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SEC/0611/2024 **By E-filing** November 06, 2024

National Stock Exchange of India Limited “Exchange Plaza”, C-1, Block G, Bandra- Kurla Complex, Bandra (E), **Mumbai – 400 051.** **Scrip Symbol : APARINDS** **Kind Attn.: Listing Department**	BSE Limited Corporate Relations Department, Phiroze Jeejeebhoy Towers, Dalal Street, Fort, **Mumbai - 400 001.** **Scrip Code : 532259** **Kind Attn. : Corporate Relationship Department**

Sub. : Submission of Transcript of Earnings Conference Call made on Un-audited Financial Results (Standalone & Consolidated) of APAR Industries Limited (the Company) for Q2FY25.

Ref.: Reg. 30 read with Para A (15) of Part A of Schedule III & all other applicable Regulations, if any, of the SEBI (LODR) Regulations, 2015 (“Listing Regulations”), as amended from time to time

Dear Sir/ Madam,

Kindy refer to our letter no. SEC/3010/2024 dated October 30, 2024 w.r.t. submission of link of Audio Recording of post Earnings Conference Call made on Un-audited Financial Results (Standalone & Consolidated) of the Company for Q2FY25.

Pursuant to the provisions of Regulation 30(6) of the Listing Regulations, we are submitting herewith transcript of the Earnings Conference Call made on the Un-audited Financial Results (Standalone & Consolidated) of the Company for Q2 and Six Months period ended September 30, 2024 on October 30, 2024.

The aforesaid transcript is also made available at the website of the Company at www.apar.com.

Kindly take note of this.

Thanking you,

Yours faithfully,

For APAR Industries Limited

Harishkumar Shamji Malsatter

Digitally signed by Harishkumar Shamji Malsatter
DN: c=IN, o=Personal, title=8193, 2.5.4.20=e53e878071d899901b79cc428e2d162e64fa439a154c61da25795ae409200a00, postalCode=390007, st=Gujarat, serialNumber=d3ab76fe749fc4eb8b1153cdb29c1f0a53ca896fad0c8a6f61c857cd83bd0131, cn=Harishkumar Shamji Malsatter
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"APAR Industries Limited

Q2 FY25 Earnings Conference Call"

October 30, 2024

MANAGEMENT: MR. KUSHAL DESAI – CHAIRMAN AND MANAGING DIRECTOR – APAR INDUSTRIES LIMITED
MR. CHAITANYA DESAI – MANAGING DIRECTOR – APAR INDUSTRIES LIMITED
MR. RAMESH IYER – CHIEF FINANCIAL OFFICER – APAR INDUSTRIES LIMITED

MR. AMBESH TIWARI – S-ANCIAL TECHNOLOGIES

Moderator: Ladies and gentlemen, good day, and welcome to APAR Industries Limited Q2 FY '25 Earnings Conference Call. 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 star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Ambesh Tiwari from S-Ancial Technologies. Thank you, and over to you, sir.

Ambesh Tiwari Thank you. Good afternoon, everyone. This is Ambesh from S-Ancial Technologies. I welcome you all to the Q2 FY '25 earnings call for APAR Industries. To discuss the business performance and outlook, we have from the management side, Mr. Kushal Desai, Chairman and Managing Director; Mr. Chaitanya Desai, Managing Director; and the CFO, Mr. Ramesh Iyer.

I would now pass on the mic to Mr. Kushal Desai for the opening remarks. Thank you, and over to you, sir.

Kushal Desai: Thank you, Ambesh. Good afternoon, everyone, and a warm welcome to the APAR Industries Q2 and H1 FY '25 earnings call. I'd like to begin by actually wishing everybody a Happy Diwali. I'd like to start by actually giving a brief overview on our performance. Then I can follow that up with a short industry update and then dive into more details based on each of the major 3 business segments that we have. Post that, we can open up the floor to questions.

So looking at our Q2 FY '25 consolidated revenue that came in at INR4,645 crores, which is up 18.4% year-on-year compared to the same quarter previous year. And this has really resulted from a very strong growth on the domestic business front, which grew 61.1% compared to the same period last year. There has been a bit of a transition with the increased business coming from the domestic market versus export. Export has contributed 29.8% to the overall revenue versus 48.4% in Q2 FY '24.

Now this can be attributed to lower revenues from the U.S. market in the quarter as well as various other factors which affected export logistics, etcetera, including the closure of the Red Sea shipping channel to a very large extent, a substantial increase in freight and also an increase in the delivery time given that with the Red Sea channel closed, shipments all going to Europe, West Africa and the United States, all have to go through around the Cape as opposed to through the Suez Canal.

However, domestic business has remained quite strong with an increased order inflow across all our business verticals in this quarter. U.S. business compared to last year was down 38.9%. However, we see a sequential growth in the U.S. business. So when you look at Q2 FY '25 versus Q1 FY '25, our order intake has increased in the U.S. by 17.5%. And we believe that this trend will continue. And after a couple of quarters, you will start seeing the U.S. business again forming a meaningful portion of the total pie.

On the EBITDA front, EBITDA is up 7.8% year-on-year to INR402 crores. The margin has come in at 8.7%. Profit after tax is INR194 crores, which is higher by 11.5% versus the previous year. And this has partly been aided by better finance costs. The profit after tax margin is at 4.2%.

Now looking at figures for the first 6 months compared to the previous year same period. The first half consolidated revenue is at INR8,655 crores, which is actually an all-time high H1 revenue. It's up 12.6% year-on-year. Domestic revenue in the first 6 months is higher by 53.4% compared to last year, and exports constituted 33.2% versus 50.9% a year ago.

