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Dear Sir,

We are sending herewith Concall transcript of Apar Industries Limited for Q3 FY 2020-21 -Earnings Conference Call made on February 05, 2021.

Kindly take note of this.

Thanking you,

Yours faithfully,

For Apar Industries Ltd.

(Harishkumar Malsatter)
Assistant Manager – Secretarial & Legal

Encl. : As above

Apar Industries Limited
Q3 FY21 Earnings Conference Call
February 05, 2021

Moderator: Ladies and gentlemen, good day and welcome to the Apar Industries Limited Q3 FY21 earnings conference call hosted by Four-S Services. As a reminder, for the duration of this conference all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. If you should need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touch tone phone. Please note that this conference is being recorded. At this time, I would like to hand the conference over to Mr. Samayak Jain of Four-S Services. Thank you and over to you, Sir.

Samayak Jain: Thank you. Good afternoon everyone. On behalf of Four-S Services, I welcome all the participants to the Apar Industries Q3 FY21 earnings conference call. Today on the conference we have Mr. Kushal Desai, Chairman and Managing Director, Mr. Chaitanya Desai, Managing Director and Mr. V. C. Diwadkar, CFO Apar Industries. I will now like to hand over the call to Mr. Desai for his opening remarks. Over to you, Sir.

Kushal Desai: Thank you. Good afternoon everyone and a very warm welcome to our Q3 FY21 earnings call for Apar Industries. I will start the call with a quick industry update and then an overview of our performance followed by more detailed information on the segmental performance. Post all this we will open up the floor to questions.

At this stage we are happy to report a good performance despite continued adverse sentiments in Q3, especially the difficulties that have been faced in the domestic market where there's still some pandemic fire-fighting mode going on. Apar's diversified portfolio of products, customers and geographies helped us with a relatively strong response to the situation. Our profit has grown substantially with 2.5 times what it was on a consolidated basis compared to the third quarter of the previous year with a large contribution of this coming from our specialty oil segment. We continued to have a focus on exports and certain niche markets like agriculture lubes, which actually have been significant dividends through this period. Maintained the strict focus on per order profitability and we tightened credit terms besides looking at various initiatives to reduce cost and improve productivity.

The domestic market continued to see headwinds for the state transmission and distribution projects as a lot of state funding was channelized towards the pandemic response as a consequence a lot of tenders, were postponed. There is lot of improvement in the order booking for both conductors and cables and we expect the situation to continually improve, going forward.

In Q3 FY21, Apar posted a consolidated revenue of 1699 crores, which is 7% lower than the same period previous year. Our exports however were up by 6%. The domestic revenues were down by about 7%. The EBITDA at 163 crores is 37% higher than in the previous period and stands at 9.6%, which is an expansion of 312 basis points. Our finance cost has come down by 57% year-on-year due to favourable LIBOR and local rates, as well as reduction in the number of days of working capital that is being utilized. This excludes the onetime charge of 14 crores related to some IGST related expenses. So, PAT adjusted after this one time charge came in at 93 crores which is 5.5% and is 347 basis points higher than the same period previous year.

In the nine months period for FY21 Apar has posted consolidated revenues of 4,491 crores with an EBITDA of 316 crores and a profit after tax of 123 crores, which is 10% higher than year-on-year. We consider this to be good as the company had to tide over obviously the first quarter where there was relatively very little production and sales that took place.

I would also like to cover a few industry highlights and touch upon some of the happenings in the budget of ‘21-22. In this budget, there is an outlay of 3,05,984 crores which has been announced to be spent over the next 5 years for launching a revamped reformed, which are result linked, in the power distribution segment. This coupled with 1.2 lakh crores liquidity passage under the Atmanirbhar Bharat program, which was announced in May of 2020, augurs well for the sector. We still estimate this to be about double the increment debt requirement of the DISCOMS in FY22 to ‘23. We are still awaiting more details on the same because these have riders and with respect to what the state government needs to do. But overall, this should be a major shot in the arm for the sector and something that we've all been waiting for a while. Also there is a 60% increase in allocation towards renewable energy for FY22, which stands at 5,763 crores. The budget has also given a major boost to the railway electrification, telecom infrastructure, automobile and EV industry, which is good for the portfolio of products which we have. The government plans railway electrification, to reach 46,000 railway kilometres by the end of 2021. The allocation to Bharat Net is at 7,000 crores, which is up 27% from the FY21 estimates. Allocation to the fibre optic cable database network for Defence services is also up by 30% to 5,200 crores. FAME India, which is a scheme for electrical vehicle is also allocated 757 crores, which is up 138% year-on-year compared to what was in FY21.

