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

Sub. : Submission of Investors Con call Transcript – for Q4 FY 2016-17

Dear Sir,

We are sending herewith transcript of Apar Industries Ltd. for Q4 FY 2016-17 Earnings Conference Call made on May 31, 2017.

Kindly take the same on record.

Thanking you,

Yours faithfully,
FOR APAR INDUSTRIES LTD.

(SANJAYA KUNDER)
COMPANY SECRETARY

Encl. : As above

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Apar Industries Limited
Q4 FY17 Earnings Conference Call
May 31, 2017

Moderator: Ladies and gentlemen, good day and welcome to the Apar Industries Limited Q4 FY17 earnings conference call hosted by Four-S Services. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call, please signal an operator by pressing "*" and then "0" on your touchtone telephone. I now hand the conference over to Ms. Nisha Kakran of Four-S Services. Thank you and over to you.

Nisha Kakran: Thank you. Good afternoon everyone. On behalf of Four-S Services, I welcome all the participants to Apar Industries Q4 and FY17 results conference call. Today on the conference call, we have Mr. Kushal Desai – Chairman and Managing Director, Mr. Chaitanya Desai - Managing Director and Mr. V. C. Diwadkar – CFO Apar Industries. I would now like to handover the call to Mr. Desai for his opening remarks.

Kushal Desai: Thank you, Nisha. Good afternoon everyone and a very warm welcome to our Q4 and FY17 earnings call. I would first like to outline some of the key operational and financial highlights of the year and for the March quarter and then speak a little bit about the growth that we have and then open the floor up for questions thereafter. So FY17 has been a good year for us. So far we saw all the 3 businesses put forth a synchronized performance. All 3 of them had positive results and this has resulted in a multiplier effect on the bottom line with the EBITDA growth of 16% over the previous year. We are at an important juncture in Apar's evolution as we pass through a time of fairly great positive change for the industry and the company on one hand and on the other hand, there is a gap between policy announcements and its implementations. The Rs 550 crores that we invested over the last few years to build capacities in our new generation higher value added products across our 3 businesses i.e. High temperature conductors, high voltage transformer oils and automotive oils and then some of the specialty cable products that we have, now started to yield results and that is what you see in the performance of last year.

The year gone by also saw completion of some of our major expansions. So I will just list them the conductor plant in Jharsuguda started production in September'16 and in this quarter which is the first quarter of FY18, we should see a 70+% utilization of that plant. Capacity expansion for high voltage power cables is also on schedule and we expect for its completion and commissioning in the first half of FY18. We are also in the process of restructuring the manufacturing of our low voltage instrument and control cables which are currently being manufactured at 3 separate locations close by to each other to a single site at Khattalwada. We are reasonably geared up to meet the expected growth in the global demand as well as to cater to the future needs of our Indian customers in the power transmission and distribution segments. So as you look at FY17, we have seen progress in the Indian power sector with several positive policy announcements which have happened. 27 states have signed up for UDAY. Generation capacity has increased over 300 gigawatts. There has been a drastic reduction in the solar power tariffs to now below Rs. 2.5 a unit and wind at below Rs. 3.5 a unit and the awarding of this $840 million megaprojects of 800 KV ultra-high voltage DC transmission line. However despite this progress, we are yet to see the full impact of these. So the gap between the policy announcements and its actual execution still remains to a large extent, but we have started seeing improvements actually in demand taking place on the ground.

If you look at FY18, which marks the beginning of the 13th plan, the T&D investments are expected to be about Rs. 2.6 lakh crores with a sharper focus on higher voltage transmission lines. Power grid is also trying to spend approximately more than Rs. 1 trillion over the next 4 years to expand various T&D networks. Additionally, India is now increasingly adopting a reciprocity policy in the power sector with China and with this, there may be an expected lower participation of Chinese companies in the Indian power transmission sector given the fact that China does not allow access to overseas investments in its electricity grid stating security reasons. So this may result in some of the local Indian manufacturers actually being more active and receiving a larger part of the business volume and that puts us in a relatively better position to service the transformer requirements with transformer oils. This along with the GST implementation which is likely to kick off from July 17 will definitely have positive impact over the next 5-year period.

Now coming more specifically to the financial performance of the company, Apar delivered a broad based performance in FY17 with increase in profitability in all the 3 business segments. EBITDA as I mentioned earlier increased by 16% year-on-year. The EBITDA margin has increased from 7.2% to 8.8%. Profit after tax is up 45% resulting in a PAT margin of 3.6% which is 125 basis points higher than FY16. The consolidated revenue came in at Rs. 4,840 crores and this was a little bit lower on account of the lower revenue value of conductors and oil due to an average commodity price being lower this year compared to the same period previous year. The cable business revenue, however, increased by 28% and the physical volumes that we actually produced in the cable business were up by almost 40%. So we are happy to report that despite a recent capacity expansion, our return on equity has increased from 15% to about 18% in FY17.

Now if you look specifically as a quarter, the EBITDA in the quarter was up from Rs. 97 crores to Rs. 99 crores and profit after tax is up at Rs. 40 crores compared to Rs. 39 crores in the previous year. EBITDA and PAT margins have increased to 7.6% and 3% in the quarter.

Revenues, however, were marginally impacted due to the commodity prices which have now started increasing.

I would like to spend a few more minutes actually to run through each of the business segments in little bit more detail. So our conductor business reported growth in profitability where in EBITDA per metric tonne post Forex adjustments grew by almost 60% to Rs. 11,882 from Rs. 7,469 per metric tonne. This was on account of more profitable orders executed in the year and the increased contribution of high efficiency conductors which has increased to about 11% for the year compared to 6%, a year ago. Our target is to reach 20% high efficiency conductors by 2020. An accolade which I would like to share with you that Apar received is that we were awarded the best company award for high efficiency conductors by PGCIL for the year 2016-17. We have also executed some fairly challenging reconductoring projects in Kerala, Telangana and various other states. The revenue of this segment came in at Rs. 2,251 crores and exports contributed approximately 39% of sales.

