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SEC/0502/2024 **By E-filing** February 05, 2024

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

Sub. : Submission of Transcript of Investors Conference Call made on Un-audited Financial Results (Standalone & Consolidated) of APAR Industries Limited (the Company) for Q3FY24.

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

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Dear Sir/ Madam,

Kindly refer our letter no. SEC/3001/2024 dated January 30, 2024 w.r.t. submission of link of Audio Recording of post Investors Conference Call made on Un-audited Financial Results (Standalone & Consolidated) of the Company for Q3FY24.

Pursuant to the provisions of Regulation 30(6) of the Listing Regulations, we are submitting herewith the transcript of the Investors Conference Call made on January 30, 2024 on the Un-audited Financial Results (Standalone & Consolidated) of the Company for Q3 and Nine Months' period ended December 31, 2023.

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

Kindly take note of this.

Thanking you,

Yours faithfully,

For APAR Industries Limited

SANJAYA RAJU KUNDER

Digitally signed by SANJAYA RAJU KUNDER
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(Sanjaya Kunder)
Company Secretary

Encl. : As above

"APAR Industries Limited

Q3 FY '24 Earnings Conference Call"

January 30, 2024

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

MODERATOR: **MR. AMBESH TIWARI – S-ANCIAL TECHNOLOGIES**

Moderator: Ladies and gentlemen, good day, and welcome to the APAR Industries Limited Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

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

Ambesh Tiwari: Good afternoon, everyone. This is Ambesh Tiwari from S-Ancial Technologies I welcome you all to the Q3 FY '24 Earnings Call for the APAR Industries. To discuss the business performance and outlook, we have from the management side, Mr. Kushal Desai, Chairman and Managing Director; Mr. Chaitanya Desai, Managing Director and the CFO, Mr. Ramesh Iyer.

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

Kushal Desai: Yes. Thank you, Ambesh. Good afternoon, everyone, and a warm welcome to APAR Industries Q3 Earnings Call. I'd like to provide first a brief overview of our performance, then follow that up with a few industry updates, and then we can get into some of the specific segmental performances of the three businesses. Post that, we'll be happy to host questions.

So, during Q3 FY '24, the consolidated revenue came in at INR4,013 crores, which is 2% higher than the same revenue previous quarter – previous period. The revenue growth was a little bit lower subdued due to very high volumes of exports, especially of cables that had happened to the US market in the last quarter of Q3. And there has been a level of deinventorization and that whole process taking place as we've mentioned in some of our previous calls, the global sales growth ex the US, however, grew by 17.2% in Q3. The export mix was 39% versus 50.2% compared to the period last year.

The EBITDA is up 24% year-on-year to INR432 crores at a margin of 10.8% versus 8.9% a year ago. Profit after tax came in at INR218 crores, which is 28% higher than in the previous year. So, this represents 5.4% PAT versus 4.3% in the year ago period. Now if you look at the 9 months, the consolidated revenue is up 14% year-on-year and has reached INR11,711 crores, the export mix was at 45.6%, which is pretty much the same as what it was for the 9 months last year at 45.4%.

The EBITDA for 9 months is at INR 1,174 crores, which represents a 42% increase compared to the same period previous year. The EBITDA margin is at 10% versus 8% from a year ago. Profit after tax is up 49% to reach INR589 crores with a profit after-tax margin of 5%, and that's 120 basis points higher than 9 months of last year.

In terms of a few updates in the power sector as such, the Central Electricity Authority has reported that 3,841 circuit kilometres of transmission lines were added in the third quarter, which is ahead of the target that they have set of 3,590 circuit kilometres. In the 9-month period, 9,047 circuit kilometres of transmission lines have been added. And this is against a target of 16,600 circuit kilometres. So, we are hoping that in the fourth quarter, that is the Jan-March quarter, the pro rata addition will be higher than in the previous 9 months given that this is some of the best climatic conditions for project execution.

On the substation front, India saw an addition of nearly 38,336 MVA or substation or transformation capacity in the 9 months, which is 61% of the planned addition of 61,404. So here, we are lagging a little bit behind, but the order books by various transformer companies and other component suppliers into substations continues to remain pretty strong.

If you look at the ministry of new and renewable energy, we have set a target of awarding 50 gigawatts of renewable energy capacity including 10 gigawatts per annum from wind energy between 2024 and 2028. In the recent COP 28 Summit, 118 countries have agreed to triple the global renewable energy capacity by 2030.

So, the current level is 3,400 gigawatts and these pledges are to take it to 11,000 gigawatts. In addition to this, the Prime Minister a short while ago, has also announced a very ambitious plan of about INR1 lakh crore of rooftop solar, which should be implemented across India. So, there is still a lot of discussion and movement going forward for this renewable energy addition to happen as part of the increase in energy consumption and as part of the energy transition.

Now coming to the individual business performances, our Conductor business revenue in Q3 FY '24 grew by 4% year-on-year to reach INR1,985 crores. However, the volume has grown by 14% in the quarter. Aluminium prices have been lower, and that is what has – it's almost 11% lower than in the same period previous year, which is why the revenue number has been lower.

Sales ex the US because the US is the second largest market after India for us, even for Conductor actually recorded a 28.3% growth year-on-year. The domestic deliveries of aluminium AL-59 and HTLS conductors as well as aluminium rods have remained in fairly good demand. The export revenue contributed to 40.2% of the division overall revenue versus 49.6% in the year ago period.

The premium products contributed to 42% of the revenue mix. The EBITDA per metric ton post forex adjustment is at INR41,530 per ton from a good product mix of these premium products and also a higher share of exports to countries where the margins have been relatively good.

Our overall order book is at INR6,081 crores with a share of about 40% coming from premium products. Mind you that in terms of the standard products on conductors, a transition is happening from ACSR to AL-59 alloys, which is definitely more beneficial to technologically focused companies like ourselves.

Furthermore, the slowdown in the US market order inflow due to the inventory rationalization that I spoke about earlier has been pretty much offset by strong domestic demand. The upgrade in the specifications that I mentioned of ACSR to AL-59 alloy has actually created a win-win situation for manufacturers like APAR as well as for transmission line owners because this results in a reduction in the total cost of ownership of the transmission lines. So, this effect has started, and we believe that the full effect of this is going to play out over the next few years.

In the 9-month period, revenues came in at INR5,703 crores, which is up 17% year-on-year. Export sales contributed to 46.7% of the revenues versus 43.4% compared to a year ago period. The volumes are up in the 9 months by 36% year-on-year. The EBITDA per metric ton is at 39,777, which is 5% higher than in the previous year.

