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Dear Sir,

We are sending herewith transcript of Apar Industries Ltd. for Q1 FY 2020-21 - Earnings Conference Call made on August 07, 2020.

Kindly take note of this.

Thanking you,

Yours faithfully,

For Apar Industries Ltd.

HARISHKUMA
R MALSATTER

Digitally signed by HARISHKUMAR MALSATTER
DN: c=IN, o=Personal, postalCode=390007,
st=GUJARAT,
serialNumber=d3ab76fe749fc4eb8b1153cdb29c1f0a53ca896fad0c8a6f61c857cd83bd0131,
cn=HARISHKUMAR MALSATTER
Date: 2020.08.29 17:52:29 +05'30'

(Harishkumar Malsatter)
Assistant Manager – Secretarial & Legal

Encl. : As above

APAR Industries Limited
Corporate Office: APAR House, Corporate Park, V N Purav Marg, Chembur, Mumbai 400 071, India
+91 22 2526 3400/6780 0400 corporate@apar.com www.apar.com

Regd Office: 301/306, Panorama Complex, RC Dutt Road, Alkapuri, Vadodara - 390007, India
+91 265 6178 700/6178 709 apar.baroda@apar.com www.apar.com CIN: L91110GJ1989PLC012802

Apar Industries Limited
Q1 FY21 Earnings Conference Call
August 07, 2020

Moderator: Ladies and gentlemen, good day and welcome to Apar Industries Limited Q1 FY '21 Earnings Conference Call hosted by Four-S Services. As a reminder, for the duration of this conference call all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions 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. Please note that this conference is being recorded. At this time, I would now like to hand the conference over to Mr. Samayak Jain of Four-S Services. Thank you, and over to you, sir.

Samayak Jain: Thank you. Good afternoon, everyone. On behalf of Four-S Services, I welcome all the participants to the Apar Industries Q1 FY '21 Earnings Conference Call. Today on the conference, we have Mr. Kushal Desai, Chairman and Managing Director; Mr. Chaitanya Desai, Managing Director; and Mr. V. C. Diwadkar, CFO, Apar Industries. I would now like to hand over the call to Mr. Desai for his opening remarks. Over to you, sir.

Kushal Desai: Yes. Thank you, Mr. Jain. Good afternoon, everyone, and a warm welcome to our Q1 FY '21 earnings call of Apar Industries. At the outset, I hope that your families are all safe during this strange period. I will start the call with giving a quick industry update and then an overview on the performance of each of the segments. And after that, we can open the floor to questions.

So as we all know, Q1 FY '20 saw this national lockdown in April and it was followed by a graded resumption of operations by the end of May. At, after that, the operations have been at lower-than-normal levels due to various requirements of safe distancing and other measures being taken from this COVID-19 pandemic. Even as the economy has opened up, there were issues with migratory labor and transportation issues, especially at the end of May and the beginning of June, and then it has been slowly alleviated as time has passed by. However, many of our customers have faced delays in financial closures of their projects as well as operating their project sites, and this has further impacted sales during the quarter.

So in Q1 FY '20 Apar posted consolidated revenues of about Rs. 1,293 crores, which is about 35% lower than in the previous year, and we had an EBITDA profit of Rs.35 crores, on an overall loss after tax of Rs.23 crores. The profitability, of course, is impacted by lower volumes and other COVID-related costs such as idle overhead, price variation, etc. We expect the profitability to improve in the second quarter, where a lot of our cost reduction initiatives have also taken root. There will also be a lower share of higher-priced inventory, etc. in the case of our oil business which is now pretty much reduced. And our increased focus on exports has led to an export revenue growth in the quarter of 11% compared to that of the previous year. So even though overall sales were down by 35%, export revenues were higher by 11%.

I'd like to cover a few highlights in the transmission & distribution sector in general. T&D orders of over Rs.10,000 crores were received in the quarter by key players and this is much lower than in Q1 FY '20. The DISCOM stress continues to be challenging, DISCOM owe Rs.1.33 trillion to various power generation firms as of June 2020, and that's 47% higher than in the previous year. DISCOM cash losses are expected to almost double to about Rs.58,000 crores in FY '21. There has been a slow off take of loans as part of the liquidity support of Rs.90,000 crore infusion by PFC and REC, which has been announced in the month of May. The Power Minister has also proposed a new scheme worth Rs.3 lakh crores spanning over 5 years to the Finance Commission to restructure the power system to make states responsible for the financial health of their DISCOMs. There is a very urgent need for immediate structural reforms and we are hopeful that the government will focus on some of these in line with what they did in the agriculture sector during the lockdown. In Q1 FY '21, India has added 1,091 circuit kilometers of AC transmission lines, so this is about 48% lower than in the same period previous year, and 7,390 MVA of AC substations transformation capacity, which is 41% lower than in the previous year.

Transmission & Distribution demands will be forrtified from the ISTS and the renewable transmission projects, which we expect will start getting executed in the near future. While in Q1 FY '21, no new TBCB transmission projects were awarded, there are currently 22 transmission projects under construction, which are worth more than Rs.26,000 crores. The Indian Railways has fixed a target of electrification of 7,000 railway kilometers for the year 2021. All routes on the BG network, Broad Gauge network, have been planned to be electrified by December 2023, and that target doesn't change. 365-kilometer major connectivity work has been commissioned during the COVID period.

In general, it has been our observation that the government sector and various government departments have not been able to adopt like their private enterprise counterparts to cope with the new work conditions imposed from this COVID situation. It has thus slowed down tendering and awarding of contracts because physical meetings have not been happening and in virtual meetings, finalization of tenders and contracts have not been taking place. Also, payments and some of the production facilities like in the railways for locomotive manufacturers and the coach plants have taken very long to ramp up and still continue to run at capacity levels, which are much lower than pre-COVID levels. However, we hope that in Q2 and Q3, there will be an improvement. Our personal opinion is that Q3 and Q4 is the period where we will see a ramping up of operations.

In terms of briefing you on each of the segment's performance, I'll start with the Conductors segment. Our Conductors business declined 31% year-on-year to reach Rs.709 crores in Q1 FY '20, mainly due to a 52% year-on-year decline in their domestic revenues. Export revenues grew 26% in the quarter, contributing to a 53% of the overall revenues. Volume fell by 24% to 31,861 metric tonnes. The EBITDA per metric tonne post Forex adjustment came in at Rs.6,185 compared to Rs.12,137 in Q1 FY '20. This was primarily due to approximately Rs.16 crores of costs incurred arising of various reasons triggered by COVID-19. This includes export benefits of Rs.7.5 crores on account of duty-free material, which we will realize in the ensuing quarters. So after Rs.16 crores, Rs.8.5 crores is non-retrievable and Rs.7.5 crores is something that will creep in over the next few quarters when the duty-free material is consumed.

Our higher-value products, which is our high-efficiency conductors and copper conductors, contributed to 38% of revenues. This includes 24% from copper conductors and 14% from the high-efficiency conductors. Progress on the recently introduced copper transport conductors for transformers has also been slowly gaining approvals in spite of the current market conditions. We expect that by the fourth quarter of this year, a lot of the approvals which we seek will be in place and in FY '22 we should start seeing significant contribution coming from this investment that we've made.

Our aluminum rods also saw a good export demand. New order inflows came in at Rs.317 crores, which is down 47% year-on-year due to both customer execution issues and delay in awarding new tenders, as I had mentioned earlier. The order book at the end of June 2020 stands at Rs.1,573 crores.

