SANMAR

Annual Report 2005

CHEMPLAST SANMAR LIMITED

Chemplast Sanmar Limited

SANMAR

BOARD OF DIRECTORS

P.S. Jayaraman, Managing Director
M.K. Kumar
C.H. Mahadevan
V.K. Parthasarathy
M.S. Sekhar
V.V. Subramanian

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

CONTENTS

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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Directors' Report

The Directors have pleasure in presenting their report along with the accounts for the year ended 31st March 2005.

Corporate Results

	2004-05 Rs.Crores	2003-04 Rs.Crores
Sales and other income	**612.37**	581.43
Profit before interest, depreciation and taxes	**81.16**	76.35
Interest	**24.25**	35.40
Depreciation	**26.31**	32.73
Profit before tax	**30.60**	8.22
Provision for tax		
– current tax	**(4.90)**	(1.90)
– deferred tax	**(0.02)**	(1.70)
Profit after tax	**25.68**	4.62
Profit brought forward	**73.54**	19.95
Balance of profit and loss account of amalgamating company	**–**	27.24
Transfer from Debenture Redemption Reserve	**5.13**	26.13
	104.35	77.94
Appropriations:		
Capital Redemption Reserve	**20.50**	2.00
Preference Dividend	**0.39**	2.13
Tax on Dividend	**0.05**	0.27
Profit carried to Balance Sheet	**83.41**	73.54

The company registered all-round good performance during the year under review. Sales and other income increased by 5% over the previous year, despite the fact that the PVC division had to contend with lower production volumes due to prohibitive feedstock prices. The profit before tax for the year at Rs.30.60 crore registered healthy growth of 272%. With a view to conserving resources to meet the capital expenditure programmes of the company, the Directors do not recommend payment of dividend on equity shares for the year 2004-05.

MANAGEMENT DISCUSSION AND ANALYSIS

The satisfactory performance during the year 2004-05 was the result of several factors such as the all-round increase in selling prices for the products manufactured by your company, the benefit of low cost chlorine made available from the strategic acquisition of Chloralkali facility at Karaikal in August 2003, the management's timely move to import Denatured Spirit (DNS) to produce the feedstock for PVC operations and the cost cutting measures initiated by the company. The year was also marked by a significant drop in the rates of import duty for PVC and Chloromethane Solvents from 20% to 10% and the substantial contraction of the duty differential between these end products and the raw materials/ intermediates. However, the management's continuous focus on strengthening its backward integration strategy has yielded good dividends once again.

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PVC Business

The company continues to be the only PVC manufacturer in India with the ability to produce four major product groups in PVC. The flexibility in manufacturing operations brought in over a period of time has helped interchange the product mix quickly depending on the contribution achieved.

Suspension Resin:

Suspension grade PVC is used generally in manufacture of pipes and fittings, wires and cables, calendered sheets, footwear, window and door profiles etc. These segments consume about 1 million tonnes of suspension resin in a year, necessitating the import of close to 1 lakh tonnes of PVC. The increased focus on completion of several irrigation projects by the Government of India and the thrust on micro-irrigation projects in various States in the country will continue to drive the demand for pipes. The Government's focus on restoring water bodies as also modernisation of several water distribution systems in urban areas and the higher expenditure on housing and urbanization will also contribute to increase in demand for PVC in the form of pipes and fittings.

Paste Grade Resin:

The major end use segments for paste grade resin are leather cloth, tarpaulin, conveyor belts, flooring, luggage and bags etc. The domestic market for paste grade resin is about 60,000 TPA. Your company makes three grades of paste grade speciality resin used in all the above applications.

Your company has a substantial market share in paste grade resin and has been a consistent performer with high quality resin comparable to international standards.

Battery Separator Resin (BSR):

The demand for BSR is in the region of around 6000 MT per year, contributed essentially by the replacement battery segment. Your company is the only manufacturer of BSR in the country.

Copolymer Resin:

Demand for Copolymer resin is driven by the growth in the inks and adhesives segments. Your company is the only manufacturer of Copolymer resin in South Asia.

