Chemplast

Annual Report 2000

CHEMPLAST SANMAR LIMITED

Chemplast Sanmar Limited

BOARD OF DIRECTORS

Mr. N. SANKAR- Chairman
Mr. N. KUMAR - Vice Chairman
Mr. P.N. KAPADIA
Mr. M.K. KUMAR
Mr. C.H. MAHADEVAN
Mr. V. NARAYANAN
Mr. B. NATRAJ
Mr. VIJAY SANKAR
Mr. D.M. SATWALEKAR
Mr. N. SRINIVASAN

CHAIRMAN - EMERITUS

Mr. K.S. NARAYANAN

EXECUTIVE DIRECTORS

Mr. P.S. JAYARAMAN
Mr. K.N. RAMANATHAN (Projects)

REGISTERED OFFICE

8, Cathedral Road,
Chennai 600 086

MANUFACTURING LOCATIONS

Mettur Dam	PVC Chlorochemicals: Caustic Soda, Chlorine, Chlorinated Solvents, Refrigerant Gases and Silicon Wafers
Krishnagiri & Panruti	Industrial Alcohol
Vedaranyam	Industrial Salt

BANKERS

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

AUDITORS

Brahmayya & Co.
Chartered Accountants
Chennai

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Directors' Report

The Directors have pleasure in presenting their report along with the accounts for the year ended 31st March, 2000.

Corporate Results

	1999-2000 Rs. Crores	1998-1999 Rs. Crores
Sales and other income	**446.09**	460.96
Profit before interest, depreciation and taxes	**93.94**	93.03
Interest	**37.73**	42.75
Depreciation	**17.12**	18.71
Profit before tax	**39.09**	31.57
Extraordinary items	**(4.98)**	(0.09)
Profit after extraordinary items	**34.11**	31.48
Provision for tax	**(3.96)**	(3.10)
Profit after tax	**30.15**	28.38

The profit before tax (PBT) for the year at Rs.39.09 crores registered an increase of 24% over the previous year. Despite marginally lower turnover, an increase in PBT was achieved, mainly through higher realisations and better cost management.

An interim equity dividend of 25%, has already been paid for the year. The Directors recommend that this be treated as the final dividend for the year.

OPERATIONS

The strategic investment/restructuring decisions taken by the Company in past years, combined with continuous management focus on operations and cost reduction, have helped it to maintain consistency in performance in the year under report, despite several adverse factors.

PVC Division

The overall performance of the PVC division during the year was satisfactory. Production was at near peak levels during the first half of the year. Prices of imported EDC stock increased to unviable levels in the second half, which required cutting back of resin production. However, maximising captive production of EDC, and using available material to produce higher added value speciality resins, enabled the Company to mitigate the impact to a large extent.

Chlorochemicals Division

Chloromethanes production was a record 30880 MT during the year. Although realisations during the year were affected on and off by imports, margins were generally satisfactory.

The Refrigerant Gas business (CFC) performed well, both domestically and in the export market.

CFC production in India is to be gradually phased out as per the terms of the Montreal Protocol. The closure compensation for this purpose has been agreed between Government of India and Multilateral Fund, and the Company's share works out to US$ 5.22 million, receivable in ten annual instalments, commencing from first quarter 2000-2001.

Drop in demand for PV Wafers from module manufacturers affected the Metkem Silicon business during the year.

The Caustic Soda business was affected throughout the year by excess indigenous capacity and soft international prices. Several of the Caustic-Chlor plants in the country have been forced to shut down due to lack of viability. The Company's strategy of investing in captive power, rather than in expanding Caustic-Chlor capacity, has paid rich dividends.

While the captive power capacity of the Company continues to deliver substantial benefits vis-à-vis the cost of grid power, the steep escalation in prices during the year of crude oil, and consequently of LSHS and kerosene consumed by the Company, had a major impact on the Company's margins. The profits for the year would have been significantly better if the fuel prices prevailing at the beginning of the year had continued. The current year continues to be affected by these high prices, and it is hoped that the recent reduction in crude oil prices will lead to a corresponding relief in fuel prices.

Cabot Sanmar Limited

Cabot Sanmar Limited has established itself in the Fumed Silica business in India, and is registering profits. Efforts are being made to step up exports with the assistance of the Company's collaborators.

