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Dear Sir,

We are sending herewith Concall transcript of APAR Industries Limited for Q2 FY 2021-22 - Earnings Conference Call made on November 02, 2021.

Kindly take note of this.

Thanking you,

Yours faithfully,

For APAR Industries Limited

(Harishkumar Malsatter)
Deputy Manager – Secretarial & Legal

Encl. : As above

APAR Industries
Q2 & H1 FY22 Earnings Conference Call
November 02, 2021

Moderator: Welcome to APAR Industries Limited Q2 and H1 FY22 earnings conference call hosted by Four-S Services. As a reminder for the duration of this conference, all participants will be in the listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. If you should need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. At this time, I would now like to hand the conference over to Mr. Nitesh Kumar of Four-S Services. Thank you and over to you, sir.

Nitesh Kumar: Thank you. Good day everyone and welcome to the APAR Industries Q2 FY22 earnings conference call. Today on the conference we have with us, 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 Nitesh. Good afternoon, everyone and a very warm welcome to the Q2 and H1 FY22 earnings call of APAR Industries. I trust each of you and your families are safe and healthy with the dropping numbers that we've been seeing in India on positive COVID cases.

I will start off with an overview of our performance, follow that up with a quick industry update and then we can get into more details on the segmental performance. And finally, once that is completed, we can open up the floor to questions.

With this global recovery continuing post pandemic on the back of policy support from various governments around the world, including to some extent from the Indian Government and a strong vaccination drive, the Indian economy is also gradually coming out of its slowdown. There has been support from both monetary and some fiscal stimulus from the government. However, the challenges which are there still continue to remain, and they are in the form of higher input costs from various commodities, in our case particularly from metals and hydrocarbon products and unprecedented disruption in freight and logistics, both in terms of the cost of freight, especially in the export markets, as well as containers coming in for import, as well as the availability of containers, which is also creating a big bottleneck. Of course, as I mentioned, an increase in raw material costs, which in this case also include polymers besides the metals and hydrocarbons, which formed the chunk of what we buy. This has all resulted actually in some of the planned margins getting disrupted. It has also reduced sales from several key geographies, as customers either now shift to buying products locally, which previously was not competitive relative to what we could offer, or in many cases, customers have deferred purchases altogether when the purchases didn't fit into their budgets. This is especially true of EPC contractors, as well as some of the asset aggregators who are building transmission lines and projects which are funded and where they have a fixed amount that they get. Like, for example, if you take, a tariff based competitive bidding line, the tariff when you're bidding corresponding to a cost of the line that you would have estimated, and those calculations have gone a bit haywire. We've also seen tenders which have gone back to the drawing board as we initially sanctioned, budgets have fallen short due to the rise in prices. In spite of all this, so many moving parts, having various contradictory and retarding effects, we have still managed that our consolidated revenues for Q2FY22 have come in at Rs. 2,272 crores, which is up 53% year-on-year. If you make a comparison with the pre-COVID period of the second quarter of FY20, its 24% higher than that. Now that has really been contributed by a 67% year-on-year increase in the domestic business. The export percentage has fallen from 42% last year to 37% this year, largely because of the freight and logistics factors that, I just brought up earlier. However, the EBITDA is up 8% year-on-year and 17% higher than Q2 of FY20. And it comes in at Rs. 128 crores for the quarter. The EBITDA margin is at 5.6%, profit after tax has come in at Rs. 57 crores, which is up 6% year-on-year and 68% above Q2 of FY20. If you consider the first half of FY22, the consolidated revenue has come in at Rs. 4,093 crores with an EBITDA of Rs. 266 crores. That's 73% higher year-on-year. The EBITDA margin for the first half has come in at 6.5% versus 5.5% in the first half of FY21, the profit after tax has grown by 59%, from the pre-COVID levels on account of improved profitability, lower interest costs, which are coming from not only a lower interest rate, but also strict financial discipline, which we have tried to follow.

I would like to also discuss a few, industry highlights. The government is working to offer quick short-term loans to some of the power distribution companies, to help them clear dues to power plants and transmission charges on a one-time basis. Outstanding dues of Discoms which has risen by 3.3% on a year-on-year basis to Rs. 1,16,127 crores as of September 30th, 2021, should reduce going forward, a) from increased sales and b) to some of the financing which is now being arranged. There is 6,586 circuit kilometers of transmission lines which were added in the first half of FY22. This is 15% lower than year- on-year basis. It's only 45% of the targeted additions for this period. The transformation capacity addition came in at 33,923 MVA which is 81% higher than the same period previous year, indicating that a number of projects have actually been executed now and are now in an operating mode.

The key, transmission development players have reported an order inflow of only Rs. 7,000 crores in the second quarter of FY22. This is actually a marked reduction from, the recent quarters. I explained earlier that, part of this is because tenders have gone back to the drawing board with quotations that have come in much higher than the budgets in place. In some cases, the asset aggregators have also held back orders being placed because the budgets are not being met in terms of their original contracts.

Another interesting aspect that has come out is the Indian Railways is now rolling out 800 economy AC-3 Tier coaches creating an additional new class of Railway travel. We assume that this is part of the sustainability effort where increase of mobility through Railways will be far more carbon efficient. If this works well, then there will be a lot of additions taking place in this regard. That augurs well for our cable business, in terms of supply of wires to both locomotives and coaches.

