

APAR INDUSTRIES LTD.

Annual Report 2007-08

**50
Years**

Serving customer
and community

Report



JUNCTION



APAR INDUSTRIES LTD.

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APAR INDUSTRIES LTD.

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

www.apar.com

**"Tomorrow's
Progress Today"**

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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 realised, 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 materialise, 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, *Chairman*

Mr. V. A. Gore

Dr. N. K. Thingalaya

Mr. F. B. Virani

Mr. M. N. Kamat, *Nominee of IDBI - Upto April 29, 2008.*

Mr. Kushal N. Desai, *Managing Director*

Mr. C. N. Desai, *Joint Managing Director*

Mr. H. N. Shah

Ms. Josephine Price, *Upto July 21, 2008.*

Mr. Gary Ng Jit Meng, *Alternate to Ms. Josephine Price - Upto July 21, 2008. Director - w.e.f. July 31, 2008*

Audit Committee

Mr. V. A. Gore, *Chairman*

Dr. N. K. Thingalaya

Mr. F. B. Virani

Ms. Josephine Price, *Upto July 21, 2008.*

Company Secretary

Mr. Sanjaya Kunder

Auditors

M/s. Price Waterhouse
Chartered Accountants,
Mumbai.

Registered office

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

Bankers

Union Bank of India
Syndicate Bank
ING-Vysya Bank Ltd.
IDBI Ltd.
ICICI Bank Ltd.
State Bank of India
Standard Chartered Bank
Yes Bank Ltd.
Bank of Baroda

Corporate office

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

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Reliability, that our customers seek like the predictable coming of day after night.

Adaptability, evaluated through consistent service, in a potentially unpredictable business environment.

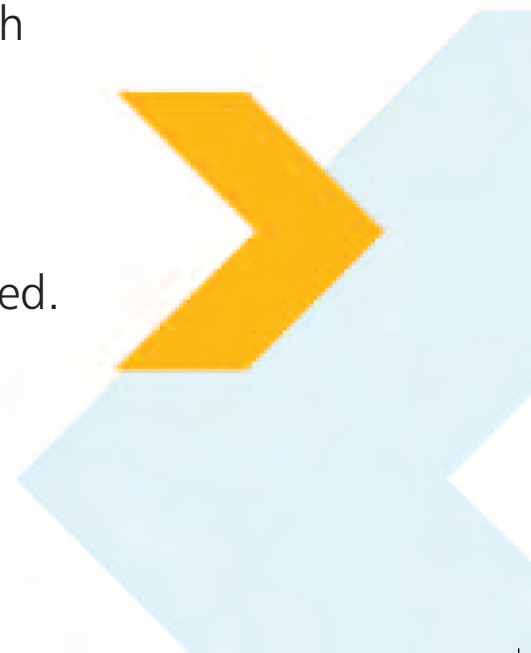
Innovation, appraised through the ability of our customers to extract the most from their systems, using our products as critical building blocks.

Leadership, evident in capacity enhancement from 155,000 TPA in 2004-05 to 269,881 TPA in 2007-08, graduating us from the fifth largest global manufacturer of transformer oils to the fourth largest.

Scale, reflected in the capacity expansion of aluminium conductors, including rods from 54,820 TPA in 2004-05 to 82,842 TPA in 2007-08, enabling us to emerge as the world's fifth largest in this line of business.

In 50 years of existence, this is precisely the competitive advantage that Apar has leveraged.

'Tomorrow's Progress Today'.



Half a century.

For 50 years, Apar Industries Limited has strengthened the business of its customers.

Through proactive product development.

Through timely product delivery.

Through superior product attributes.

In doing so, the Company has grown from Rs 15,158 mn in revenues in financial year 2006-07 to Rs 17,739 mn in 2007-08.

The result: Reliability. Respect. Reputation. Repeat business.

Across the manufacture of speciality oils and power conductors.

