

Apar Industries Limited
Q4 & FY15 Earnings Conference Call”
May 20, 2015

Moderator: Ladies and Gentlemen, Good Day and Welcome to the Apar Industries Limited Q4FY15 Earnings Conference Call hosted by Four-S Services. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask question at the end of today’s presentation. Should you need assistance during the conference call please signal an operator by pressing ‘*’ then ‘0’ on your touchtone phone. I now hand over the conference to Ms. Nisha Kakran of Four-S Services. Thank you, and over to you, madam.

Nisha Kakran: Thank you. Good Afternoon, everyone. On behalf of Four-S Services I welcome all the participants to Apar Industries Q4FY15 Results Conference Call. Today, on the conference call we have Mr. Kushal Desai – Managing Director and Mr. V.C. Diwadkar – CFO, Apar Industries. I would like to thank the management for giving us an opportunity to host the conference call. I would now hand over the call to Mr. Desai. Over to you, sir.

Kushal Desai: Thank you, Nisha. Good Afternoon, everyone, and a very warm welcome to Q4 & FY15 Earnings Conference Call. I would like to begin by taking you through some of the key highlights of the quarter and for the financial Year FY15 and then outline some of our growth strategies and discuss the financial results before opening up the floor for questions. This current government when they swept the general elections last year and came into power on the back of fairly high expectations, wide range of positive steps were expected to be taken,

many of which have actually started being taken to spur the economy and the Power sector in particular along with other infrastructure sector. The Power sector accounts for about 70% share of our business; however, on the ground at the moment, many of these results are still work-in progress; they have not yet been fully realized by us. I will later discuss a little bit in terms of where the direction in which we see this going forward.

So despite this sluggish domestic environment, we have been able to show healthy growth of about 11% in revenues in FY15. This has been possible fundamentally due to some of the strategic initiatives taken by the company over the last few years, particularly with respect to building our presence in the overseas markets, which substituted some of the slower sales in the domestic markets. Also building manufacturing capacities for new generation products as well as capacity expansion across the business where we have completed spending about Rs.300 crores over the last four years. We have successfully commissioned several plants which include the increase in capacity to produce a wider range of Conductors including High Temperature Conductors taking up the total production to 150,000 MT p.a.

The two E-Beam facilities of 1.5 MeV and 3 MeV along with an Optical Fiber capacity that takes a production value up to about 180 to 200 crores p.a., and the Elastomeric and E-Beam Cables which we can now produce up to about Rs.300 crores p.a. Both of these expansions were part of a very important strategic shift in terms of the product mix which we plan to produce and focus on as we grew the Cables business over the years. We have also increased storage, blending and processing capacity in our Specialty Oil business including putting in some high speed new small pack filling lines for the consumer

automotive side. The total capacity is now about 440,000 KL, and this infrastructure has gone into both our Rabale plant as well as our Silvassa plant. So in fact in the domestic Power market the technology shift we have been talking about is already now slowly becoming visible. The power generation capacity has nearly doubled in the last 7-years where about 110,000 MW has been added between financial year '07-08 through FY15. However, against this the transmission capacity has increased by only 50% in terms of circuit kilometers and the transformation capacity for transmittal of Power has been increased by only 66% during this period. This imply that the CAPEX in the transmission and development sector is actually lagging behind the generation sector and more emphasis on investments in this transmission and distribution side should actually take place. As per the CEA 2.6 trillion Power Transmission CAPEX is what is expected, has been planned in the 13th Plan out of this 500 billion has been earmarked for 765 kV and HVDC projects with more additions expected in the future. We have been preparing for this market shift now for approximately 4-years. The HVDC and 765 kV market opportunity translates into about 200 billion, in which we hope to garner a significant piece of the pie as far as especially the Transformer Oil is concerned.

