



Annual Report 2002

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CHEMPLAST SANMAR LIMITED

Chemplast Sanmar Limited



Notice of Annual General Meeting

The Eighteenth Annual General Meeting of Chemplast Sanmar Limited will be held on Wednesday the 18th September 2002 at 10.00 A M at Sathguru Gnanananda Hall, Narada Gana Sabha Trust Complex, 314, T T K Road, Chennai 600 018 to transact the following:

ORDINARY BUSINESS

1. To receive, consider and adopt the Directors' Report, the audited Balance Sheet as at 31st March 2002, the Profit and Loss Account for the year ended 31st March 2002 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 N Kumar who retires at this meeting and is eligible for reappointment.
5. To appoint a Director in the place of Mr N Srinivasan who retires at this meeting and is eligible for reappointment.
6. To appoint a Director in the place of Mr P N Kapadia 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, with or without modification, as a Special Resolution:
 "RESOLVED that Price Waterhouse & 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."

SPECIAL BUSINESS

8. To consider and if thought fit, to pass the following resolution with or without modification as a Special Resolution:
 "RESOLVED that pursuant to the provisions of Sections 198, 269, 309, 311 and other applicable provisions of the Companies Act, 1956 and Schedule XIII thereto, approval be and is hereby given to the reappointment of Mr N Sankar, Chairman, for a period of five years commencing from 1st May 2002 on the remuneration set out in the explanatory statement relating to this resolution, with liberty to the Board of Directors to alter or vary the terms and conditions and remuneration including minimum remuneration in such manner as the Board may deem fit and acceptable to Mr N Sankar.
 RESOLVED FURTHER that in the event of any statutory amendment, modification by the Central Government to Schedule XIII to the Companies Act, 1956, the Board of Directors be and is hereby authorised to vary or increase or modify the remuneration including salary, commission, perquisites, allowances etc."

Notes

- a) The relative Explanatory Statement pursuant to Section 173 of the Companies Act, 1956 in respect of items No.7 and 8 is annexed hereto.
- b) A MEMBER ENTITLED TO ATTEND AND VOTE IS ENTITLED TO APPOINT A PROXY 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 COMMENCEMENT OF THE AFORESAID MEETING.
- c) Members are requested to notify immediately any change in their address to the Company/the respective Depository Participants.

Registered Office:
 9, Cathedral Road
 Chennai 600 086
 July 29, 2002

(By order of the Board)
 R. SUKUMARAN
 Secretary

Chemplast Sanmar Limited

Annexure to Notice

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

Item No.7

Price Waterhouse & Co., Chartered Accountants, Chennai, the statutory auditors of the company hold office till the conclusion of the Eighteenth Annual General Meeting. Their remuneration for the year 2001-2002 was Rs.10 lacs.

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 in terms of Section 224A of the Companies Act, 1956 requires the approval of the shareholders by a special resolution. Accordingly, special resolution under Item No.7 of the Notice is submitted for the approval of the Shareholders.

None of the Directors is interested in the resolution.

Item No.8

The term of office of Mr N Sankar, Chairman expired on 30th April 2002.

The Board of Directors at its meeting held on 29th January 2002, reappointed Mr Sankar for a period of 5 years from 1st May 2002 on the remuneration approved by the Remuneration Committee which met earlier on the same day.

The remuneration of Mr Sankar with effect from 1st May 2002 and memorandum of interest are given below.

1.	Basic salary	Rs.1,00,000/- p.m.
2.	Housing	Not to exceed Rs.60,000/- p.m.
3.	Monthly reimbursements/Allowance (includes medical reimbursement, gas, electricity and water expenses, perquisite value of furniture, personal accident insurance premium, etc.)	Not to exceed Rs.40,000/- p.m.
4.	Annual payment/ Commission	As determined by the Board from year to year subject to the overall ceilings stipulated in Sections 198 & 309 of the Companies Act, 1956 subject to a minimum of Rs.24,00,000/- per annum.
5.	PF and Superannuation	25% of basic salary
6.	Gratuity	Contribution by company to LIC – half a month's salary for each year of service
7.	Minimum remuneration in the event of loss or inadequacy of profits	Remuneration as set out in Paragraph 1(B) of Section II of Part II of Schedule XIII of the Companies Act, 1956.