Through the pandemic so far we have seen that the production of railways, locomotives and coaches has been at a very-very low level. Our expectation is that from the fourth quarter of FY21 onwards, there will be an accelerated production to catch up for missed time and this will augur well for our E-Beam cables that are produced both for locomotives as well as for coaches. Key transmission and development companies have received orders of about 8,600 crores in this quarter so far.

As per the government's year end review 83 new substations were commissioned, 224 substations augmented and 27,261 distribution transformers installed from April to November, 2020, despite the lockdown. Loans worth 43,000 crores were disbursed and released and 1,18,508 crores sanctioned against the liquidity infusion package announced by the government. 8439, circuit kilometres of transmission lines were added in the period April to November, which is up 19% year-on-year basis. This seems to have cleared a reasonable amount of the backlog of inventory, which was being held through the pandemic. Our expectation is that off-take will start increasing as we move through the coming quarters.

I would now like to just go over the performance on a segment by segment basis;

So, in the conductor business, revenue has declined 15% year-on-year and come in at 737 crores. This was mainly due to a 28% decline in their domestic revenues. Demand for conventional and HEC products were subdued in the domestic market as I mentioned earlier, especially in terms of tender finalization. Export declined 6% year-on-year. We did have a setback where the export benefit under the MEIS, which was dissolved by the government of India and that has had an impact in terms of our realizations in Q3. The scheme now stands closed and a new scheme has been announced by the government, but that does not carry significant benefit. Total volumes fell 13% to 31,671 metric tonnes. Amongst the higher value product, our HEC, high efficiency conductors contributed 15% to the revenues and copper conductor contributed towards 11% of the revenues. The rod business increased by 22% with a revenue share of about 14%. There has been an improvement in the off-take of our copper transpose conductors which go into the transformer industry where we have been gradually receiving more and more approvals. There has also been a better order book that is coming for the OPGW project. The EBITDA per metric ton post FOREX adjustments came in that Rs. 13,022 which is 5% higher on a year-on-year basis, mostly from cost discipline and some of the productivity initiatives that we had.

In terms of the new orders inflow, order inflows in the quarter came in at 1047 crores, that's up 68% year-on-year and 30% more than in the previous quarter. The order inflow from railways for copper conductors was up 2X that of Q3 FY20 and contributed 46% of this new order flow. Export order inflows contributed 35%. and order book as on 31st December, 2020 came in at 2,123 crores. So that's 25% higher than Q2 FY21. The total amount of export share of this 2,123 crores is 55%.

In the nine months period the conductor revenue came in at 2075 crores which is down 26% year-on-year. The EBITDA post forex adjustment per metric ton came in at Rs. 10,357, so that's 3% lower than on a year-on-year basis. The new order inflow during this nine month period was 2,169 crores.

Coming to the specialty oil business; here the revenues have increased 18% year-on-year to come in at 692 crores. We had a 30% increase in the export revenues during this period. This has been the highest Q3 sales volumes that we have achieved in the last 4 years with the sales volume of t 1,20,205 Kl., which is up 18% year-on-year. The Hamriyah plant capacity utilization was close to 99% in this quarter, up from 65% in Q3 FY20. Our white oil sales increased by 25%, transformer oil increased by 5% mainly due to exports. However, we had a 7% drop in the transformer oil domestic business which as I mentioned earlier were plagued by a lack of resources that the utilities had. We've been maintaining a relatively low profile with respect to the transformer oil distribution segment. The industrial oil volumes have grown 19% year-on-year in this period. Automotive volumes for us have grown 31% year-on-year, most been contributed by the agriculture, the retail segment as well as growth in our OEM accounts. So if you take the lubricants which is industrial and automotive put together, it's up by 29% year-on-year and today it contributes to 26% of the revenues of the division. The EBITDA per KL after FOREX adjustment increased to 165% year-on-year. So it came in at Rs. 8,158. The EBITDA improved significantly with improvement in prices as well as a product mix i.e. the lubricant portion was higher compared to previous period.

In the nine month period, the oil division posted revenues of 1,642 crores, which is 8% lower than on a year-on-year basis. The EBITDA per KL came in at Rs. 5,987 which is 82% higher than the nine month period previous year. Q4 FY21 however has had some disruption of Lube base oil supplies, mainly because of COVID-19 related issues. Given that there are lockdowns running in many parts of the world, the fuel demand has contracted resulting in less feed going into the Lube refineries due to which there have been supply outages and major strain with respect to the base oil supply chain. What has been happening for us is that as months have been passing by our inventory levels have been falling and therefore we could see some impact in the fourth quarter due to some supply chain outages. We are obviously working with various refineries with whom we have long term contracts to try to speed up supplies to us. But this does remain somewhat of a risk.

