Apar Industries Limited's Q1 FY-'15 Conference Call
August 5, 2014

Moderator: Ladies and Gentlemen, Good Day, and Welcome to the Apar Industries Limited Q1FY15 Conference Call hosted by Four-S Services. As a reminder, all participants' 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 Alok Somwanshi of Four-S Services. Thank you and over to you Mr. Somwanshi.

Alok Somwanshi: Good Evening, everyone. On behalf of Four-S Services, I welcome all the participants to Apar Industries Q1FY15 Results Conference Call. Today, on the conference call we have Mr. Kushal Desai – Managing Director, Apar Industries; Mr. Chaitanya Desai – Joint Managing Director; and Mr. V.C. Diwadkar – CFO, Apar Industries.I would like to thank the management for giving us an opportunity to host this conference call.I would now hand over the call to Mr. Desai. Over to you, Sir.

Kushal N. Desai: Thank you, Alok. Good Evening, everyone, and a Warm Welcome to the Q1FY15 Earnings Conference Call. I would like to begin by taking you through key highlights of the quarter, and then outline some of our growth initiatives, and finally, discuss some of the financial results before opening up the floor for questions and answers. We are pleased to report that the quarter has seen a revenue growth across all our three business segments. There is a positive environment based on various initiatives the new government has started to to revive this power sector, and it is from this sector that we derive approximately 75% of our revenues. So this gives us some confidence that the future should hold promise, but we clearly recognize that these initiatives will take several months to see the actual changes on the ground, just given the sheer enormity of the work which lies ahead. However, Apar is well positioned to gain from this revival as a result of various strategic initiatives that we have taken over the last three years, starting with expanding our capacities by about Rs.250 crores in terms of CAPEX across all the three divisions. Our Cable division has shown an improved performance in this quarter with a major shift in the product mix towards the Electron Beam, Elastomeric Cables and Fiber Optic Cables. We have been speaking about this for the last couple of years, but in this quarter you can clearly see the impact of this shift taking place.

As we look at each of the segments in more detail, I would first like to discuss a little bit about the Conductor division. So our newly commissioned plant at Athola has now strengthened our capability to meet the demand not only for traditional but also for high temperature conductors both in terms of the variety of conductors we can make and the physical capacity that we have available. In the domestic market, we are seeing gradually increasing demand for high efficiency conductors, as we continue to champion its use through meetings with various state electricity boards, transmission companies as well as with PowerGrid. Recently, we received our first order for High Efficiency INVAR Conductors from PowerGrid in a vendor development initiative, and we have put in several more bits for INVAR Conductors with PowerGrid at the moment. We are in different stages of tender opening at this stage. We also have several other proposals involving a variety of new generation conductors to state electricity boards, which are under active discussion. So, with this order from PowerGrid we have the distinction of being able to demonstrate a live working conditions the entire range of these high temperature conductors, which we expect will have increasing demand emerging over the next few years, because a lot of these enquires and proposals that are in place are likely to now get converted into actual orders. On the other hand, we have had significant focus on exports, and this has helped over 50% of our conductor order book coming in from overseas markets, which has partially offset the decline in the domestic market that has been seen in the last few quarters.

"Currently, Apar is the largest Indian Exporter of Conductors and we are also the Largest Manufacturer of Conductors based on published information from some of the publicly listed competitors that we have."

In the past quarter, the Transformer Oil business had some difficulties in terms of passing through increased costs, emerging from some adjustments in base oil prices as well as a little bit of adjustment in the Indian rupee, all in the backdrop of fairly sluggish market conditions with off take coming primarily from some of the transformer OEMs being subdued due to lack of tenders for transformers. However, through effective sourcing of raw material and having a steady policy on the foreign exchange hedging, some of this lost ground was covered by us. We have seen double-digit growth in our Process Oils, Industrial Oils, and the Automotive Oils sector, and specifically in the Automotive Oil sector we have increased sales in the OEM business as well as increased retail and distribution reach.

On the Cables front, as I mentioned earlier, the growth has primarily come from the Elastromeric Cables with a sharp increase in demand from the windmill and the solar sector, especially with some of the tax initiatives that have been announced as well as orders from BBNL and other telecom service providers for Optical Fibers coming in, which has been the main driver for a healthy increase not only in the revenues, but with also better profitability for that particular division. Given the wide applications and ability to service multiple industries, the E-Beam cables are also expected to see some amount of growth.

Turning to our "Quarterly Results", I would like to quickly recapitulate on some of the financial highlights. During the quarter, we posted standalone revenues of Rs.1,131 crores, which is up 20% from the Rs.945 crores in the same quarter of the previous year. Our earnings before finance cost, taxation, depreciation and amortization was at Rs.70 crores, and our profit after tax for the quarter was at Rs.20 crores which is up 94% from the same period previous quarter. This does include dividends coming in from two wholly-owned subsidiaries amounting to Rs.6.67 crores. On a consolidated basis, our revenues came in at Rs.1,163 crores which is 21% up, and our profit before taxes came in at Rs.25 crores and profit after tax for the quarter was at Rs.17 crores.

