SANMAR

Annual Report 2009

CHEMPLAST SANMAR LIMITED

Chemplast Sanmar Limited

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Notice of Annual General Meeting

The Twenty Fifth Annual General Meeting of Chemplast Sanmar Limited will be held on Tuesday, the 28th July 2009 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 2009, the Profit and Loss Account for the year ended 31st March 2009 and the Auditors' Report thereon.

2. To appoint a Director in the place of Mr S V Mony who retires at this meeting and is eligible for re-appointment.

3. To appoint a Director in the place of Mr M S Sekhar who retires at this meeting and is eligible for re-appointment.

4. To appoint Auditors and fix their remuneration.

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

SPECIAL BUSINESS

5. To appoint Mr V Ramesh as a Director of the company liable to retire by rotation and to consider and if thought fit to pass the following resolution, of which notice has been received from a member under Section 257 of the Companies Act, 1956, as an ordinary resolution, with or without modification:

   "RESOLVED that Mr V Ramesh be and is hereby appointed a Director of the company liable to retire by rotation."

Notes:

a) The relative Explanatory Statement pursuant to Section 173 of the Companies Act, 1956 in respect of item No.5 is annexed hereto.

b) A MEMBER ENTITLED TO ATTEND AND VOTE AT THE MEETING IS ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE ON A POLL INSTEAD OF HIMSELF AND THE 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 THE COMMENCEMENT OF THE MEETING.

c) Mr S V Mony, Mr M S Sekhar and Mr V Ramesh, Directors are not related to any other director of the company. Mr S V Mony and Mr M S Sekhar hold no shares in the company and Mr V Ramesh holds 2,883 equity shares in the company.

d) The Register of Members of the company will remain closed from Monday, the 20th July 2009 to Tuesday, the 28th July 2009, both days inclusive.

e) Integrated Enterprises (India) Limited is the Company's Registrar and Share Transfer Agent. Shareholders are requested to send all requests for transfer of shares, dematerialisation of shares, change in address, etc to:

   Integrated Enterprises (India) Limited
   Second Floor, Kences Towers
   No.1, Ramakrishna Street, North Usman Road
   T Nagar, Chennai 600 017
   Phone No. 28140801 – 03; Fax No. 28142479
   E-mail: sureshbabu@iepindia.com

f) Pursuant to Section 205A of the Companies Act, 1956, dividends which remain unpaid or unclaimed for a period of seven years from the date of transfer to the Unpaid Dividend Account are required to be transferred to the Investor Education and Protection Fund of the Central Government.

Section 205C of the Act declares that no claims shall lie against the Fund or the company in respect of individual amounts which were unclaimed and unpaid for seven years as aforesaid and transferred to the Fund.

Shareholders who have not encashed dividend warrant(s) pertaining to the company for the year 2003 and/ or Sanmar Properties and Investments Limited (which merged with this company), for the years 2002 and 2003, may contact the company at its Registered Office or Integrated Enterprises (India) Limited for issue of demand drafts in lieu thereof, before these amounts become due for transfer to the Fund.

Registered Office:
9, Cathedral Road
Chennai 600 086
June 12, 2009

(By order of the Board)
M. RAMAN
Secretary

Explanatory Statement annexed to the Notice of the Twenty Fifth Annual General Meeting of the company as required under Section 173(2) of the Companies Act, 1956.

Item No. 5

Mr V Ramesh who was co-opted as an additional director of the company with effect from 1st June 2009, holds office upto the date of this Annual General Meeting and is eligible for appointment.

Notice under Section 257 of the Companies Act, 1956, has been received from a member proposing the appointment of Mr V Ramesh as a Director of the company. Accordingly resolution under Item No.5 of the Notice is submitted for the approval of the shareholders.

Mr V Ramesh is interested in the resolution.