PROJECTS

The Company has taken on hand projects for setting up an Oxychlorination Plant, and augmenting captive Ethylene capacity. With the implementation of these projects, the captive feedstock (EDC) capacity will improve to over 70% of total EDC requirements, leading to lower dependence on imported feedstock.

The Company is the dominant supplier of speciality PVC resins in the country. It has been decided to enhance capacity for manufacturing speciality resins, in the first stage by 7,000 tonnes per annum.

The Oxychlorination, Ethylene and Speciality Resin projects together involve a capital outlay of over Rs.60 crores, and are expected to yield significant benefits to the Company from the last quarter of the current financial year.

Although there have been continuous discussions with a number of international players for raw material tie-ups for the shore-based PVC plant, no finality has yet emerged. However, all other issues have been evaluated, and the project can take off quickly once these tie-ups are in place.

FINANCE

The Company continues to enjoy the highest credit rating of Ind D1+(High Grade) assigned by Duff and Phelps, the International credit rating agency for its commercial paper programme, and issued Rs.15 crores of CPs during the year.

Duff and Phelps have also assigned rating of AA (-) (High Credit Quality) for an issue of Non Convertible Debentures (NCD) of Rs.150 crores. NCDs of Rs.75 crores have been issued on private placement basis and the funds have been used to replace high cost debts, thereby reducing interest costs. NCDs for the balance Rs.75 crores will be placed shortly and the funds will be used to meet capital expenditure and long term working capital requirements.

The Company's shares have been notified for trading by institutional investors in dematerialised form with effect from 26th June, 2000.

In line with the mandatory accounting standard (AS-2) issued by the Institute of Chartered Accountants of India, the Company has revised its accounting policy relating to valuation of inventories to include applicable fixed production overheads.

The Company has changed its method of costing of the Caustic-Chlor business to fall in line with current realities. When the Caustic-Chlor unit was first set up, its primary purpose was to produce Caustic Soda, with Chlorine being an unwanted by-product. Today the situation has changed completely, with Chlorine availability being critical to the Company and Caustic Soda being a product which is surplus in the country and difficult to market. The primary purpose of operating the Caustic-Chlor unit is to source Chlorine for the down-stream products such as PVC, Chloromethanes, etc. However it is not possible to produce Chlorine without the generation of Caustic Soda. Consequently, Caustic Soda is treated as a by-product, and the cost of Chlorine is determined as the total cost of production less realisation on all by-products including Caustic Soda. This change has resulted in year-end stocks of Chlorine, and down-stream products in which Chlorine is consumed, being valued lower, and correspondingly the profit for the year is also lower. The Auditors have referred to this in their Report, as this is a change in Accounting Policy.

As the relevant foreign currency loan remains outstanding, the Auditors have repeated their reference to the capitalisation of exchange differences this year also. As clarified by the Directors in prior years, this primarily arises consequent on the indirect use of the proceeds of the loan, which is not explicitly covered by the Accounting Standards. However, the Directors believe that the accounting treatment adopted by the Company is in line with its Accounting Policy, and the spirit of the Accounting Standards which provide for capitalisation of exchange differences of foreign currency loans used to acquire fixed assets.

PERSONNEL

Relations with employees generally remained cordial during the year. The Company entered into a long-term wage agreement with the workers at Plants I and III with effect from 01.04.1998.

DIRECTORS

During the year, Mr. C.H. Mahadevan was co-opted as an additional director and he holds office up to the date of the ensuing General Meeting. Mr. P.N. Kapadia, who was appointed as Director in a casual vacancy, holds office up to the date of this ensuing Annual General Meeting. Notices under Section 257 of the Companies Act, 1956 have been received from members proposing the appointments of Mr. C.H. Mahadevan and Mr. P.N. Kapadia and the Directors commend this proposal to the shareholders.

Mr. N. Kumar, ceased to be the Managing Director of the Company effective 30th April, 2000 but continues as a member of the Board and Vice Chairman.

Mr. N. Kumar and Mr. N. Srinivasan retire by rotation at the ensuing Annual General Meeting and are eligible for reappointment.

AUDITORS

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

STATUTORY INFORMATION

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 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
N. SANKAR
Chairman

Chennai
18th May, 2000

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, 2000.

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. Optimisation of process parameters in cell-house has resulted in reduction of specific power consumption in the manufacturing of Caustic Lye.
2. Cooling Tower fan blades were changed over to FRP from the conventional aluminium blade construction for better efficiency and conservation of energy.

b) *Additional investment proposals:*

Power saving units for constant low load and varied load equipment.