Getting into some more divisional details on the "Financials", the Transformer and Specialty Oils business on a standalone basis posted a revenue growth of 11% year-on-year, up from Rs.506 crores to Rs.562 crores, and this was as I mentioned earlier driven primarily from the growth in Industrial Oils, Automotive Oils and Process Oils.

In terms of physical shipments of Oil, we grew 7% to register a sale of 79,700 KL, and the earnings before foreign exchange, tax, depreciation and amortization per KL was up 20% from Rs.2570 last year to Rs.3097 in this quarter. The Transformer Oil and Specialty Oil on a consolidated basis showed a growth of 14% year-on-year, up from Rs.523 crores to Rs.594 crores, and the global oil shipments total volume grew by 8% to 84,421 KL and the EBFTDA per KL increased by 18% from Rs.3,000 to Rs.3,527 rupees per KL.

Coming to our "Conductor" business, the business posted standalone revenue growth of 22% year-on-year, up from Rs.341 crores to Rs.417 crores, largely driven by increases in the export sales, which contributed 52% of the sales for the quarter. The Conductor business posted an EBFTDA per MT of 11,273, which was lower than what it was in the previous year, fundamentally because of some of the weak domestic demand and the pricing in the domestic market. The segment order book however over this one year period has grown by 94% to Rs.2,164 crores as on 30th June 2014 compared to Rs.1,117 crores a year ago. Of this the export order book stands at Rs.1,106 crores which represents over 50% of the order book.

Coming to our "Cables" division, revenue there grew by 50% from Rs.98 crores in the first quarter last year to Rs.148 crores in the first quarter of this year. The Cables business has posted an EBFTDA of Rs.9 crores, coming from an improved product mix and some of the operational restructuring initiatives which we have done. The order book stands at about Rs.166 crores as on 30th June. We are reasonably confident that through the rest of the year the Cables business will continue to have a better performance relative to what you saw through the last three quarters of the previous financial year.

In terms of our "Auto Lub" business sales has grown by 21% year-on-year, and as I mentioned earlier primarily due to increased sales to OEMs as well as extensive marketing and distribution efforts that have run across the country.

We also completed the acquisition of the balance 2.5% equity stake in Apar Chematek Lubricants to make it a wholly-owned subsidiary. Stronger growth is expected ahead with improved market sentiment and we have started a more aggressive marketing and distribution initiative through our 450 distributors and the 15,000 outlets that we currently cover.

So as the economy recovers and the government initiatives fructify to improve infrastructure in this country particularly in the power sector, we believe we are reasonably well positioned with the requisite approvals, the set of products that would sell as well as capacities to take full advantage of these opportunities as they present themselves. Restructured cable business will also benefit from the expansion in this non-conventional energy production through wind power and solar power, and we believe we are the largest producers at the moment of cable for the Wind Power segment at this stage, and there is also likely to be increased expenditure by both the railways and the defense, which would be the primary markets for us in terms of targeting E-Beam Cables. In addition to that, with the BBNL rolling out, the rural fiber optic backbone, we expect to continue good execution of Fiber Optic Cable orders through the rest of this year.

We also expect that as sustained CAPEX spending takes place over the next period of hopefully five to ten years, this will allow both the Oils and Conductor business to grow simultaneously despite the two businesses having different business cycles, with the Conductor business having a much longer business cycle than the Oil business.

So with this I would like to end my comments and I would like to thank all of you and appreciate the time that you have taken out to be on our conference call, and we would like to open the floor to take any questions that you may have at this stage. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. Anyone who wishes to ask a question, may press '*' and '1' on their touchtone telephone. If you wish to remove yourself from the question queue, you may press '*' and '2'.Participants are requested to use handsets while asking questions. The first question is from the line of Maulik Patel from Equirus Securities. Please go ahead.

Maulik Patel: Sir, the first question is on the Conductor side. You mentioned that there are some kinds of recovery which you can see in the Conductor. Can you elaborate on that?

Kushal N. Desai: Yes, what we are seeing at this stage is that after a long period where PowerGrid was not really tendering for any new conductors, a number of tenders have been announced which will be tendered and opened over the next few months. So from that standpoint, PowerGrid in that sense is a harbinger in terms of demand starting to take shape.

Maulik Patel: But Sir, can you please quantify that amount of tenders which has been issued by the PowerGrid and from last time when the PowerGrid issued the tenders? I think it was almost 15 months back, right.

Kushal N. Desai: Yes, about a year and a half ago. The tenders which are likely to be opened for bidding in the next three months is to the tune of approximately about 80,000 MT to 100,000 MT of Conductors. That is a sort of estimate based on the tender pipeline that we see coming from PowerGrid; this is just PowerGrid tender, in addition to that we should see in the next couple of months tenders starting to pick up from some of the state transmission companies who have received funding from PFC and other multilateral aided agencies like World Bank, etc.

Maulik Patel: Any improvement we can see in the private sector?

Kushal N. Desai: At the moment, we have not seen, but the private sector has a much shorter cycle from the time that they actually want to announce a tender to ordering. So even though we have not seen anything major being announced by the private sector, our expectation is that that should also start coming up in the next few months.

