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Scrip Symbol : APARINDS	**Scrip Code : 532259**
Kind Attn.: The Manager, Listing Dept.	**Kind Attn. : Corporate Relationship Dept.**

Sub. : Submission of Transcript of Investors Earnings call on Un-audited Financial Results (Standalone & Consolidated) for Q1FY23

Ref.: Reg. 30 read with Para A (15) of Part A of Schedule III & all other applicable Regulations, if any, of the SEBI (LODR) Regulations, 2015 ("Listing Regulations"), as amended from time to time

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Dear Sir,

Kindy refer to our letter no. SEC/2907/2022 dated July 29, 2022 w.r.t. submission of link of Audio Recording of Investors Earnings Call on Un-audited Financial Results (Standalone & Consolidated) for Q1FY23.

Pursuant to the provisions of Regulation 30(6) of the Listing Regulations, we are submitting herewith the transcript of the Investors Earnings Call on the Un-audited Financial Results (Standalone & Consolidated) of the Company for the Q1 and Three Months period ended June 30, 2022 made on July 29, 2022.

The aforesaid transcript is also made available at the website of the Company at www.apar.com.

Kindly take note of this.

Thanking you,

Yours faithfully,

For APAR Industries Limited

Sanjaya Kunder
(Company Secretary)

Encl. : As above

“Apar Industries Limited
Q1 FY 23 Earnings Conference Call”

July 29, 2022

MANAGEMENT:	**MR. KUSHAL DESAI - CHAIRMAN, MANAGING DIRECTOR, APAR INDUSTRIES LIMITED**
	MR. CHAITANYA DESAI - MANAGING DIRECTOR, APAR INDUSTRIES LIMITED
	MR. RAMESH IYER - CFO, APAR INDUSTRIES LIMITED
MODERATOR:	**MR. NIHAR MEHTA - S-ANCIAL TECHNOLOGIES**

Moderator: Ladies and gentlemen, good day, and welcome to the Apar Industries Limited Q1 FY'23 Earnings Conference Call. As a reminder to all participants line will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is recorded.

I now hand the conference over to Mr. Nihar Mehta from S-Ancial Technologies. Thank you, and over to you, sir.

Nihar Mehta: Hi, very good afternoon to everyone. This is Nihar Mehta from S-Ancial Technologies. On behalf of the management of Apar Industries, I would like to thank all of you for participating in the earnings conference call for the first quarter of FY'23 for Apar Industries. To discuss the business performance and outlook, we have from the management side, Mr. Kushal Desai, who is the Chairman and Managing Director; Mr. Chaitanya Desai, who's the Managing Director; and the CFO, Mr. Ramesh Iyer.

I would now like to hand over the mic to Mr. Chaitanya Desai.

Chaitanya Desai: Thank you. Good afternoon, everyone, and a very warm welcome to the Q1 FY'23 earnings call of Apar Industries. I will start with an overview of our performance, followed by a quick industry update and then get into details on the segmental performance, post which we can open the floor to questions.

For Q1 FY'23, the consolidated revenue came in at INR 3,093 crore, up 71% year-on-year driven by both volume growth and price increases from commodity values across segments. Export revenues is up 76% year-on-year, contributing to 42% versus 41% in the previous year. EBITDA is up 73% year-on-year to INR 239 crore at a margin of 7.6%. PAT came in at INR 122 crore, up 97% year-on-year with 4% margin versus 3.4% in Q1 of FY'22. All 3 divisions contributed to the performance, which is the highest reported quarterly profit till date. I will now cover a few industry highlights.

Total outstanding dues owed by electricity distribution companies, the discoms, to power producers rose by 4% year-on-year to INR 1,32,432 crore in June 2022.On a sequential basis, total dues in June increased from INR 1,30,139 crore in May of 2022. India is poised to add 27,000 circuit kilometers of interstate power transmission networks by 2024, as it has already added 6,500 circuit kilometers or almost 1/4 of the target.

The power transmission network expansion has been planned, keeping in mind the ultimate goal of having 500 gigawatts of non-fossil fuel-based electricity generation capacity in the country. The Power Ministry official also said that in addition to 27,000 circuit kilometers by 2024, India would need to build transmission lines to evacuate 180 gigawatt generation capacity, which will ultimately help the country to realize its goal of having 500 gigawatts of renewable energy by 2030.

According to the latest report released by the Central Electric Authority, the overall target for substation transformation capacity addition for FY'23 has been set at 95,659 MVA. This is 17.3% higher than the comparable target of 81,545 MVA for FY'22. In terms of voltage plants, the bulk of the target, 44.5%, will come from 400 KV substations. The 765 KV class will account for 28.2% of the target, while the 220 KV category will make up the remaining 27.3%. The current geopolitical environment has forced India to further expand its defense capabilities and it has cleared the purchase of indigenous military hardware worth INR 76,390 crore to sharpen combat capabilities with next-generation warships, wheeled armored fighting vehicles with anti-tank guided missiles, radars to locate weapons and tanks to lay bridges. All these infrastructure investments will lead to increased demand for our products and services. I would like to now cover segmental highlights.

Conductors revenue in Q1 FY'23 grew 128% year-on-year to reach INR 1,548 crore with 64% year-on-year growth in volumes, mix improvement and increase in commodity prices. Exports grew 120% year-on-year, contributing 42% to revenues. The premium product contribution increased to 47% from 44% in Q1 of FY'22. The EBITDA per ton post adjustment was at INR 21,933. This is a historical high, and it contributed due to an improved mix of premium products. New order inflow came in at INR 2,017 crore, up 30% year-on-year.

In Q1 of FY'23, our oil revenue was INR 1,068 crore, up 28% year-on-year. Exports contributed 43% to revenue. The EBITDA per KL post adjustment came in at INR 9,712. Margins were elevated in this quarter as the weighted average cost of inventory was comparatively low. There have been supply chain issues with the higher priced base oil deliveries getting delayed by several weeks resulting in lower cost basis in Q1, but will be followed by a very sharp increase in Q2. This will affect margins in Q2 for sure. Lubricants revenue was INR 217 crore, up 36% year-on-year, driven by volume growth in industrial oil business.

In Q1 of FY'23, our cables revenue reached INR 638 crore, up 60% year-on-year with strong growth across all sub-segments except optical fiber cable sales, which were impacted by muted telcos business. Power cables revenue was up 60% year-on-year and elastomeric cables revenue was up 84% year-on-year. Exports contribution at 43% versus 19% in Q1 of FY'22 was the main contributor to the increase in power cable sales. Sales into the renewable energy installations, railways for both locomotives and coaches and increased purchase by the defense factories all resulted in the higher sales of elastomeric cables.

We are running all 3 E-beam machines at full capacity. The fourth E-beam machine, a new plant to produce wind mill cables, are at an advanced stage of installation with commercial production in both units likely to start in Q3 of FY'23. These expansions are well-timed and will increase overall sales in H2 of FY'23.

The EBITDA post forex adjustment came in at INR 49 crore with 7.6% margin, up 95% versus Q1 of FY'22 with improved order and product mix.

Overall, we remain optimistic on our conductor and cable business as the level of infrastructure is expected to be high, both in India and overseas. However, our oil volumes may be affected from high product prices in Q2. For the company, our growth drivers remain strong.

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

Moderator: The first question is from the line of Pujan Shah from Congruence Advisers. Please go ahead, sir.

Pujan Shah: Yes. First of all, sir, congratulations for a great set of numbers. So my first question evolve around this our conductor business, right? So our conductor business has made a high EBITDA margin of, you can say, roughly close up to 22,000 metric tons. And if we say we have improved, you can say, product mix, which is a better margin product from like say 44% to 47%, so which is a 3% incremental change in the revenue side. So my question is what can be the alpha between the normal product

EBITDA and the high EBITDA generating EBITDA? It's a difference between 1,000 or something like that? Can I assume that?

Ramesh Iyer: So it's difficult to have a straight answer to this, because it's not one conductor that we have in normal and one conductor that we have for the premium product, because it's mostly a made-to-order business and there are sort of variables that come into the play in order to determine the margins.

Also, the price is also influenced with the commodity prices that keeps on changing. And therefore, there's no kind of a thumb-rule that we can establish between a normal and in this conductor. The other reason is that in addition to the commodity prices, we see a huge impact having with the interest cost also. So one of the reasons why we have high EBITDA is, of course, due to high proportion of premium products. But in addition, as the interest cost increases, this gets factored into our customer prices. So your EBITDA, which is your earnings before interest, captures that sales price, but the cost appears below EBITDA, which is on the interest line.