In terms of our Specialty Oil division, our revenue declined by 43% year-on-year to Rs.352 crores. Volumes came at 61,624 KL, which is 42% lower than in the previous year. The auto lubes and industrial oil business contributed to 23% of the revenues. We saw good dema nd for auto oils from the tractor OEMs and from the agriculture sector that picked up from the last week of May 2020.

Exports contributed to 49% of the revenues for the quarter compared to 36% in Q1 FY '20. Our Hamriyah plant has run uninterrupted through the entire COVID period. The plant utilization, however, was at 55%. Even though there were no lockdowns and no production days that were lost there, due to global lockdowns in most countries, dispatches were affected in April and May as customers asked to hold shipments due to congestion in various ports. However having said that, we had picked up considerably in June and the company carries a good order book in Hamriyah for the months of July August and September.

We expect better demand globally in the second quarter of FY '21 for the oil business and we also expect better price realizations as the price of crude, gas oil and other derivatives have increased. The EBITDA per KL after Forex adjustments fell by 81% year-on-year in the quarter to reach Rs.732 per KL. Here, we had an impact of higher-priced inventory as well as the lower volumes. However, we expect the pricing to improve, as I mentioned earlier, to be a lot better from Q2 onwards. And we should be able to make a positive contribution at the end of a six month period in the oil business. With the bulk of our higher-priced inventories that have been consumed, we expect very little of that impact to be there in the second quarter.

In terms of cables, our revenue declined 37% year-on-year and came in at Rs.250 crores, mainly due to the subdued demand in the domestic markets. Export revenues increased by 109%. So they were basically double what they were a year ago, contributing to 27% of the revenues of the cable business. We saw a recessionary trend in the market for all varieties of cables as well as various payment issues from customers, especially from the EPC and the solar segments. There was postponement of deliveries to railway coach manufacturing facilities, as I mentioned earlier, as they took a lot longer to ramp up, maintaining the safe distancing and protocols that had been put in place. The power cables continues to be highly competitive, and we are focusing currently on exports, especially to regions with high Chinese cable market share. There seems to be an underlying current which shows more openness from global customers to look at alternate suppliers to their Chinese supply chain. We expect this to open up opportunities for Indian manufacturers like us. We have already started engaging much more intensely than in previous periods with overseas buyers. However, we feel that this will take some time to fructify. But as we stay focused, our export business will continue to grow.

There was lower demand from the Railways, Defense and Solar s ectors, as I mentioned. However, in Q3 and Q4 we expect all of these sectors to pick up. The demand from the Telecom side continues to be slow, primarily on account of a lot of issues that BSNL is having. However, having said that, there has been some amount of increased demand from cable operators and some of the telecom operators due to the work-from-home bandwidth demand that is picking up. EBITDA margin post forex adjustment in the cable division came in at 2.9% versus 13.2% in Q1 FY '20. Our Cables division otherwise has higher fixed operating cost. We have taken several steps in terms of rightsizing the manpower and readjusting manpower to the lower demand, which is expected in the sector. So the benefits of that will start accruing from Q2 onwards.

So summing up, we hope that the worst is behind us, though there are still intermittent state level lockdowns disrupting the recovery. We have already undertaken, as I mentioned, several cost reduction initiatives that should start reflecting from the second quarter and have the full impact from Q3 onwards. The demand, we feel will still take some time to revive as the economy is projected to contract at about 9.5% this year, especially in the domestic markets. Our overall feeling is that our export revenue for FY '21 will be higher than for FY '20. We continue to focus on collections, order profitability and we will be keeping a very firm eye on our financial health. We have been exploring export opportunities, as I mentioned, especially with the transforming landscape towards renewables. This transition, we have mentioned before, is very positive for infrastructure building providers like us. We reiterate that many overseas governments are including power infrastructure and renewable projects as part of their overall boost to their economies and to increase local employment in their countries.

So to sum it up, we expect the domestic market to still be slow and lower than in the previous year, though it should improve in Q3 and Q4. The fundamental demand drivers for our products,. however, in the medium-term remain intact, which are primarily demand for renewables, railway electrification, thrust from various governments, both in India and overseas on infrastructure development. We believe that Apar should emerge stronger and experienced accelerated growth post the COVID-19 recovery. So with this, I come to the end of my formal comments. I would like to thank all of you for joining our conference call. Wish you all good health, and open the floor to questions.

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

Pratiksha Daftari: Sir my first question is for the conductor division, what margin expectation would we have for H2 or probably part of the, remaining part of the year. Considering that there has been, there will be some amount of COVID expenses that could be, additional expense that could be recurring**.** And also in the annual report, you have mentioned that you expect certain margin pressure because of lag in ordering and competition. So if you could just elaborate on that and also give us some flavor on the margin expectation. Secondly, if you could break up the order book, how much of it is for HEC, how much is for CTC and copper conductor and what is the execution period for the current order book?

Kushal Desai: So in terms of the H2 expectation, we see things improving compared to what we saw in Q1, already Q2, we are seeing signs of improvement over Q1. And we hope that a lot of the demands which in India has got delayed and tenders have been delayed. At some point, during Q2 and early part of Q3, those businesses will get finalized, and then the orders will start getting placed for delivery in Q4, particularly. So there may be some impact in Q3 also because of the various delays which have happened, due to the tenders and the government concerns which have been going very slow in placement, opening of the tenders. So that is as far as the demand in India. The demand outside India, we expect to continue and we hope that we will be back as per the normal situation as was in the past prior to COVID s ituation. So that is as far as the exports are concerned. The Railway Copper side also has been somewhat impacted because the tenders have been postponed quite a bit during this entire COVID period, and that also will result in less demand in Q2 and Q3, but in Q4 things should pick up again. The high-efficiency conductor and OPGW business, we expect that to improve, especially because the tenders have been finalized and part of it is getting ordered out already. So we hope that in H2, we'll have a much better HTLS and OPGW business and now if I may request Mr. Diwadkar to add anything more.

V. C. Diwadkar: High-efficiency conductor order book is about 13% of the total order book and copper conductor order book is about 4%. And the quantity of the order book will last for close to about 6.5 months.

Kushal Desai: Also, Mr. Diwadkar, the OPGW is around 6%. So there is a lot of the delayed OPGW lines which actually had come through pre-COVID and now that is going on in terms of its execution.

V. C. Diwadkar: Correct.

Pratiksha Daftari: Okay. So, how would the margins for OPGW conductors compare would it be closer to HEC or would it be more closer to conventional. And also, what kind of bid book are we seeing right now. Like considering that the T&D sector has seen Rs.10,000 crores plus orders. So what kind of domestic bid book do we have right now?

V. C. Diwadkar: The margins are in between actually they are better than conventional conductor but lower than high-efficiency conductor. . The second question, what is that bid book mix, I have not understood?

Kushal Desai: There are number of this TBCB bids, 29 numbers are there in the domestic market. So in that sense, even in the COVID period, the tenders have been filled up and submitted, but they may not have been finalized and they may be somewhat delayed. So we expect that when the tenders do get finalized, maybe in October time frame, then a lot of business will be coming in. And it's possible that the industry at large would like to catch up on the lost time. And the period for completing those projects is a little tight. We knew that from before in the tender itself. So we are hopeful that the same requirement stands in spite of the COVID lingering issues. And hopefully, the industry will gear up to try and get that put in place. So those are with respect to the tenders which have been given and not yet the orders have been placed. But in terms of order pending situation, we have close to 49,000 metric tonnes of export and about 6,000 of deemed export and about 23,000 tonnes of domestic conductors. This is roughly six months, a little over six months of our annual capacity.