India had also set aside Rs. 70,221 crores for domestic defence procurement in FY22. This is 63% of the military's CAPEX budget. The Made in India pitch is now being demonstrated through the allocation of the procurement contracts. India has also signed contracts and cleared projects worth Rs. 54,000 crores in the month of September itself. It should also augur well for some of the cables that go into the defence projects from our standpoint.

I now like to cover in some more detail, the specific highlights of each of the business segments. The conductor revenue in Q2 FY22 grew 71% year-on-year and it's 20% higher than the pre-COVID level. It has reached a value of Rs. 1080 crores for the quarter. The growth in the domestic part of the business is 136% year-on-year. We deferred some of the shipments to export customers given the high freight rates on mutual consent. The focus has been a little bit larger on the domestic business. The volumes show a decline of 14% year-on-year at 29,191 metric tonnes but that is part of our conscious postponement of order execution, especially for geographies which are very distant and where the freight rates have increased and a very conscious focus to reduce conventional conductor business in favor of premium products, which we have brought up a few times on some of our previous earnings calls.

The export revenue has declined 13% year-on-year and contributed to 32% of this quarter versus 56% of a quarter a year ago. The higher value-added products or the premium products for us have contributed 58% of the revenue in Q2 FY22. The high efficiency conductor revenue is up 105% contributing 25% to the revenues and the revenue from copper conductors for Railways in this quarter had a contribution of 26%, as the backlog of orders was cleared post High Court stay being vacated.

The higher share of premium products has therefore delivered an EBITDA of a metric tonne post forex adjustment of about Rs. 17,199 per metric tonne. That is 46% higher than the same period previous year. It also represents historical high in terms of the EBITDA per tonne.

In terms of new order inflow, the new order inflow came in at Rs. 877 crores, that's up 9% year-on-year, but it slowed down for exports due to a conscious decision of us to reduce the sales cycle as well as we are in negotiations with customers to move most contracts on an FOB basis.

The order book stands at Rs. 1,846 crores, which is 9% higher than the same period previous year. Of this 67% comes from our more premium offerings. If you look at the first half of this year, the conductor revenue came in at Rs. 1,759 crores, which is up 32% year-on-year, EBITDA post FX per metric tonne came in at Rs. 15,392 per metric tonne. So that's 76% higher than year-on-year. The new order inflow was Rs. 2,428 crores in the first half, several postponed tenders of OPGW are expected to come up for finalization in the second half of this year. The true revenue impact of that will come towards the end of this financial year and in FY23.

Coming to the oil segment, revenues in second quarter FY22 came in at is Rs. 895 crores. So that's up 49% year-on-year and 57% up from FY20 2nd quarter. Total volumes have been stable at 1,13,981 KL. Export contribution, increased to 46% versus 41% in the year ago period. The Hamriyah plant for the quarter ran at 108% of its nameplate capacity in the quarter. White oil sales volume declined 6% year-on-year due to lower exports, primarily from the impact of logistics, transformer oil volumes remained flat due to subdued demand in the distribution transformers category, though the higher end oils are going into the transmission side and the power transformers remain reasonably strong.

As I mentioned, the export businesses remain affected in many of our high-volume strategic markets due to the abnormal increase in freight costs. This especially has affected the Hamriyah business towards the end of last quarter and will have some impact in terms of volumes in this quarter as well. If you look at the lubricants part of the business, that came in at Rs. 211 crores, which is up 39% year-on-year, it has contributed to 24% of the revenues of the oil segment. Our industrial volumes are up 12% year-on-year. The automotive lubricant volumes were flat because the OEM sales tapered off especially those which were attached to the agriculture-based products. The EBITDA per KL on a post FX basis came in at Rs. 5,258 per KL. If you look at the first half, the revenues that came in were Rs. 1,787 crores, which is 81% up compared to the previous year. Physical volumes in the first half was 30% higher than same period previous year and the EBITDA per KL post FX for the first half came in at Rs. 6,334 per KL. That's 41% higher than the same period in the previous year.

Coming to the last segment, which is our cable, the cable revenue in Q2 FY22 reached Rs. 425 crores which is 66%, higher than the previous year and 15% higher than the pre-COVID level of Q2 FY20. The volumes, however, remains similar to the pre-COVID level. The difference has come primarily on account of the higher raw material costs and the consequence selling prices. We continue to focus on international business, which has resulted in exports growing to 29% of the mix compared to 12% from a year ago. The EBITDA post FX came in at 4.1%. We are still finding the domestic environment being very competitive and higher ocean freight rates and inflationary factors, including the price of steel and polymers, having gone up have affected the margin. We expect in the second half, the off take from the Railways, both locomotive and coach factories to pick up and also business from the defence establishment is expected to pick up in the second half, which would result in higher sales of elastomeric cables going forward.

If you look at the first half of FY22, total cable revenues came in at Rs. 824 crores. That's up 63% year-on-year. Export revenues are double of what they were in the first half of last year and overall contributed to 24% of the revenues. The EBITDA margin post FX came in at 5.1% for the first half.

