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Dear Sir,

We are sending herewith Concall transcript of APAR Industries Limited for Q3 FY 2021-22 - Earnings Conference Call made on **February 01, 2022**.

Kindly take note of this.

Thanking you,

Yours faithfully,

For APAR Industries Limited

(Harishkumar Malsatter)
Deputy Manager – Secretarial

Encl. : As above

APAR Industries Limited
Q3 & 9M FY22 Earnings Conference Call
February 01, 2022

Moderator: Good day and welcome to APAR Industries Limited Q3 and Nine Months Ended December FY22 Earnings Conference Call hosted by Four-S Services. As a reminder, all participant lines will be in the listen only mode. And there will be an opportunity for you to ask 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. Nitesh Kumar of Four-S Services. Thank you and over to you sir.

Nitesh Kumar: Thank you. Good day everyone and welcome to the APAR Industries Q3 FY22 Earnings Conference Call. Today on the conference we have with us Mr. Kushal Desai – Chairman and Managing Director; Mr. Chaitanya Desai – Managing Director and Mr. V C Diwadkar – Chief Financial Officer, APAR Industries. I would now like to hand over the call to Mr. Kushal Desai for his opening remarks. Over to you sir.

Kushal Desai: Thank you Nitesh. Good afternoon everyone and a very warm welcome to the Q3 Earnings Call of APAR Industries. I would like to start with an overview of our performance and then follow that up with a few bullet points on key industry updates and then I would like to give some details based on each of the three segmental performances that we have, post that we can open the floor to questions. So looking at some of the key macro-economic indicators, they were gradually getting steadied in the first half of FY22. And right until December when we had some of this Omicron variant coming in and offsetting some of the inspections and dispatches just towards the last few days of December. Even though there has been a bit of a stalling because of that, and challenging international trade environment, which has been affecting the growing export business that we have. APAR has delivered relatively steady performance in this quarter. Overall consolidated revenues for Q3 FY22 came in at Rs.2235 crores which is up 32% year-on-year. Of course, this has been helped by some of the increases in commodity prices also and it is 22% higher than the pre COVID levels of Q3 FY20. This has been largely driven by a 40% increase in the domestic business.

Exports contributed to 35% versus 40% in Q3 FY21. The EBITDA for the quarter came in at Rs. 127 crores which is about 5.7%. Profit after tax came in at Rs. 55 crores which is up 50% from the pre COVID levels of Q3 FY20 that had a 2.5% margin. Last year of course, we had the very poor first quarter because of the lockdown and then a catch up taking place in the subsequent quarters. If you look at the nine months FY22 the consolidated revenues came in at Rs. 6328 crores with an EBITDA of Rs. 393 crores which is 24% higher than the previous year. The EBITDA margin stood at 6.2%. We continue to focus on the premiumization of our business mix and with some reduced financial costs held both by working capital discipline as well as reduction in the interest rates. The profit has remained at a reasonable level and the consolidated PAT for nine months FY22 came in at Rs. 174 crores which is 56% higher than the pre pandemic period of nine months FY20.

I will now cover a few industry highlights as such. The outstanding dues of Discoms continue to rise unfortunately, it's risen 4.4% to Rs. 1,21,000 crores as of December 31st. A fall out of this is that Discoms continue to postpone the finalization of tenders for some of the pie infrastructure especially we've seen a very low demand for distribution transformers as such, which in turn has had some effect on the transformer oil market and performance of our oil division. We seen 10,600 circuit kilometers of transmission lines which were added in the nine months FY22, 17% higher than the same period previous year. Transformation capacity addition came in at about 54,928 MVA, which is 81% higher than the previous year. The government has approved Rs. 12,000 crores of a Green Energy Corridor phase two, which targets the addition of around 10,750 circuit kilometers of transmission lines and 27,500 MVA of transformation capacity, substations, and other equipment.

The key T&D players have reported an order inflow of about Rs. 13,000 crores in Q3 FY22, almost doubling from the previous quarter. But still if you consider it over a longer period of time, the number is relatively muted compared to the projections which have been indicated by the government. The Indian railways is on track to achieve a $15 billion capital investment by March 22, to enable the investment driven recovery and it also announced that it is aiming to be a Net zero company by 2030.

As per ICRAs latest bulletin, India has traded to add about 16 gigawatts of renewable energy capacity in FY23 as compared to around 7.4 gigawatts in FY21 and 12.5 gigawatts, which are expected to be in FY22. Our expectation is that the wind energy CAPEX will substantially increase and if this happens, then the expansion which we plan in our cable division for producing cables that go inside windmills will be quite well timed. And if you are able to fulfill this requirement, then it will give a major fill up to this project, about 70% market share is what we have for cables which are used within the windmill.

I would now like to move over to the segmental highlights. So we'll cover a conductor division first. So conductor division revenue in Q3 FY22 grew 27% year-on-year to reach Rs. 939 crores, which was driven by a 73% growth in the domestic business. The export business here was impacted due to delay in order execution from logistics and inspection. And some other projects been postponed by the clients due to the higher commodity prices and logistics cost. So here we have tentatively quoted a price based on a certain London Metal Exchange rate for aluminum. And the customers once they finalize the rate, the final prices are then settled. So in many of these cases, since it's well out of the original budget that they had, some of these have been postponed.

Exports contributed to 29% versus 50% in Q3 FY21. The higher value products contribution increased to 44% from 34% in Q3 FY21. The HTLS and high efficiency conductor revenue was up 55% year-on-year contributing to 18% versus 15%. And revenue from copper conductors for railways was up 96% over the same period previous year, and it contributed 17% of the revenues versus 11% in Q3 FY21. So, the EBITDA per metric tonne post adjustment recorded a historical high for the second consecutive quarter at Rs.18,987 per metric tonne. So, that's up 46% over the same period previous year.

The new order inflow came in at Rs.1886 crores which is also up 80% over the same period previous year. The total order book remains healthy at Rs. 3078 crores which value wise is the highest order book that we have in the last five years. It is up 45% year-on-year, with 54% of this order book coming from the more premium offerings. With increased competition for conventional conductors in the domestic markets, we continue to remain focused on improving the business mix towards a higher share of premium offering as well as selected export markets and this is clearly reflected in this current order book which we have. In the nine months FY22 period the conductor revenue came in at Rs. 2697 crores, which is up 30% year-on-year, EBITDA post FOREX adjustments per metric tonne came in at Rs. 16,863, up 63% year-on-year.