Raw Materials and Intermediates:

Ethylene Di-Chloride (EDC) is an important intermediary for manufacture of PVC. Concerned with the high international price of EDC, the company increased its captive facility to manufacture EDC at Mettur Dam from 75000 TPA to 110000 TPA during the year at an investment of Rs.10 crore. The raw materials required to manufacture EDC are DNS and Chlorine. In the context of the scenario of ever increasing prices for these two raw materials, the company had to develop strategies to face the situation. Consequent to a poor sugarcane crop due to the continuous failure of monsoon, availability of DNS based on molasses was severely affected in the State of Tamil Nadu. Moreover, the 'Gasohol' (a mixture of 5% ethanol with petrol) programme, initiated by the Government of India last year also contributed to high prices of DNS in Tamil Nadu. To ensure supply of DNS for its EDC manufacturing operations, the company, with the approval of the Government of Tamil Nadu, resorted to import of DNS during the year. The other problem of high cost Chlorine was addressed by the strategic acquisition of Chloralkali facility based on membrane cell technology at Karaikal in August '03. After acquisition, the production of Caustic Soda/ Chlorine was quickly stepped up to its rated capacity of 100 TPD. A power plant to produce 8.5 MW of power with natural gas as fuel was also commissioned in November '04 resulting in reduction in cost of Chlorine produced in this facility. Contributed by the strong demand for Caustic Soda in the country, the Karaikal facility has started yielding good dividends by making available low cost Chlorine for manufacture of EDC. The company has plans to step up the Caustic Soda capacity to meet its increased requirement of Chlorine for higher captive production of EDC. With this, the company is fully insulated against high international price of EDC as it is now in a position to manufacture its entire requirement of 110000 TPA of EDC at appropriate cost with imported DNS and low cost captive chlorine.

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The implementation of the project to produce EDC using imported Ethylene and setting up a Marine Terminal Facility at an investment of Rs.96.71 crore at Karaikal is progressing smoothly. After this facility is commissioned by June 2006, EDC will be available on captive basis at attractive cost for production of PVC.

Risks and concerns:

i) As discussed earlier, the import duty of PVC has been continuously reduced without corresponding reduction in the duty on feed stock/ intermediates. The differential between PVC and the intermediates has substantially narrowed down to 5% resulting in a drop in margins.

Import duty structure:

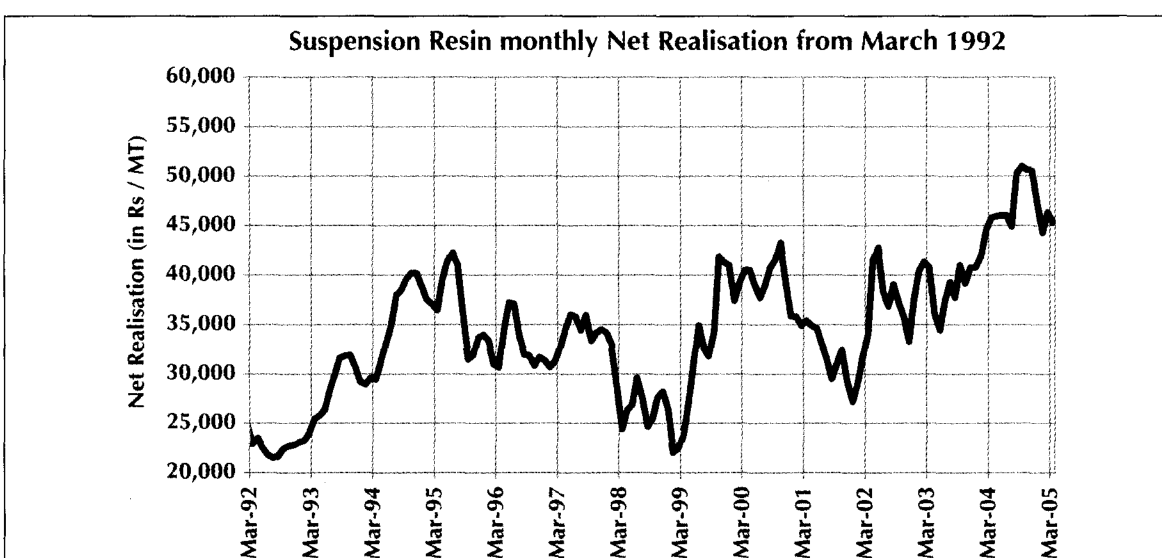
Year	Month	Import Duty on		Spread (%)
		PVC (%)	Feedstock (%)	
2002	March	30	15	15
2003	March	25	15	10
2004	January	20	15	5
2004	September	15	10	5
2005	March	10	5	5

ii) The domestic price of DNS has gone up substantially forcing the company to resort to import. However, the international price of DNS also registered a sharp increase during the year under reference, resulting in an increase in the cost of captive EDC.

