Conference Call Transcript

APAR Industries Conference Call

Q3FY11 Results

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Corporate Participants

Mr. Kushal Desai
Managing Director

Mr V C Diwadkar
CFO

Questions and Answers

Rahul Gajare: I welcome all the participants on the conference of Apar Industries' third quarter earnings. We have with us Mr. Kushal Desai, Managing Director; and Mr. Diwadkar, CFO, from the management. We will have opening remarks from Mr. Desai after which will move on to the question and answer session. Thank you. Over to you sir.

Kushal Desai: Good afternoon everyone and thank you for joining us on this investor update and earnings call. I will quickly run through some of the highlights to you in terms of financials and the segment level performance for the conductor and the transformer oil segments and I am sure there will be plenty of questions, particularly on the conductor business which we will be happy to give direction in terms of where the business is going.

Just in terms of quick highlights for the third quarter net sales increase by about 24.7% to INR 648.5 Crores. The EBITDA slightly reduced from INR 40.7 Crores to INR 38.7 Crores. There is a small comment I would like to specifically make on this that embedded in this is actually a certain forward cover and hedging cost and if you compare the previous period with this period you will see a substantial difference in the interest cost line. When we borrow overseas you end up picking just a basic LIBOR plus the premium in the interest column and the forward cover hedging cost etc., get loaded on to the product value as such. So that is about little over a percent difference coming as a consequence of that.

Our PBT grew by 21.2% going up to INR 35.2 Crores from INR 29.1 Crores and profit after tax increased to INR 24.9 Crores from INR 22.2 Crores. Similarly, on a nine-month basis net sales have shown a growth of 28.4%. EBITDA is up 11.4%. PBT is up 39% and profit after the tax is up 20.4%.

As far as tax is concerned at this stage we are computing tax without considering the merger of Uniflex into Apar, which is something that we are working on with BIFR so when that happens the tax computations will get modified accordingly. So the EPS at the end of nine-month period stands at INR 25.73 compared to INR 21.38 in the previous period. Specifically on the conductor side sales revenues were up by 32.1% and the volume sales growth was at 24.8%. The sales revenue for the nine-month period was up by 22.4% and the corresponding volume growth was 16%. The segment level profit however was lower at INR 5.8 Crores versus INR 12.8 Crores in the previous quarter and if you look at it for a nine months period it has reduced from INR 49.3 Crores to INR 36.1 Crores.

Current order book stands at about INR 1215 Crores as of 31 December. We received orders worth INR 223 Crores during this quarter which consisted of about INR 36 Crores of overseas business and INR 187 Crores of domestic orders. Subsequent to the closing of December 31, we have received further order of Power Grid of INR 178 Crores. So this is the first order that has been placed post tenders, which have been opened in November 2009 onwards, and supplies for the same are expected to commence from June 2011. We are also expecting significant portion of this backlog of tenders from Power Grid, which have not been finalized since November 2009 onwards, to be cleared in the next few months i.e. in the March-April timeframe based on the best estimates we have as of today.

The segment level profit actually has dipped from 4% to 2%. Fundamentally, many of the orders executed during the quarter carried a lower margin. Also, we have had some delays in terms of some of the more profitable packages getting pushed back by a few months, which have resulted in some of this erosion-taking place. In addition, we had an impact of higher freight cost both in terms of export as well as in terms of domestic. On the export front the container freight numbers were much lower about a year ago and particularly in the third quarter there has been a substantial jump in international freight rates and since these were fixed price contract where we have actually hedged, metal etc., the fright was something which we were not in a position to hedge, so that impact is approximately INR 1 Crores but we do not see a similar impact going forward from the next quarter onwards to any substantial extent. As we mentioned earlier we expect the conductor pricing on some of the new orders that are coming in are looking better than the previous period and most of these more profitable orders execution starts from June 2011 timeframe based on the best estimates which we have today.

So, in summary we find the conductor profitability which we were expecting to actually start improving from the third quarter/fourth quarter of FY11 is looking like getting pushed back by three to six months in terms of the more profitable orders getting executed. However, there is lot of enquiry flow that is taking place and most of these order discussions that are there are at better price levels than the orders under current execution.

