



Annual Report 2007



**CHEMPLAST SANMAR LIMITED**



## Chemplast Sanmar Limited

### BOARD OF DIRECTORS

P.S. Jayaraman, Managing Director  
 M.K. Kumar  
 C.H. Mahadevan (till November 23, 2006)  
 S.V. Mony  
 B. Natraj  
 V.K. Parthasarathy  
 M.N. Radhakrishnan  
 M.S. Sekhar

### REGISTERED OFFICE

9, Cathedral Road  
 Chennai 600 086

### MANUFACTURING LOCATIONS

Mettur Dam, Tamil Nadu

PVC

Chlorochemicals:

Caustic Soda, Chlorine,  
 Chlorinated Solvents,  
 Refrigerant Gases and  
 Silicon Wafers

Krishnagiri & Panruti, Tamil Nadu

Industrial Alcohol

Vedaranyam, Tamil Nadu

Industrial Salt

Cuddalore, Tamil Nadu

PVC

Ponneri, Tamil Nadu

Trubore Piping Systems

Karaikal, Pondicherry

Caustic Soda, Chlorine &  
 Ethylene Dichloride

### BANKERS

ICICI Bank Limited  
 Indian Overseas Bank  
 State Bank of India  
 Standard Chartered 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<br>Exchange Buildings,<br>New No.30 (Old No.11), Second Line Beach,<br>Chennai 600 001                        | Equity Shares                |
| 2) Bombay Stock Exchange Limited<br>Phiroze Jeejeebhoy Towers, Dalal Street,<br>Fort, Mumbai 400 001   | Equity Shares                |
| 3) National Stock Exchange of India Limited<br>Exchange Plaza,<br>Plot No. C/1, G Block<br>Bandra-Kurla Complex,<br>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 2007.

### Corporate Results

|  | 2006-07<br>Rs. Crores | 2005-06<br>Rs. Crores |
|--|-----------------------|-----------------------|
| Sales and Other income                             | 706.07                | 681.09                |
| Montreal Protocol Compensation                     | 1.76                  | 18.40                 |
| Profit before interest, depreciation and taxes     | 87.60                 | 98.50                 |
| Interest   | 20.96                 | 16.47                 |
| Depreciation                                       | 34.45                 | 36.01                 |
| Profit before tax                                  | 32.19                 | 46.02                 |
| Provision for tax                                  |                       |                       |
| – Current tax                                      | (6.78)                | (12.84)               |
| – Deferred tax                                     | (1.87)                | 3.86                  |
| – Fringe benefit tax                               | (0.35)                | (0.33)                |
| Profit after tax                                   | 23.19                 | 36.71                 |
| Provision for income tax relating to earlier years | (5.52)                | –                     |
| Profit brought forward                             | 120.12                | 83.41                 |
| Appropriation                                      | –                     | –                     |
| Profit carried to Balance Sheet                    | <u>137.79</u>         | <u>120.12</u>         |

Sales and Other income for the year 2006-07 witnessed an increase of 4% over the previous year despite a 14% drop in PVC volume. Profit before tax (PBT) at Rs.32.19 crores has shown a decrease compared to previous year PBT of Rs.46.02 crores. This is due to the fact that the profits for the year 2005-06 included Montreal Protocol Compensation of Rs.16.71 crores relating to phase out of Carbon Tetrachloride and similar receipt, though due, was not received in the year 2006-07.

With a view to conserving resources to meet the capital expenditure programmes, the Directors do not recommend payment of dividend on equity shares for the year 2006-07.

### MANAGEMENT DISCUSSIONS AND ANALYSIS

The company once again competently managed the highly cyclical PVC and Chlorochemical businesses and turned out a satisfactory performance.

The year under review was also a momentous one as several project initiatives involving capital outlay of around Rs.1,000 crores were initiated, and this will have a significant positive impact on the performance of the company in the periods to come. The initiatives include conversion of the technology relating to manufacture of Caustic Soda at Mettur Dam from Mercury cell to Membrane cell well ahead of the time stipulated by the authorities; a coal based power project to bring down the captive power generation cost; a Polysilicon project based on in-house developed technology to enable continuous production of Silicon Wafers at low cost; a Greenfield 2,00,000 TPA PVC project in Tamil Nadu, and acquisition and expansion of a PVC pipes business etc.

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The company has also taken a pioneering step to install an effluent treatment process that would enable the plants at Mettur Dam to achieve the status of 'Zero Discharge' of liquid effluents. This project will be the first of its kind in the country. This initiative would help the company to stay well ahead of all statutory requirements across regions and bring its environment management standards to better than global levels.

