REGD. OFFICE & MARKETING OFFICE :
301/306, PANORAMA COMPLEX,
R. C. DUTT ROAD, VADODARA - 390007. INDIA
T : (+91) (265) 2323175 / 2323176
(+91) (265) 2322798
F : (+91) (265) 2330309
E : apar.baroda@apar.com
url : www.apar.com

APAR INDUSTRIES LTD.

SEC/ 0312/2016 | By e-filing | 3rd December, 2016

National Stock Exchange of India Ltd.	BSE Ltd.
"Exchange Plaza", C-1, Block G, Bandra- Kurla Complex, Bandra (E), Mumbai – 400 051.	Corporate Relationship Department, 27th Floor, Phiroze Jeejeebhoy Towers, Dalal Street, Fort, Mumbai - 400 001.
Scrip Symbol : APARINDS	Scrip Code : 532259
Kind Attn.: The Manager, Listing Dept.	Kind Attn. : Corporate Relationship Dept.

Sub. : Submission of Investors Con call Transcript – for Q2 FY 2016-17

Dear Sir,

We are sending herewith transcript of Apar Industries Ltd. for Q2 FY 2016-17 Earnings Conference Call made on November 09, 2016.

Kindly take the same on record.

Thanking you,

Yours faithfully,
FOR APAR INDUSTRIES LTD.

(H. B. TRIVEDI)
DEPUTY SECRETARY

Encl. : As above

Apar Industries Limited
Q2 FY17 Earnings Conference Call
November 09, 2016

Moderator: Ladies and gentlemen, good day and welcome to the Apar Industries Limited Q2 FY17 Earnings Conference Call hosted by Four-S Services. As a remainder, for the duration of this conference all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. If you should need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded.

At this time, I would now like to hand the conference over to Ms. Nisha Kakran from Four-S Services. Thank you and over to you, Madam!

Nisha Kakran: Thank you. Good evening, everyone. On behalf of Four-S Services, I welcome all the participants to Apar Industries Limited Q2 FY17 Result Conference Call. Today on the conference call we have Mr. Kushal Desai -- Managing Director; Mr. Chaitanya Desai -- Managing Director, Apar Industries.

I would now like to hand over the call to Mr. Desai. Over to you, Sir!

Kushal N. Desai: Thank you, Nisha. Good afternoon everyone and a warm welcome to our Q2 FY17 earnings conference call. I appreciate the time that you all are taking out given the tumultuous activities and things happening with the U.S. results and with our Prime Mister Modi's decision of yesterday.

I would like to actually spend a minute paying homage to our Chairman Dr. N. D. Desai, who passed away on 17th October, 2016. He was stalwart in the Indian electrical industry and through his vision and leadership he help develop some of the key industry bodies that lead our industry today like EEMA and ERDA, which is the testing facility that most of the electrical industry uses. Also, he was part of Government of India Technical Panels; that helped establish a number of standards in the country. His passion, leadership and vision had inspired us to deliver excellence in whatever we have done so far in Apar. He has left behind a very rich legacy for us to follow. Not only at Apar but also in some of the CSR related activities which Apar has been spearheading for the last 35 - 40 years which is the Dharmsinh Desai University considered to be one of the best engineering colleges in Gujarat as well as Dharmsinh Desai Methodist Memorial Heart Hospital and Research Center which extends world class treatment to people who are not so socially privileged.

Coming back to our numbers, the quarter that has gone by continue to see some positive developments in the power sector at the macro level. There has been some increase in momentum of at least announcements coming forward from the Government.

Eight projects has been awarded amount to approximately Rs. 10,000 crores between April and October through the tariff based competitive bidding and the government has also announced another Rs. 4,500 crores worth of such projects in the rest of the year.

In addition to this, there is likely to be bidding for approximately Rs. 50,000 crores worth of inter and intra state transmission corridors and these are expected to go up for bidding during the current fiscal year to increase the power evacuation capacity in the country.

Our sense is that these orders fructifying in the natural cycle, we as manufacturers of conductors and transformer oil, should start seeing more traction in terms of the order flow coming in.

The flagship project of the government UDAY continues to garner positive response as three new states which is Maharashtra, Madhya Pradesh, and Pondicherry (Puducherry) has signed MoU to join scheme; taking a total number of states to 17.

