

## Apar Industries

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### Shareholding (%)

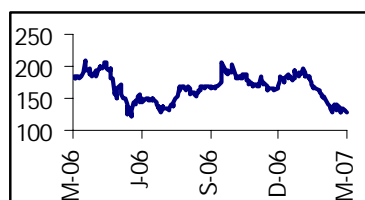
Promoters	60.0
FII's	4.5
MFs	7.7
Others	27.8

### Share price performance

52-week high/low (Rs)	224/114		
	-1m	-3m	-12m
Abs (%)	-13.2	-28.6	-31.2
Rel* (%)	-13.6	-23.4	-44.3

\*to Nifty

### Stock chart



We met the management of Apar Industries Ltd. Our initial view on the company is positive, given a sharp growth in its high return businesses -- conductor and transformer oil -- and attractive valuation at 9X its annualised 9MFY07 EPS.

Apar is the second largest player in the aluminium power conductor business (contributing 43% of its total revenue), with a market share of about 25%. The company is the largest exporter of aluminium power conductors from India. With a surge in orders from Power Grid Corporation (PGCIL), Apar is rapidly expanding capacity to gear up for additional demand. This is supported by a robust order book position of Rs5.4bn

Apar's transformer oil division is the largest player, with a market share of 50%, in this business. The division is a cash cow for the company, generating a RoCE of 59%, contributing about 50% of its total profitability. The company's key strength in the industry is its large market share in the OEM market.

The company's polymer business remains the only segment which is a drag on its overall profitability and return ratios. Apar is trying to address this issue by setting up swing manufacturing facilities for high demand products.

### Key takeaways from the meeting:

- ▲ **Export market presence to continue, domestic market to be focus area:** Apar is the largest exporter of aluminium power conductors from India, earning about 18% of its FY06 revenue from this division. Going forward, Apar aims to maintain its domestic to export revenue ratio at 70:30. Margin in the export business is lower in comparison to the domestic business, on account of a higher freight element. However, having an export presence enables Apar to maintain steady growth in orders and revenue. During the last two years, when orders from PGCIL and the SEBs were erratic, higher export orders enabled Apar to maintain steady revenue growth.
- ▲ **Conductor division to be key driver in growth:** Consolidated industry structure and a surge in capex cycle in the power industry would drive Apar's revenue growth over the medium term. Interlinking of regional grids and the augmentation

## Not Rated

## Rs128

March 29, 2007

### Market cap

Rs bn 4

US\$ mn 95

### Avg 3m daily volume

31,560

### Avg 3m daily value

Rs mn 5

### Shares outstanding (mn)

32

### Reuters

APAR.BO/APARINDS.NS

### Bloomberg

APAR IN

### Sensex

12,884

### Nifty

3,761

## Apar Industries

of inter-regional transmission capacities by PGCIL has led to an increase in orders from the Central Transmission Utility (CTU) over the past few quarters. The government has planned investments of Rs700bn over the XI and XII plan period in the T&D sector through PGCIL and the private sector. In FY08, orders from PGCIL are expected to the tune of Rs90bn.

The aluminium conductor industry is highly consolidated, with two large players accounting for over 65% of the market share, Apar being the second largest player. Hence, Apar is expected to be a key beneficiary of large orders from PGCIL, which would be the key driver of Apar's revenue growth. Operating margin from the company's orders have also improved in FY07, on account of increase in ticket size of orders, which is expected to be maintained going forward. At the end of the third quarter, Apar had an order book position of Rs5.4bn

Apar is in the process of expanding its capacity by about 15,000 tonne in Q3FY07 and further by 10,000 tonne during FY08. Capex for the same is expected to be Rs250mn.

- ▲ **Strong relations and 'approved-vendor' status from OEMs to enable Apar to maintain market share in transformer oil business:** Apar's transformer oil business is a cash cow with high RoCE of 59%, contributing about 50% of its revenues.

The transformer oil market can be divided into OEM and replacement market. Though the replacement cycle for transformer oil is 25 years; an annual top-up has to be done to the extent of 10%, to compensate for evaporation, sampling, etc., which constitute the replacement market. Huge rise in prices of transformer oil has led to a slowdown in demand growth in the replacement market.

However, Apar has been able to maintain a strong 38% growth in this segment (during 9MFY07), as 60% of the revenue is accrued from the OEM market. This has been possible due to strong relations and having an 'approved-vendor' status with large OEMs (such as Siemens, Areva, and ABB in the domestic market) in the transformer industry. Further, it has enabled Apar to consistently maintain leadership position and improve its market share in the OEM segment, which would be the company's key revenue driver, going forward. The company expects the transformer industry to grow at around 8-10% over the medium term, given PGCIL's plans to increase inter-regional transmission capacity from 11,500 MW to 37,500 MW in the next five years.