Pratiksha Daftari: Okay. And on the oil segment, so Hamriyah this quarter we saw that the utilization was 55%. So that's 55,000 KL and in the last quarter, you had mentioned that you all have shifted some order and exited some orders from Hamriyah instead of because of the lockdown in India. So how much of this 55% is more on a, like a sustainable basis and how much of it could be just because it was shifted from India?

Kushal Desai: So we expect the utilization this year to be actually much higher than 55%. It was 55% in the first quarter, even and the constraints really not been come from our ability to produce and dispatch. But since the month of May, globally was shut, all over the world pretty much. So what had happened is that one shipments started going out in April, most customers around the world asked to hold shipments because the ports were congested and then they would obviously end up having to pay significant demurrages because nowhere around the world where demurrages being waived. Even in India, there's still a lot of disputed cases going on, on this demurrages waiver. So what has happened as a consequence that some of them got pushed out into June and July and we are seeing that many customers who we were trying to push to move to the Hamriyah supplies, because we had better logistics there, preferred to continue to buy from India, just given the fact that they had all the history of supply. But with the pandemic having shifted them there, you continue to see the orders now being executed from there. So, I would say it's a longer-term trend where we've actually added more customers. I don't have the exact number. But as a trend, more customers have now got added to Hamriyah who were earlier resisting to supply from there. And given the current situation that we see from that plant, we will see, as I mentioned in my comments, we have a good supply that we did in the month of June, and we continue to have a good supply situation for July, August and September for this Q2.

Pratiksha Daftari: Okay. And lastly on cables division, considering that we're not expecting much demand from telecom and also there are collection issues that we are seeing in solar segment. So where do we see opportunity in cables for this year. And how big is the opportunity for the new product, that MVCC cable that we have launched and what would be the application for this cable, MVCC cables?

Kushal Desai: So I'll answer both the questions. In terms of the solar sites, currently are under a lot of stress because there was a period where they couldn't get stabilized in terms of restarting the work. There's also a little bit of a cloud hanging, given the fact that a lot of solar cells are imported from China. But having said that, our solar business includes solar EPC players like Sterling Wilson who are doing a lot of projects even outside India. So even though they place the order in India, the cables are physically going outside India, which are not counted as part of our export. So we do see that in the second half some amount of demand on the solar side also picking up. If you ask me in general, we will see the Railways and the defense not higher than the previous year, but their activity is starting to pick up. A lot of manpower is back in the plant. It's just that they took a lot longer than private companies to get up and running. We have a stronger order book on the harness side where, just rather than supplying c ables to the coach factories and the locomotive factories, we are actually building the whole harness and supplying it to them. So the harness sales will be higher. We've already got some orders in place, and we are well placed on some of the tenders which have opened but not been finalized, which will happen in the second half of the year. The medium voltage covered conductors are actually a very safe form of conductor. So because they have an insulating layer that runs on top of the conductor, it becomes safe for places, especially which are in forests, national parks and in congested areas in the cities, where when they kind of upgrade a line to a higher voltage level and the line is too close to a building or a balcony of a building. So, it's a relatively new type of product, and it's now rapidly gaining acceptance from various transmission and distribution companies. So again, it's difficult to, it's exactly like where our HTLS was maybe three years ago. So it's a much more technology advanced product an d we've been the first and largest producer of that in India. Our expectation is that it will grow, but difficult to just put a number at it. Many tenders are being discussed, and we've been having a lot of Zoom calls with various engineering departments of utilities for them to start looking at specking the product for tenders.

Pratiksha Daftari: Okay. And one last question, if we could get the breakup of the non-fund based borrowings that we have, the total borrowings and how much of it is LIBOR and how much of it is domestic?

V. C. Diwadkar: The LC with interest, total is Rs.1,465 crores, out of that Rs.682 crores is LIBOR-based and Rs.783 crores is domestic. And the borrowings total is Rs.346 crores, out of that Rs.220 crores is long-term and Rs.126 crores is short term.

Moderator: Thank you. next question is from the line of Nemish Shah from Emkay Investment Managers. Please go ahead.

Nemish Shah: Sir, my question is on the cables division. So last quarter, we had a few orders where the final product was lying with us because of there were no approvals for the product and we had incurred all the cost. So has that sale happened this quarter, or it is still, the approvals are still pending from those orders?

Kushal Desai: So most of the supply has already taken place, and that's the reason why if you see on a year-on-year basis, the cables division revenue still came in at 63% of what it was in the previous period, though manufacturing at the plant started only at the end of May, by the time we got permissions to start manufacturing. So we had permission to start dispatching from the end of April. Having said that, there are some project sites where there is still some product which is backlogged and lying with us because those sites have not really been commissioned properly. See, one of the issues that has happened in the last few weeks particularly is that the virus has actually moved to rural areas. And the way some of the smaller towns are reacting to a single case or two cases of COVID, happening even on a project site, is that they want to shut the whole site down and quarantine everybody for a couple of weeks. So these are impacts actually which are hitting our customers, which are EPC contractors and things like that, which is resulting in some of the supplies being delayed and the off-take getting a little bit slow or deferment of production, etc. taking place. So these have been some of the challenges which are there. As it's moved out of the cities into the rural areas, the response from the rural area has been sometimes a little bit more irrational than one would imagine. But primarily, what we had as of the end of March has been dispatched.

Nemish Shah: Okay. So the dip in the margins in the cables business, is it primarily because of negative operating leverage?

Kushal Desai: Its largely because we have picked up the operating cost other than power for pretty much the entire quarter. So, even if some of the contract workers and others had to be reduced, we have obviously made sure that they were compensated for that quarter and then let go. So, as a consequence you had significantly higher operating cost. We also made sure that the people who we wanted to keep through the entire quarter and who are very skilled manpower, they were paid all the way through the quarter even though they actually hadn't worked. So in that sense, it's not a comparable situation because the operating cost are relatively very high for the production that has been taken out. But you won't find that repetition happening in Q2 and Q3. There is some operating leverage negative in Q2 because we are still running only at 65% to 70% capacity on the cables side, but we have reduced costs as much as possible.

Nemish Shah: So should we expect margins improving from Q2 onwards to our normal levels?

Kushal Desai: We don't expect it to come to the, last year we did 11, upwards of 11% as an EBITDA. So whereas in the first quarter, it was only 2.9%. So we would expect that to improve certainly above 2.9%, but not get to about 11%. It'll be somewhere in between, depending on finally what dispatches take place by the end of September.

Nemish Shah: Okay. And one more thing on the conductor side, so this onetime expenditure of Rs.16 crores, so is this purely one-time and can you just explain what the Rs.16 crores exactly is?

V. C. Diwadkar: The breakup of Rs.16 crores is out of that, about Rs.3.75 crores is because of the price variation loss in our copper railway conductors. Then there is about Rs.4 crores is because of the overhead, the manufacturing overhead and the EPC overhead and there was some small price negotiation which happened for an existing fixed price contract, so that is about Rs.0.5 crores and a major Rs.7.53 crores is a duty-free actually, see for our exports we can get duty-free material, . And the duty component is close to about Rs.10,000 per tonne. So that's the duty-free material, there is a backlog for the quarter, there's a backlog of about 7,500 metric tonnes. So 7,500 metric tonnes into Rs.10,000, so Rs.7.53 crores and that will come back. When we will consume the duty-free material, we are allowed to bring the duty-free material and consume it for domestic, actually. At that point of time, it will come in the profit and loss account.