After some amount of dithering, Tamil Nadu Generation and Distribution Corporation has also decided to join the scheme. However there are a few loopholes to be still sorted out here and the governments are in engagement to discuss this. The Minister of State for Power, Coal, New & Renewable Energy is positive that all these states should come on board by the end of November this year and complete the MoU formalities and the process of joining, including issuing of bonds by March'17, which is the new extended deadline for the states to join UDAY.

However, our observation is that post the issues that cropped up between the center and state there are still delays on the ground in terms of implementation and some of the early tenders have just started coming out under UDAY and DDU scheme.

However, we are confident that given the above developments in the sector including the floating of some of these tenders it is a matter of a few quarters, before which we should start seeing a positive effect on Apar's order book. So, thus far, in the results which we are presenting, really have not had much of an effect from the schemes of UDAY or IPDS which have been announced by the government so far.

Coming to the actual numbers for our quarter, we are happy to report that during the quarter we manage to deliver a higher profitability and this is in line with the consistent trend over the last five quarters where both the EBITDA and the PAT margins have shown an improving trend; increasing to approximately 8.1% and 3.6% respectively. So, it is almost up by 0.9% from the previous year on EBITDA and about 1.5% up in terms of profit after-tax.

So, this has been a result of our strategy to not only move up the value chain across various segments and focus on our value-added products. We have had good business coming in from high efficiency conductors, high voltage transformer oil as well as Elastomeric cables and E-beam cables in our cable division. The general business environment however, still remains competitive and translation of awarded tenders is actually taking a fairly long time to fructify into CAPEX spending.

However, the company has been focused on taking advantage of any opportunity that comes by its way and we do have all our capacities in place as well as the approvals in place to be able to participate in the increased business as it comes.

If you look at the EBITDA in the quarter, it has grown by approximately 14% from Rs. 91 crores to Rs. 104 crores. Profit after-tax for the quarter grew by 78% to Rs. 46 crores from Rs. 26 crores a year ago. Our consolidated revenue in the quarter however, was down from Rs. 1,287 crores to Rs. 1,256 crores.

Revenue for six months was down by approximately 5% essentially due to lower commodity and raw material prices. However, the profitability has been significantly higher even for the half-year where the EBITDA margin is at 9.2% which is a 185 basis points higher than the same period previous year and the profit after-tax margin for the first-half is 3.9%, which is about 176 basis points higher than in the previous year.

I would now like to actually focus a little bit on each of the segments and cover some of the key financial highlights. So, in our conductor business, we posted a revenue of Rs. 658 crores which is 2% higher than the previous year. Exports contributed 42% of the segmental revenue for this quarter and high efficiency conductors contributed 15% of the overall conductor's revenue for the quarter, this is up from 5% in the period a year ago. So, EBITDA per metric ton post FOREX adjustment came in at Rs. 10,944 which is approximately Rs. 11,000 per metric ton versus last year of Rs. 5,422 per metric ton. The order booking that we have at the end of 30th September stands at Rs. 1,524 crores compared to Rs. 1,606 crores as on June 30th, 2016. However, this order book contains a much shorter delivery cycle given that many of the current tariff based competitive bidding orders are coming through to us from these developers actually a tighter delivery cycle than has traditionally been there in the past. Export orders are contributing towards about 30% of the order book.

Our new Jharsuguda plant at Orissa has started production in September'16 and the plan is to slowly ramp it up and complete getting all the required approvals which include ISO certification and approval from Power Grid and some of the other important transmission authorities. So, that when the GST kick-in hopefully in April'17 we should be in a position to run the plant at high capacity level.

Revenue for the six months FY17 declined by about 11% year-on-year largely due to lower commodity prices. The EBITDA per metric ton post FOREX came in at Rs. 11,463. This was largely due to a much higher incidence of execution of high efficiency conductors. If you look forward though the profitability in the second half of FY17, it is expected to be a bit lower. Given that some of this HEC business execution has been very good and actually has been accelerated compared to what we had originally in the plan at the beginning of the year with more business having being completed in H1FY17.

In terms of H2FY17 we expect a slight slowdown in this simply because awarding of projects has actually been getting delayed even though there are many tenders where the company has participated and is fairly favorably placed.

If you come to the next segment which is our transformer and specialty oils, revenues for the quarter came in at Rs. 420 crores which is 11% lower than Rs. 471 crores a year ago but this can be primarily attributed to lower raw material prices. On a volume basis we have posted a 3% growth in volume and this has come from the sub segments of auto lubricants, rubber processing oil and white oil exports. Transformer oil on the other hand had relatively slower quarter partly because of the time of the year that it is with the monsoon and with the monsoon being particularly heavy commissioning of transformers was substantially slowed down.