Coming to the oil division. The Q3 FY '24 revenues came in at INR1,244 crores. The volumes are up by 8%, transformer oil volumes are up by 16% year-on-year. Exports contributed 44.3% of the revenues. The EBITDA post-Forex adjustment for the quarter came in at INR8,157 per KL, which is higher than what has been, not only last year, but in the previous quarters, and this is reflected from slightly better pricing and a lower cost profile than we had.

Part of this increased profitability was due to a delay in shipments of base oil and given that Q2 cost structure was lower than Q3, there has been some – the weighted average cost of inventory has been a bit lower that has added to some incremental profitability in the quarter.

Lubricant revenues came in at INR281 crores, with a volume of about 17,945 KL. During the 9-month period, oil revenue is up 5% at INR3,640 crores, the volumes are up by 13% in the 9-month period. Transformer oil volumes in this period are also up by 12%, and the EBITDA per KL came in at INR6,257 per KL. Our lubricant revenue is at INR703 crores with a volume of 52,812 KL for the 9-month period.

Now coming to our Cable business, revenue growth remains flattish versus the previous year. And as I mentioned, this is almost fully attributable to the inventorization process of US customers. So, if you exclude the US, the rest of the geographies grew by 24.1%. Exports has contributed 31% of sales versus 60% in the year ago period. The EBITDA continues to post double-digit margins at about 11.5% in the current year. For the 9 months, cable revenues are up 20% year-on-year at INR2,773 crores on the back of an increase primarily in elastomeric cables.

Global sales, excluding the US is up 43% year-on-year. And the export mix for 9 months is at 43.7% versus 50.7% a year ago period. The EBITDA post foreign exchange for the 9 months is at 11.4% versus 9.8% in the previous periods. The US order intake is showing signs of revival post this inventory rationalization that we've just spoken about. We are clearly seeing an increased level of inquiry and orders, which are getting finalized do have delivery periods which are coming towards the end of FY '24 early part of FY '25. So, it means in March of this month and largely in the first quarter onwards.

We are also receiving similar feedback from the European Union countries where a similar process has also happened. On the downside, we have seen that the wars committed in the Red Sea has affected the shipping rates. And the frequency of vessels flying back and forth has also increased due to it having to travel around the Cape of Good Hope in Africa as opposed to through the Suez Canal.

So, markets on the other side of the Suez Canal like the US, EU, LatAm and West Africa, there the effect is higher. When you look at East of India, then there is relatively a much lower effect. There has been a sudden increase in freight due to diversion through the longer route, but we also see some of the price increases that carriers are charging as being opportunistic.

And therefore, over a period of time, there is a possibility that these freight prices will start getting rationalized again. The higher freight is hurting competitiveness of future business from locations like India and the UAE with respect to the markets that I just mentioned, it is really unclear how long this will last, but we are quite optimistic that this upward trend and upheaval in freight prices will settle down in the months to come.

Having said that, we remain optimistic that the basic growth drivers that we've been talking about for the last couple of years, both in the domestic and global markets remain intact. We have further updated our corporate presentation and the company profile and its performance, which is available on our website. We would encourage you to please access the same as it does carry a great level of detail much beyond what can be discussed on this call.

So, with that, I'd like to come to the end of my comments. I thank all of you for joining this call, and we can now open up the floor to questions, please.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Mohit Kumar from ICICI Securities.

Mohit Kumar: Congratulations on a very, very good quarter. Sir, my first question is on the HTLS opportunities. Are we seeing a larger traction from the state utilities or big power grid? Are you seeing more tenders compared to last year? That's the first.

Chaitanya Desai: Yes, we are seeing – there is an increasing interest in – of more HTLS lines. But some of the timing of those tenders is unclear to us as to when exactly those will fructify. But nonetheless, the trend is definitely positive and upward.

Kushal Desai: There is a statistic that sort of indicates what the trend of this is going to be that if you see quarter-on-quarter the delta and power consumption that the growth in power consumption in India has been increasing. And in the last quarter, it touched almost 9-point-some percent over the previous year.

So as this trend takes place, the opportunities for reconducting with HTLS line is going to continuously increase. A number of tenders have been lined up, but you will have a small period due to maybe the Indian election from where awarding of some of these tenders may get delayed by a couple of months, but the trend is very positive.

Mohit Kumar: My second question is on the conductors broader number, given the fact that a lot of transmission activities picking up in this country. And do you expect the domestic contribution to inch up and in sense, could there be a shift for the standard conductors to be supplied to the Indian market basically for next 2, 3 years, when you see the activity is very, very high, it looks like that.

Kushal Desai: So, Mohit, the Indian market remains very strong, as you mentioned. And that's how when there has been a slowdown in the US market was completely picked up by demand in the domestic market. What is interesting for us is that the transition has happened from using aluminium conductors, which are still reinforced, which is at the bottom of the value chain. It has moved to the next level, which is the AL-59 alloy-based conductors. So that has clearly made the Indian market more interesting for manufacturers like us because there is a higher technology involved in providing those products, the competitive intensity is lower. And we see this trend – it's already become now the default product.

So, in the domestic market, you'll see less and less of the ACSR and AL-59 becoming standard. So, in the next few years, because if you have such a strong growth on the renewable energy front, the transmission line requirements are also going to be very strong. And as we said in the previous calls, because AL-59 has become the standard, and it's a win-win situation both for manufacturers like us as well as for the end owners of the line.

The competitive intensity has reduced because many players who have not invested in alloying capability and technology where today are not relevant and they either shut down their businesses or reduced the amount of business that they do in conductors, especially on the transformation side.

Moderator: The next question is from the line of Renu Baid from IIFL Securities.

Renu Baid: Congratulations for the strong performance. I have a few very basic questions. First, sir, if you can share any updates on the status of the BharatNet telecom tenders. Where are we in terms of order finalizations across these projects?

Kushal Desai: So, Renu, the BharatNet -- it's at the stage of industry discussion. So, several rounds of discussions have happened and feedback has been sought. So, there are various packages there are 4 mega packages, and there are 4 smaller packages, which are being proposed. And the guidelines of that have been shared and industry participants, there have already been multiple rounds of discussion and feedback, which have happened.

So, our sense is that it's a tender that could possibly come out. I know they're racing a little bit against time because of the impending elections. But it's at a really advanced stage in terms of getting finalized.

Renu Baid: But in your view of the tender, what would be the probability of the tenders getting pushed back because of the election code of conduct coming in by late February or early March?

