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**Sub. : Submission of Investors Con call Transcript – for Q4 FY 2018-19**


Dear Sir,

Please find attached herewith transcript of Apar Industries Ltd. for Q4 & FY 2018-19 Earnings Conference Call made on 30<sup>th</sup> May, 2019.

Kindly take note of this.

Thanking you.

Yours faithfully,  
For Apar Industries Ltd.

  
(Harishkumar Maisatter)  
Assistant Manager – Secretarial & Legal

Encl. : As above

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**Apar Industries Limited**  
**Q4 FY19 Earnings Conference Call**  
**May 30, 2019**

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**Moderator:** Ladies and gentlemen, good day and welcome to the Apar Industries Limited Q4 FY2019 Earnings Conference Call hosted by Four-S Services. As a reminder, for the duration of this conference call, participant's 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 telephone. Please note that this conference is being recorded. At this time, I would like to hand the conference over to Mr. Nitesh of Four-S Services. Thank you and over to you sir.

**Nitesh:** Thank you. Good afternoon everyone. On behalf of Four-S Services, I welcome all the participants to the Apar Industries Q4 and FY19 earnings conference call. Today on the conference, we have Mr. Kushal Desai – Chairman and Managing Director and Mr. V. C. Diwadkar – CFO, Apar Industries. I would now like to hand over the call to Mr. Desai for his opening remarks. Over to you sir.

**Kushal Desai:** Good afternoon everyone and a very warm welcome to Q4 FY19 and annual results earning call. I would like to begin with actually running through a few industry highlights and then follow that up with more financial information and segmental performance and then post that we can open the floor to questions.

In the year gone by, Apar has delivered a fairly strong consolidated revenue growth of 37% in FY19 to take the overall revenue for the company for the first time to well over \$1 billion in a year. All three business segments which are conductors, oil and cable witnessed good volume growth with an increasing share of products that we introduced in the last few years getting established.

I would like to cover a few highlights in the transmission and development sector and give a little bit of segmental update for that sector. So the T&D orders of about 45,000 crores are announced by various utilities and key companies in FY19. Overall, there has been reasonably good progress given that the 13th plan with respect to transmission line capacity addition is reaching almost 4 lakh circuit kilometre and AC substation capacity is reaching almost 8.8 lakh MVA. 100% villages have been electrified and 100% household electrification has been achieved in 29 states as stated by the government under the DDUGJY scheme and the Saubhagya scheme.

In terms of the discom reform, UDAY had achieved reduction in the book losses of the participating 32 state to about Rs 15,080 crores in the first half of FY19 from a figure of about 51,500 crores in FY16, so it is about 30,000 for the full year which is 40% reduction in the losses. The AT&C losses has come in at around 18.3% compared to 20.7% in the previous period, however, this is above the March'19 deadline for the loss reduction which was supposed to come below 15% and this has mainly been due to factors like inadequate tariff hikes, rising outstanding dues on the state government and also very low penetration of smart metering.

Our expectation is that smart metering will become critical scheme in the new announcement that the government is going to come up with. In the interim budget FY20, there was 8.5% higher amount allocated to the distribution sector with the special focus on creating green transmission corridors for evacuation of power from the nonconventional energy sources of solar and wind and also projects on certain system strengthening of the grid. The railway electrification has been moving at fairly rapid pace. The Indian railway had published 21 high value tenders of Rs 100 crores and above for electric work totalling about Rs 4700 crores in the year and this is compared to 12 such tenders totalling about Rs 1700 crores in the previous year.

In terms of Power Grid, they have executed about Rs 18,200 crores of CAPEX in 9 months versus a targeted annual CAPEX of about Rs 25,000 crores.

Having said that we have seen that the industry has been hit in the short term by a few factors, the budget that had been allocated to the various electrification scheme which is the Deen Dayal and the Saubhagya scheme and the IPDS have formally ended and so as a consequence, disbursements to vendors of various scheme started slowing down considerably from February 2019 onwards resulting in fairly large amount of unpaid dues to certain vendors and resulting in a weaker pipeline, especially in the distribution sector as an order opening for FY20. There were many tenders that either did not open or which were opened were not awarded due to the announcement of the national election under the model code of conduct which has also delayed ordering for at least 2 months.

Credit availability still remains a major issue and it is really now starting to hurt the sales and collections as many companies are hitting maximum exposure limits. So this is having an impact on the business volumes and profitability. Even we expect that the first half will see the collateral damage taking place from some of these, however, by the end of the second quarter, our expectation is that business flow will be back in a fairly strong growth mode and our premise is that the re-elected government augurs actually very well for the sector, we expect increased momentum in the infrastructure spending, especially in the T&D area. The government is already considering UDAY 2.0 with the focus on reduction of AT&C losses. It targets all meters to be pre-paid smart meters by 2022. It is considering almost 37,000 crores to fund new overhead electricity distribution cabling infrastructure for preventing of power theft.

In terms of renewable, power evacuation as I mentioned is a challenge and a new renewable energy Grid has been planned. The total allocation is being considered of approximately US \$5 billion on transmission line tenders in phases beginning from June to route approximately 175 gigawatts of power from the renewable process in the country by 2022, so even though we see a little bit of short-term slowdown as I mentioned earlier, the prospects on the second half onwards we expect to be fairly strong. and of course the devil lies in the details and terms of the schemes as the government actually ends up announcing.