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(By order of the Board)
M. RAMAN
Secretary

Chemplast Sanmar Limited

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BOARD OF DIRECTORS

P.S. Jayaraman, Chairman
S. Gopal, Managing Director
V. Ramesh, Deputy Managing Director
M.K. Kumar
S.V. Mony
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
Shinoli, Maharashtra	Trubore Piping Systems
Karaikal, Pondicherry	Caustic Soda, Chlorine & Ethylene Dichloride

BANKERS

Axis Bank Limited
ICICI Bank Limited
IDBI 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 Exchange Buildings, New No.30 (Old No.11), Second Line Beach, Chennai 600 001	Equity Shares
2) Bombay Stock Exchange Limited Phiroze Jeejeebhoy Towers, Dalal Street, Fort, Mumbai 400 001	Equity Shares
3) National Stock Exchange of India Limited Exchange Plaza, 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 2009.

Corporate Results

	2008-09 Rs.Crores	2007-08 Rs.Crores
Sales and Other income	**820.48**	811.93
Profit before interest, depreciation and taxes	**30.38**	96.85
Interest	**75.49**	43.65
Depreciation	**53.96**	45.20
Profit/ (Loss) before tax	**(99.07)**	8.00
Reversal/ (Provision) for tax		
– current tax	**–**	(1.62)
– deferred tax	**32.94**	0.52
– fringe benefit tax	**(0.47)**	(0.42)
Profit/ (Loss) after tax	**(66.60)**	6.48
Reversal/ (Provision) for income tax relating to earlier years	**(0.01)**	0.70
Profit/ (Loss) after earlier years tax	**(66.61)**	7.18
Profit brought forward	**144.97**	137.79
Appropriation	**–**	–
Profit carried to Balance Sheet	**78.36**	144.97

The company is going through one of the most difficult times in its history. The operations of the company for the year 2008-09 resulted in a substantial loss of Rs.99.07 crores, contributed by factors arising out of the global economic crisis and the violent fluctuations in petroleum and petro-chemical prices. This was compounded by the non-accrual of anticipated revenues from the large projects the company has set up, due to delays in their commissioning. These are discussed in more detail in this report.

The sharp increase in crude oil and petro-chemical prices in the first half of the year, was followed by their sudden collapse concurrent with the onset of the global financial crisis in August-September 2008. The price of a barrel of crude oil dropped from a peak of around USD 145 on 1st July 08 to USD 70 on 1st October, and subsequently to as low as USD 40 on 10th January 09. This resulted in a corresponding meltdown of prices of petro-chemical intermediates and finished products. The stocks of raw material and intermediates that the company was holding at prices linked to the earlier prevailing peak prices of crude oil, accounted for a substantial portion of the losses incurred during the year.

While the economic situation continues to be grim, the expertise that company's management has developed over forty years in handling highly cyclical commodity businesses, and the focus on full fledged integrated operations, are helping the company face these challenges.

In view of the losses incurred, the Directors do not recommend payment of dividend on equity shares for the year 2008-09.

MANAGEMENT DISCUSSIONS AND ANALYSIS

The year under reference witnessed the company recording significant losses in business and that too, for the first time in almost 40 years of operation. As explained above, the global financial meltdown took a particularly heavy toll on commodity businesses, and your company was no exception. The management is continuing to focus on integration and capacity growth to ward off the effects of rough ride in the economy. With this end in view, the company has nearly completed two major projects – one to cut cost in power generation and the other – to add significant capacity in PVC business through a greenfield expansion. These projects are waiting for the final nod of the regulator to commence operation.

PVC Business

The company's integrated facility at Mettur Dam with a present capacity to produce 64,000 tonnes per annum (TPA) of PVC resins has recorded 42 years of continuous operation. Your company is the only domestic manufacturer with a product range of four different grades of PVC resin, providing ability to optimise product mix and maximise contribution. The feedstock, Ethylene Dichloride (EDC) required for the manufacture of PVC, is also produced captively.

Suspension Resin:

Suspension resin demand in India for the year under review is estimated at 13.75 lakh tonnes, clocking a modest growth of 0.8% over the previous year. Of this, around 10.2 lakh tonnes were met out of domestic production with the balance coming from imports. The slowdown in construction sector had a negative impact on consumption. With several projects planned by various State Governments in the agriculture and irrigation sectors, it is expected that the demand would rebound and register good growth in the current year.