Coming to the segments order book, it stands at Rs. 1,519 crores as of 31st March 2017 with exports comprising 48% of this order book. So domestic demand was slightly subdued and some of the projects awarded did not result in orders in conductors for us as we did not match some of the prices which competition had come in with especially for standard products. We have been seeing increased competition in the last few months with some of the participants actually passing on expected benefits that will accrue in future in the case of GST and also bidding on this TBCB tariff bids, competitive bidding tenders on a fixed price basis by taking on a little bit more risk than we would feel that one should be taking on from a prudent standpoint at this stage. And especially when business models change and evolve, we have seen based on our past experience that it makes sense to be a little bit more risk averse and allow these models to start settling down because if you end up taking on undue risk and if something goes wrong, then it can horribly go wrong versus marginally losing some amount of short term business. The conductor EBITDA per metric tonne post Forex for the quarter increased by about 20% and it has reached Rs. 11,390 from the previous years' Rs. 9,500. High efficiency conductors for the quarter actually contributed about 12% of the conductor revenue. Revenue for the quarter came in at Rs. 585 crores with exports contributing 36% of the segmental revenues. In the export markets also, we witnessed some temporary increase in competition from China because the Shanghai Metal Exchange gap with respect to LME had temporarily increased. Now this has subsequently seen a little bit of leveling off again and we expect that we should be seeing better traction in exports markets in the near future. With the GST coming in, the benefits of us being located in the Jharsuguda plant will also help us drive more domestic revenue. As I mentioned earlier, we are targeting to increase our high efficiency conductor contribution to about 20% of the total volume by 2020 and we seem to be on course to be able to achieve that.

Coming to the specialty oil side, the consolidated revenues came in at Rs. 1,699 crores. The volumes grew by about 4% for the year to volume of 352,655 KL and this was led by growth in the domestic transformer oil segment, transformer oil exports, rubber process oils as well as we saw a 6% growth in our automotive oils in terms of volume terms in spite of fairly large dip that took place in the third quarter post demonetization. The EBITDA per KL after Forex adjustments for the year came in at about Rs. 4,931 per KL which is lower than the previous year which was at Rs. 5,439. Our Hamriyah plant is ramping up. We started commercial production at the end of January and we have seen considerably increased utilization of capacity now in the month of April and May. We have also been awarded ISO 9001, 14001 and 18001. We went for an integrated certification of ISO and this forms actually a precursor for us to be able to bid on a lot of business with some of the utilities overseas. So that having been awarded to us by the end of April will allow us to ramp up business from Hamriyah from first quarter of FY18 onwards. The automotive lubes segment delivered a volume growth of about 6% to reach 24,893 KL. The growth was limited on account of demonetization. We were in the double digit growth in the first half of the year. But then because of the impact of the demonetization and the impact that was there in the trade, the overall volume reduced to 6% for the year. The Oils segment revenue for the quarter was relatively stable at about Rs. 435 crores and the quarter volume came in at about 90,729 KL which is the highest volume that we have had in the quarter for the oil business. EBITDA per KL after Forex adjustments came in at about Rs. 4,421 per KL.

If you look at the outlook in our oil segment, we expect volume growth to come in from the UDAY projects which are showing signs of picking up now and we will also see some significant uptick in the sales that are taking place to the higher voltage transformers. If you see the miss that was there in the 12th 5-year plan versus the 13th 5-year plan, the plan has been exceeded in 400 KV and below but it has slipped on 765 KV and above. We have only managed to do 70% of the plan. So that spillover, actually the projects have already been awarded and the execution is likely to happen in the year FY18 and the early part of FY19. So given that we would see increased volumes happening in that segment.

The automotive oil business segment is expected to see a good growth in general. However, there could be some short term impacts due to the implementation of GST because it is still unclear in terms of how the trade will react in terms of stocking product as the GST takes place. The effect could last maybe 3-4 months post which we would see that business should start picking up in a much faster fillip.

Coming to our cable business. The cable business has delivered its best performance to date. Revenue growth came in at 28%. The EBITDA margins post Forex adjustments have increased by 288 basis points. So it’s at 8.6% for FY17 compared to 5.7% for FY16. The power cable segment continues to be very competitive. But we received better margins in some of the other specialty segments that Apar is a leader in. The quarterly revenues for the cable business grew by about 43% with revenue coming in at Rs. 280 crores compared to Rs.196 crores a year ago and the EBITDA margin post Forex adjustment increased significantly by 357 basis points to reach 8.4% compared to the same period previous year.

In the cable segment we expect the revenue growth to continue and our target is to do a 20% plus growth. We also expect profitability to correspondingly increase. The main areas where we see higher demand is from the non conventional energy segments which are solar and wind. The power cable segment also is showing increased demand from implementation of UDAY and we have seen more traction taking place in both Defence and the Railway side of the business.

So we are reasonably positive as we enter FY18. As in the domestic market, we feel that now most of the states have signed up on this UDAY scheme and will start implementation of projects which will have a positive influence on the oil and the cable business. High efficiency conductor projects continue to be announced and given that we are one of the leading players in this area, our participation in that should be good. The implementation of GST will not only be positive for the country but it will also have a positive impact in general for Apar as a company. Our expectation is that the CST that we ended up paying plus the local body tax in Rabale that we pay for our oil business compared to some of our competitors who are operating in Silvassa plus the cable business where we have competitors who are in Daman and Silvassa versus us paying 2% CST, the difference comes to almost Rs. 30 crores. So it is a question of once GST is implemented, how much of that we are able to monetize is something for us to see but the potential is approximately Rs. 30 crores of taxes which we paid which relatively we would not have a disadvantage as we move into FY18. We are seeing some short term issues and likely the GST implementation also will throw up some of these. But in the longer term, we see a major vindication of the strategy that we have been following of moving to manufacturing locations based on their long-term strategic potential versus any short term. So there will be an impact that happens in the interim as we start moving production from our Silvassa facilities of conductors to Jharsuguda. There will be some impact in the cable business as we look at consolidating 3 locations which are manufacturing LT cables into a single location. And then of course we are picking up double overheads in our specialty oil side with some of the volume transitioning to Hamriyah. But all this we expect that in the next one year or so we will get completely covered and thereafter we will be in really good position in terms of where our manufacturing locations are with respect to long term demand that will exist.