As per the 13th Plan 63,000 circuit kilometers of transmission line, 15,000 MW of HVDC capacity and 128,000 MV of transformation capacity of 400 kV plus is expected. So from this data it is clear that the investment focus on the T&D infrastructure should be high. Having said that, and given the long gestation time for the market environment to change, we still see that the results are another 6 to 9-months away, the timeframe has been kind of moving given the fact that there have been several structural and other issues which have impeded some of these implementations.

I would now like to turn to our financial results and quickly recapitulate some of the financial highlights. In FY15 we posted a consolidated revenue of Rs.5,122 crores, which is up 11% from FY14. The largest contributor to this was the 40% growth that we had in Conductor sales volumes. Our EBITDA was at Rs.254 crores in FY15 and our profit after tax came in at Rs.49 crores. During this quarter we posted a revenue of Rs.1,354 crores, which is 1% lower than the same period in the previous year. This was largely due to the de growth or the reduction in the selling price in the Oil segment with the crude prices having reduced. We had a 22% growth in Conductor sales in the fourth quarter that partly offsets this. Our EBITDA came in at Rs.44 crores and our profit after tax for the quarter was at Rs.9 crores. The profitability was impacted due to a margin pressure and inventory correction that took place in our Oil division for the month of January and partly through February, in what was otherwise an overall lackluster market. However, the Cable business delivered a substantially improved performance during the quarter.

I would like to share some details on each of the businesses now separately. As far as Conductor business is concerned, we posted a revenue growth year-on-year of 40%, up from Rs.1,654 crores in FY14 to Rs.2,320 crores in FY15. This was largely driven by exports which contributed 43% of our total sales. Our Conductor business posted an EBITDA per metric tonne of Rs.8,384 on an average which was negatively impacted compared to the previous year due to margin pressure and a very weak domestic market where the pricing was extremely low. The EBITDA was up 6% from Rs.119 crores in FY14 to Rs.126 crores in FY15. The segment's order book as on 31st March 2015 stands at Rs.1,452 crores and of this the export order book is about Rs.787 crores. In the last quarter, the Conductor business posted revenue growth of 22% year-on-year. It also posted an EBITDA

per metric tonne of Rs.3,880 which was substantially lower than the average for the year basically negatively impacted due to the orders which were having lower margins during this period. Many of these orders were booked during a period of intense pricing pressure when there was a total lack of domestic demand.

We had pointed this out in the two previous updates that due to a lack of order booking in the domestic industry, the business getting finalized through most of FY15 was at a very poor margins, especially due to low pricing offered by some of the suppliers that had relatively low exposures to the global and export markets. Even though in this quarter the Conductor capacity utilization touched 100% for the second consecutive quarter, the economies of scale could not offset some of the lower prices that were there. We are cautiously optimistic that there will be an improvement in the tender pricing as we move forward since most of the industry players today are having a much better order book and the legacy orders that most industry players are carrying are at relatively lower prices. So in such an environment, generally, we have seen the future order booking then starts taking place with better margins. Power Grid and other utilities are in the process of floating and finalizing a number of tenders. In the month of April itself, this trend has now been seen quite clearly. Our focus this year will now shift to ensuring that order booking is at more profitable level, having established the production capability of 150,000 MT. We see a significant financial impact from this change really happening by the fourth quarter of FY16.

If you look at the Transformer and Specialty Oil, we posted a consolidated revenue of Rs.2,251 crores, which is down 6% year-on-year; however, increased volumes in Industrial and Automotive Oils provided a partial buffer to this. The EBITDA after adjustment per KL

came in at Rs.2,722 which was negatively impacted due to inventory losses that I had mentioned earlier arising primarily in the third quarter of FY15, January and partly February of this year. Our total global shipments however were marginally up from 327,226 KL to 328,123 KL. In the last quarter the Specialty Oil business posted consolidated revenues of Rs.530 crores which is 18% lower than the same period previous year primarily due to the fall in the prices of crude and consequently base oils. The EBITDA that came out was at Rs.3,049 per KL. The segments profitability drop fundamentally is due to the overhang of inventory as I mentioned earlier. However, as we enter FY16, the inventory overhang i.e higher prices, etc., is completely behind us and the company will see that its margins will revert back to normal levels from the first quarter itself.