EBITDA post Forex is at INR796 crores, which is up 7.2% and PAT came in at INR396 crores, which is up 6.8% for the first half.

Coming to some of the key sort of highlights in the industry, the Ministry of Power has finalized the national electricity plan this month for both central and state transmission systems, and we have projected a massive investment of INR9.15 lakh crores. This plan aims to meet the growing energy demand, targeting a peak demand of 458 gigawatts – basically 500 gigawatts by 2032. To support this, the transmission network capacity will be expanded from 4.85 lakh circuit kilometers to 6.48 lakh circuit kilometers. And the transformation capacity will increase from 1.25 gigavolt-amperes to about 2.34 gigavolt-amperes. Coming to just specifically transmission lines and substations, during H1 FY '25, a total of 3,308 circuit kilometers of transformation lines were added. Overall, transmission line additions have fallen considerably short of the target, which is 8,516 kilometers. So it's actually lower by almost 60%. Central transmission utilities added 457 circuit kilometers of lines while state utilities made the highest contribution of 2,441 circuit kilometers, though it has fallen short of the plan of 6,221 circuit kilometers.

However, there are several projects in the bidding and awarding stage for which the process will be completed in the next few months. If you look at the entire FY '25, the planned addition of transmission lines is expected to be at 16,667 circuit kilometers. However, just 3,308 circuit kilometers has been added in H1.

And as a consequence, the achievement of the annual target is just at about 20%. Our expectation is that in the second half of the year, you will see a significant pickup in execution taking place. On the substation front, as against the plan addition of 42,230 megawatts of substation capacity, in the April-August period, the actual addition has been only 18,270 megawatts. So that implies a target achievement of 43% of what the annual number is.

On the renewable energy front, India has reached a significant milestone in its renewable energy journey. The country's total renewable energy capacity has crossed 200 gigawatts as of October this year. According to the CEA, the total renewable energy-based electricity generation capacity now stands at 201.5 gigawatts. The total nonfossil fuel-based power now accounts for almost half of the country's installed electric generation capacity, signaling a strong move towards clean energy leadership on the global stage.

Coming to the individual performances of our businesses, I'll start with the conductor business, which is our largest business vertical. So in Q2 FY '25, our revenues grew 18.3% year-on-year largely due to higher realizations. Volume has been relatively flat compared to the previous year. And this can be attributed to lower export volumes and as well as upscaling as we move from ACSR to AL-59. And so we've moved up in terms of value. Some of these conductors are a little bit lighter in weight – given that they are alloy conductors and they don't have even a steel element in them. Exports contributed about 18.7% to the overall revenue as opposed to 48.3% for the conductor division. The export mix was affected to some extent, even by Chinese competition and slow offtake as there have been delays of materials, especially in some of the overseas projects, given that customers were moved to procuring products on an FOB basis. So with the increase in the freight and the – and decrease in the availability of containers, this has had some impact. Given the strong domestic business, we've been able to divert capacities towards the domestic side and still maintain a relatively good set of numbers. Our premium product mix contribution continues at 42.2% in the second quarter. EBITDA post Forex period came in at INR37,702 per metric ton as opposed to 39,000 per metric ton in the same period last year. Our pending order book remains healthy at INR6,615 crores. The new order inflow in the quarter came in at INR2,234 crores.

Looking at a 6 months working, the revenue growth has been 13.9%. Volume is up 3.1% versus last year. Volume growth is lower again – as I mentioned earlier, because of the export volumes that have reduced and the export mix for the first half for conductors is at 23.6% versus 50.2%. Our premium product mix stood at about 40%.

In our oil business vertical, the revenue from our operations grew 12.1% in Q2 FY '25. That's driven by an 11% growth in volume. Transformer oil volumes grew by 25% in the quarter. Both domestic and global sales of transformer oil, both contributing towards this increase almost equally. Our automotive oils posted a fairly strong volume growth of 21%, backed by growth in our OEM business. The retail business has remained relatively flat. In terms of our industrial lubricant side, we grew by about 8% year-on-year. The export mix remains healthy for the oil business at 44.7% versus 47.4% in the previous period. EBITDA post Forex grew by 34.1%, converting this into an EBITDA per KL, it stands at INR5,473 per KL compared to INR4,532 in the last year.

Looking at the first half, the revenues are up 9.1% in the oil division to reach INR2,605 crores. The volume increase is 8.5%. Transformer oil volumes has grown by 21%. The export volumes contributed to 44.9% of revenue. EBITDA has grown by 27.1% over last year and now stands at INR6,178 per KL versus INR5,275 per KL.

Coming to our cable business, the revenues in Q2 FY '25 has grown by 39% to reach INR1,227 crores on the back of fairly strong domestic demand. Our domestic revenues are up 77.8%. And due to this stronger domestic revenue, it has offset the impact of lower exports, again, especially the exports to both the U.S. and the European markets. So export mix for our cable division was 29% in Q2 FY '25 as against 45% in Q2 FY '24. EBITDA post Forex grew in the quarter to – grew by 21.2% to reach INR119 crores. EBITDA percentage margin came in at 9.7% in the quarter. Partly, this was due to increased competition and a higher mix of domestic business versus exports, where traditionally the exports have been more profitable. The pending order book remains at approximately INR1,738 crores.

Looking at the first half, revenue is up 22.7%, and the domestic business in the first half is up 67.4%. Export mix stands at 30.9% as against 49.4% for a year ago.

The global supply chain continues to throw challenges with higher freight rates and a shortage of containers in several freight lanes. There is substantially increased competition from China. Except for the United States, we pretty much see Chinese competition being – having become stronger than what they were in the year ago period.

