Apar Industries Limited
Q3FY16 Earnings Conference Call
February 1, 2016

Moderator: Ladies and Gentlemen, Good day and Welcome to the Apar Industries Limited Q3FY16 Earnings Conference Call hosted by Four-S Services. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Nisha Kakran of Four-S Services. Thank you and over to you, ma'am.

Nisha Kakran: Thank you, Harsh. Good Evening, Everyone. On behalf of Four-S Services, I welcome all the participants to Apar Industries Q3FY16 Results Conference Call. Today, on the conference call we have Mr. Kushal Desai – Managing Director; Mr. Chaitanya Desai – Managing Director and Mr. V.C. Diwadkar – CFO, Apar Industries. I would now hand over the call to Mr. Desai. Over to you, sir.

Kushal N. Desai: Thank you, Nisha. Good Evening, Everyone and A Warm Welcome to the Q3FY16 Earnings Conference Call. I would like to begin by running through some key operational and financial highlights for the quarter. The Power sector has seen a few positive developments in this quarter. There has been some increased momentum that we see in the Transmission and Distribution side of the business. Key transmission players have in the recent past won orders worth approximately Rs. 14,000 crores for Transmission Lines, of which Power Grid has had the largest win at Vemagiri, amounting to approximately Rs. 7,000 crores. We expect this trend of tendering to continue in the coming quarter as well. There is one more large transmission line which is the Warangal Transmission Project which has an estimated cost of about Rs. 9,000 crores and will be the largest so far which is on the block and is likely to be auctioned sometime in the month of February/March. So these are actually reasonably positive signals to the recent government scheme which is the Uday Scheme. The Scheme is essentially aimed at financial turnaround of the power distribution companies. 15 states have already expressed their interest to sign up and 4 major states which include Uttar Pradesh, Bihar, Maharashtra and Odisha which together cover approximately 90% of the discom losses under the reform plan have also evinced their interest. Uttar Pradesh is the fourth state to actually sign the MoU, other three states being Jharkhand, Chhattisgarh and Rajasthan. So our expectation is based on whatever information is available from the power ministry and the public announcements made by the minister that this is all work-in progress and the MoU should be getting formally signed. The Scheme focuses on interest cost reduction by the states after they take over the discom debts. This should increase the operational efficiency and also finally end up reducing the cost of power. Besides this, there will be a large amount of money that is available to carry on the restructuring and capex. The government expects that operational efficiency improvements will include compulsory smart metering, up gradation of transformers, meters, etc., and other energy efficient measures under the scheme with a target to reduce the AT&C losses from around 22% to 15%. The comprehensive amendments to the National Tariff Policy, as outlined in the Uday have also been approved by the government. Despite these developments, the actual situation on the ground has not yet changed substantially. It seems like it will still take a few more months for these positive developments to actually percolate down into the award of business to our segments. So there is still some amount of pressure that continues on the businesses in terms of volume. The competitive intensity in the industry in all the three business segments still exist. In December and January, the crude prices have also substantially fallen. This will no doubt have some effect on inventory losses in the short-term particularly in the months of January and February. Metals and other commodity prices have also corrected in the medium term. These are positive measures as a cost of capex for building the infrastructure will reduce. Given this backdrop, there has been an impact on the revenues of the company in this quarter, primarily through the reduction in raw material cost. Even though our Cables segment witnessed strong growth, the Conductors and Specialty Oils businesses were affected with the reduction in commodity prices. Consolidated revenues came down from Rs. 1,329 crores to Rs. 1,203 crores. However, the order book for Conductors has remained healthy and has actually increased to Rs. 1,809 crores and the order book in our Cable business also has increased to about Rs. 224 crores.