Maulik Patel: You also mentioned that the other conductor players in the industry are not able to gearing up or probably their performance was not good. So what the reason, can you please identify, and why we have done well compared to others?

Kushal N. Desai: There are public companies from where some of the data is available, but essentially what we have tried to do is that because we followed a strategy of not only focusing on the domestic market, but also on the overseas market, we were relatively early in the process of ensuring approvals in place and bidding for tenders across multiple geographies, that include Africa, The Middle East, and Latin America. So I think with the mix that we have of orders domestically plus the export which forms such a huge part of our order book, if you translate the quantity of Rs.2,100 crores which is the order book that we have, it translates to almost 150,000 MT worth of Conductors. So we do have an order book in place to keep the company running at the current level until you have got some of these new tenders fructifying into a position where orders are being placed, and once that happens you will start seeing step function up in terms of execution that the division can do.

Maulik Patel: You mentioned about the order book size in terms of volume, that is equivalent to your total capacity?

Kushal N. Desai: Yes, it is equivalent to our annual capacity, but the delivery schedule for that actually extends beyond a 12-month period.

Maulik Patel: But, can we expand our capacities further if there is a need for that, do you visualize anything that we need to expand?

Kushal N. Desai: We do have surge capacity in place and typically what happens is that when the domestic business starts kicking in, the Conductors are much larger in size. So for the same length of Conductors you actually end up processing much more tonnage. On the export side, the ratio of weight per kilometer is less than what you would see in India, which is largely 400 kV, 765 kV kind of market.

Maulik Patel: In terms of margins, I think one of the factors which we have recently noticed is the spot premium on aluminium is rising, and one of the reasons you have given a lower guidance on margin per ton for Conductor is also because of these higher spot prices. Do you think that higher spot prices of Aluminum can face a serious challenge to the margin for the remainder of the year?

Kushal N. Desai: If you see the pricing of Aluminum as we have to buy it, it consists of a price on the London Metal Exchange and then there is a premium which is based on MJP, which is Main Japanese Port. So what has happened is this premium in the last few months has very sharply rallied upwards, but it can have an impact in that sense, but there are some signs which are being visible today where the Contango is showing a substantial reduction; this Contango essentially is a measure of what the price of Aluminium would like in the future. So one of the reasons why these premiums are high and the Aluminium prices have held up so high is there are a lot of financial firms are involved because the cost of funding is lower than the cost of actually physically housing the metal, and the Contango was being able to pay for it. If they buy today and sell tomorrow and the Contango that they were getting was much higher than the cost of actually the finance and the physical holding of the metal that they would have to pay for. With this Contango having reversed this phenomena is going to start reversing. So whereas one cannot really guarantee what will happen to the premiums, etc, there are initial signs already being seen that things could soften. Having said that we have hedged ourselves on the LME. You cannot actually hedge yourselves on premiums, but we have signed up supply contracts in the shorter-term where the premiums have been already crystallized. The company has tried to take precautions and do things to the maximum possible extent that was prudently possible to do.

Maulik Patel: Is it possible to include the premium into our pricing mechanism going forward whenever you have discussions for the new orders, so our risk gets reduced?

Kushal N. Desai: Absolutely, a new order is finalized based on the price of the LME plus the premium. As far as the domestic order book is concerned, there we do not have a problem of this, because the premium is factored into the price variation clause. So the domestic side is anyway completely isolated from this phenomena. On the export side, as I said the LMEs were locked in and the premium at least in the near term, we have already signed supply contracts to hold the premiums, and in the longer term our sense is that these premiums could start coming off.

Maulik Patel: Last question on Specialty Oil business. One of the reasons is that, I understand that the volume mix was more in favor of Industrial Oil, where the margins are a little lower compared to the Transformer Oil. So do you think that the mix can change going forward compared to what we have witnessed in the first quarter?

Kushal N. Desai: Yes, the Industrial Oil and the Automotive Oil actually was a higher percentage of the mix. On the Transformer Oil side there was a bit of a slowdown given the fact that a lot of the state electricity boards also have not been buying distribution transformers, and there has been some slowdown in terms of off-take of even the power transformers coming in from PowerGrid and some of the transmission companies, there is a little slowdown in activity from June onwards anyway, and it really starts picking up executions, on the Power Transformer side particularly post-November timeframe, once the monsoons are over, etc. So we should see definitely a stronger second half which would not only contain a seasonal factor but also a better ordering cycle.

Moderator: Thank you. The next question is from the line of Mr. Vijay G from Anand Rathi, please go ahead.

Vijay G: I just wanted to ask regarding your EBIT realization per kiloliter in terms of Transformer, you mentioned it, and I missed that, and can you share the number?

Kushal N. Desai: Yes, the EBIT realization that we have, what we call EBFTDA, that is up from Rs.3000 per KL in the first quarter of FY14 to Rs.3527 per KL in the first quarter of FY15.

Vijay G: And what was the total volume?

Kushal N. Desai: On a consolidated basis 84,421 KL, so that is up 8% over the same period previous year.

Vijay G: Can you share the number of Conductors that EBIT realization and volume?