Moderator: Thank you. The next question is from the line of Sachin Shah from Emkay Investment. Please go ahead.

Sachin Shah: Sir, I just wanted to check that announcement that the government had done in terms of releasing the payments to the DISCOMs of almost Rs.90,000 crores. But from the data what we see, they have only released about Rs.18,000 crores or so, so far. How does it impact us in terms of our business, demand, tenders or whatever in terms of our dispatches. And how do you see it for the next 12 months for our business, because it's been almost two years that we have been challenged, there are a lot of headwinds in our environment from the customer side, for the overall sector side. Are you seeing any sign of hope of things turning around?

Kushal Desai: So this beneficiaries are mainly the distribution company and in our conductor business, we don't directly deal too much with the distribution companies. There's definitely an indirect impact on EPC clients who are dealing both with the transmission and the EPC companies and who are our customers. Yes, the distribution companies. So accordingly, we hope that as this full Rs.90,000 crores come into the system, when that cash flow will come through and that will improve the demand for us. Because at times we are restricting our business to some of our clients, EPC clients, who are not able to open LCs in time and even transformer manufacturers who are dealing with the state transmission companies. So in that sense, it will be an indirect benefit to us once this cash flow comes into the system. In terms of fresh demand, I doubt very much if the distribution companies will have that much ability to fund new projects. This may be more like paying off the whole dues, this Rs.90,000 crores. So in future demand, again, we are hopeful that the Government of India, Central Government will have to help out the distribution companies. Having said that, our main work in Apar is more with the transmission companies, where there is not too much dependence on funding from the state governments. It is more to do with the Central Government funding and also with the private sector. So actually, there is some impact. As Chaitanya mentioned, the impact will not be there on a conductor division. You will find some amount of impact happening in the cable business. But on the cable business, we focus only on a few distribution companies. So our largest customer for distribution are the various DISCOMs in Gujarat who have been profitable and they are not actually having any of this problem of paying for the power that they bring in. In addition to that, we have a focus on certain circles in Maharashtra and Karnataka, particularly in the cities which is cities like Bangalore, where again the DISCOM is fairly self-sufficient on cash, largely because they have a lot of commercial and industrial clients. So there will be an impact over there without a doubt. But we've restricted ourselves in terms of who we deal with. And it's primarily for this reason that we have been focusing a lot more on the export side.

Sachin Shah: Right. So since you mentioned about the, so obviously on the domestic side, I would like to, I take it that it's going to be tough for at least the one year FY '21, at least looks like. So if I see the full year FY '20 our exports was almost 35% roughly of the total revenues. And of course, first quarter has been even higher, but first quarter domestic was medium to down. So, I wouldn't consider that as a base. But would you have any thoughts on how do you see the exports overall of the total revenue that you would like to have in the next two years or so?

Kushal Desai: So, I would just like to point out that the percentage is higher on both counts. Absolute export that has happened is also higher in the first quarter than what we did in the first quarter of last year. Besides that, obviously, the percentage is very high. It's over 50%, if you take for the company as a whole. So we had foreseen the issues, as you rightly pointed out there have been headwinds in the DISCOM side for the last 2 years. So 2 years ago, we started actually focusing on and if you go through some of our transcripts of previous calls, we have been focusing on the export side in both our conductor as well as cable divisions. And in our specialty oil division, export has been anyway a thrust area given that we built a facility outside India. So there will be subdued demand on the domestic side. We hope to make that up with export. And as I also mentioned here that the number of inquiries and serious discussions which have been happening with global buyers, has really picked up post the COVID pandemic. So, whereas as I mentioned in my opening remarks we don't see them just shutting out Chinese suppliers, but there is a real move in terms of wanting to look a t good alternatives to them. And, I guess, as we establish our trust and credentials in terms of supply, there will definitely be a shift that will take place.

Sachin Shah: Right. And in terms of opportunity for us as a company, can exports be say, I'm saying next three years, four years down the line and if I take a normal domestic business that we did say in FY '18, FY '19 or FY '20, we just take an average of that. Can exports become bigger than that number in the next three years. So I'm saying can exports be more than 50%, even when the domestic comes?

Kushal Desai: It could very well be. And I mentioned this in my opening remarks of today as well as in our last call which we had with our annual results, that even pre the pandemic, there are many, many countries which had previously saturated their transmission and distribution infrastructure, countries like Australia, Germany, the Scandinavian countries, where today new infrastructure is coming in place because they are building renewables. The locatio n of these renewables is quite different than where the thermal power plants were located or their nuclear power plants were located. So as a consequence, there is this new infrastructure spend which is taking place. We have already started approaching uti lities and EPC companies in all of these geographies. So this move actually started more than two years ago, and what we personally feel is, that part of the expenditure which is being done by the governments to improve employment, etc. is going into infrastructure. And a portion of that infrastructure is accelerating some of this change over to renewables. So depending on how successful we finally are in picking up larger market shares from overseas utilities and EPC companies, our export demand is definitely going to grow, but maybe it may exceed 50%.

Sachin Shah: Right. But in terms of getting the product approvals with these new customers, or some of the other approvals that we will need to get with them, is that a very long gestation process, or it happens fairly quickly in terms of they're approving us as their vendors or core suppliers or something?

Chaitanya Desai: No, it is a long process, but the good news for us is that a lot of it was started much before COVID. So we had people that have come in a nd done inspections of facilities and asked for certain type of certificates and all that. Because we started this process a couple of years ago. Right now, what we are trying to do is, we are trying to push the process as much as possible over Zoom and Microsoft Teams calls and things like that.

Sachin Shah: So would you say that good part of that process in terms of getting the approvals, then getting ourselves impaneled with them is we you are at the fag end of that, would you say that?

Kushal Desai: Yes, I wouldn't' say fag end of it, but in some cases yes, but it's already progressed. So it's not that we're doing a cold call to a utility today saying, introducing ourselves. So the process has happened. The other interesting thing is that a lot of overseas customers have also now started accepting inspections which are being done over the Internet. For online inspections, not only of product but even facilities. So we send them an outline of what the plant tour is going to be like and then take them through the whole plant tour. And there's a Q&A line that goes on through the whole process. So, it's only the government entities that have been a bit slow in terms of adapting to this. Most of the private enterprises has moved pretty quickly, both in India and overseas, to figure out a way of dealing with this pandemic.

Sachin Shah: Right. But any sense would you have that, say, next two quarters, three quarters, in what time frame, some of the large customers empanelment can be done and then we can start thinking about bidding for those businesses or those kind of things?

Chaitanya Desai: So it's difficult to put a time line on it. Different utilities, as Kushal said, we are at different stages of the whole process. In some cases, we were like almost 99% done and there was 1% left. And the person was practically on a flight, and we had to tell them that now please don't come to India, it was in some cases like that. And in some other cases where we have reached like 90% plus of the journey and again, there are certain formalities left, which we are trying to get them now to do the virtual plant tours and get through with the testing part of it.

Kushal Desai: But the bottom line is difficult to predict. What you're asking in the next one quarter, two quarters, that's still a little bit away. Maybe by the end of the year, you will start finding a little bit more predictability starting to come in. All I can say is that there is a fair amount of activity which is happening.