Further, there has been a significant improvement in our profitability across segments. Our EBITDA for the quarter increased by 45% to reach Rs. 85 crores from about Rs. 59 crores in the same period previous year and our EBITDA margin have increased from 4.4% to 7.1% for the quarter. This was primarily led by the improvement in profitability in our Specialty Oils and Cables businesses. The margin expansion has also been possible because of basically better cost management and a focused approach to increase contribution of higher value added products. The profit after tax excluding an exceptional gain of Rs. 43 crores from the placement of treasury stock, came in at Rs. 26 crores as compared to Rs. 5 crores in the same period previous year.

Looking at the nine months figures FY15 consolidated revenue was at Rs. 3,733 crores compared to Rs. 3,768 crores in the same period last year. The EBITDA increased 30% year-on-year from Rs. 209 crores in nine-months FY15 to Rs. 273 crores in this year and profit after tax excluding the exceptional gain has increased from Rs. 40 crores to Rs. 81 crores in this nine month period.

I would now like to actually run through each of the business segments in a little bit more detail. Our Conductors business posted a revenue of Rs. 542 crores, which is down 17% from the same period previous year. The export contributed to approximately 50% of the segmental revenues. The EBITDA per metric ton post forex adjustment has increased from Rs. 6,488 to Rs. 7,150. We expect this to further improve in Q4FY16. Sales to some extent were affected in this quarter due to delayed dispatches on account of various inspections and certain financial arrangements which clients were to make that did not come through on time. Our expectation is that the backlog on this account would be cleared in the fourth quarter. Conductors 9MFY16 revenue stands at Rs. 1,836 crores which is 12% higher than the 9MFY15 revenue of Rs. 1,646 crores. So EBITDA per metric ton post forex adjustment for the period came in at Rs. 6,728/ton vs Rs. 8,882/ton in the same period previous year. In the last quarter, the order inflows were good with more business coming in primarily from the domestic market and some from the export. The segment’s order book is at Rs. 1,809 crores as of December 31, 2015 compared to Rs. 1,602 crores as on Sep 30, 2015. Export orders have contributed 43% of the order book. Our Conductor capacity utilization still continues to be at 100% for the fifth consecutive quarter. The work on our new plant in Jharsuguda, Odisha is in full swing and should be commissioned as per schedule by the end of the third quarter FY17.

In terms of Transformer and Specialty Oils, revenue for the quarter came in at Rs. 453 crores, which is 15% lower, this is primarily due to the falling oil prices. However, we posted 10% growth in overall volume, across all the product categories. Shipments for the quarter reached 85,369 KL compared to 77,336 KL a year ago. The EBITDA per KL after forex adjustment for the quarter increased to Rs. 4,975/KL, up from Rs. 1,096/KL. The revenue for the nine-month period was lower by 20% at Rs. 1,404 crores compared to Rs. 1,746 crores in the same period previous year. However, EBITDA per KL for the nine-month period after forex adjustments increased from Rs. 2,606 to Rs. 5,711. We can attribute this primarily to better raw material cost as well as to disciplined better pricing and good client mix. The quarter saw good volume and profitability coming from the Industrial Oils segment as well as our Transformer Oils exports.

In terms of the Auto Lubes segment, we had a better quarter in terms of volumes, which were up by about 8.3% compared to the same period previous year. Profitability in the segment continues to be relatively better due to improved product mix and lower raw material cost. We also had fairly disciplined pricing and managed to retain large portion of the lower cost structure that came through. As the company continues to implement its strategy of increasing distribution and a higher share of higher margin products, we are quite confident that in the fourth quarter also we should see relatively good results for this segment. Our

Industrial Oils segment witnessed a volume growth of almost 32% during the quarter which is a highest growth that we have seen in the last several years.

Now, coming to the Cables business- The Cable business had strong revenue growth of about 47% in the quarter. Revenue came in at Rs. 206 crores compared to Rs. 140 crores a year ago. The EBITDA margins post forex adjustment has increased by 140 basis points, from 6.4% to 7.8%. The growth has essentially come in from our Elastomeric E-Beam Cables and also growth in the Power Cables. These segments have grown by 77% and 59% respectively.