### PVC Business

The company's integrated facility at Mettur Dam has a capacity to produce 64,000 TPA of PVC. The company also manufactures Ethylene Dichloride (EDC), the feedstock for the manufacture of PVC. The company is the only producer of four major PVC grades, that gives the flexibility to change product mix to maximize contribution.

#### *Suspension Resin:*

Suspension resin consumption in India for the year 2006-07 is estimated at 12.50 lac tons. Domestic producers sold 9.50 lac tons and imports were around 3 lac tons. Demand growth was good at 12% and similar growth is expected in the next couple of years. PVC window and profiles registered 30% growth which is a good sign.

The company's PVC Suspension resin production was affected during the second half of the year by non-availability of Denatured Spirit (DNS) which is the raw material used for making captive EDC. This, coupled with unaffordable EDC price in the international market, forced the company to curtail Suspension resin production to 80% of capacity.

#### *Paste Resin:*

Paste resin consumption is estimated at 60,000 MT and this segment registered a nominal 5% growth. Leather cloth used by automobile sector and footwear sector contributed mainly to the growth. The industry is affected by cheap import of leather cloth which is the main inhibitor for growth. The company's Paste resin continues to enjoy preference amongst customers and is in good demand.

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

BSR market is estimated at 5,500 MT. Consumption of BSR is expected to stay at the same level for the next 5 to 7 years. Your company is the only producer of BSR in the country.

#### *Copolymer Resin:*

The demand for Copolymer resins, mainly from inks and adhesives sector, remained modest. Here again, your company is the only producer of Copolymer resins in South Asia.

#### *PVC Pipes:*

In pursuit of its forward integration strategy, the company re-entered the PVC products business by acquiring two PVC pipes manufacturing units in Tamil Nadu in September '06. These units, with operating facilities near Chennai, have come with an established brand name "TRUBORE", for its products. The integration of the operations of these units into the company was carried out smoothly. Since the acquisition of the business in September '06, the production and sales of PVC pipes have grown steadily. The consumption of PVC pipes for borewells and casings is showing good growth. The company is now implementing projects to expand the capacity of PVC pipes from 22,000 TPA to 36,000 TPA at the present location at an investment of Rs.14 crores and this will be commissioned by July '07. Further, a project to produce PVC fittings is also under implementation at the same location. To further increase volumes in the PVC pipes business, the company is finalizing plans for setting up a greenfield capacity of around 20,000 TPA. Thus, in a short period of 18 months from commencement of PVC pipes operations, the company would achieve a significant size of around 56,000 TPA of PVC pipes.