Brent Crude prices have been rising from a low of \$45 per bbl to about \$67 per bbl, I think at the moment it is at about \$65 per bbl. So there will clearly be some increase in the cost of raw materials and consequent increase in the prices of finished products.

If you look at the Auto Lube segment, we have continued to grow despite there being a general slowdown in the Auto Industrial markets with the sales up by 11.5% year-on-year on a volume basis. Most of this increase came from our sales to new auto OEM and from the effect of increased promotions and distribution on the consumer side. The Industrial Oils including Process Oils also grew by 12% year-on-year on a volume basis and the profitability in both the segments actually benefited in the fourth quarter from lower raw material prices. We hope to retain some of this benefit as we move into FY16.

The Cables business posted revenues of Rs.560 crores which was marginally lower than Rs.573 in FY14; however, this was really a planned initiative because we reduced the High Tension and Low

Tension Power Cables based on a strategic shift that we made to reduce Power Cables and grow the other more profitable segments. The EBITDA growth has taken place from Rs.6 crores in FY14 to Rs.34 crores in FY15. This could largely be attributed to the sale of higher value added products such as the Fiber Optic Cables and the Elastomeric Cables. For these products the sale increased by 29% in FY14 to 51% of the total mix of Cables which we produced. The Fiber Optic Cables and Elastomeric Cables increased by 96% and 48% year-on-year basis.

Going forward, we see increased tendering activity in the Conductor business which would result in better business performance as we move towards the fourth quarter of FY16 and into FY17. Having said this, we have already seen in the last 15-days, signs from Power Grid of wanting to actually prepone deliveries based on some of the tenders that they have awarded. If this trend continues then you could probably see some increased profitability happening even in the third quarter of FY16 but it is a little early at this stage for us to be able to make more definitive statement. We do need to keep in mind that the Conductor business is a long cycle business and such decisive trends can be confirmed only after a slightly longer duration. We have also seen larger tender activities in the Power Transformer market with the Power Grid and some of the other state transmission companies placing several orders for 400 kV and 765 kV Transformers. There are also early signs of improvement in the Industrial and Automotive Lubricant markets. So considering all these it makes us optimistic that business volumes and profitability in FY16 will be better than in FY15 and as we move towards FY17 you should see a further improved performance.

The Cables division has also shown significantly improved performance and we should see gains really based on project executions taking place in these four sectors which is Solar Power, Wind Power, Defense and Railways where our Cables business is fairly uniquely positioned with the investments and approvals we have received in the last few years.

So with this I would like to end my comments. I would like to thank everyone for joining our call and we would be very happy to take any questions if there are any at this stage.

Moderator: Thank you very much. We will now begin the question-and answer-session. The first question is from the line of Maulik Patel from Equirus Securities. Please go ahead.

Maulik Patel: Sir, a couple of questions: One is on the Transformer business because last full year we have hardly grown our volume. Do you see the volume rising this year and possibly next year, do you see the SEBs are spending on Transformer capacity addition?

Kushal Desai: Actually, last year EMEA has published the numbers in which they have shown a degrowth taking place in both Power Transformers as well as the Distribution Transformers with the bigger degrowth in the Power Transformers, this data actually is available for 9-months which they already published. Our sense is that FY16 will be better than FY15 in volume terms and FY17 should be still better on the Transformer side. There were also a few negative things which have come up in the export market where our biggest export market which is Saudi Arabia had some hiccups with some of the project executions that had taken place. Having said that, from March onwards, we started seeing shipments going back into that market. So in general,

we see FY16 as being much better volume sort of scenario compared to FY15 on the Transformer Oil side.

Maulik Patel: But is it the same with the margin also because beside inventory losses we suffered in the second, third quarter, but do you think the margin can improve or there is a better pricing power once the demand come back?