Mr Sankar is interested in the resolution as it relates to his appointment and payment of remuneration to him. Mr N Kumar and Mr Vijay Sankar being relatives of Mr Sankar may also be deemed to be interested in the resolution. None of the other Directors of the company is in any way concerned or interested in the resolution.

This Explanatory Statement together with the accompanying notice may be treated as an abstract of the terms of appointment of Mr Sankar and payment of remuneration to him and Memorandum of interest under Section 302(7) of the Companies Act, 1956.

Mr Sankar holds directorships/ committee memberships in the following public companies in addition to his directorship in Chemplast Sanmar Limited.



1.	Sanmar Properties and Investments Limited	Chairman
2.	Flowserve Sanmar Limited	Chairman
3.	BS&B Safety Systems (India) Limited	Chairman
4.	Cabot Sanmar Limited	Chairman
5.	Atofina Peroxides India Limited	Chairman
6.	Dragoco India Limited	Chairman
7.	Sanmar Holdings Limited	Chairman
8.	Sanmar Shipping Limited	Chairman
9.	Sanmar Speciality Chemicals Limited	Chairman
10.	Sanmar Engineering Corporation Limited	Chairman
11.	AMP Sanmar Assurance Company Limited	Chairman
12.	The India Cements Limited	Chairman
13.	Fuller India Limited	Director
14.	IL&FS Asset Management Company Limited	Director
15.	FLS-Fuller Bulk Handling India Limited	Alternate Director

Committee Position

1.	Chemplast Sanmar Limited	a) Share & Debenture Committee – Chairman b) Committee of Directors – Chairman
2.	Sanmar Properties and Investments Limited	a) Share & Debenture Committee – Chairman b) Committee of Directors – Chairman
3.	The India Cements Limited	a) Share Transfer Committee – Chairman b) Shareholders/ Investors Grievance Committee – Chairman
4.	Cabot Sanmar Limited	Audit Committee – Chairman

Information required under Clause (iv) of proviso to paragraph 1(B) of Section 2 of Part II of Schedule XIII of the Companies Act, 1956.

- I. General Information
 - (1) Nature of Industry
The company is engaged in the manufacture and sale of Poly Vinyl Chloride and Chlorochemicals.
 - (2) Date or expected date of commencement of commercial production
The company / its predecessors have been in business for over 30 years.
 - (3) In case of new companies, expected date of commencement of activities
Not applicable, as the company is an existing company
 - (4) Financial performance based on given indicators

	(Rs.Crores)		
	31.03.2000	31.03.2001	31.03.2002
Sales (Gross)	440	439	507
Profit before tax	34	18	33
Profit after tax (including deferred tax)	30	16	21
Shareholders funds	153	164	129 *
Rate of dividend (%)	25	10	40
Net profit as computed under Section 198	9	19	33

* After a one time debit of Rs.39 crores, being the deferred tax for the period up to 31st March 2001.