If you look at the shipments on a global basis, we came in at the quarter at 85,485 KL compared to 82,980 KL a year ago. The EBITDA per KL came in at Rs. 5,125 compared to Rs. 5,864 in a period year ago.

Given the fact that there has been a lot of fluctuation in base oil prices and certain amount of new production that has come in from a refinery in the Middle East, the contract prices versus spot prices were relatively not so favorable as in a typical scenario and that has had some impact on the profitability in the quarter.

If you look at revenue for the first-half, it came in at Rs. 840 crores which is approximately 10% lower than the same period previous year again attributable largely to raw material prices. However, the volumes are up by about 5%, EBITDA per KL for the six months' period came in at Rs. 5,775 per KL.

Our Sharjah plant is at almost completion stage and we expect it to be commissioned towards the end of this quarter subject to completing some of the regulatory approvals that we need from the port authority and the civil defense. We have of course taken various measures to work on the pressure that has come on the margin. But overall, we expect the profitability to be a little weaker in the second-half compared to the first-half in the oil segment also.

If you look at the auto lube segments we have delivered a 10% growth year-on-year in the quarter and a 17.1% growth if you compare the half-year this year compared to the previous year. The product line that we have across all segments have top performance products and they are comparable to the best in the Indian industry at the moment. So, this coupled with client mix and improvement in terms of sales through the distribution network has led to a higher profitability in this segment.

Coming to our cable business, the cable business has delivered a fairly strong revenue growth in the quarter with revenue coming in at Rs. 201 crores compared to Rs. 134 crores in Q2 FY16. The growth has been really on account of robust growth in the power cables and Elastomeric E-beam cables which have grown by 85% and 51% respectively. The EBITDA margin post FOREX adjustments has increased from 5.5% a year ago to 8.9% in this quarter largely led by a better product mix in the sub-segments. The power cable segment is otherwise witnessing reasonably good demand. However, pricing has still remained under competitive pressure, so, we do not really expect an increase in unit prices. Our strategy here would be on cutting cost through increased throughput and productivity from the factories. There has been increased ordering in the renewable energy sector both on the wind and the solar side and also a higher amount of shipments happening to the defense sector which has led to the real growth on the Elastomeric cables and improvement in the margins. We expect this trend to continue going forward.

The optical fiber side though has witnessed subdued demand and the competitive pressures there have been the most severe amongst all the different sub categories. So, if you take revenue for six months period it has grown by 36% year-on-year to Rs. 373 crores, the EBITDA margin has come in at 8.1% which is Rs. 334 basis points higher than the first-half of last year.

Going forward we are pretty optimistic that various initiatives that have been announced till now will continue to get converted into business in the T&D segment and the cable business particularly will deliver a result in the second-half, which is equal to or better than what it has been in the first-half .

So, with this I would like to come to the end of my comments. And would like to thank all of you for joining us on this call and we are ready to take questions at this stage if there are any.

Moderator: Thank you very much. We will now begin with the Question-and-Answer Session. We take our first question from the line of Pawan Nahar from Religare Capital. Please go ahead.

Pawan Nahar: So, if I were to look at your first-half, this is perhaps one of the best that we have seen in the last several years. Sure, you have said second-half could be a bit weaker so, in that context would you like to just give us some sense of EBITDA per unit for the two segments and percentage for cable?

Kushal N. Desai: Yes, if you look at the composition of the orders book that we have, we have given a guidance for our conductor business at the beginning of the year, talking about Rs. 8,500 per metric ton as an average for the year. However, given that the first-half has delivered a better result and looking at the current orders which we have that are likely to be executed, we expect the overall for the year to come in at Rs. 10,500 per ton, part of this is driven with some of this high efficiency conductor business which we have executed in the first-half more than what we had originally planned as some of the executions went ahead of schedule. The only dampener is that a lot of tenders have been floated and are under consideration. But the awards have been getting a bit delayed and given the fact that this is a relatively new technology and a new subject, we are very confident that these will get awarded but not sure how much we will end up capturing in the second-half of the year. If you take the transformer oil side there has been a little bit of pressure that has come on raw materials because the base oil prices have been moving up and down initially they moved down because of some increased refinery capacities that came on stream. And then they turned higher given the fact that crude actually rallied quite strongly which is now again turned a bit bearish at the moment. So, with a little bit of this fluctuation some of the prices increases which were planned for our automotive and industrial products it could not go through and hopefully if crude remains at this level you will again find base oil prices coming down which should allow margins to get back to the levels that we have seen in the first-half. But overall because of this effect we see some amount of fall, our expected average for the year is at around Rs. 5,200 per KL considering the whole year volumes. As far as the cable side is concerned, we believe that the second-half will deliver result which is similar to the first-half in terms of EBITDA percentage. We expect the sales volume to be at least 10% higher in the second-half compared to the first-half on the cable side. So, the cable side actually is showing still a more positive number in the second-half.

