Apar Industries Limited
Q4 FY14 Conference Call
June 03, 2014

Moderator: Ladies and Gentlemen, Good Day and Welcome to the Apar Industries Limited Conference Call hosted by Four-S Services. As a reminder for the duration of this conference, all participants' line will be in the listen-only mode, there will be an opportunity for you to ask question at the end of today's presentation. Should you need assistance during this 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 4-S Services. Thank you. And over to you sir.

Alok Somwanshi: Thank you. Good Evening, everyone. On behalf of 4-S Services I welcome all the participants to Apar Industries Q4 FY-'14 Earnings Call. Today, on the conference call we have Mr. Kushal Desai – Managing Director, Apar Industries; and Mr. V.C. Diwadkar – CFO, Apar Industries. I would like to thank the management for giving us the opportunity to host this conference call. I would now hand it over to Mr. Desai. Over to you, sir.

Kushal Desai: Thank you, Alok. Good Evening, everyone and a warm welcome to Q4 & FY-'14 Earnings Conference Call. I will begin by taking you through a few key highlights for the period, outlining our "Growth Strategy" and then discussing the "Financial Results" before opening up to take "Questions."

At the outset, we feel that the power sector will see a stronger signs of revival and will be poised for growth given the fresh impetus which is being generated at the center with the entry of a new government and the new structure that is in place between the Power Ministry and the Coal Ministry. We see a revival in the investment cycle taking place in the power sector also as a consequence of these actions. We also see significantly greater amount of tendering taking place from Power Grid and some of the private transmission line companies coming up from the second half of FY-'15 onwards. As many of you may have seen Power Grid has announced a significantly more aggressive targets of CAPEX which is about Rs.22,500 crores, in the last year they have spent much more money on the substation side, whereas right now we expect them to spend more money on the transmission side as one goes forward. Although $35 billion of investment was planned in the transmission sector in the current five year plan, due to various policy paralysis and many other reasons only 19.5% investment has been completed compared to 40% of the period which has passed by. There is also more focus on upgradation through increasing use of high technology, high temperature conductors, and this is where Apar has a significant edge. Besides these encouraging developments we see that this is at the end of what is otherwise a very dismal year for the India power sector. We have had fairly lackluster GDP growth of 4.7%, industrial growth has been only 0.4%. In addition to that the current power deficit has jumped to about 7,000 MW from 3,000 MW. So as power stations try to increase generation and meet demand the coal stocks have also further depleted and there is a decline in consumption in certain states which has also been exacerbated due to weak interest rate network, and the cost of power has been increasing across the power exchanges. So in the year that has gone by not only did we see these uncertainties around fuel supply and financial conditions of the discoms, but there were also challenges of land acquisition, water linkages and various environmental clearances which have had a direct impact on spending particularly in the T&D side. Our company derives about 75% of its revenues from the power sector. So downturn in the domestic power sector certainly does pose quite a challenge in terms of the operating environment. However, our strategic plan was to expand our facilities, and in the last 3-years we have completed CAPEX expenditure of about Rs.250 crores, and this CAPEX not only increases capacities across our three businesses of Conductors, Oils and Cables but it is also geared towards our being able to produce a much richer portfolio of finished products. So in the case of Conductors we have the ability to produce more high temperature conductors as the market turns, in the case of our Transformer, Automotive and Industrial Oils we have the ability to produce some of the higher performance oils, and in the case of our Cable business we have expanded the capacities of our Optical Fiber, the Electron Beam Cables as well as the Elastomeric Cables. Going forward, we do not expect CAPEX to be significantly higher than the depreciation load that company is taking.

So with that I would like to discuss a little bit more about each of the individual businesses – in terms of our Conductor business we are happy to report that after several years of R&D efforts we have now been able to obtain orders of all the different types of high temperature conductors, these are very important as it allows the company to establish not only its technology, but also develop qualification requirement which are important to meet for future tendering. We are currently executing our first turn key order for high temperature ACCC which is basically a Composite Carbon Conductor, and we are finding there is increasing focus on these high temperature conductors coming up from various state electricity boards, we currently have 5 states in which there are high temperature conductor lines which are running, even though these lines may be not very large in terms of the length or value, they are important because they are being able to prove in terms of our technology capability that we are just not making a power point presentation but this actually is in effect delivering what we are claiming.

Also, in our Conductor business because the domestic market has been very soft we have had an increased focus on exports, and currently exports constitutes about 60% of the order book. And this is how we have sort of successfully offset the domestic market where we find that the addressable market has actually shrunk considerably over the last 1-1.5 years.

