



Annual Report 2004



**CHEMPLAST SANMAR LIMITED**



## 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

Karaikal

Caustic Soda and Chlorine

### BANKERS

Indian Overseas Bank

State Bank of India

Standard Chartered Bank

### AUDITORS

Price Waterhouse & Co.

Chartered Accountants

Chennai

## Chemplast Sanmar Limited

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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) 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.

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The company is yet to receive approvals for delisting the Equity Shares of the company from the following Stock Exchanges.

1) Vadodara Stock Exchange Limited Fortune Towers, Sayajigunj, Vadodara 390 005	Equity Shares
2) The Calcutta Stock Exchange Association Limited 7 Lyons Range, Calcutta 700 001	Equity Shares



## Directors' Report

The Directors have pleasure in presenting their report along with the accounts for the year ended 31st March 2004.

### Corporate Results

	2003-04 Rs.Crores	2002-03 Rs.Crores
Sales and other income	582.08	540.78
Profit before interest, depreciation and taxes	76.30	78.01
Interest	35.41	31.82
Depreciation	32.67	21.74
Profit before tax	8.22	24.45
Provision for tax		
– current tax	(1.90)	(4.81)
– deferred tax	(1.70)	0.99
Profit after tax	4.62	20.63
Profit brought forward	19.95	6.03
Balance of profit and loss account of amalgamating company	27.24	–
Transfer from Debenture Redemption Reserve	26.13	7.22
	<u>77.94</u>	<u>33.88</u>
Appropriations:		
Capital Redemption Reserve	2.00	7.00
Equity Dividend	–	3.52
Preference Dividend	2.13	2.96
Tax on Dividend	0.27	0.45
Profit carried to Balance Sheet	<u>73.54</u>	<u>19.95</u>

Sales and other income registered an increase of 8% over the previous year. Despite this, the high cost of inputs and intermediates eroded margins, resulting in a drop in profits. With a view to conserving resources, the Directors do not recommend payment of dividend on equity shares for the year 2003-04.

### MANAGEMENT DISCUSSION AND ANALYSIS

Your company is passing through a difficult period. The high cost of intermediates following international price trends, increase in price of industrial alcohol consequent on the Gasohol programme of the Government of India, drop in import duties for finished products without a corresponding reduction in duty rates of intermediates/ raw materials, have all contributed to the cost pressures during the year.

## Chemplast Sanmar Limited

Notwithstanding this, the management has initiated several proactive steps, re-establishing its faith in the fortunes of this highly cyclical business. The acquisition of the Caustic Soda facility at Karaikal in the Union Territory of Pondicherry with the objective of producing low-cost feedstock for PVC is a major move. This will start yielding results from the last quarter of 2004-05. The innovative Scheme of Arrangement between the company, Sanmar Properties and Investments Limited and Sanmar Holdings Limited as approved by the High Court of Madras has resulted in enhancement of equity resources of the company, thereby improving the gearing. Using this and the favourable liquidity conditions in the market, the company has retired high-cost debt, which will bring significant savings in interest cost in future.

### PVC BUSINESS

As one of the pioneers in the PVC business, the company operates a fully integrated manufacturing facility at Mettur Dam. Of the PVC manufacturers in India, only your company has the ability to manufacture four major product groups in PVC. This strength has stood the company in good stead over the last several decades.

#### *Suspension Resin:*

Thanks to healthy demand growth, the country's consumption of suspension resin has crossed the 900,000 MT mark necessitating imports close to 100,000 MT. Pipes and Fittings continue to drive demand, especially with water supply, irrigation and construction activities increasing. Further, PVC is consumed in sectors like cables, packaging, footwear etc. The increase in demand for products in these sectors should keep up the growth momentum for suspension PVC.

#### *Paste Grade Resin:*

After a lull, domestic demand for Paste Resin has picked up. This is expected to increase further on the strength of a surge in demand for automobile and household upholstery, shoes and fashion footwear, luggage, handbags etc. Your company makes three grades of paste grade speciality resin widely used in the manufacture of leather cloth, conveyor belts, automotive sealants etc. Many customers consider the company's resin to be the best in its class, comparable to leading international suppliers. The focus is on continuing to expand the customer base and markets for the resin.

#### *Battery Separator Resin (BSR):*

Demand is steady and in the region of around 6000 MT per year, contributed essentially by the replacement battery segment. As the only Indian manufacturer of BSR, your company enjoys a good market share.

#### *Copolymer Resin:*

Here again, your company is the only manufacturer of Copolymer Resin in South Asia. The demand is steady with growth in the inks and adhesives segments, though the flooring segment has not shown improvement.

#### *Raw materials and Intermediates:*

The main feedstock for manufacture of PVC is Ethylene Di-Chloride (EDC). Though the company has an integrated facility to manufacture 75% of the EDC required, the high cost of industrial alcohol and bought out chlorine has moved up the manufacturing cost of EDC. Increase in the cost of industrial alcohol is the result of the introduction of the 'Gasohol' programme – a mixture of 5% ethanol with petrol - by the Government of India. The dismal sugarcane season has also led to the high cost of molasses and in turn alcohol. The company is also faced with the problem of the high international price of EDC.