Pawan Nahar: Sure. So, second thing would be just again, at the earlier call last quarter we have mentioned that interest cost we should be able to manage at about Rs. 130 crores, first-half is Rs. 44 crores or Rs. 45 crores without the FOREX I presume that is what we meant by interest so, would we like to guide lower for interest cost?

Kushal N. Desai: Yeah, expectation for interest cost would be anywhere between Rs. 115 crores and Rs. 120 crores as we see right now. We have had managed the balance sheet pretty tight and that has resulted in some amount of weakness on sales as we have had to turn away some business attached to customers whose payment terms and cash flows were not good but we do not see any other option in environment like this because liquidity scenario in the business has not really improved. I am not sure whether in short-term because of some of the measures of yesterday will further exacerbate that especially in lubricant side of the business which has otherwise the best collection cycle that we had. But our expectation is that about Rs. 115 crores to Rs. 120 crores we should be able to manage within that.

Pawan Nahar: And if I were to look at your ROE and if based on whatever you have said so more likely you will this year touch 18% ROE after a gap of three - four years.

Kushal N. Desai: Yes, in fact 18% to 20% is the potential target.

Pawan Nahar: Great, okay. Now I will just go back to your two big businesses, one would be conductors, Rs. 10,500 for this year and given that a lot of high efficiency conductors are in the pipeline, right. So, next year do you think the profitability could be higher?

Kushal N. Desai: Our sense is a profitability should be a little higher we should be able to hold on to what we have done for the first-half as we get into the next year, our projection for this year was 12% revenue coming from high efficiency conductors, in the next year we expect it to be a bit higher than that so, our plan is to target at least 15% of our revenues coming from HEC.

Pawan Nahar: So, at least Rs 11,500 to Rs 12,000 in next year.

Kushal N. Desai: Yeah, I mean if that volume of high efficiency conductors comes in then we should be definitely in that Rs 11,000 plus range.

Pawan Nahar: Okay. And plus you would have some benefit from GST plus your new Orissa plant?

Kushal N. Desai: Yes, those are factors which you know I am not bringing into this Rs 11,000 equation. If GST comes in then competitiveness from the plant in Orissa does improve and our expectation is that if we produce 25,000 tons from that facility out of total of 180,000 tons you could have another Rs. 1,000 a ton improvement coming on a weighted average basis. But these things are difficult to sort of to just put it into a bucket given uncertainties that we see today but that is the way the trend will be if it happens.

Pawan Nahar: Sure. And one more last thing would be on oil business so, this year Rs 5,200 is what you would say, right anything you think can change for the better next year?

Kushal N. Desai: Our target is to actually have Rs 5,500 plus and as our industrial and automotive volumes continue to grow then the margins on that are double of this on a per unit basis so, that impact should come in but our target is to hit Rs 5,500 at least in the next financial year.

Moderator: Thank you. We take our next question from the line of Aditya Wagle from Equitas. Please go ahead.

Aditya Wagle: I would like to ask out of your current order book in conductor of Rs 1,524 Crores how much is HEC?

Kushal N. Desai: The high efficiency conductor portion is approximately, 9% of our pending order book at the moment.

Aditya Wagle: Okay. And what would your target be for the second-half, like what do you think you will finish this year at?

Kushal N. Desai: See, we expect it to be approximately 12% for the year however it is a little tricky in the sense that some of these tenders should have already been awarded but these various transmission bodies are taking a bit longer to decide on the tenders which means that then you end up capturing a smaller amount of revenue in the remaining part of the year. So, it is a little difficult to just pin it down to this thing but the trend is that next year we would like to target about 15%. We are quite favorably placed on some of these tenders so, we have a number of tenders we are L1 etc., and so it is a matter of time before which these should get awarded.

Aditya Wagle: Okay. And sir secondly given the shorter delivery cycle for your current order book, would you be going in for more contract manufacturing or what would be the case for conductors?