In the Oil business we are seeing increasing demand of our Transformer Oil coming in especially from the 765 kV transformer. Most of the substations which are being executed in terms of intrastate are all going in with this format, and this is clearly the sweet spot that our company has. We are also continuing our efforts to improve the product mix in our Automotive and Industrial Oil business, and there has been substantial increase in profitability in the Automotive and Industrial business from this change in mix. We continue to hedge our foreign exchange, and we believe that with the rupee stability hopefully coming in, the cost of foreign exchange hedging which had increased from about 3% to 4% p.a., to more than 8% p.a., will actually start making its way down to more reasonable levels which will in turn end up in reducing the total hedging cost that the company faces.

As far as the Cable business is concerned, we have completed the expansion of Optical Fibers, and the Optical Fiber side of the market has seen substantial action in the last year particularly. The company has received orders from the Reliance companies, from various cable operators who are now starting to increasingly provide internet access besides just TV cable connectivity from BSNL and from BBNL. In addition to these, we have also received export orders from Oman and Bangladesh. Our expectation is that the Optical Fiber plant from the first quarter onwards itself is now running at pretty much full capacity and will do so through FY-'15. The increased capacity that we have on the Elastomeric Cables and the newly established E-Beam Cables will also help drive growth in FY-'15 and especially in FY-'16, and we should be able to expand margins through the change in this product mix.

I now would like to actually run through specifically the quarterly results, so I would just quickly recapitulate we have a lot of details in the presentation which we put up on the website – during the quarter stand alone revenue of the company was Rs.1,318 crores, up from Rs.1,165 crores in the previous year, representing about 13% growth; this came on the back of higher growth in Transformer Oils and Cables. Our earnings before FOREX, taxation, depreciation and amortization was at 42 crores, and our profit after tax came in at Rs.12 crores which was lower than the same period previous year, essentially because of the huge swing that we had on the Conductor business. In the previous year FY-'13 our Conductor business had its best ever quarter in the 4th quarter. So the contrast seems to be a little bit more stark. In FY-'14 we posted a consolidated revenue of Rs.4,633 crores, which is marginally down from Rs.4,651 crores in the previous year, again largely resulting from a reduced business level on the Conductor side; this was mostly offset by increased revenues from the Oil and Cables business. Our earnings before FOREX, Taxation, Depreciation and Amortization came in at Rs.297 crores and profit after tax on a consolidated basis came in at Rs.90 crores.

Examining each of our businesses individually, the Transformer and Specialty Oil business posted a growth of 19% year-on-year, up from Rs.501 crores to Rs.594 crores. Our physical oil shipments by volume increase by 4% to 82,320 KL and basically our EBITDA before exchange adjustments per KL was reported at Rs.4,495 per KL. In FY-'14 the Oils business posted a growth of 18%, up from Rs.2,093 crores in FY-'13 to Rs.2,403 crores in FY-'14. Oil shipments grew by 9% to touch 327,393 KL on a global basis, and EBITDA after foreign exchange adjustments increased from Rs.3,168 KL to Rs.4,521 per KL; this essentially came from an improved product mix and some of the cost reduction initiatives that we took. Our Conductor business posted a revenue of Rs.548 crores for the 4th quarter, marginally down from Rs.556 crores in the previous year; however in FY-'14 the Conductors posted a revenue of Rs.1,625 crores, down from Rs.2,226 crores. So there is almost Rs.600 crores delta that took place, and earnings before foreign exchange, depreciation and amortization came in at Rs.124 crores, largely impacted due to orders that were taken in a very competitive environment, but our growing focus on the export market has allowed us to increase the order book that the company has from Rs.1,132 crores, up by 72% to Rs.1,952 crores. And in the 4th quarter itself, we had an export order book of about Rs.660 crores. So that is what has really driven the increased order book that we have, and it should offset the slow down in the domestic market, given the fact that even with the best of intentions and execution at the center, the market turning up in terms of orders really coming in to us as a company would happen only towards the end of the year or the early part of FY-'16. So this order book actually takes us through this year as a bridge before the domestic market really picks up.

On the Cables front, our revenue grew by 61% for the quarter from Rs.108 crores to Rs.174 crores. The order book that we have even though the order book cycle is much shorter is at Rs.201 crores up from Rs.171 crores same period previous year. The FY-'14 Cable business grew by 44%, up from Rs.419 crores to Rs.601 crores for FY-'14, and this was driven by a stronger performance on the export side, and new business that we picked up in terms of Optical Fiber and some of the new E-Beam Cable business that has started. So earnings before foreign exchange, depreciation, amortization grew by 83% for the sector to reach about Rs.11 crores.

