Apar Industries Limited
Q3 FY20 Earnings Conference Call
January 24, 2020

Moderator: Ladies and gentlemen, good day and welcome to the Apar Industries Limited Q3 FY20 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 call, 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 Mr. Samyak from Four-S Services. Thank you and over to you sir!

Samyak: Thank you. Good afternoon, everyone. On behalf of Four-S Services, I welcome all the participants to the Apar Industries Q3 FY20 Earnings Conference Call. Today on the conference, we have Mr. Chaitanya Desai – Managing Director, Mr. V. C. Diwadkar – CFO, Apar Industries. I would now like to hand over the call to Mr. Desai for his opening remarks. Over to you, sir!

Chaitanya Desai: Thank you. Good afternoon, everyone and a warm welcome to the Q3 FY20 earnings call of Apar Industries. Our Chairman and Managing Director, Mr. Kushal Desai is unable to make it for today's call. So, I will proceed. I will start with an industry update and overview of our performance followed by detailed segmental performance, after which we can open the floor for questions.

The quarter saw continued slowdown in both domestic and global markets. IMF has lowered 2019 growth estimates for India to 4.8%, a significant 1.3% cut from the earlier estimate of 6.1%. IMF has also lowered its global growth estimate to 2.9% in 2019 and 3.3% in 2020. Further as credit challenges in domestic market persisted we took a cautious approach towards new orders with focus on margins as well as payment terms. Well, there have been some announcements in the new year there was no immediate stimulus to revive the sector in the third quarter. This impacted our revenues. Q3 FY 20 consolidated revenue was at Rs. 1,837 crores maintained at a similar level to the second quarter. But down 13% year-on-year mainly due to decline in domestic revenues. We focused more on export markets; this resulted in a year-on-year growth of 6%. Our focus on value added products yielded results and this help grow our EBITDA by 3% year-on-year to Rs. 119 crores in Q3 FY20. EBITDA margin improved to 6.5% in this quarter from 5.4% in the previous year's same quarter. PAT moves at Rs. 37 crores up 6% year-on-year. PAT margin improved to 2% in this quarter from 1.6% in Q3 FY19.

For 9 months this year our consolidated revenues increased 3% year-on-year to Rs. 5,650 crores. EBITDA improved 8% year-on-year to Rs. 364 crores. EBITDA margin improved to 6.4% from 6.1% in last year's 9 months. PAT increased 21% year-on-year to 112 crores.

I will now cover a few highlights in the T&D sector. 2020 has started on a good note with the Finance Minister announcing Rs. 102 lakh crores of infra projects for the next 5 years to make India a $ 5 trillion economy by 2025. Of this Rs. 12 Lakh crores would be in power sector and 9.3 lakh crores would be in renewable energy sector. Government has also proposed the grant of Rs. 1.1 lakh crores to bailout state Discoms that might be part of upcoming budgets. It expect to spur about Rs. 300,000 crores of investments in the distribution sector out of which Rs. 2.3 lakh crores of the first phase would be in infrastructure upgradation. 10 LOIs have been issued by December 2019 in the current financial year for TBCB based transmission projects. Of these, 6 have December 2020 deadline for scheduled completion. T&D orders of over Rs. 8,600 crores were announced by key companies in Q3 FY20. 7,083 circuit kilometers of AC transmission line and 48,760 MVA of AC substation transformation capacity has been added in 9 months FY20.

As per year end review 2019 of Ministry of Power, 2.7 crores households have been electrified under Saubhagya, Government of India grant of Rs. 3,857 crores has been released in year to date FY20 under DDUGJY/ Rural Electrification. Significant progress has been made under the Integrated Power Development Scheme in the current financial year with the physical progress reaching almost 80% in the system strengthening works. More than 900,000 smart meters has been installed in the states of Uttar Pradesh, Haryana, Bihar, NDMC Delhi and Andhra Pradesh. We are still to see the benefits of these announcements in terms of impact on the ground. Hopefully, these will percolate into action in the near future.

I will now brief you on each segments performance.