So with this, I would like to come to the end of my comments and throw the floor open to any question and suggestions.

Moderator: Ladies and gentlemen, we will now begin the question and answer session. We have the first question from the line of Bharat Sheth from Quest Investments. Please go ahead.

Bharat Sheth: Kushal Bhai, just can you guide us as in how in this year we have seen little drop in volume of conductor business. So how do we see going ahead, where the Jharsuguda is headed and now GST coming in what kind of a benefit that we may have, I mean for Jharsuguda. So if you can elaborate little more and currently we have order book of Rs. 1,519 crores. What will be the volume and how much would be the high conductor business in that?

Chaitanya Desai: So first comment on the reduction in volume. Yes, there was a reduction but that is also because of the product mix. Some of the types of conductors, like the high temperature conductors, some of the export products also consumes more of the capacity and the productivity is little less. Also, the sizes of the conductors they also have an impact. The important thing is the profitability, because generally the reduction in volume on account of productivity is compensated through the better margin and overall that has got reflected in the bottom-line for the conductor business also, so that is as far as the volume is concerned. Otherwise, we occupied factory for the Silvassa units fully and the Jharsuguda was ramping up. So that is why we had some unutilized capacity, but that is because we wanted to be up and running in Jharsuguda and get all the approvals in place before GST. So that once GST is in place, then we can ramp up 100% plus increase the capacity at Jharsuguda. In terms of the other point which you said on the quantity for the order book, it is roughly 1,10,000 tonnes and if you can tell me is there any other question you had?

Bharath Sheth: So have our Jharsuguda plant qualified for supplying to PGCIL?

Chaitanya Desai: Yes, we got it in Q4FY17.

Bharath Sheth: That is great. Sir, you said that now with additional capacity, so how do we see volume, for FY18, and what would be the mix of high conductor in that.

Chaitanya Desai: So our volume may be pretty much similar quantities, maybe marginally less also because we will be transitioning and moving some capacity out to Jharsuguda and there will be a transition period and about the high efficiency conductor, it should be roughly 15%.

Bharath Sheth: So with that do we expect adjusted EBITDA per tonne to remain in this level or marginally improve?

Chaitanya Desai: As Kushal Bhai covered in the earlier part of the discussions, the model is slightly evolving currently particularly because of the GST. There are some competitions which are kind of passing on the benefits of GST fully and also with this tariff based competitive bidding. So as we discussed, we have been a little prudent and we have been cautious on some of the bidding and as a result, we have not thought it appropriate to bid very aggressively taking on considerable risk and hence there has been some dip in the order book condition. But we hope that post GST and post stabilization of the market place, things should improve back for us.

Bharath Sheth: How do we look forward, I mean any sense on the margin side which we achieved say Rs. 12,000 per tonne. Yeah. Adjusted is almost around Rs. 12,440.

Chaitanya Desai: We may have some temporary adjustments and decline till the things are stabilized in the market place because of the reduction in volume that we may anticipate because of the transitioning we may have to do from our Silvassa plant to Jharsuguda.

Kushal Desai: Bharath Bhai, one of the issues which I had alluded to in the earlier part is when you have contracts with utilities etc., there is a certain amount of double overheads that you need to pick up because the original contracts have been in many cases signed with one plant as being the plant of supply and now that you want to move some of it to new facility, so it is not like really, you can't just switch overnight.

Bharath Sheth: Kushal Bhai, if we ignore say FY18 and if we look at say FY19 that we were anticipating because of GST and saving in substantial amount in transportation cost inward as well as outward. So what kind of benefit that in FY19 that we expect from this Jharsuguda plant?

Kushal Desai: So you know from a relative standpoint, it is almost about Rs. 4,000-5,000 per metric tonne, if you were to produce the product in Silvassa and sell it into that part of the country versus producing it directly in Jharsuguda and supplying it into east and central India. Having said that, Sterlite and Hindustan Vidyut and Gupta, so there are 3 other companies that have also set up facilities in Orissa. So people who are not actually based, they will really have a severe handicap doing business in the East and Central part of the country. In our case, we will have major facilities available in both places which should help not only cover geographically the domestic market well, but the expert potentials will continue out of Silvassa facility. So that is the reason why we are little bit muted for 6 months, you will see a little bit of disruption happening as this settles down. But if you look at FY19, you should see accretive numbers coming in.

Bharath Sheth: And Kushal Bhai, you stated about Rs. 30 crores benefits vis-à-vis competitor because of implementation on GST particularly in oil business and Cable. So how do we see our position, will we be able to pass on these benefit or is it more aggressive in the market?

Kushal Desai: What is happening today is that the company is absorbing this cost because if you have a competitor selling transformer oil from Silvassa, it is exempt of any CST whereas we have to absorb 2% CST to meet the same net landed cost. So as a consequence, this Rs. 30 crores is actually an increased cost which the company is bearing right now which will release in the form of margins. So it is a relative cost which we are picking up compared to competition. So it should actually find its way into the bottom line.

Bharath Sheth: So full impact may see in FY19?

Kushal Desai: Exactly.

Bharath Sheth: And anything on Hamriyah, when do we expect to breakeven, this year or there will be a marginal loss in FY18?

Kushal Desai: Our business plan for Hamriyah UAE plant for FY18 is to breakeven.

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

Maulik Patel: Sir couple of questions. Within the conductor, how we are moving our HEC business because this quarter is around 12% and in the past you have given indication that we want to reach approximately 20% over conductor comes through this HEC business. So are we on track of that particular variable?