The new order inflow in these nine months has been Rs. 4314 crores which is up 99% over the same period previous year and is also a historical high for us in terms of order booking in a nine month period. As, I mentioned this is aided to some extent by higher commodity prices, but not to take away from that the product mix has also improved in favor of HTLS as well as OPGW and some of these higher value products.

Now, coming to the oil revenue side, the oil revenues in Q3 FY22 came in at Rs. 905 crores which is up 31% year-on-year and 54% from the pre COVID levels, the volumes have remained relatively flat. And here we've had some amount of impact due to higher freight in exports as well as foreign exchange issues in some of the larger target markets which we have like in Africa. The export contribution came in at 42% in Q3 FY22. The Hamriyah plant ran at a slightly reduced utilization at 83% in the quarter. White oil sales volume was up 4% year-on-year, whereas transformer oil volume was down 16%, largely due to a weak domestic demand which I mentioned earlier has been animating from lower tenders for distribution transformers.

The lubricants business revenues came in at Rs. 199 crores which is 11% higher than year-on-year. The industrial oil volumes were at 4800 KL for the quarter. Automotive volumes however reduced by around 26%. Partly due to slower retail sales, as well as a substantially lower demand from the tractor OEM. Where we do have a concentration. The EBITDA per KL post adjustment continued at a healthy level of Rs.6743 per KL. So that's up 119% from the previous pre COVID of Q3 FY20.

The second half FY21 that is in the last year second half, the oil segment had a historical high given the acute of shortage of base oil, which allowed for the highest pricing and margins that we had ever in the history of the company. After the supply chains have been restored in this nine month period, the performance has been more in terms of a steady state and its representative actually being higher than the Rs.5000 per KL which is our targeted margin it's been higher at Rs.6743. As we navigate the fourth quarter of FY22 there may be some challenges from higher crude prices which are at a seven year high. This is also getting added in terms of base oil prices. And also there has been elevated freight for exports. But the silver lining for us is that we have inventory which we are carrying at competitive price level. And this should help cushion the effect in this fourth quarter of FY22.

Further in the nine months period, the oil revenues have come in at Rs. 2632 crores which is 60% higher than the same period previous year. The volumes have increased in this nine-month period by 17% at 3,44,568 KLs, the EBITDA per KL post FOREX adjustment was also high at a good number of Rs.6472 which is up 6% year-on-year. The diversified product offering as well as the geographic spread have enabled to study the performance for the oil division across this nine-month period.

Now, I come to the cable division, which has had the maximum impact in the third quarter from a negative standpoint. Where the revenues have come in quite healthy at Rs. 486 crores which is up 51% year-on-year and 24% over the pre COVID levels. We have an unbilled revenue of Rs. 121 crores of exports most of which are in transit to the United States and to Australia which are both far off markets. The export businesses at around 35% in this quarter versus 16% in the same period previous year. The XLPE business in India still remains competitive. But the light duty cables, which are sold through a distribution setup in a B2C sort of environment, is been improving for the company given the greater focus that we've had. So, the value in this segment though small has grown from Rs. 17 crores in the quarter a year ago to Rs. 32 crores in this quarter.

There is a continued focus to expand the retail distribution and increased local and digital branding activities which we have commenced. The EBITDA margin post FX came in at 3.2%. And here there was an impact of Rs. 75 crores of orders which were executed at a negative EBITDA of Rs. 13 crores. And these were largely due to the effects of higher freight increase, certain polymer prices and other raw material cost. So, in this particular quarter, we've actually taken a fairly large hit on the chin and adjusted most of the executed large portion of orders which seem to be relatively unfavorable. So, that along with these Rs. 121 crores of export in transit have both impacted the bottom line negatively in the way which the accounting systems are required to be followed. So, the impact of these Rs. 75 crores of orders that we executed with a Rs. 13 crores negative EBITDA has impacted the EBITDA for the quarter by about 4%.

Demand for cables in the renewable energy installation and execution of orders for defense as well as the railways that is the rolling stock cables will benefit in the fourth quarter of FY22.

There is a reasonably good amount of execution that is expected to happen in this fourth quarter of these products. Looking at the nine-month FY22 the cable revenue came in at Rs. 1310 crores which is up 59% year-on-year. Focus export strategy has driven export revenue to grow by 140% and its overall contribution is 28% in the nine months versus 18% in the nine months previous year. The EBITDA margin post FOREX adjustment came in at 4.4%.

The benefits from higher sales and exports so far has not really been fully realized because of the higher freight costs that we had to pick up in the previous period. The company plans however, to continue to focus on these opportunities over the next several years as it is a very attractive long-term opportunity, even though there has been a temporary setback due to freight. However, export orders which are now being booked are at the current freight levels as well as the adjusted raw material prices of today.

So, in summary, we expect the fourth quarter FY22 with a healthy order book both in the conductor and cable business. Our program of improving the premiumization of products and focusing on the export business will definitely show positive results. These initiatives have a long-term positive impact on the business. Also, the growing B2C part of the wires and lubricant business. We continue to invest in that, and we are sure that there will be substantial growth coming from those segments in FY23 and FY24.

So with this I'd like to come to the end of my comments. I would also at this stage like to mention and felicitate Mr. VC Diwadkar, who has been the CFO of our company, and he has completed a long innings of 27 years, with APAR in various positions, finally culminating in the position of CFO. He is due to retire on 31st March and his successor, Mr. Ramesh Iyer is also on the call at this stage, listening on the call. And so, we wish Mr. Diwadkar all the very best and like to welcome Ramesh Iyer to the company. So, with that, I'd like to come to the end of my comments. Thank you everyone for joining the call. And we may now open up the floor for questions.

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

Maulik Patel: A couple of questions. On the cable sir you mentioned that this one order which contributed to the negative EBITDA, do we have any such more orders are there in the order book?

Kushal Desai: So, Maulik, it's not one order, there were a few orders, which were picked up in the early part of the pandemic, when everything had fallen substantially. So, a large portion of what was clearly identified by us has been actually taken in this quarter. So, there are a few more orders where we do have negotiation going on with customers on the freight side. But you will not have such a big negative impact happening, there's nothing that we see that would have such a big impact. It so happened that we cleared all these off, to try to keep as clean as slate as possible going forward, because the commodity price regime still seems to be following an inflationary trend. So the sooner that we got this out of the books, the better we thought it was more prudent.

