that out total of about 8000 megawatts of wind tenders are in the pipe line and there has been a reasonable response against some of the initial wind energy tendering that has happened. This is quite different and as I mentioned earlier, we have seen in the last one and half years. Given the fact that our cable business is the largest supplier into the wind energy segment, this should also help in terms of orderbooks improving in that category.

Also, in terms of state electricity regulatory commission, in 21 UDAY states, they have issued tariff orders for FY19, reflecting a reasonable progress in the issuance of tariff orders for the year. However, the median hike was quite low at about 2% and also in many states was lower than the stipulated amount signed in the MOUs. So that is a little bit of a vary sign in the longer term. But if Hydro carbon prices fall then may be the impact could be lessened to that extent.

In terms of more specific details on the financial performance of Apar in Q2 FY19, our consolidated revenues came in at Rs 1,886 crores, up 51% YOY. This has come from both volume growth across all the 3 divisions as well as an increase due to commodity prices. The

EBITDA YOY for the quarter increased 23% to Rs 110 crores. The better EBITDA has come in from a sharp increase in the cables business and also in the conductor's business. This has countered a decline in our oil business which actually had multiple factors hurting the performance for the quarter, that included, rising base oil prices coming from the increases that have happened in crude, the rupee depreciation, as well as a lag effect as you pass on the price increases in the market place. We see Q3 and Q4 being different picture in terms of the Oil division's EBITDA, but overall the growth in the conductor and the cable side overshadows this reduction on the specialty oil side. So, the EBITDA margin came in at 5.8% which is lower than 7.2% in the previous year. But that is primarily on account of the inflation of commodity prices. So, on a per metric ton basis, in both the cable and the conductor business we were much higher than in the previous year. The PAT increased 9% YOY, to reach Rs 29 crores.

In terms of performance for the first half FY19, our consolidated revenue increased 33% YOY to reach Rs 3,384 crores. EBITDA has increased 19% YOY, to reach Rs 222 crores, with EBITDA margin at 6.6 percent, which is slightly lower than the previous year again due to the inflationary pressure. PAT for the first half was Rs 58 crores.

Coming to each business segment, our conductor business posted a strong revenue growth, up 82% YOY. And we have reached Rs 899 crores in the second quarter of FY19. The increase in the volumes for the second quarter was 34% compared to the same period previous year. And came in at 40,414 metric tons. The EBITDA per metric ton post FOREX adjustment also has increased 21% YOY to reach Rs.10,839 per metric ton. This has come from a good product mix and in some cases, you know better margin orders even in the case of conventional conductors. Our high efficiency conductor's revenue contributed to approximately 11% in this quarter's numbers. The new subsegments which we started, which is the copper conductors for the railways and aluminum alloy rods for various hardwares and specialty fixtures, have both done well. And so, has the OPGW business which has also gained traction in this particular quarter. So, all of these new initiatives are actually contributing to the improved EBITDA per metric ton. We are also on track with our transpose copper conductor project, which will cater to the transformer industry, with specialized copper winding, and that is planned to be commissioned in early Q2 of FY20. Coming to the order book, our second quarter FY19 orderbook reached an all-time high of Rs 2,696 crores that is up 92% YOY, and it is 11% higher than the previous quarter on a sequential basis. So, this includes actually Rs 289 crores of fresh orders for copper conductor from the railways. We also received new orders of approximately Rs 1,059 crores from the domestic and the export markets, including new orders for high efficiency conductors in India as well as Bangladesh. Even though the pricing remains very competitive for conventional conductors, our strategy of diversifying and improving the value addition in the mix, is playing out and will be evident in the results in this financial year, compared to the previous year.

If you look at the first half of FY19, the conductor's revenue increased by 48% to reach Rs 1,534 crores. EBITDA per Metric ton post FOREX adjustment increased 13% YOY, to reach Rs.11,387 per metric ton. So, all in all we are reasonably pleased with our conductor division's performance. And given the orderbook we see better execution in the second half of this year certainly compared to the same period in the previous year.