Kushal N. Desai: No, the shorter cycle actually allows us to be comfortable with an order book which is smaller in terms of its value because people are placing a lot of the business which we pick up with back to back hedging that is done by the EPC contractor or the developer so, they are taking it out in certain periods of time when they want to block the metal. So, we actually do not see any problem on that front these eight projects have been awarded of about Rs. 10,000 crores through the TBCB route and the conductors for that still pretty much need to be ordered. So, that is likely to be there in 2017 given natural cycle. But today what is happening is that even power grid when they place an order previously they use to place it over a delivery schedule of about 18 months whereas today the delivery schedules are between 9 and 12 month so, even power grid cycles are shorter than what they were before.

Aditya Wagle: Okay. No, but sir, from what I remember in Q4FY16 like I think we had capacity constraints so, certain % of our order were outsourced.

Kushal N. Desai: From that standpoint well at the moment we are not really having to outsource production and given the fact that our Jharsuguda plant has been commissioned, we would rather produce in the spare capacity that is there rather than contract it out.

Aditya Wagle: Right. So, not much as being executed by third-parties right currently?

Kushal N. Desai: Not at the moment.

Moderator: Thank you. We take our next question from the line of Girish Raj from Quest Investment. Please go ahead.

Girish Raj: Just wanted to know if Jharsuguda’ s commercial production has started

Kushal N. Desai: We have actually started commercial production but at the moment the production level is not very high because we still need to complete the formalities of getting power grid approval and approval from some of the State Transmission Authorities, etc. There are a few jobs which we can do through EPC contractors where it is not required to go through that certification or approval process. So, those orders have already started being executed but we are actually in a position today to commercially produce in the plant.

Girish Raj: Okay. And second question is on the conductor order book, it has been depleted from Rs. 1,750 crores in March to Rs. 1,524 crores, I understand you said that there is a lean order cycle which is going through but is it discomforting you in terms of growth for H2FY17 or H1FY18?

Kushal N. Desai: Not really because of two fundamental reasons, one is that we have seen that on the high efficiency conductor side there has been a lot of tenders which we have participated in and stand a very good chance to win as awarded. Secondly, on the TBCB side that is tariff based competitive bidding there are eight projects of Rs. 10,000 crores which have been awarded and the conductor demand for that is still to come up. So, we see as we pick up business from that part, we should have the order book adequately covered. What has been a little bit slow is on the export side, on the export side certain particularly commodity driven market the business has slowed down, the Middle East has slowed down on project work but our expectation is that the intra state projects within India are really going to pick up which is the transmission corridors are happened within the states like within the state of Maharashtra or Rajasthan, U. P., etc.

Girish Raj: Okay. Since you are close to the market, the refill would happen in next six months I mean from the historical level of Rs. 1,750 crores, expectation is that it should happen in the next six months.

Moderator: Thank you. We take our next question from the line of Maulik Patel from Equirus. Please go ahead.

Maulik Patel: Sir, a couple of questions, you did mention and given the fair idea about your contract in base oil. So, as the crude prices rises our base cost will rise faster than that or lower than that? And second question, is it something different then the industry practices or is it part of the industry practice?

Kushal N. Desai: Okay. Just to explain how this operates with respect to particularly ourselves, we have always been a large contract buyer over the years for two reasons one is that the source of supply and the quality of product again remains stable which is one of the biggest USPs that we have across the range of our products, year-on-year our product consistency remains very high. What happens when suddenly there is a lot of excess production in the market the spot prices then become attractive and so, in this particular case for a short period the spot price went below the contract price. So, as a consequence you have got marginal players, you have got value added resellers and traders who start becoming more competitive in terms of the commodity side of the business, the low end of the white oils etc. Now that situations seems to have already got a bit reversed because one or two refinery came on stream and initially they did not have other avenues of sale other than to just auction the material this effect took place but I think the refinery has stabilized, their sales pattern has also stabilized to a larger extent. So, the difference which would exists between spot and contract prices is now slowly getting restored. So just an aberration that happened in the short-term that has sort of disrupted part of our profitability numbers.

Maulik Patel: So, Once the spot price let us say the premium or closure to the long-term contract prices then you will see this marginal players moving out of the low value added product.

Kushal N. Desai: It has already gone above the contract price.

Maulik Patel: Okay, it has already gone up.

Kushal N. Desai: Yeah but it should widen a little bit further then it is today and so, we expect that to happen and with that then profitability to show some improvement.

