Chemplast

Annual Report 1998

CHEMPLAST SANMAR LIMITED

Chemplast Sanmar Limited

Notice of Annual General Meeting

The Fourteenth Annual General Meeting of Chemplast Sanmar Limited will be held on Tuesday, the 29th September 1998 at 10.30 a.m. at The Music Academy, 306, T T K Road, Chennai 600 014 to transact the following :

ORDINARY BUSINESS

1. To receive, consider and adopt the Directors' Report, the audited Balance Sheet as at 31st March 1998, the Profit and Loss Account for the year ended 31st March, 1998 and the Auditors' Report thereon.
2. To declare Preference dividend.
3. To declare Equity dividend.
4. To appoint a director in the place of Mr K S Narayanan, who retires at this meeting and is eligible for reappointment.
5. To appoint a director in the place of Mr R K Chari, who retires at this meeting and is eligible for reappointment.
6. To appoint a director in the place of Mr M K Kumar, who retires at this meeting and is eligible for reappointment.
7. To appoint Auditors and to consider and, if thought fit, to pass the following resolution as a Special Resolution :

   "RESOLVED THAT Brahmayya & Co., Chartered Accountants, Chennai, be and are hereby appointed Auditors of the Company to hold office from the conclusion of this meeting until the conclusion of the next Annual General Meeting on a remuneration to be fixed by the Board of Directors".

Notes :

(a) The relative explanatory statement pursuant to Section 173 of the Companies Act, 1956 in respect of item No.7 of the Notice is annexed hereto.

(b) A MEMBER ENTITLED TO ATTEND AND VOTE IS ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE INSTEAD OF HIMSELF. A PROXY NEED NOT BE A MEMBER. THE PROXY FORM DULY COMPLETED MUST BE RETURNED SO AS TO REACH THE REGISTERED OFFICE OF THE COMPANY NOT LESS THAN 48 HOURS BEFORE THE TIME OF THE COMMENCEMENT OF THE AFORESAID MEETING.

(c) The Register of members of the company will remain closed on Tuesday, the 29th September 1998.

(d) Members are requested to notify immediately any change in their address to the company.

(e) Pursuant to the provisions of Section 205-A of the Companies Act, 1956, unpaid interim dividend 1995 has been transferred to the General Revenue Account of the Central Government. Members who have not encashed their interim dividend warrants relating to 1995 may claim the same from the Registrar of Companies, Tamil Nadu, No.26, Haddows Road, Chennai 600 006, in the prescribed format which will be supplied by the company, on request.

Registered Office :
8 Cathedral Road
Chennai 600 086
August 31, 1998

(By Order of the Board)
R SUKUMARAN
Secretary

Explanatory Statement annexed to the Notice of the Fourteenth Annual General Meeting of the company as required under Section 173 of the Companies Act, 1956.

Item No.7

Brahmayya & Co., Chartered Accountants, Chennai, the statutory auditors of the company hold office till the conclusion of the 14th Annual General Meeting. Their remuneration for 1997-98 was Rs. 5,50,000/-.

Since more than 25% of the subscribed share capital of the company is held by public financial institutions, general insurance companies, and nationalised banks, the appointment/reappointment of the auditors at the Annual General Meeting requires the approval of the shareholders by a special resolution as per the provisions of Section 224A of the Companies Act, 1956. Accordingly, a special resolution under item No.7 of the notice is placed before the shareholders for approval.

None of the Directors is interested in the resolution.

Registered Office :
8 Cathedral Road
Chennai 600 086
August 31, 1998

(By Order of the Board)
R SUKUMARAN
Secretary

Chemplast Sanmar Limited

BOARD OF DIRECTORS

Mr. K.S. NARAYANAN (Chairman Emeritus)
Mr. N. SANKAR (Chairman)
Mr. N. KUMAR (Managing Director)
Mr. R.K. CHARI
Mr. M.K. KUMAR
Dr. G.S. LADDHA
Mr. V. NARAYANAN
Mr. B. NATRAJ
Mr. K.J. REDDY
Mr. N. SRINIVASAN

Executive Directors:

Mr. B. CHAKRAPANI (Sanmar Shipping Corporation)
Mr. P.S. JAYARAMAN (Finance)
Mr. K.N. RAMANATHAN (Projects)
Mr. M.S. SEKHAR (Speciality Chemicals / Textiles)
Mr. S. SUBRAMANIAN (Chlorochemicals)

REGISTERED OFFICE

8, Cathedral Road
Chennai 600 086

MANUFACTURING LOCATIONS

Plant I, II & III Mettur Dam	:	Chlorochemicals: Caustic Soda, Chlorine, Chlorinated Solvents, PVC, Refrigerant Gases .
Plant IV Mettur Dam	:	Silicon Wafers
IAP I, Krishnagiri & IAP II, Panruti	:	Industrial Alcohol

BANKERS

Indian Overseas Bank
State Bank of India
ANZ Grindlays Bank
Bank of America

AUDITORS

Brahmayya & Co.
Chartered Accountants
Chennai

CONTENTS

Chemplast

Directors' Report

The Directors present their report along with the accounts for the year ended 31st March, 1998.