Sachin Shah: Fair enough, okay. And just last one question that, on these railways in the domestic market in the last one or two years, the railways has been one of the incremental growth drivers or incremental demand has come from railways quite significantly, I would say. Now that this year, obviously we can see that the railways revenues itself would have dwindled quite significantly with so much of lockdown. Do you think that would change their CAPEX budget significantly for this year or the year, how will it play out?

Kushal Desai: No, we may not have a reduction in their budget. Their plans are still like the 7,000 route kilometers which was talked about. But from a practical point of view, unless the tenders get finalized and they start allowing the work on the ground to happen, yes practically we may see a reduction in the actual demand, which we talked about earlier. But the goals remain the same in terms of the electrification of what they want to accomplish. So it may get pushed back by maybe six months due to this pandemic and lockdown.

Moderator: Thank you. The next question is from the line of Dhiral Shah from Phillip Capital. Please go ahead.

Dhiral Shah: Sir, what is the current capacity utilization across the plant?

Kushal Desai: Are you asking for the conductor business?

Dhiral Shah: Overall, sir. I'm asking overall, sir.

Kushal Desai: So in general, we are, as the cable business is running at around 65% to 70% utilization. Our specialty oil business is, I don't think utilization percentage is actually the bottleneck. So in terms of demand last period we were at about 70% for the month of, sorry about 60% for the quarter. And in this quarter, we expect to be at around between 75% and 80% and for the conductor also will be around 75% or so.

Dhiral Shah: Okay. And sir, when you expect that overall export would, that may touch around 50% in the next two to three years. So thus, it will help us to improve our margins?

Kushal Desai: Yes. Actually, in general we are focusing less on conventional conductors and more on all the remaining more value-added products. So that is a conscious effort which is there even in the domestic market. So, if you see besides the conventional conductors, we are having specialty rods, we have the copper conductors, now we've got the copper transpose conductors for transformers, the HTLS or HEC, which is a high-efficiency and OPGW. So our conventional conductor percentage itself will come closer to 50% of our revenues. And then as far as the export side is concerned, there will be more conventional conductors that go in just for evacuation from solar sites and things. But those margins are better than the conventional conductor margins which we have in the domestic market. So going forward, we've been very clear that we don't want to add more capacity. We want to only concentrate on the mix of products that we make, both geographic as well as product mix.

Dhiral Shah: Okay. And sir, the export will have a higher working capital cycle, or it is the same as the domestic cycle?

Chaitanya Desai: So we have to import duty-free raw materials. So to that extent, there are a little more lead time to get the raw material. In terms of the finished product movement also, we have sometimes like an inspection lot that goes out. So we have generally a little more on the finished goods stock, but it is nothing very significant, both these two components. And it's easier, the receivables are usually faster. So even if there are extended terms on letters of credit and stuff, there are discounting lines available, financing lines available, etc.. So usually, payments on the exports are more secure than in terms of time, they are more timely than in the domestic. And the interest cost is much cheaper in the case of the export because we can do LIBOR-related borrowing because there's a natural hedge. We are selling in dollars and buying the raw material also in dollars.

Dhiral Shah: Okay. And sir, in our oil division do you have now higher kind of inventory because of we have seen an impact in Q1?

Kushal Desai: No, we actually have reduced our inventory levels as we move into August, July levels are lower than what they were in June. And we don't have anything in excess. The problem which was there was that the pricing levels were relatively high because these products came in based on pricing in the month of February, March and they arrived during the lockdown when the price of oil crashed. Now with demand having started getting restored to a very large extent, at least on the fuel side, in most countries it's now at close to 90% levels other than aviation fuel. The prices also of crude oil as well as gas oil, et cetera have moved up. Base oil prices also have started moving up, so we don't have a problem. In fact, we will gain from slightly cheaper inventory to compensate for a more expensive one that we had in the previous period. So that's the reason why I'm making a statement saying that as far as the oil business is concerned, the second quarter's profitability will be relatively better because of these factors compared to the first and overall, six months we should be having a positive number.

Dhiral Shah: Okay. And sir one last question, so when do you expect the overall margin to be at pre-COVID level?

Kushal Desai: I wouldn't be able to take that guess.

Dhiral Shah: Maybe by Q4?

Kushal Desai: Your guess is as good as mine.

Moderator: Thank you. The next question is from the line of Himanshu Upadhyay from PGIM Mutual Fund. Please go ahead.

Himanshu Upadhyay: I had a question on the conductor side, where we have clearly stated that we want to focus more on high-margin business. Can you elaborate on the opportunity size for that business, and how hike in the margins are and how is the rate of innovation in that business? Do we think that every three to four year more and more products are coming, which are at a higher value addition type of products and where are we in that scale. When we are thinking that we want to have a higher or better margin and more difficult business, how difficult is to get into more complex product on that side. Can you throw some light on those things?

Kushal Desai: Sure. So for many decades, in the whole world, people are using what is called the conventional conductors. And then maybe about 7, 8 years ago, the HEC or the high-efficiency conductors, which could transmit like almost double the amount of power, those started getting introduced in India and globally. So, those products have far significant technology involved not only in the manufacturing but also in the application of it. So what we do is we actually have a service component where besides manufacturing it, we are also doing this re-conductoring of that. So, I would say there are certain barriers to entry, and there are not many producers in India as well as in the world who have been able to manufacture these type of products. These are growing in popularity and slowly as the different countries need to upgrade their systems, either the old lines have now got corroded or they are now too congested and they need to have them replaced by new lines and they don't have the space to put up parallel lines, then they simply remove the whole lines and put up these new high-efficiency conductors. So there are significant barriers to entry for these new product lines for the new generation conductors.

Then in terms of the steel, which was the earthing used in the transmission system that is getting replaced with the optical fiber ground wire or what we call the OPGW. So here again, there is a component of manufacturing of the optical fiber unit as well as the conductor unit. So because in Apar, we have both the cable and the conductor business, we could manufacture this product. Again, there are not many manufacturers in India who are able to make the OPGW type of conductor. Then the copper railways conductor, there are two parts to it. One part is what is called the contact wire, the other is called the catenary wire. The catenary wire, again is a slightly complicated product because there are certain alloys along with the copper. So the margins for products where the competition is less is definitely having better margins. And then the last product line is called the copper transpose conductor used in the transform industry where, again, it is a much more sophisticated product, requiring a completely air conditioned environment and there are very severe product requirements. And therefore, there are fewer producers, relatively higher capital cost also compared to other type of conductors for the plant and machinery. So all the new product lines, whatever we have got into, are ones where there is basically more technology involved and there are relatively less players. So definitely, the margin profile for all these product lines is better. The only thing is that for most of these new products, there is a certain time frame before we can get the approvals, and so we are not up to the full production capacity. And we have been actually incurring the cost of the investment, the CAPEX cost we have incurred, so the depreciation and interest cost while the ramp-up is happening simultaneously. So these new products are now slowly coming to help in terms of overall profitability. But as we have grown in these products like high-efficiency conductor and copper railways, we have also got into other products like OPGW and copper transpose conductors. So as these also come to a certain critical mass, then the overall business will show much better results.

In addition to that, the specialty rods also is another opportunity we have pursued. And especially in the export market, we find that the volumes are very large, available in terms of the opportunity. So here again, we see that there is a growing prospect for us, given that we already have the infrastructure in place at our end, and we are trying to gain more entries in various export markets for these products.

