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Dear Sir,

We are sending herewith transcript of APAR Industries Limited for Q1 FY 2021-22 - Earnings Conference Call made on July 28, 2021.

Kindly take note of this.

Thanking you,

Yours faithfully,

For APAR Industries Limited

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Encl. : As above

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APAR Industries Limited
Earnings Conference Call
July 28, 2021

Moderator: Ladies and Gentlemen, Good Day and Welcome to APAR Industries Limited Q1FY22 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 telephone. Please note that this conference is being recorded. At this time, I now hand the conference over to Mr. Nitesh Kumar from Four S Services. Thank you and over to you, sir.

Nitesh Kumar: Thank you. Good afternoon everyone. On behalf of Four-S Services, I welcome all the participants to the APAR Industries Q1 FY22 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 – Chief Financial Officer, APAR Industries. I would now like to hand over the call to Mr. Kushal Desai for his opening remarks. Over to you, sir.

Kushal Desai: Thank you. Good afternoon everyone and a warm welcome to the Q1 FY22 Earnings Call of APAR Industries. I will have in the initial part of the call a brief overview of our performance followed by an industry update and then get into details of the segmental performance post that we can open the floor for questions.

So we are happy that the company has performed well in Q1 FY22 despite the second wave having actually affected manufacturing operations and many of our customers more than the first wave. However, our consolidated revenues came in at Rs. 1,821 crores which is 41% higher than the year over year period though the base of course was lower due to the major lockdown that was there in April and May of 2020, but it is 8% lower than the pre COVID levels in Q1 FY20. The results actually have demonstrated a certain amount of resilience that APAR's businesses have had especially given the focus that we have had on increasingly premiumizing the portfolio of products as well as selecting customers and geographies more judiciously especially through the last year. In terms of our products premiumization across segments and the stricter financial discipline this has helped us to deliver higher profitability as can be seen from the numbers. The consolidated EBITDA came in at Rs. 138 crores which is 291% higher than last year and 0.7% higher than Q1 FY20 whereas the PAT has come in at Rs. 62 crores which is up 51% compared to the Q1 FY20 period last year of course was a loss in the first quarter. The conductor's business EBITDA which was very badly affected in the fourth quarter of FY21 came in at Rs. 14,243 per metric ton is up by 17.4% compared to the pre COVID levels of Q1 FY20 even though the volume has been lower. In case of the oil business the EBITDA post FOREX came in at Rs. 7,406 per KL which is actually 89% higher than first quarter FY20.

I will just now cover a few of the industry highlights in fact there are quite a few to share with you all. The Indian government has actually approved the reform-based results link revamp of the distribution sector with a scheme that has an outlay of Rs. 3,03,758 crores. The silver lining is the total outstanding dues owned by Discoms to the various power producers has fallen by 11.2% down to Rs. 81,628 crores in April 2021 compared the same period previous year. The outstanding dues of discoms towards electricity producers had been increasing year-on-year for many years indicating almost like a perennial stress in the sector. However, from February this year it has started tapering off. In spite of this, we have not otherwise seen much ordering of transformers by the discoms where we believe that disproportionate amount of resources were diverted towards fighting COVID in the first quarter and this has resulted in a major drop in demand for distribution transformers. On the cable front, we have had limited exposure to the state discoms even in our oil business it is really an indirect exposure through the OEMs but given that the transformer order had not come in, the demand for transformer oil for the distribution sector was subdued. On the other hand, the transmission companies have been more active in Q1 FY22 and we saw an addition of 1,550 circuit kilometers of transmission lines which is 42% higher than the same period of previous year again of course the comparison being on a much lower base.

Transformation capacity has been added of about 11,392 MVA. Our sales of transformer oil into this segment actually has been quite robust, but the fall in sales on the distribution transformer company side has been so steep that this has not been able to offset that difference even though the profitability has been higher because these are more premium products that go into the generation side. ICRA expects renewable capacity addition in this year in FY22 to improve to between 10.5 and 11 gigawatt and there is a strong project pipeline of about 38 gigawatt that has been announced in various portion of it have been actually awarded.

So we can clearly see an opportunity developing here though the competition level is quite severe as far as cables is concerned. Key T&D players have reported order inflows of approximately Rs. 10,600 crores in Q1 FY22 which is a vast increase over the previous quarters. The government has also approved Rs. 19,041 crore funding support for implementation of the Bharat Net Project through the PPP model in 16 states and this will have a total expenditure of Rs. 29,430 crores. The Indian railways has proposed to spend Rs. 2.15 lakh crores in FY22 for revamp of overall infrastructure which includes locomotives, railway track, coaches as well as the electrification. In terms of the automotive sector, we have seen domestic tractor sale which is a segment that we are quite heavily focused on having grown smartly by about 18.9% year-on-year.