Maulik Patel: Okay. And cable has been under any pressure, if we look at from the margin perspective that the two businesses have recovered fairly substantially, though and premiumisation is also working but in cable margin which we used to have around 9% to 10% and even if we look at on the best margin what we did post pandemic has been in the range of around 6%. So is it because of there is too much of competition in the market or is it because the orders which you're getting is more about the commodity product and less on a E-Beam cable or some specialty cable?

Kushal Desai: So, let me answer that in two parts. We had seen that the competition in the domestic market could be reasonably severe, especially coming from EPC contractors and utilities. And that's why we decided to focus on the export markets including, trying to capitalize on the China plus one strategy. Now, from a qualitative standpoint that has worked because out of the Rs. 121 crores, Rs. 90 crores is in transit just to the US and a chunk of the remaining is in transit to Australia. So, we managed to get into various new accounts there, et cetera but because of the trade impact primarily some of these margins have got eaten up.

So that's one factor, the second factor is that the defense part of the business has been very slow, during this whole pandemic period. And that is a very profitable segment for us, even though it's about 5%, 6% of the revenues the margin and profitability on the businesses is quite substantial. As we go into Q4 onwards, we are seeing some of that coming back on track. It has taken a very long time for it to fall in place, but the pay seems to be now picking up. So that's the reason why in my opening comments, I specifically mentioned that in Q4, we will find that some of this defense will play a bigger role.

The third thing is that even though we are a large player in the solar, the PV, the photovoltaic cable side, there are a number of players there and that is a little bit more competitive compared to the cables which we supply that go into the windmill. The wind side has been a little bit slow, but again now that has started picking up and we see much better off take in Q4 as well as an order book, on the wind side coming up thereafter. Especially since many other tenders which have been floated in the last couple of years, are not just pure solar but they are hybrid, which has a combination of wind and solar. So, going forward on the cable side, I know the current Q3 numbers are very disappointing, but if you add back that Rs. 13 crores for the quarter is the profitability would be a 7.2%. At the end of the day, of course one has to take into account bad orders also but just as a matter of reference, and the revenues going to the US at Rs. 121 crores is almost +20% of the revenues that would have been there, if they had been billed now these contracts are on a DDP basis. And that's the way the US market runs. So, you find that in this quarter, you have a larger portion of unbilled revenues, in future if this level of business continues it will go into a rolling cycle. So, you're kind of taking on a bigger hit in the first quarter and then after that it reaches a steady state. So, a few of these things have unfortunately come together in this quarter, but in Q4 we don't see the same impacts and you would see a better a much better number on the profitability front.

Maulik Patel: Okay. One thing I have noticed that interest cost has declined generally being a converter of base oil and aluminum with inflationary pressure on the raw material, the working capital has to move up, is it because of your strategy toward the premiumization, the working capital is not rising proportionally to the increase in raw material prices. Historically, we have seen that increase in raw material prices lead to the increase in the working capital and higher interest cost?

Kushal Desai: So, there are two factors here, allow Mr. Diwadkar to actually elaborate on this. One is that we have been fairly disciplined in terms of, especially the debtor side of the equation. Secondly, we have had the tailwind in terms of the interest rate based on the previous LIBOR, et cetera which continues to be at a decent level, but the discipline on the working capital has also helped. So, Diwadkar would you like to comment?

V C Diwadkar: Number of days have also gone down actually. So, we are sitting on some money close to about right now, you can say around Rs. 465 crores is there in cash and cash equivalent money lying in mutual fund, et cetera. So, as Kushal has explained although the commodity prices have increased. So, value increase will have impact on the interest but that impact is not there because we were sitting on good amount of mutual fund, et cetera and that money has been used.

Maulik Patel: Okay. And last question if you allow me, what's the CAPEX we spent on this year and what will likely to be the next year?

V C Diwadkar: As of now we have spent close to about Rs. 65 to Rs. 70 crores. Our budget was Rs. 140 crores but we have not spend the total budget actually, but Rs. 70 crores has been spent and something we will be spending but that Rs. 140 crores we will be spending but it is possible that we may not be able to spend the entire amount in this year actually it will get spill over.

Kushal Desai: It's a large portion of that, Maulik its coming in from two areas. One is putting in equipment to manufacture windmill cables, not only for the domestic market, but also for the export market. As mentioned on one of the previous calls that with a lot of effort. We've now got approvals from the top five windmill producers in the world, to be service and installation in India also but now we've got approval to start servicing their overseas requirements. So, we don't have the requisite capacity in place if we were to take it on a full scale and secondly, we installed one Electron Beam machine last year and we are installing another Electron Beam machine which will get commissioned around the middle of 2022. So, around the June July, August timeframe. So, this we've taken a little bit in advance for two reasons, one is that we see again, solar cables, rolling stock, defense all of this picking up and secondly, the retail offering that we have is of a E-Beam based Light Duty Cables, which is a unique we are the only one at the moment marketing that house wire and the initial response has been quite good. So, last year we did around Rs. 60 crores of revenues in the LDC, this building wires and light duty cable. This year we are targeting Rs. 100 crores and the infrastructure is being set up so that in FY23 it will get closer to Rs. 200 crores. So, that's one part of the business which is also growing rapidly. So, some of these CAPEXs are actually targeted towards the more premium offerings in the cable side.

Maulik Patel: Got it. And now with this the E-Beam machine which you expect to commission in middle of 2022, you will have four machines right?

Kushal Desai: Yes. We will have four machines.

Maulik Patel: Okay. And any CAPEX plan for the FY23, which you probably have finalized in CAPEX number?

Kushal Desai: So, FY23 there is only one other besides what is being completed on the cable side, there is one project that's on the conductor side, where we are going to manufacture in-house some components for the OPGW. So that's about a Rs. 10 crore investment, the rest of it is all basically just maintenance CAPEX. So, the CAPEX plan will start moving down, we had a plan of actually not spending this much on CAPEX, but given these few opportunities, and this whole climate change movement taking place. It was better for us to make these investments sooner than later. And the timing of some of the investments will hopefully show up in our FY23 numbers.