Pujan Shah: Okay, sir. Got it. Sir, I was going through your annual report. And actually, I just incurred something like we are expanding into batteries of 3 wheeler, 2 wheelers and specifically car products and such like that. So can you just give me a broad outlook, so why we made such a decision to diversify in such businesses? And what is the perception in, let's say, 3, 4 kind of years of horizon?

Kushal Desai: So the whole target is to actually get a higher wallet share of the mechanic. So all of these products are very influencer driven. And by selling through the same channel, which is distributed retailer and mechanic, we are in a position to actually leverage the total business that is being done in terms of sales to the influencer, which is the mechanic.

So the primary product will remain lubricants, but they also buy these products. And on one of the previous earnings calls last year, we mentioned that we've also launched a mechanic loyalty program, which earns quite successfully. So these products have been added to the mechanic loyalty program. So as the mechanic buys more products from us, the loyalty points increase and this whole system is completely seamless. It's a paperless process.

So automatically, the credit of these points go into the distributors wallet, and the distributor can then encash those points. So in short, the answer is that we are looking at basically improving the whole supply chain and getting a larger portion of the mechanics wallet. Also over a period, if you see some of the lubricant demands could fall as electric vehicles increase. And having access to a range of batteries and wheels, we are agnostic to whether it's an IC engine or electric engine. So that's how we've looked at adding these. The sales team remains pretty much the same. So it's really a leverage in terms of the whole supply

Pujan Shah: So there will not be a much often extra spending cost on developing and spreading this product? But it would be an add-on advantage to Apar, right? That is my understanding.

Kushal Desai: Yes. So there's not a huge amount of product development cost. There is a certain amount of operating costs because we have a warranty program. Again, it's the first digital warranty program that was developed in India 2 years ago to run along with MLP for batteries. So we've used all that sort of technology and it's slowly, slowly continuing to grow. There's no real major thrust is there. But as we deal with the mechanics and as we engage more on our platform, all of these products are starting to increase.

Pujan Shah: Okay, sir. And my third question would be, if I could squeeze in. Third question would be, we are developing a brand on light-wire cable, which is Anushakti brand. So any views on that? Like how much we need to spend or sort of any glance over this Anushakti brand to developing a state scale of 10, just give a ballpark number of revenue contribution in, let's say, 3 to 4 years, any such ballpark number if you can give us, sir?

Kushal Desai: So in the LDC, which consists actually of the building wires as well as light-duty cables because there's a range of them, with the building wire being the largest single SKU in that particular group. So our target is to get to INR 500 crore 3 years from today in that product category. So we were INR 20 crore. And the next year, we did INR 60 crore. Last year, we crossed INR 100 crore. This year, the operating plan is to look at INR 200 crore.

The product that we have is an extremely unique product. Nobody else offers the product. And it has 2 fundamental advantages, which is what helps us differentiate against everybody, including Havells, Polycab and all the other major established players. One is that it has a much higher current carrying capacity. It can carry 50% more current. And secondly, the insulation is such that it's very highly short circuit resistant. So the short circuiting will not happen quickly.

So when you combine these 2 aspects, it really has a technical performance. So most of the investment which we are doing today is in frontline salespeople who are going and demoing the product to various influencers as well as to small builders, projects, et cetera. The spending that will be there on advertising and promotions, et cetera, we'll pretty much capture that within the margin of the incremental sale that is coming on.

Pujan Shah: Okay. And sir, as I read your con call in that you told us that in defense, there is a difficult to get the entry. Once we get the entry, we get a scale up in the business. So I think we have got something like INR 70 crore, INR 80-odd crore of revenue from defense, I think last year also. So are we seeing any traction in defense side getting, you can say, doubling the revenue in defense? Or we are still pretty much the similar line on the defense?

Kushal Desai: So our expectation this year on the defense side is that, fundamentally, today still a very large portion of the defense equipment is still made by the government facilities, especially with our main area within defense is really warships or ships, submarines and reconnaissance vessels. So it's mostly with the Navy. And there is a steady growth that we will see. It's just that it takes a fairly long gestation period to completely build and wire one of these carriers. So for example, if you had read in the papers in the last few months and it's there on our social media and LinkedIn, that 2 of the warships, the frigates, which got commissioned in the last few months, both of them had a significant portion of wiring from Apar. So we expect that this year, we will probably get closer to INR 100 crore, but it all depends on the manufacturing schedule that comes out finally from Mazagon Docks and GRSE and all these players.

But the trend, as Chaitanya bhai mentioned, the trend is absolutely positive because more and more is happening locally. There are also shipyards which have come in, in the private sector. L&T has one significant shipyard out of the South, near Chennai. So they are also starting to get more business. The wiring goes in towards the second half of the ship's preparation, so we'll see continuously this defense side increase. There are more competitors coming in, but then there are more and more requirements coming in. So we are ahead of the curve. And therefore, we expect that the total volume coming in from these type of cables will continue to rise.

Moderator: Next question is from the line of Pratiksha Daftari from Aequitas Investments. Please go ahead

Pratiksha Daftari: Pratiksha here. So my first question was with regards to conductors. So we're seeing some dip-in realizations here on Q-o-Q basis. Despite which we've got EBITDA further increasing. So just wanted to understand if there's some amount of inventory gains in this segment as well.

Ramesh Iyer: Inventory gains are not going out there in conductor as a lot of these back-to-back order based. But as I said, one of the reason is definitely, these premium products and also there are multiple products within the premium products that the mix of it changes and the mix of it can increase the EBITDA. So one of those things has happened in this particular quarter. And the second thing is that, as I was explaining earlier, there is an increase in the interest cost. And therefore, if you look at Q1 itself, the incremental interest cost had also been into EBITDA, but when you look at the earnings post interest, it will be slightly less than the 21,900 number there. If you look at Q4 to Q1, the amount of interest cost in the conductor business has risen by about INR 2,000 per metric ton.

Pratiksha Daftari: Okay. INR 2,000 per metric ton, the same, just for Q3?

Ramesh Iyer: Incremental interest cost from Q4 to Q1.

Pratiksha Daftari: Okay. And generally with commodity prices increasing, do we expect our realizations to decrease in coming quarters, especially for cables and conductors?

Ramesh Iyer: The realization will actually depend on the commodity prices. As the commodity prices come down, the realization will come down at the same time and conversely, if the commodity price goes up our sales will go, but it will not impact the bottom line in terms of a per unit level. And therefore, we kind of measure our business also in terms of per unit, because if you look at percentage and there'd be too much wavering depending on how the commodity prices goes here.

Kushal Desai: So I can just add to what Ramesh has mentioned here that we have both aluminum and copper are down between 25% and 30% from their all-time high. So there will be obviously an impact in terms of per kilometer cost or per ton cost of the product. However, we will also see steady revenue coming in on these products. And as Ramesh has mentioned, that we calculate an EBITDA per ton for operating costs, and then we adjust that for interest. So the interest cost also will marginally could come down because the billing value will come down. So over the years, I don't think you will see, yes, you will see some movement on the top line. But I think the bottom line will continue with this sort of level.

Pratiksha Daftari: Okay. Sir, the last time our commentary mentioned that we probably expect the share of conventional conductors to go up. But with 54% of our order book right now being high-margin business, do we expect these EBITDA per ton level, per unit level to sustain?

Ramesh Iyer: So we expect our EBITDA level to be in the range of about around INR 17,500. That's the kind of number we expect, around INR 17,000 to INR 17,500. And of course, the quarterly numbers will actually depend on the level of execution that happens because these are all make-to-order business, where sometimes, it takes longer gestation period to manufacture and then there's a lot of inspection involved. So we look at it from a long-term perspective, 3 months perspective, maybe very short to kind of conclude that the particular level of EBITDA will continue. But then we do expect that for high premium products have more than close to 50% shares. The EBITDA are likely to be on the range of about INR 17,000 to INR 17,500 per metric ton.

Kushal Desai: Also I can add to what Ramesh is saying that the gestation cycle for the execution of the orders is getting a bit faster. So even the HTLS, which is reconductoring jobs, compared to what the cycle was pre-COVID and then, of course, during COVID it got really messed up because of various project-related issues. But going forward, the gestation cycles are also getting better. So I think that should also help improve some of the ratability that we have.

Pratiksha Daftari: Okay. Sir, what would be the execution period for our current order book of INR 3,600 crore?

Ramesh Iyer: It should be about a year, close to about a year.

Pratiksha Daftari: Okay. And on Cable division, the new E-beam machine that we are commissioning, expected to commission in Q3. So if this was to run at optimum capacity, what would be the revenue potential from this one as the current scenario?

Kushal Desai: So I don't have a straight answer for that, but the product really depends on the product mix that we have, because it will be used both for the locomotives and railways, as well as for some of the bigger cables that are required in the ships. But our expectation is that you'll probably get somewhere in the range of around INR 5 crore to INR 6 crore on this front and then certain other cables will be manufactured on this at a faster speed, opening up our services revenue. So probably somewhere in the range of around INR 7 crore to INR 8 crore per month.