Maulik Patel: Okay. Second question is that in the first-half within the TSO segment we have around 5% volume growth what kind of growth we are looking into this second-half will it be similar or a little higher than that?

Kushal N. Desai: Our expectation is that it should be higher, our disappointment really has been that this the whole volume that should have come forward from the distribution transformers under whole DDU scheme that has not yet happened because the transformers are just now getting tendered from October onwards. We have started seeing tenders for transformers coming up which will then translate in requirement for transformer oil at least four to five months subsequent to that. So, our expectation is that if we are able to capture reasonable volume of the DDU distribution transformer oil business in the fourth quarter then that will help boost the number to some extent. So, these numbers and this growth is coming without that filler which we were expecting to come in from the DDU side, the other area where has been some amount of reduction in sales volume again has been from export markets. We do have a good market share in South Africa, Australia, Turkey and the Middle East all of which have had some effect two of them because of commodity prices one of them because of political uncertainty and the Middle East given the current crude prices being a bit lower so, project execution has been slightly slow up. Also there was a month of Ramadan and the monsoon period that comes in the first-half, most of which do not happen in the second-half of the year so, putting all that together we are quite hopeful that second-half should be better than the first-half in terms of volume.

Maulik Patel: Okay. So second question is on conductor side, you have been guiding that that second-half of FY17 your EBITDA per ton will be lower than what has been in the last couple of quarter. Similar thing you had guided back in FY15. And FY15 the first-half again you executed at a very high export margin contract and your EBITDA per ton wind up to Rs 11,000 plus and in second-half it went to as low as around Rs 4,000 or 5,000 EBITDA per ton. Are we guiding the similar slight down in the EBITDA per ton?

Kushal N. Desai: Our weighted average is expected to be around Rs 10,500 for the year.

Maulik Patel: Okay. So, it is not going to be significantly slow down?

Kushal N. Desai: Yeah, certainly about Rs 9,500 in the second-half and essentially because if you see the high efficiency conductor side we really out performed whatever we had originally planned in the first-half, calculate these guidance numbers also and because of some efficiencies as well as the higher incidence of high efficiency conductors we expect that the annual number which we were originally projecting at Rs 8,500 it should come in at about Rs 10,500 average for the year.

Maulik Patel: That is good to hear that and next year we will probably around Rs 11,000 - 11,500 which has been the run rate in the first-half of FY17?

Kushal N. Desai: That is what the target is.

Maulik Patel: But sir, with this new plant coming up our capacity has gone up significantly higher but as you said that the orders are now slowly coming up. Can we see because if you look at the Q1 was significant lower volume, Q2 the volume has little bit recovered on that but still we are down on the first-half basis compared to the previous year. Can we see a reasonable growth next year in terms of our volume?

Kushal N. Desai: Yeah, the volume actually also needs to be seen in the context as a mix because the moment you start producing a higher efficiency conductor the per unit processing time actually drastically fall within the value of the production and its value addition both substantially increases so, we do want to run the plants at full capacity but I think our focus will be more on the mix of product that we produce.

Maulik Patel: Focus is on profitability rather than the volume.

Kushal N. Desai: Yeah, because if there is adequate profitability we will obviously run the plant fully and also depending on the GST implementation we have the ability to then ramp up the Jharsuguda plant more because there are some GST benefits if that happens.

Maulik Patel: Okay. And what could be the benefit if you can explain us?

Chaitanya Desai: So, one is that the logistics cost is lower for the incoming raw material.

Maulik Patel: Okay because you are based in that region where the raw material is easily available in terms of aluminum

Chaitanya Desai: Yes. And also the finish product movement if it is in the eastern part or the central part of India then the cost will sort of reduce compared to our existing system. So, this is one secondly after the GST then all the current benefits that the Silvassa plants and the other plants where there is a taxation benefit that will go away so, then everything will be based on fundamental on the cost side. So in one sense the companies which have the units in the eastern part of India will be at a competitive advantage compared to the rest.

Maulik Patel: How much of the benefit we are getting from this the taxation benefit at our Silvassa plant right now.

Chaitanya Desai: We have two units out of which one of them has 2% CST exemption, the other one we have already exhausted that period so, roughly about say 50% of the company conductor business we are getting the benefit.

Maulik Patel: Okay. So, is it right to say that 1% you may not get it from FY18 onwards?

Chaitanya Desai: Yes, but that is why once we have the plant in Jharsuguda we are able to compensate for that.

Maulik Patel: Correct, part of that.