Kushal Desai: Maulik, if you take FY16 we were at 6%, FY17 has closed at 11%. In fact if you take the fourth quarter, we did 12% in the fourth quarter. The order book and the target which we have for FY18 is 15%. So we feel that we are pretty much there to get to that 20% by 2020 which is what our expectation is. We will hopefully try to hit that number maybe a year earlier than that. The past seems to be pretty clear to be able to hit that by 2020. We are seeing quite a lot of interest coming from the state utilities on HEC conductor. So the usage of it is starting to sort of become, people are more comfortable now in terms of using these conductors, understanding of the technology is also much better. So I think that is the most positive development in the whole conductor side of the business in my view.

Maulik Patel: And this is despite this kind of conductors approximately 60%-70% costly than the normal conductor, if my assessment is correct?

Kushal Desai: There is a full variety. So it starts off with being about 20%-25% costlier for the very basic type of high efficiency conductor and going up to 300% for some of the really high technology product. So it really does not matter as much as you are going back and seeing what is the cost benefit that is coming on a particular line and the reason why we have a number of technologies is that there is no one shoes that fits all the feet's. So depending on the requirement which the utility has and the kind of debottlenecking they need to do, a different variety of technology can be implemented. So it is moving from just a simple sale of conductor to actually helping them come up with a solution and then executing that solution.

Maulik Patel: So are there any competitors who are offering similar kind of product in the market?

Kushal Desai: In terms of our strongest competition that we have it is from Sterlite Power that has a completely complementary suite of products as we have. They are the most evolved, the others are still lagging behind in the game so far.

Maulik Patel: So this will allow us to continuously have high EBITDA per tonne in our conductor business because this year again we did around Rs. 11,000 because of some certain higher export order business which we fetch earlier. But for this financial year FY18 and possibly on '19, we should be around Rs. 10,000-11,000 per tonne of EBITDA?

Kushal Desai: You know, the high efficiency conductor side is obviously contributing positively to the bottom line. But the competition on the standard product, at the moment is fairly high and actually more than that, it is the kind of assumption that people are taking as the business model is changing. If you see the old business model, largely it was being done on a cost plus basis with Power Grid as the agency. Now it has started moving to the tariff based competitive bidding where you are bidding on a fixed tariff. So therefore you got a totally different set of requirements now of the cost of your project and then the question of who is going to then take on the risk in terms of fluctuation of metals and some of these components. So as a consequence, we are finding in the short term at least, some people getting very aggressive in terms of assuming some of these risks. The risk reward equation is not fitting. So as a consequence that is the reason why I was making a comment earlier that it is very important that we don't sort of take on undue levels of risk. Because in this business particularly with metal fluctuation, we have always done a model which has been completely free of any form of speculation. So a little bit of this evolution which is there is going to result in the standard products coming under some sort of pressure in the short term until some of these business models actually get a bit better settled. FY19 should see a much more clear picture because one you will have the full year of GST plus secondly you will have this TBCB business getting settled because a lot of the TBCB which was even awarded 6 months – 8 months ago the conductor ordering is happening now only.

Maulik Patel: Is this tariff based contracts are being floated by both Power Grid and the state utilities also?

Chaitanya Desai: So what has happened is that actually these are PFC and REC tenders which even Power Grid is bidding for along with some of the private company competition and it is that typically interstate as of now. So fixed price tariff based competitive bidding is happening. As far as the states, they are primarily still on EPC model where they are buying the material through EPC companies. Some of the contracts are low priced and some of them are very well priced.

Maulik Patel: Okay. This we have also seen in terms of a tower also. The towers are also getting bidded based on the fixed price.

Kushal Desai: The models Maulik are actually changing because when you have the end product model changing to this tariff based competitive bidding. So everything is going to undergo some amount of change and even the people who are bidding on TBCB also are actually evolving, the way in which they are going about bidding this business. So I think you may have even seen some statements made by L&T management this morning that as these business models new ones are coming up. It is taking some amount of time to be able to understand really what is the risk profile that one is going to have to handle in this.

Maulik Patel: So it looks like this year may not be as good as what we have seen in FY17 for the conductor business though there could be some volume growth because this year our volume was little down in FY17.

Kushal Desai: Yeah, the positive thing is that the high efficiency conductor business will definitely go up and that in our opinion is a most important takeaway because finally that is what is going to determine how the company is going to be in a position to expand its margin and profitability.

Maulik Patel: Sure, I got it. Coming to on the TSO segment, what is our strategy on the auto lubricant oil because we have seen some good growth in the past though our market share is very small compared to the various other players in the industry. But how that business is moving in terms of penetration to the distributors or the OEMs?

Kushal Desai: So we have actually grown on both accounts. In terms of volumes that are being sold to the auto OEMs as well as the business which is going through our own trade channels, the first half last year we had seen a growth which was in excess of 10% and we saw this temporary hiccup from this demonetization process where the trade got affected. Now the first quarter of this year also we are seeing a good growth compared to the first quarter of previous year. But you have GST coming in on July 1 and there is a definite concern which is there from some of the trade because they are not clear in terms of what is the impact that will come to them for the excise duty and some of the taxes which would be paid on the stocks that they hold. So there is a little bit of a grey area there and our sense is that it may take a quarter or so for it to actually sort of stabilize before which it will pick up and once it actually stabilizes, then there are a lot of productivity related things possible in the whole distribution set up. Now having said that, we won more new auto OEM business. So as we move into FY18 from April onwards only, we are going to see increased volumes from the business that we will get from Auto OEMs. We are quite optimistic on this business, barring that one quarter issue which may happen on the GST implementation. So post that, I think we are on a pretty strong wicket both in terms of our own distribution as well as in terms of what we are doing with auto OEMs.

Maulik Patel: And sir our Sharjah facilities started production?

Kushal Desai: So we actually commercially started production at the end of January; however, for us to be able to ramp it up significantly, we needed to get ISO certification and because different customers have different requirements, we went for the more complex certification which is called this integrated management system, in which you actually do a big bang and pick up the ISO certification for 9000, 14000 and 18000 simultaneously. So we managed to get that award actually at the end of April and the business has started ramping up. So this year our target is to do approximately 50,000 metric tonnes worth of volumes in FY18 and if we managed to do that, we should be basically at a breakeven level as far as the plant is concerned in the first year of its functioning.