Paste Resin:

Consumption in India during the year 2008-09 is estimated at 62,000 tonnes, registering a growth of 6% over the previous year. Low priced import of finished leather cloth continues to affect this segment. In addition, the slowdown in automobile and retail home segment also led to suppressed demand. Your company's paste resin continues to enjoy a preference with most buyers.

Battery Separator Resin (BSR):

BSR market in the country continues to stagnate at 5,000 TPA. Prices came under pressure during the year on the back of cheap imports. Your company decided to cut back on BSR production to maintain its premium prices in the market.

Copolymer Resin:

In view of very small volume involved, your company decided to suspend this business.

PVC Pipes (Trubore Piping System):

The demand for PVC Pipes remained healthy in the early part of the year on the back of investments in irrigation and water schemes. The rising PVC prices and general economic slowdown resulted in suppressed demand for Pipes as the year progressed. However, as agricultural sector has been performing well, combined with Government's focus on micro irrigation schemes, the demand for pipes in irrigation segment contributed to a smart recovery towards the end of the year.

Your company's PVC Pipes manufactured at Trubore Piping Division have been approved by all southern State Governments for their water supply schemes as well as by the Government of West Bengal. Your company's Pipes are the first to be approved by the State Government agencies in Andhra Pradesh for sewer application.

During the year, production in the PVC pipes plant at Ponneri in Tamil Nadu got affected due to 40% power cut announced by the Tamil Nadu Electricity Board. In line with production requirements, the labour strength was right sized. Following this, the contract labour proceeded on an illegal strike in February 2009, supported by the workmen and a section of supervisors. Pursuant to this, production has been stopped completely and discussions are under way to bring about a solution.

The new greenfield PVC pipes plant in Shinoli, Maharashtra (near Belgaum) with a capacity of 20,000 TPA went on stream in December 2008. This project had been delayed by about 4 months due to delay in getting power connection in Maharashtra. The company is attending to various teething troubles in the new plant and it is expected that production will stabilise shortly. The plant has been certified by Bureau of Indian Standards (BIS) for ISI marking for Pressure, Casing and SWR Pipes.

During 2008-09, new dealers have been appointed in all the southern states. The sales volume achieved during the year was 13,662 tonnes, an increase of 12% over last year.

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Risks and concerns:

(a) The thin spread of just 3% between import duty on PVC (5%) and the intermediate EDC (2%) affects the contribution of the PVC business.

(b) Fall in sugar crop production resulted in reduced availability of molasses and alcohol. This, coupled with double-digit growth in consumption in potable sector, is putting severe pressure on margins on alcohol based EDC. This is an area of concern for your company.

(c) The high levels of fuel cost that prevailed during most part of the year has deeply impacted margins of the company.

Review of Operations:

The PVC production during the year 2008-09 was 61,297 MT, an increase of 17% over previous year's production. Your company's Marine Terminal Facility at Karaikal along with a facility to manufacture captive raw material, Ethylene Dichloride (EDC), was principally responsible for this smart improvement in production.