In terms of the transformer oil and specialty oil side the sales revenues have increased to about INR 355 Crores representing 19% growth. The segment level profit is also up by about 24% in this period and we have seen improved performance fundamentally because of not only a better mix of products being sold in the quarter of transformer oils but also our industrial oil segment. We continue to start shipping products against some of the new specifications where the company actually has a unique position of being the only domestically approved supplier and as that volume grows, which we expect to grow really in FY12 with some of the 765 KV type jobs coming up for execution the mix and profitability should continue to remain good.

In terms of our automotive brand which is rebranding of AGIP Lubricants that we blend under know-how from ENI, there the business has generated for the nine month period sales turnover about INR 90 Crores and a profit of a little over INR 5 Crores. There has been sharp increase in the price of crude oil and diesel as well as the same impact is showing up on base oil. There is also slight tightness in the availability of base oil but as we have mentioned previously

Apar's policy is to have about 70% of its procurement on long-term contracts so the effect will come essentially only on 30% which we buy on a spot basis and given that there is a general tightness of inventory in the marketplace we do not foresee any major issues in terms of price increases going through in the market place if at all there are leakages in price increases it would be in segment like the industrial oil segment etc., where the changes in the prices take place basically on a quarterly basis.

So there may be some short-term impact but it should not really be significant. The outlook on the volume front continues to look fairly strong based on the order book that we have seen from domestic customers as well as some of our overseas customer that are going to export transformers into India. In terms of operations at Uniflex net sales for the third quarter basically increased to about 61 Crores from 38 Crores; the loss also declined by about INR 2 Crores. There has been lot of inventory that we have actually ended up carrying at the end of the third quarter because of certain inspection related delays as clients side availability not being there so we expect actually much bigger sale in the fourth quarter, which would be hopefully in line with what we did in the second quarter which is closer to INR 85-100 Crores. Also, the profitability on this order seems to be better so the loss should be much narrower in the fourth quarter compared to the third quarter. So those were the general comments that we had and we would like to open up for questions.

Moderator: Sure Sir. Thank you very much. We will now begin the question and answer session. Anyone who wishes to ask a question may press "*" and then "1" on their touchtone telephone. Participants are requested to use only handset while asking a question. Anyone who has a question at this time may press "*" and then "1". The first question is from Madan Gopal from Sundaram Mutual Fund. Please go ahead.

Madan Gopal: Good afternoon sir. Sir my first question is can you give me the volume on the conductors and the oil side actual numbers?

Kushal Desai: Conductor volume we have done in little over 24,000 metric tonnes and on the specialty oil side if you take total oils put together we are looking at 66500 in aggregate. The conductor sales has been 22,800 tonnes and not 24000 Mt. as earlier mentioned.

Madan Gopal: So what was the year-on-year growth in oil segment volume growth?

Kushal Desai: If you take the period we are looking at 5% growth, which has happened in terms of volume terms for the aggregate, but as far as growth in transformer oils is concerned our transformer oil growth is almost 20%. Actually, we have degrown some of the other segment actually what has been happening is that all through October, November, December there has been very sharp increases than have been there in the cost so in sectors where we have not been able to pass on prices to the extent that we would have liked is we have actually degrown the sales in that particular sector. In the case of transformer oils particularly we have no problem in terms of passing on the prices either because we have been able to renegotiate prices or the pricing formula has taken care of the increases which has been seen in the market. So that is how the profitability has continued to remain fairly strong.

Madan Gopal: How have been realizations, transformer oil segment?

Kushal Desai: Realizations have been fairly good. We are looking at an average prices is about? I do not have data handy with me but actually the margin for KL that we have is actually substantially grown you will see that it is almost INR 5,500 per kilometer as against INR 3,700 in the same period of previous year.

Madan Gopal: Some clarity on the Uniflex turnaround, is the issue only about leverage that more the sales we have narrowed down the loss or is it to do something with lower margin issues in the market?