In terms of our Auto Lube business, sales grew by 5%, despite the market being fairly muted. We expect stronger growth going ahead as we have launched a number of new products as well as we have re-branded our product from IGIP to E&I in line with the global re-branding exercise that ENI has gone through. So along with the re-branding a number of new products in new packaging and with the new below-the-line advertising campaign has been lined up, which should be taking us through this year resulting in our expectation of higher sales.

So finally to summarize, our expectation is that there will be a shift in momentum taking place sometime in FY-'15. The company is very well positioned with products and capacities having completed its CAPEX cycle to fulfill these opportunities as they present themselves. Our optimism in the future is from the point of view that we for the first time expect that there should be a sustained CAPEX taking place in the power sector at least for the next 5 plus years, whereas so far it has always been in periods of 1.5-2-years and then there has been a fall in the CAPEX cycle. So with that happening it should allow our businesses to perform well and to perform consistently well over a period of time. So with this I come to the end of my comments. I would like to throw open the floor for any questions if there are any at this stage.

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

Maulik Patel: A few of the questions; you mentioned about the Conductor business that approximately 60% of our order book is based on the export. So on the profitability front will it enjoy the similar kind of margin which we enjoyed in the domestic market particularly the ___**18:50 (technical difficulty)** or it will be in a lower margin order book.

Kushal Desai: Our expectation is that in FY-'14 our EBITDA has been approximately Rs.11,000-odd per MT, and so in FY-'15 we expect it to be a little bit lower than that, in about the Rs.9,000-odd range, but we did 106,000 MT worth of shipments in FY-'14, and our plan this year is to take it to about 120,000 tonnes. So you will see increased level of activity and sales taking place which should completely offset this per metric tonne reduction that we expect.

Maulik Patel: So probably in case of an overall EBITDA might remain flat for the full year of FY-'15 given that you have a higher volume but corresponding which is some kind of a lower margin?

Kushal Desai: Yes, because our expectation is that Power Grid will start tendering in the 2nd half of the year, we expect some of the other lines also which have been stuck for various reasons to those bottlenecks to be cleared, and post this tendering it takes a few months before which the actual deliveries take place. So you will really see the pickup in the domestic market starting from early FY-'16 onwards. So our objective really at this stage is to ensure that we have got a reasonable order book and we entrench ourselves well through this year before the domestic market really starts kicking in.

Maulik Patel: In the past when we had a discussion you said that Power Grid has a very high inventory of conductors sitting under books and they have not been able to execute their projects because of certain issues. So has the situation improved in terms of an inventory coming down?

Kushal Desai: From whatever information we have available from Power Grid and whatever they have stated in terms of their own investor update, the expectation is that they will start drawing down their inventories or will complete stringing pretty much in this financial year. So as a consequence their tendering is going to start in the 2nd half to coincide with that inventory depleting. So deliveries to them will start actually in FY-'16 against the new tenders, that is the information which is available to us as well as I think it is almost public knowledge.

Maulik Patel: This year is pretty much on a no-no from Power Grid in terms of an execution of the orders, and we do not have much of the Power Grid orders right now in our book?

Kushal Desai: We do have some Power Grid orders, in fact there have been defaults from some of the suppliers to Power Grid of conductor, and as a consequence we have been able to receive some of those orders to catch up for lack of deliveries which other people have made. So in that sense there is out of this order book of about Rs.1,952 crores, the Power Grid orders are approximately about Rs.300 and odd crores.

Maulik Patel: So coming to the Transformer and Specialty Oil business, so we have pretty impressive growth on a consolidated level, our volume grew by 9%. So can you help us which segment has led to this kind of growth – is it Transformer Oil or the White Oil or the Industrial Oil, and what was the growth rate probably in each of these segments?

Kushal Desai: Actually the growth has been fairly broad-based; we have had growth in Transformer Oil, we have seen growth in Industrial Oil, and we have seen growth also in terms of Automotive Oil. So when you look at Transformer Oils we have had more than 10% growth when you take the total business domestic plus export put together. Even though we believe that the addressable market in India was pretty flat this growth has come on the back of basically the substation CAPEX which was incurred by Power Grid, and so we made a lot of supplies to the key transformer manufacturers for 765 kV oils for the transformers. In terms of Industrial Oils, we actually had over 20% growth that we saw year-on-year and this was again against a whole lot of new products which we had developed. Keep in mind that the automotive sector was very subdued which is one of the largest end markets for us in terms of our industrial products, but because of a new set of products which were developed by us and found niche applications with customers that particular segment grew by about 20%, and our

Automotive Oil sector we have had volume growth of approximately 5% even though the market was flat and given that the automotive side was down, the first fuel business has been quite affected, but in spite of that we have had about 5% growth on the automotive side also.

