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APAR INDUSTRIES LTD.

SEC/2907/2020 **E-Filing** 29th July, 2020

National Stock Exchange of India Ltd. "Exchange Plaza", C-1, Block G, Bandra- Kurla Complex, Bandra (E), **Mumbai – 400 051.** **Scrip Symbol : APARINDS** **Kind Attn.: The Manager, Listing Dept.**	BSE Ltd. Corporate Relationship Department, 27th Floor, Phiroze Jeejeebhoy Towers, Dalal Street, Fort, **Mumbai - 400 001.** **Scrip Code : 532259** **Kind Attn. : Corporate Relationship Dept.**

Sub. : Submission of Investors Concall Transcript – for Q4 FY 2019-20

Ref.: Regulation 30 and all other applicable regulations, if any, of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, as amended from time to time.

Dear Sir,

We are sending herewith Concall transcript of Apar Industries Limited for Q4 FY 2019-20 - Earnings Conference Call made on June 26, 2020.

Kindly take note of this.

Thanking you,

Yours faithfully,

For Apar Industries Ltd.

Sanjaya Raju Kunder

Digitally signed by Sanjaya Raju Kunder
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(Sanjaya Kunder)
Company Secretary

Encl. : As above

Apar Industries Limited
Q4 FY20 Earnings Conference Call
June 26, 2020

Moderator: Ladies and gentlemen good day and welcome to the Apar Industries Limited Q4 FY20 Earnings Conference Call hosted by Four-S Services. As a reminder, for the duration of this conference call all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. If you should 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. Samyak Kapoor, Four-S Services. Thank you and over to you sir.

Samyak Kapoor: Thank you. Good afternoon, everyone. On behalf of Four-S Services, I welcome all the participants to the Apar Industries Q4 FY20 Earnings Conference Call. Today on the conference, we have Mr. Kushal Desai – Chairman and Managing Director, Mr. Chaitanya Desai – Managing Director and Mr. V. C. Diwadkar – CFO, Apar Industries. I would now like to hand over the call to Mr. Desai for his opening remarks. Over to you, sir.

Kushal Desai: Thank you. Good afternoon, everyone and a very warm welcome to the Q4 FY20 earnings call of Apar Industries. These are really unprecedented times. We are all sitting here far away from each other, maintaining very safe distances and yet remain united in our efforts to move forward despite all the pressures of this pandemic. Wherever you're logging in from, we really appreciate having you with us today. And we wish you the best of health. Let me start this call with a quick industry update. Then I will cover an overview of the performance of the company and then a more detailed version of the segmental performances, after which we can throw open the floor for questions.

We had a truncated March 2020 and in fact it hurts us with Apar and all the three businesses, because several of our product lines actually need inspections before delivery. It is really the busiest part of the year and with the suddenness of the lockdown several hundreds of crores worth of potential sales was missed. In our B2C business, we lost the entire year end invoicing and collection cycle. In spite of that, in Q4 FY20 we've reported consolidated revenues of Rs 1,814 crores, which is a decline of about 26% year-on-year,and EBITDA of Rs 103 crores which is on a decline of 25% year-on-year and a profit after tax of Rs 23 crores which is a decline of 47% year-on-year.

However, for the full year, Apar delivered a performance with consolidated revenues at Rs 7,465 crores, which is a decline of 6% year-on-year basis, our reported EBITDA is Rs 468 crores, which is marginally lower by 1.5% compared to the previous year and profit after tax came in at a Rs 135 crores which is in line with what was posted in FY19. This is after making provisions for doubtful debt in the year of Rs 29 crores versus Rs 5 crores in the previous year. We've been a little more aggressive in making these provisions taking into account various customers with whome we have been pursuing and are now in NCLT in given the current circumstances which exist today we thought it was prudent to be more aggressive in making provisions.

I will now cover a few highlights in the T&D sector such.

As per CRISILs estimates, the pandemic will cause DISCOM cash flows, cash losses actually, to almost Rs. 58,000 crores in FY21, mainly due to lower industrial demand which has been there in the current quarter. Rs.90,000 crores bailout package has been announced in the month of May for the stress discounts that's part of the Atmanirbhar Bharat Abhiyan to tide over the COVID-19 pandemic. We expect this to provide some short term relief. A much awaited second phase of the power sector reforms saw some traction with the Ministry of Power issuing draft proposals for amendment to the electricity act 2003 in the month of April'2020. FY20 actually saw some good traction in TBCB transmission projects with an award of 11 LOIs carrying an aggregate value of over Rs. 13,500 crores in 10 projects. There are 20 more transmission projects which are under bidding for an estimated cost of Rs. 23,400 crores. In FY20, India added 11,664 circuit kilometers of AC transmission lines, which is down 48% over the previous year, 65,230 MVA of AC substations transformation capacity was added which is down 10% year-on-year and 3000 MW of inter-regional transmission capacity was added, which is down about 76% year-on-year. Similarly, execution in the railway electrification has been slower than anticipated in FY20, 2606 rkms has been electrified by the key agency, which is the Central Organization for Railway Electrification, against its target of 7,000 rkms. Essentially the pace of execution on the ground is clearly not keeping pace with the target that has been set and so our estimation is that the projects will still be completed, but would take a longer period of time. The 100% plan of electrification is to be completed by 2024, but it may exceed that by a year or two.

Power Grid last year executed a CAPEX of Rs 15,313 crores in FY 20 and then FY21 CAPEX plan is for Rs 10,500 crores. One thing is clear, that the way forward for additional power generation globally, not just in India but all over the world is renewable, non-hydrocarbon sources. Each of these sites including the new projects and tenders, including those of hybrid 24 hours power delivery, which include a combination of solar, wind and hydro with battery storage, are being set up away from existing thermal power plants. And hence, there is a need for brand new transmission networks to connect into the grid. This phenomenon is happening all over the world and hence we see the demand for our conductors, cables and transformer oils to continue to remain over the years to come. There will be new export opportunities that open up in countries there were no projects being announced previously, like in Australia and in Europe. As part of the economic revival packages, many countries are actually accelerating their infrastructure spends.

In India, we expect execution challenges to continue in this quarter which is Q1. Activities are likely to pick up in Q2 but we don't expect them to fully normalize. This is due to a lack of manpower shortage, disruptions from the COVID spreading and then teams getting disrupted or sites getting stopped for a few days. And of course, the lack of access to funds from EPC players. We are much more optimistic about Q3 and Q4 and expect to have a much higher level of activity during those periods. There are also periods which are very conducive to outdoor work which is post the monsoons and generally with the climatic conditions also improving.

I will now brief you on each of the segments performance. So the conductors business posted revenues of Rs 3,624 crores in FY20 compared to Rs 3,915 crores in FY19. Export contributed 40% of the revenues, volumes decreased 14% year-on-year to reach 1,58,104 metric tonnes. The share of higher value added products in the revenues has increased to 38% from 25% in FY19. Of this, the high efficiency conductor a revenue increased by 96% year-on-year with better execution, and its contribution to revenues was up at 18% compared to 9% in FY19. Copper conductor for railways revenue grew 26% year-on-year contributing 20% of the revenues versus 16% in FY19. We also launched the new product which is a CTC for transformer industry in the year. However, traction was a lot slower than expected in this product line due to the market conditions that prevailed in the transformer industry and it has taken longer for them to actually get approval to us for utilization of our CTC conductors. Additionally the order execution for another line which we had launched the previous year, which is OPGW which is an optical fiber ground wire line. That also is relatively low. These are conductors which actually have fiber optic core for data transmission. However, given the order book which we already carrying as well as the prospects that we have seen in FY21 both of these product lines should do significantly better. So, EBITDA per metric tonne post FOREX adjustments improved 20% year-on-year to Rs.10,790 with an increased share of the higher value business. Our order book at the end of March 2020 stood at Rs 2,004 crores which is down 34% year-on-year. New order intake was Rs 2,617 crores down 52% year-on-year due to a slower tendering in the railways and strict sales focus on orders with good payments and margin. The high efficiency conductors and copper conductors contributed towards 15% and 11% of the order inflows respectively.

In Q4 FY20 conductor's revenue was down 37% year-on-year at Rs 838 crores mainly due to the COVID-19 repercussions. Volumes are down 42% year-on-year to 36,444 metric tonne. Orders for conventional conductors were available but required delivery in Q4 itself for which the capacity is not available. EBITDA per metric tonne post FOREX adjustment came in at Rs.11,206 per tonne, which is 68% higher than the same period previous year.

Coming to the specialty oils segment, the revenue came in at Rs 2,323 crores which is down 12% year-on-year due to the lower demand particularly of transformer oils. And then of course, the lockdown which knocked off, almost two thirds of the sale of the month of March. Volumes came in at 4,03,626 KL which is 6% lower, the Hamriyah plant utilization was up at 68% in FY20 versus 62% in FY19, and export revenues continue to be quite stable. The auto lubes and industrial oils contributed 23% to the revenues, we made provisions for doubtful debts in this segment of Rs 18.5 crores versus Rs 6.84 crores for FY19 and this has had a significant impact of about Rs.10 crores in the quarter itself. Given the current financial situation, we thought it prudent to more aggressively provide as revival for these companies that have closed down or are facing NCLT proceedings would be challenging in the current environment. EBITDA per KL post forex adjustment came in at Rs.2990 per KL which is similar to the figure of FY19.