Kushal Desai: There are both factors in it. There is obviously factor that comes in on account of the sales volume that has been booked simply because the cost structure is reasonably fixed. It is quasi fixed cost however mix of orders also plays a very critical role and in the fourth quarter again we have orders which are with better realization higher margins at the time at which we took the orders itself.

Madan Gopal: Okay so that is the current situation in the market?

Kushal Desai: Also some proprietary lot of special cables which we have developed, where we have quoted for tenders worth almost INR 15 Crores where we are the only Indian company participating in those tenders, which are for cables required for special application of navy, defense etc., the rest of the participants are all overseas companies and so we are expecting some of that to also fall in place in either the fourth quarter, meaning by March this year or in the first quarter of next year. Those carry substantially higher margins and they are very specialized products.

Madan Gopal: So, considering this as well as the current market scenario on the cable side, what do you think kind of targets we have in FY'12 in terms of loss?.

Kushal Desai: Our target is to basically grow the business. This year we would target close to INR 300 Crores in revenues and the loss would be almost INR 23-24 Crores approximately of which about INR 6.5 Crores is the depreciation. Our next year target is actually to do a revenue of close to INR 400 Crores, and to completely wipe out the loss. If the merger into APAR happens, which it should, possibly it should be able to reduce the interest cost, which Uniflex is bearing, which is one of the major factor. We are picking up an interest cost of almost INR 1.2 Crores, against 11 Crores in the nine months period. So that interest burden should also get substantially reduced is what I expect.

Madan Gopal: Like on merger you will fund from Apar's management.

Kushal Desai: We are able to do actually as Apar gets much lower rates of interest.

Madan Gopal: So, this INR 11 Crores can go down or how it is?

Kushal Desai: We expect it to go down by at least two to three basis points. So it could reduce by almost about 30-35%.

Madan Gopal: When this merger is likely to happen?

Kushal Desai: We are already in the process as you have seen in the investor update, we are actually working through BIFR and the draft rehabilitation proposals have already been submitted. So the timeframe which we are looking at is April and May timeframe.

Madan Gopal: My last question on the Apar Chemtech what kind of growth that you expect in FY'12 should be there; based on the current markets scenario?

Kushal Desai: In FY12, we expect to grow by about 25%.

Madan Gopal: Margins should be intact?

Kushal Desai: This year we are expecting to target profit of about INR 7 Crores. Next year our target would be to grow profit also by at least 25% in that particular sector.

Madan Gopal: Thank you sir. Thanks a lot for answering my question.

Moderator: Thank you. The next question is from Kamlesh Ratadia from Enam Holdings. Please go ahead.

Kamlesh Ratadia: Good afternoon sir.

Kushal Desai: Good afternoon.

Kamlesh Ratadia: Just wanted to check on the volume target for this year. You had mentioned that it would be close to about 1 lakh tonnes in the conductor business, are you still on target for that?

Kushal Desai: Yes, actually we are on target to do the 1 lakh tones..

Kamlesh Ratadia: Any guidance can you give for next year?

Kushal Desai: Our next year target is to do about 125,000 tonnes.

Kamlesh Ratadia: In terms of the volume guidance for the oil business because in this quarter; it has grown only at 5%. Are you still looking at 15% kind of growth in the oil business?

Kushal Desai: Kamlesh what we have been always targeting is growth in our key product lines, transformer oil and our industrial oil which are the two most profitable product lines. Both those have in a nine-month period grown by over 30% and even in this quarter have grown close to 20%. Where we have been playing around in terms of our volume numbers is on products like white oils and some of the other industrial process oil, where you know when you see a steep increase in raw material cost and customers are not ready for passing on the increases, it is more prudent to actually reduce the sales volume because inventory is tight. Generally speaking on base oil the core profitability comes on the 70% which we have got on a contract basis, so we are buying 30% on spot. There is no point in buying those raw materials at a high price and then selling product without the requisite increase in selling price. So we have actually modulated the sales volume to some extent, keeping a much stronger focus on the bottomline. But as I said that two key product lines, which are the most profitable product lines as both have grown at over 20% even in this quarter.

Kamlesh Ratadia: Do you think this growth rates in the transformer oil segment can be maintained?