If you recall last year also was a record quarter for most of the tractor companies despite the lockdown having happened in 2020. We see with a timely monsoon and an increase in MSP rate for some of the key Kharif crops and there is still strong government support to pretty much most agricultural activities we are likely to continue to see a momentum in this tractor demand going forward. Now I would like to come more specifically to the segmental performance of the three businesses.

So our conductor business saw a revenue decline of 3.6% year-on-year and revenues came in at Rs. 680 crores in Q1 of this year. Exports were down 28% and this was largely due to disruption in the order execution resulting from an abnormal increase in the freight rates and shortage of containers.

The domestic side revenue was down by around 2.5% largely from the second wave and the disruption that happened to execution of supplies and re-conducting projects that we have undertaken. However, there was an increase focus on higher value products which contributed towards 43.8% of the revenues in Q1 FY21 of this HEC high efficiency conductor revenue was at 14.6% versus 14.4% in the previous period. Copper conductor revenues for railways actually reduced in the quarter down to 25.6% and this was due to the delisting that we have spoken about in the last call of the 107 square mm contact wire by RDSO.

However, subsequent to that we have been granted a stay order by the high court which came in at the end of the quarter and now supplies for the old orders which we were holding they have been recommenced. So you will see a revenue increase happening in Q2 as we execute some of these orders where the clearances have been given. We are also able to continue to participate in new tenders as we had mentioned in the last call. If you look specifically at the new order inflow, the new order inflow stood at Rs. 1,551 crores which is up 161% from the pre COVID levels of Q1 FY20 and this is really come on the back of finalization of a number of tenders with high efficiency conductors involved. So if you see the HEC orders have contributed almost 51% of this order inflow of Rs. 1,551 crores which has come in the quarter. The total order book stands at Rs. 2,119 crores and of this 56% come from products which are non-conventional ACSR conductors.

One of the other area the company is focusing on right now is to pass on the volatility risk of the international freight to the clients to the maximum extent possible and we have also been looking at increasing our focus on the domestic business especially in these higher value added products. If we look at the specialty oil side, our revenue increase to Rs. 832 crores that is 137% higher than same period last year and 34% over the pre COVID levels of Q1 FY20. The overseas business for oils division witnessed higher volumes than the domestic business for the first time ever so 52% of our volume came from product that was sold outside India and 48% in the domestic region. The EBITDA for KL continues at a healthy level of Rs. 7,406 per KL with good contribution margin having come from our industrial and automotive segment.

The Hamriyah plant ran at 120% of its name plate capacity with a quarterly sale of 29,256 KL to some of this volume increased because order had to be moved from India to the Hamriyah plant given the logistics which was smoother from their relative to India including during the lockdown period that we had in the month of April and May. The quarter also saw us launch a new plant based Natural Ester Transformer Oil keeping with the new environmental concerns which are increasingly coming up from utilities around the world. This oil is currently the best performing Natural Ester Transformer Oil in the world with excellent cooling characteristics, a very high degree of safety because its fire point is beyond 300 degrees. It is 99% biodegradable.

It also has a lowest carbon footprint in its manufacture and has the best viscosity and oxidation stability parameters which are key parameters to determine the life of an oil. So it has the best performance in its class globally from all the products which are commercial available today. This is a premium product and we have started all our business development activities around promoting this product both in India and overseas with all the global utilities and OEMs. If you look at the lubricant part of the specialty oil division that contributed towards 20% of revenues of the division with industrial volumes up almost 96% over the year ago period and automotive volume up 62% over the year over period.

We have also commissioned a new more automated mega warehouse which is located at Bhiwandi from where we will be centrally storing and supplying industrial and automotive oils and this should help us improve the velocity of inventory in the system as well as allow us larger production runs in the automotive industrial plant which will result in lower cost and higher productivity and finally coming to the cable solutions business their revenues were up 60% over the same period previous year, but compared to FY20 first quarter the volumes were 12% lower. The domestic market environment remains competitive for all varieties of cables. There is a fair amount of access capacity available in the system and there are still some payment issues that remains.

However, the company has increased focus on its light duty cables and wires business and this has a B2C component to it. We also have a representation now on various online channels for our cables and some of our selected specialty oil product which is notably IndiaMart and we have started seeing some improved visibility and access to some new customers and distribution through this channel. Sales volumes should increase as a cable business for the remaining three quarters of this year led by a focus on export sales where we have an increasingly growing order book. We also see manufacturing at railways and defense starting to pick up from the deep slump that it has had right up to Q1 FY22. So overall our expectation is that the revenues in FY22 will be higher than the revenues in FY20 which is primarily the pre COVID period as far as the cables solution business is concerned.