Kushal N. Desai: Competition also is in the same situation there are quite a few producers around the Silvassa area and in fact some of them do not have facilities in the east. So, on a relative basis we may be slightly more competitively placed.

Maulik Patel: Yeah, so basically you can serve eastern and the central part more easily compared to what you are doing from the western coast?

Kushal N. Desai: Yeah.

Moderator: Thank you. We take our next question from the line of Vikram Kashyap from Kedia Securities. Please go ahead.

Vikram Kashyap: My first question is so, we have just commissioned our Jharsuguda plant, sir at full capacity how much it would add to our capacity and Revenue?

Chaitanya Desai: We will be able to do about 30,000 ton that is that capacity of the unit and that will take our capacity from about 150,000 ton to 180,000 ton, already we have started that plant now.

Vikram Kashyap: Yes, you have commissioned. And how much it would add to our revenue in this segment?

Chaitanya Desai: So proportion it is about one-sixth of the capacities as you know the commodity price of aluminum will dictate the prices of conductor so, we would rather say one-sixth of the revenue.

Vikram Kashyap: Okay. And sir, what is our volume growth expectation in conductor business going forward say for a year or two?

Chaitanya Desai: So, like this year for example, we had mentioned that our concentration was how to improve our margins and improve our product mix and even in the coming years it will be in a similar trend where our concentration will be more on how to sort of utilize our capacity fully but at the same time within the product mix to have the ones with the better value addition.

Moderator: Thank you. We take our next question from the line of Dhruvi Vyas from Pi Square Investments. Please go ahead.

Dhruvi Vyas: My question is on the exports, currently we have 34% contributing to the revenues we plan to expand it going forward?

Kushal N. Desai: You know our strategy has been to actually look at where we end up getting the best net backs for the company and we have seen quarters where we have achieved 50% revenue coming from exports. Our sense is that as we move into FY18 the domestic side of the business will be stronger than the export side of the business. So, our export revenues will remain in that 30% range. Currently, if you take the order book that we have, the export percentage, this year we expect to be around 35% if you take the full year.

Dhruvi Vyas: That as the order book percentage or the revenues?

Kushal N. Desai: The revenue percentage for the year and it comes an order book percentage also is somewhere in that similar range, it is around 30% of our current order book.

Dhruvi Vyas: Okay. And do we see our product mix shifting more towards to the cable business which is growing rapidly in last two years to three years?

Kushal N. Desai: Well actually you know the cable business is following an independent trajectory. So, we are trying to drive every business as hard as we can but given the fact that our cable business had a lower base and we have a much smaller market share compared to what we have in the other two businesses there is obviously greater room for us to grow that business. So, you will see the cable business growing more rapidly than the conductor and the transformer oil business.

Dhruvi Vyas: Okay. My last question is on the overall growth, if you could just guide us on what can be our estimate for the next two years for the top-line and bottom-line and what can drive our PAT margins?

Kushal N. Desai: Our sense is actually that we have been looking at about 10% growth in volume terms we have exceeded that in our cable business we have fallen a bit short of that in our oil business but overall we should see at least a 10% growth in terms of volume that's the target and in terms of profitability we should see anywhere between 10% and 15% growth in terms of profitability as the product mix gets a bit richer as well as some of these capacities start getting utilized more. For example our plant in Jharsuguda as well as in Sharjah for the oil side and we are going through with some big expansion on the power cable side which we have spoken about in the last couple of quarter calls which should also come on stream by the end of this financial year.

Dhruvi Vyas: Okay. So this Jharsuguda plant is it already operational or is it going to start?

Kushal N. Desai: It is already operational however, we feel that we will be able to ramp up production there profitably from April onwards coinciding with GST as well as the approvals that are coming from the Power Grid and some of the other places. So, next year you will see that Jharsuguda plant getting loaded quite considerably.

Moderator: Thank you. We take our next question from the line of Alok Deora from IIFL. Please go ahead.

Alok Deora: Sir, just a few questions, one was in the transformer oil segment just wanted to know how much is the oil as a part of the total transformer cost?

Kushal N. Desai: It is around 4% of the cost of the transformer, it is a bit higher in the case of distribution transformers and a bit lower in case of power transformers. But 4% to 4.5% is a safe average to pick.

Alok Deora: Okay. And sir, you have mentioned about this Jharsuguda plant coming on stream and even the Sharjah plant is in advance stages so, now based on assuming they are say fully operational by start of FY18 so, what kind of overall top-line are we looking at for all the segments combine together.