Kushal Desai: The sense we have is that they are trying to do this in time. Because the networks are very large and the more time that is lost. It's – the Prime Minister really wants rural telecom connectivity to increase. So, if you don't do it pre elections and you'll probably lose 3 to 4 months at least.

Renu Baid: So, I guess 6 months then probably we'll have to just...

Kushal Desai: Election period to get yourself mobilized and these 3 months only.

Renu Baid: Okay. Coming to the core business of Conductors, I think consistently, we have – the business has been faring much stronger than what even we have been expecting. So first, as you mentioned, that there is a structural shift from ACSR to AL-59 range. While this is beneficial for industry and for suppliers like you, what does this mean in terms of differential in either realization per ton or EBITDA per ton when we compare it with the conventional ACSR. So approximately what percentage differential is there.

And based on this, given this transition is now very much visible, how should we look at the longer-term EBITDA per ton numbers for us, maybe from a fiscal '25, '26 perspective. So earlier, we were guiding for long-term ranges of INR25,000, INR28,000 per ton. So now based on this shift, how should those long-term numbers look like?

Ramesh Iyer: Yes. So first, in terms of AL-59 was the ACSR, as the product itself is different and it's a much more improved product than the ACSR type conductor. But there are a lot of competition, a lot of players who manufacture the ACSR type, but it comes to AL-59 there are just few players there because the product is different to manufacture. And the quality is different.

Also, the realization – more than the realizing the margins are better because the weight of the conductor is much less because of the characteristic that it has and it is less corrosion material also. And we have been seeing more volumes coming from this AL-59 type conductors in the recent past.

So, if you look at the overall Conductor division, the EBITDA margin are high because of various factors. The export mix has gone up. We are selling more of AL-59 conductors. The premium products proportion has gone up so it's a combination of factors that has actually led to the high EBITDA. And this has been consistently happening over the last few quarters, more than a year now.

Coming to your question in terms how do we see it in future will be, we give guidance on a long-term perspective. We don't give a very short-term quarterly or half-yearly guidance. But if you look at it from a long-term horizon point of view from 3 years to 5 years point of view, we feel that given the mix change because of the product characteristics are evolved, we feel that the conductor margins could be anywhere above INR28,500 per metric ton plus the tailwinds so that we keep on getting it on, EBITDA.

So, our guidance has been improved over the last 1 year. But as it is visible as of now, we feel that long term, 3 to 5 years, it could be anywhere from INR28,500 plus tailwinds.

Renu Baid: Got it. And just from academic understanding perspective, I mean, as you mentioned, the share of AL-59 in the conductor mix has been increasing. Can you help us quantify from being negligible a few years back, where does it stand today? And as an industry leader in your view, since the 2 years by fiscal '26, how large could be the share of AL-59 within a conductor mix in the domestic market?

Kushal Desai: So, Renu what happened is that the Central Electricity Authority has now made this AL-59 as an option to bid against for EPC players. Now given the weight versus current carrying capacity it's really beneficial to use AL-59 versus ACSR. So as a consequence, it is becoming the standard. The option is given it's like literally a no-brainer to go with AL-59 versus ACSR on a cost of ownership basis.

So, our sense is that all these interstate lines and even longer intra-state lines will all move towards AL-59 as a base as far as India is concerned. Because it's a lighter conductor that can face much lower amount of aluminium in it. So lighter in the sense that it doesn't have steel. It's a full alloy aluminium. For the same weight of aluminium, you can carry a higher current. So now – so either you carry more current on the same line, if we want to carry the same amount of current on the line, you use lesser aluminium.

On top of that, because the conductor is lighter, the tower structure itself is considerably lighter. You can also increase the span between 2 towers. So, it means that the total number of towers can also be reduced. So, there are a lot of parameters that a good – a good designer has in their hand to optimize the use of the AL-59 versus in the case of ACSR, you don't have much flexibility in terms of how you can design the line. So that's why given the option, this should become pretty much the standard in India. I hope that answers your question.

Moderator: The next question is from the line of Mr. Mehul Mehta.

Mehul Mehta: My question is related...

Moderator: Sorry to interrupt, sir. Your line is not at all audible. May we request you to use the handset mode, please, if you are using the speaker more?

Mehul Mehta: My question is with relation to transformer oil business for 9 months, transformer oil business has grown at 16%. And for 9 months, it has been 12%. So, it's quite appearing accelerated growth. So how would that been in terms of order inflow can you share for 9 months? How we have seen like in terms of transformer oil?

Kushal Desai: So, you see – our callers on transformer oil basically happens largely from transformer OEMs, and they are ready to deliver their transformers and when utilities are ready to accept the transformers at their site. So, I – so it's sometimes a little misleading just looking at 3 months. But having said that, if you go around all good transformer manufacturing companies, not only in India but in most parts of the world, have a very solid order book in place.

And given all these lines, which we are talking about, these transmission lines and in the case of transformer oil for APAR, it goes into the generating point, it goes into transmission substations and it goes into distribution. So, when you aggregate all of those 3, we see that there will continuously be addition happening. And this growth we have seen both in India as well as outside India.

Mehul Mehta: And sir...

Kushal Desai: So, in short, if you take a 1-year, 2-year, 3-year perspective, it is going to grow linearly with the addition of transformers and the transformation capacity.

Mehul Mehta: Right. So, in terms of, say, like 16% when we are seeing like volume growth for transformer oil, can you share like in, sir, last 2 years, what would it have been and how it has been accelerating?

Kushal Desai: Well, I mean, it is up 16% quarter-on-quarter and 12% year-on-year. And we've been guiding that even though the oil vertical itself may see about a 5% volume growth, we have been guiding that transformer oil should see a double-digit growth, and that's what is actually panning itself out. So, if some of these plans is they are talking about, this is far behind on the transformation capacity, as I mentioned in my opening remarks, if that is accelerated, then again, requirement of transformer oil will continue to grow.

So basically, over a period, we are very optimistic that this will be the lead product in terms of growth in the oil vertical. And if you see it's the strongest products that APAR has both from a domestic end point as well as what we export.

Mehul Mehta: All right. And sir, if I understand correctly, like our focus is mainly on power transformer oils rather than distribution. Is that correct understanding?

Kushal Desai: So, we have a higher market share in terms of power transformers because our oil is really the best that's out there. And it is the preferred oil with OEMs, especially as they go higher and higher in terms of capacity. Like, for example, if you take 800 kV HVDC which is the highest voltage type of transformer here, we have more than 90% market share. But as you go down into the distribution transformers, the differentiating criteria is less, and the transformer OEMs are also very widespread. There are many small distribution transformer manufacturers who quote on tenders of the state electricity boards, etcetera.