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

	Substitution / Reduction in Energy consumption	Savings in cost of production (Rs. lacs)
i) Process optimisation in Cell-house	22 lacs kwh per annum	47.38
ii) Power saving unit	1 lac kwh per annum	2.15

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

2. TECHNOLOGY ABSORPTION

Annexure II

3. FOREIGN EXCHANGE EARNINGS AND OUTGO

		(Rs. lacs)
a)	*Foreign exchange outgo*	5151.38
b)	Foreign exchange earnings	2513.23

For and on behalf of the Board
N. SANKAR
Chairman

Chennai
18th May, 2000

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Annexure I

		31-03-2000	31-03-1999
A.	**POWER AND FUEL CONSUMPTION**	**31-03-2000**	31-03-1999
1)	Electricity		
	(a) Purchased		
	Units - lacs kwh	**4.05**	376.83
	Amount - Rs. lacs	**14.54**	1280.20
	Rate per unit - Rs.	**3.59**	3.40
	(b) Own Generation		
	1) Through generators		
	Units - lacs kwh	**2401.34**	1698.16
	Units per KG of LSHS or equivalent	**4.47**	4.64
	Cost per unit - Rs.	**2.09**	1.19
	2) Through turbines		
	Units - lacs kwh	–	–
	Unit per KG of LSHS or equivalent	–	–
	Cost per unit – Rs.		
	Steam turbine		
	Units - lacs kwh	**14.92**	8.13
	Wind mill power		
	Units - lacs kwh	**155.04**	132.84
2)	Coal		
	Quantity - MT	**288.00**	–
	Amount - Rs. lacs	**7.09**	–
	Average - Rs./MT	**2461.81**	–
3)	Furnace oil		
	Quantity - MT	**6177.03**	5645.79
	Amount - Rs. lacs	**447.59**	325.31
	Average - Rs./MT	**7246.03**	5761.99
4)	Diesel		
	Quantity - MT	**226.77**	238.67
	Amount - Rs. lacs	**25.96**	23.73
	Average - Rs./MT	**11449.92**	9943.93
5)	LSHS		
	Quantity - MT	**70218.63**	55475.35
	Amount - Rs. lacs	**6016.12**	3502.10
	Average - Rs./MT	**8567.70**	6312.89
6)	Superior kerosene		
	Quantity - MT	**7443.09**	8527.87
	Amount - Rs. lacs	**608.14**	670.24
	Average - Rs./MT	**8170.48**	7859.45
7)	Others - Internal generation		
	Methane gas - lac M^3	**24.45**	10.29
	Hydrogen - MT	**566**	612
B.	**CONSUMPTION PER UNIT OF PRODUCTION**		
1)	PVC Resin		
	Electricity - (kwh)	983	1,102
	Superior kerosene - (ltr)	153	147
	LSHS - (kg)	536	385
2)	Caustic soda		
	Electricity - (kwh)	3232	3281
3)	Chloromethanes		
	Electricity - (kwh)	452	451
	LSHS - (kg)	242	241
4)	Trichloroethylene		
	Electricity - (kwh)	307	333
	LSHS - (kg)	202	183

Note: Electricity for caustic soda is for electrolysis. LSHS denotes the LSHS equivalent of steam consumption.

Annexure II

RESEARCH AND DEVELOPMENT (R & D)

1. Specific areas of R & D:

   The company's R & D laboratory is recognised by the Department of Science and Technology. It is engaged in carrying out process/product improvement programmes. In particular, the areas of focus have been on import substitution, optimising the utilisation of available resources, evolving alternative and more economic processes for the existing range of products and environment conservation.

2. Benefits derived from R & D:

   a) A process for recovering Silicon Carbide from the waste slurry has been developed.

   b) A new speciality resin comprising Poly Vinyl Chloride, Vinyl Acetate and Vinyl Alcohol has been developed.

   c) A new process for production of Trichlorosilane using anhydrous HCL and conversion of Trichlorosilane to Polysilicon of PV grade has been developed.

   d) Basic research for developing commercially viable processes for the production of silicon and aluminium nitrides, SIAION, mullite, cordierite and other silicon based oxides and oxynitride fine ceramics, has been carried out. A unique combustion synthesis process for making high purity mixed oxide ceramics has been developed.

   e) A new catalytic chlorination process for the production of Trichloroethylene and Perchloroethylene from cheaper feedstock, has been developed.

   f) Usage of water compatible vehicle improving process safety in the silicon wafers division.

   g) Development of new emulsifier and initiator systems for resin quality improvement.

   h) Development of new additives for improved efficiency of effluent treatment plant.