Maulik Patel: So I mean that is what your export volume was close to around 1,30,000 KL right if I am correct approximately and approximately 50% of the volume you were selling into this MENA region. So this plant is now probably catering the entire MENA export volume which you were doing earlier from India?

Kushal Desai: Yes, plus we are hoping to actually grow our business in that area because we would be logistically more competitive and we will be able to provide a higher service level than competition that is not actually based there and there are no producers of transformer oils of any consequence in the middle east. So it is all basically import products that is going into transformers and utilities in the Middle East.

Maulik Patel: And sir last question is on terms of CAPEX, because we are nearing the end of our CAPEX in both as Sharjah is already completed and the conductor also. So what kind of CAPEX we are looking for next 2 years?

Kushal Desai: So next year, if you take the aggregate of the projects which we have already undertaken including the cable projects, we are looking at approximately Rs. 100 crores of CAPEX in total for FY18, but then we expect a fairly sharp drop in CAPEX for FY19.

Maulik Patel: And sir in cable, what kind of a capacity utilization we must be running because we have a two E-Beam machines right, EB machines which we have and we have remarkable growth in the cable in the last two year in terms of excess of 27%-28% revenue CAGR for the last 2 year. So what kind of capacity utilization we are running and what kind of an outlook we have?

Kushal Desai: So our plan is that if you look at purely the E-Beam machines, you still have capacity to handle volume at the same level of growth for the next 2-3 years without having to do anything in terms of capacity increase. In fact almost Rs. 40 crores out of the Rs. 100 crores is going into the cable side where the power cable lines are going in where there will be expansion on that front plus there is some more debottlenecking happening on the low voltage as well as the elastomeric cables. So the capacity that we are putting in FY18 will be good to actually do about Rs. 1,250 to Rs. 1,300 crores worth of production.

Maulik Patel: So we will have fairly decent growth without having, though you are adding the capacity this year but still we have enough room available for growth?

Kushal Desai: Yes. We expect a substantial drop in CAPEX to happen in FY19.

Maulik Patel: And sir, just one balance sheet entry, this year your inventory has gone up sizably well. If I look at the inventory days, it is almost around 75 days compared to 55 days at the end of the previous year. So any significant change sir there?

Diwadkar: Some of the oil refineries are going for turnaround actually. So that is why we had to top up the material actually.

Moderator: Thank you very much. We have the next question from the line of Viral Shah from Centrum Broking. Please go ahead.

Viral Shah: Sir just couple of questions. I missed the absolute volume numbers for the quarter and FY17 for conductor segment?

Diwadkar: Conductor volumes is around 1,59,000 tonnes.

Viral Shah: For the quarter?

Diwadkar: For the quarter is 40,831.

Viral Shah: And out of this, how much will be exports?

Diwadkar: Export is around 38%.

Viral Shah: For the full year sir?

Diwadkar: Full year is also around 38%-39%.

Viral Shah: Secondly sir in the remarks you had mentioned that the prices of raw materials, the commodity have been increasing. So do you feel that the EBITDA per metric tonne of around close to Rs. 12,000 metric tonne for FY18 will be maintained or you expect it to be lower around Rs. 11,500 or 11,000?

Diwadkar: Actually the prices is only pass through actually across all our businesses in the oil and conductor business, so prices doesn't affect the EBITDA.

Kushal Desai: Fairly so far it hasn't. Now as this TBCB models are getting evolved where there is a certain component of fixed bidding that will come up, then one has to see how that finally settles. But so far the business has been such that, the price variation has been pass through to the clients. So it really has an impact on working capitals more than necessarily just the EBITDA per tonne.

Viral Shah: Sir do we envisage that around Rs. 12,000 of EBITDA will be maintained for FY18 or it would be slightly lower, that is what it is?

Kushal Desai: No, we expect it to be a little bit lower and one of the main factors is actually increased cost as we will be maintaining cost in 3 manufacturing locations, two in Silvassa and one here as we start transitioning our higher volumes into Jharsuguda plant. So that is one and secondly as I mentioned earlier, there is some amount of increased competition on the conventional conductor side in this tariff based competitive bidding which is going on. So our expectation is that the margins would be closer to the Rs. 10,000 per metric tonne sort of range.

Viral Shah: Fine sir. And secondly sir when you are talking about this transition, so at Jharsuguda and at Silvassa what exactly are you looking at, can you explain that in bit

Kushal Desai: What happens is that the facilities which are based in Jharsuguda are closer to where the aluminum smelting is happening. So there is a saving that happens on in coming raw material. As well as there is a saving that is taking place in terms of outward freight to the project site which are in eastern and central part of India. Now this benefit is not being observed today because of certain discrepancies with local taxes and VAT refunds and things like that. So with the implementation of GST, it will get levelized and therefore you can then start seeing the true benefit of actually manufacturing in the state of Orissa versus in the western part of the country. So there will be about Rs. 5000 a tonne difference in terms of cost of end delivery of product in Central and Eastern India if you manufacture in Odisha and supply that relative to manufacturing in Silvassa and supplying there.

Viral Shah: Yeah. So basically your Orissa plant will be taking care of the eastern market and the export, if the understanding is correct and the western would cater more from a domestic point of view?

Kushal Desai: The Orissa plant would focus almost entirely on domestic and the Silvassa plants would focus on certain parts of North West India and export.

Moderator: Thank you very much. We have the next question from the line of HR Gala from Pranav Advisors. Please go ahead.

HR Gala: Sir just recapitulating on some of our earlier interactions, you were trying to get the molten metal from some of the smelters which was going to reduce the cost. Did that happen sir?

Chaitanya Desai: Well, we are still in discussion and negotiation. But having said that after GST, I think the things may sort of pick up in terms of momentum and we sort of see how the situation goes.

Kushal Desai: Because if the same problem continues and even if you have molten metal in the current regime because you are not getting the proper refund of the VAT we would be paying, post the GST implementation happening that would go away which then becomes a greater incentive for both producer as well as us who actually strike a deal in terms of this. So we are in active discussion and hopefully there should be some positive invoicing.