If we look at just the fourth quarter of FY20, oil revenues closed at Rs 545 crores which is down 22%. Volumes were down 16% year-on-year to reach 96,921 KL, EBITDA per KL post adjustment came in at Rs.2030, which was lower and the bad debt write offs worth Rs 9.76 crores was taken just in this period, which accounted for about Rs.1004 per KL. So excluding the bad debt provisions it would have been at Rs.3,034 per KL. During March and then especially in April and May, when the world went into lockdown, the price of crude and gas oil had a precipitous fall. We couldn’t really benefit this fall as our storage tanks are relatively full and most of the base oil refineries were also carrying products prior to the lockdowns, which were at higher costs, demand globally of course fell drastically during this time. Only a few traders were able to pick up distressed cargoes and they will disrupt the market in the short term. However, we see that as we get into Q2, we should get into fairly normalized margins. During the India lockdown our Hamriyah plant actually operated throughout the period and we benefited from this risk mitigation strategy of having manufacturing in more than one country. They benefited from a number of orders which were rolled over from our India operations to the UAE as well as external customers who shifted orders from other Indian suppliers to our Hamriyah facility.

Coming to the cable side, the revenues declined 5% year-on-year to Rs 1,601 crores in FY20. The strategic focus on exports and copper cables helped us amid a slower offtake from the renewable and the telecom sector. Export revenues grew by about 60% year-on-year and they contributed 17% of the total cable revenues versus 10%. We launched a new range of medium voltage covered conductors in this year. These increased safety of transmission lines closer to the last mile, particularly in densely populated areas, and in areas which have dense forest and vegetation. The EBITDA margin was sustained at about 11.1% versus 11.3% in FY19.

If you come to the fourth quarter of FY20, the cables business reported revenues of Rs 447 crores, which is down 12% over the previous year. EBITDA, however, declined 39% to Rs 43 crores with a margin of 9.5% compared to 13.7% in the fourth quarter of FY19.

FY21 has had obviously a very disruptive start, we expect in the first quarter to do approximately 50% of the revenues of a normal quarter, given that it was all almost negligible in April grew to about 50% of what it should have been in May and about 75% in this month of June. The demand will take some time to revive with an expected delay in tendering and lower execution from the customers end particularly due to migratory labor issues which are slowly getting reinstated. Our Rabale plant has been permitted to operate with 50% staff strength as it is located in the Mumbai metropolitan region. However, all the other plants have no manpower restrictions as of now, and are operating to the extent that we have orders with commensurately acceptable commercial term. Employee safety has obviously being of paramount to us. As an organization, we quickly adapted to the new normal way of working with sanitization, working from home and all the other requisite measures. We maintain a low leverage and are focused on restoring our cash flow levels. With a highly increased focus on collections and also aligning more closely our production to the immediate demand that exists. We intend to complete the WIP projects which have already been started and will review the situation in H2 before we look at undertaking any further CAPEX projects. In any case, the original CAPEX plan for FY21 was significantly lower than in the previous three years. So with this, I come to the end of my comments. I would like to thank all of you for joining us on this conference call. Pray that you all remain safe and we can take questions at this stage. Thank you.

Moderator: Thank you. We will now begin the question and answer session. The first question is from the line of Saurabh Patwa from HDFC Mutual Fund. Please go ahead.

Saurabh Patwa: So just wanted to have your thoughts on the working capital side. So with the lower revenue and raw material prices falling in most of our segments, in fact actually all our segment, how do you see working capital shaping in next one year or maybe at least in the next six months. And with your focus on collection, as you said, you already mentioned, how do you think that on impacting on our cash flow?

V.C. Diwadkar: So, we expect actually that obviously working capital requirements will come down, because of two reasons one is that as you rightly pointed out the commodity prices themselves are lower. Second thing is that we are tightening payment terms to whatever extent we can, as well as aligning production to the orders that we have and execution. So, trying to work on a reduced order to execution cycle and finally, we are walking away from business where customers want extended payment terms, because at this stage with cash flow being relatively tight, our focus is to want to actually make sure that the whole interest cycle and the whole the total amount of money used in working capital is reduced. Also with the lower interest rates, you will see obviously a benefit that comes in the business in terms of a lower interest outgo.

Saurabh Patwa: Okay. And sir what will be our LC outstanding as of year end?

V.C. Diwadkar: LC outstanding Saurabh, our LC outstanding FOREX is Rs 1,075 crores interest bearing and domestic is Rs 700 crores, so total is Rs 1,775 crores.

Saurabh Patwa: It is down significantly from last year right?

V.C. Diwadkar: No, it has increased actually in the last quarter.

Saurabh Patwa: No, it's down. I am saying compared to last year it's down right?

V.C. Diwadkar: Yes, little bit actually correct, it is hovering around, if you talk about last year it is okay actually but last quarter it was about Rs 1,650 crores or around that number actually.

Saurabh Patwa: Okay. So, it is broadly the same.

V.C. Diwadkar: Correct.

Saurabh Patwa: Just one last question sir, I missed out the number which you had mentioned for provision higher, the provisions which you did for in the conductor side of the business?

Kushal Desai: We actually, we made a provision overall at Rs 29 crores versus the previous year which was at about Rs 5 crores. So that Rs 24 crores of additional provisions which were made in the year, the largest portion of that was actually in the oil division where we made the provisions in the last quarter. We made total provisions of Rs 18.5 crores in the year, of which 9.73 crores was in the last quarter. So, essentially all the companies were they were either trying to do a restructuring with the banks or had actually gone into NCLT. We have pretty much provided for most of that.

Saurabh Patwa: Okay, so now you're almost, so you don't expect any further provisioning required, if at all there would be recoveries but no further provisioning?

Kushal Desai: The provisions should not be that significant anymore. We just did it more aggressively because given this challenging period, I'm not sure whether, the prudent thing for us to do would be to actually make provisions. So that's why, we actually were a little bit more aggressive in making it and so we kind of cleaned up the books in that sense. Even more so that what was the norm that the company was following before.

Saurabh Patwa: Right. So do you know what you are saying so our provisioning would have actually x of this if you would have normalized the provisioning. You would have made on an operating Y you would have made a significantly higher profit. Is that my understanding correct sir?

Kushal Desai: Yes. Profit could have gone up by around 24 Cr..

Saurabh Patwa: Almost 20%. Yes, so which is 20 or more than 20% of 25 actually of what we have already reported for the whole year?

Kushal Desai: Correct.

Moderator: Thank you. The next question is from the line of Gaurav Agrawal from Bowhead Investment. Please go ahead.

Gaurav Agrawal: Sir just couple of questions. So, in those times let say three, four years back we used to make 9%, 10% kind of EBITDA margin. Sir when do we expect this kind of scenario to come maybe two year, three year and maybe we are in the down cycle so it is difficult to kind of see those scenarios now but if you were to take a guess and give your knowledge, what kind of time period, we should wait to foresee those kind of good period?

Kushal Desai: So, well this year is a little difficult to be able to predict in terms of which way it goes but as you can see the direction of the various businesses and the new product lines that have been added. All of them actually carry a higher margin profile. So, even in the conductor side with such a drastic reduction in demand in the domestic market we manage to actually grow our profitability in the business and there are two product lines which are relatively quite high value added which is CTC conductors which is used inside the core of a transformer as well as these OPGW, because data is a new oil. So every transmission line now is being looked at with OPGW. I wouldn't say every but significant number of those lines. So both of these product lines actually will really have much higher numbers and sales in FY21. So we've picked up large amount of the cost, the fixed cost, depreciation all that in the last two years for OPGW and one year for CTC. The benefits of that will come in FY21, last year was a little bit slow for the transformer industry as such. They had so many problems that they had to overcome that qualifying a new supply was not the highest priority item on their list. Now, having said that we made a lot of progress in the year. So the order execution of many of the projects where our CTC can be used in the core of the transformer will come up for execution in FY21. So you will see that margin profile, definitely changing over there. If you look at a specialty oil side, we've been constantly growing our automotive and industrial portion of the sales. So it's now reached 14% by volume that's almost 24% by value. So that's been a significant growth on that front. The retail side of the business should do well in this year because the retail prices don't come down commensurate with the cost of the raw material, etc.. So we should see a definite improvement on that front. And also last year if you see if you exclude the EBITDA portion, you see what has really hurt our profit that has been the higher incidence of interest. So now going forward, there are two benefits. One is the interest rate itself will go down and secondly the plan which we've made for this coming year and our focus is to work on customers and projects where the number of days involved should be lower. So at least that's the plan as we go forward and if it means lower revenues then so be it but we want to concentrate on improving the cash flow and return on equity.

Gaurav Agrawal: Okay. But sir, do you have any internal targets let say for FY22 or FY23 these are the broad branded margins you would like to have, let say currently we have done 6% something?