Conductors business posted revenue of Rs. 868 crores in Q3 FY20 compared to 1,052 crores in Q3 FY19. Export revenues were up 20% year-on-year in the quarter. Volumes decreased 23% year-on-year to reach 36,410 metric tonnes. EBITDA per metric tonnes post Forex adjustment improved 50% year-on-year to Rs. 12,409 with increased share of higher value business - 33% compared to 26% in Q3 FY19. High efficiency conductor revenues increased 129% year-on-year and contributed 22% to revenues compared to 8% in Q3 FY19 with pick-up in stringing and re-conductoring demand. There was slowdown in railways business that saw share of copper conductors comes down to 11% from 18% in Q3 FY19. As explained earlier with stricter order booking, our order book at the end of December 2019 was at Rs. 2,231 crores compared to Rs. 3,226 crores in Q3 FY19. New order intake was Rs. 625 crores down 61% year-on-year due to lower domestic inflow. This includes new order inflow of Rs. 113 crores of HEC and Rs. 164 crores of copper conductors for railways. The traction in the new CTC and PICC products was slower than expected due to adverse market conditions in the transformer industry. We expect demand for CTC, PICC and OPGW demand pick up as approvals come in.

In 9 months FY20, conductor's revenue was Rs. 2,786 crores up 8% year-on-year. Volumes were up 1% year-on-year to 121,660 metric tonnes. EBITDA per metric tonnes post Forex adjustment increase 5% year-on-year to Rs. 10,665.

Moving to the speciality oil, revenues were at Rs. 587 crores in Q3 FY20 down 19% year-on-year due to both domestic and global market slowdown. Utilities and credit situations continue to be challenges. Volumes were 102,194 kilo liters down 12% year-on-year. Hamriyah plants capacity utilization was at 65% in Q3 FY20. The auto lubes and industrial oils contributed 24% to the revenues. EBITDA per KL after Forex adjustment declined 24% year-on-year to Rs. 3,082 but compared to the previous quarter there was an improvement of 8%.

In 9 months FY20 oils revenue reached Rs. 1,778 crores down 8% year-on-year. Volumes were down 2% year-on-year to reach 306,705 kilo liters. EBITDA per KL post adjustments were up 15% year-on-year to Rs. 3,293.

Moving to the cables business, revenue declined 7% year-on-year to Rs. 391 crores in Q3 FY20. Strategic focus on exports and copper cables help arrest the impact from demand slowdown in renewables and telecom and intense competition for conventional products. There was demand from railways and different sectors for elastomeric and E-Beam cables. EBITDA margin post adjustment improved to 10.6% from 9.8% in Q3 FY19.

In 9 months FY20, cables reported marginal decline in revenues at Rs. 1,154 crores. EBITDA post adjustment increased 12% year-on-year to Rs. 135 crores. EBITDA margin post Forex adjustment improved to 11.7% in 9 months FY20 from 10.2% in 9 months FY19 with improved product mix.

We hope 2020 will be a better year on the back of new TBCB projects and demand revival if the government initiatives kick in. We hope that credit situation will also improve as there will be a better appetite the banks have for lending. We will continue to observe strict sales discipline is focus on cash flow and profitability.

So with this, I come to the end of my comment. I would like to thank everyone for joining our conference call and open the floor for questions.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Iksha from Atikya Investments. Please go ahead.

Iksha: Sir last quarter we had said that there was certain profitable order in that the delivery for which was delay. So, I am assuming it those were HEC orders. I wanted to know how much of this current quarter revenues would be pertaining to that quarter? And what can we expect as steady state revenue for HEC going forward?

V. C. Diwadkar: They were not HEC orders. They were conventional conductor orders only but more profitable orders. If I remember correctly it was about 220 crores that was there in conductor division and about 30 crores was in transit as far as cable division is concerned.

Iksha: So, sir this quarter what, the revenues of about 190 crores that we have in HEC is pertaining to this quarter itself, there were no delay in there. And what would you expect to be in the outlook for this sustainable revenue going forward for on HEC?