If you now look at the specialty oil segment, here the revenues for the quarter increased 25% YOY to reach Rs 630 crores. We have increased the spread of clients across industries as well as geographies. Our volume was up 9% YOY. The Hamriyah plant has a current capacity utilization of about 61%. We have also seen growth in the auto industrial subsegment. Our auto subsegment grew 16% YOY and our industrial oil segment grew 23%. So, this subsegment is now 14% of the total revenues of our oil business in terms of volume and 22% by value. In terms of EBITDA per KL after FOREX adjustment for the quarter this declined to a relatively low value of about Rs.1312/- from Rs.3750/- in the Q2. Fundamentally coming from a very severe inflationary pressure as I mentioned earlier there was a steep increase in the price of base oils as a consequence of the changes in crude, we also saw a very steep depreciation in the Indian rupee in the last quarter. We had increase in packing material cost, increases in additive costs, and increase in terms of freight, delivering to clients spread right across the country. So, all of these have impacted the performance in Q2. However, the crude prices in the end of Q2 was moving towards $80 per barrel, compared to $55 per barrel levels in Q2FY18. And we see that now coming off to some extent. The rupee depreciation in the quarter was about 6%. So, these cost increases came in too suddenly and has taken time in terms of passing on to the customers. We expect that the situation in Q3 will change dramatically because the price increases have been passed on since the beginning of this quarter. And we are seeing that many global refiners are also slowing down production of base oils which will arrest the overhang of base oils that has existed in the last few months as such. We also in the second quarter saw that our pricing formula for the long-term contracts we had in base oils turned out to be significantly higher than the spot prices. But from Q3 onwards we feel we are reverting back to a more normal scenario.

Also, the pricing formula that are there for price variations are backward looking and we expect that in Q3 they will largely correct and what ever little residue is left, by January you will get the full impact of the price increases having happened due to the inflationary pressure since the second quarter. So, our overall expectation is that our profitability in the second half will be significantly better than what we had in the first half.

If you look at the H1 FY19, the specialty oil revenue increased by 20%, YOY to reach Rs 1,200 crores. EBITDA per KL post-FOREX adjustment was at Rs 2,160 per KL compared to Rs 3,915 per KL in the first half. In the second half we expect the EBITDA per KL to be in the range of about Rs 4,200 to about Rs. 4,400 per KL.

So, coming to our cables business, our cables business delivered a very robust revenue growth of 81% in the quarter, to reach Rs 438 crores. This is by far the highest revenue that we have had in the cables business.

We also saw strong growth in our elastomeric subsegment, where we received fresh orders from the defense, railways as well as from some of the solar EPC companies. The power cable business also grew by 78% YOY. Again, demand from the solar sector and the EPC stroke private utility segments was high. As I mentioned earlier there is a lot of demand coming in from the utilities for the distribution side of the business. In terms of our Optical fiber cables, we saw a growth of 66% with the execution of orders for particularly BSNL that we had for the quarter. The EBITDA margins post FOREX has expanded to an all time high, at 11.2% in the Q2 as compared to 8.6% in the quarter a year ago.

If you look at the first half of the cable business our revenues have increased 53% YOY to reach Rs 756 crores. We are on target to hit Rs 1,500 crores for this financial year. EBITDA post FOREX adjustment increase 92% YOY to Rs 79 crores. And the EBITDA for the first half came in at about 10.5%.

So, over all this quarter has actually turned out to be relatively a very good quarter for our conductor business as well as our cable business. Our oil business proved to be a bit of a dampener in the current context. But as we move into Q3 and Q4 with the margins in the oil business also normalizing, we expect that the second half will be much better compared to what we have seen in the first half of this year.

The biggest challenge that we see for our business really is the lack of availability of credit to some of our customers' businesses, in general and particularly to many of our SME customers. So, first we saw issues from the nationalized banks, this is being followed by issues being faced by some of the NBFCs, which was the main source of credit to some of the SME customers, and as a consequence the management of maximum exposure limits and the kind of credit that we will provide to the customers is something that we have to manage very carefully. We have been doing that so far in the company and we continue to trade very carefully with an emphasis on credit disciplines and we focus much more on value added products as opposed to just chasing volumes. The sales opportunities are even greater than what is reflected in our financial numbers in terms of volumes. So, that is not a challenge. The challenge really is managing credit and bringing the oil business back to profitability which we expect should happen in the second half of this year.

So, with this I would like to come to the end of my comments. I would like to thank all of you for joining our call and patiently hearing us out. At the stage we would be happy to take questions if there are any. Thank you.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question answer session. Anyone who wishes to ask a question may press * and 1 on your touch tone phone. If you wish to remove yourself from the question que you may press * and 2. Participants are requested to use handset while asking a question.

We will take the first question from the line of Aditya Vangli from Equitas. Please go ahead.

Aditya Wagale: Hi sir. Just a couple of questions. One is, how is the real order progressing and what would be the current orderbook for copper conductors from railways?

V.C. Diwadkar: Its about 289 crores.

Aditya Wagale: Okay that 394 crores that you have received in Q1 is on top of that right?

V.C. Diwadkar: Totally we have received orders of 420 crores. Okay. And the orderbook as of the end of September is 289 crores.

Aditya Wagale: And we expect to do total revenues for this year from copper conductors, what is our expectation?

V.C. Diwadkar: 600 crores.