If you look at the cable side, the cable revenues were 18% lower year-on-year, came in at 322 crores mainly due to overall low market demand and un-remunerative prices from a significant competition, given that demand was lower. Exports contributed 16% of revenues in Q3 up from 13% a year ago. The power cables side of the market continues to remain fairly competitive. The Elasto and E-Beam cables saw a reduced demand coming from the railways and defence particularly, whereas I mentioned earlier the production levels are very low. We are optimistic that over the next several quarters there will be some sort of a catch-up as there will be pressure to make up for lost time. The solar sector also was relatively slow but from December onwards we have started seeing an uptick in terms of orders for cables going into solar installations. The optical fiber and telecom cables also saw a relatively slow off-take from telecom companies. The EBITDA margin post FOREX adjustment came in at 8.4% for the quarter, versus 10.6% for the same period previous year.

If you look at the nine-month period, cables have posted a revenue of 826 crores which is down 28% from a year ago. The EBITDA margin post FOREX adjustment came in at 5.5% versus 11.7% in the nine-month period. However, Q4 FY21 had started with a good order inflow especially from the solar and the wind segments. And with an expectation that call-ups will start taking place for railways as well as the defence.

Going ahead we expect recovery in the domestic demand to be very strong. We hope that the DISCOM reforms announced comes soon and the execution plans are well laid out. There is a clear buoyancy also in terms of demand from the export markets as global energy transition is taking place towards renewables and its creating a demand for transmission lines and new distribution networks. So as mentioned in our call, our product profile we are continuing to focus on the higher value added items and we are constantly focusing on improving the return on equity with a limited CAPEX spend to come in the next few quarters. So with this I would like to end my comments. I thank all of you for joining us on this call and would like to open up the floor for questions please.

Moderator: Thank you very much. The first question is from the line of Pratiksha Daftari from Aequitas Investment.

Pratiksha Daftari: Good afternoon Sir. Thank you for the opprotunity. What kind of inventories do we keep for our raw materials are based on metals? And what kind of impact do we see of rising prices on the profitability going ahead?

Kushal Desai: So, the typical inventory which we carry for our base oils is about 30 days in tank and generally you have another month which is on the waters coming in. So, about 60 days is the gross inventory level. In the case of our conductors and cables business also the inventory is approximately, if you take the total inventory its sits at around 50 odd days. Now there has been a steep increase in all commodities, so there's an increase in terms of base oils as well as aluminium and copper and particularly the most steep has been in the case of steel. So our expectation is there in terms of the base oils side, we would be in a reasonably strong position to pass on those increases as things stand today because the supply chain itself is very tight. So, as a consequence the whole industry is going to run on pretty tight inventories and whatever they sell will be pretty current cost. So there have been on the lubricant side Castrol has already announced its second price increase in two months. They being the industry leader normally the rest of the industry follows. So to some extent I think the oil side will have a certain amount of cushion. We have had a relatively higher margin in Q3. We don't expect the same high level of margins in Q4, but our margin should revert back into the Rs. 4500 per KL sort of range and we should be able to maintain that in through the Q4 period. In terms of the conductor side we have an exposure really on two fronts, one is the steel prices have gone up where there is no hedge and in fact they have gone up quite substantially. So that's why there will be some amount of hit. Also, wherever there are DDP and CFR contracts particularly with government and semi government utilities, there the freight cost is going to hit us because there's been a substantial increase in freight and shipping costs. And the contracts don't have an escalation in freight; they have escalation in terms of the raw material side, particularly aluminium and copper. We don't see a huge problem on the aluminium and copper side because there we have price variations and we are pretty much hedged.

Pratiksha Daftari: So how much per contract would be without any escalation clause for freight?

Kushal Desai: Most of the export contracts which are there wherever they are CFR they don't have an escalation which is there for freight. So wherever you are supplying to private companies you can sit and negotiate it. Wherever it is against the tenders of World Bank and some of these utility tenders, there will be an impact. So I don't have the exact percentage number available offhand, but there will be some impact coming on that particular front.

Pratiksha Daftari: You have been mentioning that there has been a focus on profitability for conductors in general of high order profitability. So, I just wanted to understand how much of this is coming at the cost of volume growth over like if we had to maintain our profitability what kind of volumes can we expect?

Chaitanya Desai: What we have done is actually got into other related conductor businesses. So the conventional conductor business may remain stagnant, but the other newer products like the HEC and the copper for the railways and OPGW and the CTC for transformers, so these are new segments that we have created. So these businesses we have invested in and they are sort of at different phases in their growth right now.