So I like to conclude by saying that Q1 FY22 has seen a good recovery. We have a strong base and despite some headwinds we cannot preclude coming up even in the future in case there is a third wave, but we are still optimistic, and we continue to improve as we progress through the years. There are six major areas where we see the growth drivers coming from which is rising global ESG investments both in India as well as overseas driving business from all the three verticals. The accelerating CAPEX of the Indian railways not only in electrification, but the addition of locomotives and coaches which should benefit our cable solutions business and a strong pull back from the automotive sector especially the agriculture side.

Further investments happening in the telecom industry particular around communication products which is optical fiber and the OPGW ground wire. The fifth one would be the infra spending that is happening on the defense side and we would see increased offtake of cables taking place even the slowdown that existed in the last 12 months as part of a catchup and then finally the 6 area is the multiple opportunities in the export side around ESG and the China plus One strategy which is allowing us to see increased revenues coming from non-traditional markets for us like North America and Australia in addition to Africa and some of these other more traditional markets. So with that I would like to come to the end of my comments. I thank you all for joining the call and wish you all the best of health. At this stage I think we could open the floor to questions please.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Nagraj Chandrasekar from Laburnum Capital Advisors. Please go ahead.

Nagraj Chandrasekar: My first question is on conductors in the last quarter because of the seaborne freight issues we did guided to couple of quarters of muted margins here and now what we have seen is lower volumes and very good margins, so what has happened is have you given us some of the exports orders where you saw the economic did not make sense and have you seen some of the HEC orders that you started booking during the quarter I am sure the revenues this quarter itself and does this 50% HEC order book now means we can go the next two, three quarters with 35,000 tons a quarter at this quarter Rs. 14,000 - Rs.15,000 for EBITDA per ton of the run rate?

Chaitanya Desai: Actually, during the course of the last quarter the freight rates went up still more. So then we had to actually suspend the productions for orders on hand and we took up with the clients to see if they were ready to postpone the delivery and also we were trying to see if they can pay for the extra freight cost. So as a result of that we actually had less production than we thought we would do in the first quarter and that is the reason why some of the loss-making orders which we had anticipated that has got sort of postponed out. There are some cases where the clients have said that they do not need the material right now, they can afford to wait because their projects have also got somewhat delayed. So therefore, we mutually worked out with the clients to postpone off those deliveries. This is one of the reasons why there has been a less production and as a result those loss making orders when they did not come into the weighted average equation therefore the EBITDA per ton improved so that explains us to why what we thought initially would happen actually during the course of the quarter we had to change that, but in this coming quarter we have a similar situation as the previous quarter because the orders which we have booked are not all of it will be for immediate execution and also some of the orders which had been taken over on hand as of 1st of April this year those also will not be actually executed in this Q2 as well because the clients have said they are ready to wait for longer till the international freight market stabilize a little bit so that neither we nor the clients have to pay for this extra cost which are going around nowadays. In terms of the new order inflow of HEC that will definitely help in improving our overall profitability similarly is the case for the copper conductors. The bulk of the new orders will actually start getting executed in the second half of this year starting from Q3 and in terms of volumes as I had mentioned Q2 will not be again that great in terms of volumes overall there will be some areas where they will be an improvement like we explained about the copper railways side where now we have been getting clearances and last quarter, we had much reduction in the volume, but now this quarter things will sort of comeback on track. So, this is in short as to what is likely to happen in the future.

Nagraj Chandrasekar: So we might see a lower quarter again volume wise and then better second margin…..

Kushal Desai: You will see in the second quarter volumes will still be a little bit muted other than copper conductor for the electrification where the Q1 backlog will get made up now given the clearances, but HEC and some of these new order books as Chaitanya mentioned in Q3, Q4 onwards. The premiumization of the products though will remain as you look through the year because the order inflow itself has been 56% coming in from the non-conventional conductors so that will actually offset some of these gaps which are there particularly from these overseas freight increases. There is some amount of easing up that has been seen from the Chinese market where the freights were even higher than from India so if there is any indication then I guess in the next few months there could be some green shoots in terms of freight reducing, but so far as we have not seen any specific things.

Nagraj Chandrasekar: And just on coming to cables you in the presentation said and you mentioned the volumes are still 12% below Q1 FY20, but it feels like you are saying that FY22 overall could end with volumes being above FY20 to a sharp pickup towards the end, is that what you are seeing and how quickly can we get back to a 10% margin on the cable side even what you have mentioned about competition?

Kushal Desai: So we will see a pickup in volume happening from Q2 onwards itself in the cable business as you move from Q2 to Q3 and then Q3 to Q4 the volume trajectory will increase, our expectation is that we should do more than as I said more than FY20 in terms of revenue. Margins is a little bit more difficult getting to 10% is not something that we foresee happening in the immediate future. Our plan is more in the range of 6.5% to 7.5% which is similar 6.8% is what came in the quarter. There are still a number of inflationary factors which includes freight and steel and various other products which polymer prices have gone up etc., but the silver lining is that the export side is clearly picking up and these contracts on the cable side are not long term priced on freight like in the case of conductor, so it is a moving freight rate which is relatively more current. You will see increased volume, but the margins will be in that range of between 6.5% and 7.5%.