Kushal Desai: Our target next year is to grow at 15% on the transformer oil side and to grow at 25% on the industrial oil side.

Kamlesh Ratadia: So, basically if that happens the margins per kiloliter level should be maintained?

Kushal Desai: We have grown the margins from 3700 per KL to about INR 5000 per KL, so our target is try to maintain it you know close to the 5000 per KL mark. It is largely coming from improved mix that is taking place.

Kamlesh Ratadia: That would be all. Thanks.

Moderator: Thank you. The next question is from Vivek Jain from Allegro Capital Advisors. Please go ahead.

Vivek Jain: Hello. Good afternoon sir.

Kushal Desai: Good afternoon.

Vivek Jain: Sir, I just wanted to know you just mentioned that the profitability in the oil business has been better because of the product mix that we have been selling so is it particularly because of 765 KV oil or what should be the particular reason, what you mean by?

Kushal Desai: Actually, there is some amount of sale of 765 KV oil that has started, which will of course substantially grow as you go into the next year.. But also there have been new specifications put in place for the 400 KV class transformers where again as far as PGCIL is concerned on the 400 KV class, new specification also we are the only company at the moment that is approved to supply; so all the new PGCIL 400 KV transformer business is also being catered by us at the moment.

Vivek Jain: Sir just a small query, what would be the ballpark number for the amount of oil that will go into per MVA of transformer?

Kushal Desai: Approximately, it depends; it varies between distribution transformer and power transformers. On the distribution transformer side, we are looking at about 600 liters per MVA and on the power transformer side we are looking at between 450 and 500 liters per MVA.

Vivek Jain: The conductor business you have mentioned that some of the orders that were booked in the last year that has led to the margin drop here, and also the increased cost of transportation, so how much of our order book would still be under these contracts, which will be on the lower margin front?

Kushal Desai: The impact of freight has been both in the case of domestic as well as overseas though it has been much sharper on the overseas side. See what happens in export contracts is that they are basically fixed price where you hedge aluminum and zinc, etc., that goes into making conductors. So the metal portion is something that is hedgeable, the portion which is not hedgeable is actually the freight, and the freight rates were extremely low, which have suddenly shot up dramatically in the third quarter and we had fairly substantial shipments that have gone to those locations where freight rates have been relatively higher. On the domestic side also contracts which are there with Power Grid and some of these companies the price variation does not cover freight. It covers all the other aspects, so some of the shipments, which have gone to the Eastern part of India, because of the delay in the finalizations that happened in some of the contracts, diesel prices and all were taken at a time when it was almost a year or 14 months prior to what they were currently. Now this impact actually on the domestic side will still continue in the fourth quarter, but the domestic impact is not as big as the export impact and the export impact should not take place because those contracts are pretty much exhausted.

Vivek Jain: Sir of the total, the hit that we took in the margins close to 2% at EBIT level. So what would be the percentage that you would attribute to let us say, the increase in the transportation cost?

Kushal Desai: It is about INR 1 Crore in terms of its value.

Vivek Jain: Okay and sir on this hedging that we do, I was just trying to understand what is the average execution contract period for the conductor business?

Kushal Desai: Actually it varies substantially. Typical export contracts are, the schedule of delivery, you have about 2-3 months prior to the commencement of the delivery and the delivery period lasts for between about three to four months. But when the jobs are very large they can also be spread over a year. On the domestic side, Power Grid typically the jobs lasts for about 12-18 months.

Vivek Jain: Okay sir in this business basically we do the hedging as soon as we get the contract right.

Kushal Desai: Wherever prices are fixed price, we hedge the metal immediately on receipt of the contract and in fact we quote on a variable basis. Once the contract is finalized prices are updated based on the LME and then it becomes fixed from there onwards. As far as the domestic business is concerned, it is all on variable price basis but again the price variation does not cover freight. The two aspects it does not cover is freight and the cost of packing material, whereas it covers aluminum and in the case of Power Grid, it covers steel also.

Vivek Jain: Sir basically it is very difficult in this business for us to get hit on the raw material side, is that a fair assumption?