Past

- ▶ Commenced its conductor division with technical knowhow from Alcan (Canada) and Properzi (Italy).
- ▶ The speciality oil business of erstwhile flagship Apar Ltd. was started in 1969, with the technical knowhow from Sun Oil Company (USA).
- ▶ Incorporated Gujarat Apar Polymers Ltd. in 1989. The name was changed to Apar Industries Ltd in April 1997, consequent to the transfer of the industrial businesses of the erstwhile Apar Ltd.

Product portfolio

- ▶ The Company manufactures all types of bare overhead aluminium conductors and GS earthwires.
- ▶ Its speciality oil portfolio comprises a diversified range of transformer oils, white oils, rubber processing oils, ink oils, industrial/automobile oils and lubricants.
- ▶ It derives around 75% of its revenues from the power sector.

Prestige

- ▶ The Company's manufacturing facilities are accredited with ISO 9001:2000 and ISO 14001:2004.
- ▶ It accounts for approximately 50% of the domestic transformer oil market.
- ▶ It accounts for 23% of India's aluminium conductor market.

- ▶ It is the largest exporter of aluminium conductors from India.
- ▶ Its client profile comprises global power generation and transmission majors like ABB, Areva, BHEL, Bharat Bijlee, Crompton Greaves, Daihen Electric, EQUIPTEC, Emco Transformers, General Electric Company of Libya, IMP Transformers, INEO (Transdeco GtmH), Jyoti Structures, KEC International, Kalpataru Power, Larsen and Toubro, NTPC, Power Grid, NPC, SAE, Siemens AG, S.A. Panama (USA), Transformer and Rectifiers, Tata Power, Voltamp Transformers, Wilson Transformers (Australia) and others.

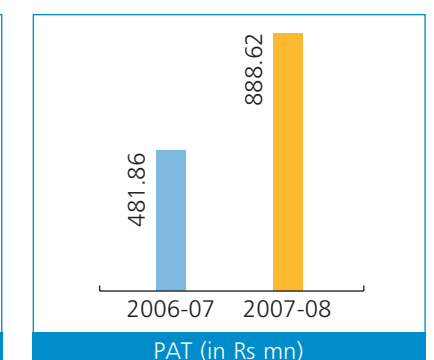
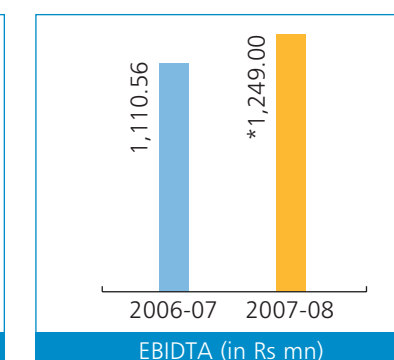
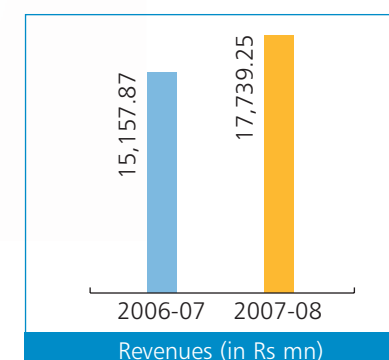
Public holding

- ▶ The Company's shares are listed on the Bombay Stock Exchange and the National Stock Exchange.
- ▶ Its market capitalisation was Rs 6,651.52 mn as on March 31, 2008.

Presence

- ▶ The Company is headquartered in Mumbai, supported by 15 outstation offices.
- ▶ It has three sophisticated manufacturing facilities at Rabale (Maharashtra), Silvassa, (Union Territory of Dadra & Nagar Haveli) and Nalagarh (Himachal Pradesh).
- ▶ 57% of its total revenues were derived from within India and 43% from overseas in 2007-08.

Performance



* Excludes one-time exceptional profit of Rs 303.69 mn from the sale of development rights and sale of polymer business of Rs 82.58 mn

Service and urgency

Now.

