Apar Industries Limited
Q1 FY19 Earnings Conference Call
August 13, 2018

Moderator: Ladies and gentlemen, good day and welcome to the Apar Industries Limited Q1 FY19 Earnings 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 after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Lokesh of Four-S Services. Thank you and over to you, sir.

Lokesh: Thank you. Good afternoon, everyone. On behalf of Four-S Services, I welcome all the participants to Apar Industries Q1 FY19 Earnings Conference Call. Today on the conference we have Mr. Kushal Desai – Chairman and Managing Director, Mr. Chaitanya Desai – Managing Director and Mr. V.C. Diwadkar – CFO, Apar Industries. I would now like to hand over the call to Mr. Desai for his opening remarks. Over to you, sir.

Kushal Desai: Thank you, Lokesh. Good afternoon, everyone and a very warm welcome to Q1 FY19 Earnings Conference Call for

Apar Industries. I would like to begin the call with the few industry highlight and then follow that up with the brief financial analysis post which we can open up the floor to questions. It has been a mix quarter for the transmission and distribution sector in the sense that despite several announcements and positive measures there was a decline in the total number of T&D lines and some other larger projects which were awarded. So, this was down almost 39% year-on-year from approximately 11,000 crores from a year ago to about 6,800 crores in Q1 FY19. However, we believe that this is probably a bit of a temporary lull and there are a few positive developments which are there which I like to mention. Power Grid has announced that they are going to spend 25,000 crores of CAPEX for FY19. There has been visible progress on the Uday initiative where the losses of state DISCOMs are already down 70% to approximately 17,350 crores in the last 2 years from the time the scheme was initiated. The GAP between the average cost of power supply and the average revenue of State power distribution companies has reduced to approximately 24 paisa, which is the gap has reduced by almost 60% over the last 2 years. So this has the major indirect benefit in terms of the subsequent CAPEX that comes up from the distribution companies.

Railway electrification projects are also picking up speed in terms of execution which has resulted in higher order books in our case from both copper conductors as well as the electron beam cables that go into the locomotives as well as the passenger bogies. So, Q1 FY19 the railway has closed electrification tenders of more than 5,500 crores. Spending in DISCOMs for distribution projects we have also seen certain DISCOMs are picking up momentum. Crisil has indicated an investment of about 2.5 lakh to 3 lakh crores in the next 5 years for building the T&D infrastructure. We are seeing early stages of revival also in the wind power segment which was pretty dead for the last 15 months due to a change in the regime from feed in tariff to an auction. Otherwise the auctions conducted in the last 15 months for approximately 5.5 gigawatts of wind energy have only started being executed and expected to reflect capacity addition in both FY19 and FY20 as these tenders start getting awarded. CAPEX building on solar projects along with new evacuation into the transmission networks remains reasonably strong. The government has estimated an investment of 3.85 lakh crores for setting up 77,000 megawatt of additional solar capacity by 2022.

So besides the T&D sector, we have also seen fairly strong growth in the automotive sector and which is of greatest interest to us especially is the tractor segment, which grew at about 24% year-on-year to reach volumes of more than 230,000 tractors in Q1 of FY19. So, this has helped us substantially increase sales of our auto lubricants to the tractor OEMs, where the company has a relatively strong tractor positioning and it has also increase sales of our industrial lubricant which I used extensively in the manufacturing of various types of auto components across sectors and includes passenger cars, trucks and commercial vehicles as well as agriculture products like tractors. So, this quarter we have seen a strong increase in revenue lead by growth across all the 3 businesses which is our conductors, speciality oils and cables. However, we have not been able to show the same level of growth in terms of profitability as there was a lot of pressure on the profitability due to increase commodity prices, a pretty sharp depreciation of the Rupee and also increase its major input cost which include packing material both steel as well as polymer, based freight, etc.

There has been a bit of a time lag especially in our oil lubricant segment where we have either struggled to get the necessary price increases or the formula based increases are going to partly reflect in Q2 and fully in Q3. If I get into the numbers in a little bit more detail, our consolidated revenue in the quarter came in at 1,499 crores which is 15% up from Q1 FY18. We saw robust growth in sales of our cable segment followed by our conductors and speciality oil. The EBITDA for the quarter increased by 16% to a 112 crores from 97 crores a year ago resulting in an EBITDA margin of 7.5%. However, the profit after tax declined by 26% to 29 crores compared to 39 crores that we had from a year ago and this decline in the bottom-line was on account of essentially higher interest cost from the increase in the commodity prices, the increase in both LIBOR rates of interest as well as the domestic Indian ways of interest. There is still some residue of blockage of working capital on the GST particularly in the form of the 3rd party exports which were done.

We expect a release of this to happen by 30th September as various stages of process are being completed. And of course, we have seen increased inventory levels that we are holding due to delay in either customer projects or making financial arrangements that customers had to make before we would prepare to release the product to them. So, we would like to highlight that the short term and medium term credit and access to credit scenario is pretty tight and is deteriorating and this is forcing the company to limit sales for customers where it is not wise to increase credit exposure. So, this is affecting directly the sales volume to some extent and indirectly the profitability as the pricing to the most solvent customers are getting a bit more aggressive, so that the sales ticker continuous to run. So, these are the general comments I have, I would like to spend the next few minutes talking a little bit more specifically about each of our 3 segments.