Maulik Patel: What would be the number right of the Automotive volume will it be around 25,000 KL?

Kushal Desai: It is little less than that; about 20,000-odd KL which corresponds to about Rs.200 crores in revenues.

Maulik Patel: So basically essentially the Transformer grew, the Industrial grew but I think then White Oil Paraffin business would have probably some kind of a decline….?

Kushal Desai: On the Automotive side even though there was a 5% increase that was seen in volume, the mix of product has improved. So as a consequence actually the profitability on the Automotive business has improved. And going forward, we see some of these products which we introduced in FY-'14 will start seeing momentum in FY-'15 and especially so since it is likely that the pent up demand in the automotive sector will start manifesting itself in this year. Also, with the change in market sentiment we expect the aftermarket to improve… replacement market, and for us the replacement market is very important because our automotive business is focused much more on the business to consumer end, which is going through a distribution set up that we have.

Maulik Patel: So next year do you see significant improvement in volume in FY-'15? Because I think we have been growing over FY-'13 there was a volume growth, FY-'14 there has been a good volume growth overall.

Kushal Desai: If you see the CAGR that we have had on the Oil business if you look at it on a global basis last 5-years our compounded annual growth rate in volumes has been about 8%, and in FY-'15 also we are targeting something in that range in terms of volume basis. One of the problems which we are facing in this particular segment particularly at the lower end of the market is that receivables and collections and all are quite bad because of the position of the SEBs. So the distribution transformer people are still not back in full swing. So we are limiting our sales because we do not want to increase exposures to people who have either poor payment cycles or are not capitalized well. So as a consequence I think it is still prudent for us to forego some sales and be a bit more conservative. If you see our receivable days have gone up, but we have controlled them to quite an extent compared to how bad the market is today. So the turnaround even in the distribution companies and all it will probably take most of FY-'15 before you really start seeing major change taking place on the ground in terms of shipments and increased payments, etc. So we are still expecting this 8% growth even before the real kickers of these new initiatives come in, which will come only towards the end of the year.

Maulik Patel: And if that kicker come up the FY-'16 number could be much better than what we could report in FY-'15?

Kushal Desai: That is our expectation; we expect actually two things that I mentioned in my closing comment that if you see given the fact that the Oil business and the Conductor business have different execution cycles, when the CAPEX spending has not been on for a sustained period it has been maximum 18-months to 24-months and then there is a drop. So you find alternately 1-year the Oil business doing better the next year the Conductor business doing better, there is a difference in the cycle. The biggest change which we are hoping and things seem to be in that direction is that if there is sustained spending over a 5-year period you will see both the Conductor, Oil and the Cable business all performing at sustained levels or at good levels sustaining for a period of time. This is something which we have not seen really in the last at least 4-5-years.

Maulik Patel: I think which probably you have witnessed only during the FY-'05 to FY-'08 period when both the businesses were doing very well.

Kushal Desai: Correct.

Maulik Patel: Because there is a significant difference in a consolidated volume and the standalone volume for the TSO business, so the export has done really well for us in this financial year of FY-'14, so basically my question is export growth going to be much better than a domestic growth?

Kushal Desai: We have had quite a lot of export volumes that have come in in the form of shipments from India as well as what we have with our direct operations overseas and that actually coincides with the electrical infrastructure going in there. So this year we are likely to see performance which is in line with what was there in the previous years, not necessarily a growth on what is happening with a overseas subsidiary, but we are seeing increased growth possibilities coming up in our export from India, because the Middle-Eastern markets is where a lot of the target in this year, the projects which have been won, a lot of them actually have delivery in the Middle East as opposed to higher sales which have happened last year in terms of South Africa and Australia. Overall, you will see export volume actually growing in FY15.

Maulik Patel: What was the export volume this year?

Kushal Desai: The Transformer exports is almost 35% by volume.

Maulik Patel: And in the value it would be higher?

Kushal Desai: Value is a little higher because some of these markets actually ended up taking much higher specification oil than the typical standard oil that goes into the Indian market.

Maulik Patel: The profitability in the Transformer segment took a hit in this particular quarter, even if we look at on a comparatively basis before the FOREX things, there was some kind of dip in profitability. Is there anything which can be explained?

V.C. Diwadkar: Earlier, as we have explained, we need to look at the profitability of Oil business after the open exchange; open exchange means the exchange gain or loss when the exchange is open, because our logic is like this actually, when the exchange will open that gets compensated in the form of price. So, if you see after adjustment of exchange, quarter-on-quarter the performance has improved actually. That is why earlier we were not giving in the 'Investor Update' this type of information actually, but for investors to understand actually it is very much necessary that we should give the EBITDA per KL after exchange. This is the exchange during the open period.