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

Pratiksha Daftari: Sir my first question was for the conductor segment, so I just wanted to understand little bit about the margins of OPGW conductors like where do you stand in terms of pecking order of margins and the contribution from these conductors to the order book?

Chaitanya Desai: So OPGW is less compared to the HEC, but it is a growing business for us. Overall volumes are much lower compared to HEC, but it is growing because the government is pushing not only here in India in the Indian government, but also elsewhere infrastructure globally where the transmission companies are putting up the OPGW for transfer of data as an additional revenue and currently what has happened is there are effectively three Indian players now because there was few more who had been temporarily suspended because of certain notifications from the government side so therefore the margins in India have somewhat improved also after this new change in the notification.

Kushal Desai: So, the Chinese players are still debarred from quoting on this. Fundamentally pecking order wise after HEC the next would be OPGW.

Pratiksha Daftari: On the oil front we have seen some rationalization in our margins this time and which probably was expected I just wanted to understand that whether we expect this trajectory to continue what we have earlier guided in terms of sustainable margin that will remain same and secondly do we see how do we look at transformer oil demand coming up next, do we see that picking up soon?

Kushal Desai: Our guidance for the margins on the specialty oil business is closer to Rs. 5,000 a KL in the gross when you see this fundamentally catch up which has been happening in terms of the differential between selling price and raw material cost as higher cost base oil come in. So, it will stabilize in the Rs. 5,000 per KL range that is what our target is. In terms of your question on transformer oil as I mentioned the transmission side still remains reasonably strong and we have a good presence there, but the distribution side is going through a massive drop and we do not have clear visibility yet in terms of the lead indictor for us is transformer tenders getting finalized and transformer tenders in the distributions side has been extremely slow even the total number of tenders that are actively floated itself is a bit low. So, our sense is that really the improvement on that will happen only in Q3 and Q4 and especially if there is no major third wave and is the state governments do not have to end up spending too much money on fighting COVID you will start seeing higher spending coming into the infrastructure projects and in this particular case notably on the electrification and distribution transformer side, but so far the visibility is still a bit muted on that front. When you come to the export market, the export markets, the demand is better however certain countries the freight from India is increased very substantially it gives a benefit to either a local player or someone who is in the closer geographic vicinity where the freight has not increased. Having said that we still see in reasonable demand in that how export sale for the first time ever came in with a higher volume than domestic. In Q2 that will not happen because the automotive industry will actually further pick up.

Pratiksha Daftari: Just one question on the new product that we have launched the natural transformer I just wanted to understand the opportunity side and is this going to be a significant product going ahead?

Kushal Desai: There is already natural esters and biodegradable oils that are starting to pick up in terms of their consumption. Even though today on a worldwide basis it is probably does not contribute more than little over a percent, but with this whole ESG focus which is there it is starting to pick up where we see the opportunities to be the best is where you have generation taking place on water. So, in India NTPC and a few utilities are setting up solar panels etc. which are floating solar panels on the rivers. Similarly, there are offshore windmills coming up especially the Northern Hemisphere. So you will have transformers which are also located on the platform in the sea and that is where we see these high biodegradability products finding a way into it and the other area would be as there is more and more legislation that comes in for reducing carbon footprints and consumption of hydrocarbon based products for industries and just across the board there will be more demand for biodegradable products and this one that we have it is a plant based natural ester and it has 99% biodegradability and almost a lowest carbon footprint that you can get for an oil because it is made out of a plant. So we see this as a little more futuristic I think what we are most excited about is that the product which we have is better than the product than anybody else has out there in the market it is more expensive, but we think that the cost versus benefit for some of these utilities will play in favor of them buying this product because one of the key problems that has been there with natural esters is that its life is a fraction of life of mineral oil and when we look at our natural ester products which is out there it has a life which is in the comparable range so that makes a big difference, but I would see this market slowly developing over the next 5 years to 7 years as the whole ESG movement picks up.

Pratiksha Daftari: Sir just one last bookkeeping question I wanted to understand what is the debt working capital debt and long-term debt right now along breakup of domestic LC and foreign LC?

V. C. Diwadkar: Our long-term debt is Rs. 215 crores; short term is Rs. 113 crores and cash on the books is Rs. 547 crores and interest-bearing LC FOREX is Rs. 1,218 crores and domestic interest-bearing LC is Rs. 637 crores.

Pratiksha Daftari: And how do these numbers compare to 31st March sir the LC numbers?