Kushal Desai So, OPGW actually is quite an interesting situation because it was largely being serviced by imports if you took it as 4-5 years ago. There is a Chinese company that has set up a large capacity and today under the new norms they have difficulty in quoting for new business. Pretty much left to three players, it’s become a three player market and the volume is likely to increase over the next few years. So, OPGW is something that we grow. Copper transpose conductors as I mentioned in the opening remarks, they need more and more approvals from utilities and transformer OEMs. So, that product line also will grow. The railways have after a gap, have finalized contracts in the last couple of months only. So we received an order in excess of 450 crores which I had mentioned during the opening remarks. So, all of those segments are showing signs of growth. So as we get into FY22 and FY23, we see that there is a tailwind in all these segments. Also high efficiency conductor, the transmission companies today based on our latest discussions are that their cash flows also have improved and allocations are being allowed to now start finalizing the tenders and going ahead with the implementation of projects that they had lined up. So you will see the HEC side also as we get into FY22 ordering and execution starting too. So we will just allow the conventional conductor thing to fall as the capacities of all these other things utilization goes up.

Pratiksha Daftari: So, what kind of execution period do we have for this 2000 crores order book? And do we have a pipeline right now that we are working on both conductors and cables?

V.C. Diwadkar: Execution period is about 8 months for the pending orders and the pipeline is 301 crore.

Pratiksha Daftari: Pipeline is?

V.C. Diwadkar: 301 crore.

Pratiksha Daftari: Just for the one-time finance cost of 14 crores, we are seeing a sharp decrease in finance cost for the quarter which is commendable. I just wanted to understand do we see this sustainable, and what are the key factors, how much is it because of LIBOR and how much because our days have come down?

V.C. Diwadkar: It is mainly on account of LIBOR and the local interest cost coming down, but we have taken lot of action as far as number of days were concerned and those things that are going to materialize in next 2-3 quarters actually, it takes time to adjust those things.

Pratiksha Daftari: And if you could just give me the total outstanding LC amount?

V.C. Diwadkar: It is 1179 crore, out of that 827 is LIBOR based and 352 is domestic.

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

Saurabh Patwa: Good afternoon Sir, thanks for taking my question and congratulations on a really good set of numbers. I just wanted to have your thoughts on a slightly longer kind of period compared to the past. I think last 3-4 years what has happened is we have actually performed really well in terms of EBITDA in line with broadly what we had been communicating through these calls. So I think our CAGR on last 3 year-basis, our EBITDA, I'm not taking FY21 into account, it being an average kind of a year, so even in FY20 despite last quarter's disruption our EBITDA grew 30%, on absolute basis on a 3-year basis. But by the time we come to PBT, actually the numbers look like we have actually de-grown. And I think largely the reason is actually the depreciation which has increased and also the finance charges. This is despite the fact that our debtor actually come down. I guess you guys have already communicated in your calls in the past that it's just because of the LC based funding and bank charges, etc. So what would be the key driver of the EBITDA converting to PBT going ahead? So, I think our LC based funding itself has started coming down from maybe I think before that FY19 it peaked I think around like 3200 crore and now it is as you mentioned it is close to 1200 crores. So, I think there has been significant headroom done there, but what's your thought there? And in terms of depreciation also, so as you mentioned that I think large part of CAPEX was done on this conventional conductors and all new value added products but part of it we already started gaining in terms of EBITDA, but I guess it was not enough to get transferred to PBT. So, maybe three years, two years down the line how you think the performance should look?

Kushal Desai: Our sense is that, first of all there will be a period where in the next maybe three years, the horizon you are looking at, where you will see a low interest rate regime. So there is a definite benefit that we have in terms of lower interest rates which will translate to the bottom line. And we have already seen that in the last quarter which is more representative because collections and things have now come in line. So the first half was a little disrupted because of COVID, but then when you look at particularly Q3, it's more representative of the type of interest that we will be picking up. In the EBITDA, the two big pieces are the interest and the depreciation. On the depreciation side we don't have significant CAPEX going forward. There's only CAPEX which will be largely for productivity, quality, some debottlenecking, etc. The big chunk of CAPEX is already through. And as our value added product start growing; you will also see the EBITDA also growing on a per unit basis whether it is per tonne for conductors or whether it is on a per KL basis for our oil business. As I mentioned earlier the lubricant business also has grown and that actually carries a higher per KL EBITDA margin also. So you will find that the EBITDA percentage itself should grow plus the absolute value of EBITDA will also grow. The depreciation will remain constant in absolute terms and interest will be at whatever level you are seeing pretty much in the third quarter of this year. So I would see a significantly higher translation of EBITDA coming into PBT. And as our Hamriyah facility starts cranking up and more and more approvals have been coming through during the last nine-month period, so we are able to grow larger volumes there even though the region has been a bit subdued and whatever profitability comes there it is free of tax. So it helps go straight to the bottom line. You will see profitability growing and our whole focus is on return on equity, so you will start seeing the return on equity also improving year-on-year.

Saurabh Patwa: Just one small thing, I am not sure whether you would be able to do it right now. Can you share a number like what at the peak capacity which we have right now, we will not get into details, but like broadly, if we are at like maybe 90% of our capacity in conductor or 90% of capacity in transformer speciality oil, what kind of revenue and EBITDA can we have based on current numbers?