Kushal Desai: The reason why we started doing this is we got feedback from several investors and analysts who we met over the last couple of years… what we are trying to do here is we are trying to create a scenario which explains more transparently the effects that are there. Given the accounting standards you end up booking either a profit or a loss earlier than you actually incurred. So, for example, in the Oil business, if the rupee strengthens, then you end up booking a profit before you actually realized it through invoicing. If the rupee depreciates then likewise you end up picking up the loss before you actually got a chance to increase the sales price and recover the higher realization. By providing it in this fashion… and we will continue to do this every quarter going forward the picture will become clearer in terms of what is the operating EBITDA that is available to the business. So it is easier then to track it in terms of quarter-by-quarter in terms of what is the underlying operational effect and what is the effect because of the mark-to-market activities that have to be booked in the financial statement. So, we are kind of separating the economic impact from an accounting impact.

Maulik Patel: So going forward is it fair to assume that we will be in the range of around Rs.4,000 to Rs.4,500/KL in terms of …?

Kushal Desai: That is right.

Moderator: Thank you. The next question is from the line of Chetan Vora from Value Quest. Please go ahead.

Chetan Vora: Cash balance has reduced from Rs.1,000 crores to Rs.220 odd crores, and simultaneously, if I look on the liability front, the short-term debt has just gone down by Rs.140 odd crores. Can you just explain the reason for this?

V.C. Diwadkar: As we have earlier said actually, we used to do some arbitrage earlier and which we have stopped actually; we have started unwinding that somewhere around October-November. So that is how the cash balance has gone down. As far as the short term borrowing is concerned, the buyers' credit which was there it has gone down by Rs.372 crores, and there is about Rs.150 crores impact in trade payables which has gone down, and in the short-term borrowing there is packing credit in foreign currency which is Rs.220 crores which has gone up from Rs.80 crores to Rs.220 crores, and we are using more of packing credit actually, because we have more of export orders as explained earlier that the Conductor business should be doing around close to 60% orders are dollar-based orders, for which we will be taking packing credit actually, so that we are able to reduce the financial cost, because we are able to manage packing credit in about 1.75 to 2% p.a., and we are not required to take any forward cover for that, plus the packing credit act as a hedging instrument for the export receivables.

Chetan Vora: But right now if I look at from point-to-point, the borrowings has gone down from Rs.940 crores to Rs.700 odd crores whereas again the cash balance has gone down by say from Rs.1000 odd crores to Rs.220 odd crores which is a swing of close to Rs.780 crores. So just was trying to breach the number, so where the balance …?

V.C. Diwadkar: You see the current assets has gone up actually, you see there is an increase in inventory to the extent of around Rs.270 crores, and there is an increase in debtors to the extent of around Rs.250 crores.

Chetan Vora: Why that would be? I was just calculating the inventory days has gone up from 60 days to 82 days.

V.C. Diwadkar: The inventory has gone up, because mainly in the Oil business, fewer of refineries from whom we are sourcing the material, they are going for turn around. So we will not be able to source material from them for some time. So they will be going for major repairs. Because of that about Rs.150 crores in raw materials inventory has gone up on the Oil business, and balance Rs.120 crores has gone up on the other two businesses. Because if you see although the Conductor business has not performed in the first three quarters, the last quarter the turnover of the Conductor business is more or less closer to the Q4 of FY13. We have done close to Rs.548 crores turnover. Earlier three quarters we used to do around Rs.320 crores. And going forward also, as Mr. Kushal Desai explained, as against 1,06,000, we are planning to do about 1,20,000. For the further quarters also, there will be growth in the business. So based on that the inventory will be in line with what we will be doing in future.

Chetan Vora: So in a standard condition, the inventory level would be at what basis we will be comfortable?

V.C. Diwadkar: For different businesses, different inventory levels are there. Normally, the Oil inventory is close to around 60 days. The Conductor inventory is close to around 58 days. The Cable inventory throughout last year it was a little bit high actually, it was close to around 75 days.

Chetan Vora: But Cable is right now 10% or 13% of revenues, so it would not be that much, correct?

V.C. Diwadkar: Correct.

Kushal Desai: The other thing which we have been doing is that most years you will find that there is a huge sale that takes place in the month of March. This year given the political scenario, the elections which were due in April, etc., there was no such spike in terms of purchasing taking place from most of the government departments. In addition to that, several customers who wanted to lift the material in March were not able to complete their formalities of opening letters of credit, closing all the financial instruments that were required by us. So, as a consequence, we also did reduce the dispatches at the end of March. Most of the products have already been sold in April and May because it was again a specific order. These are some of the things which have come, because of more conservative management that we have to do of risk.