This word has influenced our service standards more than any other in the last decade.

Three letters – Now – represent an important management necessity for various reasons. The cost of funds has increased, making it imperative to shrink working capital. The cost of real estate has risen, making it important to reduce stocks. The competitive pressures have increased, making it imperative to turn over inventories faster. The result: customers want vendors to hold material, customer want vendors to supply just-in-time, customers want vendors to supply at shorter notices.

At Apar, we have adapted our business model. To deliver faster. To deliver in smaller lots. To deliver on time.

This reality is best showcased in our transformer oils business. First-fill transformer oil is the last thing that is requisitioned before a transformer is finally commissioned. Any supply delay can stagger the entire

supply chain. This makes it critical to have the material available the moment the customer requires it.

At Apar, we have reconfigured our entire supply chain to address this demanding customer reality. Historically, we supplied these oils directly from India, risking logistical delays. Over the last few years, we graduated to the hub-and-spoke model, setting up storage, distribution and processing facilities in Sydney (Australia), Gebze (Turkey) and Durban (South Africa), significantly improving our proximity to consuming markets. The result: An increase in fill-rate (a measure of timeliness in meeting delivery schedules) from 70% in 2002-03 to 90% in 2007-08.

When customers work with Apar, they can be assured that we will do whatever it takes to deliver them material anytime, anywhere.

Service and convenience

One.

The connotations of this one word can be diverse.

One stop. One face. One company. One relationship.

It's amazing how one can enhance customer convenience through the ability to provide a comprehensive range of products.

Aluminium conductors: At Apar, we work with a number of power utilities. Indian and international. Their product requirements are vast. Their geographies different. Their markets complex. Their products diverse. Over the years, we have addressed their every need. Through niche products. Through customised products. Like specialised aluminium conductors steel reinforced (ACSR) conductors for river crossings and narrow valleys. Like specialised grades of alloy-based conductors for saline environments. Like high temperature conductors capable of undertaking 50% extra load with

the potential to gradually replace low voltage lines without the need for creating additional infrastructure.

Transformer oils: At Apar, we supply to OEMs that manufacture specialised products. We address their needs of distribution, mid-range power, EHV Power (> 220 KVA), HVDC (>800 KVA) and hermetically sealed transformers. This helps them achieve low corrosive sulphur, higher oxidation stability and low or negative gassing tendency.

The result is when these widely dispersed customers need a trusted vendor, the one name on their shortlist is inevitably Apar.

Better products. Better service.

Service and support

Problem.

When people utter this word,
we hear opportunity.