Kushal N. Desai: The Conductor was at Rs 11,273 per MT.

Vijay G: What about the volume in terms of …?

V.C. Diwadkar: Close to around 28,000.

Vijay G: How do you see the margins going forward in both the segments, like in Transformers and Conductors?

Kushal N. Desai: In the near term we continue to see it at similar level with a pick up that will happen particularly in the Oil side, as we get towards the end of the year where you will have more demand for these Power Transformers. So you will have most specialized Transformer Oils going out, and also the Automotive side will start picking up again from November onwards. So, I would expect the second half to be a little stronger than the first half in that sense.

Moderator: Thank you very much. The next question is from the line of Manish Goel from Enam Holdings, please go ahead.

Manish Goel: On the Conductor side, it was very encouraging to see that PGCIL is now kind of tendering. But, on other side sir, we also have seen the capacities coming in Conductors especially from a couple of competitors. So what is competition intensity and how do you see the pricing going forward?

Kushal N. Desai: About the conductor new capacities which have come in, I would say there may not be a much net increase, there have been some companies which have closed down or reduced the number of plants, and some others which have increased their capacity but those companies which have even increased their capacity, it is not going to be easy for them to sell those volumes because they do not have approvals, they do not have much of an export market, but they may have due to their internal compulsions gone for an increase of capacity. So we do not think any change in the intensity of the competition, on the contrary we would say that in times to come, people would be a little happier when the order book position sort of builds up.

Manish Goel: So from PGCIL in recent past we have not seen any tenders which were floated and have been closed out, in the sense have been awarded?

Kushal N. Desai: That is correct, they have asked us to bid and it is in the process of them evaluating, some of the bids which have already gone, but the results are not yet out.

Manish Goel: So bidding process has been done?

Kushal N. Desai: Bidding process is in process; some tenders have already been bid, and some are on the anvil.

Manish Goel: Because PGCIL as you mentioned that increasingly the demand would be for higher capacity conductors 400 kV, 765 kV range, so the realization and the margins should ideally what we had seen in the past?

Kushal N. Desai: Yes, but it will take a little while because initially the people are hungry for orders, there will be initial build up of order book condition and then …

Manish Goel: Definitely, wherever the dispatches… basically where I am coming from is that what we are seeing is that the revenue mix which has changed with more export-driven revenues which have kind of also impacted our margins, but going forward once we are able to win some PGCIL contracts can we see improvement in margins like at EBIT level we probably have done Rs.11,000 per ton, can it go back to say what we saw Rs.13,000 to Rs.14,000 a couple of years back?

Kushal N. Desai: What happens is, a typical phenomena that takes place is, when you go into a tender cycle after such a prolonged absence of tenders, the competitive intensity actually is higher in the beginning because people all want to load their plants a bit, then as order bookings take place of different companies, then automatically we have seen future prices hardening and then margins improving. If you do a competitive analysis, you will find that the amount of orders and executions that many of our competitors have done is at a far lower level than what we have had, primarily because most of them have not had this export order book in place, the way we have been able to manage to sort of build that position up. So, as a consequence, loading of their plants are significantly lower than what we have had.

Manish Goel: Ideally, this PGCIL tendering, when do you think this should get over and the orders should get released and then when do you think the execution will start?

Kushal N. Desai: We understand that PGCIL has reduced their inventories very significantly in the last one and a half years, basically they should be now fairly quickly in the next six months or so placing orders with a shorter delivery schedule than earlier terms used to be. Like a typical previous schedule of PGCIL would be for 12 to 18 months, supposing they placed an order for 1200 Kms, it would be 100 Kms a month for 12 months, but the expectations this time around is that because they have been out of the cycle for a while they have reduced their inventories very considerably, the tenders may have a more accelerated delivery schedule. So instead of it being at say for example, 100 Kms a month in my example it could be 150 to 200 Kms a month.

Manish Goel: For current year volume terms can we expect Conductors to do around 1,50,000 tonnes?

V.C. Diwadkar: It will be around 1,20,000 tonnes.

Manish Goel: That was what we did last year, right?

V.C. Diwadkar: Last year we did 1,06,000 tonnes.

Manish Goel: Despite exports doing so well, you do not expect higher growth?

Kushal N. Desai: Because the domestic side is really, really soft.

Manish Goel: No, but if we have PGCIL coming in, say maybe probably next three to six months then also you do not expect that…

V.C. Diwadkar: That will not come for execution in this FY15.

Kushal N. Desai: The bottomline is that at this stage our plan is 120,000 MT. Depending on the finalization of some of these tenders which are in place, we do have capacity to surge . So if it does come up in the last quarter, that is what I mentioned in our opening comments saying that we have actually completed a lot of CAPEX investments, etc., so we do have ability to manufacture and deliver the product as and when the opportunity does come up. The proof of the pudding is in the eating. When finally these tenders are finalized and the orders are cut, the sense that we get is that there is a greater sense of urgency to close some of this business compared to the typical cycle that has been followed in the past.

Manish Goel: Overall EBIT per ton should be ranging from Rs.11,000 to 12,000 per ton sir for the current year?