And it also depends very heavily on the mix of cable, because for some of these specialized cables, the insulation is very, very different. So even though the copper and aluminum, most of them are copper, that copper is standard in terms of its performance requirements. The insulations vary very dramatically. So essentially, what will happen is that most of the cable which we make are made 2.5 machines are used for cable and half our machine is used for services. So when you add the third, it'll will become equivalent to 3.5. And our sense is that within a year, we will be completely loading this machine.

Also we make solar cables on this. So at the moment, we have not been taking a lot of solar orders because the 3 machines are running flat out. And solar cables, compared to railway and defense, are low margin. So when this machine comes up, then we'll be able to do that. We've also started exporting solar cables into Europe, and that's a big opportunity that's opened up, given the very high cost of power there. More and more European manufacturers are looking at supplies coming from India.

Pratiksha Daftari: Okay. And how do they look at OFC market? Like, are we seeing any improvement in the near future? Do we foresee the demand to pick up, especially because prices seem to be rising?

Kushal Desai: So just recently, the government has made some announcements, where they will recapitalize BSNL and MTNL. And so as they roll out more networks, there could be a possibility of this growing. The OFC order book will probably grow in the next 2, 3 years from today. But our major thrust is actually on export of power cables and on the elastomeric cables, and we are actually moving faster away from the rest of the pack.

So for example, in the North American market, we have 18 U.S. approvals, which is the highest amongst all manufacturers in India. And with our UL approval, it has to be marked on the cable, you cannot supply it. So we've focused on those markets where we think there will be a steady demand coming up year-on-year. The optical fiber, it's a completely separate unit. It has a separate team. They'll continue to push for as much business as they can get. But the fortune of the company will not depend on what happens to OFC.

Pratiksha Daftari: Okay. Understood. Last question, what was the capacity utilization in Hamriyah this time, this quarter?

Kushal Desai: So we've just gone through with an increase of almost 30% in terms of debottlenecking storage and some of the bulk blending there. But as I said, particularly the capacity utilization for transformer oil and white oil, et cetera, one can speed it up. We don't run the plant on 3 ships, it's runs currently only on 2 ships. So there's a lot of room there. It's really a function of getting the right customer and order flow.

Pratiksha Daftari: Okay. And currently, it is the transformer oil where we are confident of demand sustaining, right?

Kushal Desai: Yes. The transformer oil side, I think everywhere, there is a resurgence that's happening even in countries and GCC, where they are a very large producer of crude and petroleum products, they are also putting in extremely large installations being part of this whole ESG pledges, which have been made. And most of these countries have a lot of sunshine. So the solar installations are coming up, which will be very, very large in size. So our sense is that the requirement for transformer oils and cables mostly are produced locally, will continue to increase in that region. In the case of white oil, as we mentioned in some of the comments of our investor update, is that oil commodities have come down between 20% and 40% pretty much. But petroleum products have not come down that much.

Diesel has just corrected in terms of premium over crude by about $100-odd. So base oil prices haven't come down. So today, substitute products to base oils have gotten cheaper. So you can, in certain formulations, reduce the amount of white oil and increase the amount of hydrogenated veg oil. So veg oil have become cheaper than white oil. So there will be a little bit of adjustment that happens there, but we are quite bullish on the transformer oil side going forward. Both domestically, now we are seeing increases happening as you heard in the opening remarks also. A lot of transformation capacity is coming in and is right down our back alley, which is 400 KV, 765 KV.

Pratiksha Daftari: Right. Understood, okay. And lastly, do we expect our interest costs to remain elevated given that we have basically high volume prospects ahead?

Kushal Desai: Yes. Our expectation of interest remaining high, because if you compare it to a year ago, there have been multiple hikes from the fed. The whole oil business and even to some extent, the conductor and cable business does have a component of U.S. dollar funding, because customers open 90 days or 180 days letters of credit or in some cases, the transaction is on a DDP basis. We have to deliver the product to the customer.

So there are lines of credit by which you can discount your documents and get the money. Even then, the discounting rates also have gone up. So I think interest costs are now here to go. The period that we had in the last few years was at an artificially low level. They're now getting to a level which is actually what we had seen prior to COVID kind of coming in. So they're going to be here to stay. And that's why Ramesh here mentioned that it's an integral part of the EBITDA. So we have been adjusting our prices considering the number of days outstanding as well as the rate of interest that will be associated with that type of business.

Pratiksha Daftari: Okay. So essentially, this will more or less become a pass-through cost for us?

Kushal Desai: Well, it's sort of pass through, but it'll be negotiated in. And fortunately, most of the competition that we have also around the world, everybody is being subjected to that. So it's not a unique cost which we are picking up.

Pratiksha Daftari: Okay. And how about freight cost? We had a serious concern about it. How do we look at it in next few quarters?

Kushal Desai: So freight costs have started coming off for containerized freight, and I think most of the hit on freight has been pretty much absorbed by us, other than 1 or 2 contracts. In some cases, there will be a small freight gain because when those orders were taken, now the current rate is a little lower than the previous rate. So overall, we don't see freight today on the containerized cargo actually being a big hit or a drag on earnings.

On the other hand, bulk freight rates have gone up very, very substantially. And the reason for that is that we buy directly from refineries and refineries get into long-term contracts with the shipping companies. So most of this increase happened in 2021, and they already have signed contracts. So that's limited the amount of increases that the bulk shipping companies could make.

So now in the contract that were renegotiated, they are at a much higher level. So that has also added actually to the landed cost of the base oils, not only in India but everywhere around the world. But to your point that whether it's going to actually affect the conductor cable side, which is where we were more concerned in the previous calls, we have specifically highlighted that. I think we are kind of over the hump on that one.

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

Maulik Patel: Sir, questions have already been asked. You have given on conductor side, you are mentioning that EBITDA per ton will be in the range of around INR 17,000 to INR 17,500. But if you see the last 2 quarters, we have been consistently doing better. And is that clear, it's coming back to why you were guiding the INR 17,000 to INR 17,500 is likely due this any inventory loss we may have in the coming quarter because of the correction in copper and aluminum price? Or is it that you want to be more, like, conservative, which has always been as an operator management and you want to continue to follow the practice?

Ramesh Iyer: Here, there is no element of inventory loss because we are completely back-to-back hedging the contract. And every order is backed by a proper risk-managed framework of hedging strategy. So we don't expect price falling down in any way to kind of hurt our EBITDA there. The only thing is that as the execution and inspection period takes time, it really depends on the mix of the products that is finally getting sold and accounted as revenue in the financial statement. That is what we'll determine the EBITDA on a metric ton basis.

Maulik Patel: And you expect to execute large amount of HEC and copper conductor in overall volume going forward compared to what you've been doing since last 2 quarters?

Ramesh Iyer: The proportion possibly can change. So if the proportion changes, our EBITDA will change. And secondly, as I mentioned, that this also has a factor of interest cost. So depending on the interest cost, this EBITDA can go. For instance, if you see, the aluminum price and copper price comes down in this quarter, your interest component may come down. And therefore, your selling price may be lower and that means our EBITDA level, it may be coming down. So it depends on multiple factors in terms of interest cost, in terms of your proportion of premium product getting sold, depending on the level of execution and inspection that happens and the consolidated view of that will determine your EBITDA. And therefore, if you look at a larger time period, that would be a proper indication of the EBITDAs that is there in the business.

Maulik Patel: On the TSO segment, you have an additional huge jump in EBITDA per KL probably because of a supply chain distribution disturbance. But you also mentioned that the upcoming cargoes, which will come at in a much higher price and this will normalize your EBITDA per KL in this segment. Is this a similar situation, what you had 1 year, 1.5 years back, when the oil was in shortage, and that led to the 2, 3 quarters of very high EBITDA per KL, and subsequently it came down to the range of around INR 5,000, INR 5,500 per KL. So are we in a similar situation?

Kushal Desai: To some extent, Maulik, that is the case. So typically, what you would do is, you take a weighted average price based on the commitments that you have of delivery coming in for the quarter. And because there have been supply chain issues, bad weather around Korea and with the lockdowns in China, the vessels which have called on China have automatically got delayed and then they do the rotation and come back. So there is a little bit of that element. What you are saying, fundamentally the trend will happen. The INR 9,700 per KL come down to equalize somewhere in between INR 5,000 and INR 6,000 a KL. And then hopefully, it should start getting steadied going forward.

Maulik Patel: And on cable side, about this retail business, Anushakti wire, right? The investment we have made in terms of building an brand, building an team which executes the project, and in particular, this one, what kind of our product launch we have, some highlights on that will be really helpful.