Himanshu Upadhyay: So one more. So the basic thing is the high-end product, the market size is also increasing at a better pace than the conventional conductor and that should, and how difficult is it to copy those products or let's say, there are industries where we say that in three to five years other people are able to copy and get into those businesses. So what would be your thought process in the products where you are, how large is the leeway for you or the time frame where you need to capitalize on whatever investments we have done. And is the innovation still happening on more products on those sides, can you elaborate on that thing and what can be those innovations and where would we be in the whole cycle of innovation, if we want to upgrade ourselves?

Kushal Desai: Sure. So in terms of the innovation part, if we can address that first, basically, because in the high-efficiency conductors, there is a fair amount of work already happened in the last few years. We have already done that work in terms of the various special alloys which are required to manufacture and also got up the learning curve in terms of the stringing abilities. So my sense is that they won't be that easy for even in five years down the road for the bulk of the producers in India to try to copy the same thing because it needs a totally different mindset and also a large amount of CAPEX. In conductor business, we have incurred maybe Rs.350 odd crores already the last few years, which most of the companies in India may not have the where with this to be able to do that. We are still struggling within the conventional conductors itself to try to make the transition to get entry into the export markets, leave aside all these other type of specialty products.

So the innovation will be happening more in terms of solving ground reality problems in terms of how the stinging technology can be improved and the speed of implementing the projects can be done. So our focus is on that because we see that there are various different opportunities in India requiring different terrains and different challenges on how to resolve those issues. So we are working more in those lines in the innovation front. And it's like even if others are trying to copy the product, but if they don't give the solution as a whole, then again the utilities may not be interested to buy from them because no more that like in the old days power grid used to buy the conductor separately, it was a commoditized kind of product and simply give it to a EPC party to do the stringing of the conductor. Now for the HEC or the OPGW and other such products the client is looking for the entire solution, end-to-end. So if the other conductor people are not yet geared up, I don't think in five years' time, they will be able to also manage this because we started off maybe 10 years ago in our R&D and then slowly got a few pilot projects and then progress from there. So my sense is that it will be difficult for others, even in 5 years down the road, to kind of replicate what we have done, besides not having the financial ability to put in that kind of CAPEX.

Himanshu Upadhyay: And this business would be growing at what rate or the market size would be growing at what rate globally?

Kushal Desai: So the high-efficiency conductors, they have a low base relative to conventional conductors because the use is more on re-conductoring the whole lines currently and in some places where the planners of the infrastructure have realized that they will not have the scope to put up additional lines, then upfront they are putting up the new lines also with these type of conductors. So generally, although I don't have the exact number but generally, we are seeing that this growth is in upwards of 20% per annum globally, what we are seeing. And in India and around India also, we are seeing that there is a good off take now for these various type of products. The railways, which is another segment, there also, government has a fair amount of plans to replace some of the diesel locomotive system with the electric-driven one. So they have to electrify the whole system. So a lot of new tracks are being put in place, plus the old tracks are getting substituted so that they can be run on electric system. So here again, we are seeing, there was a quantum jump about couple of years ago. But in times to come also, we see a growth of about 5% to 10%, at least, that will happen.

There are certain bottlenecks we see on the ground in terms of the EPC on the railway implementation side. But here, again, a lot of the traditional transmission EPC companies have now geared into the, ventured into the railway segment and with the entry of all these big parties, there will be a lot of more speed of implementation on the railway side also, in times to come.

Himanshu Upadhyay: And in terms of competition, would Chinese be major competitors to us and will it help us means when you stated in your opening remarks that there is or our people are looking at moving out of China also diversifying the base. So in those products how is the competition mainly from, is it Europe and American companies or it is Chinese players are also there in the high conductors space?

Kushal Desai: There are one or two companies which are from China. But again, in certain geographies, we are seeing that the preference is not to buy so much from China or at least to reduce the ir dependence. So accordingly, we are seeing that now we have been getting more reception from some of these countries to approve our product. And accordingly, we may have a better chance than we had earlier. Having said that the Chinese governments in the past had signed up a lot of the foreign trade agreements with some of the countries. So they had certain benefits over Indian exporters because of the tax advantage, but that is not a very large number of such cases. And even here, now with the COVID situation and certain trade war type of situation, we see that Indian exporters such as ourselves may have a better chance than we had in the past to compete with them in those so-called countries where they had a benefit over us.

Kushal Desai: In Australia, for example the Chinese have a 5% benefit, 4% benefit. So that's something that will come, is likely to come under review now, given the fact that two countries relationships have been a bit strained, starting out with COVID. So these sort of things are there. It takes a little time for some of these actions to happen, but it's moving in a certain direction.

Himanshu Upadhyay: Okay. One last question from my side, one last question. On the transformer oil, again, where we are the fourth largest player globally and the overall oil business also, what are the opportunities you are looking for improving the margins business, and again it's a much more diversified product. Are there niches where we can enter or get a better margin, difficult to copy business?

Kushal Desai: We already have, the upper end of the spectrum which is the ultra -high, the EHV and UHV, which is ultra-high voltage transformers. We have a very strong presence in that segment, both in India and we are also exporting the product elsewhere. It's the transformer goes into the distribution and smaller transformers, which is under usually much more pricing pressure. So we already, we have covered the entire spectrum on the transformer oil side. The transformer oil business will continue to grow as more and more of the new electrification infrastructure comes up, not only from renewables, but even later on if, you have electric cars and electric buses and things. The moment you need to have an electric charging point, you need to have a transformer in the back-end to be able to handle the power coming into the installation. So, from that standpoint, that's the reason why we mentioned that all our product lines, we don't see any impact from the COVID period. And generally, the trend is for power infrastructure to grow.

Himanshu Upadhyay: Okay. So my question was also on we are in rubber chemicals and industrial oils, rubber oils and industrial oils. So is there anything we are doing on those products also or how are you looking on demand for those products and what would be the revenue contribution from else than transformer oil?

Kushal Desai: The transformer oil, Mr. Diwadkar it's 43%, right?

V. C. Diwadkar: 40% is transformer oil. Rubber process oil is about 8%.

Kushal Desai: So transitioned to about 40 odd percent for transformer oil and the rest of it comes from the remaining basket.

V. C. Diwadkar: And industrial and auto is 23%.

Moderator: Thank you. The next question is from the line of Pawan Nahar an Individual Investor. Please go ahead.

Pawan Nahar: I'm just left with one question. If you can elaborate about the opportunity in specialty rods and what exactly is that, I have missed this particular one?

Kushal Desai: Yes. In specialty rods, there is one component which is called the mechanical alloys, which goes not in the electrical industry but in other than the electrical industry, which is part of the 5000 series of aluminum, which is the alloy of aluminum, along with certain other type of components. So this is one type of specialty rods. Another type of specialty rod is going as a replacement of copper in some of the house wires. Although in India, it's not picked up, but in a lot of other foreign countries, the utilities there and the authorities there have allowed flexible aluminum alloys to replace the copper. So this is a very big market, and this is another example of what we have started doing in terms of specialty rods.

Moderator: Thank you. The next question is from the line of Naveen Agarwal an Individual Investor. Please go ahead.

Pravin Agarwal: This is Pravin and not Naveen. But my question is, in the last few years we have introduced all these products which keep us different than the competition. But somehow, this pale level of technical, whatever we have done on the technical side has not kind of, has materialized in terms of the bottom line. Our top line has grown tremendously well over the years. It's something we have not been able to capture the same opportunity in the bottom line. So is there a thought process where we want to focus on how to get our return ratios up and going forward, is there a thought around that?