V. C. Diwadkar: No, we cannot go by this 22% number actually. We feel that the overall it will be about, 16 to 16.5% by end of the year and next year we can look at 20% actually. Earlier we were looking for 20% in 2020, FY 2020 but now I think we will have to differ it by one year actually and FY21 we can look at 20%.

Iksha: And sir, what outlook do we have for copper conductors? Are we seeing an execution picking up on a steady basis from railways?

V. C. Diwadkar: That we have said that in the Q4 it is likely to get normalized, by end of Q4.

Iksha: So, we can expect close to 20% the contribution to revenue from copper conductors going ahead?

V. C. Diwadkar: Not in the Q4 actually but Q1 onwards you can expect 20%.

Iksha: And sir my next question is sir from a medium or a long term perspective for all our segments do we have any internal targets or metrices that we are trying to achieve in terms of profitability or say in terms of ROCE. How do we access our internal targets for say is it like EBITDA per tonnes or EBITDA per KL or are we targeting any ROCE?

V. C. Diwadkar: In the last call we had said actually that we are targeting close to 12,500 EBITDA margin for conductor division and we are targeting close to 4,400 or 4,500 per KL for speciality oils business and we are targeting close to 12%-12.5% for cable business.

Iksha: And sir this would be say, what time horizon do we have inline for this?

V. C. Diwadkar: If the ground level situation improves we feel that we should be able to get it in next year or so. So, right now the situation in the power sector is not that good actually. One is the demand is also weak actually other thing is the credit situation is worse actually. So people who are having orders, if they are not having money, for us actually that demand is of no use.

Iksha: So, sir what are the debtor days right now?

V. C. Diwadkar: Our debtor days in case of conductor division they are about 102 days and about 100 days in case of cable business and 72 days in case of oil business.

Iksha: And sir on, we have certain off balance sheet debt that we have if you could give us the breakup of LIBOR linked and domestic.

V. C. Diwadkar: LIBOR linked is about 1,100 crores and about 600 crores is the domestic rate.

Iksha: 1,100 you said, sir?

V. C. Diwadkar: 1,100 LIBOR linked and 600 on this domestic rate.

Iksha: And sir, do we have any receivables or overdue receivables from the telecom sector? Sir, BSNL specifically and how long has it been overdue?

V. C. Diwadkar: We had overdue of close to about 40 crores as the end of last quarter. But during the quarter industry had approached the Minister and we got close to about 30 crores out of that.

Iksha: So that we have just balance of 10 crores.

V. C. Diwadkar: 10 crores-12 crores balance is there from BSNL.

Moderator: Thank you very much. Next question is from the line Maulik Patel from Equirus Securities. Please go ahead.

Maulik Patel: Few questions. You mentioned about the conductor and that is not much improvement though the government has announced certain steps to help the sector. But historically what we have seen that this kind of measures took a lot of time to percolate on the ground level in terms of improving the finances of SEBs and then the order book. Generally what is you assessment? Do you expect is it 2 quarters down or 3 quarters down the line when we start seeing that payment difficulties faced by the vendors will be down and the orders start coming?

Chaitanya Desai: So it’s possible that the government in the budget will implement something that is what we feel. And if that were to happen then maybe in couple of quarters thereafter we should see the effect. So, we have seen in the past also the things can improve very quickly before, one expects also the momentum picks up well. And in this case it’s not just a question of demand it is for money is due to the industry for materials already bought by the utilities and so the moneys have not been given. So, if that comes through then across the board whether it is transformers or conductors or cables, EPC once the money comes in then the rotation will start working faster and all the demand which is kind of kept on hold that also we will start moving fast. So, right now we are not in a sort of situation to just accept any orders except wherever we have sure that yes the party will be able to pay. So, in spite wherever the client is asking us for open credit type of business beyond the limit we are saying no to that type of orders. Once the normal system of opening LCs or giving the proper payment as per the contractual obligations, Starts happening then again the normal demand will come in place.

Maulik Patel: And is it more relative to the SEBs only or is it also related to the central PSUs also like power grid or any other one?