With a view to protecting the PVC business from the above difficult feedstock situation, a project to manufacture EDC at the recently acquired Caustic soda facility at Karaikal is under implementation. It is proposed to manufacture EDC here initially from imported alcohol and later from imported Ethylene. Production is expected to commence in the last quarter of 2004-05. This facility will further add to flexibility of operations and enable manufacture of EDC at an economical cost. In the meantime, the acquisition of the Karaikal facility has already begun yielding returns, as the low cost chlorine available in this facility has substituted to a large extent market purchase of chlorine at high cost.

#### *Risks and concerns:*

Reduction of import duty for PVC, without a corresponding drop in duty rates for the feedstock and raw materials, is a matter of concern for the industry. The rapid appreciation in the Rupee in terms of USD is also bringing down the landed cost of PVC imported into the country. These factors impose continuous strain on the margins.

#### *Review of operations 2003-04:*

The company could achieve full capacity utilisation in its PVC division. This was possible due to timely import of EDC whenever the price came down in the international market. In line with international trends, resin prices firmed up in the second half of the year. However, margins were under pressure due to the high cost of inputs and intermediates.

### **Chlorochemicals Business**

#### *Caustic Soda:*

Ever since the revival in caustic soda prices in the last quarter of 2002-03, realisations have remained more or less stable with only minor fluctuations. The aluminium sector continued to procure caustic soda from domestic sources instead of imports and this factor also contributed to price stability.

#### *Solvents:*

Demand for Chloromethane solvents registered a nominal growth in the absence of strong demand from the pharma sector. The provisional Anti Dumping Duty imposed in the previous year on imports of Methylene Chloride from the European Union was confirmed as definitive duty during the year. However, during the latter part of the year, substantial imports from the USA at very competitive prices eroded domestic realisations.

The Multilateral Fund decided in July 2003 the quantum of compensation for India for phasing out Carbon Tetrachloride (CTC) for non-feedstock applications under Montreal Protocol. However, the Government of India is yet to decide on the sharing of the compensation between the CTC production and consumption sectors.

#### *Mettron:*

While the production volume came down during the year in line with the Montreal Protocol phase-out schedule, international prices of R-11 and R-12 (CFCs) went up due to reduced availability worldwide. International prices of R-22 continue to be unremunerative on account of aggressive marketing efforts by the Chinese producers.

#### *Metkem Silicon:*

The international photovoltaic market continues to grow at a healthy pace. However, this growth has been achieved with a substantial fall in module and cell prices. This is putting enormous pressure on wafer prices internationally and has affected the realisation of wafers in the domestic market.

## Chemplast Sanmar Limited

The indigenous demand for photovoltaic wafers suffered due to large imports of cells and modules at attractive prices.

### *Risks and concerns:*

The Government is unlikely to permit mercury cell units manufacturing caustic soda to operate beyond 2012. This is a matter of concern since conversion to membrane cell technology will require substantial investment.

Operations of the chlorochemical business could be impacted by the highly volatile international prices of methanol, a major raw material. Further, the cost of captive power depends on the price of fuel i.e., Low Sulphur High Stock (LSHS) which also continues to stay at a high level due to increase in international crude prices. Sales volumes of both CFCs and the raw material CTC are shrinking due to the continuing phase-out schedule of CFCs under the Montreal Protocol. In addition, the proposed phase out schedule of CTC for non-feedstock use would also affect the production and sale of CTC adversely.

The business outlook for Metkem Silicon does not look bright on account of high raw material prices and reduction in the price of the end product i.e., photovoltaic wafers.

### *Review of operations 2003-04:*

The major businesses viz., chloromethane solvents and caustic soda, operated at full capacity with improvement in efficiencies. Better price realisation in these businesses helped to increase the contribution of chlorochemical products. There was continuous focus on rationalising maintenance expenses and cutting overheads. The company, having successfully outsourced Drum manufacturing, is evaluating other manufacturing activities that can be profitably outsourced.

## Environment

The company has over the years made impressive strides towards pollution abatement through the various initiatives it has undertaken. It has constantly upgraded its infrastructure to conform to stringent environment preservation requirements. These efforts have helped the company to meet the challenge posed by present day awareness of the role of industry in protecting the environment. The company has developed a large area as a Green Belt around its manufacturing facilities. Provision of clean drinking water and street lighting to the community around the factory area and imparting education and health care have been among the efforts that highlight the company's commitment to being a good corporate citizen.

## Personnel

The company considers people as its principal asset and attaches utmost priority to its development. The focus has been to prepare employees to meet the challenges of change and growth. The Sanmar Group has clearly enunciated its "Management Philosophy", its "People Philosophy" and its "Ethics Policy". There is a constant drive to inculcate these policies in all employees.