Kushal Desai: So actually, some of this had, if you see the biggest component that has been actually dragging profitability has been the cost of interest. And we had two parts to it. One is a whole lot of investment has already gone into the business. So as the utilizations of all these projects is increasing, you will find that then the interest cost as a component will fall. Secondly, in the last two years, there's been an expansion in terms of the amount of days outstanding from various EPC customers, from utilities, et cetera. So we've been taking a number of actions to actually curtail that and in fact, part of the reason for coming up with these new product lines are that they address. The competition level is a bit lower and in some cases you end up having better payment cycles, like in the case of the railways, the rod business, et cetera. We personally feel that as we get out into the years and the utilization increases, also the interest rate regime is becoming a bit more benign. So we've seen just in the last six months LIBOR-based interest falling by about 1% and domestic interest falling by about 1.6%. So as you find and we are also now looking at much more fiscal discipline in terms of extending credit to customers. We no longer want to be a secondary bank to them. So, even if our volumes fall on some of our conventional and lower-margin product lines, we would prefer that and make sure that the fiscals are in order. So with a higher emphasis on return on equity and return on capital employed, you will start seeing the profitability improving. You can already see that actually in the case of the conductor business, the EBITDA per metric tonne had improved, if you exclude what has happened in the last quarter.

Pravin Agarwal: So that's great to hear. So one other thing since we are kind of pivoting towards more exports. And, I would imagine that whatever issues we face internally in our power sector in our country will not be anything remotely similar in those countries. So what would be the payment cycle, say in all our three different verticals in exports, say vis-à-vis domestic, say in the transformer oil segment, if we kind of five, six months would if you were to export, I would imagine it would be much, much shorter. So what would the ratio across this?

Kushal Desai: So the oil exports where the transformer oil is generally between 60 and 75 days and the white oils and other products are all 60 days and below. The main thing is that the interest rates are a lot less. You're talking about funding, as Chaitanya had mentioned earlier, in the sub 3% level that you can fund the cycle. It's also much easier to discount documents and the cost of discounting documents or forfeiting the documents for overseas projects is a lot lower than domestic. So the overall component, so one aspect is number of days. But the second one is the amount of finance cost as a percentage of the gross margin that you generate. So that in the export business is lower. So as you move into FY '21, '22, et cetera, you will find the interest component falling both not only for the interest rate but also because of the structure and nature of export versus domestic.

Moderator: Thank you. The next question is from the line of Manish Parikh from Vibrant Securities. Please go ahead.

Lalaram Singh: This is Lalaram. My question is on the cable side, what is the like a long-term vision where we want to take this business, if you look at the larger picture?

Kushal Desai: So on the cable side, we've been focusing on two aspects. One is on specialty cables, and that's where we come into cables, which are for coaches, locomotives, the solar wiring. We also want to move towards more and more products that we are not just supplying a cable but we're also supplying a system. So the harness actually takes the cable and supply a wired system in place. So we started harness for the railways. We started harness for the windmill manufacturers. We started harness even for the locomotives. So that's clearly another direction that we are pushing the cable business into. The third aspect is that renewables also require special cable. So in India, it's largely solar, but when you go outside India, particularly into the western world where you don't have so many days of sunshine, wind is a very big component. So we have been focusing on producing cables for the wind mills. Previously, we started only with Suzlon but now we supply Gamesa, we've got approval from Vestas, we heard from Nordex from a whole lot of overseas players. So the nonconventional energy side is another area of focus. So one is the harness and the other one is nonconventional energy and specialty products.

The third area which had been asked in one of the questions previously is MVCC. So looking at cables which have, bring about a higher level of safety. So these are the areas, if you get into just conventional power cables, there are a lot of producers around the world. There are (+300) producers in India. So it's a mass game, so ultimately we need to keep moving into cables where there is a technology aspect or a design aspect involved. The same thing as what we are trying to do on the conductor side. All which we have put in the recent years has a very high degree of fungibility. So even though you incur an initially higher CAPEX, it allows you to manufacture multiple types of product. So you see that benefit will show up as the product mix starts changing over the years, the CAPEX is already done.

Lalaram Singh: Understood. And when you say that there is some kind of client withdrawal from China and towards India. This would be for which product types?

Kushal Desai: So it's actually pretty much across the, in the case of conductors the Chinese really compete on the conventional conductor side. We've not really seen them competing globally on HTLS and these sort of product lines. On the cable side, they are very active on power cables as well as the solar cables.

Lalaram Singh: The Chinese one?

Kushal Desai: Yes.

Lalaram Singh: Okay. So, solar could be a big opportunity where we could replace them. That's what you mean to say?

Kushal Desai: Yes, absolutely. We've already been bidding on various projects all over the world. And over the next several months, you will start seeing some of that business coming through.

Lalaram Singh: Got it. And one of the things that you just mentioned around in your business economics, wherein you said that in the last, when you compare your finance cost, discounting costs in your gross profit, that has been something which has taken a lot of the profits away. So, I understand that you are trying to bring that down. But do you think that the overall interest rates themselves remaining low, which is actually not a function which is not something which we can control. Is the only way we could sort of improve the profitability or is there a structural way wherein the way we do the business itself can help that and make it more sustainable?

Chaitanya Desai: One is that, as we discussed we have put up a fair amount of CAPEX for new products. So as they ramp up, automatically the revenues will go up but not proportionately the interest cost. So that is the main driver for us which will relatively bring down the cost of interest per tonne of product.

Kushal Desai: Also, we've had extended number of days, the whole distribution and the whole Indian power scene has had a very bad credit situation in the last two years. We've been coming to grips with that, we've cleaned up a whole lot of old collections and things, including during this pandemic period, et cetera. So structurally, fiscal discipline is something that we are putting in place and we have been focusing now. We've already incurred all the CAPEX not interested in just growing capacity and growing the top line. The focus is more on concentrating on the product mix and the geographic mix that we get after. The interest rate being lower is something that obviously is going to benefit. Also, as you move towards a higher component of export that structurally itself is lower interest. So whether the interest rates are higher or lower, there is a gap of almost 4% to 5% in the interest component of domestic business versus export business. And the number of days on both of them are approximately the same.

In one case, the receivables are a little lower and the execution cycle is a little longer in the case of exports. Structurally, you end up having a much lower funding cost. You will see that over the next couple of quarters, the interest burden will definitely in FY '21, FY '22 seems to be also pretty similar, interest components will start coming down.

Lalaram Singh: Got it. And one final question is, is 100% of our business purely B2B or is there an element of a distribution-led sales?

Kushal Desai: So we have a, as part of our automotive business, we have a B2C component where we do distribution of automotive oils across the spectrum and we have a small component which we have started growing of building wires. So right now, the building wire sale is small. We're doing approximately Rs.60 crores a year. But that's slowly growing, last year we did Rs.20 crores. This year, we will do Rs.60 crores and the target is to try to grow that part of the business. So the B2C component, there is a B2C component but it's right now quite small relative to the total turnover of the company. Though, it's an area where it's profitable and we are independently trying to grow that.

Lalaram Singh: But do you think Apar as a whole as a group has historically been, has been a B2B primarily. So to build that B2C, are we sort of relying on internal talent, or is there a strategy which you have outlined?

Kushal Desai: We have hired people who are from that line of business. The automotive side we've been in it now for the last 10 years and we've been growing the retail side of the business and we are accessing over 10,000 mechanics today. And that part of the business has been growing year-on-year. On the building wire side, we really launched that only two years ago. And, so there is a separate team that's focused on it. It's not their existing manpower and staff is being deployed, a new team has been put in place that comes from that background.