Kushal Desai: So, our idea is for conductors to get to Rs.12,000 plus per tonne and the last quarter we got Rs 11,206. But this margin with the mix profile, we are quite clear that we will get there in the next FY21 will be a little bit fractured.

Gaurav Agrawal: Yes, so that's why I am asking FY22, FY21 anyways?

Kushal Desai: We have clearly seen on that, we'll probably have 50% of our revenues coming from the non-conventional conductor side at the rate at which we are going it's already 38%. This year we should be higher and by 22 we should be at 50% in those levels. On our specialty all side also our Hamriyah plant has actually received a lot of new approvals, during the course of last year including the highest standard of what you get in FDA for a good manufacturing practice license. So, that's opening up us to be able to start supplying to more and more pharmaceutical companies and more than that cosmetic companies, which are located outside of India so that side of the business also is starting to show signs of increasing, we also got permission and approvals for the Hamriyah plant from some of the utilities that are there in the region, which actually takes two to three years. So those culminated towards the end of the last financial year. This year, you will see increased the business of some of those naphthenic oil and higher performance based oils coming out of the Hamriyah facility also. So our sense is that, as we get into, as we end FY21 and look at FY22, both of these areas will be having higher value products. On the cable side we've become a part one supplier last year on the cable harnesses and we've also moved up on the solar side by supplying most of the solar companies not just cables but a cable harness. So we do the harnessing at our facility at Khatalwada and so that's also like a step, like a forward integration step. We've also got approval besides doing coach harness to do a locomotive harness. So the whole wire and cable tray which goes into the locomotive engine, so those approvals also have come through towards the end of last year. So these are all higher value added products. Our objective has been to move clearly in that direction and it's taken longer than we would have liked, but we can clearly see light at the end of the tunnel as far as that is concerned.

Gaurav Agrawal: Then lastly last question if I could squeeze in, you have joining notes to accounts that you have launched someone specific company. So what is that rationale and where did you see that?

Kushal Desai: On the logistics side we've just actually taken ring-fenced, all the logistics related activities which are being done for the B2C side of our business, including providing services to some of the Auto OEMs. So now we used to actually manufacture the auto OEM lubricants and just supply it to them centrally. But we now in the case of some of them actually stock and distribute that directly to their service stations, authorized service setups, so in order to do that, it's really a cost center more than anything else, but it just allows us to more transparently track the cost of logistics. So, I won't see us getting into third party logistics business, this is more for ring-fencing our logistics costs and combining multiple divisions logistics activities.

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

Anuj Upadhyay: I have many questions sir, starting with one point which I missed on your opening remark, you mentioned about the composition of the HEC and some other high margin business in our new order book. Could you just repeat that sir. What portion does the HEC constitute? I guess you mentioned it's 15 and 11% was by?

V.C. Diwadkar: Anuj, copper conductor is 20% and HEC is 18% so total is 38% this is for the full year.

Anuj Upadhyay: No, sir I am talking about the new order intake which we had, you mentioned about of the new order intake what composition does the high margin business product like HEC and copper conductor constitute?

V.C. Diwadkar: That is 15% and 11%, that is the out of the orders which have come in during the year, 15% is HEC conductor and 11% is copper conductor that is inflow of orders.

Anuj Upadhyay: Okay and on current order book?

V.C. Diwadkar: Current order book is Rs 2,004 crores out of that Rs 765 crores is domestic and balance is export and in the current order book of Rs. 2,004 crores HTLS is 18% and copper is 10%.

Anuj Upadhyay: Okay sir. So, this Rs. 2,004 crores of order intake this is as on March sir or as of date?

V.C. Diwadkar: It is order pending, this is not order intake actually Rs. 2,004 crores is order pending. And that is 92,508 metric tonne and it will last for seven months roughly seven months.

Anuj Upadhyay: Seven to eight months?

V.C. Diwadkar: Yes, correct.

Anuj Upadhyay: Okay. So in this year accounted for the current lockdown period like Q1 as such?

V.C. Diwadkar: Yes, current lockdown period means March lockdown we have accounted for.

Anuj Upadhyay: Okay. And as on, if I talk about some post March, say April, May or even June so has there been any activity in the new order inflow or situation as of now remains stable, with no activity?

V.C. Diwadkar: As far as April is concerned we have done close to about 25% of the normal.

Kushal Desai: No, Diwadkar you are talking about order inflow.

Anuj Upadhyay: Yes sir order inflow.

V.C. Diwadkar: Order inflow during the quarter or in the conducted division we got order of about Rs 517 crores.

Anuj Upadhyay: Sir you also mentioned about we had inventory in the oil segment and we couldn't actually take the entire benefit of the fall in the base oil price or something and during the Q1 I believe there is not much of a supply, discussion of oil supplier to our customer then what give you as a confidence that by Q2 our margin across the oil segments would improve vis-à-vis compared to Q4 of last year?

Kushal Desai: So, what has happened is in the first quarter we have executed 50% we will ending up executing about 50% of the normal business that would be there. So we had relatively full tanks just before the lockdown was announced, so that inventory we're pretty much running through in the first quarter. So, what we will start executing in the second quarter is going to really be products that got loaded during the month of May and June, the crude prices and all were at a relatively lower level. So, that will come into Q2 and the general market prices will increase in Q2, because as you can see crude is back up and so essentially you will have a much worse Q1, but you will have a much better Q2 and if you look at the whole first half on an aggregate, we should be performing at least as much as what we did last year. In spite of the lockdown and stuff on a per EBITDA per KL basis.

Anuj Upadhyay: Means for a full year?

Kushal Desai: For the first half year.

Anuj Upadhyay: Okay. Secondly sir, on the Atmanirbhar scheme, I guess there's no direct benefit to us on this Rs. 90,000 crores of one time loan that the government is claiming to be strong because I believe it specifically towards outstanding with the DISCOMs have towards the GENCOs is not a direct beneficiary to us, I am right sir?

Kushal Desai: That is correct. The indirect benefit has only been that, the rest of the money which they had have available, they have available then for paying their debtors. So we have actually managed to particularly in towards the end of May after the lockdown started getting lifted, and in the month so in the first quarter we've collected a reasonable amount of money from the DISCOMs. It's much better than what we thought we would do in a period like this and what has helped is that since this Rs. 90,000 crores they have diverted towards paying a lot of their liabilities on the generation side. The money's which they have collected otherwise have been available to clear of other debtors that they have. So, there has been an indirect benefit in that.

Anuj Upadhyay: Got it sir. Sir on the cable segment, I believe we have been facing few competition from the Chinese party in the cable segment, or it is on the cable segment, but now with the government planning to impose a ban on the specification product, so would there be any benefit to eliminate lower price or this is something which we will continue?

Kushal Desai: So, we don't really face competition directly from the Chinese companies in India on cables. We have faced competition from Chinese companies for both cables and conductors in the overseas markets. Now where the Chinese call over the Indians in many parts of the world is that China had negotiated much more favorable treaties, where the custom duties for Chinese products were lower than for Indian products. In fact, the Indian government where it's the Modi government or previous to that even the two terms of the Congress government India had done a pretty poor job of negotiating these sort of, special treaties on custom duty, at least in the market where the conductors were going. The benefit which we are likely to see as we go forward is that some of these treaties with China are being or could be renegotiated. In which case we would end up having a more level playing field. But the biggest driver that we see going forward is actually this non-conventional energy being added and there are many countries where they've taken targets of 75%, 80% conversion to non-conventional energy in the next few years by 2024, 2025. So there's a lot of work going on in these areas and they all lead to a good quantity of consumption of conductors and cables. And our conductor business will stand to gain quite substantially being, us being one of the largest conductor manufacturers in the world, we automatically would be in a position to participate in a lot of these opportunities and then try to win some of them in terms of business.

Anuj Upadhyay: Okay and sir lastly on your balance side, your investment has gone down to zero and I know it's a very small quantum but could you just provide some detail on that part?

V. C. Diwadkar: Investment actually this is short term actually. Short term extra funds were there so it is not really investment actually, these are investment for 10, 15 days, 8 days like that we keep in mutual funds actually, liquid funds. So, that is not available now actually.

Moderator: Thank you, the next question is from the line of Alok Deora from Yes Securities. Please go ahead.

Alok Deora: So, just one question I had regarding, have you seen any delays from the client side or do you see that link to some delays in giving out the supplies where clients ask you to go slow on the execution. So have you witnessed any sort of?

Kushal Desai.: We've had such issues. What we've done through this period is to be extremely closely examining the execution cycle of clients and then we quickly try to realign our manufacturing. As I mentioned, in my comments we have realigned the manufacturing to what the actual demand is out there. So that the cycle of supplies and inventory is reduced. So, we've definitely done that. In the case of our oil business, to a large extent produce all our B2B products have produced almost just in time. So that there is no problem in that alignment, the cable and conductor business have realigned. So I had also mentioned that we are theoretically capable of producing at 100% capacity in our plants, but we are producing only to the extent where the live orders are there, which deliveries can take place to site, etc.. So what has happened is that some of the supplies that have come in from the last quarter are still sitting at the site. Some of these sites have now got re-energized, they started stringing conductors and laying cables from whatever inventories that they held and because cash flow is at a bit of a priority right now some of these deliveries have been pushed back. But from June onwards, we have started seeing a better off take taking place and it will be further better in Q2 and then I think we should get close to normalize levels in Q3 and Q4. But we haven't seen any projects getting canceled because of this.