Having said that, the export outlook continues to remain positive. And we see a steady increase in inquiries coming to us. As I mentioned earlier, there is also a sequential growth that we have seen between Q1 and Q2 of shipments to the U.S. On a global scale, the energy transition, especially in the renewable space, there remains a strong prospect and we are well positioned to take advantage as that unfolds.

I would also like to mention that we have a very detailed corporate presentation in our Investors section of the website. And that includes the full presentation made on our Investor Day. It is very comprehensive, and I would encourage you to please go through that to get a better perspective of the company. It's various activities as well as the strategy that we are following as you would like to participate in this massive energy transition that's happening.

So with this, I'd like to come to the end of my comments. I would once again like to take this opportunity to wish you all a happy Diwali. And we can now move on to the Q&A session, please.

Moderator: First question is from the line of Mohit Kumar from ICICI Securities.

Mohit Kumar My first question is, sir, how difficult it is to manufacture the HVDC cables? And is there a plant to produce the same in our factories?

Kushal Desai: So, Mohit, the HVDC cables are not very much more complex manufacturers compared to the regular 755 KV – sorry, I meant is, conductors – so there's not a major difference in the format of the conductors which are there for HVDC. And we have already supplied conductors previously in this HVDC space. Where the big transition takes place is in the transformer oil side, where moment you move from AC to DC, there is a significantly higher amount of pressure on the oxidation stability and the insulating characteristics of the oil. And that's where I think APAR really stands out compared to competition not only in India, but even at a global space.

Mohit Kumar My question is primarily from the fact that India is looking to set up so many HVDC lines, right? It looks like there will be a huge opportunity. So can we participate in that opportunity? That's fair...

Kushal Desai: Yes, absolutely, for both conductors as well as for transformer oil.

Mohit Kumar Understood, sir. My second question on the volume growth in conductor business that has been, I think, on the lower side. Is it fair to say that – is it fair to say that we are still maintaining the guidance of 8% to 10% growth in the medium term?

Ramesh Iyer: Yes. So what has happened in the first half of the year, Mohit is that, one is that export volume has come down. So to that extent the volume growth has been less. And secondly, also what is happening is that even in the domestic business, there is a shift to a much more superior and premium products as compared to last year. And these products have a lower metric ton to kilometer ratio.

So that's the reason we are seeing lower volume growth. However, we expect that volume growth to pick up in the second half of the year as we see inquiries from the U.S. exports market is increasing. But I guess, for the full year, we may be short of the 10 percentage guidance that we have given earlier because the first half has been lower. However, we plan to make it up for it in the second half of the year.

Kushal Desai: This transition which we've been explaining about of shifting from ACSR to AL-59. So that – we still classify AL-59 under conventional conductors, but it's right at the upper end. So ACSR is at the lower end of the spectrum and AL-59 is at the upper end of that spectrum. The tonnage as Ramesh has said, is different when you move – when you transition from one to the other. So you will see that the value has increased considerably more than the tonnage as this transition is taking place.

Mohit Kumar Understood. My last question on the reconductoring opportunity. What has happened in the first half? Can you just throw some light on how do you see the entire year in terms of the reconductoring opportunity? Of course, we read all kinds of literatures. In fact, the CEA transmission plan talks about the reconductoring. So that's the background, yes.

Chaitanya Desai: So in this first half, we had a slight slowdown with the elections. So a lot of tendering and all got postponed out. But now in the second half, we see this activity build up again. But, again, in terms of the deliveries and the execution on the ground, those things generally in the first half are lower compared to the second half considering the monsoon comes in the first half of the year. So this is a trend which we see every year actually. So these 2 factors, I just sort of talk to you about – mentioned to you.

Mohit Kumar Sir, my question is primarily on the tendering opportunity. Are you seeing a lot of tenders which are floating around for reconductoring?

Kushal Desai: Yes. There's a lot of that in the pipeline, as I mentioned in my opening remarks also, there is quite a lot which is sitting in tenders that have been prepared. In some cases the tenders have been opened but not awarded. So through that entire cycle, there is quite a lot of activity.

And companies like APAR are also proactively working with the CEA and the ministry, etcetera, to look at setting up a national reconductoring policy because the key thing that comes with reconductoring versus setting up new lines is, the right-of-way is very simple because in a reconductoring, the right-of-way already exists. And it's just the decisions to be taken by the utility as opposed to going out and getting an external clearance.

Second thing is you can still use the same tower infrastructure, in same cases the tower infrastructure is a bit old. You spend a fraction of the money to strengthen it relative to building a new tower.

And the third thing is a gestation period of a reconductoring project is significantly shorter than on a greenfield. So in a resource-constrained country like India, we have a constraint on land resource. We also have a constraint on the amount of CapEx that can be spent because ultimately, the cost of your capital gets captured for what we will charge in terms of leasing charges at the end of the day.

And no matter how competitive you build, a greenfield project will always be more expensive compared to a brownfield, which is a reconductoring project. So I think this whole reconductoring thing over the next several years, not only in India, but around the world, is going to be a very major factor.

Moderator: Next question is from the line of Nitin Arora from Axis Mutual Fund.

Nitin Arora: Just first thing on this commentary, which you also stated last quarter about international Chinese competition – Chinese competition coming in the international markets barring U.S. How you are assessing – I'm assuming you're talking about more of Australia and other countries, which is bigger for you after U.S., you can correct me on that.