Lalaram Singh: And what is the brand, is it Apar or is it called the B2C brand?

Kushal Desai: So in the case of automotive, we actually have, we distribute the ENI brand, under the brand and license agreement with ENI of Italy. We also have our own brand, which is PowerOil, which we do in the automotive segment. And as far as the building wires is concerned, we are basically selling building wires, which are made out of this electron beam process and it goes under the brand of Apar Anushakti.

Lalaram Singh: Okay. So any numbers on how many distributors you have, dealers or any numbers on that side for cables particularly?

Kushal Desai: So for the building wire, so it's only two years old. So we're starting to build up the process. But in terms of primary distributors, we have about 70 primary distributors today. And we started distributing the product in five states. We don't intend to increase the number of states as much as now focus on more deeper distribution in these states. So we do Gujarat, Maharashtra, Karnataka, Tamil Nadu and Kerala at this point.

Lalaram Singh: Got it. And with the entire new theme of electric vehicles and maybe charging stations and all, is there an opportunity for Apar to be involved in this new area, or any thoughts on that?

Kushal Desai: So at this stage, we would like to focus only on supplying the infrastructure and the gear that go into that, particularly in terms of various types of wires, oils, et cetera. So there are different requirements which are likely to come up. See, this whole area is in a very, very early stage. So the product profile itself will change over a period of time. But, so we are in touch with all the key players in this. So as it develops, we will make sure that we have our relevant products which fit into that gamut of things. We've also developed an entire set of wiring and harness for electric buses. So we should be receiving our first set of orders for electric bus from JBM, which is one of the primary companies that's building all-electric buses for the state transport.

Lalaram Singh: Got it. So this is separate from your railway harnessing, right?

Kushal Desai: Yes. It's separate from that, you build all the wires which go into an all-electric bus.

Lalaram Singh: So I believe that Motherson Sumi is the leader in harnessing for automotive, passenger vehicles. Is it similar to that, what it can do and say railways and buses or they're not comparable?

Kushal Desai: Similar sort of harness. It's a complete frame, it's a full frame that goes with the connectors so that then instead of doing the wiring by the railway, by the coach manufacturer or the locomotive manufacturers, we just fit their leads into the connectors which are there.

Lalaram Singh: But based on my limited understanding, what I understand is that, this is generally a very high entry barrier business and the OEMs rarely switch suppliers here. So, I don't know if I'm wrong here, but any insights on how we have been able to enter these segments, we replace existing suppliers or it's just a new area opportunity which has come, can you just throw some light there?

Kushal Desai: So we are not competing with Motherson Sumi because they focus mostly on the mobility, on the transportation, meaning the automotive side. Our focus has been on locomotives, so all the harnesses that we build are for windmills, solar panels, your railway coaches, railway locomotives. And now we are building these electric wires for the electric buses.

Lalaram Singh: Got it. So this should flow in say, in a year's time?

Kushal Desai: We don't intend to compete with Motherson Sumi or Tata Yazaki. In fact, they will become our customers as we are actually trying to build e-beam wires for automotive. We've already got the product ready. We've already gone and got approvals from ARAI and we are now actively marketing those wires with all the players. So our customer will be a harness manufacturer who in turn will then supply to Tata, Mahindra, Suzuki or one of these.

Moderator: Thank you. The next question is from the line of Pravin Agarwal an Individual Investor. Please go ahead.

Pravin Agarwal: One question. In the last conference call, you mentioned something about the prototype which we did for the defense, is there an update on it?

Kushal Desai: We are building a lot of prototypes for them because under this Atmanirbhar projects which are now running. So we built a whole lot of prototype. So, I don't know specifically which one you're referring to. But, I can only mention that not only a number of prototypes are being built, but there is serious testing going on of these also.

Pravin Agarwal: So, the one I'm referring that there was one which you said that during lockdown, the government or the defense came back, which you did some few years ago and they now came back showing interest that they need?

Kushal Desai: Yes. We got an order for some tether cables for about 75, 80 lakhs. So they are actually, so there are small, small orders that started coming in. But there's a lot of development work still going on in that space, where there's either import substitution, most of it is import substitution. And some of it is actually import substitution but with a different design because most of the foreign suppliers want us to supply the standard product which they have, whereas the Indian armed forces have their own ideas in terms of improving on properties of some of those. So we've been working with them on that aspect. So the amount of supply which we are having to the defense in general has been growing. So this year, we will do approximately Rs.70 odd crores of revenues which will go into the defense.

Pravin Agarwal: And this is across Army, Navy and Air Force?

Kushal Desai: This is for the Indian Navy.

Pravin Agarwal: Okay. And how do they, what is the scope here, is it 10 to 20 times the overall scope, while eventually products do get approved and more and more products. What is the scope of the kind of products we make in terms of what we're looking to do with this?

Kushal Desai: It is very difficult to actually define what the market sizes on this because the moment you start dealing with any of the defense organizations, they are quite cagey in terms of the total quantity. They always lowball the number of installations that will be there. But what we've seen over the years is that you build 10 products and two of them are successful and when they're successful, they are very profitable. So it's very difficult to hazard what the market size is going to be like, because this whole process is picking up steam in recent times, where there is a pressure that is being built that India needs to just have much more sustainability or much higher local content in all the defense related products.

Pravin Agarwal: That's great to hear. And all the products the entire Rs.70 crores of defense, would you classify all of it as import substitution?

Kushal Desai: Yes, 100% because the original products have all come in from either Russia or France in things like in the ships and the submarines and things like that. So they are actually an import substitute, and in many cases, it's an import substitute with a design change. To suit whatever the operating conditions that our armed forces are now wanting to adopt.

Pravin Agarwal: And at what growth rate is this business is growing. I know it's still a small piece, but at what growth rate this business is growing?

Kushal Desai: That's what I said it's difficult. it's grown quite substantially, three years ago we were doing hardly Rs.15 crores. This year, we will do Rs.70 crores. So it's grown, but what exactly that trajectory will be is not clear because there are so many variables in this in terms of finally, how much is the allocation to defense, where the priority is in terms of what equipment's they want to make, et cetera. So it's difficult to lay your fingers on how much it's going to be. But since we already have all the infrastructure to produce these sort of specialty cables, anything that comes by is a positive for us.

Moderator: The next question is from the line of Manish Parikh from Vibrant Securities. Please go ahead.

Manish Parikh: Sir, based on the low CAPEX going forward, so can you give us some guidance on how much debt reduction can happen this year and maybe……..

Kushal Desai: Sorry, your voice got cut off a bit, can you repeat, please.

Moderator: Sir, the current participant got disconnected. Sir, we have no questions in the queue. Over to you sir for closing comments.

Kushal Desai: Yes. So thank you, everyone for being on the call and patiently hearing our commentary and through the Q&A. We believe that in Q3 and Q4 things should improve. Q2, of course, will be better than Q1. And as we've discussed through the Q&A, there are plenty of opportunities that exist for us in terms of the new product lines that we've introduced as well as in the export markets which we are pursuing. So we do see a lot of opportunities even post the COVID environment and the company is reasonably focused on taking advantage of them. Thank you very much and I wish that all of you stay in good health and remain safe.

Moderator: Thank you. Ladies and gentlemen, with that we conclude today's conference. Thank you all for joining us and you may now disconnect your lines.