Kushal Desai: So at the moment, most of our expense has been in terms of getting people on the ground. Because as I mentioned earlier, it's a very unique wire and the best way to sell the wire through demonstrations. So if any customer brings a wire and puts it on a machine, when you increase the current, the Anushakti wire will remain standing much, much longer than after the insulation on any other wire has melted. So most of our work right now has been focused on that.

We signed up Sonu Sood as a brand ambassador. So towards the second half of the year, you'll see some limited advertising going on. So we really expect to making sure that certain prerequisites are met. Your distribution is in place, et cetera, then you can step up advertising. So the margins which are coming out of that product line are pretty much feeding into years recycling that entirely back into distribution and brand building. But cable business, otherwise, given the way we expect business to increase on the elastomeric side, as we've already seen for wind mills, for solar, for defense, et cetera, that will take care of ensuring that the cable numbers, both top line and bottom line will remain good.

We have a runway of a couple of years. At least these other products growth will not really impact the amount that you spend on the LDC side and the wire side. So it should help us. And as I said, our target is that last year, we did a little over INR 120 crore. This year, we are targeting over INR 200 crore, and next year between INR 400 crore and INR 500 crore.

Maulik Patel: Okay. And so I think that's a pretty large target. I'm sure that you will achieve it. This is the second launch of Anushakti, right? We did one launch probably 4, 5 years back.

Kushal Desai: So no, we have not really launched the product. It was really being sold only into the projects segment. We hadn't really focused on doing retail offering. We then took on a target market, which was Kerala, 2 years ago, and to see whether on the retail side, we could end up getting good traction on it. And we found that moment to do the demo, especially to any independent house owner or someone who is redoing their own apartment, it is absolutely a no-brainer to use this, because the amount of electrical intensity in any house is just increasing.

You don't know today, after 5 years, how much power you're going to consume. And the worst thing for you to do is to rewire the house because it will be a complete mess. All the paint and everything will get peeled off and all these things. So literally, like a wire that you take and forget, and the life on the Anushakti wire is already tested to be 50 years because it uses the same fundamental technology as goes into locomotives and ships. So it's basically a wire and forget kind of application. So I would not think that growth of the Anushakti will make a huge dent in terms of the cable profitability. On the contrary, the brand will continue to get built.

Maulik Patel: So I was not worried about the profitability part. I'm more interested in knowing how fast you can scale up. And that's what I wanted to know that the people you have hired on the product side, on the branding side, the distribution side.

Kushal Desai: So we've taken the help of a top management consulting firm to sit and work out the entry strategy and stuff. So all that's already done, and it is being rolled out. That's how the numbers, we expect them to show some good growth.

Maulik Patel: And in terms of people hiring. Whom you have hired to drive this?

Kushal Desai: We've hired people who have primarily been in the trade, not necessarily just from wires, but in the electric straight. So you've got a whole slew of products, which include switches, it includes lighting products, switch gears, et cetera. So we have obviously worked on selecting good people, because without investing in that, nothing can actually grow. There are 7 states in the South, which we have already started. The people on ground and the business is starting, which are the 4 Southern states. And then to that is added Maharashtra and Gujarat. And in the North, we've basically started in UP, and then we'll be adding Haryana and the NCR region.

Maulik Patel: Sure. Just to the last question and it's a book-keeping question. What kind of Capex we are looking for this financial year? And in which areas we will spend?

Ramesh Iyer: So our total Capex in this year, we expect about INR 150-odd crore, roughly about 2/3 we expect to be in the cable division.

Kushal Desai: A lot of this is actually a carry forward of projects which were announced earlier. Like, so for example, if you take the fourth E-beam machine we have and the CCV lines, which is a state-of-the-art line for making these cables for wind mills, those will get commissioned this year. So all kinds of part issues were there, all machinery delivery is also running 6 months behind schedule because of electronic parts and things like that. So it will be a carry-forward of allocations which were done in previous periods, which will get completed this year.

Maulik Patel: I think we are setting fourth E-beam machines, right?

Kushal Desai: Yes.

Maulik Patel: And that will come in which quarter?

Kushal Desai: In the third quarter.

Moderator: Next question comes from the line of Pawan Nahar, an Individual Investor. Please go ahead.

Pawan Nahar: It seems we are pretty much on track for the 20% ROE number, so congratulation. Second was, I just wanted to understand how much would that be inventory gain being in this quarter for the oil business?

Kushal Desai: So I would call it a margin gain. So the margin gain actually, typically, you would have had between 5,000 and 6,000. So the difference between the 2, which is about 3,000-odd KL is part of the lower cost structure being in place. So in the following period, you'll see a big step function increase. So in some cases, you've already increased prices or partly increased prices to customers. So the unit margin is showing higher in the month of June. In the month of July, August, that unit margin will fall until we are able to make another price increase to rationalize the whole thing.

So we are looking at a levelized number in the range of typically INR 5,000 a KL. And as Ramesh mentioned, we've been quite cognizant of adjusting that, taking interest as a variable cost. The rest of it is, like, pretty much a pass-through, right, in terms of blending and other areas which you refix from time-to-time. But as the interest rates move up, we've been factoring that to the cost which we have.

Pawan Nahar: In fact, that would be a lovely way to look at it because I was myself wondering if we could look at both the oil business, the conductor business, EBITDA after the interest costs, like you simplify it for us as outsider.

Kushal Desai: So we have that working, which is there. And Ramesh was contemplating introducing that an additional measure. It's just that most analysts and most of the people who are on this call, they are used to a certain metrics, but we can obviously provide both.

Pawan Nahar: It will be really very, very nice. Because I -- right now, in the screen, I have data for the last 13 years in terms of spreads for both the businesses and margins for cable. Okay, before I get there. I mean, I wanted to ask you, now what would be the volume growth outlook for the oil business for the full year? Last year, it was 460,000 KL earlier, I think we spoke about 6.5% volume growth. So would you, like, say that all part 490,000, 500,000 KL would be the number, volumes?

Kushal Desai: So our expectation is and the business plan that we've made is looking at almost constant volume over the previous year and this year, simply because there has been so much of increase. And if you see in terms of the mix of product that's coming out from a crude barrel, it is just diesel and aviation fuel, which is above the watermark. Even gasoline is right at the price of crude or in some markets, even slightly below that, naphtha is $25 below. So it's been a standout and not come down, where all other products have come down. So wherever you have substitution, like in white oil, that volume will get affected. And we've mentioned in our comments also that the white oil business has grown very substantially over the last couple of years.

Pawan Nahar: And in that case, Kushal, I mean, given that I would imagine white oil would be less in terms of the spread versus the other businesses, the big businesses. Then we should be looking at a higher EBITDA per KL number for this year.

Kushal Desai: Pavan, not necessarily because the last couple of years, we made very good margins on white oils, both technical grade and pharmaceutical grade, which we're seeing kind of tapering off right now. We've been seeing even demand falling off. Like Africa is a very large market where they use these products, and there is an affordability issue. And the beauty of the third world is that people are very elastic in terms of how they adjust demand. So we’ve gone with a conservative plan on this front. The oil business has done a lot of heavy lifting in the last few years. And I think our conductor and cable business will actually come into their own now over the next few years. And I guess that is the beauty of having this mix of businesses. It's not that the oil business will not be profitable as well, but the profit increase delta coming from conductors and cables will be much more sizable as we go forward.

Pawan Nahar: Sure. So right now, let's say we've done INR 9,700 per KL in the first quarter. And for the full year, do you still want to say

INR 5,500, which means that it will be much lower than INR 5,500 in the balance 3 quarters? That wouldn't be the case?

Kushal Desai: Our target is to still do between INR 5,000 and INR 6,000 a KL for the year, weighted average for the whole year.

Pawan Nahar: Weighted average for the whole year. Okay. So in that case, I'll just take INR 6,000 maybe.

Kushal Desai: Take INR 5,500, which is the average.

Pawan Nahar: Which will be lower than last year's?

Kushal Desai: Yes. There is every effort to sell more premium products, sell it into more premium markets. So there is a little bit of leeway that you have. It's not that you can't do anything. But 2 factors in that before it happens is, I think, a little non-conservative.

Pawan Nahar: Sure. Then the second thing was, Chaitanya, I mean, congratulations on the conductors business. Now 2 questions here. One would be the full year volume number. Like, I think we had INR 130,000 is what we have spoken about for the full year. If you could just revisit that and the spread for the full year?

Chaitanya Desai: Yes. So basically, we are looking at a similar kind of volume, because our concentration has been more how to push for more value-added premium products. So our concentration has been more rather than tonnage, it has been more in terms of adjusting the product mix so that we can optimize our bottom line.