But generally then in that scenario, is it something we are also getting aggressive in terms of lowering the prices? Is that what you're trying to do? Or is this something where you feel a little push to be realization part as well? So just first take – first question is on that, if you can talk about.

Kushal Desai: So Nitin, as a company for the last many, many years, we have positioned ourselves that what is the best netback that we get on execution. And what has been happening is that the 2 markets where the Chinese are not able to participate so easily is the United States and India.

And if you go around Europe, Australia, certain parts of Africa and many countries in Latin America, they have equal access, if not better access than an Indian company, given more favorable FTAs in some cases. And the Chinese have been very aggressive. In many cases, it looks like the pricing is even below cost.

I guess it's not just in our product lines, but it's there across the board. But having said that, I think the business – the domestic side of the business remains very strong. And especially with some of the fundamental changes that have happened or moving from the ACSR to AL-59, reconductoring projects coming up, et cetera.

So these are things which really go in favor of quality companies that actually are involved in basically this improvement of the whole augmentation and the whole system as such. I don't think we will drop prices to just meet Chinese competition just for the sake of volume because we have better options available.

As far as the U.S. market is concerned, as I said, we've seen a 17.5% improvement sequentially. We are seeing a stronger uptick on the cable side than the conductor side. On the cable side, I think we will see every quarter an improvement taking place in the order book and the order flow.

On the transmission side in the U.S., one thing to keep in mind is that it takes over 10 years to get approval. There are a lot of – there are many, many gigawatts of power, which are actually just waiting for transmission evacuation. So it's a question of moment the approval comes in, then suddenly you will see this whole supply thing coming up. And given that it's been delayed to a significant extent, it's quite logical to expect a big surge to happen moment approvals for a particular line come through.

So I think we are very active. We are very much in touch with customers, keeping a track of what's happening in the U.S. market. But otherwise, in the meantime, for the next few quarters, we see the domestic market being very strong.

Nitin Arora And what's your take on the realization, sir, because still it's holding up well. And I'm assuming the end market is firing, for example, domestic. I had a separate question, but exports is also something which is, as you said, U.S. has also grown sequentially. So any risk, any thought process now...

Kushal Desai: The improvement in realization is fundamentally coming from the change in the format of the product on the conductor side. On the cable front, the domestic market is certainly not getting us the profitability that we get from some of the more premium markets like the U.S. market. And that's why you see the – as the domestic sale has substantially gone up, you see the EBITDA percentage having fallen to some extent. But I think we'll try to balance. You'll see higher growth percentages overall coming in India. But our U.S. business also will start growing up.

The company is also adding more infrastructure in the U.S. by working with more distributors, bringing in some full-time sales people in the U.S. market, et cetera.

Nitin Arora And sir, just last, outlook on the domestic, where you said articulating the growth part is pretty strong. And this growth looks optically very high. When you just strip out some export part on a percentage basis and just we calculate on the domestic side, it's like a very, very high growth. You still think it's going to sustain for the next few quarters, this kind of a growth?

Kushal Desai: I would not focus on just the percentage of growth because the base for the domestic market was lower. But you will see our – especially our – both our conductor and cable business, domestic percentages remaining at reasonably good level simply, because, as I said, when you move from ACSR to AL-59, there's quite a technology leap that one has to take, and that has reduced the number of fringe players.

On the cable side, we've been following a fairly strong verticalization strategy. So we are quite strong on the solar. We are strong on the wind. We've also been working on data centers and have a full suite of cables that go into data centers. So I would see that the domestic market will also remain fairly strong. There may be a reasonably high polarization where most of our revenue comes from India and the U.S. And some of the markets like Australia and Europe, which will continue to be serviced, but the level of business there may be relatively a bit lower.

Moderator: Next question is from the line of Amit Anwani from PL Capital.

Amit Anwani: Sir, in continuation to exports, you did highlighted a couple of things that, especially U.S., the cables business will grow sequentially. And at places, you highlighted that the Chinese competition is heating up. So can we expect that this will be prolonged in ex-U.S. geographies, the Chinese competition? And how are we thanking to deal with this Chinese competition? Or are we going to diversify with products? Or any thoughts on geographies? Anything you would like to add?

Kushal Desai: So if you see – okay, let me answer first your immediate question and then give a slightly broader answer. So in terms of what do you see whether – what do we see, whether Chinese competition will continue? We are working on a default case that it will continue. It's very difficult to predict what they will do, how long they will do it.

So given the fact that the Chinese competition is going to be severe outside of India and the U.S. If you see the portfolio of products that we've created across all the 3 businesses, we have a more diverse portfolio. You will not find a single conductor company in the world which does the sort of suite of products that we have.

So we've added, for example, copper transposed conductors – that's been growing at a very rapid pace, over 50% growth year-on-year because transformer demand is increasing as well as above a certain size, CEA has mandated that you have to use a copper transposed conductor. It reduces the losses essentially in a transformer and it improves the consistency of the quality of the winding which is at the core of the transformer.

So we have also added busbar. Busbar is another segment which has been growing. It's used extensively in high-rise buildings. It's being used in data centers, in all of these places where you have an input of power going in and a split of several locations where the power needs to be split and delivered.

So the way we are insulating the company and positioning it is not only looking at geographic growth, but also the product mix that we have. And then within that product mix, pushing to produce the best quality and specification of products that exist. So that's the strategy which we've been following.

And I guess we'll continue to follow that to sort of counter some of the competition coming in from China. By the way, the Chinese competition is not something that just came up in the last quarter. It's – for the last 3, 4 quarters, it's been quite severe, and we've, managed to continue to perform.