Aditya Wagale: Okay. And secondly, we are expecting another 800 odd crores in the next half for our cables, in terms of revenues, is that correct? Can we continue on this run rate?

V.C. Diwadkar: Around 750 to 800 you can say. Correct.

Aditya Wagale: Okay and growth would come from Elastomeric?!

Kushal Desai: No. Growth is actually, completely broad based in terms of the cable side. So, we will see growth happening on the elastomeric cables that is being driven. In the first half we have seen growth coming fundamentally from railways and defense as well as from some of the solar projects. In the second half we are seeing a slight slow down on the solar side as various EPC guys are grappling with increased duties etc. But the wind side is actually picking up with the orders that we have received from Suzlon, Gamesa, Inox, all these guys. So we see elastomeric as one growth area. The power cable side continues to remain fairly strong. There is a lot of spending that's happening on the distribution side. And we will see a similar sort of run rate happening even on the optical fiber side. So it is pretty much across the 3 cable segments.

Aditya Wagale: And lastly your financing cost. What is your expectation of a normal run rate on a quarterly basis going ahead?

V.C. Diwadkar: It will be close to about 150 to 155 crores for the whole year. You have to remove the open period FOREX which we consider in the EBITDA margin.

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

Anil Upadhyay: Just want to ask the impact of rupee depreciation in the quarter. Can you quantify the impact?

V.C. Diwadkar: It is given in the FOREX actually.

Anil Upadhyay: Okay. The orderbook which we have, around Rs 2,600 plus, what is the execution period for the same?

V.C. Diwadkar: The period will be close to about 8.5 to 9 months.

Anil Upadhyay: Is there any guidance on the segment wise margin. Though we have done extremely well across the volume and the revenue terms, but the margin have been impacted especially the specialty one though the management is saying that the second half will be much better than the first half. But any guidance which you might want to highlight on.

V.C. Diwadkar: Rough numbers are there actually. We have some guidance actually. So, in case of conductor, for the whole year I will talk about actually. Conductor will be doing about 175,000 to 180,000 metric ton and the conductor EBITDA for the full year is likely to be 11,500 per metric ton. Cable we are likely to do about Rs 1500 crores. And our EBITDA for full year will be about 10.5%. Oil the volume for the whole year will be 408000 KL. And the EBITDA for the full year will be Rs 3400 per kilo liter.

Kushal Desai: The second half EBITDA in the oil business will be in the range of about 4300 to 4400 rupees per KL Which is in line with actually what was achieved in the previous. So, we have done okay in the first quarter, bombed the second quarter, the 3rd and 4th should be back to normal. So that's how the full year is around 3400 per KL. Silver lining to this is, that our industrial oil business is up 23%. And our automotive business is up 16%. And if you see, the contribution of our industrial and automotive, it has now reached up to 22% of the total business value. And our expectation is that in the 4th quarter it will come closer to 25%. So, its unfortunately buried in the impacts of what happened in the last quarter as such. But that trend is exactly in line with what we would like to finally bring the industrial automotive business to 30% to 35% of our revenues in the next 3 to 4 years.

Anil Upadhyay: About that GST amount which has been stuck with the government, any update on that?

V.C. Diwadkar: As on date the GST refunds which have been filed but not received is close to about 44 crores. And similar amount of 44 crore is lying in our GST credit accounts at various locations.

This is part of the operations. Beginning of October, we have got about 56 crores otherwise this number for the whole quarter that number was close to about 90 crores. Just in the beginning the refunds which was stuck up for a long time actually, we have got it which amounts to 56 crores. Currently 44 crores are stuck. At any point of time with the GST now the way in which it has been configured, some refunds will be there but the refunds which used to be very high, that has been reduced now.

Moderator: Does that answer your question Mr. Upadhyay.

Anil Upadhyay: Yes.

Moderator: Thank you. The next question is from the line of Lala Ram Singh, from Vibrant Securities. Please go ahead.

Lala Ram Singh: Good afternoon sir. My first question is on the conductor division. So, we have seen a very good pick up in the EBITDA per ton and can I know that what percentage of stat would be attributable to change in the product mix and as well as to our back-ward integration which we have done in the Orissa plant, so some color on that as to how has it contributed to the EBITDA?

V.C. Diwadkar: Conventional conductor EBITDA has not improved actually. Basically, the improvement is because of the HEC conductor. Then this copper conductors. So, these are the main reasons for the improvement. Of course, the Orissa Plant is useful, because that has made us more competitive as compared to our competitors.

Lala Ram Singh: Okay. But you say that the conventional division still the EBITDA percent is the same. Which means that all the benefit of that has been passed on to the customers, to gain more business right? Is it correct?

V.C. Diwadkar: Come again.