Kushal Desai: Profitability gets affected more based on the competition that exists at the time at which you have taken your order, and the unhedged portions are basically packing material and freight.

Vivek Jain: And sir on the oil business what is the hedging policy that we follow for base oils because the prices have been very volatile.

Kushal Desai: You mean our oil business?

Vivek Jain: Yes.

Kushal Desai: In the specialty oil side it is not possible to actually hedge the product, so we end up pricing the product on a monthly basis. In the case of industrial oils the pricing is not really done on a monthly basis, generally prices are out on a quarterly basis because volumes are small per customer. But there is a pipeline that is available to generally take care of a three month sort of time frame on the industrial oil side and wherever contracts are longer we quote the IEEMA price variation clause.

Vivek Jain: Sir since you are saying that you are quoting the prices on a monthly basis that could mean we do not carry a huge inventory for these base oils at our end.

Kushal Desai: Typically, about four to five weeks is our inventory in our tanks and another four to six weeks was our inventory on the high seas in transit coming in to us. The cycle is not very long relative to a competition because competition also has similar cycles.

Vivek Jain: So, basically in this business the only way we can get hit when prices of base oil tank faster.

Kushal Desai: Yes and then you could have a situation where if international prices crash and people panic and start wanting to get rid of inventories by "having a fire sale" that is the primary area where you can get hit.

Vivek Jain: While we are hedging is there a huge cost that we pay for hedging in oil business?

Kushal Desai: On the oil side, we basically hedge the foreign exchange, and that is what I was alluding to earlier what happens is that the interest line picks ups basically if you open an overseas LC it picks up of the cost of LIBOR rate of interest plus the premium that you have paid. For example, if you are paying 100 basis points above LIBOR you would be picking up 2.5%. However, there is a forward cover cost, so if you have taken a forward cover for three months then that forward cover cost may cost you 1.5% or 2% and that actually gets picked up in the value of the product as raw material under the accounting standard, so that is the reason why when you are comparing the two periods, LIBOR rates have been lower this year and the premiums have been lower right now compared to previous periods. The hedging cost has been higher.

Moderator: The next question is from Punit Chugani from Enam. Please go ahead.

Punit Chugani: Good afternoon sir. Joined the call little late, so please pardon me if there is any repetition. In terms of conductors we have had an order inflow of INR 223 Crores of which your investor presentation says INR 178 Crores were from Power Grid.

Kushal Desai: Let me just reinterpret that for you. We received actually an order inflow of INR 223 Crores, the domestic INR 187 Crores orders received actually excludes Power Grid. Order amounting to INR 178 Crores as it has come post December 31. I had actually clarified that in my opening remarks.

Punit Chugani: So what was the order inflow from Power Grid in the last quarter?

Kushal Desai: Nil. The first one which has come in is this 178 which has happened in early January.

Punit Chugani: And what about the quarter before that, if you have that number with you Q2 even percentage would be fine.

Kushal Desai: The Power Grid has not finalized any order, from June onwards.

Punit Chugani: So, nothing came in even in Q2.

Kushal Desai: Q2 & Q3. This INR 178 Crores has been awarded and finalizations which are still to happen of the balance tenders, which were opened prior to November 2009, we are to happen in before March, April.

Punit Chugani: How much would that be in terms of quantum, in terms of volume and if you can give me some number on that, I mean how much are we expecting in terms of tonnage for Power Grid to release probably till March?

Kushal Desai: Their projections are to release close to 250,000 to 300,000 metric tonnes till March.

Punit Chugani: We think it is possible.

Kushal Desai: Of that we picked up is INR 178 Crores, which is like about 14,000 tonnes approximately.

Punit Chugani: Sir just one more question from my side. If you can tell me these orders, I mean what we have been seeing is you know because of competition and you know I mean the order margins have been pretty bad I mean not only for APAR but for the rest of the players, so these 178 Crores worth of orders that we have picked up, are these those normalized margins or these lower margin orders?

Kushal Desai: They are margins which are substantially higher than what we have on order book. As we get into April, May, June onwards time frame more profitable orders are getting executed. So, if you take the weighted average margin on the order book it is much higher than what is being seen today.