In summary, the company's performance in the second quarter of FY22, we believe has been reasonably resilient in spite of all these multiple challenges that we've had- a) on account of input costs, b) on account of slowdown in tendering and c) on account of the disruption in terms of freight and logistics. We are optimistic that the business environment will continue to improve in all the three segments. Our effort is, to focus on more profitable growth and we continue to focus on improvement on the return on equity for our shareholders.

With this, I come to the end of my comments. I would like to formally thank everyone for joining our call. We would now like to open up the floor for questions. I also take this opportunity to wish all of you, a Happy Diwali and a Prosperous New Year. We are open to questions now, so please go ahead.

Moderator: Thank you very much. We will now begin the question answer session. The first question is from the line of Riya Mehta from Equitas, please go ahead.

Pratiksha: This is Pratiksha here. First question I have is we have seen that, conductors and oils there is a significant amount of revenue realization increase. However somehow if I compare the margins on YoY basis, there is a decline. If you could just explain that, how do we look at this situation going ahead, with realization even we are not able to improve our profitability, EBITDA level profitability?

V.C. Diwadkar: We need to look at the margins from per ton basis for conductor and for oil on per KL basis and cable on percentage basis. Because if the commodity prices are increasing the revenue will go up, but it is not necessary that our EBITDA will go up actually because EBITDA comes on per ton basis or per KL basis that is why if the percentage margin you might've seen that the percentage margins have gone down.

Pratiksha: And on conductor front, we've seen that order book now share of high value-added products is a significant portion as compared to what we've seen historically. Would this mean that our dependence on metal that we are not able to hedge right now is also increasing and hence the volatility and profitability continue or increase?

V.C. Diwadkar: Can you repeat the question I have not understood?

Pratiksha: This HEC conductors and everything has dependence on steel and copper is higher as compared to conventional conductors. Would that mean that, we remain susceptible to volatility in prices of these metals?

Kushal Desai: No, I don't know, that's not really actually the case. In the case of copper conductors, actually we have a very clear price variation. There's not much variation that happens on that account. In the case of HEC, yes, there is a certain amount of fixed price execution that's there, but we have the ability to hedge the product, as you get the order. So whatever fluctuations are there are not as much in terms of, because of raw material inflation, as much as, inflation that may have happened due to logistics and those sort of factors, steel and logistics, but it's not a higher proportion. In fact, when you go into these, the copper conductors have no steel component in them and if you go to the HEC products, the steel component as a percentage of the project is actually much lower. In fact, the premium product should result in a steadier EBITDA per metric ton, compared to the conventional conductors. We've refrained from booking a lot of conventional conductor business primarily because the competition levels have been relatively high. We don't see that there's adequate margin for the commensurate risk that we are taking in today's environment, and we've also stayed away from, we have slowed down the booking of some of the export business on the conventional conductor side, given the challenges on freight and logistics. But some of the basic premises that we had, of wanting to premiumize the product range that is now actually clearly, visible. It's not something that has happened accidentally, definitely part of our plan which we've been talking about now for the last few years.

Moderator: The next question is from the line of Anuj Upadhyaya from HDFC Securities. Please go ahead.

Anuj Upadhyaya: Two questions basically on a macro front. Just need to understand your view on the opportunity, lying ahead across your conductor and cable segment. Again, for both the companies across the sub segment, that is opportunity we see across the transmission space and also from the Railways side and same thing for the cable, the opportunity which we have in the Railways side and renewable segment as well?

Kushal Desai: So, if you in terms of the opportunities let's address the conductor side first and move to cables and the transformer oil can also be thrown into the mix. There is a definite increase in terms of the total infrastructure for handling power and the transformation and as more and more countries sign up towards carbon neutrality and reducing carbon emissions, the use of electricity being generated from non-conventional sources has to increase, there is no other option, in place. We will see that on the conductor side, you will have a transmission like up gradations taking place. You will find mobility moving towards, having like buses will move to being electric buses. Again, you know more infrastructures for charging. Essentially the cable intensity will go up, across the board in urban areas, in various systems. We have a very good position in terms of both wind power and solar power being the largest cable producer for both of those segments in terms of specialized cables. And, Mr. Modi has also committed, 48-year period for India to reach carbon neutrality. If you see, the incidence of non-conventional energy growth in India is amongst the highest in the world. That's clearly one area where opportunity is there. Secondly, as I mentioned earlier in the call, mobility is clearly an area, both in terms of, Railways being improved for carrying more amount of passengers as well as goods, trains are all moving towards being electric driven, as opposed to hydrocarbon driven, diesel driven. Also, mobility in terms of vehicles, buses etc. will also move towards electric. Our sense is that the first area is where we will start seeing electricity being used. You can see it in the city of Mumbai for example, is that BEST buses have already started coming in, which are electric, and it is easy to make out because they have a green nameplate on them. We have some idea because GBM, which is one of the key players of supplying electric buses, they exclusively use Apar E-Beam cables for the internal wiring of the bus. And, that segment of business, even though in the overall context is not very large, it's a very encouraging sign that segment is also growing. I also mentioned about, the low-cost coaches for passenger transportation. So, 800 economy AC 3-tier coaches have been ordered. If this experiment continues to work well, then, there will be a whole lot more coming in. That's a bit on the cable side. Conductor side the other area is that as electricity consumption goes up, you're seeing that the ACCC conductors are continuing to grow. About four years ago, we said that we see this being between 20, 25% of our total revenues. In the first half we are at 20%. That's clearly the direction that it goes. In the case of transformer oil, as the transformation capacity increases, we are kind of growing, growing linearly in terms of the demand for transformer oil. Currently, it's been a bit subdued because the State Electricity Boards and Discoms are actually in very bad shape. We are very confident that, once the new Electricity Act comes in and privatization of Discoms start taking place, lot of infrastructure will be added. These are the key drivers that we see, going forward.