Chaitanya Desai: It is primarily driven by the state distribution companies where the problems are. So, much of the other industries who are sort of link to this segment of the market even if they are doing transmission work they have kind of diverted the money from transmission inflows to the funding the distribution hits and then accordingly not paid even their vendors for the transmission. So, this is where the main problem is.

Maulik Patel: Second is in terms of I don't know oil those oil has been volatile, and it's been hitting the margin because you mentioned that customers again they are payments delays are there an issue but for our price point when the oil volatility has led to this forecast slowdown the business?

V. C. Diwadkar: No, oil volatility has not hit the slowdown actually. The slowdown is that actually see lot of transformer manufacturers they are having orders. But we are not able to accept their orders because they are not in a position to make the payment. So, solvent customers are very few. So, with that actually the demand and supply situation get squeezed and we feel that going forward the things can improve because other phenomena was there that there was surplus base oil in the market because of which, see you are aware that we work on the contract basis. We have about 65% of our oil procurement, base oil procurement on contract basis. Where there are some smaller competitors are there who work on spot basis. Because of the more availability of this base oils the spot prices were better than the contract prices. So, in that situation actually they were heavily competing with us. But going forward with this IMO 2020 coming in actually which we had mentioned in the last call also whereby the emission norms for the ships - actually they have to use the low sulphur oil and the sulphur contain in the oil has to go down from 3,000 PPM to 500 PPM. So with that actually some part of the base oil, will go for fuel into the ships actually. With that we are seeing that there will be a tightness in the base oil market and our phenomena of the contracted prices being better than spot will come back actually. With that we are hoping that the oil margins should improve.

Maulik Patel: And the last question in terms of what kind of debt and FOREX debt is it at the end of this quarter and what is the CAPEX so far we have done and what kind of capital we envisage for the next year?

V. C. Diwadkar: As far as debt is concerned the total debt is about 272 crores out of that 143 crores is long term and balance is short term. As far as off balance sheet or supplier credit is concerned I have already given the reply earlier. So, about 1,100 crores are LIBOR based and 600 crores of Rupee based suppliers credit is there.

Maulik Patel: The CAPEX which we …

V. C. Diwadkar: We have done CAPEX of close to about 110 crores and we have a CAPEX program of 168 crores in this year. As we have said in the last call also the CAPEX in future from next year onwards the CAPEX should go down actually because more or less the CAPEX for all the 3 business is over now. So, the CAPEX will be in the range of about 60 crores-65 crores which is equivalent to our depreciation.

Maulik Patel: And this year CAPEX large of this 168 crores large part of the CAPEX to the cable business for the …

V. C. Diwadkar: Large part means around 35 crores the CAPEX for the Oil division, Rs. 90 crore for Cable division, Rs. 33 crores for Conductor division and Rs. 10 crores for head office.

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

Anuj Upadhyay: Sir, of the total order book of 2,231 crores how much would copper conductor accounts for? This is for the railways I am asking.

V. C. Diwadkar: Copper conductor is 263 crores and high efficiency conductor is 384 crores.

Anuj Upadhyay: And both of them are for the railways?

V. C. Diwadkar: No, copper conductor is for Railways..

Anuj Upadhyay: Copper is for the railways. Fine.

V. C. Diwadkar: High efficiency conductor is for the transmission sector.

Anuj Upadhyay: And sir you mentioned about the suspension of orders that impacted the sales. So, is just a postponement of the order or it is a cancelation?

V. C. Diwadkar: Actually the inventory had accumulated at the project side. So, that is why they had slow down their procurement because the execution was not in line with the procurement actually. And that we have said in our investor update also that we are feeling that in this Q4, by end of Q4 we should be able to see the normalization of railway business.

Anuj Upadhyay: I believe sir even the railways are facing some kind of credit crunch issues. So have that thing been sorted out as of now? Which business is confident that the Q4 should get normalized?

V. C. Diwadkar: No we have not seen any, we are dealing with railways for at least for oil as well as the cable business and conductor business also, all 3 businesses. We are not seeing any credit crunch as far as railway is concerned.