Review of operations 2004-05:

Due to prohibitive prices of EDC in the international market, the company could not resort to import of EDC and hence the PVC production was moderated on the basis of captive EDC production. As a result, the production of suspension resin was lower by 15000 tonnes during the year. The EDC production capacity was enhanced to meet full PVC volume towards end of the year and this should benefit the company in the coming periods.

In line with the international trend, the prices of PVC resins firmed up during the year. However, as explained earlier, due to the high cost of DNS and bought out Chlorine the margins remained under pressure.



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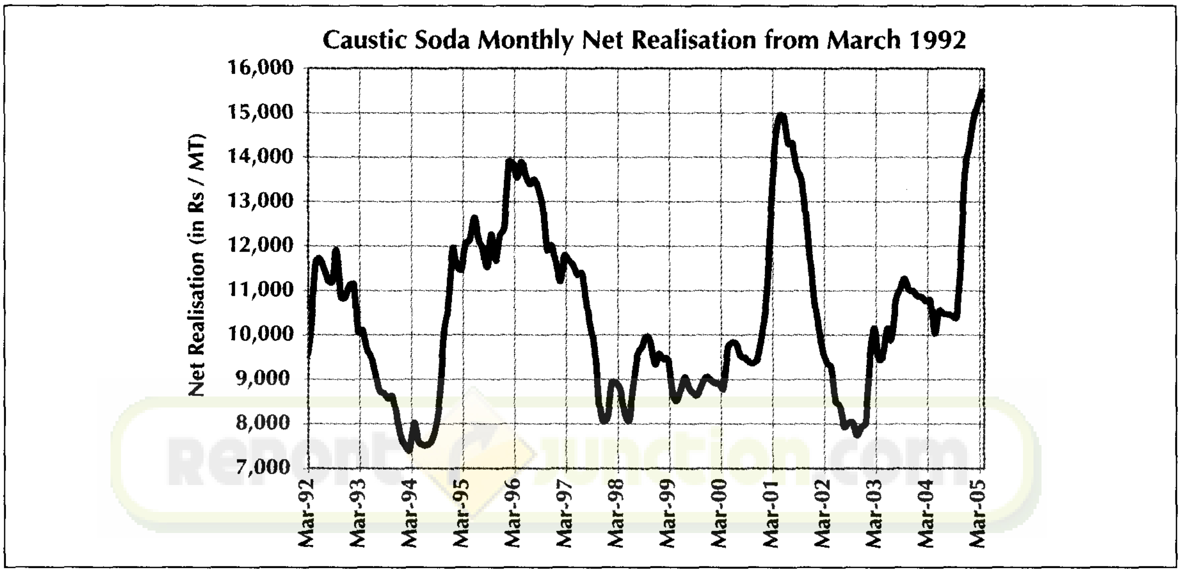
Chlorochemicals Business

Caustic Soda:

The market remained highly buoyant, especially during the last two quarters of 2004-05. This resulted in sizeable improvement in realisations. The aluminium sector continued to procure caustic soda entirely from domestic sources and this factor also greatly contributed to the increase in demand. With two more alumina plants planned to go on stream in the next few years, the immediate outlook looks good for caustic soda.



Solvents:

The demand for Chloromethane solvents grew at a nominal 6% on the back of a growth in pharmaceutical exports. The international trend of raising Chlorine and Chlorine derivative prices greatly improved realisation for Methylene Chloride in the domestic market.

As per Montreal Protocol, sale of Carbon Tetra Chloride (CTC) to Solvents and process agent sector has been phased out effective 1st January '05. Your company is one of the three producers of CTC in the country and will receive a share in the compensation for such phase out.

Mettron:

In view of the continuous reduction in production volume in line with the Montreal Protocol phase out schedule, the entire production of refrigerant gases has now been outsourced. This has helped the business to reduce its fixed cost substantially.