V.C. Diwadkar: The earlier speaker had talked about, the premium part, so because of that actually we are giving a guidance of close to Rs 9,000/- per tonnes average for the whole year.

Manish Goel: In Specialty Oil, what kind of volumes we can expect Sir?

Kushal N. Desai: We have shown an 8% growth in the first quarter compared to the previous period. That should give you an idea in terms of approximately that volume of growth that we expect through the year. As I said, if there is a step up that happened in the last quarter from some of this ordering from Power Grid and some of the utilities, then there also we have the ability to sort of surge. But, as things stand today, approximately 7% to 8% volume growth is something that we can clearly bank upon. Also, some of the mix, for example, the Automotive side in the Q1 has grown by 21%. And given the Infrastructure which we put in place and the sort of contracts which we try to sign up, we would see growth through the year take place in that range in the Automotive side. As time passes by, you will start seeing the Automotive business also becoming larger and larger portion of our total offering.

Manish Goel In Specialty Oil, what kind of EBIT for KL we can see, around 4500?

Kushal N. Desai At the moment we are sitting at about 3500 levels, and our expectation is that it should go up somewhere in the range of 3500 to 4000, and then if the ordering picks up for 765 kV type Transformer Oils etc., they will probably be higher in the Q4.

Manish Goel CAPEX for current year, sir?

Kushal N. Desai The CAPEX for the current year is expected to be in the range of about between Rs.35 to Rs.40 crores.

Manish Goel For the company as a whole?

Kushal N. Desai For the company as a whole.

Manish Goel Last question on the debt side, what is the expectation going forward – can we expect some reduction in the debt in the current year?

V.C. Diwadkar Actually long term debt is only Rs.65 crores actually which is the ECB which is there. The working capital debt has already gone down actually. Although, you are seeing a little bit increase in capital employed but…

Manish Goel That is what I was coming to that, in Q1 what we are seeing is a lot of Y-o-Y also capital employed has increased but on a sequential basis also we have seen an increase in capital employed so…

V.C. Diwadkar But actually, the current asset has also gone down and current liability has also gone down but current liability has gone down slightly more. So, that is why you are seeing some small increase in the capital employed as compared to the March position.

Moderator Thank you. The next question is from the line of Raj Gandhi from Principal PNB Asset Management. Please go ahead.

Raj Gandhi With regards to PGCIL you mentioned they are looking at tendering about 80,000 to Rs.1 lakh ton of Conductors. But this would be even lower compared to historical trend, right? Typically, this would amount to some Rs.1000-1500 crores of ordering wherein typically in a normal year have done ordering as much as Rs.3000 crores.

Kushal N. Desai Yes, this is actually the sort of tenders which are likely to open in the next 3 months. Typically, they would have a set of tenders which open now and it would be followed by hopefully another set of such tenders which would come up in the second half of the year.

Raj Gandhi FY14 if I was just seeing, there is a new player, Hindustan Vidyut which has come up and garnered 30% of the orders wherein last 3 to4 years, I do not see any names amongst the top order winners. So, is this a new entrant or if you could just elaborate more on this player?

Kushal N. Desai Hindustan Vidyut has been around for several decades. The percentage might appear to be high because the total amount of orders which were placed last year were not very high, and they ended up winning a couple of orders at extremely low prices for that business.

Raj Gandhi But, they have got an order worth of Rs.400 crores in ’14 whereas before that 5 years, I do not even see them getting Rs.100 crores of orders, is it a big…?

Kushal N. Desai Yeah, they quoted extremely aggressively in that timeframe.

Raj Gandhi Basically, you are not seeing any new entrants per se?

Kushal N. Desai No significant players. There has been some amount of rearrangement of market shares within existing players. But no new entrant coming in and taking away any huge amount of shares. Big change has been only in this particular case with this Hindustan Vidyut having an Rs.400 crores versus previously they were at typically I guess about Rs.50 and Rs.100 crores a year. That was bit of a change. But, I think they won the tenders quoting some very aggressive pricing at that point.

Raj Gandhi From what I noticed is because in your domestic orders, you have to hedge your payables, your net margin after the hedging cost is actually better in export orders. So, given that now you are saying a lot of domestic ordering so per se because of this mix change or based on the domestic pricing, do you still see that export on a net of hedging cost, they are still getting you a higher margin?

Kushal N. Desai Actually, on the domestic side because the orders generally carry a price variation, we do not really have to do any hedging other than buy on the price variation formula.

Raj Gandhi But because your payables, wherein you get the 4 month credit at very low cost but because your receivables are in rupees, you hedge it typically and you are saying that cost of hedging has moved up from some 4% to 10% right now. In export orders, you typically do not have to hedge because you get a natural hedge over the receivables and payables.

Kushal N. Desai In our Conductor business wherever we have done that in the past, we have done it actually to take advantage of an arbitrage, it was available where the LME plus premium was lower then the price which was being offered by the local Aluminium producers. So in that case, we have taken 100% rupee hedge, so that you can get an apples-to-apples comparison. The arbitrage gain is completely lost in this; there is no speculation at all, you are not leaving any loose ends untied. Otherwise, the domestic business is completely on a price variation basis, and we buy against the price variations. There is no real need to do any hedging if we buy in the Aluminum locally.