Kushal Desai: The margins in the Specialty Oil business really came under pressure in the third quarter and then because of the overhang in the early part of the fourth quarter. The first half we were at normal reasonable levels. We have already started seeing them coming back to the sort of normal levels which are Rs.4,000 per KL EBITDA and above. So I think that normalcy you will see from Q1 of FY16 onwards.

Maulik Patel: What is the traction we are looking in White Oil because this is a segment which has not been doing very well since the last few quarters?

Kushal Desai: White Oil part of the business continues to remain challenged, we really see growth next year coming from Transformer Oils, from our Industrial, and Process Lubricants and our Automotive side of the business. White Oil business actually carries the lowest margins and has now become the most price-sensitive business particularly the lower end of the White Oil Products. So we will see some amount of headwinds over there, but I think it will be overshadowed by what happens on the Transformer Oil side and the Auto and Industrial Lubricants. That part of the business, the impact will be lower year-on-year as we are growing these other three segments.

Maulik Patel: What percentage of volume was coming from White Oil in this year?

Kushal Desai: About 26% of the volume.

Maulik Patel: Coming to Cables business, we have discussed our potential of E-Beam since last few quarters, we are slowly gaining the traction in terms of an approval. So if you can elaborate where we are right now and revenue we generated from the E-Beam and give some kind of colors on that?

Kushal Desai: The key thing for us as we started off these Electron Beams was to actually get approvals from the user segments and that is a fairly long gestation period as we have been talking about on various Investor Calls in the past. Now, as we stand today, the two major departments in the railways, we have approval from both of them, we also have the formal approval from the Indian Navy and from a number of government shipyards which are there. So, as a consequence, those segments today approvals are all in place. In the case of railways, we are actually a Part-II vendor because for the first 1-year to 18-months you remain as a Part-II vendor so you can bid up to 20% of the total tenders that have been offered. So we have been winning business now based on that level. Having said that actually Railways spent a relatively very little money in CAPEX last year compared to previous years. It is really expected that the Railways CAPEX for Cables and allied items will really pick up in FY17. So we should see a better number in FY17. So we will be participating in all the tenders that come out because approval status allows us to do that both for railways as well as for defense. As far as the other two sectors are concerned, we got all the approvals required for the Solar Cables part of the business; one of which is a TUV approval that takes approximately a year to get in terms of testing time. So we have already got that in place and from the third quarter onwards actually bidding on all the major Solar Projects that are there in the country. As you probably know, Solar Projects activity will also pick up more in FY16 & FY17, the same thing with Wind Mills. Even though the order

book of most of the Wind Mill manufacturers was in place, companies like Suzlon, Wind World, etc., had certain financial issues which had hampered their operations, as we see it, most of those are behind these companies today. So we have seen significantly increased activity taking place in February and March and we have a good order book available for execution from April onwards. So, in general, this whole E-Beam Elastomeric segment seems to be on a strong wicket as we enter FY16.

Maulik Patel: What kind of revenue we achieved last year?

Kushal Desai: Between Elastomeric and Telecom, we had 51% of the revenues come from this sector. This year it will be about Rs.400 plus crores from Elastomeric and Telecom.

Maulik Patel: It is approximately from Rs.250 crores we could like to go around Rs.400 crores?

Kushal Desai: Yes, the growth is really going to come from these two segments; there are some selected jobs on the Power Cables side also where the profitability is better, so we are getting after those. Our idea is not to grow the Power Cables side, but to concentrate on growing these other two areas. So, fundamentally, all the growth that we expect this year is going to come from the Elastomeric side.

Maulik Patel: And then Elastomeric Cables have much better margin profile, right?

Kushal Desai: Yes, so the Cables business the turnaround seems to be now in place compared to what we had in the last few years.

Maulik Patel: On the Conductor side, we understand that our export where the spot premium were moving up which hurt our margin and which you indicated in the past conference call also. Whatever the profitability

we are seeing in this particular Q4, is it the bottom or is it going to get worse for the next two quarters?