I would now like to just quickly cover Apar's financial performance, so in FY19, the consolidated revenue came in at Rs 7971 crores which is 37% year-on-year above the previous year. EBITDA came in at Rs 475 crores which is up 15% year-on-year and this was largely driven by better profitability from the cable business and also some improved performance of the conductor segment. We did have as I mentioned in the last earnings call, a lot of volatility in the base oil prices which impacted the oil division profitability and this we managed to recover only by the end of the year. We have seen higher interest cost due to the LIBOR rates which went up and also a higher working capital interest arising from the increased revenue. The profit after tax came in at Rs 136 crores. If you look at specifically the fourth quarter, the consolidated revenue increased by 39% to Rs 2466 crores. The EBITDA increased 8% year-on-year to reach Rs 137 crores and the profit after tax increased 9% to close at Rs 44 crores.

I would now like to briefly cover each of three segments and give you some of the highlights there. In terms of the conductor division, business grew by 53% year-on-year to reach Rs 3915 crores in FY19. Volumes increased 10% year-on-year to reach record, 1.8 lakh metric tonnes which is the highest volume that we have done. The EBITDA per metric tonnes post forex adjustment came in at Rs. 8960 crores which is 14% higher than the previous period. The share of some of the newer businesses that we have developed which is the copper conductors for the railways and high efficiency conductors came in at 15% for the copper conductors and 10% for high efficiency conductor. March 2019 order book is actually 2.5 times higher than what it was in the beginning of FY18 and is at approximately Rs 3,020 crores as we open the year. The new order intake for the year came in at Rs 5,454 crores which is 134% higher than what it was in the previous year. The conventional conductor market still continues to remain very competitive and hence the company's focus on some of the newer products. Our new order from railway for copper conductors crossed Rs 1,000 crores for the year.

If you look at the fourth quarter, specifically in FY19, the conductor revenue has increased by 49% year-on-year to reach Rs 1,329 crores. EBITDA per metric tonnes post forex adjustment increased 17% year-on-year and came in at Rs. 6,680. We had a few operational issues at our plants in Orissa in the last few months with respect to the non-availability of Grid Power and thereby to use diesel generation and also lack of molten metal coming in for part of the period. Both of these issues have since been resolved on a long-term basis and it is not likely for them to recur in FY20 and thereafter. There was also a major slowdown in awarding of

the high efficiency conductor tenders including for the reasons that I mentioned above. So these factors had affected our profitability. We see a much higher ordering of these HECs in FY20.

In terms of the specialty oil division, the revenue has reached Rs 2,630 crores in FY19 which is up 22% year-on-year. The volume also has reached an all-time high of 4.3 lakh kilolitres which is up 11% YoY. We have seen a steady demand from the auto industry which has reflected in higher volume of our auto lubes. The auto lube volume is up 24% year-on-year. The industrial oil volume is up also 24% year-on-year and the rubber process oil which largely find the way into automotive application is also up 14% over the previous year. The higher value segment of automotive and industrial oil now contributes 21% to our revenues. I am also happy to announce that Apar is the only Indian company who have supplied all the major HVDC projects with transformer oil in the last 2 years, so these include projects that have been run by Siemens, GE, Alstom and ABB. If you look at our Hamriyah plant, we had 62% capacity utilization last year and this was lower than we had envisaged and it has been impacted by some of the regional problems so far which is a drop in demand from some of the geographies in the GCC specially in Saudi Arabia as well as reduction in offtake from some of the African countries largely due to foreign exchange related problem. EBITDA per KL after Forex adjustment came in at approximately Rs. 3,000 for FY19 versus Rs. 4,400 in FY18. These were mainly impacted due to the cost of base oil versus selling price and other costs, particularly in the month of January and February, the profitability was restored by March and we expect that FY20 should be a better year. In Q4 FY19, specialty oil revenue increased by 18% year-on-year to reach 696 crores. The EBITDA per KL post Forex adjustment came in at about 3391 compared to about Rs. 5280 in Q4 FY18.

Coming to the cable business, the cable division had a very strong growth of 51% year-on-year with the revenue for the year coming in at Rs 1,684 crores with good execution in all the sub-segments. The elastomeric and E-beam cable revenues grew 35% driven by solar, railways and the defence sector. The power cable revenue grew by 44% which was largely influenced by the scheme that the government had announced. The telecom cables were up 112% YoY with some execution of BBNL and BSNL orders, but also fairly large amount of orders that we executed of Reliance Jio. In terms of the EBITDA margin post Forex, it came in at 11.3% versus 9.6% in the previous year. In terms of fourth quarter FY19, the cable revenues were 51% higher and came in at Rs 508 crores. The EBITDA post Forex adjustment doubled to about 70 crores with an EBITDA margin of about 13.7% in the fourth quarter.

In terms of our overall picture, we feel reasonably good entering FY20 as all our three segments are firmly on transformative growth, however, based on what I mentioned earlier in the opening remarks there is a little bit of the disruption in the order flow and execution flow as we begin the year. This may have an impact in the first half, but our expectation is that the second half will be very robust. We continued to target growth in some of these new products that we have introduced and our 2020 vision is to try to grow the copper conductor and HEC business to about close to 35% out of the conductor revenues, have elasto and

optical fibre at close to 40% in cable and grow the auto and industrial lubricants closer to 25% from the current 21% that we have this year. Our commercial production of the copper transpose conductors used in the transformer industry has been a bit delayed but will be commercially available by the end of this quarter. Our major focus in FY20 will also be to improve unit profitability in all the three businesses. We have seen a substantial improvement in growth and the topline, but the corresponding increase in the bottomline has not been there. Various measures have been taken to ensure that the operating performance as well as procurement has all lined up. We have seen good growth. As we correct this in FY20, we expect the slow increase in revenues for the year, but definitely a higher unit margin growth across the business and finally we expect that with the re-election of the Modi government, there is likely to be very strong boost to infrastructure, power and the economy in general. Already, some of the plans are in work which is with respect to the smart metering and prepaid metering as I discussed earlier, the transmission line for renewable energy as part of the green grid, strengthening of the existing grid and the railway electrification. So we are quite optimistic, but, more specifics are awaited as the new policies and the schemes of Modi 2.0 government unfold itself.