Anuj Upadhyaya: Just a follow-up on the conductor side, like last decade we saw a huge capacity addition on the transmission space which actually driven the volume for conductor segment. So currently is the replacement of a low voltage conductors with the high voltage are the one where we are looking at growth opportunity. And is it actually happening at the ground level, or it's been slightly at a lesser pace, then what it has been anticipated early?

Kushal Desai: What is happening is more than the voltage levels, the Ampacity or amount of current which can be carried by the conductor is where the growth is happening. That's where these high efficiency conductors are coming in. I think it's visible just from our numbers in terms not only what we've executed, but if you see the order book, the order book carries a much higher percentage of high efficiency conductors. It's a clear sign, this is going to happen. It's, I mean, if we just look around, if you travel by road from outside any of the cities like Mumbai, Delhi or any of the metros, you will see that whatever lines are being, which are bringing power into the city, that's what you have. You're not going to get any extra lines. You just have to bring in new generation conductors to carry more power on that line. It's a clear sign, it's going to happen. Problem that we've seen in our country is that the spending of the government has not been necessarily very consistent. It's been a bit patchy, but finally, that's the only solution that's there. There is no really any alternate solution in place.

Moderator: The next question is from the line of Maulik Patel from Equitas Securities, please go ahead.

Maulik Patel: A couple of quarters back, there was a shortage on the base oil side and that led to the spike in the TSO margin. It looks like it has normalized, any colors in that front?

Kushal Desai: Actually, what happened on the base oil side, particularly for the light viscosity is that we as a company are buying over 70% of base oil on contract. In the second quarter, there was a sudden excess quantity of low viscosity base oil available with certain refineries that predominantly sell product on spot basis. The spot prices are much lower than the contract prices. In the third quarter now, I think the situation will flip, because there's been a sudden spurt in terms of the price of crude and diesel and gasoline and all these products. The spot prices will be higher than contract price. So, in terms of shortage of base oils, there was no shortage, excess quantity available in Q2. Q3 obviously be a bit tighter because worldwide consumption of gasoline at least has gone up substantially, even consumption of diesel is actually finding a stronger comeback. If you read the papers, in today's newspaper that talks about diesel having overtaken the same month pre-COVID 2019. So, we don't see a shortage from our perspective, because we buy a large quantity on contract.

Maulik Patel: That means that the EBIT per KL or EBITDA per KL, which was in the range of around, average of around Rs. 8,000 in the previous three quarters, in this quarter which was around Rs. 5200 on EBITDA level will improve from here onwards?

Kushal Desai: Our target is actually Rs. 5000 per KL so there was a period where there is a shortage and we were on contract, so we did receive most of the products that we needed and we were able to capitalize with higher margin, but as planned our target is to be at around Rs. 5000 per KL and if you see that a potentially better than what it has been average of previous non-COVID periods, that is FY20 and before. So, there may be quarters where we will deliver better numbers, but as stated average is to get to about Rs. 5,000 per KL.

Maulik Patel: Last question is on the conductor, you already mentioned that lot of contracts are getting, going back to the table again, there is delay. Also because of the raw material prices which went up. Our order book is also around on the relatively lower side, compared to what we had or reported in the couple of past quarters. Do you think that in the next two quarters this should improve substantially? I'm not saying that yes, from here it will improve, but in the last one year or so there is no significant improvement of the conductor business the way it has happened on the TSO side of the business, where the things are improved a lot. Pre-COVID also was struggling a lot from order book perspectives. Do you think that this renewables or more demand from the SEB side or reforms in the SEB side, can lead another 2 to 3 years for a very strong growth in the conductor?

Kushal Desai: Theoretically yes, as I mentioned earlier, as an answer to one of the questions, the electrification and the total amount of involvement of conductor cables and transformer oil is bound to increase because electricity usage is the way to go, in terms of being more sustainable as being generated through these non-conventional resources. But if you have seen in the last few months, in every aspect there've been supply shocks in terms of, inflation. If you take non-conventional energy, you take solar, solar panels cost are up by 20, 30%. If you take windmills, there is a lot of metal involved in terms of the whole structure, etc. in the windmill, that also has gone up. Aluminum, steel, copper, all the polymers, everything has gone up. There is definitely a price shock on the supply side. We are seeing many EPC contractors also pushing out purchases to the extent that they can, because they're actually in trouble, they have billed fixed price. And the prices of their raw materials have gone up substantially relative to what they budgeted. They're pushing out requirements as much as they can. The same thing is there, some of these projects which have gone back to the drawing board, the fact is that they need to get executed. Either they'll come back with a higher budgetary allocation, or they will come back with a lower quantity that will be bought within that budget. In either case the purchase activity will pick up. So, our sense is that second half is not going to be anyway worse than the first half. It will only be at the base level of H1 and when something probably better than that in terms of volumes across the board for all the segments. And as we get into FY23 and FY24, some stability is bound to come. I am not sure whether one can call this as a trend, but freight costs seem to have plateaued out at least. The second half of October, we are at a certain level, we haven't seen increases happening there at abnormal levels, but they haven't increased further. Otherwise, we were seeing an increase in cost happening every week on the same route. So, hopefully some of these things will start tapering off. There have been some major decisions that have been taken in countries that have created this big problem, the largest of which is the United States and particularly the West Coast. Most of us may not know this but the two biggest ports in California only operated 10 shifts in a week. They operated two shifts Monday to Friday. Now they have announced three shifts seven days a week working so that has actually doubled the amount of containers that can be handled. So, it will take a few months to improve but as these things improve, the pent-up demand will start kicking in. Now, when this happens, how this happens, there are too many moving parts for us to be able to kind of predict exactly or put a timeframe to it. But the trend is something which will clearly show that things are looking better in my opinion. I think the worst is kind of behind us.