So, coming to our conductor segment, the business posted a revenue growth of 17% as 635 crores compared to Q1 FY18. Exports contributed 49% up from 44% a year ago, so there is a 5% increase in contribution on the export front. The EBITDA per metric tonne post Forex adjustment reached Rs. 12,073 per metric tonne which is substantially higher than the 10,900 which we had a year ago and this was driven by some of the more profitable high efficiency conductor orders which we executed. So, the order mix was a bit more favorable for this quarter. The high efficiency conductor revenue contribution came in at 13% by value. The volumes for the quarter were actually a bit lower at 32,281 metric tonnes compared to 38,267. So, approximately 6,000 tonnes lower, largely due to not receiving enough manufacturing clearances or delays which are happened in the financial arrangements from customers. We ended up actually starting the quarter with the expectation of executing all these and as a consequence actually hold us slightly higher inventory levels. Our sense is that over the next 9 months hopefully a lot of this should get executed.

We have seen a fairly sharp increase in the order book which today stands at 2,436 crores as on June 30 which is up a 110% over the same period previous year. And if you look at quarter-on-quarter which is comparing to what it was on 31st of March it is a 101% higher than that period.

Export orders contributed to about 36% of this order book which is also clearly indicating that domestic ordering has started increasing. We have received an order of 394 crores for the new copper conductor business that we have started with Indian railways. So considering all this at 2,436 crores this is the highest historical order book that we have in our conductor segment. In addition to this the high efficiency conductor business in India is expected to pick up in the next few months with the visibility of our large number of new tenders and tenders where shelved have been revive. So we expect a fair amount of activity on the high efficiency conductor side to take place in the next 9 months which is a pleasant change from the last 6 months where it has been rather subdued. A lot of this 2,436 crores execution is expected to happen within the next 3 to 4 quarters.

Coming to our speciality oil segment revenue for the quarter was up 15% at 576 crores. We had fairly strong growth in industrial oil and automotive oil as well as in rubber process oil. This is a common thread that all 3 of these segments actually supply into the automotive sector. There was a marginal drop of about 2% in volumes compared to the same period previous year may be coming from slower demand and fairly high and intense level of competition in transformer oil and white oils both in the domestic market as well as in the export market. We have seen particularly a major slowdown in demand from the Middle East and the African regions for transformer oil and white oil at this stage. If you come to the EBITDA per KL after Forex adjustment for the quarter this has declined to approximately Rs. 3,100 per KL from Rs. 4,072 in the period a year ago. As I mentioned earlier this is largely on account of the inflationary pressures that we have seen across all the major inputs and given the fairly tapered and reduced demand especially in the transformer oil, white oil side the price increases are taking longer and we are struggling more to, to make that happen.

Clients are pushing back on price increases, some of our competitors are willing to either postponed increases to gain market share or are using this opportunity to open up an account which otherwise they were having difficulty getting into. The credit scenario being weak is also causing problems in the sector since we have fairly established system by which we limit exposures to clients where payments are getting delayed. The silver lining to the whole oil segment really has been the automotive industrial sub segment volume. They were fairly strong we saw a 44% increase in volume on the automotive side and a 60% increase in volume on the industrial oil side. This represents a historical high for the company in both segments in terms of sales in give quarter. The volume for the sub segment is now at 16% of the total that we have of our speciality oil and lubricant business and it represents 24% of the value. So we are slowly and steadily moving towards a number a target were we would like to attain 33% of our volumes coming from the additive lubricants falling under the auto and industrial segment.

The profitability from these gains for us are not reflected fully in this quarter’s earnings due to the inflationary pressures that I mention price increase has been announced and in the course of Q2 they will start getting reflected in the case of some of the OEMs it is on a formula which will partly get corrected in Q2 and the rest of it will get corrected in the earlier part of Q3. So, Q3 will reflect the full profitability from this price variation formula kicking in for the automotive side. We are now clearly in the top 12 finish lubricant producers in the country today having pretty much started in scratch in this segment 10 years ago. So this itself is a quite a commendable achievement and the trajectory is clearly showing a strong upward growth. Coming to our cables business, our cables business has delivered a fairly robust revenue growth of 26% in the quarter with revenues coming in at 318 crores, we saw significant growth in the power cables and in the optical fibre cables supplied it to the telecom segment which grew by 34% and 83% respectively. So, power cables revenue that increased came from the sales to EPC contractors working on various distribution or DISCOM projects as well as our strategic positioning in the renewable sector particularly the solar sector.

The telecom revenue has grown on the back of orders which we have received from BBNL as there are a few of the telecommunication companies and the last mile providers. Our elastomeric business declined by 16% primarily due to the slowdown in the wind segment which is virtually dead at the moment. However, there are a number of new tenders worth approximately 300 crores out of which we expect to receive orders worth about 75 crores in the wind segment and it should start coming in towards the end of Q2. The speciality e-beam cable, however from our railways and defense segments continue to grow at a very comfortable pace. So, EBITDA margin post Forex came in at 9.5% in Q1 FY19 compared to 8.1% a year ago. We are pretty confident that we are on track to deliver a 25% growth in the cables segment. In terms of revenue and our profitability is also expected to come in close to about 9.5%.

So, even though our numbers of Q1 for us are a bit disappointing due to some of the factors that we mentioned so far, we say quite optimistic in terms of the fundamental growth in our businesses. The long term trends and the business composition which we are looking at are both moving in the direction that the management has set the course for and should start reflecting in the next few quarters and in the years to come.

So with this, I would like to end my comment. I would like to thank all of you for joining the call and would be happy to open the floor to questions at this stage. Thank you.

Moderator: Thank you very much. We will now begin the question and answer session. We have the first question from the line of Vikrant Kashyap from Kedia Securities private Limited. Please go ahead.