Alok Deor: Sure. No, so actually I was just trying to assess like in first quarter you mentioned that 50% of the business would have been lost because of the COVID related shut down and then in the remaining three quarters if there is any sort of client delays, client side delays and plus our own issues of labor, etc. then net, net we could be doing around 80% of what we would do in a normal nine month timeframe from July to March?

Kushal Desai: No, we will do better than that in the July to, in short we'll be 50% in the first quarter a very high level, 50% in the first quarter, about 75 to 80% in the second quarter, and then come back to what we would have otherwise planned to do in Q3 and Q4. So, there execution will be then just basically limited by the orders that you have and the kind of financial arrangements people make. Even today we have adequate manpower at our end, the years that we've bid in terms of investing in relationships with not only our employees but even contract workers who have worked for extended periods of time in the Company, we didn't have a big issue with this whole migrant labor running away, etc.. So our capability to produce is very much there. And, we may end up getting a few orders with shorter delivery periods also going out into Q2, Q3, etc. . If other people fail, we saw a big improvement in supply from our Hamriyah facility even through the lockdown, simply because a lot of orders rolled over there, which we rolled over a few ourselves and then orders were cancelled of our competitors because execution from India was really a challenge. And we were able to execute that from our facility in the UAE.

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

Pravin Agarwal: Quick question, you mentioned about the new product around in conductor division CTC conductors and OPGW, so typically whatever business we do we are among the top three in those products and industries, would you want to give a thought on how on these products where we stand vis-à-vis competition and how it's going to shape up in the next 2, 3, 4 years?

Chaitanya Desai: Sure. OPGW, there are couple of parties who have been ahead of us, but at the same time there are certain synergies that we have because of already the OFC production that we had in the cable side. And also on the transmission side where the OPGW goes the conductor business has good relationships with the clients. So, we see over a period of time that we will be able to grow quite a bit on that side. On the CTC, there are some players before us again here, but at the same time one of them we understand was not performing so well. And also a few years ago, there was one another company which had for its own internal reasons had financial difficulty and shut down. So, we saw that this is a vacuum, which is there in the marketplace and there is a potential for another player to come in. So, this is the background and we see that with the transformer oil relationships with the transformer manufacturers, the CTC also is being sort of sold to the same transformer manufacturers where the good relations are there in place.

Kushal Desai: So, Pravin just to add to what Chaitanya said here, both of these products will see increase demand worldwide over the years to come. So what happens with CTC is that it improves productivity and repeatability of the kind of core that you make in transformer. So, you need less manpower to deliver the job in a shorter period of time and you can deliver the job more consistently. So, it will play a very critical role as you start getting into some of the larger solar installations because, you have much more standardization of the transformers that are there unlike an electrical grid where there is a lot of customization which takes place and in the case of OPGW because today as data is the new oil wherever this is used, this is all fiber based and it's for long term transmission of data. So, the way data is transmitted across countries is essentially through this OPGW route because you don't need any right of way, you don't need any such thing it's just in the middle of the core that is used to wrap a conductor around. We selected these products because #A they had a future going forward, #B as Chaitanya mentioned we had some benefit either on the manufacturing side and on the client side. We will get to be amongst the leaders in the space. The products are very new OPGW started only two years ago and last year was not a very good year to do with anything to do with telecom infrastructure. But this year, we already have a reasonably good order book or a pipeline of orders that are likely to come in on the OPGW side. And as I mentioned in my comments on the CTC, you need again at two stage approvals, you need the transformer OEM to accept your CTC for the record and very often they need to get a no objection from the final utility saying okay, we can use Apar's CTC to execute their orders. So both of these actually are two steps and it takes a little bit of time to get this through, even the relationships that we've had with both the utilities as well as with the transformer OEMs. We've been one by one getting the approvals for this. So, this year you will see a significant increase in CTC volumes compared to, last year was like really the baby steps taken to just get started.

Pravin Agarwal: Who would be the number one player in either product in the country?

Chaitanya Desai: In the case of OPGW it is Sterlite Technologies and in the case of the CTC there is a company called Precision Wire.

Pravin Agarwal: Okay, one more question we talked about that our focus going forward would be on ROE, so is there an internal target where this is the level of ROE which we want to achieve and say two, three or a steady state basis that that this is the ROE, when you're planning a project that if we get below this level of threshold ROE will not go ahead and do that project?

Kushal Desai: So our target is to get to 18 to 20%, which is what 5, 7 years ago we used to be in that range, before the acquisition, 10 years before the acquisition of the cable business and trying to end up growing it. So, it's going to be aided by really two major areas, one is focus on products with the margin profile will be a bit higher. Secondly, the investment which we have to make is going to drastically fall off. So all the CAPEX investment, there are two investments which have gone in, one is CAPEX and the other one is a lot of invisibles where we have actually developed these products and written off on the development costs, we've not capitalized these development costs. And the last thing is that, the biggest beneficiary that we can have in this Atmanirbhar program is really a cable division, because we are the leading supplier to defense of cables and there is still a huge amount of cables which were being imported. And there is a clear sense of urgency now of, there's a lot of more work which went in the last two, three years. But right now, there's a clear instruction saying you are going to stop buying from overseas. And it's got to be here, so already during the lockdown period itself, we've had numerous interactions and work that has started on various development projects. So, these again lend itself to a much higher, they are very specialized product. So they give you a better margin profile. So even if it reaches 5% of your revenues, it can have a meaningful impact on the overall bottom line.

Pravin Agarwal: That's very good to hear. So, one more question. I've been an investor for over a decade with you guys. I just wanted to check in 2008-09, we had massive in inventory losses because of the crash in crude oil prices. Now, would we see this in next quarter also or now because of our hedging policy we will not see this?

Kushal Desai: There is really no hedging mechanism available for the oil. But, we won't see that sort of loss that we saw in, see in the case of 2008 end, moving into 2009 you had crude falling from a $140 to $32 or $35. So it was just too huge compression. In this particular case, what's happened is that we didn't have very high inventory, but our tanks were relatively full because whatever was coming in, kept sitting in the tank we couldn't dispatch it out for almost the first 40 odd days, almost nothing moved. You won't see anything in that range in terms of, so when you look at the half year, the working will not look too bad.

Pravin Agarwal: Understood, thanks for that. One final question and this is something which I have been wondering for a while, can somebody please explain how this LC interest bearing LC interest works with an example, is this on your, on the procurement which you do where instead of paying immediately you issue an LC and you have to pay interest, how will that work why do you have to pay so much interest on it?

V. C. Diwadkar: Pravin, I will explain to you actually. It's like this actually, let say with our where we procure our base oil from refineries outside India. So, these refineries typically give us 30 or 45 days clean credit and the balance period actually about 135 days, they will give credit with interest. So, we open a letter of credit, stating that 45 days interest free and thereafter with interest. So, this is how it works , and we are required to take these credit because on the other side our cycle is much longer because we have to extend credit as far as our parties are concerned.

Kushal Desai: Basically the transformer side is the one which actually has a very long credit cycle when you look at the white oil or the automotive and industrial those cycles are actually shorter. So, if you take the total number of debtors we have.

V. C. Diwadkar: 82 days, the debtors are 82 days actually, but for 82 days also if you have credit only 30 days, then the managing will be difficult.. So, for that and then we also have inventory actually, because the supply chain is longer actually it takes time. So, the total we always have inventory of 60 days sitting at our refinery as well as which is in the pipeline in transit.

Kushal Desai: So about 30 odd days in the plant and about 30 days on the water.

Pravin Agarwal: So on the oil side, which we do B2B in the power side. So who all are our main clients, I would imagine DISCOMs largely?

Kushal Desai: DISCOMs are in, no our largest clients are actually, transformer OEM and we have a very strong presence on the transmission side on the transformers that go ahead. We obviously have a presence in the distribution side also because just the sheer size of our business but we don't directly deal with the DISCOMs so much. Diwadkar you can give a figure of approximately how much is our direct business?

V. C. Diwadkar: Our interaction with DISCOM is hardly 10%, less than 10% all others are OEMs only mainly GE T&D, ABB, Bharat Heavy Electricals, Bharat Bijlee. All big transformer manufacturers Toshiba, Big and small, I have given you big names actually. But there are a lot of small transformer manufacturers also.

Pravin Agarwal: Understood. So, my related question to that is that working capital cycle is so stretched I would imagine between you and one another player, you control 90% of the transformer oil market. Now, since both of you should have so much bargaining power and I would imagine transformer oil would cost so little of the overall scheme of things for these guys, but cost of failure would be so high that you can demand that I need to be paid on time and if both of you decide to ask the same then essentially they will have to pay you on time would that understanding be correct or am I missing something?

