

Investor Update Q2 FY09

FINANCIAL PERFORMANCE (Standalone)						
RS/MILLION						
Particulars	Q2 FY09	Q2 FY08	Variance	H1 FY09	H1FY08	Variance
Net Sales	6369.89	4184.11	52.2%	11767.31	7595.26	54.9%
EBIDTA	124.61	285.20	-56.3%	444.49	634.66	-30.0%
EBIDTA (%)	2.0	6.8		3.8	8.4	
PBT	75.92	152.88	-50.3%	331.97	351.29	-5.5%
PAT	56.44	122.33	-53.9%	248.33	266.74	-6.9%
EPS Rs :	1.75	3.78	-53.9%	7.68	8.25	-6.9%

Highlights -Standalone :

- **Turnover up by :** **52.2% in Q2FY09**
54.9% in H1FY09
- **PBT down by :** **50.3% in Q2FY09**
5.5% in H1FY09
- **PAT & EPS down by :** **53.9% in Q2FY09**
6.9% in H1FY09

Note :i) EBIDTA, PBT and PAT derived after providing for notional exchange Loss on Mark to Market of foreign currency (AS-11) for Rs. 633.35 Million for the quarter and Rs. 1000.85 Million for the Half Year.

ii) The Company had an Extra Ordinary Gain of Rs. 298.59 Million on sale of developments rights in the corresponding period of previous year which was excluded for the purpose of comparison.

SEGMENT PERFORMANCE ANALYSIS –Standalone : (Rs in Millions)

Particulars : (Rs in Millions)	Stand alone Financial results			Stand alone Financial results			Stand alone Financial results		
	for Quarter Ended (Unaudited)			for half year Ended (Unaudited)			for the Year Ended (Audited)		
	30.09.2008	Var %	30.09.2007	30.09.2008	Var %	30.09.2007	31.03.2008	Var %	31.03.2007
Segment Production Volumes:									
Conductors-Mt.	22,116	46.4%	15,106	43,518	45.7%	29,860	59,373	22.2%	48,595
Transformer & Speciality Oils-KI	42,123	-14.1%	49,047	93,910	-0.3%	94,148	208,806	19.6%	174,538
Polymers-Mt.	-		4,634	-		8,869	17,023	19.0%	14,304
Segment Sales Volumes:									
Conductors-Mt.	23,224	45.5%	15,957	43,167	58.9%	27,174	58,338	17.7%	49,544
Transformer & Speciality Oils-KI	43,513	-11.0%	48,912	97,102	3.8%	93,527	210,548	21.1%	173,885
Polymers-Mt.	-		5,305	-		9,596	17,703	20.6%	14,679
Segment Revenue									
Conductors	3,517.65	74.8%	2,011.84	6,258.69	82.5%	3,429.59	7,823.45	19.7%	6,534.47
Transformer & Speciality Oils	2,868.93	72.2%	1,665.89	5,500.09	69.1%	3,253.33	7,528.22	12.7%	6,681.81
Polymers	-		525.25	-		943.40	1,854.28	21.9%	1,520.88
Total	6,386.58	52.0%	4,202.98	11,758.78	54.2%	7,626.32	17,205.95	16.8%	14,737.16
Less: Inter - Segment Revenue	4.25	-70.3%	14.30	9.76	-68.4%	30.89	78.78	849.6%	8.30
Revenue from Operations	6,382.33	52.4%	4,188.68	11,749.02	54.7%	7,595.44	17,127.17	16.3%	14,728.87
Segment Results before Interest and Tax									
Conductors	128.06	25.0%	102.45	238.81	19.1%	200.58	362.08	-36.7%	571.79
Transformer & Speciality Oils	30.84	-79.5%	150.08	266.64	-27.2%	366.13	978.10	86.9%	523.36
Polymers	-		40.59	-	-100.0%	51.82	130.18	115.7%	60.34
Total	158.90	-45.8%	293.12	505.45	-18.3%	618.53	1,470.36	27.2%	1,155.50
Interest (net)	17.04	-82.0%	94.64	51.09	-72.8%	187.74	355.75	12.8%	315.32
Other Common expenses (net)	65.93	44.6%	45.60	122.38	53.9%	79.50	88.65	-59.3%	218.00
Profit before Tax after exceptional items	75.92	-50.3%	152.88	331.97	-5.5%	351.29	1,025.96	64.9%	622.18
Tax	19.48	-36.2%	30.55	83.64	-1.1%	84.55	171.24	5.4%	162.45
PAT	56.44	-53.9%	122.33	248.33	-6.9%	266.74	854.73	85.9%	459.73
PAT Net Of Associate Profit/Loss									
Segment Results - as % to Segment Revenue									
Conductors	3.6%		5.1%	3.8%		5.8%	4.6%		8.8%
Transformer & Speciality Oils	1.1%		9.0%	4.8%		11.3%	13.0%		7.8%
Polymers			7.7%			5.5%	7.0%		4.0%
Total	2.5%		7.0%	4.3%		8.1%	8.5%		7.8%
Capital Employed: (Segment Assets - Segment Liabilities)									
Conductors	2,194.19	132.5%	943.78	2,194.19	132.5%	943.78	1,508.00	-7.1%	1,623.54
Transformer & Speciality Oils	836.26	-43.0%	1,465.89	836.26	-43.0%	1,465.89	1,528.05	69.1%	903.44
Polymers	-	-100.0%	1,077.63	-	-100.0%	1,077.63	10.50	-98.9%	998.25
Unallocable Corporate/Segment Assets Less Liabilities	1,100.96		60.64	1,100.96		60.64	629.74	5122%	12.06
Total Capital Employed in Company	4,131.41	16.4%	3,547.93	4,131.41	16.4%	3,547.93	3,676.30	3.9%	3,537.29