Moderator: Thank you. The next question is from the line of Riya Mehta, Individual Investor. Please go ahead

Pratiksha Daftari: Sir, this is Pratiksha here from Equitas Investment. So as per the conductor segment, I just wanted to understand how we look at margin here, like initially a few quarters back our HEC contribution basically, value added product contribution was lower and the margin standard impacted then, now that the contribution has come up, while the EBITDA per tonne has increased margins still remain subdued. So, how do I generally look at margins in this segment?

V C Diwadkar: So, you should not look at margin from a percentage basis, because when the commodity price increases the EBITDA margin, we are looking at on per tonne basis as far as conductor business is concerned and you should look at only on per tonne basis only.

Kushal Desai: But the one statement which you are making that the EBITDA has increased but then the overall margin on the conductor business remains relatively low that is not correct. The bottom line has moved up, pretty much in consonance with the increase in the EBITDA per metric tonne.

Pratiksha Daftari: With that around 5%, 6% margins earlier.

Kushal Desai: Don't look at it as a percentage, you got to look at it on a per tonne basis because, right now aluminum is a historic at all-time high. Copper also is an all-time high. So percentage is not the correct way of looking at it, you look at it on a per tonne basis. Because at the end of the day the business gets a conversion margin and then a premium for a product that is a value-added product.

Pratiksha Daftari: Okay, understand. So, what would be given these aluminium and copper prices right now, what is a good way to look at it, earlier we used to say that we used to target Rs. 12,500 EBITDA per tonne. With these kinds of commodity prices what is the rate that we should look at, what will be our target year?

Kushal Desai: So, we are still targeting Rs. 12,500 a tonne is a minimum, but we have been getting higher as the mix of particularly these high efficiency conductors, et cetera have been increasing, I will Chaitanya here to comment on this.

Chaitanya Desai: So, it has EBITDA per tonne has gone up also because we have reduced some of the exports of the conventional conductors for the reasons that were explained earlier. So, when that conventional business comes back on track, because now we are getting the new business at the prevailing freight rates and the costs which are existing, then that will again tendancy to bring down the weighted average EBITDA because of the volume which is having gone up on the conventional conductors.

Kushal Desai: We will still target Rs. 12,500 as a minimum and try to beat that number. So, what Chaitanya is saying that as the conventional because now we see people wanting to price, they are running out of time, on the projects that they have, so they have price the conventional conduct orders, which were pushed out and they'll start executing, so you will see a volume fill up taking place. So, it will be accretive to the bottom line. So, the per tonne will then come down from the Rs. 18,000 level to some extent.

Pratiksha Daftari: Understandable. And in terms of our execution period, generally what I understand is that the execution period is about two quarters. So, with the order book now coming up to Rs. 3000 crores do we see the execution executable the next six months?

V C Diwadkar: Right now we are having 98,373 metric tonnes of pending orders. So, that is the equivalent to 10 months actually.

Pratiksha Daftari: Okay, all right. My next question is actually on oil front. So, as you mentioned, that with the coming quarter impact of high crude oil prices will start coming in. And you also mentioned that there'll be inventory. So generally last six, seven quarters, we've seen like Rs.1000 per KL EBITDA and at peak it was almost Rs.10,000. So, is it good to assume that the volatility is kind of taken care of and now we will be in a steady part of passing it over with whatever lag that you may see?

Kushal Desai: Yes, so I'll answer your question in two parts. One is that, what you've seen in the last nine months has been a little bit more steady state in terms of availability of raw materials and there have been ups and downs in crude like you had crude going up, then it went down and again come up, but the product mix have actually helped, as we've added more volumes coming on the lubricant side as well as the business in the Middle East from the Hamriyah plant also has increased. The second part specifically with respect to the crude prices and all that going up, what happens is that we buy quite a lot of products on contract, almost 70% of our base oils are bought on contract. So, the contract has a lag effect, so the increase takes place slower than in the spot market, and when the prices fall then the reverse order takes place. So, my point here was that even though crude has been going up and has shot up in the beginning of this quarter, because of the inventory as well as a contract which we have, we hopefully should not see much of an adverse impact in Q4 of FY22, if it is going to give us that cushion for us to be able to handle and ease through the increases in prices to customers.

Pratiksha Daftari: So, generally we would be able to pass on these increases to the customers also, so that would usually take.

Kushal Desai: We are able to pass them on. But what happens is that if your inventory levels are unfavorable in terms of quantity as well as the price level, then you end up having a leakage you end up absorbing, given the time that it takes for the increase to take place, but this time we feel that we have adequate amount of time available on hand to be able to increase the prices in the market.

Moderator: Thank you. The next question is from the line of Anand Shah from GK Globus. Please go ahead.

Anand Shah: My question was, that as you mentioned that the orders have been delayed, so do you expect the orders to be delayed in the following quarter as well or are you expecting them to fall in line?

Kushal Desai: No, we don't expect them a delay in terms of order execution, because in many cases, customers had already delayed placing the orders and that's why if you would see in some of the previous periods, commentary and detail, the order book had gone down to some extent. But there are certain timelines in which these contracts have to be executed, the transmission lines and things like that. So we don't really expect a delay, the fourth quarter execution should be reasonably smooth. The only thing that can delay and it doesn't look like it will happen in this quarter is in case there is a further delay on international travel for some of the inspections which are there. But given the current scenario of COVID it seems like every country things are improving as opposed to getting worse. So our sense is that, Q4 order execution should be pretty much on track, both conductor and cable.

Anand Shah: Right sir, thank you very much. And lastly, I will ask what is your forecast for the conductors business in the quarter four and for the next year financial year 2023?

V C Diwadkar: We are likely to do around 30,000, as far as volumes is concerned, in the Q4 as it stands now and we are working on the budget right now, for the 22-23. And it has not been firmed up as of now.

Kushal Desai: But I will just specifically mention couple of things in there, that for the first half of the next year there is a certain amount of visibility given in the order book that's already in place. That order book has a good component which is about 54% of the current order book has products like high efficiency conductors, HTLS, OPGW and some of these RODS, etc which are more premium. So the next nine months the execution looks relatively good. There are more tenders and orders coming up. And the trend for these two products especially which is high efficiency conductors/ HTLS and OPGW is only going to increase with time. So, the outlook for conductors actually looks relatively good for next year in general.