So with this, I would like to come to the end of my comments and would like to open up the floor for question. Thank you very much.

**Moderator:**

Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. We take the first question from the line of Pratiksha Daftari from Equitas Investments. Please go ahead.

**Pratiksha Daftari:**

Sir, you just mentioned that there were certain grid issues with respect to conductors in the Orissa plant and last quarter also we had mentioned that there were certain one-off impact, so if you could tell us in detail and quantify the reason for EBITDA margins coming down for conductor segment? That is my first question and also sir, you mentioned that there are certain measures you are taking to improve the operating profitability, so what I look at sir the EBIT margins in H2 has come to some 3% and our interest cost at 2%, the conductor's division seems to be just above breaking even in H2, so if you could elaborate what is the outlook and what measures are we taking to improve on the margins in this segment?

**V. C. Diwadkar:**

The operational impacts which were there, they were not there in Q4, they were there up to December. From April to December, we were not getting the grid power in our Lapanga plant, we had to generate the power through this diesel generator. That was one thing and almost from June to September, we were not getting the molten metal, we had some issues with Hindalco, so we were not getting the molten metal, but as far as Q4 is concerned, there were no operational issues.

**Pratiksha Daftari:**

And what would be the key reason for our EBITDA per tonne to come down?

**V. C. Diwadkar:** The EBITDA per tonne has come down because of the low margin orders actually. Overall, the low margin orders which were there actually. See, the different orders are different margins actually and more of this low margin orders were executed during Q4.

**Kushal Desai:** Also the high efficiency conductor plays a very big role in terms of the overall profitability and lot of the tenders which were not awarded etc., and execution was relatively very low in the fourth quarter. Also, some of the orders which were expected were held up because of the model code of conduct. Having said that already in the last week, there is already a flow of these orders that have started coming in. So our expectation is that in FY20, some of the pent up demand of the last year will also get covered. In addition to this, new copper orders also has come in for the railways, so considering the current order book, we see much better average performance in FY20 compared to FY19.

**Pratiksha Daftari:** So this HEC orders, the execution we expect to pick up only by H2, in last call you mentioned that the tenders were opened, but not concluded?

**Kushal Desai:** We expect the orders to actually start. The ones that have been awarded to us in the last few days, they will start getting executed from the second quarter of this year onwards, so it will be still part of H1, so from Q2 onwards, it will start.

**Pratiksha Daftari:** Sir, the presentation mentions that the order book for railway conductors is about 570 crores, so what would be the execution period for this order book and am I correct to assume that we have 225 crores of revenue contribution from railways in this quarter itself Q4?

**V. C. Diwadkar:** How much?

**Pratiksha Daftari:** 225 crores, so what kind of expectation we have for this railway copper conductors in this coming year, FY20?

**V. C. Diwadkar:** Coming year, we should be doing close to about 900 to 950 crores of railway conductor and we will be getting more orders actually. This is the order book as on 31st March.

**Pratiksha Daftari:** And from the CTC conductors which we expect to launch commercially say, by the end of this quarter you mentioned, right? So in FY20 what kind of contribution can we expect?

**V. C. Diwadkar:** Some loss will be there actually. We are not expecting much because although we will be launching it commercially by end of the first quarter, it requires lot of approvals from the transformer manufacturers as well as utility after the trial runs are over.

**Kushal Desai:** So, the total capacity for the plant at current copper prices is around 360 crores for the year which on a full year basis will be about 90 crores a quarter, but the initial period is a little uncertain in terms of capturing exactly the volume because of the approval process is required. So the way the process run is that transformer manufacturers need to apply to utility, they want to use our company's CTC and then the utility will do some basic diligence

and approve the product, so the process has already started from the last quarter towards the end of FY19, but we expect that it will take about 5 to 6 months for lot of these approvals to come in and then there will be a ramp up. Our sense is that we will be able to use, may be about 30 to 35% capacity utilization in the first year and the second year, there will be a very steep increase in terms of utilization.

**Pratiksha Daftari:** And sir, if you could just give the breakup of debt as on 31st March?

**V. C. Diwadkar:** Long-term debt is about 165 crores, short term is about 88 crores, so total is 253 crores and cash and cash equivalent is about 412 crores. Other than that, there are some liabilities actually, LC liabilities, so LIBOR based liabilities are about 1,325 crores which are incurring LIBOR based interest and domestic interest liabilities are there about 941 crores.

**Moderator:** Thank you. Next question is from the line of Anuj Upadhyay from Emkay Global. Please go ahead.

**Anuj Upadhyay:** Sir, just a followup on the previous question, you mentioned that the Lapanga or Orissa issue was over by December, like we started receiving power from the grid and also the availability of the molten metal issue got sorted out. Secondly, the copper conductor business contributed almost 17% to our revenue in the Q4 which I believe is a high margin business and our EBITDA per metric tonne post adjustment also went up by 17%, but overall margin was down, so could you just explain how exactly is it happening? Which is the area I am missing out here?

**V. C. Diwadkar:** See, it all depends upon the order profitability which are there, so lot of less profitable orders got executed in this. You must have seen. We have done close to about 62,000 metric tonnes quarter actually which is the maximum at any point of time which the conductor division has done in a quarter, so lot of very low margin orders of conventional conductor got executed in this quarter

**Kushal Desai:** There were orders which were taken during this TBCB tendering and stuff earlier where there were some amount of losses or escalations that happened particularly with respect to HTGS which is steel wires and things which are not possible to hedge in terms of longer delivery or longer duration, so a little bit of that came in towards the end of the period in terms of execution. , so it is really competition, so in the first quarter, in the first half of the year, more profitable orders were executed. In this period, little bit less profitable orders got executed, but looking at the current order book which we have as we enter FY20, in this business, it is better to look at it in a larger full year period. On a quarter-on-quarter basis, we don't have control in terms of the way in which execution will happen because the manufacturing clearances from customers happen based on the project deliveries as are required. So what we have in terms of what is expected to be there in FY20 will be higher than what is there in FY19, so FY19 came in at almost Rs. 9000 per ton. FY20, we expect it to be over Rs. 10,000 a ton.