Chaitanya Desai: Yes, because traditionally we have been supplying as supposed to doing the project work. So, what we hear in the industry is some of the EPC companies they are not getting the retention money out because of contract closure delays. But in our case it is a matter of supply that is all.

Moderator: Thank you. Next question is from the line of Neeral Shah from Phillip Capital India Pvt. Ltd. Please go ahead.

Neeral Shah: Sir, with this recent development of Atal Distribution Yojana or maybe privatizing Discom announcing around 300,000 crores of electricity distribution scheme. So, what kind of demand you see for our product?

V. C. Diwadkar: ADITYA Yojana is there actually but they have not yet officially announced. Unofficially in this EEMA conference when Minister had come actually he had mentioned that we are coming out with UDAY 2. Something like UDAY 2 but the name will be that Aditya or Atal something like that, Aditya I think.

Neeral Shah: Atal.

V. C. Diwadkar: Atal distribution system actually. But if this Yojana is there and if this Yojana is properly implemented then we feel that there will be demand across all the 3 businesses and more towards for oil and cables actually.

Neeral Shah: So, FY20 would largely we remain flat in terms of revenue. So, for next let's say 1 to 2 years of what kind of growth we are expecting?

V. C. Diwadkar: As we have said actually all 3 businesses, the business should be good actually but right now the government is in a tight spot actually. So, we have to see this budget actually to what extent the fiscal deficit they have to release that percentage of fiscal deficit with they have in mind actually. For 1 or 2 years actually maybe they will have to release actually and that is how the money can come in the system. And with they will be doing right now actually because without that actually the economy will not work. So we have to wait for budget.

Neeral Shah: Secondly sir, when I see your revenue, revenue was down 13% but our other expenses have remained flat. So, is there any one-off in the other expense because ideally other expenses also go down along with the revenues.

V. C. Diwadkar: No. See, there is a different type of mix is there actually the business mix can be different actually. So, we cannot relate like these expenses like these actually you cannot take percentage.

Neeral Shah: So, other expenses you feel entirely the fixed cost in nature?

V. C. Diwadkar: No the other expenses will have other cost also.

Neeral Shah: So, what is the proportion sir because ideally revenue has come down, so other expenses might have gone down but it has remain flat or it has gone up from 271 to 278 …

V. C. Diwadkar: It depends upon what type of mix is covered in the business actually. Offline actually if you contact with me actually we can discuss.

Neeral Shah: And sir secondly, with this spread cutting rates sir in our finance cost also moved up from 41 crores to 52 crores. So, when do you see the finance cost …

V. C. Diwadkar: Now the finance cost in this quarter also you must have seen that the interest cost is lower than the last quarter. So, now going forward actually you should be able to see finance cost on account of rate will come down actually. But still the tightness is there in the market as far as the credit is concerned that we have said actually. Then we are facing difficulties in collecting money from our customers. But rate, I agree with you actually, the rates have gone down.

Neeral Shah: And sir in cable business particularly what is the export contribution?

V. C. Diwadkar: Export is about, in this quarter it is about 13%.

Neeral Shah: And for 9 months?

V. C. Diwadkar: I think, 9 month is 13%, sorry. 9 month is 13%. This quarter it may be slightly higher than that.

Chaitanya Desai: Close to 20%.

V. C. Diwadkar: Close to 20%, sorry.

Neeral Shah: So, when do you see this solar and wind kind of an elastomeric cable demand coming up again?

V. C. Diwadkar: Elastomeric cable demand that way is reasonable because Railway and Defence as we have said in our investor update Railway and Defence is doing well. The solar has come down actually. In these 9 months we have seen that solar coming down by close to about 35% but we are hoping that solar should improve actually. Wind we are not able to tell anything about wind because there is not much interest seems to be for….

Chaitanya Desai: Yes, it may take a little longer for the wind companies to come back as they were doing in the last years. But our effort will be to do lot of exports because worldwide though wind is still going strong.

Neeral Shah: And sir what is the size of the overall elastomeric cable in India?

