

Report



Junction



APAR INDUSTRIES LTD.

Registered Office:  
301, Panorama Complex,  
R. C. Dutt Road,  
Vadodara-390007.

## Forward-looking statement

In this Annual Report we have disclosed forward-looking information to enable investors to comprehend our prospects and take informed investment decisions. This report and other statements - written and oral - that we periodically make contain forward-looking statements that set out anticipated results based on the management's plans and assumptions. We have tried wherever possible to identify such statements by using words

such as 'anticipate', 'estimate', 'expects', 'projects', 'intends', 'plans', 'believes', and words of similar substance in connection with any discussion of future performance.

We cannot guarantee that these forward-looking statements will be realized, although we believe we have been prudent in assumptions. The achievement of results is subject to risks, uncertainties and even inaccurate assumptions. Should

known or unknown risks or uncertainties materialize, or should underlying assumptions prove inaccurate, actual results could vary materially from those anticipated, estimated or projected. Readers should bear this in mind.

We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise.

# Corporate information

## Board of Directors

Dr. N.D. Desai	<i>Chairman</i>
Mr. V.A. Gore	
Dr. N.K. Thingalaya	
Mr. F.B. Virani	
Mr. M.N. Kamat	<i>Nominee of IDBI</i>
Mr. Kushal N. Desai	<i>Managing Director</i>
Mr. C.N. Desai	<i>Joint Managing Director</i>
Mr. M.M. Patel	<i>Director (Polymers)</i>
Mr. H.N. Shah	
Mr. Richard Owen Pyvis	<i>Up to May 11, 2007</i>
Ms. Josephine Price	<i>Alternate to Mr. Richard Owen Pyvis – Up to May 11, 2007</i>
	<i>Director – w.e.f. May 30, 2007</i>
	<i>Alternate to Ms. Josephine Price</i>
Mr. Gary Ng Jit Meng	

## Audit Committee

Mr. V.A. Gore	<i>Chairman</i>
Dr. N.K. Thingalaya	
Mr. F.B. Virani	
Mr. Richard Owen Pyvis	

## Company Secretary

Mr. D.C. Patel	<i>Upto April 20, 2007</i>
Mr. Sanjaya Kunder	<i>w.e.f. June 18, 2007</i>

## Bankers

Union Bank of India  
Syndicate Bank  
ING-Vysya Bank Ltd.  
The Dhanalakshmi Bank Ltd.  
Indian Bank  
IDBI Ltd.  
ICICI Bank Ltd.  
State Bank of India

## Registered office

301 Panorama Complex  
R.C. Dutt Road  
Vadodara 390 007

## Auditors

M/s. RSM & Company  
Chartered Accountants  
Mumbai

## Corporate office

Apar House, Corporate Park  
Sion-Trombay Road  
Chembur, Mumbai 400 071

## Contents

Corporate identity	2	Balance Sheet	58
Chairman's overview	4	Profit and Loss Account	59
Business segment	14	Schedules	60
Financial analysis	25	Balance Sheet Abstract	81
Financial highlights	31	Cash Flow Statement	82
Directors' Report	32	Subsidiary Accounts	83
Energy Statement	39	Section 212	84
Corporate Governance Report	43	Consolidated Accounts	85
Auditors' Report	54		

The **Rs.15,141**-million Apar Industries Ltd. is a dynamic proxy of the Indian power sector's growing potential, deriving over **66%** of its revenues from this industry through the supply of key building blocks.

Apar aims to graduate from being a participant in India's infrastructure growth to an infrastructure driver in the world's second fastest growing economy.





## Corporate identity

Apar Industries is a technology-driven and customer-focused vendor to some of the most brand-enhancing power companies in India and abroad.

Reinforcing product innovation, cost leadership and premium quality.

And living its vision of 'Tomorrow's Progress Today'.

### Presence

Apar Industries Ltd. is headquartered in Mumbai, with production facilities spread across Silvassa and Valia (Gujarat), Nalagarh (Himachal Pradesh), Trombay and Rabale (Maharashtra).