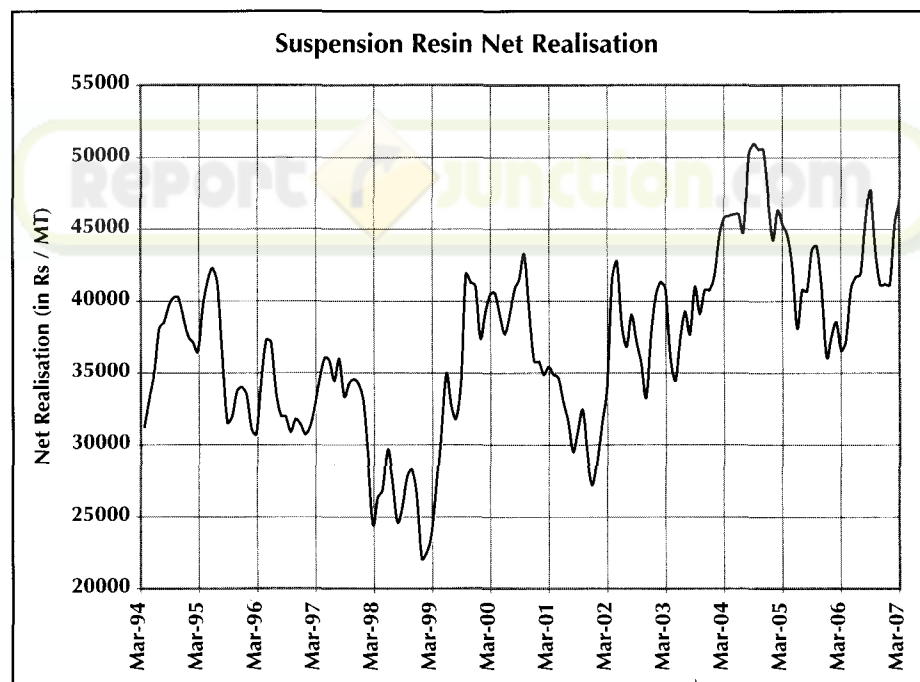


#### *Risks and concerns:*

- a. The continuous reduction in the customs duty on PVC imports and the minimal spread of import duty on PVC and the intermediate (EDC) affects the contribution of the division. The spread between the import duty on PVC and EDC which was 15% in 2002 has been brought down to 3% now.
- b. The company is faced with a challenge of non-availability of Denatured Spirit (DNS) thanks to the increased demand coming from the potable sector and the gasohol programme of the Government of India. This situation was foreseen a couple of years earlier and the company has taken appropriate steps. It has already completed setting up an EDC plant with adequate Ethylene storage facility at Karaikal. The setting up of the Marine Terminal Facility (MTF) in the same location is nearing completion. This pro-active measure will enable manufacture of around 84,000 TPA of EDC at low cost for the PVC production at Mettur Dam. The company will continue to operate the oxy-chlorination facility at Mettur Dam and produce around 25,000 TPA of EDC using captive DNS generated from the company's industrial alcohol plant at Panruti.

#### *Review of Operations:*

The PVC production during the year 2006-07 was 50,674 MT. The performance of the division was satisfactory due to better realisations and appropriate feedstock management.



The investments made in acquiring the Karaikal Chloralkali facility has proved to be highly beneficial. Here, the company's Caustic Soda operations at 150 TPD alongwith captive generation of 12.0 MW of power (including 3.5 MW added during the year) with natural gas as a feedstock has stabilized. The company could meet its entire chlorine requirement at low cost for manufacture of EDC. As stated earlier, the EDC manufacture in this location with imported ethylene and captive chlorine will be a low cost feedstock source for the PVC business and ensure continuous availability of the product.

#### **Chlorochemicals Business**

The company is operating a highly integrated Chlorochemicals business at Mettur Dam where it produces Caustic soda, Chloromethane products, Silicon Wafers and Refrigerant gases (CFC and HCFC). Power and salt required in the Caustic soda facility is available from captive source. Chlorine produced in the Chloralkali plant is fully converted into Chloromethane products.

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### Caustic Chlor:

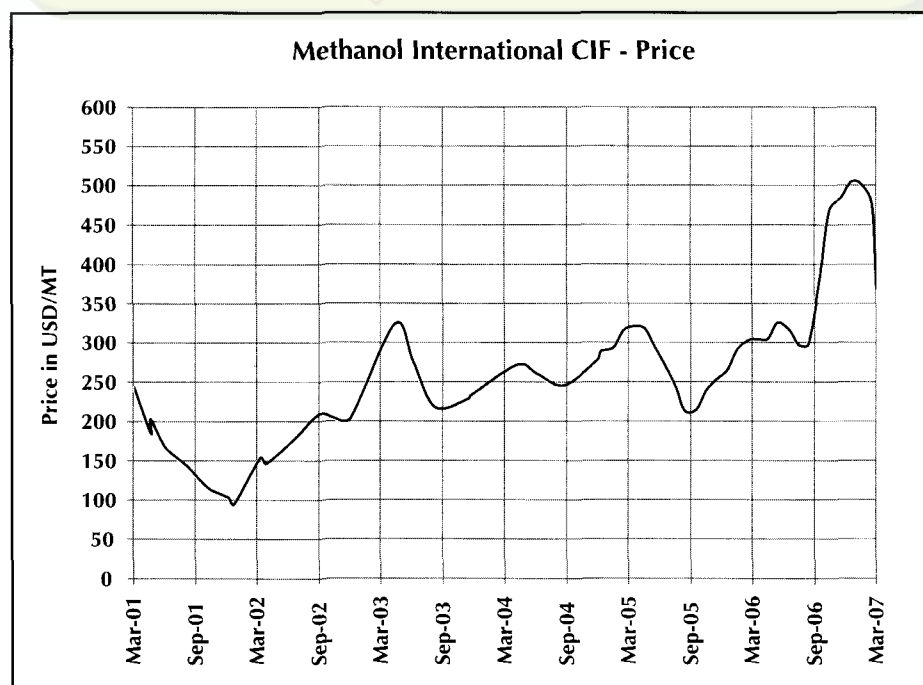
International Caustic soda prices recovered dramatically during early part of the year essentially driven by supply side constraints. Hurricane Katrina devastated USA Gulf Coast resulting in strong pull for material from Asian Region. This ensured recovery of Asian Caustic prices also. However, as the year progressed, with supply side constraints easing in USA and with capacity additions happening in Asia especially in China, prices started softening.