Raj Gandhi But in that case then your working capital go up right? Because overseas when you buy, you are getting 6 months credit, whereas in domestic market when you buy from a domestic producer, they would not be giving you 6 months credit, right?

V.C. Diwadkar They are not giving actually, but we arrange LC based financing.

Kushal N. Desai We generally arrange 90 days LC funding. On the domestic side, you also have a slightly faster delivery cycle in terms of from the time manufacturer goods to the dispatches…

Raj Gandhi The inventory days go down, so in that sense net base does not alter things.

Kushal N. Desai We should not alter it dramatically and Power Grid cycles are generally quite fast.

Raj Gandhi In this export orders, out of this order book of 150,000 that you have mentioned, 50% export, 50% domestic, right?

Kushal N. Desai Yeah, 54% by value is export and 46% is domestic.

Raj Gandhi Can you just further elaborate in this exports, how much is now already hedged in terms of your premiums and all been booked and how much is still open?

Kushal N. Desai The LME has been booked for the entire quantity where the pricing has been firmed up.

Raj Gandhi But on the physical premium side?

Kushal N. Desai Physical premium side typically is the next 3 months.

Raj Gandhi Next 3 months would be round about 30% to 40% of this order?

Kushal N. Desai Yeah, but in some of the others, the order has been booked, but the client has not yet priced the conductor. So it is not that all the conductors are all priced. Because you see what happens in a typical cycle of an EPC contractor is that the order is placed, but unless they open the LC and firm the price up, we do not take a position.

Raj Gandhi But you have already quoted something right in that order that you won, even though LME prices have not been fixed up, but you have quoted something right when you won the order, so in that sense the pricing is fixed.

Kushal N. Desai No, but then if supposing the financial instrument is placed and the call up is done say on 4th of August, then the pricing would be re-priced based on 4th of August.

Raj Gandhi But 4th of August of LME, right, not the physical premium only on the export side, let us say if you won the order in this August, let us say you won the order 2 months back, these guys has not placed the final order, so let us say LME has moved up by $200, so you will get a $200 repricing, but the physical premium re-pricing would not happen, right?

Kushal N. Desai That is right.

Raj Gandhi In that sense even in those you are exposed to physical premium?

Kushal N. Desai That is the reason why we are saying that we have a premium that tied up for the next 2 to 3 months based on physical delivery, and going forward, there is a likelihood of those premiums which has suddenly rocketed in the last couple of months, which is a little abnormal, actually coming down because the whole Contango effect has reversed. So, we would expect the amount of money that is physically going into the market relative to physical demand, that pattern starting to …

Raj Gandhi What percentage of this export order would be this next 3 month deliverable wherein you are hedged, it will be possible to give that number?

Kushal N. Desai It is pretty evenly spread.

Raj Gandhi So almost 50% is hedged in that sense?

Kushal N. Desai Yeah, meaning whatever Q-o-Q you will have this export order book of about Rs.1000 crores executed in the order of fairly evenly spread through the rest of the year.

Raj Gandhi Transformer Oil segment you are saying business is picking up. So if oil prices go down, you will be able to still retain some of that benefit?

Kushal N. Desai Actually what has happened on the Transformer Oil side is that we even lying a little bit behind in terms of being able to push through the prices as I mentioned earlier in the opening remarks, and we have gone through with some price increases post the end of the last quarter. If demand is up, then automatically, we are in a better position to retain margins. We have also gone through with an Automotive price increase. Industrial and Automotive price is that price increase has also gone in post the end of last quarter.

Raj Gandhi Base Oil price has started coming off?

Kushal N. Desai They are in a fairly tight bracket at the moment. So, there are fluctuations up and down within a tight band. We do not see that changing very much, we do not see that suddenly things are going up or drastically coming down. We foresee a period where it should have some reasonable amount of steadiness over the next few months.

Raj Gandhi Sir, has the INR forward premium started coming down for you?

V.C. Diwadkar Not right now actually. Still it is around 8-8.5%.

Moderator Thank you. The next question is from the line of Partha Mazumdar from Ashika Stock Broking. Please go ahead.

Partha Mazumdar Sir, a general question, with the new government in place, there are actually huge expectations in the Power and the Transmission segment. So, substanstailly it is also expected that there will be a change in the financial health of the SEBs. So in that context, what is your view on the replacement demand and the exposure to the SEB replacement market?

Kushal N. Desai Actually, when the demand does pick up and we expect that to happen in the next couple of quarters, on the Transmission side we expect it to come normally from three different sources, which is from Power Grid, from the state transmission companies as well as from the private players. So, you will see a growth actually hitting across all of these three. It maybe a couple of more quarters before you see all this three cylinders running. As far as the Transformer Oil is concerned that will also come. The Transmission side sector is in a much better position than the distribution sector. So, we see the distribution sector actually a bit slower than the transmission sector. The reformed requiring the financial health is a lot weaker than the transmission companies of the SEBs. Their demand will also pick up, but for it to accelerate unless some of these structural changes happen and the financing of the discoms happen, the demand will not really shoot up, whereas we see the transmission side picking up a lot faster.