Our focus on the Renewable Energy sector which includes both the Wind and Solar have been yielding good results. Today, we are the largest supplier into this segment in the country. In the recent past, the company has received three awards which are the Indian Wind Energy Forum Excellence Award for Outstanding Achievements and Leadership in the Wind industry, the IRSS 2016 Award for Outstanding Contribution towards the Development of Roof Top Solar Industry and the First Few Intelligence Business Award as the Solar Cable Company of the year for Outstanding Contribution towards Development of the Solar Industry. Besides this, the orders from the defense and railways are also likely to improve with several projects in both these sectors being announced. The order book as on December 31, 2015 has increased by 24% and today it sits at about Rs. 224 crores versus Rs. 180 crores in the previous period. The nine months revenue for the segment is up 24% at Rs. 480 crores as compared to Rs. 388 crores and the EBITDA margins post forex adjustment for the segment is at 6.1% compared to 4.9% a year ago.

Our outlook remains positive as we expect both the domestic and exports scenario to improve in pretty much all our businesses. With the implementation of Uday, the company is also at an advanced stage of planning an expansion of its power cables capacity. We are optimistic that the various initiatives that have been planned and announced will convert into actual orders as the T&D industry capex increases over the next few months.

With this I would like to come to the end of my comments. I thank everybody for joining us on this conference call and we would be happy to take questions at this stage.

Moderator: Thank you very much. Ladies and Gentlemen, we will now begin with the Question and Answer Session. Our first question is from the line of Utsav Mehta from Ambit Capital. Please go ahead.

Utsav Mehta: I think it is very interesting that you spoke about Uday. So if I could just dwell a bit deeper into it, are you seeing any incipient signs from the SEBs that have signed or the states that have signed the agreement in terms of increasing their capex towards T&D? What makes you so positive that this time around this is going to be different from previous restructuring that we have seen in the sector so far?

Kushal N. Desai: To answer the first part of your question, we have not yet seen increased capex coming from the scheme as such because the formal MOU's which have been signed by these four states have been signed actually just in the last one month. So as I mentioned earlier in our comments that there is a procedural time lag which is taking up time to get all these things in place. There are further steps actually going back to the state's legislative assemblies and passing the transfer of 75% of the debt on to the states books which also needs to be completed by not only these four states, but all the others who have also evinced interest. But the reason why we are very optimistic about this is that all disbursements of power schemes from whatever our understanding is, are on hold unless and until Uday is sort of signed up. Secondly, this is a first time that it has been something as fundamental as transferring the responsibility of charging power below the cost, moving to the state governments who have been actually responsible for doing this. So in the past what was happening is that the state governments would give a counter guarantee and push through subsidized tariffs. So all the losses whereas the additional debt burden would sit on the books of the distribution companies whereas with the implementation of Uday 75% of this gets transferred in terms of what the legacy issues are and fresh issues cannot come about because they cannot charge a tariff which is lower than what has been approved by the regulatory authority for that state.

So it is a fundamental change from whatever happened before. The last thing is that along with signing this and transfer, there is a certain pool of money which will then be allocated to each of these distribution companies which will kick start the capex cycle as far as that particular distribution company is concerned.

Utsav Mehta: When I meant incipient signs, what I meant was in your discussions with people at SEBs, do you at least in conversations do encounter the fact that they are at least preparing to spend more in case it comes through and they have some more financial independence?

Kushal N. Desai: Yes, absolutely, in fact, in many cases, the operational plans are in a fairly detail state, that is one of the reasons why we also want to look at increasing our Power Cable Capacity because we should start seeing a step function growth once when the money start getting transferred to the various discoms via this process.

Utsav Mehta: What states would this be in?

Kushal N. Desai: At the moment, four states have actually physically signed the MoU which include Jharkhand, Chhattisgarh, Rajasthan and Uttar Pradesh. I think they are the ones who are farthest ahead down the path. There are other states like Gujarat and Madhya Pradesh who do not have losses who are also planning to sign up under this scheme so that they can also get financial benefits for reducing the AT&C losses.