### Our positioning

- A 50% share of India's transformer oils segment and 20% share of the country's white oils market.
- The second largest producer of conductors in India and among the top five in the world with a 23% market share.
- Only Indian manufacturer of nitrile butadiene rubber, enjoying over 50% share of the Indian market.
- Manufacturing facilities accredited with demanding ISO 9001:2000 and ISO 14001:2004 certifications.

### Parentage

- Originally, the Company was named Gujarat Apar Polymers Ltd (GAPL). However, the industrial businesses (conductors, speciality oils and high styrene rubber) of the flagship Apar Ltd. were merged with GAPL and the name of the Company was changed to Apar Industries Ltd. in April 1997.
- Apar's conductor division was started in 1958 with technical know-how from Alcan (Canada) and Properzi (Italy). The aluminium conductor division manufactures all types of bare overhead aluminium conductors and GS earthwires. The business contributed 44% of the Company's revenues in 2006-07.
- Apar's speciality oil business was started in 1969 with technical know-how from Sun Oil company (USA). The division has four products (transformer oil, rubber processing oils, white oils and industrial oils). The business contributed 46% of the Company's revenues in 2006-07.
- Apar's High Styrene Rubber business was started in 1988 and the Nitrile Butadiene Rubber business in 1992 with technical know-how from Goodyear Rubber & Tyre Company (USA). The business contributed 10% of the Company's revenues in 2006-07.



“The Company will continue to invest and maintain its leadership position as a direct beneficiary of the robust growth emerging in India’s power sector.”

We embarked on a number of business-strengthening initiatives during the year under review, which will translate into robust growth across the foreseeable future.

## Chairman’s overview

*Dear Shareholders,*

AT THE OUTSET I WOULD LIKE TO communicate to you that Apar Industries delivered attractively across all financial parameters in 2006-07.

■ Our topline grew by 36.92% against a targeted growth of 25-30%.

■ Our EBITDA grew by 32.61% in line with the previous years.

However, our management was slightly disappointed that bottomline growth was 15%, instead of the estimated 20% for the following reasons:

■ Reduced tax exemptions in Silvassa to 30% of the profit from 100% of the profit for the conductor business; this increased tax payout by Rs. 85.89 million over 2005-06.

■ Higher speciality oil business profits derived from the Mumbai plant with no corresponding tax exemptions.

■ A sharp increase in the price of base oils in Q3FY’07 on the back of erratic crude prices (from \$62 levels to \$78 ); to protect our market share in key

accounts and enhance our reputation as a stable pricing Company, we strategically reduced prices of speciality oils in 2006-07, which temporarily affected our profits.

### Key initiatives

At Apar, we embarked on a number of business-strengthening initiatives during the year under review, which will translate into robust growth across the foreseeable future. These comprised:

**Consolidation of conductor manufacturing plants:** We shifted our conductors plant from Bahutha to Silvassa with corresponding sales tax and income tax benefits. I have the confidence to state that our conductor plant in Silvassa is now the lowest-cost producer in the country and one of the most competitive of its kind in the world.

**Completion of new conductor manufacturing plant:** We commissioned our second

aluminium conductor plant in Nalagarh in the first quarter of 2007-08, which will widen our geographic footprint across India and accelerate our growth in this business going ahead.

**Increased focus on the export of speciality oils:** Our speciality oils business strengthened itself through approvals of new generation transformer oils from global OEMs like Areva, Siemens and ABB. To supply with speed and surety, we commissioned transformer oil storage and distribution points in the intermediate locations of Australia, South Africa and Turkey.

**Widening product basket in the speciality oils business:** We propose to enter into a licence agreement with ENI of Italy to market high-end automotive and speciality industrial lubricants in India from August 2007 onwards. This diversification will enable us to address the large and growing demand for automotive lubes, completing our product portfolio.

**Strategic shift of the polymer plant from Mumbai to Valia:** We shifted our HSR plant from Mumbai to Valia in view of the declining demand for that product and a growing NBR demand; we are convinced that the combined plant will translate into superior scale economies and reinforce Valia’s competitiveness over Mumbai.