Kushal Desai: The concentration is not as high, it's not as high as 90%. Our market share in the range of 40% and the second largest player, closer to 28 to 30%. In terms of saying, but a lot of the player everybody asked for extended credit in the last four or five years the working capital cycles have become come under a lot of pressure. So even the ABBs and the GEs of the world Toshiba they all asked for 150, 180 days terms and that's standard. And not only now they will move into that not only in India but even in other parts of the world. In many cases there are discounting schemes and things in place, but they're all interest bearing but that's the way it's a long delivery cycle in terms of making the transformer, getting inspected, delivering it, etc., it's kind of nature of the beast**.**

V. C. Diwadkar: And our customers are dealing with DISCOMs. So, for them actually to get payment also is a problem actually. So that is why the sector is stressed actually.

Kushal Desai: The transmission companies is not an issue but there's the actual delivery cycle is longer because the transformers are very large and their multiple stages of inspection happen before you deliver a transformer, including at mid stage you have to send it out to a third party facility for testing, short-circuit testing and things like that. So just the cycle of building it and delivering it is longer, but the payments are relatively good on the transmission side. On the distribution side the transformers are much more standardized and easy to deliver. But the payment is a bit more stretched.

Pravin Agarwal: Okay. And once this transformers gets installed how frequently these oil needs to get changed, so do they do come directly to you guys or they again the AVV's of the world do that as part of their maintenance contract?

Kushal Desai: No, it goes into utility, the utilities end up actually floating tenders for the replacement.

Pravin Agarwal: And does it happen what, once a year?

Kushal Desai: 5% a year is the top up and the life of the oil depending on how the utility has managed to maintain the transformer can be anywhere between 15 and 30 years. The distribution side normally is much shorter because they overload the transformers, but on the transmission side 15 years is quite common.

Pravin Agarwal: So, this is not like an auto lubricant, which we need to constantly replace and change. So you are saying that transformer, this is like the OEM once every new machine gets installed and then you need that oil along?

Kushal Desai: It's not such a high consumption item as in the case of an automotive lubricant or an industrial lubricant.

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

Maulik Patel: Just two questions, one is on bookkeeping, and what kind of CAPEX we did in FY20 and what's we intend to do in FY21?

V.C. Diwadkar: We have done a CAPEX of Rs 138 crores. And as far as the going forward actually we are reviewing all the CAPEX actually basically. And in view of this COVID situation and the demand situation and all those things, and then by September we will take a call actually, but as Kushal explained earlier actually, as it is there was not much CAPEX which was there for FY20.

Maulik Patel: Sure. And this 138 large part was for the cable right?

Kushal Desai: No, you've spent there's a certain amount which we spend even in our lube blending site, where we come up with a full with a new generation blending ending system for the automotive industrial lubricants at our Rabale facility, including upgrading the automation, blending, filling, all of that. But that is largely completed so, the ongoing CAPEX anyway was plan to be significantly lower. We were not expecting to do a CAPEX which exceeded 40 odd crores, but that also we will sit and review now in September anyway, because of the current COVID situation we don't want any construction guys on our site until the new cases coming up are drastically reduced. And so, we will review it towards the end of the second quarter and then decide whether we want to go ahead with this or just postpone it further.

Maulik Patel: Okay, got it. And second and the last question is on the conductor side, do you see more business action happening outside of India, compared to what we have seen in India, because in one of the comment you mentioned that this non-conventional energy will require a lot of transformer I couldn't get that particular point, how that will be linked with conductor demand?

Chaitanya Desai: So, what we were saying is that with the renewable energy which is that different places depending on where it makes sense for solar and wind, that needs to be connected to the grid, so that generates the additional demand for the transmission lines. Then also the nature of the generation where part of the day the generation is, the flow of power is one way and night hours it may be the other way. So, that also means that there is an additional requirement for transmission system.

Kushal Desai: What is actually starting to happen is that, as Chaitanya said you have a problem in terms of the time of the day and you have an issue with respect to a season like wind power in India is more seasonal. And when wind is generated solar is very low, and when solar generated more than the wind is less. So, now the new type of projects that are coming up in India which is taking a clue from other parts of the world is to have a integrated hybrid projects. So, they combine solar and wind and in some cases even hydro, because they have to meet a certain level of power to be delivered continuously and the fourth leg is actually a whole battery setup. So there when excess power is generated, it's stored in the battery for taking care of the different time of the day that is being generated. So, we started this system in India for set of bits actually went in during the lockdown period, Renew energy has one something, Adani has done something. But these are the type of projects which are running in many other countries in the world. And in some of these places, what happens is the wind is in a different location and the solar is in a different location. So from each of these locations, you need a transmission line to come into a grid. So because it's a hub and spoke type of arrangement there is a lot of more demand for conductors that is coming up, They are smaller in size but much more in terms of volume and the number of kilometers to be covered, because a typical thermal plant ran into thousands of megawatts at a particular location. They have a larger solar and lesser wind in some cases a larger wind and a smaller solar. So, a lot of variety is there.

V.C. Diwadkar: Maulik. One more point is, that some of the countries where there was no transmission work going on because they were already having transmission line but because now they are changing to renewables. They were on thermal or some other thing actually

Kushal Desai: Nuclear energy.

V.C. Diwadkar: Yes, nuclear, thermal and nuclear. So now they are changing to renewable that's why that demand has come up like what Kushal explained in Australia and Europe, Germany, etc.. So there was no demand earlier for our products, but now because of this changeover, now new transmission lines will be required.

Maulik Patel: So, in a nutshell the distributed power generation, compared to the earlier concept which was there say 10 years back was in a single location power generation is much more beneficial for you in terms of as per demand.

Kushal Desai: Absolutely.

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

Pratiksha: So, most of my questions are actually answered, I just wanted to know this one, the new transmission opportunities that you see because of the new grid required for renewables. Are there any specific markets that we are targeting or any specific geographical cluster where we are seeing more demand coming from?

Chaitanya Desai: This is a global phenomena and basically, we are already supplying conductors to almost all the different major markets, whether it is the Americas or the Africa, Europe and Asia side. So we are not really specifically concentrating on anything, but definitely wherever the opportunities are coming up, then we are very much in that market.

Kushal Desai: There's a lot of work coming up in Europe because, in Europe, Australia, Scandinavia, Germany, Spain, France, many of these places, they have set up very aggressive timelines. And what we are given to understand by some of the larger EPC players that exist in these geographies is, that part of these COVID stimulus packages is being spent in infrastructure build up because that directly gives local employment, as you build this infrastructure, So we will start seeing, those kind of tenders or those kinds of opportunities coming up. So, we've heard that Spanish contractors from German contractors, etc.. In Australia there actually, Australia has a very favorable treaty with China. But as you can see in the newspapers, there's already a little bit of a spat happening between those two countries. So if that, we have a 5% advantage over Indian products, so if that gets reduced or flattened, then we can really go in a big way. We've already started supplying cables, solar cables into Australia, and we are the second largest supplier of transformer oil in Australia. So all of those have seen a little bit of a resurgence. We will see in our numbers for last year, even in our transformer oil business, our overseas business has grown. And some of it is being driven by a demand for transformers that are coming up against these new generation sources. So going forward actually demand will continue to remain steady. That is the main point which we wanted to make because there's a new normal coming up after this COVID fortunately the way we look at it is our products are actually not going to be affected in fact the demand for them may in fact grow.

Pratiksha: So understood. So, Hamriyah you mentioned that the capacity utilization has improved because there has been some switching of orders from Indian facilities to their and also peers. So for the year ahead, what kind of steady state capacity utilization can we expect which is not at probably the cost of our Indian plant?

Kushal Desai: So up last year at 68% capacity utilization at Hamriyah facility. So, this year, I guess in spite of lockdowns COVID and all these things, we should probably be upwards of 75% and there are -low some trading type business and all which is being done there which we want to defocus. We want to concentrate much more on our as we started getting more and more utility approvals. We want to concentrate on what that plant is really one of the best plants in the world built for which is to deliver high quality transformer oil, high quality pharmaceutical and white oil, etc. So, the volume will go up there and the profitability also will go up there.

Pratiksha: Okay, you mentioned 75%, upwards of 70%?

Kushal Desai: 75%, we will be upwards of 75% this year.

Pratiksha: Okay. And sir you mentioned something around this defense cables that you said that we have been aggressively supplying in the sector and you see some opportunity coming with the whole portion self-reliance in defense. So if we could just quantify what's the market size that we are looking at here and what could be our potential share and what kind of import substitution?

Kushal Desai: We have a reasonably good share of what is produced domestically. There are only a couple of suppliers that are very active in this area. The market size is not yet known to us, because many of these products in the defenses are very secretive sort of segment, but what we are seeing is that there are a number of new projects which are starting to come to us and some of the proof of concepts which we had earlier, they are now getting more rapidly commercialized. So, if someone is pushing you to commercialize a prototype when you made two years ago during the lockdown period, it means that they're pretty serious on taking it forward. So that will start accelerating already there is, but I'm just saying, the question was that what are the benefits that we will get with this whole Atmanirbhar program. So one of the areas of benefit is going to be in the defense side. And here it's not really the value, because each project carries very high margins and the reason for it is that you have to invest in the technology, you have to invest in the prototyping and you have to invest your time in terms of the testing etc., when it's in the pilot phase. So, you actually end up investing all this with zero visibility whether you will get even Rs.1 worth of business. So when the business comes in, it's a highly specialized product which carries when commensurately or a very good margin profile.