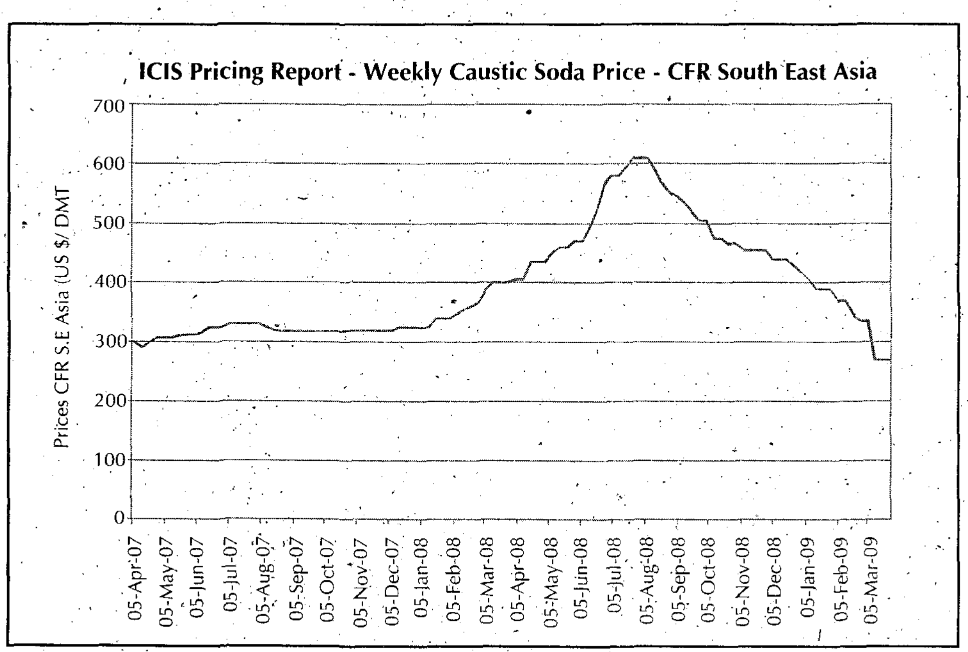
In line with international trends, domestic Suspension PVC prices improved dramatically in the early part of the year on the back of strong economic growth all across the globe. However, in the later half of the year, global slowdown started affecting demand and, both international and domestic suspension prices started to decline. Prices did recover towards the end of the year, thanks to the strong demand in irrigation sector in India and increase in raw material prices in the international market.

Chlorochemicals Business

The company operates a highly integrated Chlorochemical business in Mettur Dam producing Caustic Soda, Chloromethane Products, Silicon Wafers and Refrigerant Gas (HCFC). Power and salt required for caustic soda manufacture is available from captive source. Chlorine produced in the Chlor Alkali plant is completely consumed for captive production of EDC and Chloromethane products.

Caustic Chlor:

During the year under review, Indian Caustic Soda industry witnessed an addition of over 4 lakh tonnes of capacity. Mirroring the price trend in PVC resin, the year witnessed strong rise in prices during the first half of the year on the back of improved demand from most consuming sectors; the later half of the year saw prices continuously decline as the demand was impacted by the global economic slowdown. Caustic Soda prices have maintained its south-ward journey in the current year and registered steep drop.



Chemplast Sanmar Limited

While your company has adequate captive capacity for meeting its salt requirement, unseasonal rains during several months along with cyclone Nisha that hit Tamil Nadu coast in November 2008, impacted salt production adversely and forced the company into buying salt from Gujarat, a costlier option. This affected the company's operation during the year to the tune of almost Rs.17 crores.

Solvents:

With the major demand for Chloromethane products being from the pharma sector, and with this sector not being adversely impacted by the global economic slowdown, demand for Chloromethane products witnessed a 5% growth against a normal growth of around 6%. However, low priced imported Chloromethane products towards the later half of the year resulted in steep fall in prices.

The fall in end product prices in Chloromethanes was mitigated to some extent by the fall in methanol prices as the year progressed.

The company ceased production of Trichloroethylene and Ethyl Silicate as margins were turning out to be unviable. This afforded an opportunity for the company to divert chlorine for better value addition in manufacture of EDC.

In line with the Montreal Protocol, the company regulated the production of CTC for non-feedstock applications and towards this the company received a compensation of Rs.3.79 crores during the year.

Mettron:

CFC production was scheduled for phase out by December 2009 in line with the schedule mandated by Montreal Protocol. India agreed for an accelerated phase out of CFCs by 31st July 2008. Your company also therefore discontinued the production of CFCs by this date.

Your company received a compensation of Rs.1.23 crores in line with compensation agreed for phase out as per original schedule.

HCFC production was at 1612 MT. Your company also earns Certified Emission Reduction (Carbon Credits) from its Clean Development Mechanism project.

Metkem:

The company restarted manufacture of polysilicon after updating its manufacturing facility during the year under review. This would insulate the company from the vagaries of polysilicon availability in the international market.

Risks and concerns:

(a) As Chlor Alkali operations are energy intensive, high levels of fuel prices impact the company's margin sharply. The company's tie up with a Gas based power-generating entity for 22 MW of power at lower rates has limited this impact to some extent. In addition, a project to convert fuel from LSHS to imported coal for generating 48.5 MW of power at Mettur Dam is in an advanced stage of implementation.