Pawan Nahar: So should we stay with the INR 130,000 number for the full year?

Ramesh Iyer: It'll be a little more than that because things are looking up right now. Between 130,000 and 140,000 is our sort of expectation for this financial year.

Pawan Nahar: Sure. And if I were to ask you, like you said that about INR 2,000 is the interest cost per ton. And when you talk about INR 17,500, for the parts, INR 17,000 to INR 17,500, this is, again, only marginally higher than last year's INR 17,000. And given that interest is now INR 2,000, which is below this INR 17,500.

Chaitanya Desai: The INR 2,000 what we had mentioned is an incremental interest cost from Q4 of FY'22 to Q1 of FY'23.

Pawan Nahar: Sure, I understand. So what I was saying was INR 17,000 was the EBITDA per ton last year full year. And we are talking about INR 17,500, given that interest itself has gone up by INR 2,000 per ton, right? And given that overall, even after the interest numbers are so buoyant, wouldn't the EBITDA per ton be higher actually than INR 17,500 given the high interest cost?

Ramesh Iyer: Well, as of now, we have visibility for Q1 because now really, this number of interest will depend on whether how the interest percentage will pan out during the rest of the year as well as the price of the commodity prices. If you see aluminum in the last 1 month has come down by about 20% to 30%. So the interest will actually depend on the value of the products. So this is an indicative range that we have, and INR 17,500 has been our average in the last 4 quarters. As I said, a larger period of time, 1 month, it lasts, then we'll be much more confident in terms of the EBITDA that can be given as the guidance going forward.

Kushal Desai: The sense is clearly that the profitability for the year in FY'23 will be higher than FY'22. So adjusting for all the interest, you'll still be at that INR 17,000 kind of range. So the bottom line for this year will be equal to or better than the previous year.

Pawan Nahar: Sure. So basically, the INR 17,500 is after the interest cost? Did I understood it correctly?

Kushal Desai: Yes. But Pavan, what happens is that where we get into a little bit of trouble is that the premium range of products includes HTLS, it includes OPGW, it includes different types of products that go into railway electrification. It goes into seed copper, post conductors, a whole range of stuff. So when that mix changes, in this automatically kind of gets a little bit affected. So I think it would suffice by saying that this year, the bottom line for the conductor business will be higher than what it was for the last year.

Pawan Nahar: Yes. Now this is much more clear to me. Basically, you are saying INR 17,500 is after factoring in the interest cost?

Ramesh Iyer: No, no. We want to clarify that. So INR 17,500 will not be after factoring the full interest costs that we have. But of course, some part of the interest cost, we would be affecting that. But it may not be right to say that we will get INR 17,500 post 100% of the interest cost. We can share with you the working which you have suggested, that is EBDTA.

Kushal Desai: That slide actually can be added to the investor deck in the next week and put up there. So then the working becomes relatively clear in terms of what happens on giving an additional Slide, it gives an idea in terms of what happens post this.

Pawan Nahar: Sure. And on the cable business, we should just continue to assume INR 2,400 crore of revenues for the full year and about 8.5% margin?

Kushal Desai: So our expectation on the cable side is to grow by 30%. So last year was about INR 2,000 crore net sales. So this year, we are looking at 2,600 plus.

Pawan Nahar: And 8.5% margin is an okay number to go with?

Ramesh Iyer: Yes, it should be in that range.

Pawan Nahar: Okay. And sorry, but if you can guide a little bit on the interest cost. It's INR 60 crore this quarter. It was INR 108 crore or INR 50 crore, INR 46 crore prior to that. What should we assume as a full year finance cost? Should we, like, assume 20% drop next quarter and then maybe, like, INR 200 crore, INR 210 crore of interest cost for the full year?

Ramesh Iyer: So I'll tell you what happens in this interest cost. There are basically 2 components. One more price is toward interest rate, which is SOFR based on our LC that gets factored into overall interest costs. The second component is that since we have an import creditors, a lot of mark-to-market on our overseas creditors also get factored into the interest cost because that's the way the accounting regulation needs to show you that. And therefore, if you see our EBITDA numbers, we have 2 kinds of EBITDA. One is the EBITDA and one is the EBITDA post hedges and that we call post Forex. So there are multiple variables here. And I think once we put up this slide on EBDTA, which will be clear in terms of after adjusting for all sorts of interest cost, what is the net margin that we have made in Q1 of FY'23, as well as what was the trailing 4 quarters of FY'24.

Because of multiple variables, it will be difficult to project that interest, because it's not only the interest rate, it also depends on the price of oils, aluminum as well as the exchange rate that's happening. So it's difficult to give a particular number as to how this interest lines in there.

Pawan Nahar: No, so, I got it. Ramesh. So basically, if I were to look at finance costs after removing the adjustments, which gets knocked off from the EBITDA per ton or unit calculation, how much would that be? So INR 60 crore would drop to how much, if I remove those adjustments? Because that is captured in the EBITDA line. We've reduced EBITDA per unit.

Ramesh Iyer: So out of INR 60 crore, about INR 20 crore would be your ForEx adjustment, which we kind of report EBITDA post ForEx. Out of the INR 40 crore would be your pure interest cost on LCs, which is supplier's credit. So when we put up this annexure, we'll give a breakup of the INR 60 crore across the 3 categories. It should clearly show you how much is the EBITDA and then the interest cost and also the total finance cost so that you can measure on the EBDTA number, because all our interest costs are actually factored into the pricing. So that will move up or down, depending on the interest rate movements.

Pawan Nahar: Got it. And for today, as we stand, INR 40 crore is the number for Q1 and commodities that we deal with are down about 20%. So we can assume maybe like, let's say, around INR 30 crore, if we were to just simplify it for a moment going ahead?

Ramesh Iyer: Yes, I think we'll have to do the math of it. But once this slide is put up, and possibly then we can be in touch to see how that number goes.

Pawan Nahar: Looking forward to that 20%-plus ROE number.

Ramesh Iyer: Yes. Thank you.

Moderator: Next question is from the line of CA Garvit Goyal from Nvest Research. Please go ahead, sir.

Garvit Goyal: So basically, my first question is what are your views on the sustainability of this transformer oil segment in long term? And what would be the impact of basically the renewable energy on this particular segment going forward?

Kushal Desai: So in the case of transformer oil, as the renewable energy increases, the number of transformers and the transformation capacity will increase. It's a linear function. So it will continue to grow. And in fact, earlier in the call, I mentioned that over the next few years, transformer oil seems like one of the product lines that we would expect to grow, not only in India, but also overseas.

Garvit Goyal: So what kind of cadence do you expect going forward for this particular segment in revenue and profitability terms?

Kushal Desai: It just depends on the rollout. So all Governments around the world have shown up very aggressive numbers. And when you have such an aggressive number, it's anybody's guess what the final delivery will be like. But there will be a steady growth on the transformer oil side. That's all I can say, and it will continue for a few years as the infrastructure gets built out. There's no real substitute for mineral-based transformers, especially in the transmission networks.

Garvit Goyal: Okay. Understood, sir. And from our conductor side, basically, I was going through your previous con call transcript summary. And there was mentioned that you will be having a volume of around 130,000 by financial year '23 and the EBITDA per ton were getting somewhere between INR 14,000 to INR 15,000. Now is there any revision in this kind of guidance for financial year '23 for the conductor business?

Chaitanya Desai: As was discussed earlier just now by another question, we said that we are hopeful to improve the quantities. So it should be between INR 130,000 to INR 140,000 this year. And with regard to the EBITDA, as was also clarified, since these interest rates are going up, we are adjusting the EBITDA per ton, so that at least the profit after interest is remaining intact. I hope that clarifies.

Garvit Goyal: Okay. Understood. And basically, I can assume going forward also and despite of the fact that the commodity prices increases or decreases, we are on the growth trend for all the 3 segments, right?

Kushal Desai: Yes. In fact, we have been talking for several years about the U.S. infrastructure market opening up. And finally, it has opened up. So if you look at the mix of exports that are there and the growth in the exports, which has come for the cable business and for the conductor business, the U.S. is the single largest end market now. If you take the aggregate of these 2, it is by far the largest market where products are starting to go.

Garvit Goyal: Okay. One more question from me on production which you are talking about. Actually, in the last con call, I think you were mentioning that in this particular quarter from conductor business side, there shall be growth more from the conventional conductors, right? Am I right?

Kushal Desai: To clarify. Actually, last few years, due to COVID, there was a big dip in the volume. So what we had mentioned is that we are expecting the business on the conventional conductor to come back on pre-COVID track. So because of that ratio of the business, which had happened last 2 years, may get slightly modified. So there will be a growth in all these new products. But at the same time, whatever dip that had happened on the conventional side will get sort of changed and come back on track. I hope that explains.