Chaitanya Desai: Well, it is a relative niche product line as compared to power cables and house wires and some of the other commoditized type products. So, it constitutes typically about 10% or less of the market size.

Neeral Shah: And sir, when we said we are the domestic leader in this segment, so what could be our market share?

Chaitanya Desai: It will be I think 25%.

V. C. Diwadkar: There is no official number available on these actually because some of the companies are privately held companies.

Neeral Shah: Sir, do you expect, this cable business which used to grow 20%-25% CAGR again will bounce back from FY21?

V. C. Diwadkar: There should be improvement actually. We had expected that this year there may not be any growth in cable business actually but next year onwards we feel that cable business can grow actually. One of the reason why cable business has not grown is also the optic fiber cable business actually which has gone down by close to about 35%-40%.

Neeral Shah: So, next year again you will see the …

V. C. Diwadkar: We feel that again in this budget we have to see what is their allocation for BharatNet program and with what aggression they drive the BharatNet program because this telecom companies have not spending right now. But as far as the governments spend is concerned, we feel that that should come back in the next year.

Neeral Shah: And then sir what is the overall capacity utilization of the company?

V. C. Diwadkar: Normally if you take the business wise actually conductor will be close to about 80% or so. The oil also will be close to about 75%-80% and cables will be about 85%. But it depends upon segments actually as far as OFC is concerned right now utilization level will be close to about 40% or so.

Neeral Shah: And sir when we do CAPEX in conductor business, so what is the CAPEX, sir?

Chaitanya Desai: We invested recently in this CTC and PICC business which is the conductors used in the transformers. So this was one of the CAPEX which we have done recently then the year before we did on copper, railways and OPGW. So, we have been getting into related diversified production.

Neeral Shah: And sir, what is the opportunity size here?

Chaitanya Desai: So, each of these businesses have different sort of markets like OPGW may be about 50,000 kilometers in a year and what we have gone for is the capacity of roughly one fifth of that. Then on the copper conductors total demand in India would be like 25,000 tonnes-30,000 tonnes and for the CTC particularly CTC it would be close to 15,000 tonnes to 20,000 tonnes in a year.

Neeral Shah: And in terms of realization, sir? See, for particularly for CTC?

Chaitanya Desai: CTC is driven by the copper price because it is a main raw material and we envisaged about 360 crores of business for our, once we reached the full capacity utilization.

Neeral Shah: And sir lastly, do we get order from directly from Power Grid?

Chaitanya Desai: So, are you talking about the all the businesses or any …

Neeral Shah: Yes.

Chaitanya Desai: So, we do some business directly with Power Grid and earlier Power Grid is to buy all the conductors directly but on the TBCB, they are now a days buying through the EPC route.

Neeral Shah: And sir lastly, with this green energy corridor are we getting any orders, sir? Because this is a program which has to complete by December 20 and the first it is around 15,000 crores.

Chaitanya Desai: Yes, we have got business from some of the parties who have won the business. So, they have either place orders directly, some of them being like Adani or some like Power Grid who have bought through some of the EPC companies.

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

Lalaram Singh: My first question is that the capital employed in the conductor business has gone up significantly, I think quarter-on-quarter also and year-on-year. This is because of the inventory which is still lying and we are not shipped to the customer?

V. C. Diwadkar: No, the capital employed in conductor business has mainly gone up because of the reduction in liabilities actually. Some liabilities got paid off actually. And these are suppliers' credit actually, that is how the interest also has come down, no.

Chaitanya Desai: Also we have invested in as we mentioned earlier in terms of the few businesses we have entered.

Lalaram Singh: Some CAPEX is going out, no?

Chaitanya Desai: So, that will also increase the capital employed.

Lalaram Singh: If you have the interest cost I remember that you mentioned it is better to look at in terms of percentage of revenues and over on quarter-on-quarter basis the revenues have been flat but interest cost has gone down from some 60 odd crores to 50 odd crores. So, is it the temporary phenomenon where we have paid out our operating liabilities and will do you think that again they will revert back to its normal level, once these liabilities again come as of normal course of the business.