V.C. Diwadkar: It will depend upon the mix actually. At present the capacity utilization conductor is 72% and oil also is around 72% and the cable is 55%. But this 72% all these new product lines which we are adding in conductors like OPGW consumption is only 2% at present, CTC is also only 2%, so these new product lines are just beginning to shape.

Saurabh Patwa: So whatever capacity of OPGW we have of whatever capacity of…?

V.C. Diwadkar: We will give you off line .

Saurabh Patwa: Just one last question from my end, when we see this Hamriyah has reached 99%, there would be some amount of historically when we started Hamriyah, a large part of export order which we were supplying from India were moved there. So, from a like-to-like what would have been Hamriyah's gain itself, say like when, X of orders which were moved from India, can you share that kind of a number?

Kushal Desai: That would be kind of slicing it a bit too fine. But generally what's happened is that there was a certain customer has obviously moved from India over there because the servicing was much easier and more efficient, but our share of business in that region has substantially grown. So if you see the amount of export of transformer oil going from Indian into GCC, we have 80% market share today. Some of our competitors who were also having significant sales into the GCC, we have pretty much knocked them out because of logistics and the speed of delivery and today with the freight costs having gone up, the domestic freight costs haven't really increased very much, the tanker freights as much as the container freights. So we have gained share of business and market share within the GCC. We have also added new customers. I had imagined that at least about 30%-40% of the business is from new sets of customers and there is a share of business growth also which is there. The nameplate capacity will be set up as a 100,000 KL which is about 8250 KL a month but if the business goes up, when we need to look at debottlenecking, some drumming capacity and things like that. The core capacity can increase substantially more than the 100,000 Kl.. I don't really see huge investment going into keep debottlenecking what happens at Hamriyah. Because the plant is very automated it has a big leverage in terms of cost but as your volume throughput goes up over there the cost basis increases very marginally.

Saurabh Patwa: I think that is what we can see this quarter when once this Hamriyah reached 99, our EBITDA to PBT transfer has been pretty high because the…

Kushal Desai: Exactly so depending on the loading at that plant, because of the automation as you keep loading it more and more the incremental cost is relatively marginal, lower than what would be the incremental cost in India to service the extra business.

Moderator: The next question is from the line of Viral Shah from Prabhudas Lilladher.

Viral Shah: Good afternoon Sir. Harping on the caption of conductor margins as well again, we had a steep increase in prices. So does that mean that this Rs. 13,000 per metric ton EBITDA will come down by 10% odd per 4Q or that guidance is not possible?

Kushal Desai: To nail an exact number is a little difficult because there are a bunch of moving parts especially with respect to freight. It's something which is changing on a day-to-day basis simply because of the physical movement of goods under risk this COVID-related conditions. The freight portion is a little unpredictable in this coming quarter. It's difficult to nail a number. Our sense is that as you get into the May-June timeframe you will start seeing with the vaccine program and with the spring and summer coming in, demand will start improving and there will be a more normalization of movement of goods taking place.

Viral Shah: Also we will look at that nine-month just before pre-COVID when we had met you, our strategy was very clear that we would be focusing on export because we were looking at great demand coming in all the two segments, in fact all the three segments what we are into from export market but now since the budget when you see that there is huge amount of opportunity in domestic as well. Has our strategy changed or still we continue to rate it and both export equal, export and domestic equally?

Kushal Desai: We will continue to look at both the segments because there are certain geographies where there is a good demand which is there for export. For example, if we look at conventional conductors our sense is that we will get better realization for conventional conductors in export than we will get in the domestic market simply because the competitive environment is a bit different. However, for some of these value-added products, your high-efficiency conductors and railway conductors and all obviously we will be focusing much more on the domestic market. So depending on the product line we will maintain our presence in both export and domestic but I think the overall mix will start looking much richer, much better because we will able to optimize for each category of product which geography you are looking at selling; fundamentally the Indian side or the domestic side the fundamental demand itself will grow and we have the capacities in place to actually service this.

Viral Shah: In terms of working capital have we started receiving payments on time from private players and government, what is the stand there onto it and lastly on cables we did mention that you expect a good amount of ramp up happening in Defence and Railways. Are we having a highest number of market share in this segment and what's the outlook there?

Kushal Desai: Payments have definitely improved as we have gone months-by-months. In fact they are now pretty much at normal levels. We don't really see any major problem in terms of collections. That's the first part of the question. If I may add, some of the working capital has also been tied up in our case because we are doing certain project work so some of the COVID-related restrictions did not allow us to do the project work and then there was some more money blocked in the form of retention moneys. Those things also in due course will get unlocked. The working capital side actually has improved, if you look at it first quarter versus second quarter versus third quarter, it's getting better in the fourth quarter should be better than the third quarter. That side is looking fine, can you just repeat the second part of your question?