Vikrant Kashyap: I had just 2 questions. Sir, in recent past we have seen inconsistency in the performance. Cable business has shown consistent performance but majority of the business has failed to do so. My question is when we are expecting things to improve and so consistency in performance? And second question is when margins are expected to improve?

Kushal Desai: So, I think let me answer both those questions at the same time. We have seen actually a lot of volatility and we spoke about that quite a bit at length in our last call, in a sense things have not changed. This volatility we have seen across metals where there are movements up and down on a regular basis. We have seen volatility in terms of crude, gas oil which is also changing the pricing in terms of base oil and then the inflationary push has been pretty severe in terms of additives, packing material, freight cost, steel, etc. So, our sense is that it is still going to take another quarter or so or 2 may be for it to start stabilizing, like oil was supposed to hit $80, it is was predicted to hit $80. It is now fallen actually to $73 or little below $73. So, this business has been a bit affected by volatility. The Indian Rupee versus the Dollar actually depreciated quite strongly this towards the end of the quarter. So, we have all the MTM losses which have been repacked for the quarter. So, our sense is that this is going to continue for some time. So, we do not really have any special solution to sort this problem out. The only underlying benefit which we see is that, we are moving to better value business as the HEC comes in on the conductor side, copper conductor business now getting established. On the oil side, auto and industrial lubricant business is growing. On the cable side, the profitability is being driven by lot of the specialty products and the demand is, I mentioned earlier for those which is coming from the railways and defense particularly they continued to be coming in at reasonable growth. In addition to that we have been able to fundamentally leverage the infrastructure which we created on the power cable side and the optical fiber side. And the variety of product that we developed on the cable side is very high which is helping the business to remain robust. So, I think the volatility is still there and probably continue for a bit.

Vikrant Kashyap: So, my question was because in previous calls in FY18, we had reflected that majority of the FY19 is going to be good for the company and the rest of 2020. So, quarter one was a bit disappointed for us, if not on topline but definitely on the bottom-line side. So, for the rest of the year or going forward in 2020, do you see pick up in topline and bottom-line growth? And we are going to hold on it just the way you have improved on your performance added products and many of the initiatives you have taken in terms of rising capacities. So, are they going to help us improve our performance in Q2 or Q3.

Kushal Desai: We set up ourselves up to do that but then what is happening is that you have got some of the other volatility things taking away from in the margin loss coming from that taking from it. As I also mentioned that the lubricant side the volumes have increased but our the formula pricing that we have is backward looking. So, even the formula to the OEMs will get corrected in Q2 and fully in Q3. So, at this stage, I think I will be in a better position to answer this question may be when we have a Q2 earnings call with another 3 months having passed by to see how much stability is there. And how much of this price increase is it we push in the market is actually getting reflected.

Moderator: Thank you. Next question is from Girish Raj from Quest Investments. Please go ahead.

Girish Raj: If you could just share working capital related, so receivables and debt at this point of time as in first quarter?

Kushal Desai: The net working capital situation actually we manage to retain it and keep it that pretty much the same level.

V.C. Diwadkar: Now oil is about, oil capital employed is about 458 crores and conductor is 419 crores and cable is 492 crores.

Girish Raj: And what was the position fourth quarter, sir?

V.C. Diwadkar: Which one?

Girish Raj: All 3?

V.C. Diwadkar: 407 crores oil, 455 crores conductor and 408 crores cables.

V.C. Diwadkar: It is pretty much in line with the topline.

Girish Raj: So, in this interest expenses 38 crores is related to interest cost and banking charges. So, if the commodity and currency remains at this level, is it fair run rate to be maintained over next 3 quarters?

V.C. Diwadkar: Yes. It will be close to around, the average will be about 35 crores-36 crores per quarter. But the topline will be much higher because although in case of conductor business the activity level was for about 44,000 metric tonnes. But we ended up with only 32,000 metric tonnes of sales and 36,000 metric tonnes of production.

Kushal Desai: So, just to add to that if you see sort of rough breakup that is there for the interest, so our supplier's credit for the overseas supplies is around 10 crores out of this 35. The domestic LC interest which is from the aluminum and copper which is purchased for the conductor and cable business is around 12.5 crores. 6 crores is actually the discounting cost. See, today all the EPC contractor including the really big player that will include people like L&T and Siemens, ABB, KEC, Kalpataru all these guys, they all wanted extended credit on a letter of credit. So, that discounting costs are around 6 crores which is actually built into the pricing that one would charge to them given that these credit on the declared upfront the time of your quotation itself. We have an interest of about 2 crores on GST, half of which is actually pertaining to a large set a residual refunds that we should be getting from third party exports, which were done about 6 month to 8 months ago. So that processes now got set properly and it is in a very advance stage of getting release by 30th September about may be 65 crores to 70 crores of that money would get release and that is not going to be a recurring amount getting stuck on GST. The interest on the GST is about 2 crores and our term loan is about 3 crores. So, you add all this up it comes to about 35 crores, so you got term loan and interest on GST actually going to come down and the rest of the cost will kind of pretty much stabilize.

Girish Raj: But the topline will much higher?

Kushal Desai: Topline should be higher and as I had mentioned in the call earlier there were a number of indications or manufacturing clearance is that were expected in the first quarter. So, the raw materials, everything was lined up but some of that has not happened part of it is because of all the stress which is there in the banking system. So, EPC contractors also are struggling with making sure that LCs are opened. Opening of LC is taking a lot longer than it was taking earlier. But our sense is that the pace of activity will pick up in the next 9 months.

Girish Raj: These extended credits ask by the EPC players, is that a reset in the pricing or how does that work?