(b) Sale volume of CTC will shrink as the deadline 2010 set for phase out under the Montreal Protocol nears.

(c) Unseasonal rainfall affects your company's salt production.

PROJECTS

Fuel Conversion Project at Mettur Dam:

To circumvent the impact of increasing liquid fuel prices resulting in high cost of power generation, the company has taken on-hand a project to convert 48.5 MW LSHS based cogeneration facility to coal-based cogeneration of the same capacity. The project is in its final stage of completion. On completion, the project would contribute significantly to reduce the power and steam cost as compared to LSHS.

In May 2006, Tamil Nadu Pollution Control Board (TNPCB) had given the necessary approval to the company for the above conversion of fuel from LSHS to coal based co-generation facility of 48.5 MW. However, in January 2008, TNPCB passed orders revoking the consent given by them earlier alleging contravention of conditions imposed while granting the consent. The company's appeal against the order of TNPCB was dismissed by the Appellate Authority – Tamil Nadu Pollution Control in May 2008. Against this order of the Appellate authority, the company filed a writ petition in the Honourable Madras High Court. In September 2008, the Honourable Madras High Court had allowed the writ petition of the company and set aside the orders of the TNPCB and the Appellate authority. The High Court has remitted the matter back to TNPCB to pass appropriate orders on merits and the same is pending.

Greenfield PVC Project at Cuddalore:

The company has completed setting up of the state of art greenfield PVC plant at Cuddalore including a captive Marine Terminal Facility (MTF) to enable import of Vinyl Chloride Monomer (VCM), the feedstock required to manufacture PVC. The issues encountered in laying the pipeline to carry VCM from the MTF to the plant were resolved pursuant to the directions contained in the Government order issued in October 2008 by the Government of Tamil Nadu on the basis of the findings of high level committee appointed by the Government. This, of course, resulted in a delay of around six months in completion of the project. The company could obtain the "Consent to Operate" order for the MTF from the TNPCB and the issue of "Consent to Operate" order for the PVC plant is under consideration by the said authority. The manufacturing operations would commence immediately after receipt of the said consent. The company has also tied up with a couple of manufacturers for supply of VCM for its operations.

The delay in commissioning of the above two projects involving an investment of around Rs.800 crores has put enormous financial burden on the company. The fact that the company could not commission these projects in time despite receiving all initial approvals and consents is agonising.

Environment

The Zero Liquid Discharge (ZLD) facility set up at a cost of Rs.26 crores at Mettur Dam is functioning satisfactorily. Similar facility has been installed at the Greenfield PVC project at Cuddalore. Besides, the PVC plant at Cuddalore will operate by desalinating the sea water and no ground water will be used at the location.

Your company has taken further concrete steps in the direction of sustainability.

Moving up on the sustainability agenda, the company's second CSR report "Back to the Roots" was released in 2009. This report carries the assurance certification from Deloitte & Touche Tohmatsu India Pvt Ltd. Deloitte's assurance is based on International Standards on Assurance Engagement (ISAE). The report was checked by Global Reporting Initiative (GRI) for application level A+ of the GRI's G3 guidelines. GRI is the collaborative arm of the United Nations' Environment Program (UNEP), a not-for-profit organisation based in Amsterdam and it provides a complete almanac of performance indicators for companies to report, using the triple-bottom line approach of economic, environmental and societal parameters. The purpose of the report, apart from benchmarking the company's sustainability practices to globally recommended levels, also helped the company to set a roadmap for continuous improvement in environment and sustainability standards. In the coming years, the company would put in practice processes and systems for sustainability reporting across all its facilities.

Yet another milestone achieved by the company was the CII-ITC Sustainability Award 2008. The company received a Commendation Certificate for Significant Achievement in Sustainability Practices in the large business category. This award is the recognition of the company's sustainability practices, placing it among the top few in the country.

Personnel

Industrial relations with employees remained cordial during the year, except for some manpower related issues in the Pipes plant at Ponneri, Tamil Nadu.