The year also witnessed addition of almost 2.5 lac tons of capacity in India. Indian demand growth is expected to be robust in the near future on the back of new alumina capacity coming on stream. This should help in restoration of price levels.

### Solvents:

Domestic demand for Chloromethane Solvents continued to grow with strong performance in the pharmaceutical industry. However, towards the latter part of the year, with capacity additions in Europe and China enhancing availability, import prices started softening. This resulted in domestic prices coming under severe pressure. This situation is not likely to reverse in the near future with new capacity addition coming on stream in India.

Methanol is the raw material used in manufacture of Solvents. Methanol prices, after ruling reasonably steady in the range of USD 300 per MT till end August '06, flared up from September '06 onwards spurred both by strong growth in demand and supply side constraints. Prices reached an unprecedented level of USD 510 per MT. This adversely affected the margins on Chloromethane sales. Some reversal was witnessed by end March '07 with a new 1 million TPA Methanol facility getting commissioned in Iran. With one more large facility in Oman expected to go on stream by June '07, Methanol price is expected to stabilize reasonably during the current year.



The company is phasing out the production of Carbon Tetrachloride (CTC) for non-feedstock application in line with Montreal Protocol arrangement. Necessary audit on compliance of phase out was satisfactorily completed. However, disbursement of compensation payment of Rs.12.70 crores due from Multilateral Fund during the year was delayed and is expected to be received during the first quarter of current year.



#### *Mettron:*

CFC production is in line with phase out schedule agreed under Montreal Protocol. The company's Clean Development Mechanism (Carbon Credit) Project for incinerating the by-product HFC-23 got registered with United Nations Framework Convention for Climate Change (UNFCCC) in February '07. It would now enable the company to trade on Certified Emission Reductions (CERs).

#### *Metkem:*

The international photovoltaic market is still suffering the effects of scarcity of raw material Polysilicon. Despite this, the company has been successful in operating this division at full capacity. The company also succeeded in improved productivity by reducing the thickness of wafers, thereby helping to achieve record high production of 13.40 lac wafers.

The severe scarcity in the international market resulted in wafer prices rising to all time high levels, enabling the company to achieve good results. With the situation expected to ease on both Polysilicon availability and prices on the photovoltaic value chain, wafer prices are expected to soften at a slow pace in the coming periods.

The company's project to manufacture 30 TPA Polysilicon at its facility at Mettur at an investment of Rs.20 crores is progressing as per schedule. The company is implementing this project on the basis of its own technology with a more energy efficient process. The success of this project would enable the company to go in for a worldscale Polysilicon project, the maiden one in the country.

#### *Risks and concerns:*

- i) Presently, the company is generating 40 MW power at Mettur Dam using Low Sulphur Heavy Stock (LSHS) as the fuel. LSHS being a Crude oil derivative, its price is always on the increasing trend. This has directly affected the captive generation cost for the company.

Considering the ever-increasing cost of fuel oil based power generation, the company has taken on hand implementation of a coal based power project to cater to the total power requirement of the company. This project under implementation at Mettur Dam under LSTK basis, is expected to be commissioned by February '08. Once implemented, the power cost will come down significantly thereby resulting in reduction in cost of production of the products manufactured by the company.

- ii) Pursuant to the Montreal Protocol arrangement, the production and sale of CFC and CTC have started decreasing. The last year of manufacture of CFC is the year 2009 and for CTC, the year 2010.

#### *Review of operations:*

Chlorochemicals business was operated at 100% capacity during the year. Chloromethane products enjoyed good market on the back of increased demand from the pharma sector. However, pursuant to steep increase in the Methanol prices, margins came under pressure. The operations of the Silicon Wafer business and Refrigerant gas business were satisfactory.

## **PROJECTS**

#### *Karaikal:*

The project to produce 50 TPD of Caustic soda flaker was commissioned during the year at Karaikal.

The work on 84,000 TPA EDC Plant and Ethylene storage facilities has been completed. The Marine Terminal Facility is slated for commissioning by end June '07.



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### *Mettur:*

The project to convert the manufacturing process of Caustic soda at Mettur Dam from mercury to membrane Cell, an environment friendly initiative, is in an advanced stage of implementation. Though not statutorily warranted, the company has taken the initiative well ahead of time and this will re-establish The Sanmar Group's philosophy of "Care for Environment".

To make this conversion project viable, the captive power cost which has gone up quite significantly due to increase in fuel price, has to be brought down. The company has taken on hand a project to convert the LSHS based power generation to coal based power generation. Both the conversion projects when completed would contribute to improve the bottomline significantly.