Pratiksha: Right, okay. And sir lastly, in the conductor side, in general when do you expect the tendering process to normalize like we have seen from reduced traction from railways off late and overall the tendering has been on a halt. So, how are things on ground do we expect tendering to begin and get back to normal level say by Q2 or what kind of outlook could you give on those lines?

Chaitanya Desai: On the transmission side we see in Q2 a fair amount tendering which will be going out at the developer stage and then by the time those businesses come to us for execution, it may get into Q3 and Q4. On the railway side also there will be some tendering happening it got delayed because of the entire lockdown situation. So, that also will come through maybe in Q2, Q3 timeframe. And things should get normalized by Q4 as though everything goes normal.

Kushal Desai: Also, there was over ordering earlier which had happened in some of the railway case in the sense that they had certain deadline, okay supply of this much will happen and the laying of that will take place in x amount of time. So, the physical laying of the lines is taking longer than what we had originally been envisaged by them. So, that is also one of the reasons why the speed with which the ordering has been or tendering has been done has been slowed down until the backlog is being cleared.

Pratiksha: Okay. And sir collection with railways is that a concern or the collection with railways is relatively better?

Chaitanya Desai: Railway collection generally is okay except that during this lockdown period, some of the offices of the various railway agencies were not working. So that was causing some delays in the whole system but in the middle of June onwards, things have improved.

Moderator: Thank you. The next question is from the line of Saurabh Patwa from HDFC Mutual Fund. Please go ahead.

Saurabh Patwa: Sir just wanted to understand, like last few years we have seen a decent uptick in our EBITDA margins, but the scene has not been, not being converted to the bottom line because of the growing interest cost. So what's your thought on that and like any strategy to, because it is largely basically because of the credit LC charges which we've been paying, but wouldn't it be prudent to increase the debt in that case. Because now we are almost debt free right?

V. C. Diwadkar: No, doubt there is a stress in the sector actually. Our close to 82% is coming from the power sector, and power sector stressed actually, although we are not directly dealing with these DISCOMs and all these parties , but our customers are dealing with them and they are taking some extended credit terms. So we are seen some increase in the number of days across all the businesses actually. But as Kushal says now actually we will tighten all these things actually and we'll try and see that we reduce this interest cost. Other thing is that with the commodity prices going down and interest rates also going down, we should be able to see some reduction in the interest cost. Of course, for during this COVID period, there will be some additional interest y, we have taken some moratorium for COVID , because the cash flow was very slow in April , April and May. Some increase will be there because of COVID , but otherwise overall we feel that the interest cost should go down for the same level of business.

Saurabh Patwa: Okay. And another question was more on the macro level as in like when with this trading with India, China relationship do you see any impact on the OF supply which is largely from China and Japan getting impacted to India?

Kushal Desai: On the optical fiber you said?

Saurabh Patwa: Yes, sir optical fiber side.

Kushal Desai: So, there is a huge surplus of optical fiber in the world, huge. And we have no dependence really on any of the Chinese optical fiber wires, we buy something locally from India and we also buy from Japan. The Japanese fiber is extremely high quality fiber. So, depending on the nature of the projects and the specifications, we really don't see any problem on the, in fact the biggest problem was the fiber optic side is actually the demand at the moment.

Saurabh Patwa: But it was increasing, as you mentioned that this OPGW thing and all. So, over time the demand should come back?

Kushal Desai: So, there is actually a need for a lot of more optical fiber to be laid just for the network itself there's still too much dependence on mobile and stuff, but you can't really get to the speeds which are required unless you have physically fiber but the other demand will come up from this FTTH, fiber to the home. So we've invested in some of those capacity converted line to a FTTH line and this year we will start supplying the FTTH fiber also going fiber to the home because the demand from BSNL and BBNL and all that, with the current financial situation that they are in, is a very, very poor. But OPGW is definitely going to grow it's the intensity of fiber and that is not so high, when you look at the bill of material. Fiber is an important because it's the heart of it, but value wise the other materials are also quite expensive.

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

Manish Shah: Sir just wanted to understand, in that cables division our margins were down on the Q-o-Q and Y-o-Y basis so any specific reason for that?

Kushal Desai: Yes, the main problem we faced was that, cables which went to the railways, defense, all these places, they require inspection prior to dispatch, and that whole thing from 15th of March onwards itself there were some of the larger states had starting to look at lockdowns. Maharashtra, Andhra Pradesh, , Punjab they all went to lockdowns before the national lockdown. So all these inspections which were going on, they all froze. In fact some of them are getting completed in the month of June and some of them have even push into July by the time the test is also out. So that was really the otherwise we were expecting a very good month and a relatively good quarter across our business in the month of March.

Manish Shah: Okay. So basically the revenues we couldn't book the revenues but we had to incur the cost?

Kushal Desai: Correct. We have incurred the entire cost practically other than power not being utilized, everything else was utilized on was absorbed on a lower sale which otherwise was profitable sales that would have happened in March.

Manish Shah: So, by Q2 we kindly expect stabilized margins in the cable side?

Kushal Desai: We should, on the cable side the demand is actually something of all the three product lines, the power cable side the demand may be the most affected because of the position of the DISCOMs. So we'll take it as it comes. But definitely the optic will increase the other thing of course is that there's a lot of work which is supposed to be happening in FY20 in the solar and wind side as well. And the recent announcements of wanting to put in custom duty on panels and things, you know as good as I know. So our sense is that Q3, Q4, Q2 will still require a bit of stabilization.

Manish Shah: Okay. And sir another thing was do we foresee for the next two to three years our export mix going up substantially?

Kushal Desai: Absolutely. As we mentioned earlier, some of these developed countries and new geographies are opening up with new infrastructure required. So and it's across the board, these transformers going in so transformer oil requirements increasing, in terms of conductors, of course and even cables like solar cables and other IT cables, etc. used for evacuation or connecting things up at the different size. So, our sense is that over the next few years our export as a percentage of the total will go up compared to the domestic.

Moderator: Thank you. The next question is from the line of Abhishek Gupta from Goldman Sachs. Please go ahead.

Abhishek Gupta: First of all sir as in the last quarter we had some trouble in dispatching some of the railway order on the conductor front, just wanted to be sure. Have we been able to dispatch in this quarter or there is still something pending on that front?

Chaitanya Desai: The last quarter, I think that Q4 you are talking about?

Abhishek Gupta: Q3, there was some order issues because railway already had piled up inventory, because of which we couldn't dispatch our HEC conductors so if you can update on that?

Chaiyanya Desai: Railways are not using HEC they are using the copper conductors, but they had postponed their requirements. So definitely there was a big pickup in Q4 and we had actually all the intentions to dispatch out the full quantity as per the requirement in March, but even the March supply got disrupted because of the lockdown situation. So that is what the situation is. But yes, there was a good amount of tendering that happened and that is why there was a pickup in demand in Q4 for the railway conductors.

Abhishek Gupta: Okay. Another question is, we were talking about this on cable front, that E-Beam capacity was supposed to be a kind of running at almost full capacity utilization factor. We were looking at it that way and there were some plans to expand capacity in that area. So now, given you're saying that most of the CAPEX is under review, does that mean that this E-Beam capacity given the demand situation is at least sufficient for the current year. And an extension of that is how long would it take for you to incrementally set up EBM capacity whenever you decide on it?

Kushal Desai: So we've already, there is this new machine that's already been ordered and physically at our site, and all the civil work and everything is done up for the hookup and stuff we're not able to do because the foreign engineers need to come in otherwise, we were going to start the installation work in the month of March itself and just when the work was to start the lockdown started taking place. So, most of the CAPEX is already been incurred. The payment of the machine is still balance because that's linked in to the installation on the thing happening, because the civil work everything is on and done.

Abhishek Gupta: And what capacity can you cater to from your existing capacity?

Kushal Desai: So it will increase your capacity by 33%. We have two machines, this is the third one coming in and it's been selected in such a fashion that we can synergize the operation of all the three. Given the kind of mix that can be made across. My sense is that once travel opens up, then it will take three months to complete the installation and then one and a half months to do the final machine setting, etc.. So, four and a half months once the engineers are able to come in after a, right now because the requirements also have been a little bit subdued. We don't see a problem in terms of servicing current demand until all this happens. So, we should hopefully have additional capacity available in Q4.

Abhishek Gupta: Got it. Another question is more from accounting perspective. So did we kind of take any write down in terms of an inventory more specific to oil in the current quarter, given the kind of again fluctuation we are seen on the price side?

V. C. Diwadkar: It was not required actually we checked up , the cost or realizable value whichever is lower. So it was not required .