Kushal Desai: No, so in most cases they tell you upfront on you when you are quoting that I want, I will open a 180 day LC you are a 120 day LC. So, you have to factor that into the equation while quoting the price. But bottom-line is, there is a certain cost to the capital, so previously an EPC was buying at 60 days and 90 days they will now move to 150 days or 180 days.

Girish Raj: This is a recent phenomenon after March or …

Kushal Desai: No, it has been happening since the last maybe 18 months but now it is sort of become a standard.

Girish Raj: On this railway order, is it fair to assume Rs. 15,000 EBITDA per metric tonnes, this 400 crores order?

V.C. Diwadkar: Will be about Rs. 12,000-Rs. 12,500.

Girish Raj: And on this 400 what would be the tonnage that may go?

V.C. Diwadkar: About 7,700 metric tonnes.

Girish Raj: Of 400 crores order, right?

V.C. Diwadkar: Yes.

Moderator: Thank you. Next question is from Varun Aggarwal from BOI AXA Mutual Fund. Please go ahead.

Varun Aggarwal: So, basically my question is with regards to the volume growth in the oil segment. Do you see that picking up going forward because as you said lot of clients have postponed and probably the sales restricted to due to the credit position. How do you see that panning out over next couple of quarters?

Kushal Desai: So, well I mean, in terms of the automotive and industrial side we expect the sales growth to continue. Because there is a fairly strong momentum coming from the automotive manufacturer both OEM as well as even we have seen growth on the distribution side. So, our volume estimates which we have considering that the first quarter was a little bit lower than what our plan was it still do between 400,000 and 415,000 KL overall in terms of total volume. We, typically the season for transformer oil and white oil comes in Q3 and Q4 that is the stronger period. And our expectation is it we should continue to be a little the execution will be stronger in those 2 quarters. But the industrial and automotive will grow by over 30% year-on-year for sure. This quarter has been a little bit higher because the base effect of GST which has been there but still overall we deliver a 30 plus percent number on physical volume in the automotive and industrial side. The transformer oil, white oil is difficult to predict the volume because we look at both certain threshold level on margin as well as there is a limitation coming in particularly on domestic transformer oil in terms of credit quality or not wanting to exceed certain exposure with clients. But overall considering everything between 400,000 and 415,000 KL is what we are trying to target for the year.

Varun Aggarwal: So, in terms of EBITDA per KL for the oil segment overall I just mentioned that over a next couple of quarters probably we will see the improvement or the price variations clauses picking in. Do we think that we will be able to match the last years overall EBITDA per sale number?

Kushal Desai: So, the target is to get to that level and our expectation is that Q2 and Q3 should be much higher than what current 3,100 per KL number is. I think, at the half year level we have been in a better position to be able to comment on that. It seems like the depreciation in the Rupee will not happen that sharply any more. I mean, it is even though today it has fallen but it is in a certain range and the sharp decline is already taken place. The crude also seems to be moving in a certain basket plus or minus. So, if these 2 things stabilize actually we do not mind whether the prices either at $70 a barrel or whether it is at $90 a barrel. The fluctuation is what keeps hurting the business because you go for a price increase and if suppose the price falls when the client pushes you out says wait for a few more months it may correct itself. So, the pass through gets delayed. Same thing happens when the Rupee depreciates then you got to go and there is a time lag for getting the increase in price. So, moment the stability on these 2 fronts fall in place then you will start seeing particularly on the transformer oil, white oil side the margins on a per unit base is picking up. So, I would imagine that numbers would be better than what they are in Q1 and hopefully it should be closer to the 4,400 which we saw, the target which we have for this year, sorry.

Varun Aggarwal: Sir, one last question on the conductor side, the EBITDA per tonnes was really good in this quarter as you said some railways order were coming in. Do you think this number will be closer to the guidance which we give or will be better than what you had mentioned?

Kushal Desai: The guidance which we had given was about Rs. 10,000 a tonnes for the segment and even though this quarter is come up at little over 12,000. I think, we should be able, we would still feel that it have been closer to that 10,000 a tonnes through the year. Though as I said the order books have grown up substantially in some cases there has been competitive pressures while taking the orders. But it is a very good sign of the domestic demand starting to pick up. We mentioned in our earlier call that in many cases the TBCB lines which was there the tariff base competitive bidding line the EPC contractors and the developers are not releasing the orders because they wanted the aluminum prices which have short up significantly to come down. It seems that at a level where it is not very likely for it to come down much below this and that is the reason why the orders are starting to get placed and from our comments earlier the order book is that are fairly strong levels. You will see operating levels starting to kick in also, at all the plants because as the clearance come the conductor side will start running flat out. The copper conductor is on a very tight time schedule because of the aggressive deadlines on electrification of the railways. So, we expect that entire 7,700 metric tonnes to get executed in this financial year itself. And the third thing is that the high efficiency conductors, number of tenders which were postponed they have been all revived. And in many cases are running out time in terms of being able to place these orders before some of the lines are getting maxed out. So overall, I mean we are at this 10,000 per tonnes but there are some upsides which could potentially been in place if all this comes through.

Varun Aggarwal: And into the volume growth, you said that the domestic overall demand which is reviving on UDAY and Power Grid side. So, can we overshoot the target there on the volumes or you think it is still early days?

Kushal Desai: We expect the volumes to be about 180,000 tonnes this year although in the first quarter we had less volume because of the manufacturing delays. But as the order book has improved and also now the LME levels have come to some normalize levels. We expect more manufacturing clearances and placement of business. So, we hope to catch up in the next few quarters.

Moderator: Thank you. Next question is from Anupam Goswami from SMIFS. Please go ahead.