So, there's significantly more price sensitive. So even though we have a good presence even in the distribution side, we have a more dominating presence on the power transformer side. But our products are available across the entire age.

Moderator: The next follow-up question is from the line of Ms. Renu Baid from IIFL Securities.

Renu Baid: I had two follow-up questions, one on Conductors and Cables. So, coming back on conductors, while now in the last 2 quarters, we have seen a substantial jump in the order backlog to almost INR6,000 crores. How should we look at the volume growth for fiscal '25, given that the backlog is already there with us today? And the execution timeline of this order book should be in the next 12 to 18 months?

Ramesh Iyer: So, we are looking at a 15% volume growth on the conductor division for the year ahead. And in terms of the order book out of INR6,000 crores, about 25% of the order books that will get executed post FY '25, we have got the orders now, but the execution of that will start post FY '25. And the remaining months of the execution timeline, depending on the product ranges anywhere between 7 – 6 to 7 months.

Renu Baid: Do we have any L1 number to share on the order book for Conductors, projects where we are on the L1?

Ramesh Iyer: No, we don't share these numbers.

Renu Baid: Secondly, on the Cables portfolio, while you have mentioned of the US inventory destocking. Incrementally, as the supply chain issues are now propping up again, have we seen customers coming back with orders with slightly elongated delivery timelines. So how is the outlook looking again for US marketing specific and do you think most of the inventory destocking concerns which were there behind us as we step into CY '24?

Kushal Desai: So, first Renu, the inquiry level has started picking up. And so that is the first good sign that if your inventories for all products have been high, then there was a silence literally in terms of inquiries. The dialogue was more like "yes, yes, requirements will be good for next year, we'll come back to you." So instead of that now, you're quoting on an increasing basis against inquiry. Your question in terms of the longer lead time, yes, there is a 15-day longer lead time if you go around the Cape versus through the – through the Suez about 15, 18 days is the longer time frame. Customers today have been giving us DDP requirements.

So, door delivery, the time they want the product to be delivered at the project site or the warehouse. So fundamentally, that will result in us manufacturing the product 3 weeks ahead. and shipping it out. So that's why we see offtake increasing basically as we move towards March, and then there's a lot of more deliveries expected to happen in the April, June timeframe.

The other thing Renu is, the product mix also. We are finding that medium voltage cables and certain types of cables, the inventory levels being held are lower than in the building wire, the house wires and the more simple type of cable. So, we are starting to see more orders coming off some of the higher value products first where the inventory levels are a bit lower.

Renu Baid: My second question on the Cable was related to the mix itself. Can you just give us share a broad indicative mix for the 9-month period? How has it been between the high voltage and low voltage and specifically for high voltage and special application cables, how do we stack in terms of mix for telecom, solar, renewable products?

Ramesh Iyer: So out of our total sales, about 25% to 30% is the elastomeric cables, which is rubber flexible cables that gets used in different industries. And then OFCs will be about 10-odd percentage and the remaining would be the power cable.

Renu Baid: Got it. And in terms of geographic mix, how large would be US for you for the 9-month period?

Ramesh Iyer: This year, US has been low because of the reason that we talked about earlier…

Kushal Desai: Maybe a third quarter.

Ramesh Iyer: The mix also of cable, exports in cable, which is less this year. So, this year may not give the right number to really see that.

Kushal Desai: Last year, in FY '23, it was about 16% of the total revenues of APAR.

Renu Baid: Got it. And lastly, if I can ask 1 more question, given that Cable structurally is a high-growth segment for you, and there is significant capacity addition also which we have committed here. So, if you look at from a longer-term perspective, from a 2- to 3-year perspective, fiscal '25, '26, how do we look at the volume growth in the segment to ramp up? And along with volume with increasing mix of specialty of cables here. How do we see the margin expansion story in this segment planning for us?

Kushal Desai: Yes. So, we've been guiding through the last quarter as well as through leading up to the QIP that we had. We expect the sale, the Cable business to grow at about 25% a year CAGR for the next few years. There is a strong – basically, a lot of electrical usage is increasing. And as a consequence, all types of cables, there is a growth. The areas where we are focused in, which is primarily around wind, solar, the railways, defence, mining, etcetera, which is the elastomeric cables where we stand to gain relative to our competition.

And there are more complex products to make where we also carry a higher margin. So, we see the demand for this product being quite strong. And there's a big revival happening in the wind sector. And also, the government has recently come up with a new scheme where you can upgrade your old wind farms.

So, if you see some of the locations which have the best plant load factor of wind, we have been occupied several years ago with windmills of smaller capacity because in those days, that is what was the product available. So, you have 2 to 50 kilowatts, 500 kilowatts, which can today be replaced by 3.5 megawatts. So, they have come up with some schemes for helping these wind developers upgrade their products. And the other feature to this is that in case you have existing PLA agreements, etcetera, it is going to be applicable only for whatever was the original installed capacity.

Any new capacity that comes in, you're free to use whatever other avenues that are available. So, these sort of things coming in, it is going to result in a substantial increase in the amount of wind capacity going into the country. And if that happens and APAR stands to gain because we have – we are by far the big daddy in the cables that go into the wind towers.

Renu Baid: And that should also help our margin profile to come to early teens, 12%, 13% level.

Kushal Desai: Hopefully, yes.

Moderator: The next question is from the line of Dhananjai Bagrodia from ASK.

Dhananjai Bagrodia: Congratulations on a great set of numbers again in this environment. Just a question on your conductor business. How are we seeing that in terms of capacity because our volume growth has been strong, but do we have capacities, 2 or 3 years, hence, to continue with the same kind of growth?

Ramesh Iyer: Yes. So, as we stand today, we have the capacity of 2,05,000 metric tons. And in terms of additions, we have been increasing the capacity depending on the demand requirement. So as and when we are seeing the demand coming up, we put up the facility for manufacturing almost about a year in advance. So, as you see growth of 15 percentage volume coming on the year, you will see capacity also increasing in that to proportion.

Dhananjai Bagrodia: No. But this year, for example, FY '24, your numbers could be higher than 2,05,000. Is there some inventory from last year, which is also being sold because then a year hence from today, let's say, FY '25, '26 to show 15% – let's say, there's 15% or 20% volume growth. Would that be easily feasible to get the increased capacity?

Kushal Desai: So, this year, we already have capacity in place. So, if you take the plan for the year, it is around – we had originally planned for about 175,000 to 180,000 tons. We will be closer to 2,00,000 tons in this year. And already – additions have already been planned to be able to cater to a 15% growth in FY '25.