**V. C. Diwadkar:** And still it has improved actually, means FY19 for the whole year is better than the FY18 in spite of the low HEC orders, overall HEC orders are only 10% whereas in FY18 they were about 13 to 14%.

**Anuj Upadhyay:** Sir, could you please give breakup of the order book, like how much would be the HEC, what would be the copper conductor and the conventional?

**V. C. Diwadkar:** The HEC is about 525 crores and copper is about 575 crores and balance is the conventional and rod.

**Anuj Upadhyay:** Roughly 2,000 crores, you are saying.

**V. C. Diwadkar:** 3,000 crores.

**Anuj Upadhyay:** No, conventional is roughly 1,900 or 2,000.

**Kushal Desai:** Yes, because total is 3,020.

**Anuj Upadhyay:** And sir, cable segments margin in the last quarter was somewhere around 13% plus, so would it be sustainable going ahead sir or it was just one-off case, just depending upon the product mix which you got executed for Q4?

**Kushal Desai:** The product mix that got executed in the fourth quarter was relatively very rich, so the average margin for the year was about 11.3%, so we expect that our similar margin will be there in FY20 as well, so it will be between 11.5 and 12% what we are targeting.

**Anuj Upadhyay:** And then in last call, you had mentioned about 350 per metric tonne of benefit which we are expecting from Lapanga, so has it?

**V. C. Diwadkar:** That has come because of the grid power.

**Anuj Upadhyay:** That was of the grid power.

**Kushal Desai:** There are two benefits, one was that the grid power had got delayed substantially which has now come through and the molten metal also has an impact and now the whole molten metal delivery system and agreement, contract, everything is on streamline, so we don't expect any outages on the molten metal front now in FY20. Everything is lined up.

**Anuj Upadhyay:** And lastly sir, what would be the capacity of our cable segment sir if you can provide some highlight on that part?

**Kushal Desai:** It is difficult to give because the mix in cable has a huge impact in terms of the quantity that is produced. Last year, we did 1,680 total revenues, this year the capability of the plant is to do over 2,200 crores if it is loaded evenly through the year on a similar mix basis.

**Anuj Upadhyay:** And if I may ask one more question sir, any growth outlook across the segment sir for conductor specialty and cables?

**Kushal Desai:** To give a definitive guidance at this moment is a little tricky because we are waiting the announcements of the various schemes that come in from the government and they have material impact in terms of especially the distribution side of the business which is affecting the distribution type conductors as well as the cable, so I think much better guidance will be available by end of Q1 as compared to from today when these schemes will be announced and the impact of that will be cleared. We will know more clearly in terms of which quarter's bucket, what revenue is likely to fall in.

**Anuj Upadhyay:** But the margin would be better you are saying across the segment compared to FY19?

**Kushal Desai:** Yes, the oil business also actually, this is where a lot of the volatility came in and hurt margins especially in December, January, February timeframe. We already have March has got restored and the first quarter products are already ordered, the raw materials, etc., and most of the pricing has been set. So our expectation is that as we enter FY20, the oil side seems significantly demystified in terms of the margin delivery.

**Moderator:** Thank you. Next question is from the line of Saurabh Patwa from HDFC. Please go ahead.

**Saurabh Patwa:** Sir, just wanted to understand while we are changing a product mix in terms of copper, so this is giving a higher revenue growth, but just wanted to understand how is the working capital in ROC for this product because what I understand from your last calls is this has similar margin as EBITDA per tonne as earlier HEC, but their capital employed required would be higher in this case, can you just give your thoughts on that?

**V. C. Diwadkar:** The margins are in between the high efficiency conductor and conventional conductor. They are not having similar margins as high efficiency conductor but the working capital cycle is short actually, so close to about 45 to 60 days we get our debtors actually, whereas in case of conventional conductors we get about 108 days actually, debtor cycle is 108 days. Similarly, inventory is also a little bit shorter than the conventional conductor because mainly there is only one party which is there or sometimes the EPC contractors like KEC or Kalpataru, they are there actually.

**Kushal Desai:** Saurabh, actually the introduction of larger and larger percentage in the mix of copper is very beneficial to the operation because it takes approximately the same amount of processing but you end up getting 3 times the value, so the cost of processing goes down and the utilization of the equipment relatively, so if you look at the amount of sales to asset utilization also improves if you run copper and as Mr. Diwadkar said the cycle is that of 60-day cycle as of today versus 100 day cycle for the conventional conductor business.

**Saurabh Patwa:** Sir, is this the reason why our capital employed in conductor division has come down sharply this year compared to last year?

**V. C. Diwadkar:** Yes, that is one of the reasons actually.

**Saurabh Patwa:** So can you throw some light on what about the other reasons because it was like some 375 crores last year and it has come down to like almost close to 100 crores this year?

**V. C. Diwadkar:** One more reason is that actually the conductor division was buying aluminium for cable division also, whatever aluminium rods are required by cable division, conductor division was buying these aluminium, converting it to rods and giving it to cable division, so you will see that the cable division working capital has increased and the conductor division working capital has gone down because the liabilities are sitting in conductor division.