Company as a whole (standalone) :

For the Second Quarter FY2009.

- Net sales increased from Rs. 4184.11 Million to Rs 6369.89 Million; representing a growth of Rs. 2185.78 (52.2%) over corresponding period of previous year.
- EBIDTA decreased from Rs 285.20 Million to Rs 124.61 Million ; down by Rs. 160.50 Million (-56.3%) over corresponding period of previous year. This was after providing for notional exchange loss on Mark to Market of Foreign currency exposure of Rs. 633.35 Million accounted in line with AS-11 . The Re depreciated from 42.90 per USD as on 30th June 2008 to Rs. 46.96 as on 30th September , 2008 (9.5 %).
- Interest expense for the quarter was down from Rs. 94.64 Million to Rs17.04 Million. This was largely due to more supplier credit that the company has in terms of overseas borrowings that carried a lower interest rate.
- PBT down from Rs. 152.88 Million to Rs. 75.92 Million; less by Rs. 76.96 Million (-50.3%) over corresponding period of previous year. Excluding the MTM losses due to the sharp weakening of the Re. the operating margin for the quarter was Rs. 757.96 Million compared to Rs 312.64 Million a year ago.
- PAT down from Rs. 122.33 Million to Rs. 56.44 Million; less by Rs. 65.89 Million (-53.9%) over corresponding period of previous year.
- EPS down from Rs. 3.78 to Rs. 1.75 ; less by Rs. 2.03 (-53.9%) over corresponding period of previous year.
- The sales volume and profit growth in the conductor business grew smartly over the previous period at 45.5% (vol) for the quarter & 58.9% for the Half year and 24.99% (margin) for the quarter & 19.05% for the Half year respectively . The business was relatively not affected by the depreciation of the Re. On the other hand the Oil segment was adversely affected by the Re. depreciation resulting in a much lower performance compared to the previous period.

For the First Half Year ended :

- Net Sales increased from Rs. 7595.26 Million to Rs 11767.31 Million; representing a growth of Rs. 4172.05 Million (54.9%) over corresponding period of previous year.
- EBIDTA decreased from Rs 634.66 Million to Rs 444.49 Million ; down by Rs. 190.17 Million (-30.0%) over corresponding period of previous year. This was after notional exchange loss on Mark to Market of Foreign currency exposure of Rs. 100.08 Million accounted in line with AS-11.
- PBT down from Rs. 351.29 Million to Rs. 331.97 Million; less by Rs. 19.32 Million (-5.5%) over corresponding period of previous year.
- PAT down from Rs. 266.74 Million to Rs. 248.33 Million; less by Rs. 18.41 Million (-6.9%) over corresponding period of previous year.
- EPS down from Rs. 8.25 to Rs. 7.68 ; less by Rs. 0.57 (-6.9%) over corresponding period of previous year.

Group Performance-

- Group Turnover for the Second quarter was Rs. 6752.23 Million which includes Rs. 391.89 Million of Petroleum Specialities (PSPL), overseas Subsidiaries in Singapore and Australia.
- Group Turnover for the First Half Year was Rs. 12360.93 Million which includes Rs. 643.12 Million of Petroleum Specialities (PSPL), overseas Subsidiaries in Singapore and Australia.
- Group Net Profit after tax for the Second Quarter was Rs. 98.72 Million which includes Rs. 48.51 Million of PSPL, overseas subsidiaries; Loss of Rs. 4.36 Million of Apar Chematek Lubricants Ltd. a 50:50 Joint Venture with Chematek, S.p.A. Italy.
- Group Net Profit after tax for the First Half Year was Rs. 310.67 Million which includes Rs. 68.25 Million of PSPL, overseas subsidiaries; Loss of Rs 3.95 Million of Apar Chematek Lubricants Ltd. a 50:50 Joint Venture with Chematek, S.p.A. Italy.

