

**Apar Industries Ltd**  
**Investor Update**  
**Q2 FY12**

**I. FINANCIAL PERFORMANCE**

(Rs. in Million)

Particulars	Q2 FY12	Q2 FY11	H1 FY 12	H1 FY11	FY 11 (Audited)
Net Sales	7,376.43	6,671.96	14245.51	12912.10	27,184.69
EBIDTA -Before Unrealised Exchange Loss/(Gain)	384.97	438.33	793.40	807.08	1578.78
EBIDTA (%)	5.2%	6.6%	5.6%	6.3%	5.8%
Less : Unrealised loss/(gain)	352.88	(80.68)	352.88	(80.68)	(122.87)
EBIDTA – After Unrealised Exchange Loss/(Gain)	32.09	519.01	440.52	887.76	1,701.65
PBT- Before Exceptional Item	50.59	487.56	452.43	827.33	1596.62
Less : Exceptional Item		1.97	* 57.29	1.97	1.97
PBT- After Exceptional Item	50.59	485.59	395.14	825.36	1,594.65
PAT	48.85	342.53	279.79	582.68	1,058.53
EPS Rs :	1.38	10.59	7.92	18.02	32.74

**Highlights :**

**EBITDA performance ( before unrealised foreign exchange loss) for Q2FY12 is Rs 384.97 Million vs. Rs 438.43 Million in Q2FY11 and for H1FY12 is Rs. 793.4 Million vs. Rs 807.08 Million in H1FY11.**

- The Company has maintained its foreign exchange (forex) management policy in respect of both its division. The forex exposures in respect of its Oil division are hedged once the raw material is priced & converted into Rupee receivables. The Conductor division has a natural hedge after considering the finished goods inventory against export orders.
- Due to unprecedented depreciation of Indian Rupee during August and September, 2011 the Company has incurred a Mark to Market ( MTM) total Forex loss of Rs. 499.30 million in H1FY12. It consists of a realized loss of Rs. 146.42 million ( of which Rs 74.48 are the forward cover costs as per the hedging policy), and unrealized loss of 352.88 million. This unrealised loss of Rs 352.88 million includes Rs 20.00 million unrealized loss from an ECB loan taken by the company with repayment due in 2015.

- When the Re depreciation started in August 2011, the company had forward covers for net foreign exchange payments till 30<sup>th</sup> November 2011. Should the Re appreciate post Nov 2011, like most of the other currencies strengthened against the USD, the MTM loss to that extent will get reversed.
- The impact of this forex loss/(gain) on various heads with break-up of Realised (actual) / Unrealised (provisional) loss/(gain) is as under:

Particular	Q2 FY12	Q2 FY 11	H1 FY 12	H1 FY 11	FY 11
<b>1) Net Sales</b>					
Realised Exchange Loss/(Gain)	(44.67)	(40.80)	(61.26)	(73.68)	(70.33)
Unrealised Exchange Loss/(Gain)	(150.64)	35.34	(150.64)	35.34	9.36
Total Exchange Loss/(Gain)	(195.30)	(5.46)	(211.89)	(38.34)	(60.97)
<b>2) Consumption of Raw Material</b>					
Realised Exchange Loss/(Gain)	112.14	23.56	198.64	116.93	212.47
Unrealised Exchange Loss/(Gain)	477.80	(107.85)	477.80	(107.85)	(135.98)
Total Exchange Loss/(Gain)	589.94	(84.29)	676.44	9.09	76.50
<b>3) Others</b>					
Realised Exchange Loss/(Gain)	4.45	11.08	9.04	14.01	38.34
Unrealised Exchange Loss/(Gain)	25.72	(8.18)	25.72	(8.18)	3.74
Total Exchange Loss/(Gain)	30.17	2.90	34.75	5.83	42.08
<b>Total</b>					
Realised Exchange Loss/(Gain)	71.92	(6.17)	146.42	57.26	180.48
Unrealised Exchange Loss/(Gain)	352.88	(80.68)	352.88	(80.68)	(122.87)
Total Exchange Loss/(Gain)	424.81	(86.85)	499.30	(23.42)	57.61
<b>PBT before unrealised exchange loss/(gain)</b>	403.47	404.91	748.02	744.68	1,471.78
<b>PBT after unrealised exchange loss/(gain)</b>	50.59	485.59	395.14	825.36	1,594.65

\*-Note : During previous quarter (Q1FY12) Company had provided for one time provision for Rs 57.29 Million on account of cancellation of Contract for supply of conductors. For details refer para 3 of Item no. III on Page 3 of Investor update for Q1FY12