V. C. Diwadkar: It has slightly increased.

Moderator: Thank you. The next question is from the line of Maulik Patel from Enquires Securities. Please go ahead.

Maulik Patel: Sir couple of things last concall relatively the commentary was relatively very cautious given that we were passing through the pandemic and particularly more on both cable and the conductor side, however the numbers are very good and you mentioned that the volume has declined, but overall the profitability has gone up guidance is that even in Q2 the volume might not recover to the earlier level or the pre pandemic level, but the operating profit could be on a healthier side of the margin could be on the healthier side so once you see the new orders which are coming into for the conductor are they more profitable then what we had in the past and particularly within a logistic what kind of clauses in this because logistics is in the large part of your overall cost now, so what kind of clauses we have for the logistics?

Chaitanya Desai: First of all the new business which came in last quarter had higher component of more value added products so yes the margins will be better and in terms of the clauses what we are trying to do is put a variable clause where we have a tentative CIS price in the export markets and when we come closer to the date of delivery if our client is ready to pick it up on FOB basis and manage the logistics at a cheaper price compared to what we can at that point of time then the client would be able to do so and we would not have to have a leakage in our profitability. There are some clients who have agreed to this, but some clients are still not been ready for this system. So, we are trying our best to pass on this risk of volatility, but as of now we have the mixed results. So those clients where we feel that it is very risky we have actually not gone for that business so that has also maybe resulted in lower inflow of business which may result in losses, but on the other hand globally we think that this situation may remain for a little while. So wherever we can execute the orders relatively quickly after receipt of orders then we may not have that kind of risk. So, we are trying to stay away from orders with a very large, staggered deliveries because we cannot predict what the freight rates will be in due course of times. So these are the kind of strategies or clauses we are trying to put in place.

Maulik Patel: In percentage terms what is the freight cost for this export order approximate and what it was there before the pre pandemic?

Kushal Desai: It varies Maulik dramatically because you know there is no logic to the current freight cost also. So in some cases the freight has increased by 300%, 400% especially to the Americas. So you cannot really put a number to this

Chaitanya Desai: and we are exporting all over the world to over 100 countries so definitely the freight rates will be very different.

Kushal Desai: One thing is clear that in the closer geographic vicinity as you get to the Middle East, Africa, South East Asia there the freight rates have not increased that dramatically, Australia is in between and then as you go to Latin America and North America the freights have really shot up. It is really a function of transshipment point. So, if the transshipment points pile up as container reduces, I guess the freight rate will then start easing so that has happened only in very few corridors that we have seen so far

Maulik Patel: Okay. Got it.

Kushal Desai: This is also a bit of a focus on most of this high efficiency conductor order book is domestic and just near India. So, when we have mentioned we are clearly looking at de-risking by going closer to the geographic vicinity of India or within India to mitigate this.

Maulik Patel: Just to add to same thing when you said that for the post-covid you have seen some recovery in Indian Market and your interaction with utilities and the state governments. Do you think that if there could be a defect, because last year there was hardly any inflow given that there was not much pending last year? Do you think that the inflow can be significantly higher than one can of the industry can absorb in a shorter period, because historically we have seen that there are periods in a certain year where the inflows are so high that the industry is not able to absorb all the inflows of the order and automatically margin expand are we in that kind of the situation or are we going to that kind of situation?

Kushal Desai: So, one can't rule that out but at the moment, on the transmission side there is still a steady flow, which is happening. The problem is on the distribution side and they are difficult to tell because we are not seeing any clear sign. As I mentioned at the beginning of the call there is this reform-based results link, revamp distribution scheme and it's got a massive outlet and its all focused around distribution more than transmission, because the transmission sector of India is actually very healthy. Now there are a lot of riders that are there in this and unless those riders are fulfilled by the various state government, I don't think they will have access to this sort of money. So, it's still a couple of quarters I think for which there will be full clarity. But there is a massive pent up demand, and also alongside of that there is a good amount of capacity which is unutilized in the distribution transformers side. So, if the order flow comes in some of the things get resolved there will be a kicker in terms of demand for sure. But when it will happen is a little unclear because it is based on a lot of riders. I think the last time the central government were forced to reduce the conditions because of GST and try to find a compromise the states on GST, so this time they don't have that sort of hangover so I think they will not be giving much leeway in terms of ensuring that the terms are much more deep-rooted. So, it may take a little bit of time as you know that the pent up demand opens up in this is a very good field that takes place. So that will happen but can't predict the time frame in which it will happen in the meantime we see on the transmission side it continues at a reasonably steady pace.

Maulik Patel: Okay. As the last question from the cable side, last year you commissioned the third E-Beam Machine. In terms of can you just again help us to going through the opportunity in this market, what kind of additional services you are saying, and what kind of an interaction one could have expected from the installation of this third machine, something like from that?