**Saurabh Patwa:** So actually Unallocable has increased, is there some reclassification?

**V. C. Diwadkar:** No, there is no reclassification. Unallocated has other segment.

**Saurabh Patwa:** Yes, but that increased very sharply this year. Should I take this offline?

**Kushal Desai:** Yes, offline.

**Saurabh Patwa:** And what would be our guidance on tax because I think this year our tax rate was pretty high compared to?

**V. C. Diwadkar:** See as I explained last time also, in India we are having full tax rate but our subsidiary is there actually in Hamriyah, so if it makes loss actually then we don't get any tax benefit for that, so if it makes profit, you will feel that the tax rate has come down, but right now it is making loss.

**Saurabh Patwa:** Right now, it is making loss?

**V. C. Diwadkar:** Yes.

**Moderator:** Next question is from the line of Vikrant Kashyap from Kedia Securities. Please go ahead.

**Vikrant Kashyap:** I have one question, sir, your topline growth is really impressive, but we are seeing that net margins has come below 2%, so in next 2 years, will we get back to around 4% margin level that we had earlier? What is your outlook on that?

**Kushal Desai:** Yes, as I mentioned earlier that one of the major focuses that we have in FY20 is to work on unit profitability or unit margin. There was a very sharp impact that has happened from the oil business where if you take the profit that we had compared to the previous year on an absolute level is almost half over the previous year, so that itself is making the difference of

our percentage point as we restore that plus there are other operational benefits which will come in as we spoke about on the conductor side and last year both in the conductor and cable we had a lot of movement of machineries as we realigned our plants, so most of that has already been now completed, so we have settled everything at Lapanga and Jharsuguda and Orissa and also reconfiguring between the two different locations in cable has been pretty much completed. So the operational benefits which we will see or had envisaged because of which we made all this move, we should be able to get a full year of that in FY20.

**Vikrant Kashyap:**

So what percent, 3 to 4% bottomline?

**Kushal Desai:**

Our target is to actually get up to, if you go more than a percentage to cross Rs. 10,000 per tonne again on conductors to get to Rs. 4000 per KL plus on our specialty oil business and to keep the cable margin between 11.5 and 12% on an EBITDA basis, so these are the three major areas, so if we end up hitting these three, then obviously the unit profitability will be much higher. Even the percentage is also dependent on commodity prices, but this would be the guideline which we are trying to target.

**Vikrant Kashyap:**

The points you made are very valid that you went into railway conductors, we understand HEC contribution to total conductor revenue world over is specialty while you get it, but in cable segment you definitely did very well, so we understand that a year and half was relatively not in favour of the company, we understand that. So on that changes you have done and the benefits of transfer of the plants and other things that you have mentioned, this has to transform into the stronger bottomline. That we were expecting and that is why we were looking for a number from you?

**Kushal Desai:**

Yes, if you look at constant prices of today, it will definitely be up by 1.5% compared to what it is now. It is 1.7%, it will definitely be above 3% at current price level.

**Moderator:**

Thank you. Next question is from the line of Nimish Shah from Emkay Investment. Please go ahead.

**Nimish Shah:**

Sir, I just joined in late, so want some data points from you. Sir, what will be the open period Forex for the year?

**V. C. Diwadkar:**

Open period Forex for the year is about 15 crores.

**Nimish Shah:**

And sir one more thing was, what is the CAPEX plan for the next two years?

**Kushal Desai:**

We have a capex plan of approximately 150 crores for FY20 and that is the projects which would be kicked off, most of which will be executed in FY20, some of it may spread over into FY21. Other than FY21, the three businesses, the CAPEX will fall considerably. The oil and conductor business will just run at maintenance CAPEX. In the cable business, depending on the government schemes and the opportunities that are there, we may need to invest in

debottlenecking and increasing some capacity. In FY21, I would expect some 50 crores, so there will be substantial cash generation in that period.

**Nimish Shah:** And sir, one more thing is, we noticed that the working capital has improved quite sharply, from say 9% of sales is gone down to say, 3%, so is this year end effect or is this something sustainable?

**V. C. Diwadkar:** It is not year end effect actually, but the working capital if you see number of days they are more or less same actually but it is not much of an effect, which last time I have said the debtor number of days and all these things. Some improvement in inventory is there as far as cable division is concerned, but otherwise there is not much.

**Kushal Desai:** In fact, one of the things that we managed to do well through the last year is to manage our working capital well and in some instances, this management of working capital has come by not executing certain orders, not selling to certain clients where exposure limits had become high, so that as Mr. Diwadkar says, we had a number of days outstanding, whether it is debtors, whether it is inventory, all that has been maintained very tightly through the year. So in fact that is one of the better things that we have managed through, which is otherwise a pretty difficult period and looking in FY20 also, we will have to continue this way until the current credit problems are sorted out which may take probably at least 6 months.

**Nimish Shah:** Sir, precisely the point that this year the working capital has actually generated a lot of cash flow for us from what we can see that we have generated nearly 300 plus crores kind of a cash flow from this, so will this cash flow go back in the business or do you think now we have done this good tightening and this could actually sustain, that was precisely what we would like to understand?

**V. C. Diwadkar:** There was a cash and cash equivalent also which I said, 412 crores, so it will go back in the business actually, so sometimes what happens actually in our case because we deal with government directly or indirectly, so in government case actually, they try to give the debtors, the payments at the end of the year.

**Kushal Desai:** So I think the better measure would be actually looking at 5 point average in terms of...

**V. C. Diwadkar:** Number of days instead of looking at snapshot number.

**Kushal Desai:** So we try to keep a very tight track on what our 5 point averages in terms of debtors, creditors, inventory, all the key working capital ingredients that go in. The cash may have gone up because some payments have come in and we have cleaned up some of the old receivables which were due have actually come in before the end of the year, but fundamentally there is no change in the business pattern.