Chetan Vora: On the debtors' front, the days have gone up by 20 days from 65 days to about 85 odd days…

Kushal Desai: This number is looking high because you are looking at only a point in time, the highest sales taking place in the fourth quarter, if you take 5 point average, which is at the end of each quarter compared with the same period previous year, the delta is much ….

V.C. Diwadkar: It is a fact that as far as Conductor business is concerned when we operate with PGCIL and when we operate without PGCIL, the debtor cycle is different; PGCIL debtor cycle is very fast actually; non-PGCIL the debtor cycle is a little bit longer actually. But as Kushal Desai rightly said actually you need to look at internally for MIS purpose we look at 5 point average, we do not look at a snap shot number; means for every quarter end, we look at together actually on an average basis, to try and understand that how the receivables and how the inventories have behaved over the whole year period.

Chetan Vora: Coming on the income part, how do we see the Conductor business going forward? We expect the CAPEX cycle to get revived the PGCIL ordering to come from second half onwards. So this year we have done a sales decline of 27%. So do we see a positive growth rate or we will be maintaining a stable sales or run rate.

Kushal Desai: We gave some volume numbers earlier in the call; last year we did about 106,000 MT of Conductor sales, this year our plan is to hit 120,000 MT. So there will be an increase of 14,000 tonnes which is almost 13% growth over the previous year, but this is coming fundamentally from a lot of order booking on exports. From various actions taken in New Delhi, if the effect of that come in earlier, then there is some upside available in the business, because we have capacity; our capacity is actually in excess of 140,000 tonnes. If those opportunities come by, we can definitely address them, but our take is that you will really see the action from our company shipment standpoint in FY16 from the activities which happen in the second half of FY15.

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

Maulik Patel: On CAPEX front, earlier we were giving that this year CAPEX will not be very high but eventually the CAPEX comes to around Rs.90 crores.

V.C. Diwadkar: We have never said actually FY14 the CAPEX will be low. During the FY14 call we were saying that FY15 onwards the CAPEX will be close to around Rs.20-25 crores.

Kushal Desai: A large portion of the CAPEX cycle were we have set up the new facility in Silvassa for Conductor, 35,000 tonnes at an outlay of about Rs.35 crores, we have also completed the upgradation of several things in our Silvassa plant which is not only augmenting some capacity but is also allowing us to make all these special conductors, high temperature conductors, etc., So that is another Rs.15 odd crores. We have completed the E-Beam expansion, we have completed the optical fiber expansion, and the Elasto Cable expansion. So with that the whole mix of cable business has changed as we go forward. One other thing which I have not mentioned in this is that our Elastomeric business which is a slightly better contributing business than the Power Cable side had seen a slowdown in the first three quarters because the wind energy the people were really not putting up any new installation. From the fourth quarter onwards, the demand has revived; there have been certain government sops which have been reintroduced, and the expectation is that it will continue. So even companies like Suzlon which were in the doldrums have started buying significant quantities of products from the fourth quarter of FY14 onwards, and we have given also much stronger outlook in FY15, similarly, the other energy companies have also given a much stronger outlook in FY15. So all said and done, this capacity expansion has got completed and you will find increased volumes coming from those expanded capacities in FY15 on the Cable side.

Maulik Patel: Cable… this year we did revenue of close to around Rs.600 crores, and our margins was probably around 2%. So, with this E-Beam and Elastomeric capacity which has higher margin, the margin profile should improve substantially.

Kushal Desai: The margin should definitely improve because the mix of the products will improve, there will be more shipments of Elastomeric, Cables, E-Beam Cables and Optical Fiber.

Maulik Patel: What could be the top line growth one can look at in terms of the volume or the revenue?

Kushal Desai: Top line… we expect it to be about 20% over the previous year, so the Rs.600 crores will go to about Rs.700 odd crores, because our plan is not to really grow the Power Cable side of the business.

Maulik Patel: You must be seeing a lot of traction on the Telecom side of the business?

Kushal Desai: Yes, the Optical Fiber as I mentioned earlier in my opening remarks, we have increased the capacity and from the first month onwards it is running pretty much at full capacity, this entire year we will be running flat out.

V.C. Diwadkar: During this quarter we have received Rs.100 crores BBNL order which has not reflected in the number which is given that is Rs.200 crores number.

Maulik Patel: On this foreign exchange, the premium which we used to pay around right now from 2-3% it has gone to almost 8%. So have we seen any kind of the decline in that or the volatility has come down?