## Internal Control Systems

The company has in place adequate internal control procedures commensurate with the size and nature of its operations. An Audit Committee consisting of three non-executive Directors is functioning effectively. Internal Audit for the year 2003-04 was carried out by Deloitte Haskins & Sells covering all areas of operations. All significant audit observations are discussed in the audit committee meetings, which met four times during the year under review.

## Cabot Sanmar Limited

For the year ended 31st March 2004, the company registered sales and other income of about Rs.18.69 crore and a profit before tax of about Rs.4.50 crore. The performance of the company has been satisfactory. The project to produce 200 TPA of treated fumed silica was completed on schedule without any cost overrun.



## PROJECTS

The company is in the process of obtaining necessary approvals and clearances for setting up a green field PVC plant at a shore-based location.

## FINANCE

Fitch Ratings India Private Limited (Fitch), an international credit rating agency, has given a credit rating of A+(Ind) in respect of the Secured Non-Convertible Debentures of Rs.125 crore already issued. However, during the year 2003-04, the company prepaid Rs.104.50 crore of these debentures to bring down the interest cost.

Your company continues to enjoy the confidence of its bankers and financial institutions. Taking advantage of the fall in interest rates, the company replaced some of its high cost debt and achieved interest reduction.

The Madras High Court accorded its approval on 3rd March 2004 for the Scheme of Arrangement between Sanmar Properties and Investments Limited (SPIL), Sanmar Holdings Limited and your company, in terms of which SPIL merged with your company effective 2nd November 2003. This scheme has helped to enlarge the equity resources of the company.

As the company's equity shares were not traded at Delhi, Vadodra and Calcutta stock exchanges, the company sought delisting of its share from these Stock Exchanges. While the shares have been delisted from Delhi Stock Exchange, the company's application is pending with the Vadodra and Calcutta Stock Exchanges. The company's shares will continue to be listed on the Mumbai and Madras Stock Exchanges and the National Stock Exchange.

## DIRECTORS

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

Mr.Adit Jain, who was appointed in a casual vacancy holds office upto the date of the ensuing Annual General Meeting. Notice under Section 257 of the Companies Act, 1956 has been received from a member proposing the appointment of Mr.Adit Jain and the Directors commend this proposal to the shareholders.

## AUDITORS

Price Waterhouse & Co., Chartered Accountants, Chennai, retire and are eligible for re-appointment.

## 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 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 absorption are furnished in a separate statement annexed to, and forming part of this report.

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



**Chemplast Sanmar Limited****DIRECTORS' RESPONSIBILITY STATEMENT**

- (a) In the preparation of the annual accounts for the year ended 31st March 2004, the applicable accounting standards have been followed by the company.
- (b) The Directors have selected such accounting policies and applied them consistently and made judgements and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the company as at 31st March 2004 and of the profit of the company for the year ended that date.
- (c) The Directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the company and for preventing and detecting fraud and other irregularities.
- (d) The accounts of the company have been prepared on a going concern basis.

**CAUTIONARY STATEMENT**

Statements made in this Report, including those stated under the caption "Management Discussion and Analysis" describing the company's plans, projections and expectations may constitute "forward looking statements" within the meaning of applicable laws and regulations. Actual results may differ materially from those either expressed or implied.

Chennai  
April 27, 2004



For and on behalf of the Board  
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, 2004.

### 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. Reduction in power consumption by 187 Kwh/ MT of Caustic Soda has been achieved by carrying out re-membraning of electrolyser at a cost of Rs.171 lacs at our Karaikal facility.
2. Steam traps in PVC driers were changed from bucket type to ball float type. This has resulted in reduction of steam consumption in drying of PVC resins.
3. Steam generation by waste heat recovery boiler was increased by completely burning the EDC vent from Monomer.
4. Internal consumption of steam was brought down in oxy chlorination plant and incinerator by usage of hot water from main de-aerator.

#### b. Additional investment proposals

Recoating of anode and cathode elements at our Caustic Soda Plant at Karaikal is being planned at an investment of Rs.215 lacs. This will result in reduction of power consumption.

#### c. Impact of measures taken under (a) above:

	Substitution/ Reduction in energy consumption per annum	Savings in cost of production (Rs. Lacs)
1. Reduction in power consumption due to re-membraning of electrolyzers	Power 12.43 lac Kwh	38.78
2. Reduction in steam consumption by changing steam traps in PVC driers	Steam 5352 MT	45.49
3. Increase in steam generation from waste heat recovery boiler	Steam 1000 MT	8.50
4. Reduction in steam consumption due to usage of hot water from main de-aerator.	Steam 1250 MT	10.63

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

### 2. TECHNOLOGY ABSORPTION, ADAPTATION AND INNOVATION

Technology has been fully absorbed.

#### RESEARCH AND DEVELOPMENT (R&D)

The company's R & D laboratory 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.

### 3. FOREIGN EXCHANGE EARNINGS AND OUTGO

	(Rs. Lacs)
a) Foreign exchange outgo	9305.09
b) Foreign exchange earnings	2369.41

For and on behalf of the Board  
N. SANKAR  
Chairman

Chennai  
April 27, 2004