**Moderator:** Next question is from the line of Shradha Sheth from Edelweiss. Please go ahead.

**Shradha Sheth:** Sir, just wanted to understand on the conductor side, we have had our order book going up substantially almost 2.5x with new order inflow also up almost 135%, however, in terms of execution apart the copper conductor and in the railways and the HEC side, we generally don't seem to be enthused by the execution, so just wanted to understand this disconnect in the order book and the pace of execution?

**Kushal Desai:** The railway side, the execution has been quite steady so far, management pretty much is in line. The problem has really been on the high efficiency conductor side because these were largely re-conductoring projects. They are little bit more complex in terms of the whole awarding and the execution cycle, so I think we have hit the low point last year. This year, the order book already is at 525 crores and there is whole lot of tenders which from last year have got responded and not been awarded. So I think as we move into FY20 we have a much better confidence in terms of the high efficiency conductor side. This is that once bitten twice shy. Last year there was so much uncertainty in terms of its execution cycle, so in the next few months, there will be more clarity, we expect these orders which have come in based on the normal delivery schedule, the execution is also to start in the second quarter itself of this year.

**Shradha Sheth:** Because somewhere I think in the commentary you said post execution of this electrification schemes the disbursement to the vendors has slowed down, so?

**Kushal Desai:** In the case of high efficiency conductors, specifically had a few large ticket conductors orders, even the tenders which were opened and we would have thought in the normal course this should have been awarded, they were stopped from being awarded because of this model code of conduct during the election, so basically in April and until the election results were declared on the 23rd there was no ordering that took place. One HEC order has come just couple of days after the election results because everything was there but didn't award it during that period, so there has been that. What I was more referring to from the comment that on the distribution side, the demand is very strongly correlated with the government electrification scheme, so the distribution transformers, some of the 11,000 volt cables etc., are quite correlated with the schemes which were there, particularly this Saubhagya and the Deendayal Upadhya scheme, so our sense is that the second version of that is coming up because the government has not completed all the work that has to be done in that area, but until the amounts are recommitted you will not see that boost which was seen last year in terms of volumes.

**Shradha Sheth:** Sir, this would impact across all the segments, would hit us across segments and the volumes?

**Kushal Desai:** There will be an effect in power cables in the cable side, not on the E-beam side because that goes into the railways, defence and some of the nonconventional energy where we already carry a good order book. In the case of conductors, the effect is not very major, only the distribution conductors which are affected in this and we have a fairly good order book on

the copper, HEC and the conventional conductors in terms of the total volume. In transformer oil side, you will have an effect on the distribution transformer part of the business. So you see, volume slowdown on the transformer oil side in the first quarter until the orders are filled in again on these various electrification programs.

**Shradha Sheth:** Also in terms of HVDC, you think lot of it has already got executed and now the pace should slow down?

**Kushal Desai:** The contract that the Siemens had and GE, Alstom had pretty much been executed but a very large portion of the ABB, BHEL is still to be executed, so we see all that delivery happening actually in FY20 and the volume of that is more than what had happened in the previous period. On the contrary, we will see more shipments happening where we are seeing a little bit of slowdown on the 765 KV AC side.

**Shradha Sheth:** And lastly, overall profitability, now which has come down to under 7% kind of margins on a company level, what is the guidance we are talking about at the company level?

**Kushal Desai:** I think we can give a much better number after the quarter once the schemes and everything are clear, but I don't know what would fall in what bucket hopefully, but our expectation is just with all the operational things which we see really on the cable. We should see about 1.5% improvement in the bottomline as we execute FY20 versus FY19, so the 1.7% profit after tax should go up by more than 1%.

**Moderator:** Thank you. Next question is from the line of Lalaram Singh from Vibrant Securities. Please go ahead.

**Lalaram Singh:** May I have the order book for conductors in terms of volume metric ton?

**V. C. Diwadkar:** Order book is about 1,34,000 which is about 9 months execution.

**Lalaram Singh:** And overall next year, do we envisage volume growth in the conductor division?

**Kushal Desai:** Not much. We actually see a big change or we are targeting a change in the mix because the moment high efficiency conductors come in, you have a higher value per metric tonne going out and we also see a growth happening on the copper conductor side where you have a higher value per tonne going out, the volume remain in the same ballpark but value per tonne will go up.

**Lalaram Singh:** And your guidance or aspiration of Rs. 10,000 per tonne of EBITDA incorporates the fact of this product mix change or do you think it can be much higher than that?

**V. C. Diwadkar:** No, it incorporates actually.

**Kushal Desai:** It incorporates that depending on the amount of high efficiency conductor that physically gets executed in the year, you can then see an upside on that number and it is like a reasonable possibility based on the execution schedule that is available for us, this is pretty much what we should pick up in the year.

**Lalaram Singh:** And is it possible to actually give a break-up of EBITDA per tonne across conventional than your copper conductor in the HEC? Is it possible to give range?

**Kushal Desai:** No, we are not giving that actually.

**Lalaram Singh:** My second question is on oil division, I think our EBITDA per KL is perhaps the lowest in 5 years, I believe, so was this only a function of the consistent increase in the raw material prices, the base oil?

**Kushal Desai:** The main problem was that we were carrying very high cost inventory when the crash took place in November and as I mentioned in the last call, maybe there was a bit of a faulty judgment at our end. When the sanctions came into Iran, the oil prices were going up and there were opportunities to buy base oil and the idea was that you have a little bit higher level of inventory, so that you can even have price increases to your customers matching with the market selling price and the base oil price. Unfortunately, what happened is that \$35 is the crash that took place in a very short time, so we had a huge mismatch in terms of then what expectation in the market versus pricing versus the inventory which we have. So it took about 2-1/2 months to purge all that so December and January were two months which were badly affected and part of February. From March onwards, we have now cleansed the system of anything that is expensive and out of line with respect to current market prices, so March we had normal margins and then we expect that to continue through the first quarter.