Amit Anwani: Right. Sir, second question on – then will it be a fair assumption that this year, maybe export domestic will be kind of 30-70. And you can give it a thought. And second, on cables, you said that domestic cables business was pretty strong, but margin came lower because there is a difference – obvious difference between export and domestic. So just wanted to understand the differential margin, any sense would like to give for cables and conductors, export and domestic side? Yes.

Kushal Desai: So the volume of 70-30, I think the export, especially on the – see, the oil side has been reasonably steady. The cable side has already bottomed out because going forward, we will see a healthier demand coming in from the export market, especially the U.S.

Ramesh Iyer: As we see sequential growth happening on a quarter-on-quarter basis, so we'll have to see how the second half of the year pans out. Also depends on how much order we get and how much we are able to execute. Based on that, the export to domestic ratio will pan out for the second half of the year. But optically, it is looking better as compared to the first half of the year.

Kushal Desai: And in terms of your question on margins, the domestic cable side, mind you, the typical wires and cable company have a building wire or a house wire business which is a branded distribution-oriented business. And then you have a cables business.

So typically, the cables business, given the competition, given the performance levels, et cetera, has been lower than what would be in some of the overseas markets. But having said that, we also have a number of premium products in cables in the domestic market. And you will see some of that volume growing. Like for example, wind capacity has started picking up, and that's where APAR has a fairly strong position.

Also, we see defense execution picking up in – as we end FY '25 and get into FY '26 given the number of projects that have been announced and the positions that we have relative to some of the equipment that's coming on. So we'll continue to have this focus on the domestic market. But the export business will start at least on the cable side, showing quarter-on-quarter growth.

Amit Anwani: Right. Lastly, sir, you said the domestic has been very, very strong as we can see in H1. Well – and you also highlighted that at a pan-India level, we are still just 20%, 25% execution which has happened on circuit kilometer substations. So does that sense that the growth in H2 will be even stronger in domestic market versus H1? Or this is the pace where we'll be heading in the Q3, Q4...

Kushal Desai: The percentage would be a similar sort of percentage because the base in FY '24 was lower. But then as you move into FY '26, etcetera, you will have a much higher base, so the percentage will fall off.

Ramesh Iyer: And also, we look at more profitability – so we'll have to see how the export market pans out in the second half of the year. And wherever the more returns are there, that's where we'll focus our volumes.

Moderator: Next question is from the line of Naman Parmar from Niveshaay Investments.

Naman Parmar: Yes. So firstly, I wanted to understand any new product on the pipeline on the transformer oil or oil division like data center air cooling, like that?

Kushal Desai: So we have developed a bunch of products and tested it in the labs and within our facilities for data center cooling, but we haven't yet been able to get a site to be able to do field trial and field testing. And it's not just the oil, but it's the full system. That means there are many levels which require to be aligned in order to do that. However, on the transformer oil side, we have developed and launched a synthetic transformer oil.

And so that's a very high-performance transformer oil, better biodegradability, a very high flash point without sacrificing the cooling characteristics and the insulation characteristics of the oil as well as the life of the oil. It's significantly more expensive. It's almost 3.5 to 4x the price of a mineral oil. But it will find its way into special needs and special applications.

Naman Parmar: So it will find its application majorly in renewable or in both the transformers?

Kushal Desai: In renewables, the Indian railways are looking at it as they build – they use traction transformers which requires higher insulation characteristics as well as a higher operating temperature. Plus in renewables, it will find its way into offshore either wind or solar on water, where in case there is a spillage, you need better biodegradability. So we've developed the product. We've got it approved at a few places and have started now commercially bidding on business.

Naman Parmar: Okay. And secondly, on the margin side, you have correctly said that the export has been decreasing over domestic in all the segments, so it has impacted your margin. But also on the raw material side, if you see aluminum, copper and all that prices may have increased in the quarter 2, so which has also impacted your margin. So what do you expect in the coming quarters, it will be sustainably – you will be able to stabilize the margin? Or how much your contract used to have a price escalation clause?

Ramesh Iyer Aluminum and copper does not affect us much in the cable business because we run a 100% hedge book. We do MTO. So the moment we get an order, we do a back-to-back hedging. So to the extent of aluminum and copper prices going up and down, we have a hedged position. So that does not affect materially our P&L. The margins are down, yes. But as explained, export volumes are down. And exports have higher margins than the domestic margins. So as domestic mix is higher in the first half of the year, so we saw EBITDA margin shrinking a bit.

But as you see export volume again increasing sequentially and hopefully, in the second half of the year, the export volumes will be better than the first half, we can see margins going up again to what it used to be earlier.

Moderator: Next question is from the line of Ankur from Future Investments Private Limited.

Ankur: My first question is, what is the total global conductoring and reconductoring market opportunities here annually? And what is APAR's market share in this total opportunity size? And do you see this opportunity size changing when we consider the net zero scenario? That's my question.

Kushal Desai: So on the reconductoring side, essentially in the world, every non-HTLS and high-performance conductor is something that is potential to get changed and reconductored. And different countries depending on how aggressive they are with wanting to deal with change and less conservative, ready to take a calculated position in terms of moving forward with technology, and you will see the pace vary.

And honestly, India has been doing extremely well. If you see even right from right-of-way, the Modi government has done an incredible job of coordinating with the states right down to the taluka level for right-of-way and for working through all these things.

That's why our transmission line right-of-ways are in the 3, 4 years maximum versus the U.S., which is 10-plus. Europe is even beyond that.

So we see the reconductoring as a philosophy is something that every old conductor will get reconductored because right-of-way is a problem not only in India, but in most parts of the world. And the world is continuing to see increased urbanization. So it's not that there is a huge flight of population out of urban clusters into rural areas.