Utsav Mehta: So when you said financial assistance have come, I am guessing you mean the Deen Dayal Scheme and the IPDS Central Schemes, right. If I am not mistaken, are these not very-very focused towards distribution at a very low kV level?

Kushal N. Desai: The kV levels involved here, goes down from 33 kV downwards, there is 33 kV, 22 kV, 11 kV, etc., so in the Cable business actually is the range which we are in. But in addition to that, it is going to then start freeing up, resources that are available for these distribution companies to also be able to spend money in more technologically advanced products, etc. The transmission companies are the ones which are really involved in the higher kV levels. And these transmission companies will receive an indirect fill up because today the last mile being weak, it is actually holding ransom the rest of the supply chain for power.

Moderator: Thank you. The next question is from the line of Pawan Nahar from Religare Capital Markets. Please go ahead.

Pawan Nahar: The first question I had was on the capital employed as reported for your Conductors business, it has gone up by almost Rs. 150-160 crores quarter-on-quarter. So, I was wondering if this is because you held back shipments.

V.C. Diwadkar: We have said in the Investor Update also that although our dispatches are close to 36,645 MT, the production was 42,480 MT. So close to 5,800 MT of material could not be dispatched on account of the inspection delays as well as some financial arrangement not being met. So that itself accounts for close to around Rs. 80-85 crores plus cash balance has increased by about Rs. 25 crores. Another thing is that we had raised Rs. 70 crores during the quarter by sale of treasury shares. So that money was used by taking cash discounts from the sundry creditors. So sundry creditor level has gone down.

Kushal N. Desai: In short, it is not something which is because of a systemic problem

Pawan Nahar: It is a good thing that you chose not to supply and wait for your LCs to come.

V.C. Diwadkar: Correct.

Pawan Nahar: So basically this will come down again.

V.C. Diwadkar: Yes.

Kushal N. Desai: In many cases, not only letters of credit are not in place, but there are some amendments required, etc. So given today scenario, which is still a little bit tight in terms of the credit situation, there is a fairly stringent process before which dispatches can be made and that probably held up some of the dispatches. So we decided to be safe rather than later on it's very difficult to chase some of these things out.

Pawan Nahar: Just to continue on Conductors, now that we are expanding capacity for next year. As we sit today there are a lot of things happening. The positive would be perhaps the domestic market and perhaps the concern would be on exports. So, overall what kind of volume growth you see for the Conductors next year?

Chaitanya Desai: We see about 10% growth, partly on the domestic side on conventional Conductors and partly on account of new High Temperature Conductors also.

Pawan Nahar: About the Cables business, now obviously it has done very well versus history. But then if I were to again just look at capital employed number, it is like Rs. 280 crores capital employed in this business and if I were to just look at simple ROCE it will still be close to 10-11% this year. So, what do you think will be a good number in terms of ROCE or EBITDA margin for this business turnover next year let us say?

Kushal N. Desai: Our first step is to try to get it between 15 and 20%. However, it is going to take at least another two years to be able to get there because we plan to actually go through with a set of expansions particularly on the Cables side. There are two fundamental reason for doing it – one, there is an opportunity which is going to come up with a lot of spending taking place in the voltage class where we are prevalent in, secondly, the Power Cable business is also a volume game. Because the conditions were not so conducive in the last few years, we had consciously held off making investments in that segment and focusing on some of the higher margin, higher value products which was the E-Beam products and the Optical Fiber, etc. Now, given the fact that spending is likely to happen on the Power Cables side, this will enable us to actually get economies of scale. So, as a consequence, our target certainly is to get into the 20%+ range, but I would expect us to be between 15% and 20% at the end of two years from today as we ramp up full capacities on some of the expansions that we have and then slowly make our way up towards what the ROCE are in our Conductors business. The Oil business actually fundamentally has a better return on capital employed. So those set of numbers are not possible to achieve from a business like the Cables business.