Moderator: Thank you. The next question is from Rohan Gala from Subhkam Capital. Please go ahead.

Rohan Gala: Good afternoon Sir. I just wanted to know on the order book of almost 1215 crores how much is on the fixed and variable, can you give a break up on that?

Kushal Desai: I do not have the exact number but a ballpark I believe around 300 odd and Mr. Diwadkar says around 30% is fixed price portion and we have actually aluminium contracts back to back for every one of those.

Rohan Gala: Sir, can you just throw some light on the margin front because I guess the margins in the conductor business has really fallen this quarter so going ahead how do you see the margins in that?

Kushal Desai: Fundamentally, as I had made a general comment that in the order book the new orders which we have been receiving are at a much higher margins than what is being represented, and what we have seen in this quarter. The only thing is that by the time these get executed we are looking at this new Power Grid orders, which we have taken INR 178 Crores the execution of that starts from June 2011 onwards. So as we get into mid 2011 onwards we will start seeing substantially better numbers coming up.

Rohan Gala: What are the debts on books as of now?

Kushal Desai: Debtors are running at around 63 to 65 days.

Rohan Gala: No the debts on book?

Kushal Desai: We have approximately about INR 170 Crores of total debt of which around INR 30 Crores odd is long term debt the rest of it is working capital.

Moderator: The next question is a followup question from Madan Gopal from Sundaram Mutual Fund. Please go ahead.

Madan Gopal: Sir in Q4 what do you think the performance should be in the conductor business in terms of margin. Is it likely to be what we saw in Q3 because some pending orders are there at lower margins.

Kushal Desai: The issue really has been coming up in terms of some of the Power Grid sites where they have been postponing by few months and what we have seen in Q3 it should be the absolute bottom in my view. From then on we were expecting actually based on the mix which was originally projected that pick up should have happened in margins even a bit earlier. But some of the sites where we have got some of our more profitable orders they have actually got pushed back because of some right of way issue and more so execution issue at the site. Also you know the monsoon was very bad so as a consequence some of these jobs have all got pushed back by two months, three months because during that monsoon period things got paralyzed and I do not think some of the project sites have made up for the time they were expecting to make up. So we picked up short-term orders to make sure that the volume continues to remain; short term orders have had lower margins and some of the profitable orders have got postponed. The real pick up we will see as I had maintained even in our earlier calls that from mid 2011 onwards we will start seeing an uptake both in terms of volume as well as in terms of margins because as the power plant commissioning are coming up. It is very clear from even the amount of inquiries which are coming in the discussion for finalization of orders that activity level is also picking up very substantially in it. It is correlated with when the lines are going to start.

Madan Gopal: On the Power Grid site what is the incremental orders that have bid for? Last time you said around INR 5000 Crores worth of bids are there which are to be finalized, is that number increased now?

Kushal Desai: No, I think we have given a figure of about 250,000 to 300,000 tonne worth of orders which Power Grid were in the process of finalizing that number remains the same. However, January onwards they have started actually settling the conductor packages. They worked on the tower packages in the previous quarter and because of the time lag between towers and conductors of almost three to six months the conductor packages are starting to get finalized from this quarter onwards.

Madan Gopal: Yes, I think if we had a look at last quarter PGCIL orders towers were alone 1800 Crores so are we seeing similar numbers for conductor in January or is it lesser than that?

Kushal Desai: I cannot tell you for January just in the month of January; in the month of January they finalize one set of packages, of which we receive INR 178 Crores. Up to March we are expecting about INR 3000 odd Crores corresponding to about 250,000 to 300,000 tonnes worth of metal involved and our target is to get close to 20% of that share, the time frame of Power Grid has been getting moved a little bit so they are claiming that this should happen by 31st of March but hopefully it will happen within the next month or two. But you know the clear thing is the pressure is on in terms of finalizing these given the amount of the timeframe in which the lines need to get commissioned.

Madan Gopal: In addition to PGCIL are you seeing any set of new customers coming in, my question is coming from the fact that I am seeing a lot of private IPPs, power gencos who have to put their last mile connectivity.