Viral Shah: Second part of the question was on the cable division.

Kushal Desai: On the cable side we definitely expect that from Q4 because there was some serious problems with production facilities of the Railways and the Defence because there would be a couple of COVID cases and the whole shop floors would be shut down and these are pretty large shop floors. The cases have come down significantly and there is a lot of pressure to complete some of this work and we don't have the more friendly neighbor sitting around. As a consequence, the pressure is coming on the Defence side. As far as Railways is concerned there is an outlay increase and as a consequence the future requirements are further going up so you not only have to catch up on backlog but also meet the future requirements. Our sense is that over the next 4 to 6 quarters you will see a very steep increase in terms of the locos coming out and the coaches coming out.

Viral Shah: In terms of market share because in Defence and Railways what will be our market share be because we understand that E-beam and electrostatic magnetic we would be the one of the largest player in the segment or…?

Kushal Desai: We have a significant share in that segment and in fact we are just putting up our third electron beam is just getting commissioned. It was delayed because we couldn't get any of the foreign engineers to come in so we have commissioned it pretty much ourselves through remote monitoring from the supplier but there is increased competition in that area because other players are also coming in but we see the absolute volume of the business also growing. In addition to cables we have also entered the harness business for locomotives and coaches. Today we are participating in the harness tender with our own cable plus supplying cables to the Railways directly and to other harness manufacturers. Our sense is that even though competition will increase with new players coming in because the market is going to grow and because now we are participating in both harnesses as well as supply of cables we should be able to maintain our share.

Viral Shah: What is the CAPEX for FY21 guidance and how much we have incurred for first nine-months?

V.C. Diwadkar: We have incurred CAPEX of 30 crores in the first nine-months.

Kushal Desai: CAPEX will be pretty much within the depreciation as we are looking at. It's not going to make a big difference in terms of the total working as such.

Moderator: The next question is from the line of Sriram Rajaram from Ratnatraya Capital.

Sriram Rajaram: Just want to know actual capacity what can be the potential revenue for conductors and cables business?

Chaitanya Desai: Full capacity almost 5000 crores for conductors ..

VC Diwadkar: Cable can be 2200 crores?

Sriram Rajaram: Cable will be how much? What would be the incremental CAPEX that is required probably after couple of years?

VC Diwadkar: 2200 crores. **Kushal Desai:** As I mentioned earlier that for the next couple years whatever CAPEX goes in, fundamentally go for some debottlenecking and productivity programs, maybe some quality control equipment and things like that. It should come within the depreciation that we have. Also clearly you will see free cash flow coming out from the businesses.

Sriram Rajaram: On the cables front, can you give the break-up for which are the segments on the cable like solar, wind, E-beam, if you can throw some light on that will be helpful?

V.C. Diwadkar: You want the percentage?

Sriram Rajaram: Yes percentage would do.

V.C. Diwadkar: Elasto is 27%, OFC is 12% and balance is XLPE 61%.

Moderator: The next question is from the line of Nemish Shah from Emkay Investment Managers.

Nemish Shah: Thanks on the opportunity and congratulations on a good set of numbers. I just wanted to understand a bit on the opportunity for us in the cables and the conductors business on the export front so we have been creating that Europe is aspiring to add a lots of wind, energy, wind mills and wind energy and there is also a huge expansion plan that has been going around so do we see that as an opportunity for us, just wanted to understand on that front.

Kushal Desai: Actually the opportunity is clearly there, in Europe and other geography where we have already got traction and new business coming in is from Australia. And Australia has also as we have mentioned in the previous calls, they have mandated a significant switch over to wind and solar so we see growth coming from these two places also from Latin America, Central America. And we would expect that under the democratic government, the United States also will start spending more on infrastructure which is something that was required to be done in the US but during the entire period of the presidency of Donald Trump, there was not much investment going on in terms of some of the aging electrical networks and things that they have. That's one of the reasons why we want to continue to look at the export side of the business.

Nemish Shah: These capacity additions and these investments should do well for both our conductors and the cable business, right?

Kushal Desai: Yes, because what happens is that you need to build a new transmission network to evacuate power from these locations, which are different than where the current power plants are located. So there is a transmission network required plus there is then cabling required towards the last mile as well as there is any installations which are there. In addition to this mass transportation also is a major segment so for example, Sydney and Melbourne are expanding their railway networks in a big way. Just like in India there's a significant investment which will go into the Metro and we are supplying cables to the Metro side. The overall infrastructure investment looks like across the world will increase over the next 3 years.