And with electric cars and electric infrastructure, including trains and other things picking up, appliances, the demand for electricity is going to continue to grow. So that is what will drive this whole reconductoring. If countries like India come up with a national reconductoring policy, it will facilitate a significantly faster transition taking place. So I hope that answers your question, Ankur.

Ankur: Yes. I just wanted to understand what we will be the total annual opportunity size will be? And what will be APAR's market share in this?

Kushal Desai: It's difficult to put a number on the total annual opportunity because usually a utility weighs various factors, including the amount of resources they have available to be able to actually spend on this reconductoring. We've seen most of the utilities that have actually implemented it, has benefited immensely from the reconductoring because you got more power than we can transmit and the incremental cost of revenue versus incremental cost of Capex is also in their favor.

Ankur: Actually, I was more – like understand – I want to understand the total opportunity in terms of conductoring and reconductoring.

Kushal Desai: I don't think anybody can guess that because the total opportunity, you can add up all the transmission lines that are there in the world, and they end up – that is the opportunity as well.

Ramesh Iyer: There is no source of information for that. There's no organized source that gives this information in terms of total reconductoring, how much it is there.

Ankur: Okay. Got it. My second question was on the – there were paper which was released by the U.S. Department of Energy on the national transmission planning study, and they recommend actually large-scale transmission lines, both intra- and inter-regional in the U.S. Do you see this reflecting on round in the conversations with large utilities in U.S. or in other parts of the world as well ?

Chaitanya Desai: It will pan out over a period of time. But as was mentioned, in the U.S. and certain countries like in Europe, it takes a little longer to get all the approvals. So there are certain delays before the projects actually get implemented.

Kushal Desai: So the cycle time there, as I mentioned, is over 10 years in the U.S. In Europe, it's even longer than that. So there are several lines where the permitting and approval process is going on. The moment the approvals fall in place, you will immediately have the RFQs and quotes coming up and the line execution taking place.

But it's a question of – it's a long process, 10 years is not a short period. So difficult to predict exactly when that approval will come in place. But our expectation is that over the next few quarters, you'll start seeing an increase happening of this. There's a lot of renewable energy that needs to be transmitted today, it runs in tens of gigawatts. It's not a small amount in the U.S. So there is a lot of pressure that these developers are also putting on getting these clearance.

Ankur: As you said, they're taking 10 years – It will take 10 years to get approvals for a transmission line. So are they considering these high-performance conductors like the premium conductors that we have?

Chaitanya Desai: In the U.S., there is a certain portion of the market, which is currently on a high-efficiency type conductors, that is there. And those are going actually on new lines. So there is a lot of discussion going on with the authorities there that why not utilize the current lines to do a reconductoring. But generally, in the transmission segment, the engineers are more conservative. So they take a little longer to adapt to new technologies or new way of working. So in the U.S., a little more time may go in actually converting the market to reconductoring.

In India, we may see a little faster movement like we have been seeing because of the urbanizationorganization and also because of the renewable energy, which is happening at a very fast pace.

Moderator: Next question is from the line of Bobby Jay from Falcon.

Bobby Jay: First of all, congratulations on your excellent execution over the past 2 years and what was essentially a cyclical company has shown structural kind of growth. But at some point, the cycle will turn. So where do you think India is in terms of its infrastructure upgrade, the power transmission infrastructure upgrade? Are we 20% done, 30%, 50%? Any thoughts on this?

Kushal Desai: So actually, there is – as we've been talking through the call, there are 2 areas where fundamentally, you see the infrastructure going. There's one where the addition of new infrastructure to evacuate – we have a 500 gigawatt plan. India is – has just crossed 200 gigawatts of renewable energy. There's a lot of renewable energy that's being executed right now, et cetera, all of it needs evacuation.

And there is a whole lot of debottlenecking that is going to happen, leading to urban centers of reconductoring. So we don't see this being cyclical actually. The cycle is going to be a decadal cycle. It's not going to run in quarters and a couple of years. It's a really huge transition that's happening. And this will only continue for a long period of time. And in fact – in India being actually better than most of the countries. I think after

China, India is the second fastest in approvals and erecting transmission lines in the world.

Bobby Jay: Right. So in terms of conductors, who is your closest competitor?

Chaitanya Desai: In India, it's Sterlite Power.

Bobby Jay: Right. And how close are they? I mean, in terms of your product range, quality and technology, are they very close or they're quite distant?

Chaitanya Desai: I think they are privately owned, so they don't declare their figures, but from our general information, they are roughly half our size of volume. And they are not having the full range of the products that we make, especially on the copper side.

Bobby Jay: Right. So when you talk about all these projects you're bidding for, right, reconductoring and all the others, you must be bidding against several others. Are they foreign multinationals? Or what kind of companies are they come up against?

Chaitanya Desai: No. In India, we don't see the multinational companies here. It's mostly the domestic players.

Bobby Jay: Well, in that case, is that a clear field if you're saying that you're far ahead of the second biggest?

Chaitanya Desai: In India, most of the business goes on a L1 basis. So price is an important criteria in the decision-making of the utility. So in that sense, although we have higher economies of scale, not necessarily we get any pricing power over the competition.

Bobby Jay: I understand. And do you see any change...

Kushal Desai: Capability is higher than – if you look at the amount of projects that we've done in reconductoring as well as supply of AL-59, any of these new formats, we actually have experience and background, which is far higher than others, even including Sterlite. So I think in that sense, we are well positioned.