Moderator: Next question is from the line of Pravin Agarwal, an Individual Investor. Please go ahead, sir.

Pravin Agarwal: Congratulations on an excellent set of numbers. Most of my questions have already been answered. I have just a couple of questions. One, you mentioned that for your cable division, we're looking at 30% growth this year. So if you were to go over the next 2, 3 years, I mean, will you maintain these growth levels? And in some of the previous calls, our aspiration was to get to double-digit EBITDA number, which we used to do earlier from '17/'18. And will we get to double-digit EBITDA number on that?

Kushal Desai: Okay. So let me answer both of them. One is that in terms of growth going forward, in this year, you will see at least a 30% growth, because also, the base was affected from some of the COVID-related issues, freight issues, et cetera, et cetera. But our plan is to continue to grow and I think we have multiple growth drivers in the cable business, which is the export, if you keep a track of all the railway expansions, which will happen in terms of locomotives and coaches, there's an upgradation that's happening in terms of speeds that will take place. So there's a whole lot of things which are going on.

So I think the growth will be there. And as these plans are announced, we will continue to keep on ensuring that the products and all those things are available. There's also a step function that has happened this year in terms of business that's in the U.S. market. So the U.S. market is to pass-through. The larger portion of it is the infrastructure side. The smaller portion of it for us is the homebuilding side. So the homebuilding side will probably taper off a little bit. The infrastructure side will grow.

So without hazarding a number of whether we'll grow 30% a year, et cetera, we see that for the cable business, we will have a steady growth taking place over the next few years. And as the electric vehicle rollouts happen across the world, there will be more and more of this cable required. Because if you take any building in Mumbai, for example, and if every alternate car park requires an electric charging system, then the entire locality will have to be rewired. It's not just the building. So it's a little difficult to say what speed it will happen in, but the direction is very clear.

On the second front, where you are talking about the EBITDA percentages, so yes, our aspiration is to get into double-digit. And the more we get into some of these elastomelectric, like wind and defense and all these things, those carry fundamentally higher margins. So this year, we are targeting this 8%, 8.5%, but the aspiration is to get into double-digit.

Pravin Agarwal: That's great. So would it be fair to say that of the 3 segments, the cables is the one which is more faster or likely to grow the fastest?

Kushal Desai: Absolutely. Because the addressable market is multiple times the size of the conductor market and even if you take the entire specialty oil segment. Domestic market is over INR 60,000 crore. With the largest company, Polycab, being below INR 10,000 crore if you look at just pure wires and cables on a net sales basis.

Pravin Agarwal: That's good to hear. And in terms of our capacity, current capacity, what would be the roughly capacity utilization at a very broad level for this segment? So what I'm trying to look at is what is the incremental Capex would require to grow, let's say, 25%, 30% per annum for the next 3, 4 years?

Kushal Desai: So most of the growth, which we are expecting in FY'23 and FY'24, we have 65%, 70% of it has already been committed. Equipment orders that are coming in, et cetera, et cetera, it's wrapped within the number that Mr. Ramesh has given, about INR 100 crore coming on the cable side. And the formats which go into the U.S. market also are a little bit different. So some equipments have been ordered for that, because that business also, we continue to see growing as the infrastructure needs get added up. And if the freight rates come down, then it makes India that much more competitive also. And which they will come down, because you've already seen that consumer products are slowing down in the U.S. They carry a huge amount of huge amount of the container inventory which is there.

And one thing is container inventory, but it's also the ability to take the containers from the port and deliver it because it's a large country. So when that comes down, then automatically, it opens up for other products, and hopefully, the pricing also should improve.

Pravin Agarwal: That is great to hear. So one other correlated question to this is, in one of the earlier calls when you were mentioning on the conductor side, I remember, when you're dealing with Australia, there was a double taxation issue, which Chinese companies used to enjoy, and we had a 5% disadvantage compared to them. How does that compare in this for the U.S. market? Are we at par with our other countries counterparts from a double taxation perspective?

Kushal Desai: Europe does not have any special tax advantage to the Chinese cable suppliers.

Pravin Agarwal: So we are at par with anybody else?

Kushal Desai: So they laid a level playing field on that front. In Australia, the Chinese products are still at a lower tax level than Indian products. But there's a conscious move to reduce the amount of product which is being purchased from China to increase the spread of the supplier base. And in the U.S., at the moment, it's completely inverted because the Chinese duties are more than 20%. The Indian duty is 5%.

Moderator: Next question is from the line of Gunit Singh from CCIPL. Please go ahead.

Gunit Singh: I would like to add my questions, and most of them would be forward-looking. So if we look at the margins, margins have been quite stable at around 6% to 7% since the last 10 years or so, I would say. But I see that we achieved margins of around 9% in, I think, FY 2017. So is it appropriate to say that we have passed any efficiency improvements or any improvements in terms of improving the margins? So is this the peak margin that we can achieve? Or the company is consciously taking steps to improve the margins over anything of that sort? And what kind of margins can we expect, like, going forward for this year or maybe down the line 2, 3 years?

Kushal Desai: So I wouldn't say that these are peak margins. But given the large product profile and a little complexity of different product lines that we have, our endeavor has been to improve premiumization, and that is now evident across all the 3 businesses. And this premiumization is both in terms of products and in terms of geographies. So I think what we've achieved here is the EBITDA margin is 7.6% for the quarter. And the endeavor will be to grow that. It all depends finally which products, which markets, et cetera. I think the number that we are really focused on is the return on equity, which we think we have a better handle on in terms of being able to deliver. And that number, we are still focused on delivering 20% ROE. We are, right now, in the 17-odd percent range.

Gunit Singh: All right. So for this financial year, can we expect, like, to maintain the margins of around 7.6% or around 8%?

Kushal Desai: So I think we'll be able to maintain these margins. There will be a reduction in whatever is seen on the specialty oil and lubricant side. But there will be some improvement that comes from the cable side because of the increase in terms of the volume that'll come. I think overall, we will still see something in this range on a higher volume number.

Gunit Singh: Perfect. So in terms of the growth drivers for the company, like you mentioned that you're working 2 shifts right now. So would there be any capacity expansion? Or do we require that? And assuming across all our segments, if we run on full capacity, that is say 3 shifts, what kind of revenue can we reach in that sense? And also, if you have any plans for capacity expansion or any capacity expansion, can you please point those out as well and how they will impact our revenues?

Kushal Desai: So I had spoken about the 2 shift running at the Hamriyah facility in the UAE, and that theoretically, can be scaled up. So as a consequence, just volume is not constrained. If we actually have the product and the business coming in from customers. The oil division is not going to have any very significant Capex, because we do have capacity in place. So it's just debottlenecking the investment going on in this industry, in terms of improving digitalization and all those sort of things. But they are not very heavy-ticket Capex items. It's really the cable business that as we start, as we continue to grow, most of these projects, which are going will take care of what we want to achieve in FY'23 and to some extent, FY'24. If the market continues to remain strong in that business, we will continue to invest in it.

Moderator: The next question is from the line of Akshay Kothari from Envision Capital. Please go ahead.

Akshay Kothari: Sir, I wanted to note that you did mention that we got solar cables order from Europe, and there was a good traction from that side. Despite that, our margins in cables business have been on the lower side whereas other players are doing somewhat close to double-digit margins. So what would be the reason for this?

Kushal Desai: So players that have a higher margin profile are largely selling product in the branded wire segment. In fact, if you look like-to-like for the kind of margins that they carry on, the B2B products that they have, I think we are ahead of them with the mix of products that we have. So I think that comparison is not a fair comparison. It's not an apples-to-apples. I would look at the business mix that we have and then measuring ourselves year-on-year in terms of top line, bottom line on that.

Akshay Kothari: Okay. And sir, I wanted to know regarding the capital allocation. You did mention, at the start about the battery business, which we are doing and the dealer network of which we will be having in terms of mechanics. And going forward, how do we plan to scale our distribution network in terms of cables and Anushakti? Could you give a sense of that?

Kushal Desai: So most of it is actually an Opex cost by increasing the feet on the ground to recruit more mechanics. And then parallelly, as we reach critical mass, we will launch an electrician loyalty program on similar lines. It's not very capital intensive. It's more Opex related. And the beauty of this is that you do need to invest ahead of the curve, but you can phase out your investments, keeping in mind the amount of business which is coming through. So we've been maintaining that sort of pace. So as moment the productivity of the sales force goes up, then we're bringing in and moving to the next step.

Akshay Kothari: Okay. And sir, lastly, on the hedging strategy. Could you elaborate more on how are we hedging? Is it through some embedded derivatives? Or how is that?