Kushal Desai: Yes, there is a lot of activity on that front and we have received some orders in that regard plus there are lot of more orders, which are in various stages of negotiations.

Madan Gopal: These can be smaller packages right?

Kushal Desai: Not necessarily because the last mile in some of these cases, the conductor requirement itself is anywhere between INR 50 Crores and 100 Crores, because the lines, they are 24 circuit lines in most of these large power plants and the distance to be traversed maybe in excess of 100 km into the grid, we have 24x100, which is 2400 km involved, those lines are actually very large price is one and a quarter lakhs per tonne.

Madan Gopal: Sir can you quantify what kind of inquiries you have got from these segment in the last quarter or so?

Kushal Desai: I do not have the exact inquiry numbers with us, they are from all the major IPPs that are there, so there is discussion going on with Adani Group, with Reliance group, with Lanco with Indiabulls. So all the big IPPs, which are coming up all of them are in various stages of discussions.

Madan Gopal: Reliance also in the fray?

Kushal Desai: Yes because the discussion happens on a technical basis and then they get in to commercial, first we have to make sure that the line is designed correctly and so they start discussing with suppliers like us right from that design stage itself.

Madan Gopal: Okay. Any opinion that this segment can be as big as what Power Grid for us in the FY'12?

Kushal Desai: FY'12 I think this segment would be I mean, Power Grid as a share is definitely falling and we expect actually the reason why it may not be more than Power Grid is because Power Grid themselves are playing a huge amount of catch up in FY'12. But it would be almost comparable to Power Grid as you move towards the end of FY'12 and definitely in FY'13.

Madan Gopal: Sir in FY'09 I saw the total conductor orders placed by Power Grid was close to around 4,000 Crores, but in FY'10 it came down to as low as 1, 900 Crores or something. So it seems like the conductor orders have gone back a little bit, is it like it has to catch up?

Kushal Desai: That is exactly what we are expecting because you hit the nail on the head in terms of because there was substantial slowdown in the order placement all manufactures were geared up to meet that requirement. resulting in very intense competitive scenario. Now most of these power plants for which conductors are intended to come in have reached their financial closure and the line work is going to begin in a very big way from mid 2011 onwards. The order book also will start reflecting that.

Madan Gopal: Sir what is your target volumes; for the conductor business it is 1, 20, 000 right for FY'12?

Kushal Desai: 125.

Madan Gopal: 125 and do you have how much of capacity?

Kushal Desai: Our current capacity is 115, 000. We have a greenfield expansion of 10, 000 tonnes which will get commissioned in April.

Interviewer: 10, 000 tonnes?

Kushal Desai: Yes, it will go to 125 and then after that we are looking at expanding in the first phase up to 155 and then another 30, 000, so we can go up to 185 in a phased manner over two years.

Madan Gopal: But these capacities can come in what time, in case if you get more orders, will you be able to scale up faster to meet the requirements?

Kushal Desai: Yes we are planning it out such that we always have some spare capacity available with us.

Madan Gopal: So you can put this expansion capacity of 1, 85, 000 in what time like one year time?

Kushal Desai: The first 10, 000 tonnes is coming on steam in April itself and so we have enough capacity to meet what our plan is for the next year and then by the time the following year comes on we would have put in another 30, 000 tonne capacity. Capacity will not be an issue, the real kicker in this business is going to come not just from volume but also of margins going back to a more normal level.

Madan Gopal: Okay, but what we understand from other segments of the Power Grid orders or the transmission, distribution market, the prices which go down do not come back, but what is that different in this segment that the prices can come back to the normal levels. Is it because competition is only between top two or three players?

Kushal Desai: No, no. There are more than seven approved manufacturers in Power Grid, but then Power Grid also has a capacity, which they approve. So, if any player actually reaches ceiling on the Power Grid approved capacity, they have to then reapply to Power Grid to get additional capacity to be approved. We believe that the prices have reached a level which is something that you have not seen in a very long time and already the pricing scenario has improved as the order booking of some of our competitors has also started improving. I am predicting this based on the order book, which we have. Unfortunately for us some of the more profitable orders have actually got pushed out in terms of time, but they are firm and they are placed with us and in due course of time we will get executed, which will uplift the margins.