HR Gala: That also was technically supposed to save around Rs. 4,000-5,000 per tonne?

Kushal Desai: No, it actually ends up saving somewhere about Rs. 1,500 a tonne because you got to keep in mind that the price of fuel oil also has come down. So Rs. 3,000 a tonne would have been valid when crude was at $75-$80 a tonne. Furnace oil prices also have come down. So in today's this thing, it is a benefit of about Rs. 1,500 a tonne. So having said that, it is not insignificant.

HR Gala: Of course. Considering the total volume that we are talking about it would be quite significant. Sir, another thing as a result of this implementation of GST as far as our local business is concerned, how are we placed rate wise vis-à-vis the existing and revised structure?

Diwadkar: We are having a rate of 18% for oil and conductors and we have got a rate of 28% for cables. So as far as the B2B products are concerned, in the oil division we were paying about 14.5% excise duty and 2% CST. So you can see 16.5% as against that we will be paying 18% in B2B. But B2C portion is concerned, there we were paying 14.5% and maybe 14% VAT. So we are paying 28.5% vis-à-vis that now it will be 18%, so that benefit will be there. The conductor also was paying 12.5% plus 2% CST being B2B business actually.

HR Gala: 12%?

Diwadkar: 12.5% excise duty and 2% CST.

HR Gala: So that 14.5% will become now 18%.

Chaitanya Desai: Correct. And same is the case with cables also. Cable was also paying 14.5% but it will be paying now 28% now.

HR Gala: Now it will be 28%, so that will be substantial increase.

Chaitanya Desai: Correct.

Kushal Desai: But we do not see any impact to the business because off the GST rate actually as such, the benefit which we are hoping to be able to hold on to is that we had a relative disadvantage as I mentioned earlier because our products are attracting 2% CST which we are absorbing compared to say Savita oil technologies or some of other competitors. And in the cable side when we are competing with companies like Polycab who have plants in Daman, they are not paying 2% CST which we are paying out of our Umbergaon facility. So if you just take that into account, that is approximately Rs. 30 crores per annum based on whatever we did in FY17 and so that is actually an absorption of cost which we are having which we will now no longer need to absorb. So hopefully that will be accretive to the bottom line once GST stabilizes.

HR Gala: This is now very clear. Sir overall you are quite confident about FY18 as you have made out?

Kushal Desai: We are more confident on FY19 than FY18 in the sense that FY18 you do have transition of two major areas, one is manufacturing facility is moving and secondly is the GST implementation happening. So if volumes for example of automotive and industrial products fall through the distribution channel, those carry much higher margins than say for example white oil and some of these other products. So there could be some transitionary impact which is there for a few months in FY18, but FY19 the picture seems to be very clear of us having manufacturing locations also in the right places as well as the product lines which are all in place and approved and the full benefit of this GST which we are, this cost absorption of Rs. 30 crores should be available than to completely hit the bottom line.

HR Gala: That will be great. As far as the conductor business is concerned, do you think that once the model stabilizes in India, you will have more business coming from India if it is at our price at which you would like to quote as compared to the current thing that we are having, you said about 48% is the export.

Kushal Desai: No. So actually if you see historically we have averaged 25%-30% export and 70%-75% domestic. But the strategy with the company has always followed is that we want to be agnostic to which geography we are executing in based on where the final netback is the most favorable to us on a risk adjusted basis. So at the moment, we have won quite a lot of in this Rs. 1,500 crores order book which we have, 48% is export because we won a higher share of export bids compared to domestic bids at the moment. But I am sure that this equation will change because the domestic business is actually, there is a quite a lot of business which is going to come up and it will remain in that 30% plus minus for exports and 70% for domestic.

HR Gala: Okay and how does the EBITDA vary between export and domestic?

Kushal Desai: It is not necessarily a huge variation. In fact there is a bigger variation with respect to the type of conductor that is manufactured. So our high efficiency conductors actually carry a slightly better margin relative to the standard products. So that dictates more than whether it is export or domestic. As I said, we look at what is the net back. So if the export order is offering a higher net back, then obviously that is a preference to execute.

Moderator: Thank you very much. We have the next question from the line of Varun Agarwal from Bank of India. Please go ahead.

Varun Agarwal: Sir couple of questions from my side. Sir, can you give some guidance on FY18 in terms of volumes or per KL EBITDA in terms of different businesses?

Kushal Desai: So we are looking basically at in conductors having a volume which is in the same range as what we have had this year. About a 150,000 tonnes give or take considering the transition is happening between the two plants, our oil business we are expecting a volume growth of about 10% compared to this year. The cable business we are looking at 20 plus % growth in terms of revenues. In terms of EBITDA per metric tonne, conductor between Rs. 10,000-10,500 per tonne, the oil business we are looking at between Rs. 4,500 and 4,800, but the big question mark there is really as I mentioned what will be the short term impact of GST in the automotive lubricant side because that does play a fairly high weightage in terms of the profitability. The cable side we are looking at between 8%-8.5% EBITDA and at the moment, we are at around 8.6%. So we will be in the same range as far as the EBITDA percentage is concerned on a 20% higher volume.

Varun Agarwal: Sir second question, you mentioned that there will be some restructuring or shifting of volumes from one facility to another. So my particular question relates for oil facility which you have recently started in UAE. So when we shift the volumes, do we see the overheads going up and because of that the margins may come down or basically due to lower logistic cost involved because we will be serving lot of clients from gulf facility so it may go up. So just wanted to understand.

Kushal Desai: There is an increase, as I mentioned earlier that there is an increased overhead that will be picked up by the company because some of the customers which are based in the MENA region will start getting serviced from the new facility plus we are winning new business there. So there will be some impact which is there, but we hope to offset that with an overall 10% growth in the total volumes.

Varun Agarwal: Sir you also mentioned that restructuring of Cable business, so currently you said we shifted from 3 different facilities to one facility. So do we see positive impact on the margins?