Pawan Nahar: So when you say 15-20%, so next year again your EBITDA margins can move to let us say 9-10%?

Kushal N. Desai: Yes, even though Power Cables are fundamentally lower margin, there will be a cost take out which will happen, the new production lines are actually falling into the same manufacturing complex as exist today, so just a cost leverage will get us a couple of percent. In addition to that, if the GST gets implemented, which we are hoping that it does at some point, we are at a basic disadvantage compared to some of our competitors who are based in Silvassa and Daman where we have to charge 2% for all out of state sales. Sales out of these state contributes over ~ 80% of our total revenues for the business as a whole. So a couple of these benefits which will come in will allow expansion of the EBITDA, which finally will then find its way into the return on capital employed.

Pawan Nahar: The capex in this business I presume will not be big, right, when you say expansion in Cables?

Kushal N. Desai: We are in the process of just finally sizing up what it would be. But, our expectation is that it would be in the vicinity of around Rs. 35-40 crores and we will be able to more than double the size of our High Tension Cables business.

Pawan Nahar: You made a mention that your Industrials Oil business grew by 32% in volume terms?

Kushal N. Desai: Yes, that is the growth which we had in the quarter. Having said that I do not think it is sustainable for it to grow at 32%, but this was fundamentally a result of a number of new clients and new grades which we manage to introduce and sell into the client base that we have.

Pawan Nahar: Finally, next year volume growth across businesses and EBITDA per unit expansion across businesses what is the outlook?

Kushal N. Desai: Putting a precise number is a bit difficult. On the Conductors side, 10% region seems very probable because of the big T&D projects coming up. I think the domestic business will probably grow a little faster than that. We will see certain slowdowns happening in the export side, particularly in the countries which receive most of their revenues coming in from commodity sales because that is part of the natural decline in the commodity prices would have an effect on that. But I think overall, given that the local Transmission projects will kick in, 10% is a safe number on the Conductor side. The Cables business we are probably looking at a number slightly higher than that, in the 12% to 15% bracket. In the Oil business so far nine months we have delivered about 10% in volume terms, but I would hazard between 5% and 7% in the next year.

Moderator: Thank you. The next question is from the line of Sandeep Baid from Quest Investment. Please go ahead.

Sandeep Baid: Kushal, you mentioned in the presentation that you are looking at inventory losses in the Specialty Oils business. Now, the oil prices have again gone up from $28 to 35 per barrel. I guess whatever has happened in January has happened, but going forward, would you still be looking at inventory losses if the oil prices go up by $10 or $15?

Kushal N. Desai: Sandeep, what will likely happen is that in the month of January and February, we would not be able to price precisely based on the cost that we have. But if the prices go up, then you probably see some inventory gains taking place where inventory can be then sold at better price points.

Sandeep Baid: Probably that will happen in Q1 of next year?

Kushal N. Desai: Yes. The reason why some of the difficulty comes is that there is generally lag in terms of supply from most of the base oils barring some of the most specialized products. So, as a consequence, when you have got a sharp reduction taking place, obviously, a lot of products comes out into the market and even refiners start sometimes pricing ahead of their own supply chain time cycle.

Sandeep Baid: Regarding Jharsuguda, now we are looking at more like November/December for commissioning of the facility, earlier I thought you were talking of September/October for this?

Chaitanya Desai: By October, we will start and there is a chance that we may start even before that.

Sandeep Baid: 10% growth that we are looking at on the Conductors side will primarily be led by this facility?

Chaitanya Desai: That is correct and also we are debottlenecking some of our existing facilities also.

Sandeep Baid: 32% growth that we talked about for the Industrial Oil business, this is primarily domestic?