**Lalaram Singh:** So this financial year, we can revert back to our 4,000 plus EBITDA per KL?

**Kushal Desai:** That is the target.

**Lalaram Singh:** And what could be the possible risks to this number, again any sharp increase in the crude oil or base oil or something else?

**Kushal Desai:** No, actually the risk is not when it climbs up, the problems is higher if you see over the last raise of 2008 onwards there was a big crash, the problem really takes place and there is a huge crash because the increases are happen, you generally are in a position, given the pipeline of material coming in, we are able to increase the prices. When you have a \$35 to \$40 crash in the price to run we do a lot of specialized product, so actually we have a slightly longer supply chain. Refinery makes special run for us to be able to produce the kind of products that we deliver, so when there is very sudden fall what happen by about \$35 as a barrel, we were caught at the wrong end of that.

**Lalaram Singh:** So generally how much month of inventory do we keep on a steady state basis of base oil?



**Kushal Desai:** The inventory that we physically hold would be about 40 days between 30 days and 45 days, but there is also material in the pipeline coming in from the refinery to us, so if you take a complete cycle you are looking at between 60 and 90-day cycle depending on the grade.

**Lalaram Singh:** And does the recent coming IMO regulation has any impact on supply side for our category of oils?

**Kushal Desai:** There is no direct impact on the category of oils because our category of oils are very low sulphur and what you are talking about this IMO mark on 2020, that is going to have a huge impact on the fuel side for ships but the jury is out nobody knows what that impact will be because some of the low sulphur products could get diverted into blending with the fuel to bring down the sulphur levels because it is a huge jump. Currently, furnace oil and bunkering fuels run between 1500 and 3000 PPM and the new regulation will actually bring it down for it to be below 500 PPM. So there is a big impact that it will come on the bunkering fuel side. How they are going to do that the jury is still out in terms of that. What I can tell you is that companies like us which run on contracted volume would actually benefit relative to people who buy only on spot because the spot volumes where the refineries do not have contracts on could easily move towards reducing sulphur level in the bunkering fluid. When you have contracts, then you pretty much end up delivering that, so it is actually we run contract to insulate ourselves from these sort of major events and risks that are associated with them.

**Moderator:** Thank you. Next question is from the line of Pratiksha Daftari from Equitus Investment. Please go ahead.

**Pratiksha Daftari:** Sir, you just mentioned about the CAPEX plans of 150 crores for FY20, if you could just elaborate on what are the key projects we are taking in this year?

**Kushal Desai:** If you look at our oil business, there the main project is actually increasing capacity in terms of blending and packaging of our industrial and automotive product, so the capacity there is increasing by step function where we will go to 10,000 KL a month from the current capacity of about 4500 KL a month, so that constitutes approximately, so the CAPEX on the oil side is approximately 40 crores which would complete the civil work and this whole project including a little bit of maintenance CAPEX, so about 32 to 33 crores is associated with this project and the remaining is maintenance CAPEX. On the cable side, we have a new E-beam that is going in, new electron beam because we are running almost at close to capacity on the two electron beams that we have currently and we see a big growth likely to happen in the cables that go into the railways and in 2022, you will have a lot of nuclear power getting added again in the country and again you need this E-beam cables which go into some of these nuclear power projects. Also, these cables are finding their way to defence. In the defence, consumption of cables has been steadily growing, so the cable side has a total CAPEX of approximately between 80 and 90 crores including around 30 odd crores is going into the beam and the conductor business has a CAPEX of around 30 crores.

**Pratiksha Daftari:** This would be for which category of conductor?

**Kushal Desai:** It is going in, you have the completion of the CTC project which is taking place and then there is also some debottlenecking that is happening at the plant, so that we have larger capacity in place for high efficiency conductors plus there are some stranding machines and all which we are making more fungible between copper and aluminium because if the railway demand continues to be there over the next 2 years that flexibility would help us in terms of meeting surges on the copper side. So the whole plan is between 150 and 160 crores which would be initiated in FY20, a little bit of that would actually roll over into FY21. I think the key is that in FY21, you will see a drastic fall in the CAPEX.

**Moderator:** Thank you. Next question is from the line of Alok Deora from Yes Securities. Please go ahead.

**Alok Deora:** Most of the questions have been answered, just couple of them. How much would be the optic fibre contribution in the cable revenues?

**Kushal Desai:** Out of the 1,680 crores of this the fibre optic is around 250 crores.

**Alok Deora:** And actually the fibre prices have crashed in the recent month, so have you seen any impact on that in terms of margins or?

**Kushal Desai:** So for us, actually is good because we buy the fibre, so there were periods when the fibre prices are very high, fibre manufacturer had an advantage of subsidising fibre versus cable whereas today it is a reverse where the fibre prices are at very low level or very competitive level, so actually for somebody like us it is a great benefit.

**Alok Deora:** And just one more question, so automotive, this oil and the industrial oil combined forms may be 21% of the oil revenues, so how much provision can we see in FY20 from those segments?

**Kushal Desai:** How much growth did you mean?

**Alok Deora:** No, contribution to the overall revenues.

**Kushal Desai:** So our target is to kind of grow those revenues from 21% to 25%.

**Alok Deora:** Just one last question, actually the oil segment, EBITDA has been under pressure because of the base oil volatility, so we are seeing volatility continuing at this point of time as well, so where can we see this number in FY20, the oil EBITDA?