Kushal Desai: No, we do not expect it to get worse than what it was in Q4 in terms of absolute margins. However, the first half you will see depressed EBITDA per metric tonne, picking up in the third quarter and then substantially increasing in the fourth quarter of this year. The expected average actually for the year will be between Rs.6000 and 7000/MT, of which the first half will be significantly lower and the second half will be significantly higher.

Moderator: Thank you. The next question is from the line of Manish Goel from Enam Holdings. Please go ahead.

Manish Goel: A couple of questions: Continuing on the Conductors margin, what we understand is that now the spot aluminium premiums have been coming down and are below \$100. So, how does it probably look for you going forward?

Kushal Desai: Actually, two things; one is that the premiums on LME have not come down as low as \$100, they had hit a high of almost \$475 and they are now in the mid-\$300s as far as MJP is concerned, so it has come down, but it has not come down that drastically. As far as the domestic business is concerned, actually those premiums have really not had much of an impact because the pricing which comes from the local aluminum producers includes the premium and that forms the basis for the price variation formula that we have. The issue of a low profitability has been because the market prices themselves were at very low level, it had nothing to do with the premium as far as the domestic business is concerned. As we had explained on some of our calls, the order book that most of the domestic players had was extremely low. Initially, the tender started coming out. The order

booking started coming in at very-very low price levels. So we have tried to sort of keep away from some of that business and just book adequately to keep the plants running at a certain minimum level. Having said that, as these order books are filled up, etc., we see a whole pipeline of tenders which have been coming in from April onwards. The general phenomena is that then pricing starts improving, because when your legacy orders are at a very-very low level and in many cases people have taken it at raw material cost, not even covering any conversion, overheads or profitability. So we have seen this cycle happen before, and these are clearly early signs of order booking happening at fundamentally better prices. So it is very important that order booking itself be done at better prices.

Manish Goel: So you mean to say that the spot aluminum premiums impacts your exports business?

Kushal Desai: Yes, that has affected the Exports business last year because we were able to hedge the LME, but there is no tool to hedge the LME premium, so we had actually got into long-term premium contracts also, but the material which we had tied up on a long-term premium contract was not adequate to cover the entire load which we had last year, now that phenomena is not really in play in this financial year. It is really just the lower order booking at lower prices will get executed in the first 6 months, post which you should have higher price orders kicking in.

Manish Goel: So what we see is that in Conductors even in exports your order backlog has declined, I believe last year you had some (deemed exports) also. So for the full year FY16 on volume front what can we expect?

- V.C. Diwadkar:** The present order book has close to about 53% of export, that is dollar terms, since Q3 we are facing increased competition from Chinese players, which we talked about in the earlier calls also, because the Chinese players they are getting the metal cheaper on their local Shanghai market actually, whereas we have to take from LME, and that gap is close to \$200 per ton.
- Kushal Desai:** But having said that the domestic side of the business is now going to kick in, last year 43% was export, as we open the year 53% of the order book is export, but through the year you will see more domestic order booking taking place versus export order booking. As the business environment on the domestic side is starting to improve and the profitability on the domestic orders also should start being better than the export orders as we go through the year.
- Manish Goel:** So what kind of tonnage tendering you are seeing say currently or probably in the current year from PGCIL and other players?
- Kushal Desai:** There are continuously tenders getting floated. So we can talk about what has already happened in the last month and a half. You had almost 100,000 tons worth of tenders come out, which is quite a healthy sign.
- Manish Goel:** But competition intensity continues to be high in domestic market, so then again the worry on the margins?
- Kushal Desai:** There are a couple of phenomena; one of the large Conductor players who had been aggressive during this period, they have defaulted on supplies to Power Grid and Power Grid has encashed more than Rs.150 crores worth of their bank guarantees. In addition to that, there are some other players who try to be aggressive where their assessed capacity as far as Power Grid is concerned has already been achieved. So Power Grid is not opening their tenders until either a

reassessment or past orders get executed, so that there is a freeing up of assessed capacity in place. So there are a number of these factors which are there, which lead us to believe that the environment is definitely becoming much more conducive in the domestic market going forward for entrenched players like ourselves.