Kushal Desai: So, we've installed the third E-Beam- Machine which is already up and it got commissioned in the last quarter just before the annual earnings call that we had and we've ordered a fourth one Which I have mentioned in the last earnings call. The opportunities are actually the same you have solar cables that are used the photovoltaic cables that are used for the solar panel wiring so those are electron beams the cables which are been used by the Indian railways for locomotive as well as coaches are e-beamed and so are for the defense. So, we are seeing that both in railways and defense because we have really poor production in the last 15 months, since the pandemic started. There is a big pile up which is there and we are starting to see call-ups of the product taking place. So, there is a good movement that has happened in June and similarly we see that in the next few months. So, our sense is that really these products which are just the volume of these products are going to increase. In addition to that there are overseas opportunity also coming up for the photovoltaic requirement. So we have taken some orders from the United States where right now the infrastructure plan of the Biden Government is still under negotiation but in spite of that there are some projects which are already taken off and when that is approved clear we see a big increase in demand taking place. So you don't see the new products, it's the same set of products but a much larger volume expected

Maulik Patel: Okay. Great sir, Thanks for the opportunity.

Moderator: Thank you very much. The next question is from the line of Saurabh Patwa from HDFC Mutual Funds. Please go ahead.

Saurabh Patwa: Good afternoon sir, congratulations for a great set of numbers. I just wanted to understand few things. One is in last two years you have done a re-industrial lot in increasing capabilities in conductor side industry that you have planned and this resulted in a good topline growth. However, I think there were various factors like weak equity in the system credit environment which led to conductor business had facing challenges similarly the utilization in Hamriyah was weak compared to what you would have earlier envisaged and moreover apart from that this also led to higher share of supplier credit, LC based expenses resulted in the floor-to-PBT much lower than compared to what we see in the top line growth so now many of these things are behind. Where do we see ourselves in next 2 years in the terms of, we are also seeing now improving product mix. What should be the ideal per EBITDA margin per turn, per KL and cable margin which we targeted to achieve?, And also, where do we see the interest cost as we move forward. Interest cost, I mean including the LC based creditor charges.

Kushal Desai: Right Okay. In terms of our targets of margin profile has kind of been the same, it starts off with us wanting to get closer to 18-20% return on our equity. And for these businesses, to remain at that level sustainably we have the oil business to be around Rs 5000 per KL. Conductor business to be between around Rs 12000 per metric ton. And the cable business to be done around 7.5% EBITDA on growing volumes. So, that's the sort of spot. Other than the cable business where we mentioned in the last call, some major investments which are been planned or around this whole year. Oil and Conductor business actually now we are just focusing on plant utilization and making sure that the more premium product is where we are getting after. We've been talking to the last several years high efficiency conductors, OPGW's all these things will actually kick in even CTC conductors have increased substantially in Q1 compared to the previous periods. So, all of this is going to happen and you will see that this quarter itself our return equity for the quarter is around 17% and with the volumes increasing we are hopeful that we will be coming closer to that 17- 18% range. We want to be more bothered about that figure than just the topline figure.

Saurabh Patwa: Right sir, so that was exactly what I was trying to interact, even if you see the absolute numbers when we exclude the covid year. So, our EBITDA actually improved as you said improving product mix and the new giveaway which we created. We improved the EBITDA from 360 crores from FY16 to close to 480 crores in FY20, However the conversion to PBT was actually not there because this came with a cost higher interest and as well as depreciation. So, as we are moving in last call as well as Today's call as you have mentioned that we plan to focus more on the premium product. However, these products we have added to capacity but the traditional products which you were already selling their volumes have been declined so that the utilization will continue to remain low. So EBITDA per ton may continue to increase but how will we anomaly improve?

Kushal Desai: we don't really see that as anomaly we see the cable side the volume will continue to grow, so will the value in terms of and the utilization of the assets we have. Our oil business is not degrowing it is continuing to grow. It's only in the conductor business where by knocking off the conventional conductors we’re saying if it doesn't make sense then we won't make after this. You will see that in the interest cost of Mr. Diwadkar shared light on that will be lower than definitely what you have seen in FY19 and FY20 because A) the interest rate itself are lower and B) the financial disciplines that have been put around is also a lot higher. So if you see that we have knocked out whole lot of clients who were the payment uncertainties are there etc. so that is where the leakage happened, where customers are to open LC's and couldn’t open LC's there and they promise to make payments but couldn't make payments on time. So that discipline has been put in place so even though the depreciation is around 93 crores also when you take the interest cost that has dramatically fallen, and the cash position of the company has also improved. So, you will see that the delta between the EBITDA and PBT actually are remaining at fairly tight.