Lala Ram Singh: the changes in terms of the Orissa plant I think you had guided that you will save around 1000 per ton, so am I correct in my assumption that all that has been passed onto the customer to become more competitive and gain more business compared to our competitors?

V.C. Diwadkar: Not necessarily actually. Many of the orders we have been able to keep that.

Lala Ram Singh: Within railway, what is the EBITDA per ton, is it 12,000. Is this what the rate is?

V.C. Diwadkar: Railways is higher than that. But we don’t give the breakup of EBITDA.

Lala Ram Singh: My second question is on the cable division. So, within cables you said that wind is looking very good. But if you read the reports on the sectors, people have been very skeptical around the viability of the projects particularly because of the rates that has been announced. So, as personally internally does the company feel that these projects are sort of viable and do you think that this business is good in terms of the, customer will be able to make their IRRs based on the current level of rates?

Kushal Desai: So there are actually couple of things that are there. One is that, I wouldn't say that the wind segment is very good right now. It was completely dead for the last 18 months because there was nothing happening. And our own execution of orders which go into the windmills, because the kind of cables that we supply they go into the windmill, to connect the blades down to the transformers etc. so this is a very specialized cable. There was practically no demand for that, you know the last 12 months was particularly bad. Now what we are seeing is that there is a revival in terms of the requirements that are coming in from all the major players so that includes Suzlon, Gamesa, Inox. Their order execution has started and from what we are given to understand from our customers is that they have been able to bring about significant value engineering by increasing the height of the wind mills that changes the basic productivity of the windmills and brings down the per unit cost of generation. The other thing is that I think that the Indian Government is also looking at wanting to maximize every aspect of non-conventional energy. Because they want to increase the total percentage of non-conventional energy that is generated in the country relative to Hydro carbon based. As a consequence, it is no longer whether solar is more viable than wind. There will be solar and wind. And so, a framework has been put up by which you know wind energy will also be generated and given the fact that the changes in engineering which has been done resulting basically in the height of the wind mills the productivity of the windmills is higher which has actually brought down the cost. There is not too much difference between the wind and solar from what we are given to understand. So, as a consequence we see that the demand in this segment is not just going to be there for only the next 3 months or 6 months. But it seems like a more systemic revival on the wind side.

Lala Ram Singh: Okay. So, you think that this is more sustainable. Not a one-off kind of a thing.

Kushal Desai: Yes absolutely. And since as a company we have the entire infrastructure in place to produce, there is no additional cost that we need to make in terms of investment and so any such thing. We have all the approvals in place. We have a capacity in place. So as the demand for the wind segment increases, we just automatically get orders and execute. It's like an icing on the cake, you know, if this continues to pick up.

Lala Ram Singh: If I am correct then, your cables since they are going into the turbine, so is it correct to assume that when your customer orders these things it means that the execution is already started It is already in advanced stage.

Kushal Desai: Yeah, the cables are ordered basically which are fitted up at the sight. It means that the wind mill is getting supplied because it is installed at sight, when the tower is being erected. The wind mill tower is being erected. So, we believe that this business has started picking up now.

Lala Ram Singh: Okay. On the optical fibred cable, can I know what in overall cable, what is the percentage of Optical fiber cable?

V.C. Diwadkar: 14%.

Lala Ram Singh: Okay. And within this, if you can just comment on the competitive side, because the biggest fear here is much bigger than us and backward integrated, do we have some kind of cost advantage or how do we exactly compete in this segment and on what basis quality price or anything. Just some light on that.

Kushal Desai: So when you look at the size of a cable company, some of the largest players which include Finolex, Polycab and Havells, they all have a very large building wire business or house wiring business, and they also have significant sales that happen of the low voltage cables that run through their distribution network. If you then come to the cable which are on the B2B side, which go into businesses to governments and to special segments like the railways defense etc., as a company we have a broadest range of cables in the country by our margin. And our whole focus has been actually of building more specialized cable. So, the entire elastomeric cable business of ours is based on cables which go for special applications to customers. So, as a consequence I mean our differentiation has been manufacturing at a good cost but selling into a value-added mix of cables, a high percentage of which are specialty cables. So we are the largest cable supplier to the solar segment. We are the largest supplier to the wind. We are one of the largest in the railways. We are the second largest in defense and slowly getting to be the largest. These are the specialized segments which you know we see there is maximum amount of growth.

Lala Ram Singh: And if you take a longer-term view, say next 5 years. Do you think these segments can support the growth going forward, or will we have to start looking at other areas?