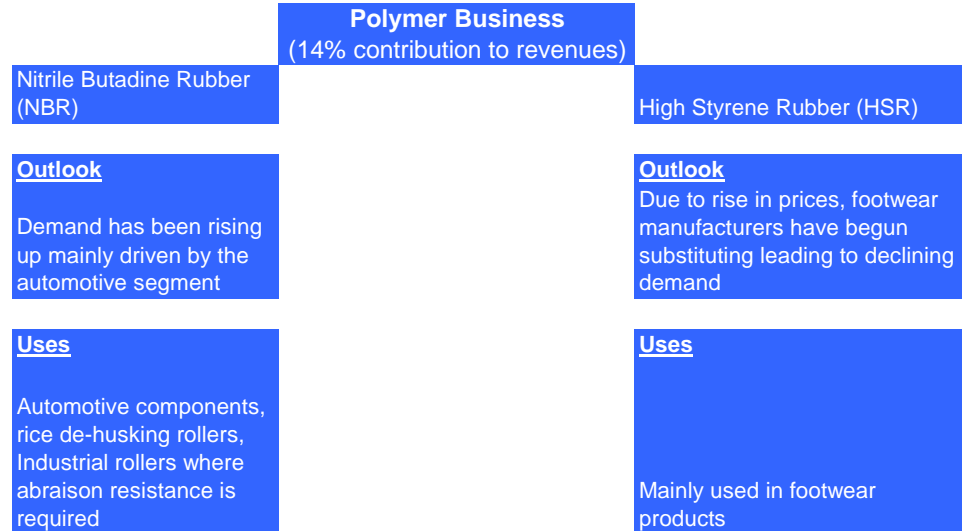
- ▲ **Graduating into a global player in transformer oil:** Having established a leadership position in the domestic market, Apar is currently looking to establish a global footprint for its transformer and specialty oil business. As an initial step towards this objective, the company has constructed storage tanks at various locations in the Middle-East, North and South-Africa to cater to spot orders from these regions. Currently, the company has 85 storage tanks and

## Apar Industries

plans to add another 10 during the next year. Gradually, the company would also look at setting manufacturing units in export locations once volumes rise as it receives approvals.

- Restructuring its polymer business:** Apar’s polymer division mainly manufactures Nitrile Butadine Rubber (NBR) and High Styrene Rubber (HSR). Demand for HSR has been on the decline as it has been substituted by other cheaper inputs by user industries. Hence, margins have dwindled over the last two years. On the other hand, demand for NBR is witnessing a surge. NBR finds application in the auto and auto component industry on account of its unique properties of high heat resistance and compatibility with oil. Hence, Apar has enhanced its capacity of polymer business to 28,500 TPA with swing capacity to manufacture NBR.
- Valuations:** In October 2006, 3.45mn new shares were issued upon conversion of preference shares at a price of Rs185. With this, the entire preference shares of the company have been converted and no further equity dilution is expected. Post the bonus issue, announced in January 2007 at a ratio of 1:3, the fully diluted equity of the company stands at Rs323mn. The company trades at 9X the annualised EPS for 9MFY07.

**Chart 8. Apar’s Polymer Division**



Source: IISL research, company

## Apar Industries

### Company Background

Apar Industries has presence in three businesses -- power conductor, transformer and speciality oils, and polymers.

The company started its power conductor business in 1958, with technical know-how from Properzi, Italy and Alcan of Canada. Under this division, the company manufactures all aluminium, aluminium galvanized steel reinforced and aluminium alloy conductors. At present, the company is the second largest manufacturer of conductors in India and the largest exporter of conductors from India

The transformer and speciality oil business was started in 1969, with a special oil refinery being set-up with original technology from Sun Oil Co. of USA. Apar manufactures a wide range of speciality oils, which include transformer oils, light / heavy liquid paraffin, white oils, rubber processing / extender oils and other industrial, automotive oils and Lubricants. In the transformer oil market, Apar has the largest market share of about 50% in India.

**Table 1. Apar's business divisions**

	Power Conductors	Transformer & Speciality Oils	Polymers
Commenced Operations (Year)	1958	1969	1988
Technical know-how / Tie-ups	Properzi of Italy, Alcan of Canada	Sun Oil Co, USA	Goodyear Rubber and Tire Co., USA
Installed Capacity	53525 TPA	177250 TPA	28500 TPA
Market Share (%)	25.0	50% in transformer oil market	50% market share in NBR and HSR
Revenues - 9MFY07 (Rs mn)	4530.6	4947.5	1097.0
Contribution (%)	42.8	46.8	10.4
Export Revenues (%) - FY06	18.0	21.2	4.4
EBIT Margins (%)	8.9	8.7	3.7
RoCE (%)	32.9	59.0	3.9

Source: Company, Annual Report

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