Segment overview –Second Quarter & Half Year:

Conductor :

- Sales revenue in Q2FY09 was up 74.85% over the corresponding period of previous year from Rs. 2011.84 Million to Rs. 3517.65 Million. The corresponding volume growth was 45.5% as volume grew from 15957 mts to 23224 mts.
- Sales revenue in HY1FY09 was up 82.49% over the corresponding period of previous year from Rs. 3429.59 Million to Rs. 6258.69 Million. The corresponding volume growth was 58.9% as volume grew from 27174 mts to 43167 mts.
- Segment Level profit for the second quarter was up 24.99% over the corresponding period of previous year from Rs. 102.45 Million to Rs. 128.06 Million.
- Segment Level profit for the First Half Year was up 19.05% over the corresponding period of previous year from Rs. 200.58 Million to Rs. 238.81 Million.
- The tender flow from PowerGrid has improved in the last 6 months and the company won several tenders. The total order book stood at Rs. 910 crores as on 30th September,2008 and orders in the pipeline stood at Rs.635 crores reflecting a healthy order booking position for the company. A significant portion of these orders will be executed by March 2010. The company further expects tenders of over 100,000 mts of conductors to be floated by PGCIL and other major transmission players before 31st March 2009.
- With the improved tender flow, the company has also seen an improvement in segment working. The Nalagarh plant will be loaded to its full capacity for the Oct-March period, also contributing to better financial performance.
- The conductor business has not been directly affected due to the turmoil in the markets in terms of its order execution or likely future order booking. The management expects the tender flow to continue for the next several months since these projects have already achieved financial closure. Thereafter the likelihood of there being more stability in the financial markets seems to be higher and hence we are optimistic that this business segment will remain strong. All the fixed price orders that the business has had are hedged with positions taken on the LME that match the required selling prices in the sales contracts.
- The indirect issue with the business segment is that we have seen notional mark to market losses of Rs. 514.5 Million. The reason they are notional (and not reflective of the actual position of the company) is that even though the metal prices have fallen, the company has taken simple future positions on a back to back basis against the sales contracts. Hence when the actual sales contracts get executed, the notional losses will get written back at the same time. There is a short term impact in terms of providing significant margin to LME brokers for the metal positions that we have taken against these fixed priced contracts. These margins have been provided by opening Bank Guarantees thus blocking

the use of the company's non funded limits. The additional cost that the company will incur is on the interest and bank charges towards these margins .

Transformer and Specialty Oils :

- Sales revenue in Q2FY09 was up 72.21 % over the corresponding period of previous year from Rs. 1665.89 Million to Rs. 2868.93 Million. However, the corresponding volume was down by 11.0 % as volume reduced from 48912 KL to 43513 KL.
- Sales revenue in HY1FY09 was up 69.06% over the corresponding period of previous year from Rs. 3253.33 Million to Rs. 5500.09 Million. The corresponding volume growth was 3.8% as volume grew from 93527 KL to 97102 KL.
- Sales on a consolidated basis for the quarter was Rs. 3260.82 Million and for the Half year was Rs 6143.21 Million.
- Export and Overseas revenue was Rs. 845.58 Million for the Quarter 12.52% of the total revenue and Rs. 1679.12 Million for the First Half of the Year 13.58% of the total revenue.
- Segment Level profit for Q2FY09 was down by 79.45% over the corresponding period of previous year from Rs. 150.07 Million to Rs.30.84 Million. And for H1FY09 down by 27.17% from Rs. 366.13 Million to Rs. 266.64 Million
- The oil business has been very badly affected by the twin factors of volatility in the markets in terms of pricing of crude and petroleum products and also the sharp decline in the exchange rate.
 - The price of crude peaked in mid July at \$147 per bbl. It took about 15 months to reach \$147 /bbl from a level of about \$65 per bbl. However, due to the turmoil in the financial markets, and a panic reaction from speculators, the price of crude has fallen back to the \$67-75 per bbl level in a span of 3 months.
 - This has left the company with inventory at higher levels relative to what customer expectations are. The procurement and inventory cycle for speciality base oils is almost 3-4 months. This sudden and drastic fall leaves the company in a vulnerable position through most of Q3.
 - In addition to the issue of the mis-match in inventory prices relative to market expectations is the impact due to the very sharp fall in the Re. relative to the USD. This has increased further the prices of base oils in inventory or in the pipeline, with customers expectation for instant reduction in prices.
 - The company is working with its key customers and suppliers to navigate through this most difficult period. We expect the financial results to be adversely affected inspite of our best efforts in Q3. We expect near normal working to take place by Q4-2009.

- Due to the sharp decline in the prices of crude and expected petroleum derivative products, customers have sharply slowed down off-take from mid August 2008 onwards. They have been adjusting inventories downwards, trying to postpone purchases so that they can buy at reduced prices. We expect this effect to last only a short time, and attribute this more to the postponement of demand rather than demand destruction. Underlying demand for transformer oils and other speciality oils have not been affected significantly. As we near Q4 and the end of the financial year, activity around transformer commissioning will pick up and so will the corresponding demand.
- We were expecting a volume growth of about 20% for the year in this segment. Our best estimate at this stage, with all the uncertainty in the environment, is that the volume will remain close to last years level for the year, with a much lower profit for the year due to the impacts that we have seen in Q2 and likely to see in Q3. We are still optimistic that demand for our speciality oil products will grow in FY2010 since the nature of the application of our products are largely inelastic in its' demand.