Kushal Desai: Again if you see, as an analyst you will probably be able to answer this question better than me, that there are 35000 crores of investment going into the railways over the next 4 to 5 years. It’s a huge amount of electrification. So, we will see consequently benefit both on the conductor and the cable side. Similarly, there is and will continue to be a thrust on non-conventional energy, so you will have solar and wind both benefitting from that. The made in India program on the defense side is a very serious and real program. And one of the items that has been identified for to be made in India is cables. So, our cable business is working with DRDO for 15 years even prior to the acquisition that APAR had of that cable business. And we are today, if you take the railways and defense put together, we are one of the largest supplier into that segments. So, we see growth happening both in railways as well as the defense. So these segments you know the demand for the next 3 to 4 years seems to be pretty strong. And the government whether it is the current government or the next government there is a certain trajectory that has been set. And it is a very logical spending that is happening. So, we don't see it even being affected by any of the political development that may happen over the next few months.

Lala Ram Singh: Okay. One last question. On the cable economics, is it less working capital intensive compared to your conductor and oil? And even is there less impact of commodity prices on the division because its much quicker, the business?

Kushal Desai: The Working Capital cycle is actually similar All the 3 businesses run you know in the vicinity of 80 days +/-, in terms of the debtor's cycle. We supply all the creditors cycle in the cable business is actually shorter. So, the Net working capital is a bit higher, In the cable business. There is an impact of commodity price changes but the ordered ticket size in cables is smaller for a given order and the execution cycle is much shorter and faster than on the conductor side. So as a result, the changes that happen, conductor side we manage to hedge the business pretty well. So that's how we managed the impact but on the cable side its fundamentally the cycle itself is a lot shorter both the order cycle as well as the execution cycle.

You didn't see a major effect in Q2 from the macro changes that happened in the market place.

Lala Ram Singh: Yes effectively this business should be more stable in terms of its margins compared to your oil and……

Kushal Desai: The margins in the business actually are very reflective of the orderbook that we have. As long as you have good orders from Railways, defense, specialized cables, etc., that is what determines the margin more than anything else

Moderator: Thank you. The next question is from the line of Sachin Shah, from N K Investments, please go ahead.

Sachin Shah: Good evening Mr. Desai. I just had one question on your oil business. And actually, I just wanted to check on my limited understanding of the business economics. So, from whatever little bit I understand it's more like a rolling business where you buy inventory , keep it and sell it and as and when that get exhausted you replenish it right? So logically you might have wanted expensive the prices go down you have to sell it cheap, again prices go down you again increase the prices, so you know, QOQ there will always be volatility, in terms of your profitability but over a period of 3 to 5 quarters, you should actually make it up right? Because like in the current scenario, where the oil prices went up, but you couldn't take the hike, now you would have taken the hike, but suppose the RM prices again go down like they are going down then you will actually make up more than what you have lost in this quarter right? Is that a correct understanding?

Kushal Desai: That understanding is pretty much correct. What happens in the oil business is that, and this happens when there are major shocks that are there. Because we bill to over 5000 clients when you look across the automotive, industrial, transformer oil, rubber process oils, etc., the whole set of products and in some cases, you have quarterly pricing in place for the quarter. So, the effects are relatively sharpest in the case of the rupee, much more so than just the inventory. Because when you are looking at the inventory, you have at least 4 to 5 weeks of the inventory on the ground and you have another 4 weeks of the inventory on the water coming into the inventory cycle. So, there is some impact which happens on account of base oils in the short term. But you end up actually having a very immediate impact in terms of what is happening with respect to the rupee depreciation. Now in the second quarter, what actually hurt us on the base oil front is that because there was a huge over hang from a couple of refineries in some of the grades, the spot prices were much lower than the contract prices. The contract prices are based more on fundamentals. You know, and we have been running these contracts with most of the refinery's suppliers for close to 18 to 20 years. So, we have had a very funny scenario in the last quarter where the spot prices were significantly more than 50 dollar per ton cheaper than the contract prices. But that is like a temporary blip. As I mentioned in Q3, by the end of Q3 it will revert back you know to the contract prices being better than the spot. Because the spot prices are so unviable, they are at the moment lower than the whole sale price of diesel which doesn't make any sense for a refinery to run. And what we are hearing from many of these refineries that was selling on a spot basis is that they their availabilities are going to get curtailed. Because they have cut production if they are not able to sell it at the right price point. So, in our oil business if you see, over period of time, it is something that corrects itself. Also, in this particular period, we did have an impact in our OEM business which runs on quarterly pricing with a price variation formula, and if you see the biggest impact actualy happened in the month of June. And now again there is a bit of impact you know which is there at the end of the quarter, that is September. So, by the time you recover the change in the rupee, it will become January. So, there is sometimes a time lag as a consequence of this. But it will correct itself in the forward period. The other important thing is that fundamentally we end up buying base oils from similar sources as our competition. It's not that they have accessed to barrels of oil which are dramatically different in terms of cost compared to what we have. In fact, generally in volume we are probably one of the better buyers. So, as a consequence, with time it gets corrected.