### Looking ahead to 2007-08

**Conductors:** In FY’07 this business was affected through significant delays in the floating of tenders from Power Grid. Our Company protected its order book through exports and orders from global turnkey contractors. Besides, there were delays and a re-tendering of

the first two BOOT transmission lines to be awarded to Reliance Energy. However, we are optimistic that these delays will correct and reflect in an enhanced order flow from September 2007 onwards, leading to robust conductors demand in FY’08 and FY’09.

Proactively, we invested in capacity expansion by 25%, so that when the orders materialise – as we expect they will in a large way in 2007-08 – we will possess capacity on hand to service it.

**Speciality oils:** The optimism in this business is derived from the fact that most of its major users are booked

with orders for the next 6-10 years leading to the prospect of a sustained 20% topline growth over the foreseeable future. To capitalise effectively, we are making decisive inroads into Africa – a number of oil-rich nations in that continent are making significant investments in power infrastructure – through product approvals, an effective competitive edge and also likely to lead to the prospect of growing orders.

**Polymers:** We are optimistic of the growth of this business on account of a robust growth in the downstream auto-component and engineering sectors.

### Outlook

Growing opportunities in India’s power sector vindicate my optimism that we are present in the right sector in the right country at the right time.

Sector	Investment in infrastructure sector						
	Tenth Plan (Anticipated)			Eleventh Plan (Projected)			
	Rs. crore	USD bn	Sectoral share (%)	Rs. crore	USD bn @ Rs.45/USD	USD bn@ Rs. 40/USD	Sectoral share (%)
Power	276,852	69.21	36.07	525,722	116.83	131.40	28.10



In line with our corporate philosophy of 'Tomorrow's Progress Today', we have embarked on a phased capacity expansion across all our businesses to address the robust growth potential.... and grow our overall revenue to Rs. 22 billion by 2010.

### Rajiv Gandhi Grameen Vidyutikaran Yojna

This project aims to provide electricity across all Indian villages and habitations by 2009, resulting in a substantial order backlog for transmission tower companies and their vendors.

As of November 2006, Rs. 95 billion worth of contracts had been awarded under the RGGVY scheme and contracts worth Rs. 55 billion will be awarded over the next four years. Assuming

that transmission tower manufacturers address 20% of the value of these contracts, orders worth Rs. 14 billion from the RGGVY alone are expected to be placed by 2011.

#### Importance of power in the economy:

Over the last decade, India's power demand outstripped GDP growth by a factor of 1.5. If that happens, India's per capita electricity consumption will spike to more than five times its existing level and the total power generation capacity will need to increase more than seven times its existing capacity, triggering a sustainable increase in the size and scope of our businesses.

**Increase in generation capacity:** Even as India's peak power shortage is estimated at around 12%, it has yet to translate into a disciplined urgency in fresh capacity rollout. India targeted 41,110 MW capacity addition during the Tenth Plan but added a mere 21,280 MW (52%). India expects to cover this with an ambitious 78,597 MW of generation capacity in the Eleventh Plan (2007-2012) as against an installed capacity of a little above 100,000 MW. The government is optimistic of achieving this challenging

target for the following reasons:

**Inclusion of the private sector:** The private sector has funded only 11% of India's generation capacity until now. To correct this under-exposure, the government invited the private sector to bid for 11 ultra-mega power projects; in 2006-07, Power Finance Corporation invited bids for two such UMPPs of Sasan and Mundra (4,000 MW each, warranting investments of around Rs. 16,000 crore). The success of this initiative is reflected in the result: out of 11 intending parties, 10 were private.

**Increase in the power transmission and distribution capacity:** There is an urgent need to balance India's generation capacity growth with an inter-regional transmission capacity of 37-40 GW (against 18 GW in FY 2007). A mismatch in surplus power generating capacity in Eastern India and major power consuming areas across India implies that power will

need to be increasingly evacuated from one part of the country to the others. This will be increasingly facilitated by a national transmission grid on the one hand and a power trading environment on the other so that a producer will be able to market power to an independent buyer. As an extension, India will need a significant increase in its power transmission capacity, reflected in a projected increase in inter-regional power transfer capacity from around 9,500 MW (March 2006) to around 37,200 MW by 2012.