Kushal Desai: What will really happen is that the value addition that will be available in Q1 will be extremely low. So it's not that finished product will be sold lower than raw material cost like that happened in 2008, 2009. It will be sold at a value which is equal to higher than selling price but the value addition will be of the gross margin will be very small. Not enough to cover all the other overheads and things and especially because the volume is much lower in that first quarter there will be a loss which will be there in the business having said that there should be a good margin expansion in Q2 because you have the benefit of slightly cheaper oil and a recovery in the prices of crude and gas oil and all these other things.

Abhishek Gupta: This is in extension of the comment which you made earlier on the call when you said if profitability on the oil business should be similar to what we clock in the gone by fiscal of FY20. Now, if I look at the, so first half if I look at the EBITDA or rather rupees per KL, you were ballpark at about Rs.2.7 per liter kind of a profitability in that segment on the overall volume in H1. Can you believe after almost assuming a flattish quarter you will be able to have a much higher recovery in marginal Q2 to justify H1 being equal to the H1 of FY20?

Kushal Desai: Yes, absolutely.

Abhishek Gupta: Okay. And just one last question from my side, what was the FOREX impact which was taken in P&L this year because somehow the cash flow statement shows that over Rs. 23 crores loss gain there was a Rs. 40 crores loss is it something which is already passed into P&L?

V. C. Diwadkar: See, there is a close to about Rs. 51 crores is there actually, which is the applicable exchange which is there and out of that Rs. 31 crores is the open period FOREX actually which we for investor purpose actually we capture in the EBITDA, we adjust in the EBITDA and balance Rs. 20 crores is the forward cover cost which is there.

Abhishek Gupta: So, you're saying there was a Rs. 31 crores FOREX impact?

V.C. Diwadkar: Yes, Rs. 31 crores open period FOREX impact and Rs. 20 crores forward cover cost. So, total Rs. 51 crores, so out of Rs. 51 crores, Rs. 31 crores for investor purpose we adjust in EBITDA, if you see for all our businesses it is EBITDA before FOREX and EBITDA after FOREX, so if you take the delta of this EBITDA you will find that Rs. 31 crores has been captured there.

Abhishek Gupta: No, I understand that sir and clearly that's when we do a segmental reporting you clearly mentioned the EBITDA margins accordingly. But when I look at the P&L overall, that cost is already sitting in your other expense line. And hence if I say my EBITDA margin year-on-year basis is moved up by 30 bps, it was after in-cooperating this incremental impact of FOREX. If this FOREX impact was not there then your margin should have been much higher?

V.C. Diwadkar: Correct, so Rs. 31 crores has been adjusted in EBITDA actually, if Rs. 31 crores was not adjusted then EBITDA would have increased to that extent.

Abhishek Gupta: What was the same number last year just to understand the delta?

V.C. Diwadkar: Rs. 15 crores, last year .

Abhishek Gupta: But last year must have been gain because at least the cash flow is showing the delta from gain to losses.

V. C. Diwadkar: The cash flow is different and accounting is different.

Abhishek Gupta: Yes, that's why just clarifying, so you are increase in delta?

V.C. Diwadkart: So, what numbers I'm giving you is account number actually, accounting number is Rs. 31 crores for this year and Rs. 15 crores for last year, which we have captured in EBITDA for investor purpose.

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

Lalaram Singh: Sir, my first question is based on the split which was have given for the finance cost for the full year is Rs. 228 crores. So, based on the split which you have given for open bid FOREX and forward to the cost, the interest on loan comes to Rs. 177 odd crores?

V.C. Diwadkar: Yes, so forward cover cost we take it as interest only actually because we are borrowing in, the LIBOR-based borrowing is done so you are required to take forward cover whetever necessary forward cover, it should be taken as interest so from Rs. 227 crores you need to remove this Rs. 31 crores. And then there is a Rs. 5 crores of interest income is there, which statutorily we are required to show in the income line actually, but for investor purpose actually while explaining to you people actually we adjust it.

Lalaram Singh: Understood sir. Sir may I know the March ending figure cross debt including short term long term and current maturity of debt all combined?

V.C. Diwadkar: Yes, I will give you actually. The total debt was Rs. 317 crores, out of that Rs. 94 crores was short term and Rs. 223 crores was long term and then the LC liabilities number I have given earlier , interest bearing LCs so FOREX interest bearing LCs was Rs. 1,075 crores, the domestic interest bearing LCs was Rs. 700 crores so that total's up to Rs. 1,775 crores.

Lalaram Singh: Got it sir. My second question is to Mr. Kushal and also Chaitanya, in all when you say in COVID, have you seen any fundamental changes in the dynamics for any of the business segments in terms of one, the competition going away or number two in terms of working capital trade rules are in terms of are they extending because we are saying that we are trying to reduce receivable days. So, in which areas do you see that opportunity arising because at the end of the day, the dynamic this thing, I don't think that maybe a practical I don't know how far that will be practical to do , so your comments on post COVID is there any fundamental changes in any of business segments?

Kushal Desai: So, in the post COVID situation actually, we don't see any fundamental changes as such, you will see some amount as I said, the non-conventional energy thing is there, part of the stimulus package is going to be to accelerate investments in that area. So those are some of the drivers which are there. On the fiber optic side, we are putting this FTTH in place, which is fiber to the home. I'm sure that working from home is going to be a new norm. So there will be an increase and demand coming in, fiber coming in. Still a lot of people work from home on dongle. And ultimately, if you want to work from home, you got to work from on a fiber line, so some of those products the demands will automatically fall in place, we're not really seeing any of our product lines where demand is going to disappear. Our focus on working capital, and is that we want to get more and more selective in terms of we don't want to be a bank. To our customers, we are making it very clear to them saying yes, certain products require a certain cycle, we are ready to support to that extent, but to win business by giving additional credit to your customer, that's not what we want to do going forward. So with that discipline that comes in, there may be a drop in revenue but we believe that our return on capital employed will improve, return on equity will improve, all these other metrics will start improving. And then the third thing is when you're focusing on some of these value added products which are like CTC for copper and some of the automotive lubricants and things like that. export markets, there's the collection cycles are also a little bit better than the domestic. So, putting all this together, the focus is really that we want to release more cash out of the working capital cycle.

Lalaram Singh: Got it and then this year we saw a drastic reduction in the cash from operations, driven by the payables which reduce significantly so, and also whether it happened so, this year do we see any in terms of dividend payout any reduction, which the management is thinking?

Kushal Desait: You say in FY21?

Lalaram Singh: Yes.

Kushal Desai: It's just too early to in the year, we don't know how this year is going to actually pan itself out. And just by the way part of the interest being higher in the last two years was unplanned interest being higher, you had marquee names, who in the past had been relatively very good in terms of managing their finances, managing their payments, etc. that went haywire, the most venerable names in the country. So, those were all unexpected kind of funding, which we had to do and in some cases, if the payment terms required a payment say on first January, you didn't get paid until April, in three months, four months. So a lot of that has got cleaned up to a very large extent and we start this effort before this whole COVID problem. But we've done a lot of that cleanup and we are making sure that we don't get into that same mistake with those same customers again. So part of the whole thing is in terms of housekeeping being far stricter in terms of what you want to get after and not get after, because that's a choice that entirely in our hand. So, you will see more financial discipline coming in clearly as we go forward.

Lalaram Singh: And one is on the segment wise profitability, if I remember correctly, conductor were actually given a negative ROE over the past two quarters in the con-call Diwadkar was mentioning. So, for the full year can you please give us a amount of free tax ROE for the three segments?

V.C. Diwadkar: Little bit change in ROE working as far as the common expenses are concerned that after discussion with the management actually what we have done for the whole year ROE for the company as a whole is 11% and for oil division it is 10%, for conductor it is 9% and cable it is 15%. I agree with you, earlier I had computed a lower ROE because more I was allocating more common expenses to conductor based on the turnover actually. But then we reworked the number actually across all the three businesses actually and these are the numbers and you can go with these numbers now.

Lalaram Singh: So, sir with these numbers in hand and with the long tail target of say high double digit ROE which segments do you think will rise at so if conductor fundamentally 18% ROE business or oil, so it that the cables are much higher ROE business over average will come to 18%?

V.C. Diwadkar: Major improvement will be there in oil and conductor actually and cable will also improve actually with the. As Kushal has earlier explained we are going for some products which are having better margins even in cable the defense opportunities, etc..

Lalaram Singh: So, in conductors we already gave the lot of ground in this year in terms of EBITDA per tonne, now we are very close to 12,000. So, I won't, so in terms of margins I am not sure that these, that will be the driver so what will drive that?

Kushal Desai: On the conductor side you will see a drop taking place and financial costs and all these other things. Which we've cleaned up, as I mentioned in the last couple of years, there were some big time misses in terms of what we had planned to collect and the client has actually ended up paying. So, but that quite a bit of it has got up now. We are making sure that we don't make those mistakes again going forward by just looking at the brand name or whatever of the client or the history that the client has had prior to the last couple of years. You will see a lot of more discipline coming in on that front. And that will then automatically drive some of these numbers, our target is to at least is to get to as I said 18, 20% in the next three years from where it is today, which is at 11, so to 2, 3% every year over the next three years.