But as Chaitanya has mentioned, finally, it goes through a bidding process, there's a technical bid. Once you clear the technical, then it's based on whoever is the lowest price. But you keep in mind that you can't have infinite capacity to execute these projects because it requires specialized manpower, it requires specialized equipment. And we do have the largest capacity to not only produce the conductors, but to also execute the reconductoring. So I think in that sense, from a competitive standpoint, we do have a good position.

Bobby Jay: Understood. And do you see any chance of the Chinese coming in? Are they not cost competitive or they're simply not allowed?

Chaitanya Desai: So even in the past when they were allowed, the Chinese are not so competitive in India. There are certain custom duties and import barriers. But even currently, the situation is not allowing for foreign companies to bid for the Indian projects. There is a Make in India program, it's allowing only the Indian players to bid for it.

Kushal Desai: So you can have a Chinese company that produces in India that can bid on that, but there is no significant cable or conductor producer from China who's located here. On the contrary in transformers, you do have TBEA and TBEA actually is running full today on the transformer capacity.

Moderator: Next question is from the line of Sagar Dhawan from Valuequest.

Sagar Dhawan: Just a question on the domestic cable side. I wanted to get more color on the domestic growth that we're seeing in the cables business. So we had high market share in – I think in wind and solar cables, we're traditionally been strong there. So how to understand this growth? Is it that the market for these products has grown? Or are we gaining more headway into newer products within cables ex of solar and wind?

Kushal Desai: So there are certain verticals which are growing faster than others. So the ones for – that are growing – that have shown relatively good growth is solar, solar cables. Wind is actually going to now start showing signs of higher growth from the second half of the year onwards. Given the number of projects that have been awarded and the increased capacity that's coming in from the various wind companies.

The Indian railways has been continuing to grow. And we've been focusing on some segments like data centers and other areas where there is inherent growth taking place given the current data center boom, that's happening – largely being driven from the fact that Indian data has to be maintained on Indian shores.

So what we've done as APAR is we've taken the sunrise sectors and ensured that we have the right products, in fact, the best quality and the highest performance products to meet the growing environment. So we see the solar side growing, the wind side going, railway is growing, data center cables growing, all of these, we will see multiyear growth because a lot of capacity is being added in these areas.

Sagar Dhawan: Got it. And what is the quarterly run rate on the LDC, B2C cable side on the revenues?

Kushal Desai: Sorry, we couldn't...

Sagar Dhawan: Yes, sure. So I'm trying to understand the current revenue run rate on the B2C cables for us.

Kushal Desai: Okay, the B2C side. .

Ramesh Iyer: Yes. So B2C cable last year, we did a total turnover of about INR275 crores. And it's growing strongly this year as well. In the first half of the year also, we saw good growth of upwards of 35 to 40 percentage growth this year. And the momentum looks very strong for this year as well for us.

Sagar Dhawan: Sure. And 1 last question from my side. I think in the footnotes, you announced the possibility of entering into energy storage business. So if you could just shed some light into what would be our scope there and what are the products you're looking to add? Yes.

Kushal Desai: Well, actually, we just amended the articles to allow us to look at that as a future line of business. So it's something that at a very early stage for us. We're just trying to explore. So one fine day, you will see that as the solar and wind capacity grows, storage is becoming a very important aspect.

So not only will you have that with the solar farms and wind farms, but also rooftop generation and various other forms that are used by industries and other commercial establishments, they will also start looking at having to store energy. So normally, this renewable energy, particularly solar is generated at a time when the tariff is the lowest. So when India comes in also with tariffs depending on the demand, then you start having these technologies starting – storage technology starting to play a very big role.

So it's something that we are just at a very early stage. We are obviously looking at different options and opportunities. So that's where that the board note came from.

Moderator: Next question is from the line of Shaun Tan from Abrdn.

Shaun Tan: I have 2 questions, please. First question is on capacity expansion plans. I was wondering if APAR would still be continuing your announced CapEx capacity expansion given the seemingly weaker-than-expected volume?

Ramesh Iyer: Yes, the capacity expansion happens. It's a continuous process for us. And as we see volume growth happening in all the 3 divisions, we increase the capacity. In fact, we work a year behind to see that we have enough capacity as and when the demand comes.

Kushal Desai: But here, Shaun, I think your comment was that whether they're going ahead with capacity expansion, given that the conductor business volume year-on-year was – quarter-on-quarter was a bit flattish. But keep in mind what we've said earlier in this earnings call. And as you move up from ACSR to AL-59 and these sort of products, the tonnage reduces and the value goes up. So we are going ahead with all our capacity expansion plans.

There is no change in that at all. And we are quite optimistic that as that capacity comes on, it will be in line with what we expect as increased demand.

Shaun Tan: Okay. My second question is on conductor EBITDA per tonne realization of margin. I was wondering if you could talk about how we think about the trend of that going forward given the lower exports and higher premiumization that we are seeing and the competition from local players like Diamond?

Ramesh Iyer: Yes. So this conducted EBITDA is dependent on the domestic export volume as well also. Within domestic, we have the premium conductors, we have the conventional conductors and now with more AL-59, we have a higher end of the conventional conductors also. So given that our premium conductors in this quarter has been over 40 percentage to about 42 percentage. And selling up more superior and premium products is helping us to retain the margins of about INR37,000 to INR38,000 per tonne.

However, we also see competition is also very aggressive in overseas and exports volume is dropping. So we continue to keep a guidance of INR28,500 as we have been doing that earlier. However, we see tailwinds coming in, in few markets and in few products, which have higher margins, and we are able to have an edge over competition. To that extent, the margins are higher, but we continue with our guidance of INR28,500 for the future as well.