Anupam Goswami: Couple of questions, can you tell me the, what is your current debt, debt level because I am yet to believe that your finance cost is in shot up like almost double, more than double in fact. and said one of the reason that the Indian interest cost also in the foreign interest cost has gone up.

But has it your debt levels also gone up and just want to move in that side?

V.C. Diwadkar: Well, the cost is up from about 20 crores to about 35 crores.

V.C. Diwadkar: If you see year-on-year but if you see quarter-on-quarter it is more or less in line with the fourth quarter actually.

Anupam Goswami: But on a debt level is it, is in the same level or actually increased?

V.C. Diwadkar: Slightly increased, debt level actually. In the sense what we do this LC financing actually from the suppliers' credit that has slightly increased but what has happened you see LIBOR interest which was about 1.4% is now about 2.5%. And the local interest has also gone up, domestic interest plus because the money is stuck up in the GST actually. As of now about 68 crores of our refunds are pending and about 99 crores of GST balances are there. So, because of which also the funds are involved in this. See, basically what has happened the export business has become costly for financing. Earlier for export business we were able to get the material without payment of any duty, without payment of basic duty, CVD, SAD etc. Whereas now for bringing, while bringing the material first we have to pay 18% GST and it will remain in the entire manufacturing cycle say 60 to 75 days and after we sell they had promised that they will give refunds in about weeks' time say, 15 days' time. They are not giving refund for 3 months-4 months also.

Anupam Goswami: So, do you think that there would be a bit crunch on your working capital?

V.C. Diwadkar: Yes, there is a pressure on working capital and that is why the interest cost has, so this was reflected in our quarter 4 also.

Anupam Goswami: Are you saying that this is going to sustain like this only? And …

V.C. Diwadkar: For some time it will sustain …

Anupam Goswami: On an overall basis we can say the interest cost can go up a bit?

Kushal Desai: Correct plus because of the commodity prices going up.

V.C. Diwadkar: Overall interest cost will remain in this 35 crores quarter.

Kushal Desai: That 20 crores is going to stabilize around 35 crores because the interest rates are not coming down. The volume will go up and but some of these GST money and all these things are getting all released. So, by September that the equation will start getting cleaned out, the old moneys that are struck. So, overall will be in the same range the 35 crores plus minus.

Kushal Desai: Plus because of the commodity price is increasing and increase in Rupee Dollar rate for doing same volume of business you require more money.

Anupam Goswami: And sir next question is, sir what is your CAPEX any plans on CAPEX margin?

Kushal Desai: Our CAPEX plan is about 110 crores for the whole year.

Anupam Goswami: And that is for which segment?

Kushal Desai: There is about a new project which we discussed last time CTC conductors actually, Continuously Transports Conductor that new project is there in the conductor division that is taking about 45 crores then about 25 crores to 30 crores in cable business and balance is in oil business.

Anupam Goswami: Sir, in cable and oil how much expansion are we looking at?

Kushal Desai: So, in the oil side most of the money is going into increasing the automation and the packaging capability on the automotive industrial lubricant side. So, the effective capacity will almost increase by around 70% to 80% once that project is completed with higher automation and same number of employees, etc. The whole lot of productivity parameters will get gain. And on the cable side, most of it is all debottlenecking and adding additional capacities on something coming on the optical fiber side given the product mix that is moving towards ribbon fiber optic. There is some debottlenecking happening on the power cable side. Couple of equipment's coming in and all the elastomeric which spread out across and really it is too help us in take a turn over this year to 1,400 crores and next year by increase by another 200 odd crores. So, all this which is lined up should basically take care of that.

Anupam Goswami: And sir, you mentioned that new project CTC, when can we expect it to complete and start production**?**

Chaitanya Desai: So, the CTC, will probably be April of 2019 when we able to start production and then it will take about another 3 to 6 months to complete getting all the approvals because it is a very critical component in the core of a transformer. But really revenue will start coming in 2020, financial year 2020.

Moderator: Thank you. Next question is from Adit Makhijani from B&K Securities. Please go ahead.

Adit Makhijani: Sir, I would like to understand your outlook on the CAPEX on transmission from state transmission PGCIL, especially in terms of execution as we see certain EPC contractors have been slowing down their execution maybe because of the elections coming in all. So, I would like to understand your outlook on that?

Chaitanya Desai: So, Power Grid is going on with about 25,000 crores CAPEX target for this year and they may be quite on course in terms of meeting their plan. And they are generally good paymasters. So, there should not be a slowdown on the power grid part. Yes, there is an overall not much growth on the interstate transmission but on the other hand in the state transmission business there is a lot of activity going on. And lot of the business which has been coming in now a days to us also is on account of the state transmission business through EPC parties. So, some of the payments for some of the boards are delayed but on the other hand there are good paymasters in some state transmission companies as well. So, it is a mixed situation. Some EPC guys who are having the good business with the good paymasters are going very strong in fact there is a pressure to complete the jobs ahead of schedule also.

Adit Makhijani: And sir, one more question regarding cables. So, see cables business has growing quite nicely and I would like to understand why do not you guys like move on to the retail side also? So, this margins are much better there.

Kushal Desai: So, retail side of the businesses are completely different ball game what we have established today is fairly strong B2B business. So, we have started actually doing some retail sales of building wires in Gujarat and Maharashtra particularly in these 2 states. So, we would like to go through that step-by-step just like how we build lube retail business over the last 10 years. So, we have started this activity. So, we are not really as a company a specialist in consumer distribution but we have started in that direction. So, over the next few years you will start seeing numbers increasing in terms of retail sales taking place.