Chemplast Sanmar Limited

- (5) Export performance and net foreign exchange collaborations
The FOB value of the company's exports was Rs.25 crores in financial year 1999-00; Rs.29 crores in 2000-01 and Rs.25 crores in 2001-02.
- (6) Foreign investments or collaborators, if any
The company in collaboration with Cabot Corporation, USA has established a 50/50 Joint Venture – Cabot Sanmar Limited which manufactures Fumed Silica. The company Cabot Sanmar Limited commenced commercial operations in June 1998 and is a profit making company.
- II. Information about the appointee
- (1) Background details
Mr Sankar, 56, is a B.Sc Tech. in Chemical Engineering from the AC College of Technology, Chennai and MS in Chemical Engineering from the Illinois Institute of Technology, USA. He has been responsible for managing the affairs of the company/ its predecessors since 1977.
- (2) Past remuneration
For the financial year 2001-02 Mr Sankar's remuneration including commission was Rs.69.60 lakhs.
- (3) Recognition or awards
Mr Sankar was the President of The Associated Chambers of Commerce and Industry of India and the President of the Indian National Committee of the International Chamber of Commerce. He was awarded the 'Lala Shriram National Award for Leadership in Chemical Industry' by the Indian Institute of Chemical Engineers. Mr Sankar was also the recipient of 'For the Sake of Honour Award' by the Rotary International for his outstanding contribution to the industrial growth. Mr Sankar is associated with many educational, cultural and sports organisations.
- (4) Job profile and his suitability
Mr Sankar has steered the company's / predecessor's fortunes for over the last 25 years. During this period the company has a record of uninterrupted profitability and has declared dividends every year during the past 25 years. Under Mr Sankar's leadership the company has grown into being an important player in the Poly Vinyl Chloride and Chlorochemicals businesses. In the opinion of the Board he is eminently suited for the position he holds.
- (5) Remuneration proposed
The remuneration of Mr Sankar is set out above.
- (6) Comparative remuneration profile with respect to industry, size of the company, profile of the position and person.
The substantive remuneration of Mr Sankar is in line with the remuneration specified in Schedule XIII of the Companies Act, 1956 as minimum remuneration payable where the profits are inadequate or there are losses. The proposed remuneration is not out of tune with the remuneration in similar sized industries in same segment of business.
- (7) Pecuniary relationship directly or indirectly with the company, or relationship with managerial personnel, if any.
Other than the remuneration stated above Mr Sankar has no other pecuniary relationship directly or indirectly with the company.
- III. Other information
The business that the company is engaged in is highly cyclical. Despite the cyclicity, the company has been earning reasonable profits over the last 25 years and declaring dividends without interruption. The company will continue to focus on improving productivity and rationalising costs and thus increasing long term shareholder value.

Registered Office:
9, Cathedral Road
Chennai 600 086
July 29, 2002

(By order of the Board)
R. SUKUMARAN
Secretary

Chemplast Sanmar Limited**CHAIRMAN - EMERITUS**

K.S. Narayanan

BOARD OF DIRECTORS

N. Sankar, Chairman

N. Kumar, Vice Chairman

P.S. Jayaraman, Managing Director

Adit Jain

P.N. Kapadia

M.K. Kumar

C.H. Mahadevan

V. Narayanan

Vijay Sankar

N. Srinivasan

REGISTERED OFFICE

9, 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

Standard Chartered Grindlays Bank

AUDITORS

Price Waterhouse & Co.

Chartered Accountants

Chennai

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Information Regarding Listed Securities as required under Clause 32 of the Listing Agreement

NAME AND ADDRESS OF THE STOCK EXCHANGES	DETAILS OF SECURITIES LISTED
1) Madras Stock Exchange Limited Exchange Building, 11 Second Line Beach, Chennai 600 001	Equity Shares
2) The Stock Exchange, Mumbai Phiroze Jeejeebhoy Towers, Dalal Street, Fort, Mumbai 400 001	Equity Shares
3) The Delhi Stock Exchange Association Limited West Plaza, IG Stadium, Indraprastha Marg, New Delhi 110 002	Equity Shares
4) Vadodara Stock Exchange Limited Fortune Towers, Sayajigunj, Vadodara 390 005	Equity Shares
5) The Calcutta Stock Exchange of India Limited 7 Lyons Range, Calcutta 700 001	Equity Shares
6) National Stock Exchange of India Limited Exchange Plaza, 5th Floor, Plot No. C/1, G Block, Bandra-Kurla Complex, Bandra (E), Mumbai 400 051	Equity Shares

The Listing fees to these Stock Exchanges have been paid.



Directors' Report

The Directors have pleasure in presenting their report along with the accounts for the year ended 31st March 2002.