**Kushal Desai:** The current volatility that you are talking about, you are looking at oil today at \$70 plus minus \$5. There are problems that we are talking about is when you had crude falling from almost \$85 down to \$50 and we had a larger amount of inventory, then we would normally carry, as I mentioned earlier for two reasons, one is that we were expecting visibility to tighten after

the Iran sanction and secondly we were entering into what is the season period for us which is December, January, February, March, so the current volatility is not representation of what happened in that November timeframe. There, I think as a company we were affected and little bit more affected than other oil companies because you were just carrying a larger amount of inventory when the huge drop happened.

**Alok Deora:** So right now, if it stays within this \$5 to \$10 range, then you are pretty okay with them?

**Kushal Desai:** Yes, that is not really considered as significant volatility as far as base oil is concerned.

**Moderator:** Thank you. Next question is from the line of Shradha Sheth from Edelweiss. Please go ahead.

**Shradha Sheth:** Sir, just one question, last question, on the interest cost if you can just explain how do we look at the year ahead?

**V. C. Diwadkar:** Now, interest cost will not increase actually and as a percentage to revenue it should remain same. If the revenue also increases because of the commodity prices or something, then interest cost will increase because it is driven by value.

**Kushal Desai:** But we don't see any further growth taking place in terms of....

**V. C. Diwadkar:** The rate of interest. The rate of interest, the LIBOR rates will not increase. Even in the domestic market also we are not expecting that the rates will increase, so on account of rate increase, Increase will not be there, but suppose the value increases because of the commodity prices or we doing more business or something like that then some small increase may be there actually.

**Shradha Sheth:** Sir, 50 crore per quarter kind of a run rate because last year we also had lot of GST rebated disruption, so this kind of run rate will...

**V. C. Diwadkar:** Correct, last year GST problems are not for the full year. For the first half I think the GST problems are there. Later on, the GST got normalized, now also as of 31st March, we are having about 20 crores of refund pending, but that I feel that is reasonable actually and that is bound to be there for our size of company unless the government increases its ease of doing business further.

**Kushal Desai:** So we don't expect a big change in the interest side because we are trying to maintain the same number of days and the interest rates should not change substantially, so the only time you will see interest in an absolute number going up is along with the volume and if the commodity prices change substantially. The outlook for commodity also in FY20 is that they will remain within certain range both copper, aluminium as well as crude.

**Shradha Sheth:** Because there has been good softening across the raw material, so we still assume this kind of run rate to continue right?

**Kushal Desai:** Well, it will be related with the value, so if the raw material softens, then automatically the absolute value of interest will go down because we are trying to peg the same number of days. Keep the debtors within the current cycle, keep the inventory within the current cycle.

**Moderator:** Thank you. Next question is from the line of Ankit Gupta from IndiaNivesh. Please go ahead.

**Ankit Gupta:** Sir, since there is lot of volatility especially in our oil business, so do we plan to have any hedge policy or something, will it be prudent to hedge our raw material cost or inventory as such which is in the system?

**Kushal Desai:** The base oils are not hedgeable because there is no hedging instrument as such for base oil because they are a function of what happens in the crude and crude derivatives and more also happens in terms of supply and demand from the production that refineries had. So the only way to control that volatility is to just keep a tight cycle. Now in our case what happens is that because we have a lot of specialty grade which require very specific raw material, in some cases, the procurement cycle is a little bit longer, like for example, transformer oils and the oils which go into the high voltage DC transformer HVDC, it has over 90 days cycle in terms of it coming into us. So there is a little bit of that which is there but as I said earlier, the volatility becomes very apparent only when there is a huge change, not crude plus minus \$5. The impact we saw because we saw crude falling from the 80s down to the 50s in the end of two weeks.

**Ankit Gupta:** So I can understand that there may be some quarterly fluctuations in margins but if we look at last 4 years it has been consistently falling, so our EBITDA per KL, it was 5400 has been consistently falling by Rs. 400 per KL in last 4 years, so is there some structural fall in the margin or because 4 years of volatility or I don't know means how do you explain this?

**Kushal Desai:** I don't know where you got your numbers from because if you see our full year period, so you have FY15 at 2,700, FY16 given at 5,400, then you had FY17 at 4,900, FY18 at 4,400 and then FY19 is actually where we had this big impact and it came down to about...We also had a similar situation in FY15 where there was again a problem that had happened, but our expectation is that our target for FY20 is to take it back to 4,000. If your question is structural change in the market that has happened is there are white oils have got largely commoditized.

**Ankit Gupta:** That was what my question was that is there any structural change or some product mix change because if we take FY16 as the starting point, then there is a linear straight line pointing downwards of margin, so from 5400 to 4900 to 4500 to let us say, Rs. 4000, normalized EBITDA per KL. Then also, there is a straight line pointing downward, so is there a structural change in the market or is there possibility that we will resume that to 5000, 5500 kind of range?

**Kushal Desai:** 5,000 is not something which we, if you take the years prior to that it was at 3,100, 4800, 2,800, 5,000 was a high that we had in that one particular year, but our target is to be able to do 4000 to 4400.

**V. C. Diwadkar:** If we do 4,000 at 4.3 lakhs it will be a good financial performance.

**Ankit Gupta:** Absolutely sir.

**V. C. Diwadkar:** So that is actually what the target is, in terms of structurally, if you have seen in some of our earlier earnings call also we have been saying that our white oil business has got largely commoditized, so as a consequence, it is not an area that we want to strategically look at, we will be opportunistic in that market. Our whole focus is to grow higher in transformer oil and grow industrial and automotive products.

**Moderator:** Thank you. Ladies and gentlemen, this was the last question for today. I would now like to hand the floor back to the management for their closing comment. Over to you sir.

**Kushal Desai:** Thank you very much for your time and we look forward to FY20 being a better year in terms of profitability. Thank you so much.

**Moderator:** Thank you. Ladies and gentlemen, with that we conclude today's conference. Thank you for joining, you may disconnect your lines now.