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

Maulik Patel: Sir, on this order book which has gone I think, in the last concall you mentioned that because of the aluminum volatility there were not many tenders coming up. So, this increase in order book is partly reflecting that only? That earlier the tender which is supposed to come did not came in now still you got the order?

Chaitanya Desai: Partly it is the case and partly it is on account of our customers who are having tenders which would delayed their business got concertized and then placed in turn on us. And also there are couple of new business like this copper conductors which also increased our overall order book condition.

Maulik Patel: Sir, what is your based I mean from the experience, what size the copper conductor can we have it in next 3-4 years not immediately because there is a large opportunities available at the railway also which you mentioned. But it could be like 50% of the current volume which we are doing it or probably just throwing some number there?

Chaitanya Desai: We think over a period of time maybe 10,000 to 12,000 metric tonnes in a year.

Maulik Patel: Which could be around 7% to 8% of our current volume?

Kushal Desai: But keep in mind that the price of copper is 3 times that of aluminum. So, 10,000 tonnes in copper is equivalent to almost 30,000 tonnes of aluminum. So, 30,000 out of 180,000, so that 15%-16% of the value would come from these copper conductors. When the CPC business kicks in 2020 that is also transports copper conductor again. So, there we are actually, it is a very high value-added and complex product. So, there against this investment that we are making of approximately 45 crores we would expect revenue would come in which is about 3 times of that may be 350 crores of revenue.

Maulik Patel: Like again in the margin will be see higher like what we do in HEC conductor?

Kushal Desai: Yes, something in that range, absolutely. There is only 2 other manufacturers in the country and the rest of it all is import for this CTC.

Maulik Patel: And where is the application essentially of this conductor?

Kushal Desai: It is in the core of the transformer.

Moderator: Thank you. Next question is from Divyata Dalal from Systematic Shares. Please go ahead

Divyata Dalal: My question was pertaining to the oil business that is as you indicated that on the export side we are seeing some pressure from Middle East and Africa. So, if you can elaborate more on the issues which are being faced there?

Kushal Desai: So, the issues actually little bit different in both the geographies. In the case of the Middle East the real engine of investment is in Saudi Arabia and a lot of the project work there has just got delayed, just slowdown substantially. So, as a consequence the orders which have been placed on various manufactures either the manufacturing clearance is not available or we have manufactured transformers. The utility has not given them clearance for supply of those transformers to take place. So, as a consequence we have seen the order book or the execution down by more than 50% in Saudi Arabia. The remaining countries are relatively quite small, so that is on the transformer oil side over here. Now, when you come to the African countries there the utilities and the individual customers are very cash rich and they have a strong demand and requirement. But the countries do not have enough foreign exchange. So, the opening of letters of credit are getting postponed until there adequate foreign exchange available. Now, some countries the situation is starting to improve like Nigeria for example where it has almost gone to a standstill on import has now started improving on import with the crude prices having gone up.

So, in short the problems on the in the Middle East side more transformer oil driven in the African area is more white oil driven.

Divyata Dalal: Sir, anything, any exposure you are in these geographies that we have for our transmission business either directly or through this EPC player?

Kushal Desai: So, the transmission side in Africa is, we basically execute against aided projects. So, either it is African development bank or all World Bank. So, that does not face this foreign exchange issue with respect to a particular Central Bank of a country. But having said that in fact quite a few more orders actually coming from the America today, from Latin America, from Canada some of the business coming from the United States which are newer territory is compared to Africa which used to be the main area few years ago.

Divyata Dalal: This is under power conductor side?

Kushal Desai: On the conductor side, yes. And on the cable side also we used to quite a lot of export to Africa. Cable side export is a bit slower but it is been more than compensated with a very strong domestic growth.

Divyata Dalal: Sir, going ahead is it safe to assume that especially in the conductor side we will see more of domestic execution both in terms of current order book and newer orders flowing in?

Kushal Desai: So, if you take the first quarter of this year the order inflow was actually a fairly record high, order inflow. So, 36% of that came from exports and the rest of it actually has come in from the domestic side. So, yes you will start seeing a higher percentage of domestic taking place compared to exports of the next couple of quarters. We do have a number of tenders which we have and we have bid again in North America. So those come in and again you will see good increase on the export side.

Divyata Dalal: And in terms of the type of tenders in domestic would it be a good to assume that most of them would be either having a PV clause or will be formula base?

Chaitanya Desai: So, most of the new business now in the domestic is the against tariff base competitive bidding. So, there will be no PV clause or the end client but for us with our immediate client there will be price variation formula for the bulk of the business. That is the way we wish to operate.

Divyata Dalal: So, from the current order book can we give that breakup in terms of how much would be fixed price and how much would be this variation?

Chaitanya Desai: So, even after the business is given to us then the client has the option to freeze the price in which case then we can hedge it. So, maybe about 70% plus would be variable in that nature of that type what I just explained.

V.C. Diwadkar: He is saying the variable when you get the order but it becomes fixed before execution much before execution it becomes fixed.

Divyata Dalal: Once you get the order that time you can hedge and then it becomes fixed?

Kushal Desai: Client ask you often to hedge the price, so that it becomes the fixed price for the client also particularly the case of these TBCB, the EPC people who are supplying against the tariff base competitive bidding. So, fundamentally it is a fixed price but we bid on a variable basis and push the client to then press the button in terms of when they want to fix it for the rest of the execution.

Divyata Dalal: And sir, in terms of Hamriyah plant if you can throw some lights since the Middle East has been slowing down in terms of oil business? What would be the utilization there and will there be any lower utilization going ahead?