Nemish Shah: Just one another data point, if you could help us with, thanks for first of all sharing the additional data in terms of the lubricants, auto and the industry lubricants. Can you also if possible share or what will be the EBITDA per liter in that segment for us?

V.C. Diwadkar: That we are not giving. We are not giving any EBITDA, we are giving for specialty oil as a whole.

Moderator: The next question is from the line of Adit Shah from Vibrant Securities.

Adit Shah: If you could share the details of the interest-bearing liabilities debt and suppliers credit, have you shared that number?

V.C. Diwadkar: The long term borrowing is 197 crores. Short-term is 185 crores. And cash on the balance sheet is 241 crores and the LC liability already I had shared if you have noted down, if not I can give you again. LC liability is between…should I share then?

Adit Shah: Please share that, I missed that part.

V.C. Diwadkar: LC liability in 1179 crores total, out of that 827 crores is LIBOR based and 352 crores is domestic.

Adit Shah: Going forward what is the outlook on the interest cost because if you exist for the one-time then it goes 23 crores odd. So, how should we look at this number going forward?

V.C. Diwadkar: This number with the turnover increases then there will be proportionate increase in this number actually. Turnover increases either on account of the commodity prices or on account of the volumes then there will be increase in this number .

Adit Shah: However, in this quarter even if you look at quarter-on-quarter basis I think we have gone down, either revenues have gone up?

V.C. Diwadkar: We feel that for next 3 years as Mr. Kushal Desai has said the interest rates will be soft only for next 3 years. That is what our estimate is there plus whatever actions we have taking as far as reducing the number of days should also help us in reducing the interest cost.

Adit Shah: Do you mind sharing the working capital position that is inventory receivables and payable?

V.C. Diwadkar: Conductor debtors 135 days. This is a 5 point average, this is not 1 point average actually, 5 point average, 135 days, inventory is 54 days and Oils debtors is 78 days, inventory is 51 days, Cables debtors is 114 days, inventory is 77 days.

Adit Shah: Conductor you said 135-54 I couldn't.

V.C. Diwadkar: 135 and 54.

Moderator: The next question is from the line of Nagraj Chandrasekar from Laburnum.

Nagraj Chandrasekar: Congrats on a very good quarter. I had a few questions on the oils margins. I guess as you mentioned with the base oil price hike part of this 8,100 per KL liter margin is the mark-to-market of the base oils that we have at the end of the quarter and part of it is on the pure margin, which would have gone up because of Hamriyah and the increased industrial and auto lubricants in the mix. Could you give me a sense of how much that mark-to-market contributed to the margin per litre and also we know the annual figures for the Hamriyah, the revenue on the profitability when it was running in FY20 at 55%, at a 100% sort of utilization or close to a 100%. What sort of revenue and margin does Hamriyah do at PBT level?

V.C. Diwadkar: We are not giving breakup between Hamriyah and India operations. And I am not clear on mark to market of base oil.

Kushal Desai: Diwadkar let me try to answer that, so it's difficult to draw very clean line because it's like a moving book, right. But what we envisage is that the fourth quarter, we will see the EBITDA per KL reverting back into the 4500 range. So that's assuming that this is those kinds of clean operating margin that you would have without any benefits, that accrue of cheaper raw material etc. Because you will have cheaper raw material coming in, but there will be some amount of leakage that happens as costs increase and you get an increase from your customers. There's always a lag that exists for that. Our sense is that we'll be able to pass it through and the lag will not be very significant, but there will be some leakage. So considering all that fourth quarter number will be somewhere in the range of 4500 per KL. In terms of our Hamriyah side, there are two pieces to it. One is that there is a more favorable margin regime plus there is an operating leverage as the capacities have gone up over there. Just generally I can tell you is that as we increased capacity is the marginal increase is relatively very small there because the plant is very automated. So you don't on the manufacturing side there is no additional people, it's only on the packaging and handling side where you have some proportion to the revenue that comes into the picture.

Nagraj Chandrasekar: The 4th Quarter you mentioned base-oil tightness, would be we able to maintain current volumes on the oil's business.

Kushal Desai: We don't expect the volumes to be at 120,000 Kl. range. It will be lower than that because there has been some amount of supply chain restocking that came into the picture in the end of Q2 and in Q3. Secondly, our own sales could get impacted because of supply chain being a little bit disrupted. So it's difficult to put exact number in place but generally that trend is there like in the month of January itself we were at the backlog of close to about 8% to 10%? So if we are not able to make it up in a quick enough period maybe it may go to competition, all that demand may actually get a bit canceled. The fundamental reason why the supply chain is under pressure, I mentioned in my opening remarks is that because of these lockdowns, the demand for fuel itself is been reduced, especially for the gasoline and to some extent, diesel in the Western world which has been more affected. So as a consequence the vacuum gas-oil which comes out of the fuel refinery and is a basic feed into the Lube refinery, that quantity itself is lower. So as a result the Lube refinery is not able to run at its full capacity. That's why the supply chain has become relatively tight. We have, 65% of our volumes that come on a contract basis. Even the contact suppliers are running behind schedule, but they have promised that they will catch up on it before they give any spot availability and the spot market is extremely tight right now.