Kushal Desai: Already reduced from 8.5% down to by about 1%, but the sense which you are getting from various bankers and economists and all is it will further come off. As the rupee strengthens, as the inflation starts tapering off, and the volatility of the currency goes down, we expect that the forward premiums will start softening.

Maulik Patel: This year how much forward premium we have paid, any number?

V.C. Diwadkar: Because we used to do that arbitrage also, na, that number may not be useful.

Maulik Patel: Given that we have a low CAPEX requirement and also our working capital is a little bit elevated, because the inventory has gone up, the debtors days has gone up, where the payable has remained flat on a year--on-year wise, so in financial year '15 do we see substantial drawdown in a debt from the current level?

V.C. Diwadkar: Most of the debt is actually working capital debt.

Maulik Patel: Rs.70 crores is only long-term debt what we have, right?

V.C. Diwadkar: Rs.70 crores is only long-term debt, and this will be basically driven by the inventory and receivables which are going to be there. We should be able to see lower debt actually.

Kushal Desai: Short-term borrowings which have been shown they are all working capital. So when you look at short-term borrowings and trade payables together, it gives you the picture in terms of what is the working capital financing that has been done. As Mr. Diwadkar said, the rollovers of letters of credit, etc., we stopped, so you will find trade payables coming down, and consequently the cash levels also coming down; nothing alarming actually on that, it is just that unwinding of those transactions which are happening.

Maulik Patel: We have completed the unwinding of transactions or it is …?

V.C. Diwadkar: Rs.130 crores was there as of 31st March, it should get completed by end of June first quarter.

Maulik Patel: So the balance sheet would be much cleaner compared to the other…?

V.C. Diwadkar: Correct.

Moderator: Thank you. The next question is from the line of Pritish Chheda from Emkay Global. Please go ahead.

Pritish Chheda: If you could tell us what is the raw materials used in the Oils business? And what have been the price movements in the last 12 to 18 months? How have the spreads also moved between the realization on the finished goods side of your business and the raw materials side?

Kushal Desai: The basic ingredients that goes into our Oil business is mineral-based oil; they come in of various varieties which essentially the products that are produced in a lube refinery. In terms of our raw materials price movement, the price movements are within a band. So, it has been between about US$30 to US$40 a tonne on a base level of about $1,000 to $1,100 a tonne. So the price movement on base oil front has been within 3-4%. So it has not been very significant. Therefore, a lot of fluctuation in foreign exchange rates through the last year because as you know in the July-August-September period, the rupee has really tanked, but post that it has recovered and reasonably stabilized. So there has not been a huge fluctuation in terms of raw materials through the last financial year.

Pritish Chheda: What is the exit price for MBO? What would be the average price for MBO for your Oils business?

Kushal Desai: Mineral-based oil…I cannot give you an exact price, because we buy 23 different varieties of base oils, but as far as what we are trying to understand is what has been the fluctuation, the fluctuation has been within a band of 3-4%.

Pritish Chheda: Now, currency at 59 vis-à-vis plus 60 which was ruling for the last two quarters…I do not know what is the inventory management of your company, but is there a chance that the spreads actually increase on this business?

Kushal Desai: The thing is that the pricing in the industry generally is done in US dollar equivalent terms. So, as the rupee strengthens or weakens, the prices over a period of time correct, to fall in line with that, but there are some cases like in the case of white-oil etc., where you could have substitute of products which are natural products. And as the price of oil comes down and it becomes more competitive in respect to a substitute product, then the volumes can actually go up in white oils, etc., but otherwise, we do not really see a dramatic increase in margins coming on account of the rupee coming down. What is most important for our business is that the fluctuation in the currency should not be very high so that you do not have to keep on going out and changing prices up and down.

Pritish Chheda: What I see in the companies like you, Savita Oil or a lot of these companies, you mean to say that the spreads would not have changed in the last 18 months?

Kushal Desai: The prices have been changed very dramatically on an operating basis.

Pritish Chheda: That means finished goods minus raw materials?

Kushal Desai: That is correct, it has been reasonably steady through the year.

Pritish Chheda: So what goes in and out in terms of the EBITDA is a hit on FOREX?

Kushal Desai: Yeah, that is the reason why from this quarter onwards we are actually showing that separately so that there is a better understanding in terms of the mark-to-market effects versus what is the underlying operating performance.

Pritish Chheda: And the FOREX hit is on account of the buyers' credit standing?

Kushal Desai: The FOREX is hit because we keep precisely for the reason that prices move up and down based on foreign exchange movement. We cover our open foreign exchange in the month that we actually price the product for sale. So where sits in inventory we do not cover the foreign exchange because it will be priced the following month. When you price it, you will consider the foreign exchange rate is as one of the components that go into pricing.

Pritish Chheda: And the inventory cycle is one month?