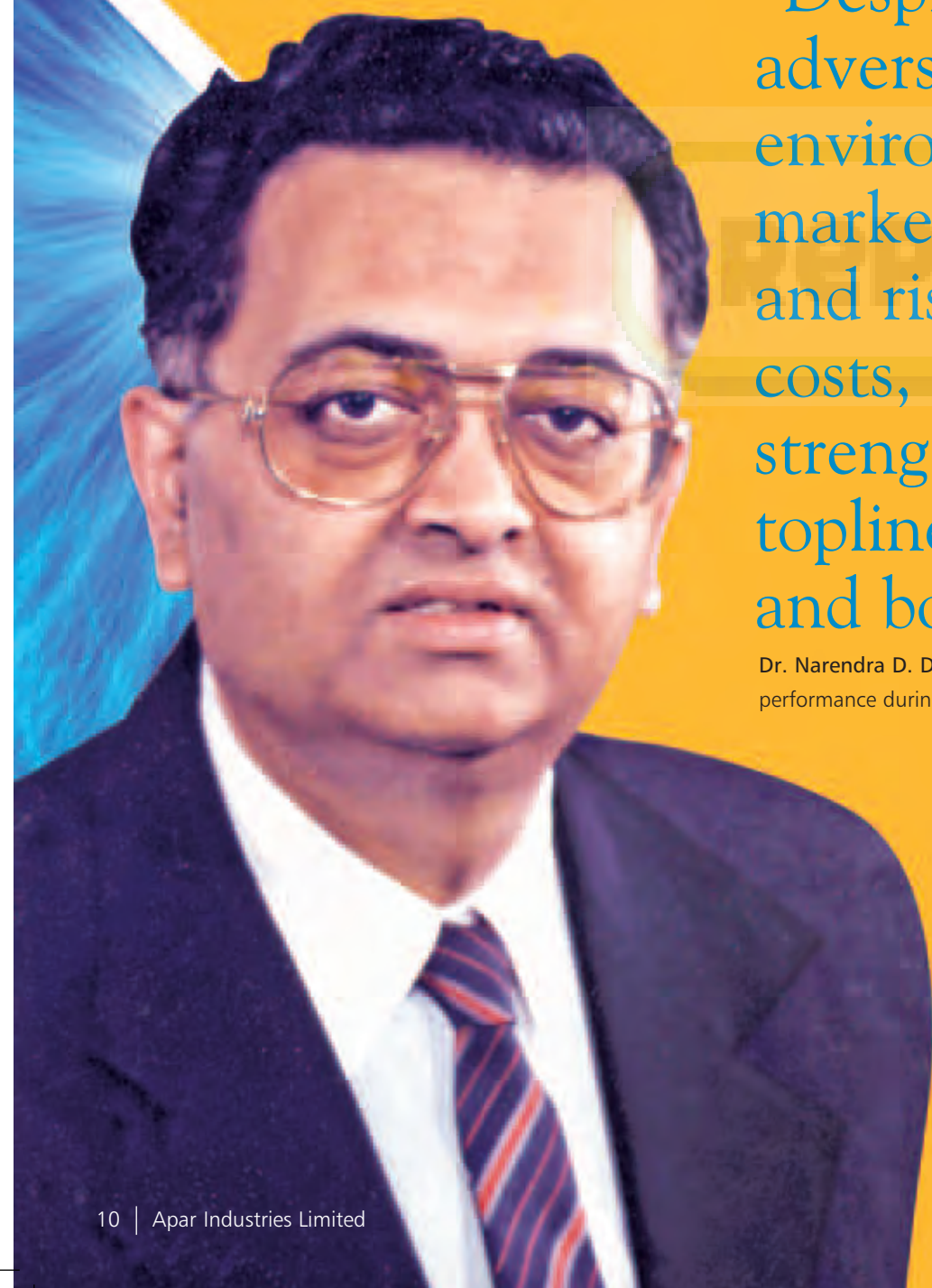
In the manufacture of aluminium conductors and transformer oils, we service power transmission projects. Whenever our customers encounter operational problems, we see it as an opportunity to provide new products and outstanding service.

Aluminium conductors: At Apar, as a relationship-driven vendor, our principal objective is to strengthen the business of our customers. We do so through the manufacture of quality products, which enhances the effectiveness of our customers' assets, besides strengthening their reliability in a volatile commodity market through the suitable hedging of metal prices in fixed-price contracts. In doing so, Apar has graduated from a vendor into a business partner. The result is reflected in the numbers: revenues from long-standing global customers increased by 250% and from domestic private and turnkey contractors by 50%.

Speciality oils: Escalating metal prices forced OEM customers across the world to shift to

more compact designs which require less material. Such transformers required insulating materials capable of providing protection at high temperatures to optimise machine availability across its service life. Apar was one of the first global companies to launch the non-corrosive sulphur grade of transformer oil in 2006, tested to new international specifications, to address this specific problem. We also pioneered internationally benchmarked grades of high-performance transformer oils in India that were more environment friendly, with higher oxidation stability, lower gassing tendency and ultra-low levels of corrosive sulphur. We also pioneered the development of higher performance metal working oils and environment friendly rubber process and ink oils. The result is that Apar is a preferred supplier across almost 75% of its speciality oil customers in India today.