We've acquired new properties, which if you look at the previous call that we've acquired properties or some of the cable manufacturers in Silvassa who have actually shut down. And so, we will install new equipment in those properties and scale the business up. So, 15% per annum is what we are looking at next year and even for the year after.

Dhananjai Bagrodia: Okay. So, it takes 1 year prior to get scale and production ready, right?

Kushal Desai: Yes, yes. We've already started ordering equipment and stuff depending on the lead times.

Dhananjai Bagrodia: Okay's. Perfect. And sir, secondly, just maybe as your risk player, are you all seeing – in the transformer, are you seeing more growth coming ahead in the power and distribution transformers going ahead?

Kushal Desai: Sorry, can you come again?

Dhananjai Bagrodia: Yes. So are you all seeing good growth ahead in power, distribution transformers.

Kushal Desai: Absolutely. We're seeing growth in both the power transformers that go into the transmission side as well as on the distribution side. It's just that for us, the growth that happens in the case of the larger power transformer is because we have a higher market share and a good differentiating story where we tend to gain more. But the transformer demand is strong across the entire spectrum.

Dhananjai Bagrodia: Okay. So then – and particularly, any – in terms of – are you all seeing it in any particular regions or between utilities in private or public enterprises for power and distribution?

Kushal Desai: So, you see it across right from your RDSS onwards, all these new transmission lines which are being added all the sites with – you have wind and solar going in because basically you would need 3 substations. You need 1 substation to raise the voltage level after generating sauce. Then you need a transformer, which is either an aggregate transformer or a step-down transformer. And then you need a third substation, which is closer to the last mile user.

So, the three substations required – basically if you look at the chain. So, across the board there will be demand in states where the electrical growth or the requirement for electricity is increasing, you will obviously have more transformers going into service that region. But generally, in India, all the industrialized states you are seeing very good electrical growth or electrical consumption.

Moderator: The next question is from the line of Mahesh Bendre from LIC Mutual Funds.

Mahesh Bendre: Most of my questions have been answered. Sir, during the quarter, our international business has been quite soft, both on Conductor side and Cable side. So, do you think recovery will happen from next quarter onwards?

Kushal Desai: Yes. So, it is relevant soft lead essentially by the US market. And as I mentioned earlier that we've already started seeing an increased inquiry level coming from this. And on the Cable side, the order inflow has started even on the Conductor side, there are increased inquiries and some order flow is looking likely to come through. So yes, as you look at FY '25, you will see that the number will be better than FY '24. Increasingly, it looks like that that's going to happen.

Mahesh Bendre: And sir, along with this Red Sea issue regarding the shipping of the products, so that will also have some implication in terms of supplying products to US and other countries?

Kushal Desai: So, the US is a little bit less affected. What is more affected is West Africa and Europe because basically, to get to the other end of the Red Sea, we go down South, you go to West Africa and if you carry on forward you hit Europe. So, the effect is a bit more there because the diversion is very, very long.

In the case of the US, the diversion is more in terms of 15 days to 16 days of additional sailing time. And the rates have gone up, but the delta and the rates is less than what has happened in the case of Europe and West Africa, particularly. And Latin America, there is an increase in rates. But again, not such a huge disruption compared to – compared to what it is in Europe because, again, you can use effectively the – going around Africa.

Mahesh Bendre: Sir, has the situation normalized or still it's in – quite concerned?

Kushal Desai: No, it's not – it's nowhere near normalized. Where still the Houthis are still there with the drones firing away and the militaries are all trying to chase them down. So that hasn't – I mean I think that channel is still not back to anywhere close to what it was. All the good carriers are actually diverting their vessels through the – through the tip of Africa.

Moderator: The next question is from the line of Levin Shah from Motilal Oswal Asset Management Company.

Levin Shah: Most of the questions have been answered. To the question on conductors margin, you just alluded that long-term outlook or the long-term number continues to remain at around INR28,500 plus tailwinds. But what we have observed is that after 2 quarters of muted number versus previous few quarters.

In this quarter, again, we have seen some improvement. Is it because of US market going down versus the previous quarters and domestic conductors like you said, AL-59 is the dominant one that has helped our margins or you see the tailwinds continuing for a longer period of time versus what was expected?

Ramesh Iyer: So, there are these reasons, as I mentioned, it's a combination of now overall premiumization of the product portfolio in the Conductor division. That is point number one. And the sale to developed countries, developed economies, the one on exports happening. AL-59 replacing ACSR is happening. So, while the tailwinds are there, we don't expect the tailwinds to have go down immediate effect or so.

So, we don't expect suddenly the margins to drop in the few quarters. But all that, we are saying that if you want to build a plan for 2 years, 3 years or 3 to 5 years, then taking a sustainable margin of INR28,500 is what we are guiding for. Having said that, we don't expect in the immediate future, the margins dipping considerably.

Levin Shah: Sure, sure. Sure, this INR28,500 number earlier, I think if I recollected correctly, we were guiding for INR25,000-plus tailwinds. So, is there that now we are seeing with all the key tailwinds that you alluded to that the margin's outlook has improved versus what you are seeing previously?

Ramesh Iyer: Yes. So, if you see last couple of years, we have been gradually increasing our guidances from what it used to be INR8,000, INR10,000 couple of years before. As an end, we are seeing opportunities getting established as we are seeing confidence in the products and the market, we are gradually increasing the guidance there. And also because of AL-59 ship that we are seeing, we are now more confident to sustain this level of EBITDA going forward.

Moderator: The next question is from the line of Charanjit Singh from DSP.

Charanjit Singh: Sir, on the – especially on the acceptances and the interest cost, if you can touch on what is the acceptances number right now? And how should we see the interest cost overall going forward?

Ramesh Iyer: Yes. So, the acceptances is about INR4,100 crores, the LC acceptances, which are there on the books. And interest cost actually is a function of your SOFR rates that is happening plus the rates of metals, aluminium, copper and oil as well as the level of procurement that we do, this will also depend on the exchange rate prevailing. But depending on the volume of the business that we are seeing in the current quarter interest rate is fair approximate that we can see in the future quarters as well.

If you see the last quarter and this quarter has been about flattish was a marginal increase depending on the level of production. So maybe that's the level we can see. When we see interest rates coming down, the SOFR rate coming down, that's where we'll actually let you see interest costs actually coming down.

Charanjit Singh: Okay. So, the other thing is like you've also touched upon non-US markets in the export segment, especially, how is the outlook contributing there? Because this time, actually non-US markets had contributed to decent growth. in the conductor segment. So, if you can touch upon how these markets are evolving? And can they offset if there's a weakness in the US market at all? And the other aspect is that with a lot of these freight issues, do you see again, inventory levels building up in the channel where the deinventorization was happening in a big way earlier?