Partha Mazumdar Sir, what are the SEBs which you are primarily catered to?

Kushal N. Desai Our direct exposure to the SEBs on the distribution side is actually very low. We do not have a big exposure either on the Transformer Oil side or on the Conductor side. Our exposure is largely to the transmission company. And on the Transformer Oil side, our exposure is there to distribution companies and transmission companies but through the Transformer OEM. We do not bill them directly. We are generally supplying Transformer Oil to Transformer OEM who in turn is packaging it with the transformer and selling it forward.

Partha Mazumdar Sir, you said that there is actually muted demand this quarter from Transformer OEM. So, you see that picking up in the coming quarters?

Kushal N. Desai Yeah, we see picking up to a larger extent in the second half, because this current quarter which is July-August-September quarter, also is the peak monsoon period. So, you do not generally have big Power Transformers getting commissioned during this timeframe. It is difficult to move these big transformers and you do not want to have such high humidity when you are commissioning some of this equipment.

Partha Mazumdar Sir, your expectation in the base oil price at 90% of it imports and it has significant impact. So, sir your expectations?

Kushal N. Desai The base oil prices will remain within a certain band at least for the next 3 to 4 months. That is the clear visibility which we have. Thereafter, unless there are some massive movements on crude, it does not seem like there should be some very significant move either up or down.

Partha Mazumdar Could you please state your working capital days for the current quarter for Q1?

V.C. Diwadkar Working capital days are different for different businesses. So, close to around 90 days for Oil debtors and inventory is around 67 days, and as far as the Conductor is concerned that also debtors is close to around 90 days and inventory is around 58 days, and the Cables is concerned the debtors days are around 81 days and inventory is around 65 days.

Moderator Thank you. The next question is from the line of Nihak Shah from CARE Ratings. Please go ahead.

Nihak Shah This is **(Neyak Shah)** sir. Some basic book-keeping questions sir. Sir, in the current quarter, your FOREX exchange loss was around Rs.20 odd crores, and when compared to the same quarter last year, it was around Rs.59 odd crores. So what is this drastic fall in foreign exchange translation loss basically, why is this number so different and...?

V.C. Diwadkar If you have seen our 'Investor Update', we have explained in that, and every quarter we are explaining that in case of Oil business we keep the FOREX open till we price the material. So during that period, if there is an exchange loss that is getting captured in the price. So, during the last year Q1 FY-'14, a huge rupee-dollar volatility was there actually and because of that we had incurred the loss last year in the Q1, and which was captured in the price. If you see our investor update we adjust that particular loss actually, that was close to around Rs.24 crores which we have adjusted, we have given EBITDA before FOREX adjustment and EBITDA after FOREX adjustment as far as our Oil segment is concerned. So, you need to look at it accordingly..

Nihak Shah My second question is when you look at your segmental results, your gross interest cost is around Rs.37-odd crores which was in the previous year same quarter it was around Rs.55 odd crores. So, has the interest cost moved down or…?

2Kushal N. Desai You are talking about interest along with applicable FOREX finance cost. So, this is what I explained to. Because of the FOREX loss during open period, so that is why the cost was higher in the relevant quarter last year Q1 FY-'14.

Nihak Shah Okay, So, this includes that…

V.C. Diwadkar This includes that actually. While giving the investor presentation we have adjusted that in the Oil segment. Because in the Oil segment for some time the FOREX is open and during that time whatever exchange loss is incurred, logically and normally it is recovered through the price. So, it needs to be adjusted from the EBITDA.

Moderator The next question is from the line of Lavin Shah from ValueQuest. Please go ahead.

Lavin Shah My question pertains to the Cable segment. Now, in the cable segment, this quarter we have seen a good growth of 50% and that is attributable to the mix changing in favor of E-Beam and Optic Cables. So, how do you see this segment doing for the year as a whole – what growth that you are looking in for in this segment?

Kushal N. Desai Our target for the Cable segment in the Q1 has been a significant difference which has been there. Last year, the Cable business started picking up revenues from the Q2 onwards. For the full year you would not see a growth which is in that range. Our focus at the moment is actually to restrict the amount of Power Cable business that we do and concentrate more on the Elastomeric, E-Beam and Fiber Optics. So, we see a logical growth over the previous year, it will be in the 20% sort of bracket for the full year, but the profitability will be different because the mix of the product is different and that is going to be representative of what we have done in the Q1.

Lavin Shah So, margins into that segment, where do you see for the year as a whole?

V.C. Diwadkar We are looking at close to 5% EBITDA margin by the end of the year on an average basis.

Lavin Shah So, EBIT margins would be to the tune of 3.5% to4%, around that level, what you have done in Q1?

V.C. Diwadkar Correct.

Moderator The next question is a follow-up question from the line of Raj Gandhi from Principal PNB Asset Management. Please go ahead.

Raj Gandhi Sir, just you mentioned that this High Temperature Conductors and all that you started getting orders for that. So, on a relative basis what is the margin differential in this?