Kushal Desai: So, in the first quarter of this year the utilization has been at around 64%. We cannot compare it to the same period previous year because that is in the plant had just started up. But if you compared it with Q4 it has certainly been lower. And Q2 is actually the slower season because it is the holiday season in the Middle East. Is very hot and number of people go out of the country on their vacation. Q3 and Q4 are the 2 strong quarter, so by September the timeframe we should be much in a better position to be able to tell how that is going to move.

Divyata Dalal: And sir, for conductors in terms of FY20, can we guide in terms of volume growth given that the order book is strong. Do you mention it is over 9 to 12 months but based on the enquiries and the visibility for HEC? Can we put some number for FY20, sir?

Kushal Desai: What we anticipate is that the conventional conductors will be in the same range but what may increase with the HEC and the new variety like the copper conductors, OPGW, so those products may increase given the new product line that we talked about this CTC that. So, those will be additional volumes plus some of the work that we are doing for re-conducting by there is a service component. So, there also it will have a boost to the overall value of the conductor business.

Moderator: Thank you. Next question is from Lalaram Singh from Vibrant Securities. Please go ahead.

Lalaram Singh: My question is that within the 3 segments conductors, oil and cables, is my understanding correct that cable is far more attractive business in terms of economics?

Kushal Desai: Well, in the cable segment it is, we have been able to position the business to improve in terms of its profitability because we have been focusing lot on a speciality cables.

But if you otherwise just look at a plain vanilla power cable business that actually still having a lot of margin pressures. But because of the speciality cable side we have improved margins. We also looking at some of these optical fibers that getting executed. But I made a comment earlier in our presentation that the cable side the big advantage is that there is that A the addressable market is much larger than conductors and B it has a huge variety of products especially a lot of speciality products are there may not be huge volume but each of these actually has a meaningful contribution if you get after it. So, that is why we see that the cable side seems relatively pretty stable for us.

Lalaram Singh: So, within that 40,000 crores how much would be that speciality part where you can make better margin side profitability?

Kushal Desai: If you look at specialty part then probably we are looking at about 10% of that because of large portion of the 40,000 crores includes building wire also, house wire about half of the market is house wire.

Lalaram Singh: Which is very competitive?

Kushal Desai: Which is the, no I mean, yes it has a B2B component as a B2C component which is the distribution like what a Finolex should be doing or Havells. It is a branded building wire business, so that is about 50% of the market, the balance

50% is the B2B market of cables. Now of that 20,000 when you are looking at about 3,000 crores to 4,000 crores being cables which are special in nature that include optical fiber.

Lalaram Singh: And as of today, how much of our business should be speciality cable within the around 200 crores odd annual run rate?

Kushal Desai: So, last year it will take our elastomeric and optical fiber business we are looking at close to about 350 crores.

Lalaram Singh: So, effectively we can say that we are at around 10% market share in that market, speciality cables?

Kushal Desai: Yes. And the segment that we have relatively a very small market is actually market share is on the optical fiber side. So, when you move into the market share which is there in the solar segment, railways, etc. there our market share is significantly higher.

Lalaram Singh: So, we have been growing at a very healthy pace in this segment, so is that driven by taking the market share or are these categories are growing at a higher rate?

Kushal Desai: It is both. If you see over the last 10 years the least funded was actually the distribution segment. And as a consequence a lot of the cable companies actually wound up and significant problems including ourselves after we took over Uniflex Cables 10 years ago. Now the investments are going and as I mentioned in my opening remarks also that the condition of DISCOM is starting to improve in terms of the gap with respect to cost versus selling price. And the reforms are kicking in, they are getting their own internal accruals improving plus they got access to the refinancing of their loans. So, CAPEX in the segment should continue for the next at least 2 to 3 years on the power cable side. The railways has three years program for the next 3 to 5 years on improving the railway side, the defense is probably going to run even longer than that because the whole Make in India cables is one of the items that figures in being given priority to be manufactured in India. So, cable front and then of course, solar is another major area for us where for the next 4-5 years you will continue to see a lot of investment going in on the solar side and wind starting to pick up. So, all that put together cable looks reasonably at least the next 2 years outlook seems pretty clear actually.

Lalaram Singh: And if I take it a much longer term view is it slightly that cable might be one of the biggest businesses for us in the next say a decade or so. Is it possible are we looking at that, in that direction?

Kushal Desai: Well, I mean the conductor business the gap between the cable and conductor business pretty significant. The conductor business being at 2X of the cable business but it is clear that over the next 5 years our cable business will grow at a much more rapid pace because the addressable market itself is larger. And some of the speciality cable we have not even gone out of India all this is not domestic business coming from the specialty cable. So, there is definite room to grow, it will be the fastest growing segment of the 3 over the next 5 years.

Lalaram Singh: Actually my question was to revise it, if we had to choose between to put money if we had limited capital. Would we choose cables or say conductors or oil? That is what I want to understand I mean, is that perspective?

Kushal Desai: The way we, as a company we do not have, the investment is actually driven more in terms of the fundamentals of the project and the return on the capital when we invest in the asset if the company has a fair amount of room available to invest to internal accruals as well as to borrowers if there is a compelling me to do so and it is very attractive. So, the decision is not coming by it is a zero sum game that I have X amount and I can invest either in conductor or cable. We fortunately have the luxury of investing in all the 3 segments depending on the quality of the opportunities that are out there and that is way we are looking at it.

Moderator: Thank you. Next question is from Anuj Upadhyay from Emkay Global. Please go ahead.