## II. SEGMENT PERFORMANCE ANALYSIS :

Segment Performance Analysis							Rs in Million	
Particulars	Stand alone Financial results			Stand alone Financial results			Stand alone Financial results	
	for Quarter Ended (Unaudited)			for Six Months Ended (Unaudited)			for the Year Ended (Audited)	
	30.09.2011	Var %	30.09.2010	30.09.2011	Var %	30.09.2010	31.03.2011	
<b>Segment Revenue :</b>								
Conductors	2,813.90	-12.8%	3,226.81	5,621.04	-8.9%	6,170.03	13,258.17	
Transformer & Speciality Oils	4,562.87	32.5%	3,442.69	8,623.29	27.9%	6,739.84	13,950.77	
Others	19.29	62.2%	11.89	36.83	41.5%	26.02	55.15	
<b>Total</b>	<b>7,396.06</b>	<b>10.7%</b>	<b>6,681.39</b>	<b>14,281.16</b>	<b>10.4%</b>	<b>12,935.89</b>	<b>27,264.10</b>	
Less: Inter - Segment Revenue	2.60	-1.2%	2.63	6.78	30.3%	5.21	10.38	
<b>Revenue from Operations</b>	<b>7,393.46</b>	<b>10.7%</b>	<b>6,678.76</b>	<b>14,274.38</b>	<b>10.4%</b>	<b>12,930.68</b>	<b>27,253.72</b>	
<b>Segment Results before Unrealised Exchange loss/(gain) and Interest and Tax :</b>								
Conductors	36.76	-75.7%	151.52	48.33	-83.7%	295.64	458.46	
Transformer & Speciality Oils	375.05	15.4%	325.03	806.96	41.7%	569.61	1,246.37	
<b>Total</b>	<b>411.82</b>	<b>-13.6%</b>	<b>476.55</b>	<b>855.29</b>	<b>-1.2%</b>	<b>865.25</b>	<b>1,704.83</b>	
<b>Segment Results before Interest and Tax :</b>								
Conductors	11.05	-93.0%	158.46	22.62	-92.5%	302.58	467.63	
Transformer & Speciality Oils	67.88	-82.8%	395.10	499.79	-21.9%	639.68	1,360.07	
<b>Total</b>	<b>78.94</b>	<b>-85.7%</b>	<b>553.56</b>	<b>522.41</b>	<b>-44.6%</b>	<b>942.25</b>	<b>1,827.70</b>	
Interest (net)	(53.68)	1050.6%	(4.67)	(81.84)	1217.4%	(6.21)	(32.06)	
Other Common expenses (net)	82.02	12.9%	72.64	151.83	23.3%	123.11	265.11	
<b>Profit before exceptional items</b>	<b>50.60</b>	<b>-89.6%</b>	<b>485.59</b>	<b>452.42</b>	<b>-45.2%</b>	<b>825.37</b>	<b>1,594.65</b>	
Exceptional item *	-		-	* 57.29	-	-	-	
<b>Profit after exceptional items</b>	<b>50.60</b>	<b>-89.6%</b>	<b>485.59</b>	<b>395.13</b>	<b>-52.1%</b>	<b>825.37</b>	<b>1,594.65</b>	
Tax	1.74	-98.8%	143.06	115.35	-52.5%	242.68	536.12	
<b>PAT</b>	<b>48.86</b>	<b>-85.7%</b>	<b>342.53</b>	<b>279.78</b>	<b>-52.0%</b>	<b>582.69</b>	<b>1,058.52</b>	
<b>Segment Results - as % to Segment Revenue before Unrealised Exchange loss/(gain) :</b>								
Conductors	1.3%		4.7%	0.9%		4.8%	3.5%	
Transformer & Speciality Oils	8.2%		9.4%	9.4%		8.5%	8.9%	
<b>Total</b>	<b>5.6%</b>		<b>7.1%</b>	<b>6.0%</b>		<b>6.7%</b>	<b>6.3%</b>	
<b>Segment Results - as % to Segment Revenue</b>								
Conductors	0.4%		4.9%	0.4%		4.9%	3.5%	
Transformer & Speciality Oils	1.5%		11.5%	5.8%		9.5%	9.7%	
<b>Total</b>	<b>1.1%</b>		<b>8.3%</b>	<b>3.7%</b>		<b>7.3%</b>	<b>6.7%</b>	

\* Note : *During the previous quarter(Q1FY12) Company had provided for one time provision for Rs 57.29 Million on account of cancellation of Contract for supply of conductors. For details refer para 3 of Item no.III on Page 3 of Investor update for Q1FY12.*