Critical problems. Timely service.



Chairman's performance review

“Despite an adverse business environment, marked by volatility and rising input costs, we strengthened our topline, margins and bottomline.”

Dr. Narendra D. Desai reviews the Company's performance during 2007-08 and explains its strategy.

Dear fellow Shareholders,

It was a year of sharp contrasts. We delivered one of the best performances in topline and bottomline growth in a difficult business environment, marked by a steep hike in key commodity prices of our principal raw materials. The rupee appreciation vis-à-vis other major currencies was also a challenge, 43% of our revenues being derived from overseas.

This single paragraph encapsulates the performance of Apar Industries Limited during 2007-08.

Consider the two big challenges that we encountered during the year under review:

- ▶ The cost of crude, the principal ingredient driving all petroleum-based products, increased from US\$65.94 a barrel at the year-start to US\$101.58 a barrel by the year-end. Besides, the cost of aluminium, and High Carbon Wire Road (steel) were volatile with 50% fluctuations in its prices, putting a tremendous pressure on profit margins
- ▶ Power Grid Corporation of India Limited, which accounts for more than 80% of the country's transmission contracts, drastically reduced the awarding of new tenders, since they had to tie up with the World Bank and other agencies for financial arrangements. The result was a considerable slowdown in orders from this single largest customer, affecting industry prospects for the major part of the year under review.

It is with this perspective that one needs to evaluate our performance for 2007-08:

- ▶ 17% growth in revenues to Rs 17,739 mn
 - ▶ *12% growth in EBIDTA to Rs 1,249 mn
 - ▶ 84% growth in PAT to Rs 889 mn
 - ▶ 184-basis points growth in post-tax margin to 5.03%
- * Excludes one-time exceptional profit of Rs 303.69 mn from the sale of development rights and polymer business of Rs 82.58 mn

These numbers underline an important corporate reality: as business became increasingly challenging during the year under review, Apar performed even better. Improved profits over revenues were achieved through an unflinching focus on quality, reliability, adaptability to rapid changes in a volatile environment and innovation in productisation to meet evolving needs.

How we grew in 2007-08

Conductor division: The business of this division leveraged the ongoing growth in the Indian and global power transmission sector. During 2007-08, there was a temporary decline in the issue of fresh orders from Power Grid Corporation of India Limited, India's largest transmission sector customer. In view of this, the Company shifted its focus to the overseas market. The contribution of exports to the division's revenues increased from 35.43% in 2006-07 to 65.25% in 2007-08, even as the Indian rupee strengthened vis-à-vis the US dollar. Revenues from this division increased by 19.72% over the previous year, but EBIDTA margin declined from 9.19% to 5.31% in 2007-08. However, the situation is expected to correct from the third quarter of 2008-09, when PGCIL issues fresh contracts. During the year, the division also commissioned its new manufacturing facility at Nalagarh in April 2007, which recorded over 70% capacity utilisation by the end of the fourth quarter.

Speciality oil division: The business of this division continued to ride the growth of the transformer industry as well as the industrial and automotive sectors. We retained our position as the preferred material supplier for various reasons during the year under review – adequate material availability, right grades customised around client needs, proximity of storage facilities and timely material availability. In doing so, we strengthened the business of our customers by enabling them to commission their transformers without delay and maintain uptime (once commissioned). I am pleased to state that not

Apar was the first Indian supplier of transformer oils to participate in the Tech Con Asia Pacific 2008, the ninth annual conference for the high voltage electrical industry at Sydney Convention and Exhibition Centre – Darling Harbour, Sydney. Held on the 1st and 2nd of April, 2008, the conference is a platform for knowledge and experience sharing from international electrical industry experts. The Company presented a technical paper on insulating oils entitled 'Emerging trends in quality & performance standards

Challenges in production of high quality insulating oils', which was well received. The paper stressed the importance of the selective refining of mineral oils to retain the right mix of non-corrosive sulphur and aromatics, in line with the new international standards of high-voltage transformers. Reflecting sophisticated technical knowledge, the data presented were based on the experiments conducted by Apar on various types of insulating oils. The forum was an excellent opportunity for Apar to showcase its technical

capabilities before a global audience, reinforcing its international brand.