To reduce theft and structural losses, we foresee robust additions in the country's distribution network over 7-10 years corresponding to an investment of more than Rs.1.7 trillion. This increased focus on transmission and distribution (T&D), facilitating adequate inter-regional power transfer, has already begun to happen: the proportion of T&D-spend to generation improved to 70% in 2004 to 110% in 2005 and is expected to rise to 120%.

As a result of these programmes and initiatives, the conductor demand is expected to grow from 225,000 to 250,000 mts to about 400,000 mts per year in the Eleventh Five Year Plan.

It is estimated that every 1 MW power generation addition will lead to an increased demand of 12-15 MVA of transformer capacity across the full chain of generation, transmission and distribution (without considering replacement demand).

This implies a cumulative demand of 700,000 MVA of transformers over the next five years. Besides, the demand of first fill transformer oils is expected to grow from 110 million litres per annum to 180 million litres per annum as OEM-first fill across the Eleventh Five Year Plan consumption is likely to grow from 60% of the overall segment to 70%-plus over the coming years.

#### Our preparedness

In line with the industry optimism and our corporate philosophy of

'Tomorrow's Progress Today', we have embarked on a phased capacity expansion across all our businesses to prepare for the robust growth potential.

**Conductor business:** The Company is setting up a new aluminium rolling mill facility in Silvassa, which will be commissioned in the second quarter of 2007-08. As a result, our total capacity will increase from 55,000 MT (FY'07) to 65,000 MT (FY'08) to 75,000 MT (FY'09) and doubled by 2012. The Company expects to complete Phase-2 of its Nalagarh plant expansion of 10,000 tonnes by the end of 2007-08, which will strengthen its presence in North India, a major market. The Company expects a revenue growth of 25-30% from its conductor business in 2007-08.

**Speciality oils business:** Going ahead, the Company's approved vendor status with leading OEMs will reinforce market leadership and enhance market

share. It already has over 60% share in the power transformer segment, which requires superior quality and product consistency. In addition, the Company commissioned storage tanks in the Middle Eastern, North African and South African locations to cater to spot orders. This additional storage capacity will cater to the growing demand for transformer oils and white oils in the domestic and international markets. The Company expects a revenue growth of 20% from its speciality oils business in 2007-08.

In view of this investment agenda, we are optimistic of retaining and reinforcing our presence in the top three of each of our businesses, transforming the intangible potential into a tangible reality and grow our overall revenue to Rs. 22 bn by 2010.

**Dr. Narendra D Desai**  
*Chairman, Apar Industries*

# Report Junction.com

The names of some of our esteemed customers – the world's leading power generation and transmission companies etc – are given below.

These corporate giants are in a position to source their growing needs of transformer oils and aluminium conductors from several vendors across the world.

However, they select to do so from one company.

**Apar Industries Ltd.**

Because Apar is not merely a short-term vendor, but a stable long-term supplier. Committed to strengthening the business of its customers and, in doing so, growing its own.



ABB



Areva



Ingersoll Rand (I) Ltd.



Siemens AG



Apollo Tyres



JK Tyres



Jyoti Structures



KEC International



Kalpataru Power



Larsen and Toubro



Brakes India Ltd.



Bharat Bijli Ltd.



BHEL



Crompton Greaves



CEAT



Marico



MRF



NTPC



Power Grid



SAE



Emco Transformers



Energo Invest



Sundaram Group



Hindustan Lever Ltd.



Tata Power



TELK



Voltamp



Dabur





Widest range.

Adequate quantity.

Just-in-time delivery.

Superior quality.

Unbeatable value.

At Apar Industries, our success  
narrows down to these words.

**Value-for-money.**

REPORT JUNCTION.com

Value-for-money across all our three businesses.

**Speciality oils.**  
**Aluminium conductors.**  
**Polymers.**

Manifested in an ability to supply what the customers want. How much they want. When they want. Where they want. And at a value that gives them the assurance that they have derived the better end of the transaction.

Result: more than 90% of the Company's top 10 customers were ones with which it enjoyed decades of an ongoing relationship, leading to customer retention, repeat business and a sustainable, derisked business model.





REPORT  JUNCTION.COM

## Leadership.

This one word effectively captures the essence of Apar Industries' market presence.

Because in every business of its presence, **Apar is number 1 or 2** in scale, revenues and profits.