Maulik Patel: If you allow me one more question, on the cable side the margins are on a relatively lower side. Isn't that the copper prices have not been able to pass to the customers or is that something that is related to the revenue mix of the product?

Kushal Desai: More than copper it's been things which are not covered under price variations where there has been some massive increases which are fundamentally on the polymers.

Maulik Patel: The PVC side, PVC polymers and others?

Kushal Desai: PVC and we use much more complex polymers also which are used in the elastomeric cables, etc. So, those have just gone through the roof. Also, the freight, many of these are imported, where freight was 2% of the cost of a material. In some cases, today its 10% of the cost of the material, the incoming freight. So, these are shocks which have come in that were not planned for, they could not have been planned for and that's what has resulted in some of these. And our business being largely a B2B business, it has taken some amount of its toll. Also, as I pointed out, our counterparty for some of our higher value products are the Indian Railways and the defence establishments. And they have been most adversely affected so far through the entire COVID period where the production of locomotives coaches and sub-marine ships, etc., have been at the lowest point. We have reason to believe now based on projections that have been given by these various entities that their production levels are increasing and that is the reason why I made this statement earlier saying that in the second half we will see increased offtake taking place to these segments which do play an important role in terms of the margin profile that we have. So, H2 cables we expect volumes to be higher as well as the margin to be high.

Moderator: The next question is from the line of Shriram Raja Ram from Ratnatraya Capital. Please go ahead.

Shriram Raja Ram: I remember that we had exposure to SEBs through your cable business. So, I just want a quick update from you on that.

Kushal Desai: Mr. Diwadkar probably have better numbers on this, but our exposure to electricity boards and Discoms is actually very limited. So, I have mentioned in previous calls also that we are very selective in terms of which distribution companies we would like to deal with. And to be very specific, our exposure is more towards the Discoms in Gujarat, Maharashtra, Karnataka and to some extent in Kerala. And these are more disciplined, better run distribution companies. Even within Karnataka is fundamentally to only BESCOM which is the one that covers Bangalore. So, we have not really taken any undue risks in terms of Discoms. We do business with a number of private Discoms that include entities of Torrent, entities which were erstwhile Reliance, now part of the Adani Group, some of CESCs subsidiaries. So, that's where our exposure is on the distribution side.

Shriram Raja Ram: Has the exposure increased? Whatever little that we have over the couple of years?

Kushal Desai: In fact, our exposure has decreased because some of Discoms have actually reduced their spending at the moment because of budget constraints and increases in the cost of materials. So, overall exposure has been reduced. We are targeting utilities and EPC contractors and suppliers in overseas countries more to make up the volume.

Moderator: The next question is from the line of Riya Mehta from Equitas. Please go ahead.

Riya Mehta: One question. If you could give the details of our LC linked borrowings?

V.C. Diwadkar: LC interest bearing, Forex is 1174 crores and domestic is 736 crores and long-term borrowing is 284 crores, short term is 63 crores and cash on the books is 273 crores.

Riya Mehta: What would be the execution period for our order book for conductor division?

V.C. Diwadkar: 6 months.

Moderator: The next question is from the line of Pawan Nahar, an individual investor. Please go ahead.

Pawan Nahar: I just wanted to first congratulate the entire management team at APAR for almost touching the 20% ROE number. If I look at your trailing 12 months 250 crores profit, so you are almost inching towards that 20% mark. So, I just wanted to congratulate all of you. Thank you so much.

Kushal Desai: We are 2% points short.

Pawan Nahar: Yeah, 2%-3% short but still this is, in fact, the second thing I wanted to say is that in this environment where all the things that could have gone wrong has gone wrong, whether it is commodity prices, of course, you all hedge, you all try to do as much as you, freight, etc., and still these numbers have come. So, that was the other reason why I just wanted to say congratulations. Third Kushal Bhai, you have already said that second half volume should be better than the first half. I am sorry I have missed parts of this discussion, but would you be able to talk a little bit about trade outlook for the second half because let's say the conductors have done exceptionally well, Rs. 16,000 for the first half or the oil business again, Rs. 6,000 per KL for the first half. And already cables we have said is going to be higher. So, these two segments outlook?