Nagraj Chandrasekar: Just on the cables business we have seen a very good recovery overall, with the resumption in your sales to the railway and the Defence should be go back to 3Q '20 sort of run rate by the fourth quarter or even better.

Kushal Desai: So, I don't think it will be the railway and the Defence side will start picking up, but it's not going to be a step function. Because there are still some Corona cases that come up in these places etc. they have not yet ramped up completely, but the utilization was extremely low right up to December. And we see from January the off-take increasing and the activity also increasing over there. So you won't see a massive step function. Where the jump is likely to happen is on the solar side, where the solar sides have all back up and running and that been a relatively short implementation cycle. Solar cable demand is pretty strong so fourth quarter will be definitely better than third quarter of FY21 and may not be as good as the third quarter of FY20.

Moderator: The next question is from the line of Sriram Rajaram from Ratnatraya Capital.

Sriram Rajaram: Do you have any plans to enter extra high voltage cables space?

Kushal Desai: At this stage we don't have any plans of getting into EHV side, we can go up to 66 KV and that 66 KV for the typical cables and we can get up to 132 KV on certain types of cables, but we don't intend to get into the EHV side. That would need a complete new investment, so that's not on the cards.

Moderator: The next question is from the line of Adit Shah from Vibrant Securities.

Adit Shah: May I know sudden change in the competitive position of the company post the removal of MEIS and in the new scheme and whatever the rates are? So is there any change in the competitive positioning across the three verticals for us?

V.C. Diwadkar: MEIS, they have withdrawn this MEIS from 01st of January and we are informed that the full deduction will not come under the RoDTEP scheme and we have informed that the RoDTEP scheme is not available for the companies which are taking advance license route. So we are on the advance license actually. Besides the people who gone on drawback rate actually so along with drawback they will be giving this RoDTEP and that percentage is going to be meagre.

Adit Shah: Otherwise MEIS is amounting to approximately.

V.C. Diwadkar: 2%, MEIS was 2% and the limit for the MEIS for October, November and December actually, because in September they said that from September to December per Company maximum MEIS will be 2 crores. Whereas our conductor division every month it accrues 2 crores for the MEIS. So in September itself we accrued that actually and accounted for in September. October-November-December there was no MEIS for conductor as well as for cables.

Chaitanya Desai: And from competitiveness may not change much because the competition from the other Indian parties would also be in the same boat. With regard to MEIS and with regard to steel cost, internationally the steel prices are gone up. So, even our competitors abroad also would be facing the same kind of cost pressures.

Adit Shah: Secondly, in terms of do you want to hazard a guess for the guidance for next year in terms of what kind of volume growth we can see and the EBITDA per ton in across categories?

Kushal Desai: I think, at this stage we need to actually just wait until the fine print is out, the execution plan of all these initiatives announced in the budget. I mean, what seems quite clear is that there is a strong intent to execute this. Similarly, there has been change in leadership in the United States and Mr. Biden and his government expect to be investing money in terms of infrastructure. So I think probably the next two months will be quite useful in terms of being able to gauge where exactly this will stand. But the trend is very clear that as you get into '22 and '23 execution of all this will take place. Now how fast and to what extent is something that we need to wait and watch. But the trend line is clearly upward.

Adit Shah: The last, book keeping question was I see the employee cost in this quarter is actually lower versus even on a quarter-on-quarter basis, which seems a bit unlikely…

Chaitanya Desai: We've done cost reduction, just like most of the companies that during the peak of the COVID period. We've gone down and made sure that housekeeping is in place. A lot of unnecessary costs and things that have been scrutinized and we've moved some of it out. There will be some increase and little come back in terms of travel, conveyance and things like that, but it will not go back to pre COVID level. We've actually redone some of our cost structures to the extent where it doesn't tear the fabric of the company, but we have full things have been brought under control. That's how I would see some of this cost benefit actually, continuing to carry forward.

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

Chaitanya Desai: Thank you everyone for joining our Q3 earnings call, this pandemic is not over and I just hope everybody remains vigilant and safe. Obviously we had trending in the right direction. Given the fact that, our budget has allocated significant amounts of money to the infrastructure spend and we see infrastructure spend taking place across the world with the capacity already in place. I believe that over the next few years we should see a good amount of leverage in terms of our assets as well as the geographic spread that we have. The company clearly has a good runway ahead of it. We look forward to the next few years being actually better than the performance in the current years. So once again thank you for your time and please be safe.

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