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

Nemish Shah: So, I had a question on the conductor's segment size. So, like, you mentioned that the current order book almost 54% of orders comprise of the premium products. So, just wanted to understand the coming pipeline, do you anticipate a similar mix also for us going forward?

Chaitanya Desai: No, actually going forward I expect more of the conventional orders coming in which last several quarters was subdued. So, as a percentage, we may see a lot more of conventional orders. But having said that, the growth of the specialty products relative to conventional will also grow. But it's just that last few years, we saw a huge drop in the conventional orders that this sort of comeback.

Kushal Desai: Just to explain it, just from a slightly different angle is that, you have a certain quantity of HTLS, OPGW, et cetera which is already there in this order book. So, that quantity is likely to be there and grow because the trend is of a lot of these getting finalized. At the moment there is less conventional conductor orders in the order book that will go up. So the percentage may reduce of this from 54%, but the overall HTLS as a premium product as the absolute number will not necessarily go down by that much, it will still continue to grow. So, I hope that kind of puts it in the right perspective.

Nemish Shah: Yes, I got that, thank you. So, like Diwadkar sir mentioned that this pending order book will be executed in the coming next nine to 10 months. So is it fair to assume and given that this quarter's revenue almost 45% of the revenue contributed by the premium product. So, is it fair to assume that at least for the coming two, three quarters the EBITDA per tonne will be similar to what we have delivered this quarter?

Kushal Desai: No, the EBITDA per tonne will go down slightly because as Chaitanya mentioned earlier that, some of this conventional conductor execution is going to start from Q4 onwards, which is also a part of this order book. It will be well over that Rs.12,500 per tonne which is what we are targeting. So, what you will see is that the per tonne will go down but the total volume will go up.

V C Diwadkar : And totally EBITDA will also go up, and the bottom line will go up, but the EBITDA for the conventional conductor is lower and that is why it will bring down the overall EBITDA.

Nemish Shah: Lastly, a few data points can you just share what was the LC number for this quarter and the net debt position for this quarter?

V C Diwadkar: The long term debt is Rs. 250 crores, short term is Rs. 51 crores, cash and cash equivalent is Rs. 465 crores and the interest bearing LC FOREX is Rs. 996 crore and domestic is Rs. 1123 crores.

Moderator: Thank you. The next question is from the line of Vikas Khemani from Carnelian Capital. Please go ahead.

Vikas Khemani: I had slightly broader question, if you see from 2017 to now, broadly we are in a broader EBITDA range of in and around Rs. 450 to Rs. 500 crores. Now, there's a very big and rightfully there has been a very, very sort of muted investment cycle and environment but not so good. But with the environment changing substantially, #A, first of all your view on that how are you seeing environment over the next couple of years changing and if that were to sort of happen, what does it mean for APAR, where we can be in let say two, three years because we've also done CAPEX in last four, five years CAPEX of Rs. 400 crore. So, how do you see that keeping in mind broader environment?

Kushal Desai: So, Vikas in terms of the way we look at it is that in the next few years we will see certain segments growing at a fairly good pace, especially those which are falling into this whole energy that have been added on this whole ESG side, we will see a lot of wind power getting added you will see solar continuing to get added transmission lines also getting added evacuating power from these into the grid. Plus you will see this optical fiber because today, data is like the new oil. So, all the lines are also having this fiber optic core in it, which is the OPGW, so we see the conductor side of the business continuing to, at least the premium offerings is continuing to grow. Our strategy on conventional conductors is that we want a certain minimum margin if it doesn't fall into that economic model will allow the business to drop, but the premium offerings which we have, we expect that to continue to grow on the conductor side. Similarly on the cable side we are actually very bullish on the cable business because two areas, one is that you've got a lot of infrastructure getting added in India as well as overseas. And the two markets that we have targeted is the US and Australia where there was a very, very strong presence of Chinese cable companies and the customers are also very interested in diversifying their sourcing base. Both of the economies are actually very advanced in terms of the kind of requirements they have quality standards, et cetera, et cetera. So, we see again electric infrastructure on the cable side driving one side of the business.

Secondly, as the carbon footprint has to be reduced, you will see the entire public sector or not public sector, public transport sector growing So, there'll be more trains and networks every city in the world will have metros, we have a presence in cables on the metro side. In fact, the Australia jobs are running, the main customer is Sydney Metro, and they're rebuilding and expanding their metro systems there. So, we expect this to happen across geographies around the world, because the carbon footprint of an electric run Metro is much, much lower than if people are using any other form of transportation. We also see this EV and electrification coming up, especially in urban centers. And on the cable side, we have not only a focus in terms of cables that go into the charging infrastructure. But also, we have been, we've developed a set of cables for batteries as well as electric vehicles, which we are in the process of getting approved from various manufacturers in India as well as we started showcasing the product to even some people overseas. So, the bottom line is that both of these areas on the cable side will grow. The third dimension that we're looking at on cables is to grow the LDC business, some of our competitors who have come up with better numbers, not only in terms of more steady profitability, but also a better cash flow cycle in cable have had a large LDC business which is a building wire and light duty cable business. So, that's something which we are growing, we have a good offering in the form of E-Beam house wires, which are the best in class in terms of short circuit and other technical performance. And so, we have seeded it in certain markets have been successful there and now have been growing so by FY24 you will have like pretty much a pan India presence on the LDC side. So, these are some of the areas where I see big growth taking place on the cable and conductor side.

As far as our oil business is concerned. Our lubricants side of the business continues to gain market share the industrial and automotive side and then all this electric infrastructure comes in, then transformer oil will be an automatic beneficiary. So, to answer your question where you're saying what will happen to the EBITDA of the company. So the EBITDA of the company can easily grow 15%, 20% a year, if these things fall in place.

Vikas Khemani: And for this, most of the investment is in place there you don't need to spend significant in CAPEX?

Kushal Desai: we have done a large amount of the investment. So, the investment going forward, our lubricant business require almost just maintenance CAPEX. Conductor business also doesn't require a very large amount, it's just debottlenecking. And, as the product mix changes, then you got to make certain investments to be able to cater to specifications that utilities come up with, but no big ticket item, it's the cable side where we will continue to invest, but you will see again there also a drop, so, the free cash flow in the company should start substantially increasing from FY23 onwards. In fact, even this year there is a more positive cash flow that will come compared to previous years, even though we have made these investments because of discipline on managing cash.