Saurabh Patwa: Understood, that's nice. Sir, just one or two questions just small questions just if you allow me to add. One is on this annual report you have mentioned two data points. Royalty number is though it is not a very large number, but the number is increased almost 3x. Does it mean that the lubricants revenue have increased very sharply. Is it linked to that? It's 13 and a half crores from FY20 and 40 crores in FY21.

Kushal Desai: Yeah, so actually that difference is coming primarily because of the aftermarket business which we are doing on the automotive side. So, we are doing the aftermarket for Sonalika and Escorts and so you know the product there is sold through our supply chain we are ending up paying a royalty to them.

Saurabh Patwa: Understood sir.

Kushal Desai: It's a variable based it's not a fixed, as you sell more it's bring by the cup. We've seen substantial growth happening on the agricultural side that's been primarily the main driver for the volume growth in our automotive side, we've had two major segments where our products are amongst the best in the country. So, one has been in the case of three-wheelers and the other one is in case of tractors where we probably have the best OIV oil or the Oil Immersed brake oil in the country today. Better than any of the other players. But the three-wheelers side is actually gone down because of covid and it's been use largely as a taxi for transportation in the B-Class Towns and Rural Areas. So covid actually doesn't permits that if you see the automotive table. Three-wheelers have fallen the most and they've been compensated by the agricultural side, which is the by the tractors, harvesters etc.

Saurabh Patwa: Right, Sir also our presentation and our annual reports sound very cautions as you've mentioned what could be the channel in the coming quarter but our results having pretty strong somewhere indicator of that in the challenging times Apar as a company will continue to benefit because of the few steps taken in the last few years.

Kushal Desai: You know our strategies have always been where we want to have the set of most relevant products address the most premium segments of whatever markets we are able to address and ensure that our cost position is strong. So that we remain among the last people standing. So, we've been cautions simply because times are so uncertain you don't know what is going to happen in the future. We move into this export strategy to not realizing not knowing or not being able to predict freight going to be highly profitable orders have become unprofitable just because of the increase in the freight. So, I don't think that the threat has already gone away from covid it seems to have reduced, we are trying to do whatever best is in under our own control so 95 plus% of our employees including contract workers in our factories and offices are vaccinated from the first shot. By the 15th of September the whole company will be fully vaccinated. So, we've taken all the precautions which are there we don't want to come up with optimistic numbers and then fall flat. But if we don't see any major challenges like the third wave doesn't disrupt India and most of the world then you will keep on seeing increased performance quarter on quarter.

Saurabh Patwa: So, if the third wave, as you said we should be well ahead of our 18-20% ROE target because in all the fields especially in oil and conductors should be able to do reasonably well ahead of what our targets are.

Kushal Desai: Saurabh, you know I think the numbers should speak for themselves you know as the quarters pass by, we don't actually put these numbers under our belt, because we don't want to count chickens, before the eggs are hatched. It's too uncertain for that. All I can say is that we have tried to structure ourselves up to the best of what, the maximum amount of resilience that is possible in our business we paid up to fortified to that extent.

Saurabh Patwa: Sure, fair enough. Sir just last one question sir, you just highlighted in your opening comments on the ESG part. Throw more light in that opportunity in terms of demand driver.

Kushal Desai: So the key is demand, we see that there are the two major areas which will drive the ESG which is relevant to us, the first one is the addition of the non-conventional energy capacity which is solar and wind and depending upon which geography you are looking at in certain areas more solar and in certain areas more wind so this is clearly one driver as a contradictory to that there are assets going on the water as I mentioned earlier therefore that brings in a new set of products which is like a natural asset but fundamentally this is what is going to be a big driver. In Addition to that we have new transmission lines and system for evacuating the power putting it into a grid or delivering it into where customers are located. So that is what is driving actually the conductor business the third thing is that the electric power being cleaner has been more and more relied upon so we would expect that public transportation whatever went through CNG in India will actually get replaced with electricity in due course of time. So again, you need a lot of more power coming in if you have to charge up all the buses, taxis and things like that. So again, high efficiency conductors will come into play and that's why you are starting to see increased demand for that coming in also and so I mentioned the other demand drivers also OPGW and optical fiber, because data is in the new oil. And then the Atmanirbhar product requiring you to put a percentage of domestic components or the Indian component when you bid on the government portal. So as a consequence, more and more Indian value addition is coming in so we have seen more manufacturing happening in India driving industrials, lubricants more components being manufactured in India from that point. So, the local content has to be displayed in that and depending on what your local content is you can get a price preference and a purchased preference on that GeM portal. So, these are pretty much the key drivers around this.

Saurabh Patwa: Thanks, a lot, for answering all the questions.

Kushal Desai: Yeah, Thank you!

Moderator: Thank you, participants you may press '*' and '1' to ask a question. A reminder to all the participants, you may press * and 1 to ask a question. The next question is from Adit Shah from Vibrant Securities please go ahead.