3. Future plan of action:

   Currently, the R & D efforts are concentrated on the following areas :

   a) Developing alternatives to CFCs, which are under phase-out as per the Montreal protocol

   b) Maximisation of chlorosilane recovery in the hydrochlorination process

   c) Application research for new grades of PVC resin in order to meet new needs developing in the market.

TECHNOLOGY ABSORPTION, ADAPTATION AND INNOVATION

1. Efforts in brief:

   The Company has absorbed technology for production of speciality PVC resin, chloromethanes and refrigerant gases in the past. New technology tie-ups for high value added products are being explored. Technology for fumed silica (initially developed on a pilot plant scale) and small-plant silicon tetrachloride, have been grown into an operating joint venture.

2. Benefits derived:

   Efforts outlined above have enabled the Company to increase capacity with in-house engineering, without having to resort to specialised technical help. Various productivity improvement programmes implemented by the Company have also enabled optimisation of input-output norms, thereby resulting in considerable savings in costs.

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Auditors' Report

To the Shareholders of
Chemplast Sanmar Limited

We have audited the attached Balance Sheet as at March 31, 2000 and Profit and Loss Account for the year ended March 31, 2000 of Chemplast Sanmar Limited, and report that:

1.1 The Company is maintaining proper records showing full particulars, including quantitative details and situation of fixed assets. Fixed assets have been physically verified by the management during the year in accordance with the phased program of verification by the Company, which in our opinion is reasonable having regard to the size of the Company and nature of its assets. No material discrepancies were noticed on such verification.

1.2 None of the fixed assets have been revalued during the year.

1.3 Physical verification has been conducted by the management at reasonable periods in respect of finished goods, stores, spare parts and raw materials and no material discrepancies have been noticed on such verification as compared to book records.

1.4 The procedures of physical verification of stocks followed by the management are reasonable and adequate in relation to the size of the Company and nature of its business.

1.5 The valuation of stocks of finished goods, stores, spare parts and raw materials is fair and proper and is in accordance with the normally accepted accounting principles, except for Caustic Soda which has been treated as a by-product of Chlorine, instead of as a Joint product. The valuation is on the same basis as in the previous year, except that the closing stock of finished goods which was valued at 'direct cost' in earlier years, is now being valued at 'total manufacturing cost' (including Excise duty), resulting in the increase in the value of stock by Rs.534.25 lacs. Consequent to treating Causfic Soda as a by-product of Chlorine the value of closing stock of Chlorine and other downstream products in which Chlorine has been utilised is lower by Rs.87.42 lacs. The net effect of these two changes is that closing stock value is higher by Rs.446.83 lacs. (See note 2 of schedule 16)

1.6 The Company has not taken any loans from companies, firms or other parties listed in the register maintained under Section 301 of the Companies Act, 1956. However the Company has taken loan from a company under the same management within the meaning of erstwhile section 370(1B) of the Companies Act, 1956, which is prima facie not prejudicial to the interest of the Company.

1.7 The Company has not granted any loan to companies, firms or other parties listed in the register maintained under Section 301 of the Companies Act, 1956 or to the companies under the same management, within the meaning of erstwhile Section 370(1B) of the Companies Act, 1956, except interest free loan to a subsidiary company which, in view of the management, are dictated by commercial expediency or considerations and hence not prima facie prejudicial to the interest of the company.

1.8 The parties to whom loans and advances in the nature of loans have been given by the Company are repaying the principal amounts as stipulated and are also regular in the payment of interest, where applicable.

1.9 The Company has an adequate internal control procedure commensurate with the size of the company and nature of its business for purchase of stores, raw materials including components, plant and machinery, equipment and other assets and for the sale of goods.

1.10 The prices for the materials and services from and to companies, entered in the register maintained under Section 301 of the Companies Act, 1956 and aggregating during the year to Rs.50,000 or more in respect of each party are reasonable having regard to the prevailing market prices for similar materials and services.

1.11 Unserviceable or damaged stores, raw materials and finished goods have been determined and necessary provisions for the losses have been made in the accounts.