Vikas Khemani: At the EBITDA margin, if all these things happen then EBITDA margin will tend to expand, we should probably go with the more value added, more towards 8%, 9% or it will remain 13% kind of range?

Kushal Desai: So, percentages are a little tricky for us to be able to take a call on but, if you look at the absolute rupee value of EBITDA per tonne or per KL basis, and you aggregate that then that should go up by at least 15%, 20% over what we will see this year. We are already at Rs. 393 crores in the nine-month period, it will be more than proportionally it will grow in the fourth quarter. And then you can see in 15%, 20% growth in the years coming after that.

Vikas Khemani: So in the two, three year timeframe we can kind of have a good shot at hitting Rs. 1000 crore EBITDA basically?

Kushal Desai: Well, Rs. 1000 crore, I wouldn't be hanging my hat on that. But as I said 15%, 20% growth is very much possible over the next couple of years. So we will be at close to Rs. 500 crores this year. And then you get to Rs. 600 crores, Rs. 700 crores, that's sort of progress.

Moderator: Thank you. The next question is from the line of V Kandaswamy, Individual Investor. Please go ahead.

V Kandaswamy: Now that the base oil prices have gone up, obviously transformer oil price will all go up, we have inventory of base oil at low prices. So, do you expect a substantial price in the per tonne margins in transformer oil in the current quarter. And whatever is the inventory we have, how long it will cater because you have a low cost inventory, our plan is higher EBITDA margin obviously. So with the current stock, how many months of requirements will be taken care of. That is my first question, I'll come to the next question after your answer.

Kushal Desai: So, we have, if you look at the pipeline which is there between the inventory which we hold in the tanks and what is on the water arriving into India, the inventory that we have which is already firmly priced is a little over two months. So, now I don't see us being able to make some sort of a massive windfall with this, because we're not the only guys holding inventory, even competitors are holding inventory. And it takes time to go to all the customers and increase prices, some of the sales takes place against price variation clauses that IEEMA has. The point I'm making is, that we don't expect that with this increase in the crude we will have a very unfavorable situation where there is a big price leakage that takes place, where your cost has gone up and the customer haven't increased the prices. This all scenario has happened in the past. But we don't believe that to happen this time, because we have the 60 days worth of stock with us, which is sufficient time I believe to be able to get prices adjusted in the market.

V Kandaswamy: The only segment sequentially we can see better margins, can I put it that way?

Kushal Desai: We will see a steady market. So you will see the EBITDA per KL will be in the same at least in the same vicinity. Even though you will have an inflationary environment.

V Kandaswamy: The second question is on the cable side**,** now that the budget has said about optical fiber cable networks**,** how big is our OPGW network so that now we can cater on a very large scale. Are we equipped for that or we are only mix player where you have very high margin in OPGW cable that's all, or we may be able to scale up significantly in line with the government's plan and make with optimum benefit out of that?

Kushal Desai: So, there are two separate products OPGW is one product line, and an optical fiber cable is another product line. The OPGW is basically an earth wire that runs on a conductor network that carries a fiber optic in its core. So, companies like Power Grid, Railways are the people who adopt this OPGW as an earth wire. Otherwise in the old days, the earth wire was just a galvanized steel wire now in this case, it's a galvanized steel wire with a core in it, which is fiber optic. So, it is a niche product. But today every new transmission line is being looked at with an OPGW core. And so, the market itself is expanding, the market size as we mentioned on previous calls to expand as much as about 50,000 kilometers a year. And we have capacity in place to be able to pick out about at least 25% to 30% of that market share. So, you will see that as a steadily growing line item in our conductor businesses sort of revenue. The other big competitor based in India is Sterlite, which is now, it is under Sterlite Transmission, which is part of the power business. So, they are the largest manufacturer of fiber optic cables as well as the optical fiber in the country. So obviously, they do have some benefit over competition. But we expect them, we are targeting 25%, 30% market share at least going forward and requisite capacity is being expanded right now. That was what I mentioned earlier in the call, so that we are in a position to cater to these increasing requirements.

V Kandaswamy: We'll be maintaining our market share, or we'll be able to increase our market share in the growing market?

Kushal Desai: So the current market share, the market at the moment is relatively small, it's only from the last quarter the order book of OPGW has started increasing. So our market share also has been increasing because previously this was dominated by players from China who used to import but with the current tendering structure which is in place. And the Atmanirbhar Project, domestic manufacturer actually benefiting from it. Our market share is relatively very low in OPGW historically, now it's in that 25% range, and we expect it to be in that 25%, 30% range going forward.

V Kandaswamy: So, we'll be going in-line with the market?

Kushal Desai: Yes, it will be growing faster than the market because we had like a 10% share previously, now it will be in the 25%, 30% range.

V Kandaswamy: I thought we can be in 30%, we are saying it will be remaining in that range going forward and the market is also growing. So that means you are expecting to grow in-line with the market?

Kushal Desai: Yes, in a way yes.

V Kandaswamy: Fair enough and the second point, On speciality oils are we not focusing much on that, that is why margins are not much higher in white oil?

Kushal Desai: No, white oil the margins are except for the high end pharmaceutical range of products, white oils are the most commoditized of the offering that we have. So, our focus is to actually grow some of the high-end transformer oil and are industrial and automotive lubricants side which is where the margins are relatively better. And that is something that we have continued to do. So, you see that even in the nine month numbers, the industrial and automotive per metric tonne or per KL margins have been reasonably good and now they're reaching a certain level of steady performance.

V Kandaswamy: Between industrial oil and automobile oil, where do you expect the faster growth for your company in terms of margin?