Kushal N. Desai: Yes, at the moment it is largely domestic, we did receive a couple of export orders based on some of the work. We are present in over 100 countries as far as our Transformer Oil and White and Pharmaceutical Oils are concerned. So in some of these countries, we have also started an effort to market our Industrial Oils. So we did have some amount of exports that took place in the quarter. That is what also helped that particular number. In addition to that, we did see some good first fill and good growth that we saw in the domestic side. So the first fill business is generally filling up new sums that happen when new CAPEX is taking place. So generally in automotive component plants and things like that, new boilers throwing in at chemical complexes. So those two put together actually it threw up good growth number for the quarter.

Moderator: Thank you. The next question is from the line of Divyata Dalal from Systematix Shares and Stocks. Please go ahead.

Divyata Dalal: Sir, just wanted your view on the increase in interest cost in this particular quarter vis-à-vis the same period last year as well as Q2, what can we attribute this to?

V.C. Diwadkar: If you remove the exchange part then there is not much of an increase in the interest cost. Slight increase will be there on quarter-on-quarter basis depending upon whether we are doing local funding or foreign funding.

Divyata Dalal: What would be our outstanding debt as end of nine months?

V.C. Diwadkar: We have close to about Rs. 64 crores in the long term debt and we have about Rs. 330 crores of short term debt and the cash is Rs. 157 crores. So net of cash the short term debt is Rs. 173 crores.

Divyata Dalal: Coming to our Transformer Oil business, we posted very good volume numbers. For the full year can we expect growth over last year or how will the numbers pan out for this particular year?

Kushal N. Desai: In the third quarter we had good numbers coming in which has enabled us to actually catch up to some extent the lower volumes which were there in the early part of the year. In 9MFY16 on a global basis we are still about 2% below the same period previous year as far as Transformer Oil is concerned, overall we are around 2.5% higher in total volumes. For the quarter, however, we had growth that came in about 3% higher in Transformer Oil but significant growth came in from our Transformer Oil exports. There were shipments into the Middle East which were held back for several months and they all got released pretty much in the third quarter. That is how there is a good growth on the Transformer Oil export side, but otherwise White and Pharmaceutical Oil shipments were up and all the other product categories - Rubber Process Oils, Industrial Oils, and even the Automotive products is up by about 8.3% over the same period previous year.

Divyata Dalal: The full year we had earlier guided somewhere around Rs. 5,000-5,500 EBITDA per KL number. So depending on the first nine months, do we stick to that number for the full year?

V.C. Diwadkar: We stick to that number, we do not change our guidance which we give right in the beginning of the year although we are ahead of that.

Kushal N. Desai: There is so much volatility going on right now that there could be short-term issues in terms of the inventory, like for example pricing in February is certainly down given that January there was a collapse and then towards the end of January there has been bit of a recovery taking place. This volatility is bound to have some short-term impact but in the longer-term we seem to be still well placed, we can pretty much shake the short-term losses off.

Moderator: Thank you. The next question is from the line of Jayesh Parekh from JMP Capital Advisor. Please go ahead.

Jayesh Parekh: My question is mainly on Transformer and Specialty Oils segment. There has been a lot of volatility in the oil price since last one year as you are aware. So my point is that last year on Specialty Oil at EBITDA level we made about 4.5% and current nine months we earn about 11% on EBIT level. Do you think that these are the sustainable margins if Oil price takes a U-turn, then what happens to our margins?

Kushal N. Desai: If the crude prices start improving then the period that generally follows that, our margins end up actually generally going up because just like you have inventory losses when there is a sharp correction downward, similarly if there is U or V correction upwards, then we should see slightly better margins. Last year, the second half we were subjected to some very stressful situations with collapse in the crude prices that happened around October-November timeframe and it was a very serious drop that happened, more than about $40-45 a ton and also the rupee depreciated sharply in that timeframe which is why we were impacted in December through February. The three months actually saw some very large short-term losses. From March onwards, we recovered and went into a normal cycle. To answer your question, our EBITDA numbers on a per KL basis is what we are focused on, which we feel can sustain in the Rs. 5000 per KL range. Percentages may change up and down depending on how crude and base oil prices move.