Sachin Shah So that was precisely my question, that you may not be able to recover your loss in the first 2 quarters, I mean the loss in profit, in the first 2 quarters in the next 2 quarters, but over the next 4 quarters you should be able to make up what your opportunity loss in this first 2 to 3 quarters right?

Kushal Desai: It could happen, but the worst case is that you will normalize in the 4 quarters.

Sachin Shah: Yes, that's a conservative way to look at it. But actually, it should just come back right the whole thing, because that's how the model typically works.

Kushal Desai: Yes it could come back.

Sachin Shah: I had one more question, on the cables and the copper both put together, these are more like project businesses and you have a decently healthy orderbook but as you have mentioned earlier that the orderbooks now a days are more like a 12 month or 15-month kind of a time when they actually get executed. More or less. So, do you get any sense of how do you see this over a period of next 24 to 36 months. Do you see this momentum in terms of, I mean I know that you don't have great volume, you have more looking at a value addition kind of projects / products? Do you see the trend continuing and you having this kind of momentum in terms of growth in terms of 5 or 10 or 15 percentage for the next 3 years or so?

Kushal Desai: Firstly I think there is a little correction in terms of the execution time frame. For example, this 2600 odd crores order book that we have on the conductor side, that order book should be executed in a 9 months cycle. So, one of the key things that is happening is that the execution cycles are actually getting shorter as opposed to longer. So, the copper conductor side to the railways, the execution cycles are even shorter than the 9 months period. Now in terms of the trend that you see, clearly whatever is there in the railways is actually something that is happening and will happen over the next 4 to 5 years. Because we are looking at 35000 crores being spend in terms of railway electrification, and that is actually a no brainer project. Because India is so Hydro carbon dependent on imports and we have significant capacity in terms of power as well as availability of coal. And even though the coal is not on the highest quality, it can be blended and consumed. So, this is something that will 100% happen. And that will keep our copper side of the business quite running with orders. Also transmission lines are being built not only in terms of across the country but the intra state projects are actually growing more rapidly in addition to that, there are evacuation networks that are now being built for these solar and wind projects. So even though the lines may not be as large, on single ticket tender may not be as large as in the case of Power Grid in the past. We have a project base that is coming up, with projects being executed right across, so as long as this is going to continue we expect for the next few years, we see conductor demands still being in place. Now as far as high efficiency conductors are concerned, that phenomena are actually becoming more and more urgent for the local state transmission companies because they are running out of the amount of power that can go out of the existing pipe. So even though we have done about 11% in this quarter our sense is 2020 we would be at 20%. There is a lot of tenders in the pipeline, it's just that they have been taking longer to decide on some of these cases. Generally, when they get decided, they get decided it comes in battalions. And we have set up to execute the orders as they come in. So, we see that second half on the conductor side if you see we are running around flat out in Q2.

Sachin Shah: Just one last follow-up question on that. You mentioned about the state transmission companies, and in couple of quarters bag, you did give some sense of how UDAY Is actually playing out. What is your feel at this point in time, is UDAY helping the cash flows of the state transmission company? And will it help you eventually because it is state transmission company and that has been one of the major challenges, that the need is there but the money was not there. So, is that any change to that?

Kushal Desai: You know the transmission companies have always been in a good position. The UDAY was actually going to have a bigger impact on the distribution side. The distribution companies have definitely been spending much more than the past and that is why cable business, our cable business in particular, and if you go across the spectrum you know, generally good cable businesses have actually shown revenue growth, profitability growth etc. There is a lot of spending happening on the distribution side as such. And our expectation is that it will continue for a few more years. The distribution side has taken a long time for takeoff, this take off was expected you know, 4 to 5 years ago. It could be with the UDAY coming in and some of the restructuring that these discoms have had access to larger amounts of money, larger amount of CAPEX is taking place.

Moderator: Thank you. The next question from the line of Ankit from Karvy Stock. Please go ahead.

Ankit: Good afternoon sir. On the copper conductor for railway side, what could be the margins we make?

V.C. Diwadkar: As we have earlier said, we are not giving the subsegment margins actually. We are giving for the conductor as a whole, but it is in-between actually. In between conventional conductors and high efficiency conductors.

Ankit: and what would be the orderbook in terms of metric tons for conductors?

V.C. Diwadkar: The total conductors are close to about 130,000 metric ton.

Ankit: and when we say like EBITDA per KL, for oils will be 4300 odds, we might have taken some price hike right. Would like to quantify what would be the price hike you have taken.

Kushal Desai: Price hikes are actually in line with your catching up on the increase that has happened across you know base oils etc. So, depending on the product categories its between 5% and 12%.