Kushal Desai: So Charanjit, this deinventorization thing, as I mentioned, what is happening is that customers are increasingly giving DDP date. So, the adjustment is happening at our end. If the lead time is going up by 15 days or 20 days, and we are exporting the product that much earlier.

In terms of demand excluding US, It has been best in India and in some other pockets in the world also, it has been okay. But it may not replace the US market in terms of the quality demand and the pricing that was available in the US. Domestic is strong.

So, the volume can easily be substituted with the domestic business. But having said that, we don't see the long-term US market not being there. This is more a shorter-term sort of effect. We were holding up to almost 9 to 10 months of inventory, whereas the law has normally been holding 2 to 3 months. So that 6 to 9 months cycle, everybody has to -- I mean, you have to kind of face it. So, I think that worst is going to be over. And after that, demand will continue to pick up from this, but overall demand is good. So, whether it comes from geography or geography, we – you will see a strong demand.

Charanjit Singh: Got it, sir. Sir, especially in Cables also, you've highlighted that US and Europe inquiry levels have gone up and in terms of Cables also, the kind of approvals which are required are similar to what are they in Conductors, how is this market shaping up for us in the US and European context?

Kushal Desai: So, in the US context, we've been – some of the customers that we've started working with, they've come back to us, giving us new products to even get UL approvals for those categories get opened up. So, I think our relationships are deepening with EPC players and with customers that we are servicing. So that's the reason why we have confidence that as time passes by, the US market will continue to actually grow and be a very strategic market for us.

As far as Europe is concerned, there, we've been approaching more and more customers. Again, we have a similar sort of feedback saying that from March, April onwards, we should be seeing increased supplies taking place. Many utilities have also started discussions, etcetera, for their requirements that are going to come up in this financial year.

Moderator: The next question is from the line of Maulik Patel: from Equirus.

Maulik Patel: A few questions. Can you just highlight on the capex side? I mean what we planned this year and how much we spent and where you have spent? And what about for the next year if you have finalized the budget.

Ramesh Iyer: So, we had planned about over INR300 crores to be spent in this financial year. And as of December end, we already spent about INR225 crores of capex. Going forward also, we feel that to maintain the level of turnover that we need, we'll be spending about on an average about INR300 crores on an annual basis.

Maulik Patel: Doesn't it mean that increase in your Conductor capacity? Because you mentioned that your Conductor capacity is around 2.1 lakh and you will be running it at around most full capacity utilization. Do you think that you will need to add significant or new facility for the Conductor or is it just more about the brownfield expansion in the existing facility?

Kushal Desai: So, both actually for Conductor as well as Cable, that is where the large portion of capex will be spent. It will be a combination of brownfield expansion, also the debottlenecking of the existing machineries as well as, in some cases, Greenfield setup of new plant as well. So, it'll be a combination of all of these fees that will come in the future.

Maulik Patel: So, the capacity, which is around 2.1 lakh tons, that it will go in the next 2 years? Any rough ideas?

Ramesh Iyer: Capacity will actually grow in line with the demand, as in the demand coming up, which has been setting up the – keeping the infrastructure ready with the year in advance.

Kushal Desai: 15% growth is what we are planning. So, year-on-year, you'll see capacity getting added based on that 15% growth. So, this year, we are at around 200,000 in the following year, you looking at equivalent of around 225,000 - 230,000. So that capacity has already been planned. Some of the orders of long lead equipment's have already been placed. But on a capex, fundamentally, you're looking at around INR300 crores a year of active capex for the company as a whole.

Maulik Patel: Got it. Got it. And the last one on this QIP money which you have raised almost INR1000 crores. So that has come down -- that must bring down your acceptance level from the H2 number, right? The September end, what was the acceptance? And now you mentioned that it's around INR4,100 crores.

Ramesh Iyer: Yes. So, we have utilized about INR300 crores of the QIP money by December end. And therefore, you see that partial impact in December and financials. And the bulk of the money will get actually spent in quarter 4 of this year.

Moderator: The next question is from the line of Abhijeet from YES Securities.

Abhijeet: My question is on the export side. Last few quarters, we have seen some weakness happening, particularly in the US geography. Can you comment on the underlying demand in US? So, like you mentioned that India is seeing a lot of policy-driven push on the renewable side, like rooftop solar announcement of 1 trillion, etcetera. And US has also been – I mean, the US policy has also been driving investments in renewables.

But as far as I understand, there were some pushbacks because of the higher interest rates. So, some projects were getting delayed there. So, in terms of the underlying demand, I mean, I understand that there is inventory rationalization happening from the channel. But underlying demand, can you comment on it a bit, the US particularly?

Kushal Desai: Yes. So overall the underlying demand is still there. We are finding deinventorization happening in products like cables and many other categories where the supply was relatively free, there was a free flow of the supply and they handle overstock. There is today a problem that is there with some of the components, for example, in a solar plant, if you look at junction boxes and some of the connectors and stuff there, China is the largest producer of that, even solar panels.

So, with the US wanting to source less product from China, there are bottlenecks even in the supply chain. So even if a utility or a customer is wanting to put in capacity at a higher pace, there are some limitations coming from critical components in it.

So as a consequence, it's not that the demand has actually evaporated or got destroyed. It's really – demand is still there. These or whatever the inventory is being used to service and whatever is not, is being ordered. But items that China dominates is actually – is creating some bottleneck on the ground.

Now having said that, the indications that we have from most of our customers is that, as we work through 2024 and get into 2025, their demand revival should take place. And we are clearly seeing that with kind of inquiry levels that are coming in and order flow has already begun. So, I mean you add all these things up and I think it leads to definitely 2024 being better than what the situation is as we ended 2023.

Abhijeet: Right. So, I mean, sir, lastly, what I was hearing is – was that the project costs have gone up a bit. So, one of the variables that you mentioned that sourcing from China has reduced. So alternative sourcing is being done by the project developer there. Also, the interest cost is 1 variable, which is impacting the increased project costs.

Kushal Desai: Yes. So, the interest costs are definitely playing a role because not only is this a cost of interest but then you also have your debt service ratios, which are there. So, if your interest cost goes up, then the amount of leverage you can take also gets reduced. So that effect is definitely in place.

But the way we look at it is, the US imports $19 billion worth of cables. And there is a huge ocean out there for us to pursue. And our own market share, if you see the FY '23, which would be the best year that we sold to the US, we were at a little over INR1,000 crores in the US market as such.