Adit Shah: Good Evening sir, my first question is that I see this finance cost which was hovering at around 22 odd crores if I ignore the exception light on the fourth quarter 21 and then even before that it was somewhere beneath 20, however in this quarter we have seen that a jump in 48 odd crores. So, one is if I can get the breakup of the 48 odd crores will be four components, that will be helpful and also some thoughts around where should we see these numbers settle at, right now it's around 3% of the revenue it is fair assumption to make going forward, because I believe containing the finance cost would be key element of reaching our annual target first 17 to 18%, that is my first question, second question is on the other income which has been around 10 to 12 crores over the last current quarter and previous quarter generally this number was much lower at 3 to 4 crores historically but last two quarters has been around 10 to 12 crores so want to understand what exactly this other income is and how this should be used going forward and I'll ask my remaining questions maybe after these two are addressed.

V.C Diwakar: Regarding the interest cost for if you see out of all finance cost which is there about 9 crores, we are adjusting in form of open period FOREX and which we are adjusting in EBITDA if you remove that 9 crores which is there what remains is around 28 crores, out of the 28 crores which is there the forward cover cost is 3 crores for the revenue and 2 crores for capital, we have and ECB actually on that ECB we have incurred 2 crores' mark to market, it is mark to market we have not taken any forward cover for that so that is there 3+2 5 and the other borrowing cost is 9 crores and balance is interest cost, so if you remove this foreign exchange cost which is there actually this 9 crores and ECB 2 crores after that you can take close to around 2 to 2.5% of the turnover that should be ok for projecting the interest cost, It will be closer to 2% actually but sometimes it can go up to 2.5% something like that also.

Adit Shah: Okay.

V.C Diwakar: As far as other income is concerned other income has this, we have this money lying in mutual fund actually, as I said earlier cash on the balance sheet is Rs 547 crores cash on the balance sheet is there actually. So, we have close to about Rs 300 Crores at any point of time lying in our mutual fund. Whatever income is there and that itself has increased in other income so that comes to about Rs 2 - 2.5 Crores per quarter.

Kushal Desai: Diwakar Right? These are in overnight?

V.C Diwakar: Yes.

Kushal Desai: Usually there is sometimes there is the pile up that happens or collection that happens then this big outflow as the LC's fall due.

V.C Diwakar: Correct.

Adit Shah: Okay. Sure, until the cash which has, you're saying is right now on Rs 500 plus of crores. I think at the end of March that cash was around Rs 250 of crores is it correct?

V.C Diwakar: Correct.

Adit Shah: We have experienced a sharp uptake.

V.C Diwakar: Yes.

Adit Shah: Because of collection?

V.C Diwakar: It's not that, always this much amount of cash will always be there. It depends upon your working capital cycle. So, maybe by the time we reach September the cash on the balance sheet will go down.

Adit Shah: Okay. Got it. My next question is that on the conductor side we have seen the volumes are actually like near to 5 to 7 years low. However, the profitability has been very businesses so what the question is has there been any postponement delivery of say, export orders which will become in the coming quarter or the orders has been cancelled and not going ahead with that? What exactly if we right in the understanding.

Chaitanya Desai: So, as I mentioned earlier to a question, that we have postponed the deliveries to some of the orders where freight rates have gone up very substantially so where we took up with the clients and we requested for either postponement or an increase in the freight rate in case they wanted the delivery. So, the clients said that they were ok it being postpone out.

Adit Shah: Yeah. Okay Got it.

Kushal Desai: Quantification of that credential will only get crystalized only when as and when the delivery is mutually agreed upon. So, it's been pushed out hopefully the rates will be lower than how they are now, normalize or move over a little bit closer to normal over the couple quarters So it's difficult to put a number to it but that's the way it will be so the profit is slightly higher than it should have been given that some of these orders that the freight was creating a loss has been pushed out.

Adit Shah: Sure, and sir, what all guidance of Rs 12000 per tonne EBITDA incorporates the significance change in the order mix towards non-ASCR conductors.

Kushal Desai: I just want to correct, it's not a guidance that's the aspiration which we have that's what we want to get to and so while looking at the premiumization of the product the net result is we want to get to that level. So, we are not actually offering a specific guidance but that's where we want to get to.

Moderator: Ladies and Gentlemen as there are no further questions, I will now hand the conference over to the management for closing comments.

Kushal Desai: Yeah, thank you! Thank you everyone for joining our call and I hope we've been able to answer most of the questions. As I mentioned we do have the 6 levers where we see the opportunities going forward and I think with each quarter if there are low or unforeseen events, we should an improvement happening in our performance with the target of getting to 18-20% return on equities. Thank you everybody for your time.

Moderator: Thank you very much, on behalf of APAR industries Limited, that concludes this conference. Thank you for joining us you may now disconnect your lines. Thank You.