Corporate Results

	2001-02 Rs.Crores	2000-01 Rs.Crores
Sales and other income	513.28	444.19
Profit before interest, depreciation and taxes	92.40	72.06
Interest	34.12	34.75
Depreciation	24.73	19.12
Profit before tax	33.55	18.19
Provision for tax		
– for the year	3.28	1.74
– deferred tax	9.45	–
Profit after tax	20.82	16.45

Sales and other income for the year registered an increase of 16% over the previous year. Profit before tax at Rs.33.55 crores improved significantly by 84% over the previous year.

The satisfactory performance for the year has once again demonstrated the efficacy of the management's proven strategies in managing feedstock and adopting effective cost control measures.

The company has paid an interim dividend of 40% (Rs.4/- per share) on equity share capital absorbing Rs.14.07 crores on 1st June 2002. The Directors do not recommend any further dividend for the year.

MANAGEMENT DISCUSSION AND ANALYSIS

The chemicals business is highly cyclical in nature as would be seen from the graphs in this report. Managing such a business and remaining profitable with a consistent dividend payment history for over 25 years has been a creditable accomplishment, reflecting your company's robust spread of products, the wisdom of its highly integrated chlorochemicals operations, the substantial strategic investments it has made in 100% captive power, backward integration for various raw materials etc., combined with the restructuring activities it has carried out over the last several years. The company's continuous detailed analysis of margins on individual products, its informed calls on purchasing imported feedstock, its make-or-buy decisions at different points in the production chain, and its strategy of concentrating on the manufacture of speciality resins, have all paid rich dividends.

Business of the Company

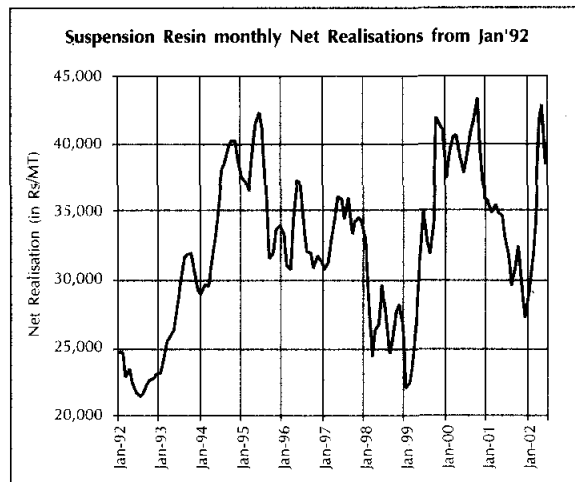
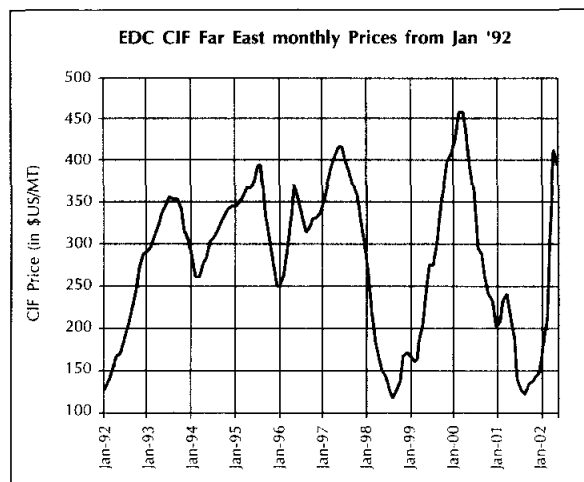
Your company is engaged in the manufacture and sale of Poly Vinyl Chloride (PVC) and Chlorochemicals. While all its manufacturing facilities are located at Mettur Dam near Salem in Tamil Nadu, the PVC Division has two Industrial Alcohol plants at Panruti and Krishnagiri, and the Chlorochemicals Division a salt facility at Vedaranyam, both in Tamil Nadu, demonstrating your company's forethought vis-a-vis achieving self-sufficiency in feedstock.