As stated earlier, the implementation of Polysilicon project is progressing as per schedule. On completion, this will reaffirm the company's faith in backward integration strategy.

In line with The Sanmar Group's philosophy of reaching Zero discharge of liquid effluents, the company is now implementing a project to set up an advanced Reverse Osmosis plant, evaporator and crystalliser to recover and re-use water from the effluents. The project, the first of its kind in India, will prove to be a trend-setter for chemical companies to reach zero discharge of liquid effluents.

### *Cuddalore:*

As reported earlier, the company is implementing a Greenfield PVC project at Cuddalore. Though the project was initially designed for a capacity of 170,000 TPA of Suspension PVC at a cost of around Rs.450 crores, as a result of detailed studies conducted during the engineering phase, it has been realized that the plant capacity can be increased by an additional 30,000 TPA at a marginal increase in capital cost of Rs.70 crores. With this, the plant being set up at Cuddalore will have an installed capacity of 200,000 TPA at an investment of around Rs.520 crores. On the raw material front, the acquisition of Trust Chemical Industries (TCI) located at Egypt by The Sanmar Group and planned installation of Vinyl Chloride Monomer (VCM) production facilities there has improved the project outlook for Cuddalore significantly. The company will be entering into a long-term arrangement with TCI for sourcing of VCM for the Cuddalore plant.

All the projects explained above involves a total capital outlay of around Rs.1,000 crores to be funded by mix of debt and equity. For this purpose, the company has tied the necessary loans from Financial Institutions and Banks.

The Board of Directors have approved, subject to compliance with all related formalities, the company raising equity resources on rights basis (share capital and premium) of a sum not exceeding Rs.200 crores. The company is in the process of filing draft offer documents with SEBI.

## Environment

Aligning with The Sanmar Group's Management and Ethics Philosophy in all its business activities, the company is committed to conducting itself as a responsible corporate citizen by initiating strategic corporate social responsibility measures. The environmental practices of the company are devised to go beyond statutory compliance and benchmarked to global standards. Targeting this goal, the company has made significant strides in environment protection and occupational health and safety management.

The company has a corporate Safety, Health and Environment (SHE) policy and a proven management system to administer it. There is a commitment to ensure compliance of all the local regulatory requirements and adhere to the rules and procedures in letter and spirit. At Mettur Dam, the Chloralkali and PVC plants are ISO 14001 certified. The PVC plant has been certified to OSHAS 18001 also. The company is working towards obtaining



ISO certifications for the Metkem Silicon and Refrigerant gas plants at Mettur and has initiated work at an Integrated Management Systems (IMS) for the facilities at Karaikal. The company has an established programme to provide necessary training for all its employees in the field of environment and social performance related to its operations. It has established an effective Occupational Health and Safety (OHS) management system. Continuous efforts are made in improving the system for accident prevention, recording and analysis, with the goal of reducing the overall accident rates. The PVC plant at Mettur Dam has been conferred with the "GreenTech Gold Award" for safety and the Karaikal plant with the "GreenTech Silver Award" for safety for the year 2006.

Over and above the huge capital expenditure incurred in the past ten years towards protection of environment, the current initiatives viz., conversion of technology from Mercury to Membrane at the Chloralkali plant and the project to achieve Zero discharge of liquid effluents at Mettur Dam, both at an aggregate investment exceeding Rs.100 crores stand testimony to The Sanmar Group's commitment to maintain high environmental standards and continue its role as a "Responsible Corporate Citizen".

### **Personnel**

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

Long term wage settlement with the non-management employees was concluded successfully in Plant III and Plant IV at Mettur Dam during the year.

### **Internal Control Systems**

Your company has adequate internal control procedures commensurate with the size and nature of its operations. The audit committee constituted by the Board of Directors is functioning effectively. Internal audit for the year 2006-07 was carried out by Deloitte Haskins & Sells covering all areas of operations. All significant audit observations were discussed in the audit committee, which met four times during the year under review.

### **FINANCE**

The company has established a good track record with the bankers and financial institutions, thereby enjoying their confidence fully. This is reflected in the manner in which the company could tie up all the loans required for various capital expenditure programmes.

### **DIRECTORS**

During the year, Mr C H Mahadevan resigned from the Board. The Directors place on record their appreciation of Mr C H Mahadevan's services during his tenure.

Mr V K Parthasarathy and Mr M S Sekhar, Directors, retire by rotation at the ensuing Annual General Meeting and are eligible for re-appointment.

### **AUDITORS**

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