So, there is a lot of room to grow and some of that is independent of what happens at the -- I mean if you have a dominant market share, then you will be affected by this. There is – there are still quite a lot of projects that are going on over there. And so, we are quite optimistic and we are pursuing it.

Abhijeet: Sir, from our current product profile, what is the kind of market that we can serve in US, you mentioned $19 billion of products. So, what is the market that can be addressed with your current product profile?

Kushal Desai: We can do the entire building wire segment. That means all the cables that go into real estate. We also have UL approval for all the low voltage range. We have an approval which we recently got for the medium voltage that's going up to approximately 40,000 volts. We have other special purpose like, for agriculture and stuff.

We have totally over 20 UL approvals in place and we are continuously adding also based on the demand that's coming from the customers. These products find themselves to a reasonably large addressable market. It's really working through with customers and through distributors that will be the bottleneck, not the demand as such because if you add all these orders still a drop in the ocean in terms of the total demand that they have.

Moderator: The next question is from the line of Bharat Shah from ASK Investment Managers.

Bharat Shah: Kushal, on the US cable front, I'm a bit surprised because whatever I am talking to the other cable manufacturers, US situation for cable demand has been very buoyant. I mean, KEI, for example, is running short of capacity. Otherwise, they would have more than doubled their exports to America. So, am I missing something, why America?

Kushal Desai: Bharat bhai, as far as I mean I can just comment from export statistics that we have access to. That if you take FY '23, APAR was the largest exporter to the US, Polycab was a close second. And KEI's exports was almost non-existent to the US. Their major export markets were in Australia and other geographies. So, they are actually just starting to make their way into the US. And I haven't seen – whatever data we have so far in the year, I haven't seen them really selling anything or very large quantity in the US.

So, we're in touch with at least 50 plus customers and a whole lot of distributors who regularly buy from India stock and then resell the product. And all of them have a common theme saying they are deinventorizing because they were carrying relatively very high levels of stock to insulate themselves from the supply chain issues that existed before.

So today, what products we are delivering is really the makeup product. If you require 4 or 5 different types to go to a site then whatever is missing to deliver an order, that is what they're placing and asking for immediate delivery. New project site deliveries are getting deferred by a little bit.

So that's what the feedback that we have. We have two full-time salespeople on the ground and they are constantly meeting customers over there. And this is the feedback that we have. And we've seen overall exports going to the US based on export statistics that we have, have substantially gone down compared to the same period previous year.

Bharat Shah: That's interesting. This is a bit contrary to what I assumed or I thought I had an idea about. KEI for the current year, if I'm not mistaken, INR150 crores US exports are on the cards or it is that's what I remember unless I have got the data wrong. And they were saying that they would have easily doubled it or more if they didn't take capacity constrains which they have actually...

Kushal Desai: No. We were running at a run rate which was almost INR300-plus crores a quarter. And if you take the average execution of last year and the second half of the year was even higher than that. Our expectation is that, I mean, we will cross INR150 crores in a quarter in the next couple of quarters again. But it is definitely something which has been subdued for the last few months and now picking up.

Bharat Shah: I see. And Europe also is similar commentary, you would say?

Kushal Desai: So, in Europe, we have been focused more around the renewable energy side. In the US, we have more sectors that we are covering. So, on the renewable energy side, also the distributors there like [LAP, Heliu Cable], all these guys, they produce some of their own products and they supplement with imports.

So, they were all holding larger inventories but their inventory positions have substantially improved. So again, same expectation that as the summer comes in, you will start having deliveries taking place. We also have a contract with Enel, which is a large Italian utility. So, Enel also had a lot of stock at their end.

And part of the problem was because certain components which they required, like these junction boxes and things that were delayed. So as a consequence, their cable inventory has substantially gone up.

So now as that backlog is getting cleared, deliveries will start for us on the new Enel contract from April and May onwards. So, we see as we get into 2024 down the line – down the year, sorry, the demand is going to pick up. Australia, on the other hand, has been quite steady right through this period. And KEI has a major position in Australia, for example.

Bharat Shah: Sure. Sure. And one last thing. I mean, if I look at the current quarter, while apparently, the overall bottom line level performance is robust but essentially, most of the businesses have been flattish, both on top line and on the margins, except, of course, the oil business, which is, margins have shored up sharply.

So, if I look at the year ahead, conductors, I think you already mentioned we are looking at probably 15% plus kind of growth, how do we see the picture for the other parts of the businesses for the year ahead?

Kushal Desai: So, the cable business, we are targeting a growth which is in that 25% – 20%, 25% range. And in the case of our oil business, overall volume growth at about 5%. So, if you see the volume growth which has happened for the conductor business also has been 13% in this quarter. Aluminium prices like-to-like are down by 11%.

Yes. So that has eaten into what would be a rupee growth but the volume is there. And so, we see growth in all these businesses. In our oil business, fundamentally, the transformer oil should grow double digit.

Bharat Shah: Okay. So, outlook for the year ahead would be conductors 15% plus, cables, 20%, 25%. And in oils – transformer oils double digit and overall oil portfolio, hopefully, profitability should reflect much better picture than the volume growth.

Kushal Desai: Yes, absolutely. And we've been guiding this for, I think, last couple of quarters and through the QIP process that we went through also.

Moderator: The next question is from the line of Kunal Sheth from B&K Securities.

Kunal Sheth: I just wanted to check on – are you seeing any revival from the Chinese competition, especially in the international market and domestic market? What we have been hearing is that they have come back in the US market by routing it through other countries.

Kushal Desai: So, we have been seeing generally increased competition from the Chinese. There are certain geographies where Chinese products, the acceptance of those products was never in question, right through this whole period. Like, so if you look at parts of Europe, you look at parts of Latin America, Africa, etcetera, the acceptance was always there.

And in some cases, they gained compared to India because they had a more favourable tariff structure compared to what India had. The US – we've heard that they're trying to route products through Vietnam and some of these other geographies. There are investigations going on.

And it could culminate in antidumping duties or some sort of punitive damages there. But do keep in mind that moment the Chinese try to route it through another geography it adds significantly to the supply chain costs.

They no longer can be as competitive as they are from China. And as far as conductors is concerned, we've been competing with them for years around the world. So, I – as far as the US market, Australian market is concerned, I don't think we are overly concerned. We also are working with a set of customers who do not prefer Chinese products.

And therefore, they have been working with us to be a long-term supplier to them, especially some of the utilities that are there in Europe and in Latin America, etcetera. Some product categories the Chinese are very competitive like OPGW wires, etcetera.