Ankit: and this will be fully reflecting by next quarter?

Kushal Desai: Yes. You will see a bulk of it reflecting in Q3 and whatever residue of that is left because of the price variation formulas,that will kick in from January onwards. Because when I mentioned the pricing is an average, so you know there was a big increase that happened in

September, and Q3 in those formula you will only have one third of the impact. Balance will come in on January 1st.

Moderator: Thank you. We will take the next question from the line of Govind Sahu, from Indianivesh. Please go ahead.

Govind Sahu: Can we have a breakup of the finance cost, in terms of interest and FOREX loss and other things.

V.C. Diwadkar: I will just give you. I will give you H1 it will be much better. The net interest cost is about 67 crores. The forward costs about 6 crores, open period FOREX is 24 crores. And other borrowing cost is 6 crores. So, the total finance cost is 103. After considering that the open period is to be adjusted against the EBITDA, the finance cost net of open FOREX will be 79 crores.

Govind Sahu: and sir what is the nature of this open period FOREX period contract loss.

V.C. Diwadkar: Open FOREX is as we said in case of our oil division, we cover for the 90 days only. The other 90 days we keep open actually. So, whatever we keep open, the understanding is that we are able to price the material. So, that is to be adjusted against EBITDA.

Moderator: Thank you. Next question is from the line of Rahul Kota from First Run bank. Please go ahead.

Rahul Kota: Good afternoon sir. So actually, I have a question related to your debt number. Like we can see, as on September end your working capital debt is around 230 odd crores and so apart from all that what would be the current maturity of long-term debt sir, as on current date.

V.C. Diwadkar: The current maturity is close to about 30 crores.

Rahul Kota: and sir what about the debt level including the LC acceptances that we usually reflect in sundry creditors; what portion would be that?

V.C. Diwadkar: the LC creditors will be, which reattracting interest will be about Rs 1800 crores. Out of that 1200 crores will be LIBOR based and 600 crores will be Rupee based.

Rahul Kota: and sir any of your internal target on debt/ equity and debt / EBITDA, as on march 19 at the end of this financial year. What would be the targeted number that you will be looking at.

V.C. Diwadkar: These numbers are driven by the commodity prices actually. The working capital debt in case the commodity prices are increasing rupee dollar is increasing the overall revenue is increasing then the working capital debt will increase in line with the business. The long term as far as the debt equity is concerned if you consider only the long term and short-term debt which appears in the balance sheet, then that ratio is very less.

Kushal Desai: We have been quite disciplined in terms of how we utilize our funding. We don't use short term funding at all for projects. All the project and expansions in CAPEX and these sorts of things they have either been debt funded and largely internal accrual funded. So as a consequence, you know the whatever is the spill over, from our internal accruals that is what is going in terms of long-term debt.

Rahul Kota: and sir, broadly can you give some guideline on over all interest cost for this year, FY19. So as of 6 months it is broadly around 103 crores. So.

V.C. Diwadkar: You shouldn't consider 103 actually. You have to consider 79 crores after you remove the open FOREX. So, you can take a similar amount actually. I have said this for an earlier question, that the overall interest cost will be about 150 to 155 crores, after removing the open period FOREX, which we adjust against EBITDA.

Rahul Kota: Next question is basically related to inventory and receivables levels. So, in these 6 months broadly around 400 crores of inventory and receivables has gone up if we comprise both. So, going ahead, as on march 19 what is your plan whether it is to bring down or how you are seeing these numbers as on march 19.

V.C. Diwadkar: Numbers which you are quoting they are in terms of value. And as you have seen there is a value increase which is there actually. See the overall the quarter turn over has gone up by more than 50% actually and the H1 turnover is more by 33%. So naturally the inventory and debtors will go up.

Kushal Desai : Our cycles, earlier as I had mentioned during the opening remarks, we have been able to maintain a pretty tight control on the cycles, that is the number of days of debtors, and number of days of inventory, the net working capital, all that is reasonably under control and we use that as a controlling parameter in terms of the way in which we try to run the business. So, what you are seeing in terms of this 400-crore increase is largely because of the value that has gone up per ton or per unit. When you see an increase happening right across the board. Whether it is metals whether it is oil or its polymers, packing materials everything is up.

Moderator: Thank you. The next question is from the line of Trupti Agarwal from Wydo Capital. Please go ahead.

Trupti Agarwal: I have 3 quick questions. 1) you said that the guidance for the conductors is about 175,000 to 180,000 unit this year, right? So, I just want to know if their current capacity is around 180,000 what would be the capacity addition in this business and what would be the CAPEX for the same.