Kushal Desai: Again what happens is that there are transition costs which are there as you do the consolidation but then it finally results in lower cost and lower overhead on a long term basis. So the clarity, that is the reason why I said that we are so much more confident of FY19 than FY18 because all these transitionary effects will be all through in FY18 whether it is the movement of manufacturing from location A to B, the implementation of GST etc. So FY19, we will be having the right manufacturing and the right products being manufactured in the right location considering a post GST era.

Varun Agarwal: Sure. Sir one last question basically trying to understand demand side from SEBs, so how do you see demand as such over an industrial level from SEB in terms of impact of UDAY, if you can please elaborate?

Chaitanya Desai: Yeah, we see lot more demand coming from the states than it had been in the past. UDAY currently has helped more from a balanced sheet point of view in reducing the debt structure. But in terms of the offtake from the states that is already now visible in terms of the new tenders that we are seeing that are coming up. So in times to come, we see lot more business from the states than from the center.

Moderator: Thank you very much. We have the next question from the line of Mr. Dhiral Shah from Asit C. Mehta. Please go ahead.

Dhiral Shah: Sir my question is regarding this specialty oil business wherein you have guided for Rs. 4,500 to 4,800 EBITDA per KL. Then if you see in FY17 also, it came down from 5,400 to 4,931. So why it is that EBITDA is falling down in specialty oil business?

Kushal Desai: There are two major factors. One is that there is some amount of increased overhead that will be picked up as we ramp up and due to transitioning product from one facility to the other facility. Secondly in transformer oil, some of the increased growth will happen at the lower end which is at the distribution transformer side coming out of the UDAY related project. So that will have some amount of impact that we would likely see. And the third thing is that even though we are looking at some increase in the sale of automotive and industrial product, we are expecting that there will be at least one quarter issues with respect to GST and some products we may have to take back. This whole thing is a little bit unclear in terms of how. So in that sense, whatever guidance we are giving is also subject to finally how this whole GST role out takes place. But our sense is that in 3 months, it should settle and then you will be actually on a stronger foot going forward.

Dhiral Shah: So then again it will bounce back to above 5,000 or 5,400?

Kushal Desai: If the automotive and industrial business growth actually plays a very important, it has a good weightage in terms of because the EBITDAs are almost double that of what you see in white oils and process oils and the distribution transformer oils etc. So growth in that has a big impact in terms of improving the EBITDA number.

Dhiral Shah: So what is the contribution of automotive and industrial oil in specialty oil business?

Diwadkar: It is about 13%. 13% is auto oil. Industrial oil is around 5%-6%.

Dhiral Shah: Overall 20%?

Diwadkar: Yes.

Dhiral Shah: And sir what is the contribution of overall value addition business into the overall revenue?

Diwadkar: We are not giving the separate EBITDA margins for different oils.

Dhiral Shah: And sir, in your earlier commentary you said there will be spending of Rs. 2,60,000 crores in next 5 years and Power Grid is also going to spend Rs. 1 trillion in next 5 years. So what will be the scope for our business?

Kushal Desai: So actually the 13th plan is almost 30% higher than the 12th plan, if you just compare numbers and the 12th plan has the highest level of execution, I mean if you compare it with any of the previous 11 plans. So considering those two statistics, I would think that the impact would be positive. So that is why we feel that FY19-FY20 generally the trend is something which augurs well for our type of business.

Dhiral Shah: Okay. Sir my question is regarding how much they are going to spend on transformer or conductor maybe distribution side.

Chaitanya Desai: The total spent is on transmission and distribution side

Kushal Desai: It is difficult to just peg a number and able to give you. Relative idea that general growth is around 30% in terms of the plan outlay versus the 12th plan. So that is the sort of, on a like-to-like basis volume growth that will happen or demand increase which would be there in that 5-year period.

Dhiral Shah: Okay. And sir this GST on cables which is now 28%, don't you think there will be demand hit because of this substantial rise in tax, GST?

Kushal Desai: So there is actually a certain amount of lobbying that is going on. Representation has been made by the industry body EEMA to saying that at the end of the day it is product which is used for power distribution and things like that. See, we don't think that there will be a really big impact because if you need a cable, you need a cable and that cable demand is not going to be very elastic with respect to. So industries and people who actually are part of the GST chain for them, it will have no impact really. But for utilities, it will have an impact because the utilities don't end up getting set off so there will be some impact on this as far as utilities is concerned.

Diwadkar: It will become cost for them actually because they don't get the set off. They are not in the GST chain.

Dhiral Shah: Okay, so from the utility side there could be some hit.

Diwadkar: Correct.

Kushal Desai: Their project cost will definitely go up if it remains at 28%. Otherwise typically if the excise duty is 12% and then, if they are paying VAT, then it is coming to 26% but if they are able to buy on a form, again CST, either it is exempt or it is maximum 2%.

Diwadkar: Normally B2B goods should be in 18% but somehow cables they have put in 28%.

Kushal Desai: Because you know building wires and all that has a B2C component to it. So I don't know whether that has driven them put it as 28%. So because on the building wire side, it is okay at 28%. But for other cables, it becomes a bit on the higher side. But we don't see a huge impact on the demand happening from it. It is just that the cost of the project will go up for the utilities.

Moderator: Thank you very much. We have the next question from the line of Sandeep Baid from Quest Investments. Please go ahead.

Sandeep Baid: Kushal, when I look at Q4 numbers, our consolidated PAT is about Rs. 8 crores lower than standalone PAT. Is this primarily because of Hamriyah?

Kushal Desai: Yes.

Diwadkar: Yes, it is because of Hamriyah.

Sandeep Baid: Entire amount?

Chaitanya Desai: Entire amount.

Sandeep Baid: So basically we have a loss of Rs. 7 crores – 8 crores in Hamriyah in it?

Diwadkar: Correct.

Kushal Desai: So we have written off pretty much all the various startup related costs.

Sandeep Baid: Secondly, this 2% benefit that we will have on the oil business with regards to CST, so that itself adds up to about Rs. 1,000 per KL. So that Rs. 1,000 we are not factoring in when we are giving the guidance of Rs. 4,500 – 4,800?