Kushal N. Desai: So, we just indicated that we expect about a 10% growth to happen in FY18 - FY19 volume term overall, if you look at the overall product mix, you may find the cable business growing a bit faster than 10%.

Alok Deora: Right. So, could we reach around Rs. 5,800 crores roughly, would that be the ballpark number?

Kushal N. Desai: See, that is all dependent on the commodity prices because that makes a big impact, the reason why I am saying that our target is to grow 10% year-on-year for two years on the volume side and then depending on what metals come in at aluminum, copper and base oil which is derivative of crude you would be able to then even on the cable side if you see our revenues is up by 40% but the prices of the key raw materials are down by 15% so, we actually see volume it is up by actually 55% year-on-year on the cable side so, it is very much dependent on what the commodity prices come out to be.

Alok Deora: And just what we hear from the market is PGCIL is going slightly slow on the conductor ordering generally on all the components, so, have you witness some sort of slowdown from that side?

Kushal N. Desai: See, there are two changes that are happening one is that no longer is power grid got any more new business coming on a cost plus basis. So, they are actually also bidding on all these TBCB job. So, their order book is also now a function of how many lines they end up winning. Secondly, there has been a lot of capacity addition that has happened over the last few years on the interstate side primarily led by power grid and the intra state which is within the state has actually been lagging behind. So, if you see the announcements which have been made and the trend which will likely be there over the next two to three years you will see a lot of intra state project taking place and at high levels 400 KV, 765 KV etc. So, we see the scale sort of tipping more towards intra state projects as supposed to just the inter-state projects. So, yes power grid to cut a long story short power grid volumes will get affected and will be lower than what they traditionally have been the business that comes in on the intra state side should increase. The power grid themselves are toying with the idea of actually tying up with state transmission companies to bring some of their expertise on the intra state projects and if that happens you know there will be obviously a different revenue stream that power grid would get but that traditional revenue stream is likely to go down.

Moderator: Thank you. Ladies and gentlemen, we will be now be taking the last question from the question queue. We take the question from the line of Bharat from Quest Investment Advisors. Please go ahead.

Bharat: you said on this conductor side, this PGCIL approval required for Jharsuguda plant so, when do we expect that?

Chaitanya Desai: By the next quarter.

Bharat: Okay. And second thing, you said that no more business will come from inter-state than the intra state, I mean so from SEB side. So, just can you explain a bit more or touch upon the way of doing business with PGCIL and intra state how it will differ and profitability?

Chaitanya Desai: Actually power grid generally buys the conductors directly and now they have also started buying conductors through EPC companies, the states are primarily buying the conductors through EPC parties. So, we are already quite sort of favorably placed dealing with the EPC clients, so, in one sense the product relationship will not have any problem for us to cater to the future demands which come up in the country. It is just that the client will change.

Bharat: But on profitability and working capital cycle do we do see any Impact?

Chaitanya Desai: So, with the EPC we generally work on LC there are a little more credit given while in the power grid case there is no LC but you know overall working capital cycle is lower so, from cash flows point of view once we have an LC we generally are able to discount it so, we may not have any problem on that and ultimately we price the cost of the interest and the booking capital into the price when we deal with the EPC as we have to give more credit. So, hopefully there should not be too much of difference.

Bharat: Okay. And can you throw some more light on the Sharjah facility and how it is going to add into our company?

Kushal N. Desai: Yes, as far as our facility coming up in Sharjah, it is actually port based facility unlike the ones which we have in India. So, this one is located in the Hamriyah Port and the initial objective is to produce transformer oil and white and pharmaceutical oils there and cater to the Middle East and the African export markets to which we are currently catering from India. We also believe that this will be the first plant of its type in the Middle East that we should then have advantages in terms of being able to provide a much higher level of service so, we expect our market penetration and market share in that market to also increase.

Bharat: Okay. So, will we be able to I mean the cost of interest in taking first year at PBT level will it contribute

Kushal N. Desai: Yeah, the projection is that the plant should be profitable in the first 12 months of its operation.

Moderator: Thank you. As there are no further questions from the participants, I would now like to hand the conference over to Mrs. Nisha Kakran for closing comments.

Nisha Kakran: I would like to take this moment and thank the management for giving us the opportunity to host this call and all the participants for joining the call. Thank you every one.

Moderator: Thank you. On behalf of Four-S Services that concludes this conference. Thank you for joining us and you may now disconnect your lines.