Ramesh Iyer: It's a plain vanilla hedging for the products that qualifies for hedging, basically aluminum and copper. We do their hedging base for once we get an order from the customer. So immediately, we'll do a back-to-back hedging at the LME, and that's how it happens.

Kushal Desai: Just to add to what Ramesh has said. The conductor business, because it's a make-to-order and each order is of a certain size, you pretty much hedge everything back to back. Other than in the case of steel, where there is no hedging mechanism. Fortunately, steel has also started coming off.

In the cable business, the larger orders which are there, there also we actually hedge back to back. So for example, Siemens Gamesa places an order on us or Nordics or any of these windmill guys, we will only go back to back on them. Where you have a little bit of open is when you're servicing their dealer, distributor market where it's not possible to predict how much quantity will be involved. So to a very large extent, the requirement is hedged. It is a small portion, which remains open because of the lack of being able to assign a customer to the metal.

Moderator: The next question is from the line of Pujan Shah from Congruence Advisers. Please go ahead.

Pujan Shah: I just wanted to ask because partly, Apar has been pioneer and been leader in conductor, and all this conductor in cable, actually, cable. I just wanted to ask one thing. Like, in the previous, like, I take 3 years back, the con call, you have said, we always been into this developing new programs and new products, which has been a fire line, the target, which is currently now we are seeing that OPGW is the product which has been currently into this chain. So what are the current visions which can be lined up in next 5 years where there is a little bit ahead of the curve for the competition? That's my question.

Kushal Desai: So I'll take that question. So we've constantly been working on innovation. So a lot of the conductor lines which you are talking about, we started working on it 7, 8, 10 years ago. Now OPGW is picking up because data is the new oil. The railways, we have developed a whole lot. We've also developed a range of copper magnesium. Now the entire basic electrification is of pure copper. But moment you start going to high speed, you need copper magnesium. Apar is the only company that has a full product line ready.

So we are constantly in touch with customers and the planners that are there of these large customers to understand in which direction they're moving. But because there is regulation involved and all these things, it's difficult for you to determine when it will come. Like, we were already with copper magnesium conductors 3 years ago. But now we see that as they start signing up higher speed lines, we will need that.

So we continue to keep on investing in terms of this. Generally, you will find that HTLS type of conductors, OPGW, even the CTC, whatever products we have classified as premium, those products today are at the relatively cutting edge of what can be used by a customer and will remain for the next few years. And then as and when they keep coming up with more requirements, we will keep adding to it. So it's like a moving target. It's not something where you have an end destination here. As time passes by as requirements keep improving and changing. So for example, with the Indian Navy, they themselves don't know the specification of what they want 3 years ahead.

At any point in time, if you go to the Apar Khatalwada plant, you will find senior guys from the Navy there, who are talking to our chaps to see how it can be redesigned and different prototypes are being made, et cetera, et cetera. So it's a moving target. But the key here is that if you are the first part of call for customers when they have new requirements, then that is the right positioning for the company to be in.

Moderator: The next question is from the line of Amit Anwani from Prabhudas Lilladher. Please go ahead.

Amit Anwani: My first question is on the conductors business. As we have been saying, there is good contribution increase from the premium products, which is happening. Just wanted to understand what is contributing to this, I mean, largely between domestic and global market, what sort of contribution is there for the premium products?

Ramesh Iyer: So overall, proportion of exports in Q1 was about 42%.

Amit Anwani: As a percentage to premium products?

Kushal Desai: Honestly, we don't want to get down to giving granular breakups of this.

Amit Anwani: No, no. I just want to understand what actually is driving the premium products. So if you could just highlight?

Kushal Desai: So what is driving the premium products on the conductor side is as follows, the HTLS, which is a high efficiency and the conductors with the low sag, what is driving that demand is increased transmission corridors. Mainly, the transmission corridors need to increase. Power is accelerated on. Yes. So it's being driven by the increased electricity requirement in urban areas or in concentrations. That's what is driving the HTLS business. What is driving the OPGW is, has the railway lines and all the other lines, which are coming up today instead of just having a plain vanilla steel core, there is a OPGW, which is an optical ground wire call, which is on running, so that it can transmit data.

And today, the 2 companies that translate the largest amount of data in India are the Indian Railways and Power Grade Corporation of India. So all their lines, they are starting to specify now with more and more of the core coming in. Then you've got the CTC or the copper transports conductor. So that improves the quality and consistency of the core of our transformer. So slowly, customers have started specifying that because they want a better quality, the core of the transformer determines finally the life of the transformer. If something goes wrong with the core, you have to take the transformer offline and then spend a huge amount of money to refurbish it. And in the meantime, you need to have a spare one so that the circuit continues to run.

So there are different drivers to these product lines. But what I can say is that each one of these is in an area where the utilization or the usage of these conductors is growing. And that's the reason why we've classified that into the premium product. The conventional conductors have been around from the time before I was born, which is in late '50s.

Moderator: We'll move to the next question from the line of Sachin Kasera from Svan Investment. Please go ahead.

Sachin Kasera: Congrats for a very good set of numbers. I just had 2 questions, and they are a little bit more from a medium to long-term perspective. So you did mention that one of the key things that you are looking to achieve by doing all the premiumization is to try and target a 20% ROE. You're already at some 17%-plus right now. So if you could tell us that, I think the way we are going, I think we should do that in the next few quarters, but something like from a more medium perspective, a 3 to 5-year perspective, do you think that we are investing into enough new products, new premiumizations, new brands, new type of businesses, where there could be life, where we could look at even maybe a 25% ROE, say 5 years down the line? Or you think the type of business we are, we will meet over 20%?

Kushal Desai: I think aspirationally, obviously, we want to go beyond 20%. But realistically, hitting that 20% number also has been a moving target. Because I think, even in reinvesting in the business, we don't dividend out all the profit, some of the profits, 65% to 70% of the profits remain within the company. So to keep achieving a 20% ROE also is a moving number. So I think we will probably want to comment on that once we hit this at anywhere between the 17% and 20%, the company will have a very healthy cash flow. And that's something that we haven't been able to achieve after we bought the cable business and have been continuously investing to grow it.

So just to put things in perspective, in 2008, '09, the cable business was INR 100 crore business. Last year, we did the net sales of around INR 2,000 crore. And this year, we plan to look at INR 2,600 crore plus. So there's a huge amount of investment which has gone in. The opportunities continue to remain looking good. So what would you invest then? Your ROE actually does take a little bit of a knocking. But the market according to us, the market on the cable side continues to look interesting. And we have fairly good internal systems for asset allocation. And then based on that, you just seeing the turnover of the company going up and the ROE going up. So I think first milestone is to get to 20%. And beyond that, as we come closer to 20%, we'll start brainstorming on taking it further.

Sachin Kasera: Sure. And the second question was on the cable segment. You mentioned that the market is very, very large, INR 60,000 crore. And right now you mentioned that, that will be on the cable business. So what would be your aspirations in this overall INR 60,000 crore in the next 5, 6 years?

Kushal Desai: So I'd just like to correct that, INR 60,000 crore is the domestic market. And then when you start looking at markets like North America and all there are many-fold larger and a couple of times the size of the Indian market just simply because of the size of the country, which requires to be wired up. So we don't have a market share target as much as continuously wanting to grow. I think in the cable business, you want to play what Simon Sinek says is the infinite game. So because there is a long runway, you keep on working on new products, new markets, keep investing in it and it'll continue to grow.

Sachin Kasera: And you did mention that probably this is going to be the fastest driver in terms of the growth and probably, also one of the biggest contribution to your both top line and bottom line.

Kushal Desai: So ultimately, I believe that in the next 3, 4, 5 years, the cable business will become the largest business. And it's true only because of the size of the addressable market, more domestic and overseas. So we will want to continuously keep on making investments where it makes sense. As I mentioned, we have a good system internally of asset allocation. So the asset allocation doesn't deliver a certain level of return, then we would then hold back that sort of investment. But I think in the next few years, the opportunity seems to be there.

Sachin Kasera: Sure. And just one last thing regarding, you mentioned that you always aspire to become better and we also focus a lot on premiumization and new products. Normally seen that, for that becoming need to invest a lot in terms of R&D. So now that once we achieve, say 20% ROE, maybe for the next leg of journey where you want, your users, you're hungry for more. Do you think that as a company, we will need to substantially scale up in R&D, invest a lot in technology? And if, yes, what are the type of steps you are doing to do something like that?

Kushal Desai: So we have R&D facilities in each of the 3 businesses. And we have people who are constantly working on this. We don't capitalize, we just expense our own because in some of these cases, you don't know when the products will actually hit the market. So I'll just give you an example. We've developed this medium voltage covered conductors. We've been desperately trying to sell those in the Himalayan region within India. And now some business has started coming up. But we pitched this to the Nepal Electricity Authority and the Asian Development Bank. And they said that this is the number one problem that's there because as the snow settles on conductors, the conductor snaps.