V. C. Diwadkar: No, interest as a percentage to the revenue will go down actually because of the rate actually, in the earlier call, I had said that the LIBOR rate has gone down and that effect will come slowly in the entire liability which is there actually. Because the interest, the LIBOR rate which is applicable when you do the suppliers financing that point of time whatever LIBOR rate is there that is applicable. So, still we have the liabilities with old rate. So, as we go ahead actually the rate should come down.

Lalaram Singh: Can I get this split of the interest expense in this quarter in terms of open period Forex and term interest Forex and the Forex cover?

V. C. Diwadkar: The open period Forex for the quarter was 6 crores.

Lalaram Singh: Okay.

V. C. Diwadkar: The forward cost was 5 crores.

Lalaram Singh: Okay.

V. C. Diwadkar: And the other borrowing cost was 4 crores.

Lalaram Singh: My second question is that in the cable business although we have delivered a reduction in the quantum of revenues but our margins actually have gone up. So, is it because of the product mix which is much more superior?

V. C. Diwadkar: Yes, it is because of the product mix.

Lalaram Singh: And what is the gross margins in the cable business?

V. C. Diwadkar: Pardon, we do not share that actually.

Lalaram Singh: Thirdly, in the oil business I want to know that our capacity utilization is 65%, right as of today?

V. C. Diwadkar: Close to 70/75%, I said actually.

Lalaram Singh: So, when do we expect it to reach 80-85 plus, next year is it possible?

V. C. Diwadkar: It is possible actually because things are improving and we feel that with this new program the government has given lot of programs actually. But on ground we are not seen the execution of that program. So, hopefully after this budget actually we should be able to see some allocation of money for this program and then the programs will be run aggressively by the government.

Lalaram Singh: And sir there was one note in the cable business wherein export of 66 odd crores accounted as transit inventory due to some Carriage and Insurance Paid terms, I think so. Does it mean that we have not book the revenues because of certain conditions not being met?

V. C. Diwadkar: Correct.

Lalaram Singh: What is that exactly mean.

V. C. Diwadkar: See, because the Incoterms are CIP, Carriage and Freight these are the Inco terms. So, unless we reach the material till the customer's godown and we are not able to book the revenue as per the accounting standard. So, that is what we have said actually. So, although the dispatches have taken place but it takes our estimate is that it takes about 105 days to reach the material. We have made the product, dispatched the product but because this product has not reached we have not booked the revenue as per the accounting standard.

Lalaram Singh: So, effectively this will be booked in the next quarter?

V. C. Diwadkar: This will be booked in the next quarter.

Lalaram Singh: So, accounting for this, you expect the revenues for the overall full year to be, similar to last year levels in cables, right. You do not expect growth?

V. C. Diwadkar: Correct.

Lalaram Singh: And sir, can I get the return on equity for each of the business segment, conductor, oil and cable as of …

V. C. Diwadkar: Cable for 9 months the return on equity is 16% for cable business and 12% for oil business and then breakeven or say 1% minus for conductor business. And the overall, Apar as a whole return on equity is 12%.

Lalaram Singh: And sir historically what has been the ROE for the conductor business steady state ROE for the conductor business?

V. C. Diwadkar: Conductor has delivered ROE of 12% to 15%% also earlier actually and we are hoping that with the steps which we are taking we should be able to reach that percentage.

Lalaram Singh: Sir, is this reduction in ROE to almost say zero is it simply a function of drop in the margins because the does not seem to be very off from the long term median of say between 8,000 to 10,000, I think it somewhere there. So what is causing that ROE to be say 0%? Can you please help me understand that?

V. C. Diwadkar: What has happened, the EBITDA margin has come off actually and the interest has gone up because of that the ROE is coming less. So, we are expecting that going forward we should be able to get ROE of close to 12%.

Lalaram Singh: 10%? Sorry, I miss that number 10%?

Chaitanya Desai: Yes. Just one second. Just hold on.

Lalaram Singh: You said 10%, right?