Metkem Silicon:

The international photovoltaic market grew at a rapid pace on the back of lucrative rooftop programmes in a few European countries. This resulted in substantial improvement in international prices for solar wafers. Also, the indigenous photovoltaic cell manufacturers were now able to export their cells and modules on the back of viable international prices. The company has been able to market its entire production at a substantially improved price. The outlook for this business looks good in the medium term.

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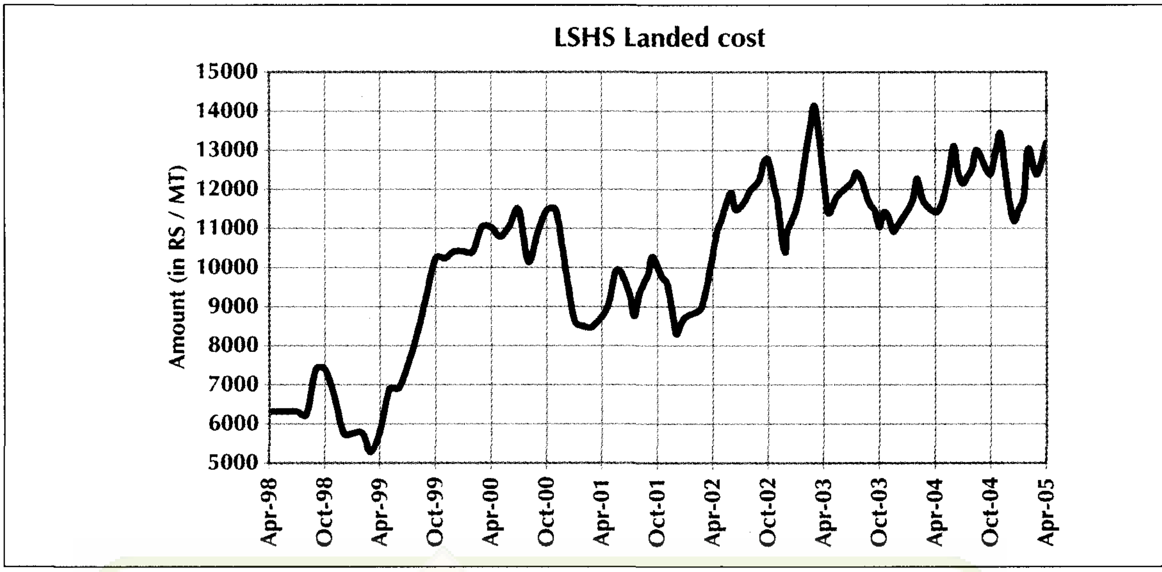
Risks and concerns:

The substantial increase in international crude prices is a matter of grave concern as this directly affects the cost of captive power generation in the form of high fuel cost.



Sales volume of both CFC and CTC will continue to shrink on account of the phase out schedule under the Montreal Protocol.

Review of operations 2004-05:

Both the major businesses viz., Chloromethanes and Caustic Chlor, operated at full capacity. Better price realisations in these businesses helped increase the contribution of chlorochemical products. The company has now successfully outsourced CFC manufacturing. Continuous attention is being paid on rationalisation of repairs and maintenance expenses and cutting of overhead costs.

Environment

The company lays great emphasis on achieving a clean environment, integrated with business objectives. The focus is on exploring and implementing pollution prevention, resource conservation and recycle and reuse options on a continuous basis. The company has, over a period of time, carried out a number of infrastructure projects to ensure effective management of air emissions, as also solid and hazardous wastes. Though the treated effluent discharge has been brought down substantially over a period of time, the company has taken on hand a major project to reach 'Zero Discharge' at its facilities at Mettur Dam at a substantially high investment of around Rs.18 crore. In this direction, a Reverse Osmosis plant has already been commissioned. While the PVC plant has received ISO 14001 certification already, the Chlorochemical plant is in the process of obtaining the said certification.

The Chloralkali plant at Karaikal has already achieved 'Zero Discharge' of process effluents. The water requirement in this plant for both existing and future operations is proposed to be met from a desalination plant being set up in this facility.

Green belt development is a major area of activity with more than 40% green cover in place.

Much emphasis is placed on safety in the workplace by adopting best engineering practices in design and operations and by following tried and tested standard operating procedures.