Kushal Desai: Actually it is because we are assuming that we won't have it for the full year. So if at all it comes in, it will be half of that which is about Rs. 500. So we have not fully factored that in. Because we really don't know what other costs you are going to incur particularly on the industrial automotive side where maybe we may have to take certain goods back and things like that. The picture is very unclear. The more people you talk to, the more confusing it becomes at the moment. So that portion is a little bit uncertain. So that is why earlier also when questions were asked, we feel much more confident that we will monetize this in FY19 where the picture will be very clear.

Sandeep Baid: Kushal, lastly on the conductor export side, our orders are on a fixed price basis, right?

Kushal Desai: Yes. But they are hedged.

Sandeep Baid: Right. So when we take the TBCB orders and if we take it on a fixed price basis, we can hedge that as well, right?

Kushal Desai: No. The problem that is happening there Sandeep is that people are offering a fixed price on a pre-bid basis which is something that we as a management have not done and because when you start getting into taking a position on that, there is a way in which you can hedge that also, by taking certain option. So that you protect yourself. But then there is a cost associated with it and where we are finding the difficulty is people who are quoting on a fixed pre-bid basis are clearly not taking into account that there is a cost for hedging the metal. So sometimes you need to get burned once to realize.

Sandeep Baid: With respect to the aluminum prices going up, you need to be extra careful.

Kushal Desai: So we have a very elaborate risk management model at our place. So it automatically starts taking into account all these things which we believe some of the others are like ignoring. I think it will be some time before which it will settle down because just like in the export business also. When it started off, people started doing at a pre bid basis all this, then it evolved to a situation where the hedging is done post or at the time of receiving of the order.

Moderator: Thank you very much. We have the next question from the line of Chirag Muchhala from Nirmal Bang Equities. Please go ahead.

Chirag Muchhala: Sir the question is on the cable segment. So is it possible to give the revenue mix between HT, LT cables, Elastomeric and OFC cables in FY17?

Kushal Desai: So if you take the broad basis, the elastomeric cables are approximately 35% of our revenues. The HTLT cables are about 50% and optical fibers and other specialty cables is around 12%-15% of our revenue. But that mix will change because we expect the OFC not to grow at all and the HTLT side will grow at the most rapid pace given that a lot of capacity expansion is happening there and the demand coming from this UDAY related projects. Elasto will remain around one-third, around 30%-35% of our revenues and optical fiber will remain at the absolute levels that it is at today, which is about Rs. 100 crores.

Chirag Muchhala: And sir on the margin outlook side, we mentioned around 8%-8.5% margins for the next year. So if I recollect correctly, then in the past few concalls we have been saying that double digit 10% kind of a margin is definitely possible for the cable segment. So is there any specific reason.

Kushal Desai: The competition on the power cable side still remains reasonably intense. So what is happening here is that the percentage EBITDA will remain lower on that. But the volume growth is happening, so if you see the growth in volume which we are seeing in the business is happening at a more rapid pace than what we have envisaged. Our target was to grow at 15% year-on-year. We have grown double of that already and next year also we expect a 20 plus percent growth to happen and a lot of it is coming from the opportunities that is there on the power cable side which is actually having a lower EBITDA percentage. So our elastomeric business is still remaining fairly robust on the margin side and we will maintain those margins on an increased sales also. But it is the power cable thing which is sort of drying down the percentage, but the absolute numbers will show a good growth over the previous year.

Chirag Muchhala: So you are saying basically revenue mix point of view, I mean HT/LT will be higher in next year.

Kushal Desai: Yes.

Chirag Muchhala: So that is the reason?

Kushal Desai: Yes.

Diwadkar: Plus the restructuring of the plants which is going to happen in this year, it will also have some impact on the margin because of the increased overheads.

Chirag Muchhala: Okay. And sir secondly in the P&L, so on the interest side, so we used to have this Forex variations and all those things. So, I mean but in FY17 interest is down reasonable from around Rs. 157 crores to 114 crores. So going forward I mean any outlook on that sir?

Diwadkar: Out of that actually whatever the interest is there which is around Rs. 78 crores or something like that, that will remain same actually Rs. 78 crores – 80 crores something like that. As far as the applicable exchange is concerned, we have the forward cover cost which will be around Rs. 20 crores, so that will also remain. So the interest and forward cover cost taken together will be Rs. 100-110 crores that will remain there only actually. As far as the other Forex fluctuation is concerned, if it is there, that nobody can say whether it will be there or not. If it is there, it will be adjusted in the EBITDA because we are adjusting that in EBITDA margin which is called open period forex.

Kushal Desai: Even though there are many views that the rupee will remain stable and it will actually appreciate and all that, our stand in terms of Forward covers will remain the same where we will continue to take forward covers.

Diwadkar: Whenever exposure is there we take forward covers actually and we treat it as an interest cost, the forward cover cost.

Moderator: Thank you very much. We have one final question from the line of Viral Shah from Centrum Broking. Please go ahead.

Viral Shah: Just one clarification for FY17, the other income has increased substantially as compared to FY16, what is the reason for that?

Chaitanya Desai: We were having money in the mutual fund actually. We used to keep the surplus money in the mutual fund actually. So close to about Rs. 7 crores – 8 crores we have got on profit on sale of mutual funds.

Kushal Desai: Interest cost.

Viral Shah: It is interest, but it is profit?

Diwadkar: It is profit actually.

Kushal Desai: But these are all debt mutual only.

Diwadkar: Liquid mutual fund.

Viral Shah: Agreed. So basically these are investment which you would have sold during the year, right?

Diwadkar: Whatever short term surplus is there, we keep on parking in the mutual fund actually.

Moderator: Thank you very much. I now hand the conference over to Ms. Nisha Kakran for closing comments. Please go ahead.

Nisha Kakran: I would like to thank the management for giving us this opportunity to organize the call and all the participants to join in. Thank you everyone.

Moderator: Thank you. Ladies and gentlemen on behalf of Apar Industries Limited that does conclude the conference call. Thank you for joining us and you may now disconnect your lines.