Kushal Desai: The inventory cycle at the moment is running at approximately about 50 days.

Pritish Chheda: This includes the finished plus raw materials?

Kushal Desai: Yeah, raw materials plus finished goods, we do not generally carry a lot of finished goods, most of the inventories sitting in the form of raw materials and WIP.

Moderator: Thank you. The next question is from the line of Divyata Dalal from East India Securities. Please go ahead.

Divyata Dalal: Just wanted to get a sense on the order book breakup for the Cables business.

Kushal Desai: The order book that we had on 31st March is about Rs.201 crores, post that as Mr. Diwadkar mentioned, we have received about Rs.100 crores order from (BBNL) which is Bharat Broadband Nigam Limited, and a few other orders which are in place. If you look at the split up of the Rs.200 odd crores, about 40% of it is coming from E-Beam and Elastomeric Cables, about 50% of it is coming from the SLP, and the telecom is showing a very small number right now, because you do not added the whole BBNL thing, if you add BBNL it is going to Rs.300 crores and it will become almost one-third, one-third, one-third between these.

Divyata Dalal: And the execution period for this will be in this particular year?

Kushal Desai: Actually, the total project for BBNL is very significant, but we have split it up into phases. So what we are talking about this Rs.100 crores is only the first phase. So the execution of that should happen within this financial year, in fact, we have claimed that depending on the execution of the first phase orders for the second phase will then be looked out. But to answer your question execution should happen in this financial year of this Rs.100 crores.

Divyata Dalal: In terms of the pre-qualification with the approval for the E-Beam Cables, what is the status there?

Kushal Desai: We have received the most significant approvals of the two main buyers which is the Indian Railways and Indian Navy. So those are already in place for the main bulk orders that they buy. In addition to that there are several other areas where we have received approvals, but our approval in the case of Railways is what they call a Part-2 approval. So there is a certain period where you can bid for 10% of the business, then up to 15% of the business, and then post that for the entire business. So we are right now on the 10% phase, and we should be able to move into the 15% phase in the second half of this year, and then in FY16 we will be able to bid for the entire business. But the approvals are in place and we started executing, that is how you have an order book for the Elasto and the E-Beam side which is approximately Rs.80 crores.

Divyata Dalal: We have seen in Q4 there has been some kind of dip in EBITDA margins for Cables business at 0.6%, like Q2 and Q3 we saw good decent margins. So any particular reason for that?

Kushal Desai: The margins on the business without the exchange impacts have actually gone up, even the Cables business. The real effect of the Optical Fiber and all is starting only in this financial year.

Divyata Dalal: What is sustainable on the optimal level of margins which we will see in FY15 for this business?

Kushal Desai: You should see at least a 5% increase taking place.

V.C. Diwadkar: At present the full year EBITDA is around 1.8%, quarter-on-quarter it can go up and down actually depending upon the time of orders which we are executing, but that 1.8% we feel that should go up to 5% with the product profile improving and more of Elastomeric Cable, E-Beam Cable and Telecom Cable getting into this, and less of the Power Cables coming.

Divyata Dalal: Power Cables typically I think we are not focusing much on?

V.C. Diwadkar: We want to reduce the quantum of the Power Cables and increase Elastomeric, E-Beam and Telecom Cables **__57:48 (audio overlap)**

Divyata Dalal: In our presentation we have mentioned that FOREX hedging policy has been revised. So what is the revised policy? Like earlier we had some 150-day kind of…

Kushal Desai: No, no, earlier we used to take 90-day forward cover. Last year we revised that to taking 120-day forward cover.

Divyata Dalal: This is for the Oil business, right?

Kushal Desai: Yeah, for the Oil business. As far as the Conductor business is concerned, because exports is now becoming a very significant portion of this year, we plan to actually take foreign currency packing credit loans so that itself becomes a hedge instrument. So we use the foreign currency to pay our raw materials and then you set off the loan against receivables which are coming. So that everything becomes dollar-to-dollar, that is the other change which is going to be seen in this year.

Divyata Dalal: Since the raw material is from LME, you are saying that will create a…?

Kushal Desai: By following PCFC as far as the economic hedge is concerned, it becomes a complete economic hedge, your timing issues also disappear. So we did not have such high limits, we got increased limits for PCFC. So that is why from this year onwards we will be changing that methodology of hedging on the Conductor side.

Moderator: Thank you. Ladies and Gentlemen, that was the last question. I would now like to hand the floor to Mr. Alok for closing comments.

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

Kushal Desai: Thank you.

Moderator: Thank you. On behalf of Apar Industries and Four-S Services that concludes this conference call. You may now disconnect your lines.