Chaitanya Desai: We are not planning to expand. We have produced more than we have sold in the first 6 months. So, some of the inventory which is by the end of September will also get sold in the second half. And plus, we will be producing to the tune of 100% of the capacity. So accordingly, we will be close to the 100% capacity for the full year.

Trupti Agarwal: So but what about going ahead. Typically, how much time does it take to add capacity. What is your plan like for FY21?

Kushal Desai: So we are in the process of adding capacities for the copper conductor for the railways currently. And other than that, we are going to de-bottleneck as and when the high efficiency conductor demand will increase. So, from that point of view these are the sort of investments that will happen. But not for the base requirement of conventional conductors.

Trupti Agarwal: So continuing this can you just give me what is the CAPEX number for 19 and 20.

Kushal Desai: There is one more conductor business which we are going to start which is for the transformer industry. That is the CTC. There we are going to be investing close to 45 crore rupees. The CTCs of copper transpose conductors are used in the windings of the transformer. And as we mentioned in our earlier earnings call it is a very specialized product that goes into the core of the transformers. There are main manufacturers left in the country so this is the relatively higher technology and value-added product. Also,in terms of what I mentioned earlier in the opening remarks, that our focus on the conductor business is not to just increase capacity beyond a point. We will do some de-bottle necking exercise etc. but the focus is actually to concentrate much on the value-added products. We want to bring the sale value of this product between 40% and 50% of the total revenues that we have.

Trupti Agarwal: So sir what would be that Capex number for the year like 2019 and 2020. Like 45 crores you said is for the CTC, is there any maintenance CAPEX or other CAPEX that you.

Kushal Desai: for FY19 out CAPEX budget is about 113 crores for the company as a whole. And FY20 will be about 60 to 65 crores.

Trupti Agarwal: the second question is I just wanted to know the LC creditors that we have, which you said is about 1800 crores as at September, in terms of number of days typically how many days is this LC, I mean what is the normal creditor days and the LC?

V.C. Diwadkar: See normally we get credit up to. In different businesses different terms are there. But in case of oil business it is set to 35 to 45 days actually clean credit is there. After that then the LC credit out with interest start actually

Trupti Agarwal: So 35 to 40 in oil and what about the other business's sir.

V.C. Diwadkar: Conductor business is about 30 days. Cable also will be 30 days.

Trupti Agarwal: So on an average about 35 days.

V.C. Diwadkar: This is as far as metals as concerned. As far as packing material is concerned, we get about 60 days credit. Some places we are getting 90 days credit. In case of Logistics like transport we are getting 60 to 65 days credit. Something like that.

Trupti Agarwal: One last question. You said that companies like Havells and the other are also into house wires. Can you please tell me what would be the most relevant competitor for us in the cable's division?

Kushal Desai: I guess the companies that is closest to us is Universal cables. Because they like us are primarily B2B company. I think the only Listed company. Then there is KEI industry. KEI does have about 500 to 600 crores of building wires. But otherwise the large portion of its turn over is also a B2B business. So, these are probably two which you know have more B2B business. It is more comparable to us. If you take Polycab, I think they make almost 60:40. They are privately owned. And Havells also would be having about 2/3rd of their business coming from their distribution business. That's the building wires and the LV cables that go into distribution. Finolex I guess is 90% on the building side and LV side of the business.

Trupti Agarwal: Sir think in the remarks you said, that the receivable days are 80 days, right on an average. Is that what you said.

Kushal Desai: Yes company as a whole.

Trupti Agarwal: Yes so in spite of having so much of B2B and interface with government, and railways, the receivable days are 80 days.

Kushal Desai: We don't have in case of our oil business, we don't have much interaction with the government actually. And in conductors also many of the private players actually, EPC contractor are there. As I mentioned both in the opening remarks as well as in answering one of the previous questions, that in a business like ours, physical discipline is one of the controlling factors that one needs to have. It's very easy to build volume. And it's it also as a consequence, you build up sales, but then, you know collection comes in, and all these other issues comes in and our cycle goes out of hand. We also spend money in term of insisting that customers open LCs in some cases we subsidize the opening of the LCs. So, it does have some impact on the margin to that extent. And most important thing, if you want to remain in this business year in and year out, and face all the up and down cycles, this is something that one has to maintain you know. We maintain that and as I mentioned earlier it will be a controlling factor. So, we will not allow sales to customers where there is no surety of collection. We rather not do the business.

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

Nimesh Shah: I just wanted one clarification LC credit of around 1800 crores it shown under the trade payables on the balance sheet.

V.C. Diwadkar: That is correct.

Moderator: Thank you. Ladies and gentlemen that seem to be the last question. On behalf of Apar Industries Limited that concludes this conference call. Thank you for joining us and you may now disconnect your lines.