Kushal Desai: Pawan, we can give only a very high-level view because, as you have rightly said, there are still a lot of moving parts and there is still a bunch of uncertainties. So, if we just quickly run through the three segments, you look at the conductor side, the domestic business is a little bit more predictable for us because it doesn't have this issue of logistics and freight. We have deferred with mutual consent a bunch of orders. Most of them are conventional conductor orders. So, depending on how the freight plays out, the execution of that will happen. However, we have a good ACC order book for the second half. We have a reasonable order book on the copper conductors from the railways. Our CTC business which is going into transformers that is growing as we are receiving more approvals from transformer manufacturers and utilities. The OPGW which is actually to some extent, the joker in the pack, as far as FY23 is concerned, for two years the government has been constantly deferring tenders as there are a number of Chinese bidders in the OPGW space. And then as they have been excluded tenders have been refloated then obviously the cost implications came in, so again, they got refloated. But now they have reached a stage where these lines have to come up and data being the new oil, it does need that segment in there. So, it's very difficult to just put, but I can only tell you that the first half we did 51,000 metric tonnes. In the second half we should see 51,000 and something more than that, is what our sense is, in spite of the current environment and all the pluses and minuses. If the world settles down, you will see a definite increase that takes place which would only be positive for us.

Pawan Nahar: Just a moment, I wanted your outlook on the spread. Volume, I am assuming if there is a market you will sell and you will get good, and in fact, I must also congratulate you when I see the order flow on the conductor side, the incremental orders from the different profitable or more profitable segments that are coming so congratulations on that too. So, I wanted your outlook on spread.

Kushal Desai: Our conductors spread; our target has been Rs. 12,500 per metric tonne. And we are trying to focus on achieving that. You have seen a higher percentage happening because high efficiency conductors turned out to be a higher percentage and we had deferred some of the conventional conductors especially on the export side. If some of that kicks in, the per metric tonne may fall a little bit, but one thing is clear that we are on that trajectory to do that 12,500. That's the planned number and the whole business is being driven towards getting at least that 12,500 range. We also have our focus on premiumization. So, depending on how successful we are that will determine how much delta we have above 12,500. So, we are hoping that now that 12,500 is being established as a base, I would like to declare that victory if we are able to do it for 3-4 quarters in a row. If you have trailing 12 months coming in three or four times at the (+) 12,500 range, then I think all of us will have confidence that this is the new normal which is there. But I think we are moving definitely in that direction.

Pawan Nahar: And the oil side outlook on spread?

Kushal Desai: On the oil side, if you look the lubricant side has been steadily growing. There has been a little bit of up and down in agriculture, the period of agriculture was very strong. Last quarter was a little bit weak because the monsoon ran longer than it should have. But then the silver lining is our Rabi crop could be the bumper crop, something that is one of the best crops that India would ever have. So, the water table is high, everything is set up for that. Overall, the key parameter that is there for us to look at is how much is the lubricant side continuing to grow because it brings in a certain level of stability in earnings. In addition to that, our export business continues to grow in spite of all these problems on freight, logistics, etc. So, once that settles down, you will see further growth happening. Some of the markets where we have developed really good market share are markets like Australia, Turkey, you have got Latin American countries. So, these are all countries which over the next 5-7 years are expected to continue to grow. There's a lot of infrastructure spending going, and demand is increasing in these sort of places. Now they have been all very badly affected by freight, because freight is anywhere between 5x to 10x or what it was pre-COVID when you look at these particular geographies. Same thing with South Africa, we have (+) 35% market share there in transformer oil for example, about 30% market share in while oils. So, freight has gone up from $60-70 a tonne to $600 a tonne, $700 a tonne. So, in spite of all this, you are seeing these numbers which are there. So, once the world starts settling down, I think, we will be moving in the right direction. So, again that Rs. 5,000 per KL is a base as we would like to make sure gets established. And depending on the markets and how successful we are in pushing premium products, lubricants, etc., it will be a delta above that.

Pawan Nahar: On this lubricants, in fact, that was the other thing in my mind, you have done 30,000 KL, let's say, annualized 60,000 or 65,000 KL, 70,000 KL. What would this be versus let's say a Castrol or a Gulf in terms of volumes.

Kushal Desai: I guess Castrol, if you look at our comparable set of products, it’s between 175,000 and 200,000.

Pawan Nahar: Really-really scaled up big time.

Kushal Desai: But Castrol is a company which is not comparable with any other in the country in terms of the premium that they manage to pull particularly on the B2C side. They get two to three times the margins of the next best player at a net level. But in terms of Gulf, if you take total volumes that we have, we are probably what, 60% of the volumes, they are at about 120,000.

Pawan Nahar: Once again congratulations. This is amazing.

Kushal Desai: They do have some very premium contracts especially with their sister company where they have a monopoly for Leyland buses and trucks, etc., where they pull a very-very good margin. But we don’t have any dowries like that coming in. We are steadily growing. As I have mentioned earlier, we have broken into being in the top 10 lubricants players where 20 years ago we were a nobody. We didn’t even exist on the radar of selling lubricants. So, it's a steady game, it’s building the building brick by brick, but that business continues to grow. So, that what is giving us the confidence that this Rs. 5000 per KL we should be able to maintain as a base.