Manish Goel: The competition intensity is much lower than what you saw in the last two to three years?

Kushal Desai: Competition intensity is lower than what we saw definitely in the last six months, which is where there was absolutely like a blood bath.

V.C. Diwadkar: Demand has increased actually because of that.

Kushal Desai: There are two phenomena of demand; one is that demand is increasing, and secondly, we are seeing a sign where players including Power Grid are now asking for a much shorter delivery cycle. If you go back to the 2 previous calls which we had, we were kind of expecting a phenomena to happen in this direction, and we had taken a view that we do not want to overbook ourselves with orders, we just book enough orders for us to execute in the first half and then allow the second half orders where better and more favorable terms kicks in. So that is why we feel that by the time we get into the fourth quarter of FY16 you will start seeing improved performance.

Manish Goel: So basically for FY16 you expect sales volumes to be higher than 150,000 tons for Conductors what you have reported in FY15?

Kushal Desai: No, I believe the total volumes will be a little bit lower than 150,000 tons, simply because as I said during the period where the tendering activity was at very low prices, we were not aggressive in terms of booking orders, so you will see a total tonnage which is less than 150,000 tons in this year, we are targeting about 140,000 tons in this

year, but our focus is to restore EBITDA margins back to above Rs.10,000 per metric ton. So the focus is to move in that direction.

Manish Goel: But you just mentioned that you would probably have Rs.6,000 to 7000 per ton in the year

Kushal Desai: The average for the year is expected to be around Rs.6,000 per ton, but as we start booking marginal orders they will get executed in Q3 and Q4, we are expecting the margins per ton to increase and our target is to take it up to above Rs.10,000/MT.

Manish Goel: On Specialty Oils would it be possible to give the volume numbers and the EBIT number per liter on a standalone basis, because earlier you used to give, but this time on the presentation it was not there?

Kushal Desai: At the moment all our numbers are based on the global sales. So I do not have the standalone numbers

V.C. Diwadkar: Separately offline we can give actually.

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

Maulik Patel: Coming back to the Conductor, what could be the Power Grid proportion in our current order book?

V.C. Diwadkar: 15%.

Maulik Patel: And as you expect over a period of time this number should increase in this particular year, right?

V.C. Diwadkar: Yes.

Kushal Desai: As I mentioned a little bit earlier, Power Grid tenders have all started coming out, so our order book consists of final order, we have several

tenders where we are actually L1, and the order should materialize, but that is not included in this particular order book number. So you will actually start seeing Power Grid percentage actually going up every quarter.

Maulik Patel: You mentioned the shorter cycle, so earlier the cycle used to be around 9 to 12-months right, do you think it is coming back to around 6-months?

Kushal Desai: Power Grid would normally from the time the tender was awarded to receiving the first shipment used to be a 6-month cycle, but this is expected to actually cut down to less than 90-days based on whatever current information we have. Secondly, the delivery cycle used to be approximately 18-months, whereas the indications are that it would be now closer to 9 to 12-months. So both of these factors actually will benefit us as we move into the second half of this year and early next year.

Maulik Patel: When you mentioned Rs.6000 to Rs.7000/ton kind of margins for the full year, you also mentioned that we want margins to come back to around 10,000 level, in the Q4FY16 we could see in the track of Rs.9000 to Rs.10,000/MT as a margin?

V.C. Diwadkar: Absolutely.

Maulik Patel: When we talk about the Transformer business, the TSO business combined, because of the falling crude, working capital has come down and so our debt has come down also, because in balance sheet, the short-term debt has declined significantly. Have you seen this FOREX forward premium, which you pay coming down?