Jayesh Parekh: Yes, but you want to maintain your margin on KL basis?

Kushal N. Desai: That is correct.

Jayesh Parekh: On Conductors business, last year if you see our capital employed of about Rs. 300 crores plus, we had a top line of Rs. 2300 crores. Currently for nine months our capital employed is almost up by Rs. 200 crores on a top line of Rs. 1800 crores. So is there any issues in working capital management?

V.C. Diwadkar: To some extent the working capital numbers have gone up. That we have been saying in all our earlier calls also in terms of the debtors and in case of inventory at times actually we are not able to dispatch the material because of the inspections or if the financial arrangements are not made. On the Conductor books between December 2014 and December 2015 the cash balance has gone up by Rs. 84 crores. Normally in the case of Conductors, the big chunk of money comes in the end actually.

Jayesh Parekh: Last year if you see on capital employed of Rs. 320 crores on Conductors business, you have almost earned at EBIT level, more than 35% but for nine months on capital employed of Rs. 500 crores even if you remove the increase in cash from Rs. 500 crores, the EBIT level we earn is too low. Do you feel that this can be reversed going forward?

V.C. Diwadkar: It will be reversed going forward because this has happened as we have explained earlier also, it depends upon the timing when we take these orders and the competitive intensity which is there at that point of time. Because of the competitive intensity which was there the margins have gone down across the Conductors business especially the domestic business.

Jayesh Parekh: Yes, but here the margin has gone down and capital employed has gone up. That is what I was not getting properly that on one side margin is going down, other side capital employed is going up.

V.C. Diwadkar: The capital employed which has gone up in this quarter is a one-off situation. As we have explained Rs. 80-85 crores was stuck up in the finished goods inventory. Although finished goods were produced but it could not be dispatched because of the inspections or the financial arrangements not being made.

Jayesh Parekh: Fall in commodity prices has any impact on our raw material consumption on Conductors business?

V.C. Diwadkar: Normally, there is no impact because the commodity price is a pass through as far as Conductors business is concerned.

Moderator: Thank you. The next question is from the line of Saurabh Patwa from HDFC Mutual Fund. Please go ahead.

Saurabh Patwa: Just wanted to understand on the capex side, what are our capex plans in the Oil segment and Conductors, as you know that Jharsuguda capacity which has already initiated, so, what would be the capacity post the completion of the project in Conductors?

Kushal N. Desai: I will answer the Oils question first. As far as the Apar Industries balance sheet is concerned we will only have maintenance capex in the Oil business. The total expenditure on that front will be less than Rs. 10 crores in FY17. There is however a project of $15 million which is being implemented through a subsidiary overseas and that plant will get commissioned in the third quarter of the next financial year and the funding of that is being done through the subsidiary. If you look at it on a consolidated basis the capex will be Rs. 100 crores approximately outside India and little less than Rs. 10 crores within India. The capex for Jharsuguda is going to be around Rs. 35 crores and the capacity will go up to 180,000 MT at the end of that expansion going through. The 150,000 ton capacity which we have today will get augmented by 30,000 tons.

Saurabh Patwa: So when you have spoken about the volume growth in Oil segment of 7%, this is excluding this UAE facility, right?

Kushal N. Desai: We are expecting volume growth to be initially 5 to 7% given the fact some of the exports which we are doing from India and going into the UAE and Northern African countries will actually get transferred to the new plant and then by the time you actually end up starting to sign up new business from new customers you are running into FY18. In our Oil business also there are certain approvals which are required, some of the clients will require site inspections, approvals, etc. So we would see the net growth really happening from that facility in FY18.

Saurabh Patwa: FY18 it should be somewhere like Rs. 400 crores plus sort of?

Kushal N. Desai: There is so much volatility going on in the Middle East region. Generally in the Oil sector looking beyond a year is a bit difficult at this stage.