Pawan Nahar: And on the cable side finally you have done Rs. 40 crores EBITDA in the first half. I don’t want to ask you for EBITDA margin because though we do look at percentage margin in this segment…

Kushal Desai: I will only bring up in here that we have taken some strategic calls, it's apparent in the numbers which is showing the amount of export that is growing. Now, this export is growing primarily from markets like the United States. This is not selling product into Burma or into some African countries. So, we are establishing ourselves there in terms of the non-conventional energy sites, solar, wind, some of the EV related stuff, we have broken into some of the bigger EPC players there who have in the past bought conductors from us. But the amount of cables that they buy is significantly larger. But I wouldn't want to declare any victory at this stage. Let us see how we perform over the next 12 months. But clearly those signs are very favorable. The quality of sales actually on the cable side has shown a marked improvement. It's buried under the pressures that have come in on inputs, input costs, especially freight. Even the US rate has gone up 3x, 4x of what it was pre-COVID. And containers are not available. So, what is not in these numbers and Mr. Diwadkar can collaborate that, we have 75 crores worth of cables which are in transit, and we have not been able to recognize the revenues under the Indian financial standards because it's on a DDP contract basis and that would probably carry 6-7 crores of margin easily. And we have around 45 crores of cables which are in stock as of the end of the quarter which could not be dispatched because the containers were not available and subsequently now, they have moved. Of course, this is a rotating thing, but I am just saying that the US market for us is a very strategic market. It is clearly a China Plus One play over there. And I think the quality of earnings on the cable business also will continue to show signs of improvement. So, all three businesses are showing an improvement in terms of quality of business.

Moderator: The next question is from the line of Nagraj Chandrashekhar from Laburnum. Please go ahead.

Nagraj Chandrashekhar: My questions are all answered. Congratulations on the fantastic performance again in a very tough quarter. The one question I have remaining would be on cash flows. Higher EBITDA has seen a lot of cashflow eaten up by working capital this quarter. As your other input costs hopefully or theoretically come down over the next two or three quarters, and our utilization bumps up, what sort of cash from ops conversion do you see happening from EBITDA going forward over the next 2-3 quarters.

V.C. Diwadkar: Actually, commodity prices drive off the working capital. You have seen that there is a good amount of increase in all the commodity prices, that is aluminum, copper and oil and so our cash has been consumed over there basically. So, overall CAPEX we had a program of about 130 crores original program was there and we will be adding another say 20 crore also on the conductor side. So, 150 crores CAPEX program is there actually. Out of which 40 crores has been spent and 110 crore is balance.

Kushal Desai: I think for us as a management we are keeping a very close eye on the fiscal discipline which we can measure by a number of days of outstanding that you have, the number of days of inventory that you hold. So, these are the markers that we are really focused on. Because every business has a certain model, and you can't swim upstream beyond a point. So, the question here is that you picked a number which is a feasible number, it's a clear receivable or a trade payable that actually is required to keep the business running and then manage that risk in terms of those numbers very carefully. And one of the things which you will see is that even though the cashflow may go up and down so when the commodity prices came down, we had up to 350-400 crores of cash sitting with us. Now with the commodity prices going up, obviously, some of it has gone into funding the operations. But the numbers in terms of receivables and inventory days have not really changed very substantially. So, we are kind of focused on that number. I hope that answers your question.

Nagraj Chandrashekhar: I agree, our performance our has been very good compared to two years ago on this front, no qualms there. Just one more question on what you just pointed to the last participant on cables. How big can the cables business be at current commodity prices if we were to get all our end markets firing and this Rs. 100 crore CAPEX up and running for the additional capacity on a full year, say in FY24, how big can this business actually be?

Kushal Desai: Business can be easily in the range of around Rs. 3000 crores. If you take our current capacity that we have and if we were to run fourth gear on that, at today's prices, we would be in the range of 3000 odd crore on the business which so far, we have turned in the peak value at around 1600 and odd.

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

Adit Shah: My first question is on the cable side. What would be the kind of margins which we are targeting when everything normalizes, and we reach that scale of say Rs. 3000 crores and the new markets. Previously we have done I think 11%-12 % EBITDA.

Kushal Desai: We have done 6.5% EBITDA in the first half and our expectation is that we should end up doing at least that range going forward. The value per tonne would be higher. So, we look at the absolute EBITDA will be a bit higher but delivering something which is in the same range, 6.5%-7% is what I think we could target. As I said, there are many moving parts in here. So, putting an exact number is difficult but that at least is something that we would aspire for.

Adit Shah: Are we referring to this number as a steady state long term number or a minimum number?

V.C. Diwadkar: It is likely to increase. As you are seeing, earlier we have recorded EBIDTA of 11% also. But right now, the market is very competitive on certain cable side and certain good margin products are there, they are not moving. As Kushal bhai has already said that railway and defence where good margin products are there, they were not moving because of COVID. So, once these things start moving, we will be progressing towards our earlier target which was 10%- 11%.

Adit Shah: Can we expect that margins will take 3 years, or can it take much longer than that? Say, can we reach that double digit margins because if you are doing 7% at Rs. 3000 crore you are at almost, I think EBIDTA 3 years back, so doesn’t mean much in terms of EBIDTA contribution.

Kushal Desai: It's difficult to put a timeframe in this. Our aspiration is to get back to a double-digit margin. At the moment we are at 6.5% in the first half. Our sense is that in second half we will be at 6.5% or a little higher than that. The situation keeps on changing. If we are successful in terms of selling into some of these more sophisticated, more premium markets then the number could change but I don't think we can offer a guidance beyond this at this stage.