Chaitanya N. Desai Depending on the tender, different prices will be quoted. So, it is insignificant to tell you exactly a number. But they are multiple-fold compared to conventional conductors.

Kushal N. Desai: Also, I must say that this segment at the moment is in its infancy in terms of getting all these conductors actually in working condition, so that you have live data available on its performance. It is also very important in the early stages for companies to get the qualification requirements met. Then only you can start bidding on some of the bigger tenders which are there. So, in the initial phase, you may have a little bit more competitiveness in the pricing on some of these proof-of-concept or smaller tender. Because people want the product to get out there and be installed in live running condition. Why this Invar order from Power Grid is so critical for us is that with this the entire families that exist of high temperature conductors that we have now running live in India, this is done. So, we have all the different varieties, and it then enables us to actually provide actual field data as opposed to a theoretical presentation, saying that this much saving is possible or this much more amount of current can be carried through the circuit. Because you will be able to actually show physical installation and live data that is available to demonstrate whatever our claims have been.

Raj Gandhi But broadly let us say next 2 or 3 years, if the proof-of-concept works and everything, can this become 20% to 25% of your sales or it cannot grow that big?

Kushal N. Desai It can. Our expectation is that in the next 3 years it can get up to about 15% to 20% of revenue as you exit the 3 years. And the largest buyers of this are actually going to be the state Electricity transmission company. Because of the right of way issue that we have been talking about over the last several quarters' call, the amount of power transmission that is coming into the cities is being restricted because additional right-of-way is not available. So, it has to use the same corridor. If you see more than seven state transmission companies that have actually got a network physically in place of different types of high temperature conductors today. They are all small at the moment, they may be running only across 30, 40, 50 Kms, but it is a very important milestone to hit along the journey for being able to get much larger business which is likely to come.

Raj Gandhi But then if it is just 30, 40 Kms, they could even go underground like they have done in Mumbai and lots of places so…?

Kushal N. Desai If you go underground you have got to switch to cables, and the cost of a cable if you compare it to 220 kV cable Vs 220 kV conductor depending upon its format it can cost between 6 and 10x as much. Given how resource constraint our various electricity companies are, it is clear that either they have chosen the 30, 40, 50 Kms because these are smaller projects which are proof-of-concept.

Raj Gandhi Margins on a per tonne basis at least be doubled if not multifold once it settles down?

Kushal N. Desai Even today it is more than double. It should be significantly higher than that on a per tonne basis. Simply because of the technology involved and the number of players actually have access to being able to deliver these types of products. As it gets to 15%, 20%, 25% of the business, it is going to change the profile of this industry.

Raj Gandhi You mentioned that you are building Rs.9,000 per ton in Conductors for FY-'15.What is the comparable number for '13 and '14 net of all the FOREX charge and all?

V.C. Diwadkar Comparable number for '14 was around 13,000.

Kushal N. Desai But on a lower volume.

Raj Gandhi This is your EBIT net of all the FOREX hit and all which…?

V.C. Diwadkar Normally, in Conductor, we are not showing net of FOREX hit and all this thing, because mainly it is forward cover charges only.

Kushal N. Desai There is not much of a big FOREX hit there, because the business is fairly hedged, you buy on LME against export orders, you buy local against rupees. Only time that we would buy on LME against a rupee-based order is if after doing the forward cover charges, the LME product is cheaper than what would you get from the local producers. There is really not much of a foreign exchange problem in the game.

Raj Gandhi What was the number in '13.

V.C. Diwadkar FY-'13 I think it was around 14,500.

Raj Gandhi So you are building about Rs.5,000 to Rs.6,000 hit in that?

Kushal N. Desai Because order themselves are at a lower price and if you see the premium, premium has gone up by almost $200 a ton, some of which we will be able to recover and some of which we would not be able to recover.

Raj Gandhi When you say recover in the sense even where you have not hedged that you were mentioning there also you will be able to recover in thatsense, need to buy some pass- through mechanism?

Kushal N. Desai Yeah, in places where there is a certain timeframe in which a price has been given if the order does no culminate in that and the financial instrument is not open, then you are open to repricing the whole thing. Considering all the plusses and minuses, we are not looking at a hit which is more than $100 a ton, which is how the numbers have been translated.

Raj Gandhi One thing is that even on the previous calls and all, 3 or 4 months back you had mentioned this Rs.9,000 number and most of the premiums movement has happened after that in that sense. So I am just wondering that the premium moment will happen much after guidance of Rs.9000 was given.

V.C. Diwadkar In May we had finalized the FY-'14 after that only we have been talking actually,the premiums have gone up then only actually, April, May, June premiums have gone up actually.

Kushal N. Desai You are aware actually that the premiums have gone up.

Moderator: Thank you. As there are no further questions I would now like to hand the floor over to Mr. Somwanshi for closing comments. Over to you, sir.

Alok Somwanshi: I would like to thank the management for giving us the opportunity to host the call and all the participants for joining the call. Thank you.

Moderator: Ladies and gentlemen, on behalf of Apar Industries and Four-S services that concludes this conference call. You may now disconnect your lines.