Corporate Results

Sales, Freight earnings and Other Income for the year ended 31st March, 1998 totalled Rs.467.25 crores. Profit before interest, depreciation and taxes was Rs.111.90 crores. Profit before tax was Rs.4.36 crores, and after considering provision for MAT, net profit was Rs.3.90 crores.

The year 1997-98 was a difficult one for commodity chemicals and shipping companies worldwide, as these businesses touched the low end of their business cycles. There was a substantial drop in the company's turnover and profit for the year due to the unfavourable market conditions for chemicals, a prolonged labour problem in one of the chemical plants which resulted in lower production, and the severely depressed freight rates in shipping. Despite these adverse conditions, your company could still weather this critical time and remain profitable.

The Directors recommend a dividend of 10% on the equity share capital of Rs.35.18 crores which will absorb Rs. 3.52 crores.

OPERATIONS

CHLOROCHEMICALS

PVC Division

The PVC business witnessed severe pressure on margins due to high feedstock prices and steep drop in realisations, largely contributed by the South East Asian crisis. Further, there was a prolonged strike by workmen of the PVC plant in connection with the long-term bonus settlement, which was resolved towards the end of the year. These factors resulted in a significant drop in PVC production. However, by directing available production to higher value speciality resins, the drop in contribution was minimised.

Caustic Chlor Division

There was a steep drop in selling prices of Caustic Soda. Revision in power tariff charges resulted in a significant increase in cost for this power intensive industry. The company's forethought in augmenting its captive power capacity is paying rich dividends.

Solvents Division

The increased capacity was actualised during the current year. However, domestic realisations were affected due to drop in international prices.

Mettron Division

Performance of this division continued to be good with full capacity utilisation of the Plant.

Metkem Silicon Division

Significant increase in contribution was achieved by this division on account of high capacity utilisation and improved realisation.

SANMAR SHIPPING CORPORATION

Freight rates for the bulk carriers remained soft during the year. However, the company's strategy of locking three of its five bulk carriers into long-term charters helped to achieve earnings above the market. The product tanker market was reasonably firm.

One of the bulk carriers underwent dry-docking during the year involving an expenditure of Rs.2.32 crores, which has been charged to revenue.

The International Safety Management (ISM) code has come into effect from 1st July '98. This code establishes strict standards for the safe management and operation of ships, and prescribes rules for the organisation of Company Management in relation to safety and pollution prevention. Your Directors are pleased to report that all the company's vessels have been certified under the ISM code.

SUBSIDIARIES / JOINT VENTURES

Sanmar Speciality Chemicals Limited (SSCL)

Naturchem India Limited (NCIL)

The high value speciality chemicals produced by these companies are gaining increased acceptance in international markets. The operations of these two companies are substantially inter-dependent, and it is therefore proposed to merge them effective 31st March, 1998. As the merger is pending approval, it has not been possible to finalise the accounts of these subsidiaries for 1997-98.

Sanmar International Limited (SIL)

The company recorded Sales and Other Income of Rs.21.97 crores (including exports of Rs.18.92 crores). The Profit before tax was Rs.1.67 crores.

Cabot Sanmar Limited (CSL)

Cabot Sanmar Limited commissioned its project for manufacture of Fumed Silica in April 1998, well within time and cost estimates.

PROJECTS

The project for installing two more Gensets for a capacity of 10MW at the PVC Plant at Mettur has been completed in August 1998, as per schedule. With this, the company's operations at Mettur are based on near 100% captive power, with significant cost advantages.

The export oriented cotton based textile project, which the company was on the point of implementing, has been put on hold, in view of the collapse of the intended markets consequent on the South East Asian crisis.

The company is evaluating investment in a large-scale PVC project at a shore-based location.

PROSPECTS

With the improvement in feedstock situation, the prospects for the PVC division are brighter. The traditional margin between prices of PVC and feedstock was re-established towards the end of the previous year. The company has successfully implemented a strategic programme to cover its raw material inputs at the currently prevailing low price levels. It is expected that full capacity utilisation will be achieved in all the Plants in the current year.

While the situation for shipping is currently not encouraging, the company is well poised to take advantage of the anticipated upswing, now predicted for the end of the year.

The merged operations of SSCL and NCIL are expected to register better performance in the current year.

The overall performance of the company in the current year is expected to be significantly better, as borne out by the operating results so far.

FINANCE

During the year, the company raised Rs.27.5 crores by way of Preference Share Capital, with Rs.12 crores being redeemed. The company also issued Floating Rate Notes for Rs.15 crores during the year.