Kushal Desai: No, unfortunately, the FOREX premium still remains closer to 7.5% levels, but given the fact that the dollar value per metric ton of

imported base oil has come down, the absolute amount of premium that the company pays will therefore correspondingly come down. So it is not happening due to a reduction in the forward premium percentage but is happening because of the import bill substantially going down.

Maulik Patel: If I look at over the last three years on a full year basis, our interest cost including this FOREX hedging and everything was around Rs.140 to 150 crores on an annualized basis, but this number would come down, if you could give some kind of color on that?

V.C. Diwadkar: Yes, it will come down actually; we should be able to manage close to around 130 actually.

Maulik Patel: What is the CAPEX this year we are planning? One is the CAPEX we have for the Middle East facility, right?

Kushal Desai: The CAPEX for the plant which we are setting up in the Middle East will not really be affected from Apar's standalone books because we will use the reserves of our overseas subsidiary to actually expand that overseas manufacturing.

Maulik Patel: It will come into the consolidated number, right? In consolidated number it is already reflected?

V.C. Diwadkar: Consolidated it will come.

Kushal Desai: But from a cash flow perspective, the CAPEX in this financial year

V.C. Diwadkar: That will be close to around Rs.35 crores, which is close to our depreciation.

Maulik Patel: So we will do the CAPEX similar to depreciation?

- V.C. Diwadkar:** Depreciation actually, that is as far as India operations is concerned, and then the CAPEX which is required for that subsidiary in UAE.
- Maulik Patel:** Yes, but this CAPEX of Rs.35 crores, is there anything to capacity expansion or is it more about maintenance CAPEX?
- Kushal Desai:** It is mostly maintenance CAPEX, and there are some debottlenecking and things which are taking place, some of the CAPEX is for some of the new testing equipments which we are bringing in allied to larger production of high temperature, conductors and things like that.
- Moderator:** Thank you. The next question is from the line of Viraj Kacharia from Securities Investment Management, please go ahead.
- Viraj Kacharia:** Just had a couple of questions on the Lubricants side. We have seen a significant drop in crude prices, and historically if you were to see the industry, the industry has managed to retain a bulk of the drop in crude prices whenever the prices start going up again. So if you were to see in that respect how different is similar current situation from the one in 2008-09?
- Kushal Desai:** In 2008-09 there were two problems; one was the drop in the crude prices and secondly, there was a massive movement in the exchange rate. This time around we have had a drop in the crude prices, which was lower than about 70% of what it was in 2007-08, but the rupee exchange rate was not really something that moved that dramatically. Our Lubricants business has been pretty much in line with some of the other lubricants businesses of some of the MNC companies, etc., where we have been able to retain a significant portion of the drop in the prices of base oils in terms of our margin profile, particularly in the consumer side of the business. The B2B side of the business actually does have some amount of price variation formula in which case some of these reductions get passed on to the client, but

generally, profitability in that sector will be better in FY16 compared to FY15.

Viraj Kacharia: If current trend in crude were to reverse and it had to move back again, would it be right to assume that the industry as a whole and for us as well, we should be able to retain the margins ?

Kushal Desai: I think that should be possible, our sense is that the crude prices are not likely to skyrocket again, there is a lot of resistance even in the mid-60s for crude to go up any further. So if you really see the average pricing that was available in the second half of last year, the pricing currently is actually lower than what it was if you take the entire H2. As a consequence, you will not see much impact on the profitability side if the prices are in the mid-60s.

Viraj Kacharia: But if we were to move to say 80s or 100s...?

Kushal Desai: Then we will have to go through the prices increases, but I think the likelihood of that is not very high that the prices will shoot up.

Viraj Kacharia: Currently, have we seen any of the competitors passing on benefits to end consumers in terms of price cuts or anything.

Kushal Desai: There have been selectively some competitors that have done it, but generally, the prices have held up, if there are certain things which have been passed on to the market, it has really been consumer schemes and other form of promotional materials to increase offtake of products as opposed to having a direct reduction in the price.