Kushal Desai: So, both of them go on different track, the industrial oil consumption increases with the industrial activity in the country. So, more manufacturing taking place automatically industrial oil consumption is higher, the automotive side is fundamentally a function of how much grows on the commercial vehicle side and to some extent on the passenger car side. So, our sense is that both of them will grow industrial is something that we would expect where the growth, the longevity of growth is much higher, because as more and more industrialization in India takes place, more and more automated manufacturing takes place, the amount of industrial oil required will go up. If you look at the pecking order, we are actually higher in the pecking order in terms of industrial oils compared to automotive. Where on the automotive side there are number of big MNC companies also like Valvo Line and Total they are present, whereas they have relatively a much smaller industrial oil offerings, same thing with Castrol. Castrol is very, very strong on the automotive side they have a smaller industrial oil offering. So, our expectation is that, the two are mutually exclusive. If you try to grow industrial oil, it doesn't take away anything from you growing automotive oil. So, we are pushing both parallelly.

V Kandaswamy: My question is slightly different. I am just asking whether you are able to grow faster in industrial where you already have a niche or in automotive where there is intense competition as such. Hence, both are not complimentary or supplementary, so they are in three different direction I do agree with you. But where do you see growth in this aspect?

Kushal Desai: We are growing at almost a similar pace, because on the industrial side, we are focusing more on specialized products and our margins are higher. So, the sales cycle is a little bit longer. In the case of the automotive our market share is relatively not very high. So there is a lot of wide space available for us to fill in. So, both of the products will grow at a similar pace.

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

Pavan Nahar: Second was, Kushal and Chaitanya, I just wanted to ask a few questions. One was, there was a mention about the fourth quarter conductor volumes, was it 30,000 or 40,000 ballpark?

V C Diwadkar: 30,000.

Pavan Nahar: Okay, got it. Then the other thing I wanted to ask was, the oil business overall volumes have been pretty robust in terms of growth this year. So for next year, what do you think we could do in terms of volumes and per KL of course we will revisit it later, given so many changes, but I'm just trying to have a break up.

Kushal Desai: So, Pavan in the oil segment, there are certain groups were we want to target systematic growth in volume. So on the industrial and the automotive side, we are targeting a 10% volume growth, to take place between the domestic and the export market. On the transformer oil side we would see at least my expectation is that there should be at least a 10% growth because it's de-grown from previous periods. And there is again a mentioned in the budget, I don't know what the fine print will be and how soon it will be rolled out. But as the privatization of Discoms takes place. There is a lot of improvement that is required on the distribution transformer infrastructure. So when that kicks in, you will see a step function growth happening there. We continue to win more business overseas. At the moment, where the difficulty of predicting the growth is that the freight cost has become very high to certain geographies where we were seeing increased market share. Like for example, in Australia, Latin America, we were growing, our market share in transformer oil. Today the freight from India or from Jebel ali, from Mumbai or from Jebel ali is almost 30%, 40% higher than the freight from a US port or a European port to these locations. I guess because the reverse haul is cheaper with a lot of containers stuck in these places. So these are the area, notwithstanding that the areas where we are focusing on growth is the auto industrial side, and the transformer oil side. The white oil is a little bit of a filler where in tactically makes sense for us to sell product and we make the minimum margins required, we will then push the product, but we just don't want to put volumes just to hit a total number of kilo liters and we end up selling if we don't make the right margin levels.

Pavan Nahar: Okay, so we've done about 345000 KL in the nine-month period which is 17% up Y-o-Y, I understand last year was a decline so we are pretty much coming back, a 10% more than let's say FY20 levels. So, next year on this 415 assuming that the trend continues, and we do about 450000 KL this year. So can we, again I understand that there are challenges and in fact there are serious challenges, and despite which these numbers are coming, so that is my compliment. But can we assume like a 10% growth so ballpark, let's say 500,000 KL next year?

Kushal Desai: Let me answer the question, may not answer it exactly. But, for next year's plan we are targeting at least a 10% growth in our auto, industrial and transformer oil size. So these two would contribute to approximately 65% of the revenues of the company. So in that 65%, by volume you should see a 10% growth. On the remaining 35% we will take a tactical call because freight and other things play an important role on the white oil. And consequential business, one other segment that I didn't mention where we are seeing growth taking place is on the automotive side. Again, this year the automotive numbers are slightly subdued. As you see more delivery of passenger vehicles and commercial vehicles taking place, our rubber process oil segment will also automatically grow. Some product offerings that we have there where, we have a very strong market share in our position. So if the market category grows automatically we grow then.

Pavan Nahar: Got it. So, basically, let's say the overall and in terms of per KL, do we think we can maintain this number next year ballpark 6500?

Kushal Desai: Our target is to be able to maintain it 6000. 5000 is like a minimum that we drive, but at the moment we are upward of 6000 and we would like to be in that ballpark. One last thing I mentioned Pavan is, that besides the per KL in our oil business, the free cash flow coming out of the oil business will continue to improve year-on-year because there's very little CAPEX investment that's required. So, getting generated is going to be and we intend to use some of that to improve the LDC business and things like that, which are and the retail side of our automotive business.

Pavan Nahar: Let me then use this absolute number you've done nine months Rs. 220 crores of EBITDA in the oil business, which is the largest segment for us now, at this moment. And so can we assume that this trend of Rs. 70 to Rs. 80 crores continues per quarter?

Kushal Desai: Yes.

Pavan Nahar: As Rs. 300 crore, even without growth this Rs. 300 crore number should hold?

Kushal Desai: Yes.

Pavan Nahar: Then the conductor side of the business and ensure enough the fourth quarter will see more traditional conductors than this and for next year, what is our best guess in terms of volumes, so from let's say, about 100,000, 105,000 tonnes this year, where could we be next year and in terms of EBITDA per tonne?

Chaitanya Desai: More like 120,000 tonnes or so for the year and in terms of EBITDA as we've been mentioning, it should be Rs.12500 per tonne.

Pavan Nahar: Okay, fine. I'll take that number. Then, Kushal, for the cable business somehow in my notes on my Excel sheet what I see is that, we had, I presume an aspirational number of Rs. 2500 crores of revenues was it for FY23?

Kushal Desai: Yes, so, this year we will cross Rs. 2000 crores of revenues. And for FY23 our expectation was to target a growth of about 15%. So, you will be in the range of around Rs. 2300 to Rs. 2400 crores, based on the current commodity price level. With an EBITDA which is at least in the 8% to 10% range on that number. You have to take an 8% on that you're looking at Rs. 190 to Rs. 200 crores. When Vikas had asked the question earlier, this thing was at Rs. 600 crores of EBITDA is what one can look at.