Apar is also the first Indian company and only the second in Asia with its technical representative on the Cigre Transformer Insulating Fluids committee. This committee influences the global standards used by OEMs and utilities.

only did this enhanced service commitment strengthen customer relationships, leading to sustainable revenues; our focus on supplying new value-added products across the speciality oils spectrum was also the key business driver.

The result of these initiatives was reflected in the numbers: the division registered a record turnover of Rs 8090.99 mn and EBITDA of Rs 1081.14 mn (includes one time exceptional profit of Rs 303.69 mn on the sale of development rights) during the year under review. We are particularly pleased about the fact that we achieved an EBITDA margin growth in the division from 8.17% in 2006-07 to 13.36% in 2007-08, despite a record increase in the price of base oil, our principal raw material.

Key business initiatives

At Apar Industries, we recognise the importance of a strengthening business model in line with an evolving external environment. During the year under review, we focused on the following initiatives:

Sectors addressed: For decades, the Company focused largely on the prospects of the power transmission sector. During 2006-07 and 2007-08, the Company widened its sectoral spread through speciality oils for the automobile sector. Additionally, it developed a full range of 70 SKUs under license from ENI, Italy, for the Indian market. It established a nationwide distribution network with 108 direct distributors across 25 states for marketing the renowned 'Agip' brand of automotive lubricants.

Sale of the polymer division: The Company turned around the performance of its polymer division and sold it as a 'going concern'. The funds mobilised from the sale of the polymer business were used to retire debt and will be used to make synergise acquisitions.

New business vertical: The Company acquired a controlling stake in Uniflex Cables Limited to manufacture cables, a presence in the last leg of the transmission and distribution network. This initiative will ensure sharpened focus on the power sector without any equity dilution or an additional debt burden. The funds realised from the divestment of the polymer business will be utilised to strengthen Apar's stake in Uniflex. The proximity of the acquired units to the Company's conductor plant in Silvassa will facilitate operating synergies and enable it to be an end-to-end supplier in the T&D area.

Productivity and quality initiatives: The Company introduced ESOPs for its managerial staff in 2007-08, linking compensation to performance. Besides, it initiated the Six Sigma, which is expected to enhance product and process quality. It also implemented SAP – ERP system across the organisation, to facilitate swift and accurate decision-making through an enhanced integration of its diverse processes.

Marketing and distribution initiatives: The Company introduced its speciality oils in 11 new countries around the world, taking the total number of countries where it markets its products to 50.

Accreditations: The Company applied to NABL for grant of

the accredited laboratory status for the speciality oil laboratory at Rabale. This will facilitate faster testing and enhance customer confidence in test results even for our new products. The expected accreditation makes us the only speciality oil manufacturer's laboratory in the private sector in India to be so recognised by NABL.

Outlook

At Apar, we recognise that we are on the threshold of an attractive industry opportunity for various reasons.

One, the outlook for the power transmission sector is expected to strengthen as the government aims to add 182,677 MW in transmission, 251,209 MW in distribution, besides enhancing the inter-regional power transfer capacity to over 37,000 MW from 16,450 MW (FY'07-end) and the generation capacity to about 78,000 MW during the Eleventh Five Year Plan (*Source: Business Standard published on September 24, 2008*). Besides, considerable investments are going into widening the T&D network across Africa, the Middle East and the ASEAN, which augurs favourably for the Company since it already enjoys a presence in these global markets, strengthening its focus outside India.