Moderator: Thank you. The next question is from the line of Mehul Mehta from Network Stock Brokings, please go ahead.

Mehul Mehta: In terms of profitability of Conductors business, from FY13 it was about 9% has come off to about 5% in FY15, and for Transformer and

Specialty Oils, from 6% to about 4.5%. So what should we take as outlook going forward?

Kushal Desai: I think working on absolute numbers is a better indicator. So we expect that for the full financial year, Conductors maybe around Rs.6000/MT tending towards Rs.10,000/MT as we get into Q4 of FY16, and on our Oil side we had the EBITDA levels, we had about Rs.4800/KL in FY14, and our target is to actually end up sitting somewhere in the same range in FY16 with still better numbers in FY17. So we should pretty much be able to hit at least FY14 numbers on the Oil side if not better. Cable side there is going to be a big difference, because last year FY15, we have grown from Rs.6 crores EBITDA to Rs.34 crores, and this year we should see further expansion taking place from Rs.34 crores to upwards of Rs.50 crores.

Mehul Mehta: So Cable business as such for turnover is about 10%, right, so those two are major businesses, like when we look at Conductors, Transformers and Specialty?

Kushal Desai: It is now almost 12.5%, it will be closer to 15% by the end of FY16.

Moderator: We have the last question from the line of Chirag Muchhala from Nirmal Bang Equities, please go ahead.

Chirag Muchhala: Actually I had a question on our HTC Conductors. So we have booked orders of Rs.93 crores in FY15. So what would be the overall market size of these conductors and what kind of rise in market side can we see for these Conductors in FY16?

Kushal Desai: Actually, there are a number of active tenders which have been floated by multiple state transmission companies as we speak today. So the sum total of these tenders itself is in the range of about Rs.400-odd crores. So to answer your question in terms of what is the likely

market in this year FY16, I think it is a moving target, already Rs.400 crores worth of tenders are out there under active consideration to be awarded and there will be more that will come up through the rest of the year. So this area will start seeing more activity. But it is very difficult to plug an exact number, because it is still very early stages on this and many of these state transmission companies are for the first time awarding a large HTC Conductor job.

Chirag Muchhala: What would be approximately our market share in this? I believe in HTC both market share and margins are significantly higher than the normal Conductors, right?

Kushal Desai: Our market share is significantly higher, because it is really Apar and Sterlite are the two major domestic players in this game, along with a few foreign players who have been the legacy players in whatever jobs have been done in the past. The margins are higher than in the case of your conventional Conductors; however, some of these have been done in the form of like a turnkey project. So on the supply side of the Conductors the margins are better. We have had initially a few struggles on the EPC side, because the whole technique of stringing and doing all these things is completely different than what would be there in the case of conventional Conductors, but having done more than five to six jobs ourselves, as we are bidding on some of these new jobs, we also have significantly more experience at this stage, and the margins on the EPC side also should start improving. So overall margins will be higher in this segment compared to the standalone Conductors both in terms of competitive intensity as well as in terms of the inherent margins based on the technology involved.

Chirag Muchhala: Roughly can you quantify how much basis points difference is there between the two Conductors?

Kushal Desai: It is still settling down because the product margin side is relatively clear, it is the EPC portion where there is some amount which has to settle down, because the utilities also as I said are doing these projects for the first time, so there are issues in terms of utilization of some of the equipment's that are used or hired for doing these stringing jobs, etc., which are very specialized and are required only for the HTC type of products. So I think the margins will start settling down on this within another year or so, when a larger amount of jobs have been done. On the product side, it is more than double of what the margins on a conventional Conductor are.

Moderator: Ladies and Gentlemen, that was the last question. I would now like to hand the floor over to Nisha Kakran for closing comments. Thank you and over to you ma'am.

Nisha Kakran: Thank you, everybody for taking the time today and joining us for the call. If there are any more queries, please feel free to connect with us offline.

Moderator: Thank you very much. With that we conclude this conference call. Thank you for joining us and you may now disconnect your lines.