### III Segment overview :

#### A. Transformer and Specialty Oils :

- Sales revenue in Q2FY12 on a standalone basis increased by 32.5 % over the corresponding period of previous year from Rs. 3442.69 Million to Rs. 4562.87 Million.
- Sales revenue in H1 FY12 increased by 27.9% over the corresponding period of previous year from Rs. 6739.84 Million to Rs. 8623.29 Million representing a growth of Rs 1883.45 Million.
- Segment Level profit (before unrealized exchange loss/(gain)) for Q2FY12 increased from Rs 325.03 Million to Rs 375.05 Million; increased by 15.4%. over the corresponding period of previous year.
- Segment Level profit (before unrealized exchange loss/(gain)) for H1FY12 increased from Rs 569.61 Million to Rs 806.96 Million; higher by Rs237.35 Million ( 41.7% ) over the corresponding period of previous year
- Segment Level profit (after unrealized exchange loss/(gain)) in Q2FY12 stood at Rs 67.88 Million as against Rs 395.10 Million in Q2FY11 and in H1FY12 it stood at Rs 499.79 Million as against Rs 639.68 Million in H1FY11.
- The company had covered net forex outstanding by the end of August through till end November ( which is approximately 90 days). Any gain in the Re from a level of Rs 49 vs USD from December 2011 onwards will result in a reversal of unrealised loss. The company has partially adjusted prices of finished products from October onwards.
- There is some amount of margin pressure given that base oil prices have been declining. The pace at which the prices are declining is slower than when the base oil prices increased. The net cost of base oils has increased due to the depreciation of the Re. This is however, not being assessed by clients since there is so much news of the correction in the price of crude and petroleum products, and the increase in the exchange rate is being ignored, adding to the pricing pressure from client's expectations. The effect of margin pressure is felt most when there is a decrease in base oil prices and there is also a slowdown in demand. This will result in margin pressure in Q3 since the price adjustments have not fully reflected the impact of the Re depreciation. However, it is our expectation that the pricing is likely to stabilize by the end of Q3.
- Shipments in the Transformer oil segment slowed towards the end of Q2. Part of this could be attributed to deferment in commissioning of Power Transformers during the monsoon period. There is an expectation that shipments should gather momentum post Diwali in the November and December timeframe.
- During the first half, the company's overseas business in both transformer oils and white oils has shown growth.

- The Net sales turnover of the "Agip" brand Automotive Lubricants produced by the Company with License and Technical Know-how of ENI-S.p.A of Italy and marketed by Apar ChemateK Lubricants Ltd, ( 50:50 Joint Venture Company with ChemateK SpA) (ACL) stood at Rs 399.24 Million in Q2FY12 as against Rs 304.13 Million in Q2FY11 and for H1FY12 it stood at Rs 785.09 Million as against Rs 568.92 Million in H1FY11.
- Several new products have been introduced for launch in the second quarter in the Passenger car, Diesel Engine oil and motorcycle market segments under the Agip brand, which are very high performance Synthetic oils. This has positioned Agip branded lubricants at the top end of the market in terms of performance levels. The company expects over 25% of its auto lube sales to come from these products by the end of FY13.

## **B. Conductor :**

- Sales revenue in Q2FY12 decreased by 12.8% over the corresponding period of previous year; from Rs. 3226.81 Million to Rs. 2813.90 Million.
- Sales revenue in H1FY12 decreased by 8.9% over the corresponding period of previous year; from Rs. 6170.03 Million to Rs. 5621.04 Million.
- Segment Level profit (before unrealized exchange loss/(gain)) for Q2FY12 stood at Rs 36.76 Million as against Rs 151.52 Million in Q2FY11 and for H1FY12 it stood at Rs 48.33 Million as against Rs 295.64 Million in H1FY11.
- Segment Level profit ( after unrealized exchange loss/(gain)) for Q2FY12 stood at Rs 11.05 Million as against Rs 158.46 Million in Q2FY11 and for the H1FY12 it stood at Rs 22.62 Million as against Rs 302.58 Million. In the conductor segment, the unrealized loss will get offset as the inventory destined for exports get invoiced in Q3.
- The order book as of 1<sup>st</sup> October stood at Rs. 15983 Million and the orders in pipeline stood at Rs. 3977 Million. The flow of orders has gained momentum in this quarter. Orders worth Rs 8731 Million was received in this quarter(July to Sept 11). In addition to this, in the month of October 2011, Company has received Orders worth Rs 3266 Million ( which is not reflected in the order book as of 1<sup>st</sup> October). The current backlog that the company carries is with better margins than the legacy orders. The impact of this will be seen from Q4 onwards and will have a full year effect in FY13.
- The quarter's operating results were subdued due to execution of low margin legacy Orders. These Orders were booked last year when the main customer PGCIL was absent from the market. The reduction in the overall demand created a difficult market condition, and the industry was witnessing reduction in margins. The performance was also further affected on account of delays in off-take by customers since their projects' execution is undergoing delays As a result, there was some idle capacity resulting in under recovery of overheads.
- The company has continued its efforts to increase its sale of High Temperature Conductors, which gives better value addition. The order book for these type of conductors stood at Rs. 981 Million.

**IV Operations at Uniflex Cables Ltd (a subsidiary company)(UCL) :**

- Net sales in Q2FY12 stood at Rs 672.25 Million as against Rs 1047.10 Million in Q2FY11 and for the Half Year ended (H1FY12) stood at Rs 1288.41 Million as against Rs 1632.02 Million in H1FY11.
- Net loss in Q2FY12 stood at Rs 75.16 million as against the loss of Rs 26.48 Million in Q2FY11 and for the Half Year ended (H1FY12) stood at Rs 162.71 Million as against Rs 122.6 Million in H1FY11.
- Draft Rehabilitation Scheme (DRS) of UCL submitted to BIFR is still pending for its' final approval. DRS envisage amalgamation of UCL with the Company with effect from 01<sup>st</sup> April 2010

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