An amount of Rs.24.5 crores was raised by private placement of non-convertible debentures to meet long-term working capital requirements. The Directors certify that the funds raised by issue of non-convertible debentures have been utilised for the purposes for which they were raised.

The accounting standards of The Institute of Chartered Accountants of India, and the accounting policy of the company, provide for capitalising exchange differences on foreign currency loans for acquiring fixed assets. For its expansion program, the company had initially availed of a Rupee Loan in the nature of a Bridge Loan, which it subsequently settled by making permanent arrangements for a foreign currency loan. As the purpose of the foreign currency loan essentially related to the acquisition of fixed assets, the company has capitalised the exchange difference. However, as the use of the proceeds of the Forex loan for acquisition of fixed assets was indirect, and the accounting standards are not explicit on this point, the Auditors have opined that the exchange difference should be written off, and have referred to this in their report.

RESTRUCTURING

As members are aware, the company has been making efforts to raise equity resources for its chlorochemicals and shipping businesses. However, the depressed state of the Indian Stock Markets, and the lowered credit rating for Indian paper in international markets, has rendered these efforts difficult. The company is continuing to work on a restructuring programme by which the chlorochemicals and shipping businesses would be separated, so that specific equity resources could be raised, immediately the situation improves.

PERSONNEL

Apart from the extended strike at the PVC Plant referred to earlier, relations with employees remained cordial during the year.

The company entered into a long-term bonus settlement with the workers at Plants I, II and III at Mettur, and at Vedaranyam and Panruti.

Long-term wage settlements were also entered into with the workers at Vedaranyam and Panruti.

DIRECTORS

Keeping in mind his many years of experience and association with the company right from inception, the Board of Directors has elected Mr K S Narayanan as Chairman Emeritus of the company. Simultaneously, Mr N Sankar has been elected Chairman of the Board.

Mr K S Narayanan, Mr R K Chari and Mr M K Kumar retire by rotation and are eligible for reappointment.

AUDITORS

Brahmayya & Co. Chartered Accountants, Chennai retire and are eligible for reappointment.

Information in accordance with the provisions of Section 217 (2A) of the Companies Act, 1956, read with the Companies (Particulars of employees) Rules, 1975, as amended regarding employees, is given in Annexure 'B' to the Directors' Report. However, as per the provisions of Section 219 of the Companies Act, 1956, the Report and Accounts are being sent to all shareholders of the company, excluding the aforesaid information. Any shareholder interested in obtaining such particulars may write to the Secretary at the Registered Office of the company.

Particulars under Section 217(1) (e) relating to energy conservation and technology are furnished in a separate statement annexed to, and forming part of this report.

Cash Flow statement, as required by Clause 32 of the listing agreement, is annexed.

For and on behalf of the Board

Chennai
August 31, 1998

N. SANKAR
Chairman

Annexure to the Directors' Report

Information under Section 217(1)(e) of the Companies Act, 1956 read with Companies (Disclosure of particulars in the Report of Board of Directors) Rules, 1988 and forming part of the Directors' Report for the year ended March 31, 1998.

1. CONSERVATION OF ENERGY

a) Measures taken:

The company continues to accord high priority to conservation of energy. Details of some of the measures undertaken to optimise energy conservation are:

1. Installation of vapour absorption chiller in the DG house for heat recovery and as a measure of conservation of power.
2. Modification of operating parameters in cell house by optimising brine concentration and pH levels in order to save power.
3. Modification of refrigeration system in the chlorine liquefaction process in order to reduce power consumption.

b) Additional investment proposals:

1. Replacing shell and tube acid cooler and condensers with plate heat exchangers in the Chlor-alkali process as a measure of conservation of power.

c) Impact of measures taken under (a) and (b) above

		Substitution/ Reduction in energy consumption	Savings in cost of production (Rs. lacs)
i)	Installation of vapour absorption chiller	22 lac kwh per annum	67.98
ii)	Modification of operating parameters in Cell house	12 lac kwh per annum	37.08
iii)	Modification of refrigeration system in chlorine liquefaction process	3 lac kwh per annum	9.27
iv)	Replacing shell and tube acid coolers and condensers with plate heat exchangers	8 lac kwh per annum	27.20

d) Total energy consumption and energy consumption per unit of production - Annexure I

2. TECHNOLOGY ABSORPTION

Annexure II

3. FOREIGN EXCHANGE EARNINGS AND OUTGO

a) Activity relating to exports: The company continues to lay emphasis on exports, especially of caustic soda and refrigerant gases.

		(Rs. lacs)
b)	Foreign exchange outgo	10896.12
	Foreign exchange earnings	6466.08

For and on behalf of the Board
N. SANKAR
Chairman

Chennai
August 31, 1998