Madan Gopal: Possibly from Q4 onwards or after Q4?

Kushal Desai: The real kicker will come in from basically June 2011 onwards.

Moderator: Thank you. The next question is from Preeti Trivedi from Vantage Securities. Please go ahead.

Preeti Trivedi: Hello sir, good afternoon. My question is on the industry side, that you said there is a pricing pressure as far the industry is concerned. So what do you think, is it because of excess supply or do we have pricing competition for Koreans and Chinese there also?

Kushal Desai: No, actually the pressure would be to the extent that you know if you have got very sharp increases in prices, in the case of our industrial oils we have a very wide client base, a client buying relatively small quantities of product and it goes on the basis of a price list which is issued and then discounts that are offered on the price list. So typically it comes up on a quarterly basis and given the fact that we have got 31st March coming up many clients push out the increase into the month of April, but we do not see that having a major impact.

Preeti Trivedi: Okay sir. My question was on conductor side, not on oil side.

Kushal Desai: Conductor margins as I mentioned earlier in the previous question, we see those margins showing improvement, but really that improvement will come you know in FY 2013, so basically from mid 2011 onwards the orders which are being executed are the more profitable orders.. Major customer PGCIL was quite silent so now that they started placing orders everybody's order books are improving.

Preeti Trivedi: What do you think the reason that Power Grid is becoming so slow in order execution and new order allocation?

Kushal Desai: I think it is basically project execution related issues that they are having either because of right of way or you know delay is happening from the subcontractors that you know orders have been placed on and there was a pressure on Power Grid to reduce their capital work in progress so as that is coming under control, new order placements are taking place. This is what we are given to believe from them.

Interviewer: Yes so you expect order inflow and execution in this quarter

Kushal Desai: In this quarter essentially.

Moderator: The next question is from the Anand Vyas from Nirmal Bang Securities. Please go ahead.

Anand Vyas: Good afternoon. Sir your QOQ EBIT margin oil business has declined from 11.5 to 10.

Kushal Desai: See actually you know that percentage margins are sometimes a little bit misleading because you know when the price of our raw material goes up, it is largely you know going through in the form of a pass through and it is very difficult to track just quarter-to-quarter depending on the mix of products that goes out, but if you see the general trend, the nine months last year, we were at 8.6% this year we are almost at 10% for the nine months period.

Anand Vyas: So basically you are telling due to the product mix right.

Kushal Desai: Yes. If you look at the absolute margin figures have increased from about Rs. 3700/kiloliter across the entire spectrum of oil products to about Rs. 5000.

Anand Vyas: In the specialty oil business, what is the share of your power oil business.

Kushal Desai: You see transformer oil is about half the business, 50% on the value and volume both.

Anand Vyas: So going forward, the mix will be remaining the same.

Kushal Desai: We expect the mix to be the same ballpark. It may slightly increase, because transformer oil is growing a little bit faster than white oil and rubber process oil etc., the industrial oil side of our business is also growing at about the same pace. At the moment Transformer Oil is around 47%, we expected to be in the 50 odd percent range.

Anand Vyas: Sir my second question is you are increasing your capacity from 115 to 125.

Kushal Desai: That is on conductor side. So that is happen in April, post that we will increase it to 155.

Anand Vyas: So what is the **c**apex you are incurring for the 10000?

Kushal Desai: INR 15 Crores for the 10000 and INR 35 Crores for the 30000. INR 50 Crores will go in to the conductor side.

Moderator: Ladies and gentleman that was the last question. I would now like to hand over the conference back to Mr. Rahul Gajare for closing comments.

Rahul Gajare: I would like to thank the management for their time on the conference call and I wish the management for the following quarters. Sir, would you like to have a closing comment.

Kushal Desai: Thank you very much for your time and we will continue to communicate hopefully you know the next quarter the yearend should be good and the outlook for FY13 particularly looks quite encouraging.

Moderator: Thank you very much. On behalf of Edelweiss Securities Limited that concludes this conference call. Thank you for joining us and you may now disconnect your lines. Thank you.