V. C. Diwadkar: The number I have given is return on equity after knocking off the tax.

Lalaram Singh: Absolutely. I understood. And sir over the long term you have mentioned that we intent to generate 25% return on equity. So, do we have any sort of plan and levers which we have identified which will lead to this expansion? Because this is actually very steep jump from these levels it’s almost double, right, more than double.

V. C. Diwadkar: See, as we explained earlier actually we strategically we have taken lot of steps actually like say high efficiency conductor than copper conductors, then the CTC conductors and OPGW were the size is very small right now. So, all these actually, the effect of all these plus the impact which will be there when the power sector improves its performance and the credit situation is improved in the economy. So, across all the 3 businesses strategically we are ready actually when the sector does well and the credit situation improves and this is our vision actually and there we want to reach actually. So, we may not reach suppose 25% but at least we have that vision and we have working towards that and we may reach 23%. But this is dependent, definitely dependent on the sector improving and the credit situation improving in the economy.

Lalaram Singh: So, one final question then I will leave for the queue. So when our CAPEX intensity reduces from the next year, what is the plan to deploy the excess cash flow how do we?

V. C. Diwadkar: See if the, we will see what sort of opportunities are there actually and maybe we will increase dividends actually and if we find some opportunity for some acquisition or for taking some other businesses, good businesses which are not doing well. Then we can take those business and try to turnaround these businesses as we have done in case of cable business.

Moderator: Thank you very much. Next question is from the line of Neeral Shah from Phillip Capital. Please go ahead.

Neeral Shah: Sir, in cable business we are also looking at new opportunity like auto cables, railway harness. So, how big is that opportunity, sir?

Chaitanya Desai: The opportunity is very large. We are just sort of beginner in those field. So, there is a lot of scope for us to grow there.

V. C. Diwadkar: As far as railway is concerned we were already, railway is used to employ the harnessing contractors were different and they used to purchase cable from us and do the harnessing and give it to railways. So, whereas now we as it is we were giving the cable which was the major portion of the harness value, so we thought of doing ourselves harness. So, that is how we are doing the harness. As far as auto harness is concerned we were not present in that actually. So as Chaitanya Bhai said it is actually it is a big opportunity. So, both these opportunities are very big opportunities actually.

Neeral Shah: So this auto harness, we are looking for after-market or for OEMs?

V. C. Diwadkar: OEMs.

Neeral Shah: And sir regarding our automotive oils, so what would be our percentage revenue coming from OEMs and some after-market?

V. C. Diwadkar: OEM is about 60% and after-market is 40%.

Neeral Shah: And in OEMs whom we are supplying to this automotive oil, sir?

V. C. Diwadkar: There are various OEMs are there, Escort is there, International Tractors is there, Greaves is there, Atul is there, Wuerth there. So, there are so many OEMs are there actually.

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

Lalaram Singh: Sir, I was just reading that there was some strike at Lapanga facility. Can you throw some light what was that about?

Chaitanya Desai: Well it was not strike with regard to our own facility. Sometimes the problems are there of the whole state or some of this other things which are going politically in the country. People are calling for an off day and then the officials, government officials do not go for work. But as we are concerned factories have been running.

Lalaram Singh: And sir, all the advantage that you envisaging with the backward integration there and sort of material tie up with Hindalco is that all that has been reflecting in the numbers or yet it is to be, it will still come down in terms of the improvement in the profitability because of that?

V. C. Diwadkar: No, it is already factored actually it is there but right now the, see basically the Lapanga plant and the Jharsuguda plant we are using for conventional conductors. So, the conventional conductors demand and the margin is so low actually. So, we are able to sustain only because of all this cost reduction measures which we have earlier taken.

Moderator: Thank you very much.

Chaitanya Desai: So, thank you very much.

Moderator: Thank you. As there are no further questions, I would now hand the conference over to the management for closing comments.

Chaitanya Desai: I would like to thank everyone for joining our conference call. Thank you.

Moderator: Thank you very much. On behalf of Four-S Services that concludes this conference call. Thank you for joining us and you may now disconnect your lines.