Anuj Upadhyay: Sir, one small confusion that the, it pertains to the conductor segment. Either EBITDA, I just had EBITDA on a tonnage basis has gone up, whereas, the margin for the segment has come down. Is it primarily because of the fall in volume or is some another link which I am missing?

Kushal Desai: It is the fall in volume.

Anuj Upadhyay: And secondly sir, this order book of 2,436 crores the conductor by when do you expect the entire, when we expect it to be executed?

V.C. Diwadkar: It is about 128,000 metric tonnes. So, should be executed typically in 9 months actually.

Kushal Desai: 9 to 12 months. See, what is happening on the conductor cycle, order cycle is that the delivery cycles are much shorter than what they were 3 years ago. We have been mentioning that on our calls over the last several quarters and as it goes more and more through the EPC route, the EPC contractors prefer a concentrated period of execution.

Moderator: Thank you. Next question is from BMA Wealth Creators. Please go ahead.

Participant: I would again like to get clarified on the interest side. Like Q4 and Q1 interest cost is similar and as I explained by you this may continue till September of the current year. Do you see after that what is the trend for the interest rate?

V.C. Diwadkar: After these 4 quarters?

V.C.Diwadkar: After September.

Participant: After September.

V.C. Diwadkar: What we have said is that interest cost will be about 35 crores per quarter for all the 4 quarters of this year.

Participant: What component of 54 crores apart from this what is there in the finance cost?

Kushal Desai: So, the breakup I mentioned earlier in the call that your supplier's credit is approximately the overseas supplier credit about 10 crores. The domestic supplier's credit is around 12.5 crores and our discounting costs that the extended credit given on sales is about 6 crores, interest on GST is about 2 crores which should become half post September and our terms loan interest is little over Rs. 3 crores. So, that is the composition of around 35 crores we have.

V.C. Diwadkar: I suppose you wanted Forex?

Participant: I want the difference, 54 versus 35? So, 35 you saying remain constant for that …

V.C. Diwadkar: That difference is open period Forex which we capture in the EBITDA margin, 16 crores, yes.

Participant: That will still stay or it will change?

V.C. Diwadkar: No, that 16 crores depends upon whether the, there is a depreciation of Rupee-Dollar, depreciation is there or not actually. But because we got compensated in the form of price, so that is why it needs to be adjusted against EBITDA.

Participant: And do you see any effect of profitability in terms of depreciation in Lira?

Kushal Desai: Lira, Turkey?

Kushal Desai: The entire business that we have in Turkey which is actually run through the petroleum speciality business out of Hamriyah is a Dollar book. So, we do not take any depreciation what the indirect effect if the Lira depreciates some customers may find it a bit difficult because of the inflation that they see in the cost. But otherwise our business is run on a purely Dollar book basis.

Moderator: Thank you. Next question is from Chirag Muchhala from Nirmal Bang. Please go ahead.

Chirag Muchhala: Firstly, can you please mention the order inflow for the conductor in this quarter?

V.C. Diwadkar: About 1,750 crores.

Chirag Muchhala: And I mean, any large HEC conductor inflow in this apart from the copper conductor you have mentioned?

V.C. Diwadkar: HEC is also there. HEC as a percentage of the order book is now close to about 13%.

Chirag Muchhala: And sir, second question is on the copper conductor side. So, we have received this around 400 crores order, so any, I mean further details regarding in like, I mean the what are the terms, I mean, trade terms basically the, I mean payment cycle, retention money, etc.?

Chaitanya Desai: There is no retention money in this case and it is going straight to the, yes it is a pure supply contract and it is being supply to core. So, it is relatively quick payment cycle.

V.C. Diwadkar: Payment is about 60 days actually, 60 to 75 days.

Chirag Muchhala: And sir, is there any price variation clause in this?

Chaitanya Desai: Yes, all of it is price variation to us.

Chirag Muchhala: And sir, for the, I mean rest of the year what kind of tender pipeline is there for the copper conductor orders?

Chaitanya Desai: There are tenders going to come up but we are sort of not probably having too much capacity left for production if we complete our existing book, order book. So, as the business comes in it will be a more for the future. So, accordingly we will fill up our capacity for may be next financial year.

Chirag Muchhala: So, sir actually I was going to ask that question basically currently in terms of metric tonnes what kind of capacities we already have for copper conductors and any expansion plans there?

Chaitanya Desai: Yes, we have about 10,000 tonnes capacity approximately and we may be slightly debottlenecking that further as per the demand in the domestic market and in times to come will also start exporting.

Chirag Muchhala: And we are right now not planning any further CAPEX to increase this capacity?

Kushal Desai: As I said there is some debottlenecking is going on.

Chirag Muchhala: And finally apart from Indian railways, is there any other customer that we can supply this copper conductor or they are the only player in India who actually sources it?

Kushal Desai: There are these metros in all these different cities, no? There metros are coming up, so they are again another client, a base and then similar railways are there outside India. So, we would be supplying to them in times to come also and metro companies outside India.

Chirag Muchhala: And sir, this CTC conductor that we have mentioned 45 crores CAPEX that we are doing, so that would translate to what kind of capacity in metric tonnes, I mean metric tonnes point of view?

Kushal Desai: It is about 7,000 odd metric tonnes per annum.

Chirag Muchhala: And both of these are coming at Silvassa plant, right sir? Or the Orissa plant?

Kushal Desai: One is already come up and that is the copper conductor for railways has come up and the other one also will be in Silvassa.

Moderator: Thank you very much. That was the last question in queue. I would now like to hand the conference back to the management for closing comments.

Management: Thank you everyone for your time and showing interest in the Apar's earnings conference call. Thank you very much.

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