In some type of simple construction cables, certain simple construction conductors. But I think this is something that -- the US market is still not flooded with Chinese products. And I don't think it will be that easy for them to sell in large quantities there.

Moderator: The next question is from the line of Raj Rishi from DCPL. Mr. Raj Rishi, your line is unmuted. You can please proceed with your question. As no response from the line of the current participant, we'll take the last question from the line of Amarnath from Ministry of Finance of Oman.

Amarnath: Yes. So just wanted to know, this year or this quarter, looking at the growth in the margins of this – your oil side of the business and you said a note into the presentation that this is due to some shipment gone here and there and it has a impact on the profitability, which will be reversed in the next quarter. Can you please elaborate what is exactly you want to say?

Kushal Desai: So, we have long-term contracts in terms of supply from refineries. And because of certain supply chain-related issues for bulk shipments coming out of Korea, our largest supplier, which is S-OIL, they were trailing behind in terms of the shipments, which they've caught up in December month.

So, the prices which existed in that August, September, October time frame were lower than what were in November and December. So as a consequence, when you use the accounting where we use SAP, the accounting is done on a weighted average basis.

So automatically, you end up – we price the product based on what should have been the supply pattern to us, what actually ended up happening is that because of the delay, the effective weighted average cost of the raw material was lower through most of that quarter and it increased only in the month of December.

So now that higher-priced product is going to be carried forward into January and some part of February. So, you'll see a little bit of adjustment happening because of that. That's what we were guiding.

Amarnath: You also said that in January, February, the profitability and the margin will come down compared to what we.

Kushal Desai: We'll get a little bit affected because we are sitting with a higher cost basis, as you enter this quarter, which otherwise should have got consumed in the previous quarter and we priced our selling prices on that basis.

I would rather look at a longer term, a 9-month or a trailing 12-month period, which is indicating that the trailing 12-month margins actually have been better than the same period previous year.

Amarnath: Yes, that is exactly I'm coming to the next one. Now if you – if we see the last 12 months, 15 months of this particular part of the business, the margin has been subdued due to several factors. Now from this quarter onwards, are we seeing that things are reverting to the mean and we are slowly going back to the original margin, which it was prevailing around 1.5 years, 2 years back. And then what – how are you looking to 12 months down the line?

Kushal Desai: We've been guiding throughout at approximately INR5,000 to INR5,500 as the EBITDA per kilolitre – for 1,000 litres. So, if you see the 9 months, we've been actually above that. We are at INR6,125 per KL. So, we are already ahead of that guidance, which we provided. And as we go forward, these days, there are plenty of geopolitical type of upheavals and risks that come up. But our sense is that transformer oil requirements are going to be very strong and that is the lead product that we have. So, we are quite optimistic as we go into the future.

Amarnath: And what about the lubricant side?

Kushal Desai: The lubricant side is a mixed bag. You have some of the higher performance products doing quite well in terms of margins for us but the higher performance requires or has much longer drain intervals. So, you – the volumes are always coming under pressure because of drain intervals of all oil products or all lubricant products are increasing. So, you see some improvement that happens in margin per litre or for kilolitre.

So, the volume will come under – the growth is in the 2%, 3% kind of range, the market growth. So, we've been growing faster than that. So, we see that the lubricant margin profile for us has improved but we don't see any dramatic improvement happening there.

Amarnath: So, the volume will continue to be the subdued, right, I mean between this 3% to 5% arena in the next, if I say, 12 months, 15 months down the line as per your current estimate?

Kushal Desai: Yes, we are guiding 5% to 7%, of which 10% growth we expect from the transformer oil product mix.

Amarnath: Yes. And just last one clarification before I end. How you navigate when this crude – the base crude oil price fluctuates, which is happening, say, for example, last few months because of so much of geopolitical tensions and things that are happening and it fluctuates quite severely compared to what it used to be before. So, in terms of getting this crude price as an input and then process and you do your output, as well as the pricing scenarios of your end product, how do you manage that risk of this.

Kushal Desai: Most of the B2B products are priced by the month. There are some longer-term pricing to customers and those we restrict to only utilities or to the MNC clients who honour a long-term contract, like the Hitachi, ABB, Siemens, and etcetera.

So those are based on a formula, which is linked to the formula on which we buy from the refineries ourselves. So, there is a reasonably good correlation. Otherwise, we just price it on a monthly basis. When prices go up gradually, then usually, there's not much of a problem. Similarly, when prices come down.

But if prices shoot up, if costs shoot up, or if selling prices fall sudden even you don't have a choice but to lose 1 month or 2 months in the adjustment period. So that's the reality of the way in which things have been operating.

Amarnath: So finally, even if there is a 1- or 2-month lag period either on the upside or low side, can we assume that finally, the price is getting passed on to the customers maybe with a lag, but upside or downside.

Kushal Desai: Yes.

Amarnath: So, over a period of time, our margin from that particular business more or less remains stable.

Ramesh Iyer: Yes. That is why we have been guiding this INR5,000 to INR6,000 per KL in terms of EBITDA because in some quarters, you may see margins going to about INR8,000, INR9,000 per KL, whereas in some quarters, we would actually see INR1,000 to INR3,000 per KL also. Therefore, we need to see this on a long-term 12-month horizon and that's where the guidance of average of INR5,000 to INR6,000 per KL comes.

Amarnath: Yes. Sorry, I'm putting little more emphasis compared to other callers because if I see the weightage of the profitability of this business to your current quarter and expected in the next quarter, as you can hear from the other similar oil producers whether it is Savita or Gulf Oil or even Castrol, so they are all looking very bright compared to what the situation prevailing last 12 months, 15 months down the line. Are you feeling the same sense that we are reverting back to the mean?

Kushal Desai: Yes. We've already gone beyond the mean, as you can see in the last – from the last 9 months performance. And we are very optimistic on our growth, especially of transformer oil. We sell more than all of the people whose names you mentioned. So as transformer oil grows in this division, that is a lead product for us as far as our oil vertical is concerned.

Chaitanya Desai: And there, we've been guiding double-digit growth.

Moderator: Thank you. Ladies and gentlemen, that was the last question for today. As no further questions, I would now like to hand the conference over to Mr. Kushal Desai for closing comments.

Kushal Desai: Thank you very much. I appreciate you all joining for our Q3 earnings update. And just as a closing comment, we believe that all the growth drivers that we have and we've been talking about for the last few quarters, they remain intact. There are a few short-term issues that could be there like the Red Sea issues, etcetera but the longer-term drivers are still very much intact and we remain quite optimistic in terms of performance over the quarters to come. So, thank you very much.

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