This dominating presence in India, across each of its businesses has been built over years of superior customer service and support, resulting in an industry respect and global recognition.

Business segment – 1

## Speciality oils

**Locations:** Mumbai, Rabale and Silvassa  
**Gross revenues:** Rs. 7,126.28 million, 2006-07  
**Proportion to overall gross revenues:** 46.93%  
**Growth over 2005-06:** 33.02%

### Market status

- **Transformer oil:** 50% domestic market share. Among the top five manufacturers of transformer oil in the world
  - **White oil:** 20% domestic market share. Largest exporter of transformer oils and white oils from India
  - **Rubber process oil:** Largest player among private refineries
- Apar's brands:** Poweroil

### Speciality oils

	2004-05	2005-06	2006-07
Sales revenue (Rs. million)	4,577.75	5,336.82	7,096.39
Sales as a proportion of the Company's total sales (%)	52.37	47.98	46.87
EBIDTA (Rs. million)	520.53	515.44	585.99
EBIDTA as a proportion of the Company's total EBIDTA (%)	88.26	61.26	52.32

### Overview

The Company ventured into the speciality oils business in 1969 with technical know-how from Sun Oil Company (USA).

Product	Application	Purpose	Prospects	Customers
Transformer oil	Power and distribution transformers, which account for 5-8% of the transformer cost	Cooling; critical insulation medium, used as a diagnostic tool to maintain transformer performance	Increasing number of power projects; rising demand for transformers will drive transformer oil growth by 12%	ABB, Areva, BHEL, Siemens, Crompton Greaves, Emco Transformers and Siemens
White oil	Widely used in pharmaceutical products cosmetics, (largest usage) and food related applications	Serves as base material	Robust growth in healthcare products and cosmetic and polymer industries	Hindustan Lever Limited, Marico, Dabur, Total Petrochem
Rubber process oil	Manufacture of rubber products (automobile tyres and tubes, bicycle tyres, tyre retreading material, belting, hoses and battery containers)	Helps in blending rubber with other chemicals	Growing demand from the tyres and automobile industries	CEAT, MRF, Apollo, J.K.Tyres

Product	Application	Purpose	Prospects	Customers
Ink oil	Used in the manufacture of ink for coloured news print	Serves as a base material to manufacture coloured inks	Evolution in the print media with black ink getting replaced with coloured ink in many printed materials	DIC, Plint Inks, Micro Inks
Industrial and automotive lubricants	Used in compressors, refrigerators and automobile engines	Provides lubrication between moving machine parts; provides cooling effect	Increasing number of OEM projects; rising demand from the automobile industry, increasing industrialisation	Escorts, Kinetic and others

**Knowledge:** The speciality oil business is driven by the development of products that meet special applications at the customer's end. The customised nature of the products require a deep understanding of customer needs on the one hand and oil chemistry on the other.

To respond proactively to the evolving customer needs, the Company possesses an R&D team strength of five scientists to work on globally benchmarked product customisation and application research. The result is that the Company has more than 300 grades of speciality oils that address diverse customer needs, facilitated by

SCADA-controlled and automated flexible manufacturing systems. Thanks to our value-enhancing initiatives, Apar has emerged as the only Indian company to meet all national, international and special transformer oil requirements.

**Certifications:** Poweroil (Apar's speciality oil brand) meets the stringent requirements of the US FDA 21 CFR 172.678 and 21 CFR 178 3620 (a) certifications.

Newer grades of transformer oils developed at Apar's R&D centres meet the latest international standards like IEC 60296 – 2003, ASTM D 3487 – 2000, BS 148-1998 Class I / IA & II /

IIA, DIN 57370 / VDE 7370, AS. 1767.1 – 1999, Doble's TOPS and also the earlier international standards like the IEC 296 – 1982 Class I / IA & II / IIA and the BS 148 – 1984 Class I / IA & II / II A and the national standards like IS 335 – 1993 and IS 12463 – 1988.

**Pioneering capability:** The Company was the first to introduce transformer oils in India in 1968, the first among private refiners to make rubber process oil in 1995 and the first to make new generation environment-friendly ink oils available in India, responding to the emerging needs of the printing industry in 2002. It was also the first