Moderator: Next question is from the line of Himanshu Upadhyay from BugleRock PMS.

Himanshu Upadhyay: Yes. I had a question on this. We made a comment in our Analyst Day – Investor Day, that CTC is almost 25% of the value of transformer. So is this segment much larger than transformer oil? Is 4 to 5x? And how is the profitability of this business? And in U.S. also, where we are seeing a lot of shortages for the transformers, do you think this can be a large segment for exports? And how competitive is the market for the CTC or copper transposed conductors for transformer?

Kushal Desai: So in any transformer, the ratio is something that holds good, where it is 5x the value that's used in our transformer because the entire core is made out of this copper. The demand for that has remained quite strong. There are 2 types. There is CTC and there's PICC. PICC is a paper insulated conductor. And CTC is a pure copper that is processed differently and it has the inherent advantage of faster winding as well as lower losses.

So – however, the Capex involved in building a CTC plant is quite high. So it's not something that anyone and everyone can throw in of a large capacity. So APAR has been steadily increasing its CTC capacity.

From the original volume that we had, we've already doubled it. And we are going in for doubling it one more time with that capacity coming on stream in January. So our expectation is that it will all get sold out. However, you need a large infrastructure to build it, not only cost-wise, but even in terms of space, building, etcetera, etcetera. And it's very customized.

So each transformer manufacturer gives you a very customized design to wind and make. So – yes, the U.S. and export markets are in place. We are looking first at export markets which are more geographically closer to us, like the Middle East, etcetera. And in the U.S. market for us to actually penetrate this, we first need to get closer to the customer and have a sales force on the ground to get after it.

We've been short of capacity at the moment. So we've just been focusing on the domestic market at this stage. But yes, as the transformer capacity goes up around the world, the CTC requirement will also go up proportionately...

Himanshu Upadhyay: Sorry, can you repeat?

Kushal Desai: I'm saying, there is an opportunity in the U.S. market, but we have not explored fully so far.

Himanshu Upadhyay: And 1 more thing. We have stated that about legislative changes have been there. So for more than 400 amps, CTC will be used. So are those legislative changes across the globe? Or is it just for in India when...

Kushal Desai: This is something that has been mandated by Central Electricity Authority of India guidelines. And it's a guideline. So usually CEA issues guidelines and then it's the utilities that ends up adopting those guidelines. So it's a guideline for India.

Himanshu Upadhyay: Okay. And globally, so is CTC a large market versus PICC, which is paper insulated? Or – some thoughts on that.

Kushal Desai: PICC has been the default product, which has been running for very long. There is a transition happening with PICC being replaced by CTCs. There are many transformer companies that are even using it for less than 400 amps.

Many of the renewable energy guys are also preferring CTC because the transformers can be wound also faster and the consistency is much higher. So in solar and wind, when you – each set of panels has – so you just keep repeating the same designs. Same thing in the case of a windmills. So that's how the demand for this is increasing because it's faster to wind, the quality of the winding is better and the losses are lower.

Himanshu Upadhyay: Okay. And the price-wise, any big difference between PICC and CTC?

Kushal Desai: So CTC is more expensive than PICC. But usually, you can justify that because of the lower losses and the higher reliability.

Moderator: Next question is from the line of Aditya from Securities Investments Manager.

Aditya: Sir, I had a question on your transformer oil segment. So what we understand is there is a demand-supply mismatch for transformers. So do you foresee a similar situation happening for the transformer oil segment as well, both in domestic and global market?

Kushal Desai: So there is no shortage of transformer oil as such. But certain high-end grades, which are these naphthenic grades, which go into higher voltage power transformers, et cetera, there the demand is very strong and the supply is not increasing commensurately. So there is really your ability on the customer side of having approvals and on the procurement side being able to access the refineries and the supply chain. So as far as APAR is concerned, we are stronger than our competition in both these areas. That's how we've been able to kind of grow faster than most of our peers.

Aditya: Understood. And if I look at the previous decade and compare it to this decade in the transformer oil segment, do we witness higher pricing, which we are getting for our transformer oil and lubricant business considering the overall demand scenario?

Kushal Desai: So the transformer oil profitability has been – is higher than some of the other categories. And that's why as you see the – as the transformer oil volume goes up, the overall average has also been moving up.

Aditya: Understood. Understood, sir. And now, sir, in the export market, we are seeing very strong growth in the transformer oil segment. So just wanted to understand how are you able to compete against global MNC players who would have local manufacturing facilities?

Kushal Desai: So in many countries where we export and have significant market share, they don't have good transformer oil manufacturers. So when you look across the Middle East, there's nobody else who does the sort of naphthenic transformer oil. When you got into countries like Vietnam, Indonesia, Australia, there is no local manufacturers there. And these are the countries where APAR has a very strong position. Even a country like Turkey doesn't have a local transformer oil manufacturing. .

Moderator: Ladies and gentlemen, we will take this as a last question for the day. I would now like to hand the conference over to Mr. Kushal Desai for closing comments.

Kushal Desai: I'd like to take this opportunity to thank everyone who's been on this earnings call for taking out the time. This is the festive season and Diwali holiday kind of begin from tomorrow onwards. Again, I'd like to wish all of you a happy Diwali and a prosperous New Year.

We are quite confident that this energy transition is here to stay. And as it unfolds, it's not a quarterly sort of game. It's going to run over multiple years and, in fact, maybe decades. And it's our position that we would like to be at the forefront of this whole transition, or as I call, revolution taking place. So thank you once again for all your time. And greetings for a happy Diwali.

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