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

Maulik Patel: Can you just focus on the performance of our Auto Lubricants business, how has been the performance in terms of volume and whether we have witnessed significant expansion gross margin in that business or not?

Kushal N. Desai: On the Automotive business the last quarter we had a volume growth of 8.3% and we have also seen an expansion in terms of our margin essentially from the fact the price reductions that took place were lower than the reduction in the raw material cost. There was a substantial improvement that happened in terms of per KL profitability if you may in the Automotive Oil business, particularly the product which is being sold in the B2C side of the business.

Maulik Patel: I understand our volume from the Automotive is approximately 25,000 KL?

Kushal N. Desai: Our volumes will be around 25,000 KL at the end of the financial year, yes.

Maulik Patel: Out of that how much is the B2C?

Kushal N. Desai: We have between 65-70% coming from the B2C side and the balance 35%-odd coming from OEM tie-ups and OEM deals.

Maulik Patel: How is the business from White Oil? In the past we have discussed that business is undergoing through a lot of margin pressure. Is there any improvement in the White Oil business?

Kushal N. Desai: The business continues to have some amount of pressure. Certain lower grades of products have obviously got commoditized and a large portion of the exports does go into Africa and the Middle East. Of course, Middle East does not have any balance of payments issues, but some of the African countries there are certain balance of payment issues, where we have the buyer who has the money available in local currency but the central bank is not releasing dollars to open Letters of Credit, etc. Of all the businesses that we have the White Oil business is the most stressed compared to the rest of the portfolio.

Maulik Patel: What will be our capex for FY17 overall? How much we have spent in FY16 for augmenting our overall capacities both in Hamriyah and Jharsuguda?

V.C. Diwadkar: Till date domestically in India we have spent close to about Rs. 40 crores and in Hamriyah we have spent about $5 million out of the $15 million which is planned.

Maulik Patel: The remaining $10 million we will largely spend next year?

Kushal N. Desai: No, in the next six months the spending rate will substantially go up. A lot of this is payments made on the advances towards equipment's supplies, etc. That is generally 20%, 25% of the value but we expect the project itself to be up and running in the third quarter of FY17.

Moderator: Thank you. The last question is from the line of Sandeep Baid from Quest Investment. Please go ahead.

Sandeep Baid: A couple of questions on the Cables business. What is the timeline that you are looking at for expansion of the Power Cable facility?

Kushal N. Desai: We are in the process of evaluating equipment suppliers, etc. So our target is to finalize and place orders before 31st March and the general delivery cycle is between six and eight months. So essentially by December of 2016 we should pretty much have supplies. Some volume should come out in the fourth quarter of FY17.

Sandeep Baid: We have some FT Power Cable capacity already, right?

Kushal N. Desai: Yes, we already have capacity in place. The idea is when this capacity expansion happens we can produce from 66 kV downwards as opposed to currently 33 kV downwards and our High Tension Cable capacity will then more than double.

Sandeep Baid: Once this capacity is implemented, at full capacity what is the kind of turnover that the Cables business can generate?

Kushal N. Desai: This year we are targeting in the vicinity of around Rs. 700 crores in revenues and once we go through with these expansions we should be adding about Rs. 150 to 170 crores further, we would be close to Rs. 900 crores.

Sandeep Baid: In terms of EBITDA margin, now we are at about 7-7.5%. Do you think it can go up to double digit by the end of next financial year?

Kushal N. Desai: It can go up to double-digits based on this expansion and the implementation of GST because there is a definite impact that we have of almost 2% that is coming from us having to charge interstate sales tax compared to some of our competitors like Polycab, KEI for example charges only 1% because that is the rate that they have out of their facilities in Rajasthan. Between 1% and 2% is a benefit that will come on that and we can get about a 1.5-2% coming out of scale, just larger amount of volume coming out as far as the Power Cable side is concerned.

Moderator: Thank you. As there are no further questions in the queue, now I hand over the floor over to Ms. Nisha Kakran for closing comments.

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