V.C. Diwadkar: Even the commodity prices that has driven down the EBITDA margin because here also if the commodity price will increase that doesn't mean that our EBITDA will increase. If the commodity prices itself that has gone down about 2.5% to 3% actually EBITDA, if the commodity prices were in same range as last year, the COVID year or even pre-COVID year, the EBIDTA would have been 2% higher.

Adit Shah: The other question I have is on the finance cost, so if we look at the previous quarter, it has gone down to from 38 crores to 31 crores and this is in the backdrop of a significant rise in commodity prices and of course for us that means higher working capital absolute level and even I do believe interest rate has gone down within these last 3 months, so how has the interest cost has actually reduced, that would be helpful to understand.

V.C. Diwadkar: This is because of good financial discipline and the product mix actually. One aspect which is there on the conductor side is the railway copper conductor which was not moving because you are aware of what issues we had with the railways and all those things. Once it started moving, the railway copper conductor cycle is very short cycle. We get the money in 30 and 45 days actually. And even the time for manufacturing and clearance also is short actually so that cycle is short, and once you have certain amount of railway conductors in your product mix, you will see the interest costs going down.

Kushal Desai: Overall I think there is a level reduction which is rate itself has gone down and as we have been saying, we have maintained a pretty strong fiscal discipline. If it has meant leaving orders, not taking business which otherwise seem profitable, but the payment terms were not favorable, you just let it go. So, it's really come from the taking advantage of the drop in interest cost and maintaining a fiscal discipline in terms of total receivable inventory combination plus the product mix.

Adit Shah: Just one comment there. I understand receivable and inventory in terms of days might have gone down but in terms of absolute amount we see that in the first half there is almost 400 crore increase, more than that. So, doesn't fully explain that. It's only because of the falling interest rate maybe then, right?

V.C. Diwadkar: We had a good amount of cash on the balance sheet, this cash in the balance sheet was sitting Mutual Funds.

Adit Shah: You have used that.

V.C. Diwadkar: We have used that. So, then you are not required to do any bill discounting or something. So that interest you saved.

Adit Shah: I just want to understand what are the initiatives that APAR is taking as a company to make a mark in more B2C kind of thing in cables and maybe in the other divisions as well. If you can spend some time there. Because I think sustainably doing 18%-20% will depend on a lot in cutting down the below EBITDA level items, which I believe can only be then incrementally in a B2B business. They can't be very significant beyond a point. So, just want to know your take on as a company, do you think that is something like B2C part is a big focus area for you in next 3 to 5 years.

Kushal Desai: B2C part is clearly a focus area for us. The lubricant side of business both the B2C as well as the B2B part of lubricant business, this industrial oil, etc., has a faster cash flow cycle. You are dealing directly with the consumer and customer. So, there is better pricing power also that's available. So, that's the business which we have been growing and that's how we are confident at least on the oil side that there is margin of 5000 or something which we are in a position to look at it and protect. So, that's clearly growing. In terms of the cables side, we have started growing our B2C side of the business in the wires and what they call light duty cables. So, last year we had done a little over 50 crores out of our whole pie. This year we will do a little over 100 crores, in spite of us having difficulty in going into market and bringing on new distribution, that is happening only now in the second half of the year. But as we go into FY23 our expectation is that we will cross 200 crores in that. So, our B2C initiative on the cable side is definitely on but we would like to discuss that more once it has crossed 10% of the turnover of the cable business. Otherwise, it's too small to move the needle. But it's an area where we are clearly focused on. We have put a lot of resources behind that in the last 6 months and I think in the next 18 months the numbers will clearly start showing. They will become visible in the total numbers that we have. You would also see more visibility in terms of branding taking place at least in the markets. It will mostly be BTL but in the markets where the retail is taking place you will see much more signage of APAR products and stuff coming up. So, it's clearly an area which we want to focus on. But the numbers and our success will be dependent on what happens over the next 12 to 18 months.

Adit Shah: That's really happy to listen as a long-term shareholder. We would be happy to be patient and see how this plays out because I think that can have a huge impact on the numbers.

Kushal Desai: When you get to cable business of 3000 crores would be to have (+) 500 crores coming from the B2C side. That's the target. Now let's see how we end up achieving that. We have put resources behind it, we have rebranded our products, re-packaged our products, all the early things which need to be done have been done. And the whole process has been initiated on the wire and cable side. The opportunity there is huge. You are looking at a market which is 30,000 crore market. The other advantage on that is that it's formalizing at a pretty good pace. So that is throwing up more opportunities. We have a very unique offering there which is electron beam run wires which we have started selling under APAR Anu Shakti brand. We took Kerala as a pilot market. We have reached 4 crores a month revenue there. Last year we did 1.5 and now we are moving to other markets based on that success. So, we have a recipe in place which has worked in one market. We are looking at getting into 6-7 markets over the next 12 months. But we need to talk about when it kind of reaches a certain size where it does move the needle.

Moderator: Thank you. Participants to ask a question, please press “*” and “1”.

Kushal Desai: If there are no more questions, in terms of closing comments, I would just like to wish everybody a happy Diwali and a prosperous new year. And we feel reasonably confident that second half should be equal to or better than the first half, as there will be more predictability for us going forward. Thank you very much everybody.

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