Lalaram Singh: And in oil business where do you see these 10% ROE as of now, I understand that EBITDA per KL target is around 4000, so will that be enough or we also need to reduce the capital employed?

Kushal Desai: So, years in which we've actually delivered 4000 the ROE has been in the 20% range.

V.C. Diiwadkar: And there also the capital employed needs to be reduced actually, as far as the debtors days are concerned to the transformer industry.

Kushal Desai: So, we've taken a conscious decision that even some of the big players who want 180 days and think, we've already walked out of the business. If somebody else wants to give you 180 days, let them we're not going to do it. So, some of this is discipline thing we have to see how it progresses over the next nine months. But there is a very clear determination to work on, improve these financial metrics final one of which is your EPS and your ROE.

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

Sachin Shah: You mentioned about the value addition that you're doing in each of your business lines and that's very well appreciated. And that will definitely help us improve our profitability. But what I wanted to understand was that, as you mentioned in your opening remarks, that the power grid is actually going to spend much less this year and maybe even later. You also mentioned about the kind of the infrastructure spending that's going to happen in the foreign market, but the kind of the spending that we need to see probably in the domestic economy, particularly in your sector which is the power sector which is your 80% of your demand comes for you. How do you see that going forward and if that doesn't, because that has not really played out too well, in the last two, three years, but if I am wrong, please correct me there. And if the situation remain maintain, do we still expect the top line growth to be there for us?

Kushal Desai: Okay, so let me answer this in two parts. One is in terms of basic demands, so the goalposts are changing. So, there was a huge dependence on power grid that's no longer there. You have work that's spread out this whole railway electrification work didn't exist two years ago. This whole non-conventional energy at the level at which it is at didn't exist three years ago. So, these are all new areas, which are there the areas coming up for us outside India is also grown substantially or the addressable market. So you will start seeing demand moving around power grid will always be a large and relevant customer for us, but the kind of dependence which we had in the past on power grid is not going to come again in the foreseeable future. In terms of top line, our focus is actually not to focus on our topline. We are happy with contain our revenues in the Rs. 7000 crores range. We are now just concentrating in terms of dropping products where the profitability is not falling in line. As we gain more and more traction in the products which are more profitable products. We couldn't do that in the past unless you reached a critical mass on some of these. At least for example you take CTC or OPGW. We've been working very hard in terms of establishing those products, but the critical mass of that will start showing up only in FY21 and FY22. As we get more and more qualification requirements to bid on more tender and then business starts picking up in the case of CTC approvals have started coming in from OEMs and utilities so the business will automatically grow, we can do Rs. 350 crores of revenues in CTC we did only Rs. 22 crores last year, this year we hope to do maybe close to a Rs. 100 crores then next year get Rs. 200 crores, then get to Rs. 300 cores. So, as the revenue of these product lines grow if the profitability coming in from conventional conductors and some of these other products are not commensurate it's much easier to take a decision to drop them, or to reduce the volume there. So, the focus that we will similarly there are things on the oil side of the business where, as your automotive and industrial grows as your transformer oil export business grows, as your process oil business grows, you probably drop some of your commodity white oils which are there. So the idea is to, if the opportunities are good and profitable, we will get after them without a doubt. But we don't want to just focus on our top line, we've done a very good job on our top line over the last few years. But the focus on the bottom line and the ROE needs to now be much sharper. And there are opportunities now have position to do that, we have the products to do that, we are reaching the critical mass in terms of being able to execute in those areas. So then based on that we'll do the balance.

Sachin Shah: Okay. And in the foreign market, so basically what I understand is that the base business was like a compulsory thing for us to do earlier, but now that the value added products are also becoming fairly large in our pie. We can afford to drop some of the base business and the value added products will take care of the overall profitability?

Kushal Desai: Correct.

Sachin Shah: And on the foreign market do we expect because of the foreign markets also will require some longer term working capital cycles in terms of maintaining our inventories or sometimes even more in transit stuff. So will that impact then because as you said that our exports will grow faster than the domestic business?

Kushal Desai: So the big advantage in the export side is that you can, for the same number of days or outstanding the interest rate is substantially lower, because you can get LIBOR-based funding for it. Also you've got lines of credit that are available and a lot of the overseas customers don't necessarily demand the same number of days of outstanding but even if they do on a like to like basis the interest rate is much lower. Like you are looking at sub 3% versus 8.5% in the domestic rupee scene. So for doing the same amount of business, the interest cost is a lot lower. And it's not necessarily that your EBITDA is a lot lower on that business.

Sachin Shah: Okay. And some ballpark range would you like to suggest that over a period of next three years what would our domestic exports mix be like?

Kushal Desai: It's hard to tell it all depends. In terms of, we are currently at about 33% to 34% of our revenues coming from overseas business 66% to 67% coming from domestic, so that 33 could easily go up by another 10 percentage points.

Sachin Shah: And generally speaking exports would be a little better margin or it's neutral towards domestic margin?

V.C. Diwadkar: Export are with better margin actually.

Kushal Desai: It also depends on the product.

V.C. Diwadkar: And financing is also cheaper in case of exports, because you get the natural hedge you are not required to do forward cover also you can import the material for export and keep your liabilities also open, because you're going to get dollar to dollar you can set up dollars.

Kushal Desai: And you know the logistics cost from India actually related to other geographies is now improving. Like three years ago, it would be far more expensive to ship from our factory. So like for example, if you take our plant in Silvassa, today you have a choice of three places where you can load your container, you can actually go to a place called ICD Tumb which didn't exists before, which is hardly 40 kilometers from our facility and it's a very well operated, internal container depo, or you can go to Hazira port which is equidistant to the Nhava Sheva port. So, these sort of things in India have actually improved substantially over the last few years. Giving more choice, being able to give better levels of service, things like that. So the export side logistics costs and things have definitely improved relative to what they were a few years back. Now, the profitability also depends on the product line and the kind of margin that product can afford, but like-to-like as Mr. Diwadkar said, even if the EBITDA is the same on the two businesses, the interest is one third almost on the export compared to domestic as things stand today. So it carries more into the bottom line.

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

Anuj Upadhyay: It's a follow up question to what Mr. Patwa was asking, that improvement at the EBITDA level it must within fully transferred of loan to the earning level. So if I assume it will it be correct that the trading interest which we are paying on the procurement of the base oil it's not being fully recovered from our customer, largely because of the higher risk, is it correct sir or anything we can?

Kushal Desai: The biggest problem is the number of days which have gone up that were unplanned for, from customers because they were not able to pay in time and in many cases it actually stretched for significantly longer period. So, as I mentioned earlier we are in the process of cleaning that up, we have done a substantial amount of cleanup in the last few months. But going forward, we are much more circumspect in terms of how we will handle that. So, the interests as a component of EBITDA should fall as we go into the future.

Anuj Upadhyay: Okay. But don't we change any penalties like such kind of a penalties?

Kushal Desai: Not at all, the industry dynamics are such that we can't. But the choice that we have is to then, go back to the client for new business with different terms.

Anuj Upadhyay: Got it sir and lastly sir on you mentioned in the opening remarks related to some 20 odd transmission projects about Rs. 23,400 crores to be bided out. Any time line sir when we expect this tender to be floated?

Kushal Desai: Chaitanya you want to take that?

Chaitanya Desai: Actually I got disconnected so I've just got reconnected, just know. So, I don't know what question is?

Anuj Upadhyay: I'll repeat sir, in the opening remarks sir has mentioned about the 20 odd transmission projects about Rs. 23,400 crores to be bided out, so any timeline when we expect this tender to be floated?

Chaitanya Desai: Yes, those may come up sometime in August timeframe and may get finalized by September.

Anuj Upadhyay: Okay and are these specifically for the renewable projects or it's mixture of?

Chaitanya Desait: So, these are mostly tariff based competitive bidding and part of that is the RE grid and some of them also cost plus basis of power grid but most of them are tariff based competitive bidding. And yes, it is mainly driven as we discussed earlier because of the renewable energy coming in India in a big way. So, that's why this demand is getting generated.

Moderator: Thank you. Sir now we don't have anyone in the queue.

Kushal Desai: Yes. So maybe we can then wrap up the call.

Moderator: Sir would you like to add any closing comments?

Kushal Desai: Well just in terms of, as I mentioned during the initial opening remark our sense is that Q2 will still have a number of challenges. I got disconnected for a second. We see Q3, Q2 still having a few challenges expect the business levels to come up to about 75 to 80% level. If there are no more lockdown and stoppages, we see a much brighter Q3 and Q4. We also see our addressable markets growing outside of India as we mentioned and we are quite pleased with the product portfolio that we have and the progress that we have made in terms of reaching critical mass in terms of, of those products. So we are hoping that in FY21, you will see a higher percentage of that business taking place, even though the overall business may be a bit lower because of the pandemic and then a full effect of that happening in 22. So, with that I'd like to thank you all very much for being on the call and hope that all of you stay healthy and safe. Thank you very much.

Management: Thank you.

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