Pavan Nahar: Absolutely, that's the number even I am getting after doing this math. And then the other question I would ask is. I'm pretty much done. So, thank you once again, and looking forward to reaching that 20% ROE number.

Moderator: Thank you. The next question is from the line of Pratiksha Daftari from Equitas Investments. Please go ahead.

Pratiksha Daftari: Thank you again for the opportunity, just wanted to confirm the LC linked borrowing?

V C Diwadkar: Forex LC is Rs. 996 crores and the domestic LC Rs. 1123 crores.

Pratiksha Daftari: Okay, Libor Linked is Rs. 996 and domestic is Rs. 1123 crores?

V C Diwadkar: Correct.

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

Pravin Agarwal: I have a couple of questions, one is on the cables side. Say, couple of years ago, we were looking at say around, we were making 10% around EBITDA margins. And I understand that currently in the market there's a lot of competitiveness and it is not off take or some type of cables we make, but do we think that in next a couple of years we go back to that 10% EBITDA margin range on the cable division side?

Kushal Desai: Mr. Agarwal, our sense is as I mentioned, while answering Pavan Nahar question that, our target is to get to 8% to 10% with the current values of metal and polymer, et cetera. One thing that actually has led to this getting reduced also in this year is that, there are certain components like polymers for example which are not necessarily covered under a price variation formula, you never had polymers going up, in the last 12 months PVC and some of these excel PE compounds have gone up 90%. So, whenever you have a bidding kind of environment, you would have this sort of a pressure taking place, because there is no formula to pass on the Polymer. The way we are mitigating it today, we are quoting only for shorter periods of time. And if there is a longer period of time, we are asking for a new variation clause to be put in on to synchronize it. So, longer term our expectation is that, with the current levels of polymer and metals, et cetera, targeting around between 8% and 10% EBITDA of the Cable side**.** Stability can come up provided we end up getting a steady state of business coming on the wind and defense and some of these segments. We've had a very low proportion of that in the last four, five quarters. But, from the Q4 onwards it's showing a higher percentage based on enquiries order books, et cetera.

Pravin Agarwal: So, with the prices going up, let's say if you were running our plants for the cable division at 100% capacity, what would that translate to revenues, say for a quarter we run that at 100% capacity, what would that translate to in terms of revenues?

Kushal Desai: So, after we complete the expansion on the windmill for the cables that go into the wind, et cetera. Then we are looking at around between Rs. 2700 and Rs. 3000 crores, with a current mix.

Pravin Agarwal: Understood, thanks for that. See, the other question I had around the defense revenue, I understand over the last few years, that's something which you might small it has grown quite rapidly. Last, I remember sometime during last year's call we mentioned if I remember correctly around Rs. 170 odd crores, I thought in that ballpark we are making for defense?

Kushal Desai: No, defense we had reached up to about Rs. 40 odd crores on the defense side, and this year, if you look at, let me just pull out the numbers here. So, we were at around Rs. 50 crores in FY21. So, this year the number is relatively very muted because most of the business is coming in only in Q4 on the defense side. It also depends on the speed with which especially you see the intensity of cables were highest in the Indian Navy. So, depending on the rollout of submarines, and brigades and all these sorts of things, the cable requirements come up. So, at the moment, there are some very aggressive plans in place, but we need fructify one of the things that has been brought up in today's budget is an increase in the Make in India portion of what the defense establishment buy. So, that is being targeted to be higher than 65% now, so, if those things happen, then our cable requirements to defense also will start increasing, but FY24 will go back to around Rs. 50 odd crores, this year we will be in the range of around Rs. 25 to Rs. 27 crores only.

Pravin Agarwal: Okay. One my final question or point I want your thoughts on, is targeting we target EBITDA per kilo liters or EBITDA per tonne in the conductor or the lubricants division. But let's say, I have a more theoretical question on this say, if raw material prices go up by 100%. And if we target the same EBITDA per tonne or EBITDA per kiloliter, our return on equity will probably go down by half because our capital outlay will just double. So, is there any thought around that,

that we should at some level also target some absolute EBITDA percentages levels for each division rather than just only looking at per liter or per metric tonne as it is early?

Kushal Desai: Mr. Agarwal what we end up doing is when we do our internal costing is, so we target an EBITDA per tonne but then depending on the finance cost associated with the execution of the order, there is a modification that we would make as the quote for it. So, if the prices of all the metals and everything go up higher, then the EBITDA per tonne that we would target from that customer would be adjusted, upwards to compensate for the cost. So, here what has been happening today is, as the metal prices, et cetera have been going up, but the interest cost has been lower simply because of the lower interest rates which are involved. So that's why, we are still seeing Rs.12,500 a tonne. If the interest rates go up, and the metal prices also remain elevated then obviously we will revisit that number to make an adjustment for the finance cost involved in running the business. I hope that addresses your question.

Pravin Agarwal: Yes, that address. So, 15% to 20% ROE is something which the aspirational number, we continue to target that in a medium term?

Kushal Desai: So, everything has to be worked backward from that, that is the target. And then based on that target we are trying to work backwards. If you take nine months, we are looking 15% ROE and the fourth quarter hopefully will be a little bit better. So we are in that 15%, 20% ballpark number that we are talking about.

Moderator: Thank you. Ladies and gentlemen that was the last question for today. I now hand the conference over to the management for closing comments.

Kushal Desai: Thank you. I thank you everyone for participating in our Q3 FY22 earnings call, just as closing remarks, we are reasonably optimistic in terms of the way we see business going forward, hopefully with Omicron not creating as much of a disruption as when it came on, the fourth quarter of this year should be a little bit more predictable in our execution. And we go in with a reasonably healthy order book in our cable and conductor business as we enter the next financial year. The oil business also, as I mentioned, is on a fairly strong wicket and should deliver good free cash flow.

Also, you will see a lot of more branding going on, at least on digital media as well as in BTL activities in the next two years around our offerings of LDC and lubricants. And, if those offerings are successful, then that will improve the earnings quality of the company and hopefully the valuations as that percentage grows. So with that, I just like to thank everyone and publicly thank Mr. Diwadkar for, he is still with us for a couple of months. But this may be his last earnings call in which he will be taking an active role. So thank you, Mr. Diwadkar and thank you everyone for your time.

Moderator: Thank you. Ladies and gentlemen on behalf of APAR Industries Limited, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.