Two, at Apar, we recognise that it will not be enough to cater linearly to the growing requirements of speciality oils and aluminium power conductor from the power transmission and distribution sectors; it would be imperative to extend our value chain and product range. In view of this, we diversified forwards into the manufacture of power cables

in 2007-08, enabling us to leverage our relationships better and enhance a sense of convenience for customers who will now be effectively serviced for their needs of aluminium conductors and power cables from a single vendor. Over the coming months, we will progressively de-bottleneck our existing cable capacity and scale the business from Rs 1,067.13 mn of revenues earned in 2007-08 to a projected Rs 3,500 mn in 2009-10.

Three, we will continue to leverage our principal supplier status across more than 75% of our transformer oil customers, growing with them at one level and concurrently widening the number of our customers through continuous product innovation, product approvals from global utilities and a high service level.

In view of these reasons, we are fairly optimistic of reporting a more than 30% growth in revenues from our speciality oils division and a 25% growth in revenues from our aluminium conductor division in 2008-09, translating into an enhanced value for all our stakeholders.

Narendra D. Desai
Chairman

Business segment

Speciality oils

The business of speciality oils is growing. The business of transformer oils within this segment is largely demand-inelastic, critical and non-substitutable for customers. Within this segment, Apar enjoys enduring customer relationships, marked by business predictability and growing revenues from existing customers.

- Segment status within the Company: First
- Revenue, 2007-08: Rs 8090.99 mn
- Revenue growth, 2007-08: 13.79%
- Contribution to the total revenue in 2007-08: 45.22%
- Brand: Poweroil
- Location: Silvassa (Union Territory of Dadra & Nagar Haveli) and Rabale (Maharashtra)

Segment financials

Rs (in mn)

| | 2003-04 | 2004-05 | 2005-06 | 2006-07 | 2007-08 |
|---------|----------|----------|----------|----------|-----------|
| Revenue | 3,012.72 | 4,603.54 | 5,362.79 | 7,110.36 | 8,090.99 |
| EBIDTA | 370.35 | 520.53 | 515.44 | 580.83 | 1,081.14* |

* Includes one-time exceptional profit of Rs 303.69 mn from the sale of development rights.

Overview

The Company's speciality oil division was established in 1969 with technical knowhow from Sun Oil Company, U.S.A. Over the decades, the division reinforced its pioneering position within the industry in India through scale and range; it has emerged as one of the largest producers of transformer oils in Southeast Asia with a product portfolio that comprises transformer oils, white oils and others (industrial lubricants, rubber processing and ink oils) contributing 54%, 17% and

29%, respectively to the division's revenues. Producing more than 300 grades of speciality oils, the Company has emerged as a one-stop provider for customer requirements.

The Company is a member of the Bureau of Indian Standards that prepares the National Standards (ISI) for transformer and white oils. It was admitted as a member of the Cigre committee that sets global standards for transformer oils, one of only two representatives from Asia.

| Product category | Downstream industry | Application purpose | Downside of inferior quality | Contribution to divisional revenues (%) |
|--|-------------------------------------|--|---|---|
| Transformer oil | Power | Cooling; critical insulation medium, used as a diagnostic tool to maintain transformer performance | Increased frequency of transformer breakdowns, reduced life due to higher corrosion, reduced product life due to high oxidation | 54 |
| White oils | FMCG, pharmaceutical, polymer, etc. | Serves as base material | Can lead to skin cancer, discolouration in industrial products and enhanced exposure to UV radiation. | 17 |
| Rubber process oil | Automobile | Helps in binding rubber with other chemicals | Reduced strength, bursting of tyres and tubes, blooming and patches in finished products | 7 |
| Industrial lubricants/automotive oils and lubricants | Heavy engineering, automotive, etc. | Provides lubrication between moving machine parts; provides cooling effect | Reduced protection and increased machine wear-and-tear | 22 |