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PVC Division

Your company was a pioneer in the manufacture of PVC in India, with a current capacity of around 60,000 TPA. Unique to the Mettur facility is the flexibility of its integrated manufacturing operations all along the production chain, from Molasses to PVC. It also has an Oxy-Chlorination facility contributing to manufacture part of its requirements of Ethylene-di-Chloride (EDC), the feedstock for PVC.

The cyclical nature of the PVC business is highlighted by the movement of EDC and Suspension Resin prices.



The PVC Division has four major product groups:

Suspension Resin

Paste Grade Resin

Suspension Copolymer Resin

Battery Separator Resin

Suspension Resin:

The total domestic industry capacity in Suspension Resin is around 790,000 TPA. Capacity and demand are currently balanced, but with the demand for the product increasing, a shortfall is expected in future. After major consolidation in the country in recent times, there are five large manufacturers of PVC in India.

The main end use of the product is in the manufacture of pipes and fittings, an activity that consumes almost 50% of the total suspension resin sold in India. Other substantial end uses are calendered sheets, cables, footwear, window profiles, etc. Suspension Resin also has some critical applications like blood bags, though the actual tonnage in this segment is low.

The demand for Suspension Resin continues to be good, and increasing demand for PVC pipes in water schemes, irrigation, housing, etc. will continue to drive its growth. Other major growth areas are calendered sheets for blister packaging of tablets for the pharmaceutical industry and economically priced moulded PVC footwear.



Paste Grade Resin:

Your company is one of two players manufacturing Paste Grade Resin in India, with a significantly large market share. Its main end uses include leathercloth for upholstery, footwear, flooring, ladies' purses, and luggage. With growing affluence, there has been an increase in the demand for upholstery (for automobiles, domestic furnishing, transport buses, etc.) and footwear.

With the domestic capacity for Paste Grade Resin lower than the total demand, your company has recently expanded its capacity to cater to the increasing demand and bridge the gap now filled by imports.

Copolymer Resin:

Your company is the only manufacturer of Copolymer Resin in India. Suspension copolymers are used in flooring, printing inks, speciality adhesives, etc.

Though there has been a marginal drop in the demand from the flooring sector as alternative types of flooring are available, the demand for Copolymer Resin in other segments like printing inks or adhesives continues to be steady.

Battery Separator Resin (BSR):

Your company is the only manufacturer in India of BSR, which is used in the production of separators for batteries for various applications. There is steady demand but marginal growth for BSR.

Industrial Alcohol:

The production facilities at the two plants at Panruti and Krishnagiri manufacture industrial alcohol from sugarcane molasses. This unique initiative affords your company considerable flexibility, minimising the cost of feedstock. The alcohol from these locations is moved to Mettur where it is used in the manufacture of EDC.

Risks and concerns:

It is evident from the foregoing that there is no surplus capacity of PVC in India, and as such any competitive threat or risk to any of the four product groups in which your company is engaged can only come from imported resin. As the import duty on PVC, in excess of 60% some ten years ago, has been rolled down to 30%—to be reduced further to 20% in the next two years as indicated in the last Union Budget—the duty on feedstock like EDC also needs to be brought down from the current level of 15% to 10%, and the import duty on LSHS, currently at 20%, down to around 10%. It is worth mentioning here that even the existing import duty of 30% for resin is well short of the rate of 40%, to which the Government of India has made a commitment with WTO.

The cyclicity of EDC and Suspension prices, as seen from the earlier graphs, leads to wide fluctuations in operating margins, as for example in the current year when a steep increase in EDC prices coupled with a drop in resin prices has put severe pressure on profits.

Review of operations - 2001-02:

The PVC Division of your company operated at peak levels during the year under review. The company's strategic action in sourcing and building up unusually large quantities of imported feedstock (EDC) taking advantage of soft international prices, contributed significantly to improved margins and a strong bottom line. In line with your company's continued focus on the manufacture of speciality resins, Paste Resin capacity has once again been augmented within a short interval.