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The Chlorochemicals plant at Mettur Dam and the Salt Works at Vedaranyam were the recipients of Tamil Nadu State Safety Awards for the years 2001 and 2002 and the awards were distributed in March 2005. The Karaikal facility received the Pondicherry Chief Minister's Annual Safety Award in August 2004. This award was received for the third year in succession.

The company has established a good track record in serving the community with a well-defined approach towards social responsibility and playing a significant role in their health and education. The company received the Rotary Club award for the best 'Corporate Citizen' in June '04.

Tsunami

The tsunami disaster in December '04 has caused unprecedented havoc to the lives and property of thousands of people. The State of Tamil Nadu and Union Territory of Pondicherry have been badly affected regions.

Your company involved itself directly in providing extensive relief operations to the tsunami victims besides making a cash contribution of Rs.50 lacs in aggregate to the Tamil Nadu Chief Minister's Public Relief Fund, Prime Minister's National Relief Fund and Pondicherry Chief Minister's Relief Fund, which includes a voluntary contribution of Rs.10 lacs received from the employees of the group.

A medical team with paramedical staff and ambulance from the Mettur Plant visited Karaikal and Vedaranyam and provided first aid to the people in the affected villages. The team also carried out immunization of staff and volunteers involved in the relief work. Working in close coordination with the local authorities both at Vedaranyam and Karaikal, the company arranged clothes, food, water packets and milk powder for nearly 4000 people living in the nearby affected areas. JCBs, tractors and ambulance were provided to the local Government authorities for carrying out relief work and for transporting the relief materials. The company distributed rations and fishing nets to the affected villagers.

Personnel

Industrial relations with employees remained cordial during the year. Human Resource Development activities received considerable focus. The emphasis was on imparting training and development of the skill-set of the employees to enable them to face the challenges in the work environment.

Internal Control Systems

Your company has adequate internal control procedures commensurate with the size and nature of its operations. An Audit Committee constituted by the Board of Directors is functioning effectively. Internal Audit for the year 2004-05 was carried out by Deloitte Haskins & Sells covering all areas of operations. All significant audit observations were discussed in the audit committee meetings, which met four times during the year under review.

PROJECTS

The setting up of a greenfield PVC project at a shore-based location will be taken up after the company receives the necessary approvals and clearances.

FINANCE

The company has prepaid all the high cost debentures, which were outstanding at the beginning of the year, thereby bringing down the interest cost. Similarly the high dividend bearing Preference Shares of Rs.20.50 crore were also redeemed pre-maturely during the year.

Your company has established a good track record with the bankers and financial institutions, thereby enjoying their confidence fully.

During the year the company's equity shares were delisted from the Vadodara and Calcutta stock exchanges. The company's shares continue to be listed on the Mumbai and Madras Stock Exchanges, and the National Stock Exchange and has been permitted by Calcutta Stock Exchange to be traded under the permitted category.

In line with its initiative to divest all its non-business assets, the company divested its entire equity holding in Cabot Sanmar Limited to its holding company.

DIRECTORS

The Sanmar Group, of which your company is a constituent, has always maintained the highest level of corporate governance, objectivity and transparency in its management process. In line with the group's philosophy to separate ownership from operational management, the Board of Directors was reconstituted during the year. Mr.N.Sankar, Mr.N.Kumar, Mr.Vijay Sankar, Mr.V.Narayanan, Mr.Adit Jain, Mr.N.Srinivasan and Mr.P.N.Kapadia resigned from the Board, and Mr.V.K.Parthasarathy and Mr.V.V.Subramanian were co-opted. Subsequent to the close of the year Mr.M.S.Sekhar was co-opted to the Board of Directors as an independent director. The Directors place on record their appreciation of the services rendered by the Directors who have resigned from the Board.

Pursuant to the above changes, the Audit Committee, Remuneration Committee, Share and Debenture Committee and the Committee of Directors were also reconstituted.

The composition of the Board of Directors and the Committees is in compliance with the requirements of Clause 49 of the Listing Agreement - present and proposed.

Though the implementation of the amended Clause 49 (notified in October '04), of the Listing Agreement has been deferred, as a matter of good corporate governance, its recommendations are being adopted by the company.

Mr.M.K.Kumar and Mr.C.H.Mahadevan, Directors, retire by rotation at the ensuing Annual General Meeting and are eligible for reappointment.

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.