So Nepal is now converting 5% of its conductors every year into MVCC. So we've got 3 years in a row, we are supplying that. Of course, it's a competitive global bid. The Chinese companies, everybody bids on it. The bottom line is what that as you keep developing products, you keep showing it to customers. You don't know where finally and which customer will actually end up observing it.

Now today, if you see Uttarakhand is in the worst shape in terms of power deliveries in the mountains. And the solution is to use the same MVCC. So now I believe that they are in touch with us trying to figure out how much money is required, what allocation. So it's like a moving target to do all these specialized products. We expense the development cost and then we also expense the cost of actually the sales. So people traveling, making presentations, pushing all that. So it's all written off in the year in which it has been incurred. Our competition doesn't know how much money we put into these products basically.

Sachin Kasera: Sure. But will you be able to quantify how much we spend in R&D every year in terms of OpEx? Any number that you can share with us?

Kushal Desai: We don't want to share that number. It's been increasing year-on-year. And as you can see from the finished product, because by saying that we spent XYZ number, it doesn't mean anything. Our company motto is tomorrow solutions today. Unless the customer buys a solution, all this is an expense. So whatever it takes for us to find the right solution for the customer, we incur it and we expense it. That is our philosophy.

Sachin Kasera: Fine. Is it increasing much higher than overall company? You say you're spending X percentage of revenue in R&D.

Kushal Desai: Yes, yes. Absolutely. Because as I mentioned, the R&D actually has 2 portions. There is 1 portion, which is actually sometimes the lower portion is to develop the product. The bigger portion is what takes significantly more time is to spec the product, because all these electrical companies are regulated. So finally, no matter who does it, if Mr. Adani wants to puts something in, he will have to get approval from the Central Electricity Authority to use that format. So it's difficult to put timelines to it, et cetera. So that's why we end up just expensing it, and it's an infinite game. We just keep on working on it.

I'll give you another example so that it puts it in perspective. So the Navy has something called pressure tied cables, which they use. So they started off with a PT10. And today, in 6 years, we are now graduating them to PT72. So that they can withstand 72x the pressure of water, so as submarines get larger and as requirements go up. So this is something which we work. And the moment the Navy says, I want to now graduate from 10 to 15, 15 to 20. We just get to work and start working with them to figure out how that can be delivered.

Moderator: The next question is from the line of Gunit Singh from CCIPL. Please go ahead.

Gunit Singh: I would just like to know what is standing today? What is the peak capacity revenue that we can expect, like, if we are operating at a peak capacity with our current capacity?

Kushal Desai: So in our oil business, we can increase the lubricant side, we are running basically the entire lubricant complex on 2 shifts. We can run a third shift to the same equipment in place. As far as white oils and all the bulk oils are concerned, we can easily match that sort of a number or more by making debottlenecking investments. On the conductor side, as Chaitanya mentioned here, and of course, it depends very largely on the mix of product. But we have headroom to go from 130 to 145, maybe 150 depending on the product mix that is available. And again, over here, our whole focus has been more, we would rather drop some conventional conductor business and concentrate on the premium product.

So in that sense, you can still increase your top line and your contribution margins, et cetera without really increasing capacity too much. So if you say, basically, you've got a room of around 10%, 15%, 20% in physical volume, but in terms of mix of product, et cetera, it could have a larger impact on the top line. And in our cable business, basically, the power cable and the elastomeric cable and the high tension cables are running at around 40%, 50% capacity. The LV cables, which are going into a lot of U.S. infrastructure, solar, et cetera, et cetera, that's running right now at 100%. And we have some expansions that are going in place.

The elastomeric mix of cables, when you put the E-beam in there, basically, that will increase by 33% compared to now because that's the capacity increase that one more machine will bring it for the cable side. The optical fiber, we have at least 50% capacity available with us, and that is just driven by market demand.

Gunit Singh: Right. Sir, can you give at least any conservative guidance for the year FY'23?

Kushal Desai: There are a lot of moving parts there. But in short, we are looking at a 25% kind of increase over what we had in the previous year. That's something that we think is possibly achievable.

Gunit Singh: All right. My last question is can you just throw some light on the INR 3,000 crore plus other liability items in the balance sheet. So can you throw some light on that?

Ramesh Iyer: This is largely part of trade payables, which line item you are talking of? Which particular line item?

Gunit Singh: don't have it open in front of me right now, but it's supposed to be Page 22.

Ramesh Iyer: Trade payables, it's part trade payables. So if it's a such a big number, it has to be part of trade payables. Maybe you can let me know separately from which source you are taking, and then we can connect on that.

Moderator: We have the next question from the line of Ritika Gupta, an Individual Investor. Please go ahead.

Ritika Gupta : I just had 1 question. Is there any update on the MOU that we signed with the Saudi Aramco base oil company?

Kushal Desai: So there is a certain laid-down process, which exists in Saudi Arabia. So it's at a very early stage. But the reason why Saudi Aramco and its loop subsidiary are talking to us is that we have the largest market share of transformer oil in Saudi Arabia, and it's part of their localization program. So it's a fairly long run out, very formal process. So you sign an MOU, then only will they entertain you to sit and meet and show you land parcels and stuff like that. So it's a process that'll take at least over a year before it can be closed.

Ritika Gupta: But do we have any, like, revenue targets that we expect in case this rectified?

Kushal Desai: So today, we do business in Saudi. During this last 4, 5 years, Saudi Arabian business actually was very badly affected. So from its peak, it was down almost 60% because of infrastructure not going in. With the current price of crude and with the current ruler there, who is pushing these programs, they have some very ambitious programs in terms of setting up manufacturing in Saudi Arabia, which is hydrocarbon or electricity-based. And so depending on how that goes, you will see. The beauty of our transformer oil and facility is that it's not very capital intensive. So our strategy would be to secure and once the MOU is done, then they'll go to the next step of allocating land and providing you on-tap utilities, et cetera. It will be right in the vicinity of the refinery.

A very advantageous situation to have if the business actually starts going up. Also, Saudi Arabia has come up with a marking system that the local content ends up giving you a weightage in terms of the competitiveness of your price. So if you're 100% import, then you will have a penalty of almost 15%. So it's like a very structured system to enable companies to come and start manufacturing in Saudi Arabia. So I think it's a strategically interesting step. It will take some time, and it's not going to skew the transformer oil numbers in a very big way. But then when you get aligned to the largest oil company in the world, then I think there are benefits that come out of it.

Moderator: We will take the last question from the line of Harsh Deokar from HT Investments LLP. Please go ahead.

Harsh Deokar: First of all, congratulations to the management for a good set of numbers. Sir, this is regarding exports. We see, if you can give in the past, from an aspiration standpoint, are we focusing our exports more than to the 25% percent to the management in 1?

Kushal Desai: So I think to sort of answer that question, our focus is actually not just in terms of what percentage of our revenue should come from exports. We wanted to be something in the range of between 40% and 50%. Given the fact that many, many markets have opened up with this China Plus One, et cetera. So if you wind back in time 5 years ago, there was no cable is really worth talking about going to the U.S. market or going to the Australian market. And the European market was completely shut to Indian players. Now they are coming in here and a whole lot of approvals and discussions are happening, inspections in the last 3, 4 months, you had people visiting who have not been able to visit in the last few years, flying in from overseas, having meetings in the factory, et cetera.

So I think if you look at that, the quality of the companies or the countries we want to focus on, those are now open for doing business. And in fact, I mentioned earlier, I think in the last or the last, last earnings call saying, all these countries are now open to doing business with India, which was not actually something that was that easily available. And if you see the destinations that our product is going, it's largely going to the United States, Europe and Australia, which are fairly advanced and sophisticated markets.

We don't have a percentage, but I think we will strike the right balance between domestic and export. On power cables, we get better realizations from the U.S. market than from the domestic market, especially on the light, on the LV cables; light voltage cables. So we are really looking at where you get the best netback, where customers are laying an emphasis on quality. And accordingly, we are targeting the different markets. I'll tell you one thing that you will see over the next few years, that the export percentage of the overall pie will remain strong and it'll be in this range or maybe slightly higher.

Moderator: Thank you. I would now like to hand it over back to the management for closing comments.

Chaitanya Desai: Thank you very much for taking time out from your busy schedules and joining us in the quarterly update call today. We wish everyone the very best of health and look forward to continued participation and interaction in future quarterly update sessions. Thank you very much.

Kushal Desai: Thank you. Goodbye.

Moderator: Thank you. On behalf of Apar Industries Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.