SANMAR

Annual Report 2010

CHEMPLAST SANMAR LIMITED

Chemplast Sanmar Limited

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Notice of Annual General Meeting

The Twenty Sixth Annual General Meeting of Chemplast Sanmar Limited will be held on Tuesday, the 27th July 2010 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 2010, the Profit and Loss Account for the year ended 31st March 2010 and the Auditors' Report thereon.

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

3. To appoint a Director in the place of Mr M N Radhakrishnan 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.

Notes:

a) 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.

b) Mr V K Parthasarathy and Mr M N Radhakrishnan, Directors are not related to any other director of the company. Mr V K Parthasarathy holds 30,900 equity shares and Mr M N Radhakrishnan holds 600 equity shares in the company.

c) The Register of Members of the company will remain closed from Monday, the 19th July 2010 to Tuesday, the 27th July 2010, both days inclusive.

d) 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: corpserv@iepindia.com

e) 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 year 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
April 30, 2010

(By order of the Board)
M RAMAN
Secretary

BOARD OF DIRECTORS

P.S. Jayaraman, Chairman
S. Gopal, Managing Director
M.K. Kumar
S.V. Mony
V.K. Parthasarathy
M.N. Radhakrishnan
V. Ramesh
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, Puducherry	Caustic Soda, Chlorine & Ethylene Dichloride

BANKERS

Andhra Bank
Axis Bank Limited
Bank of Baroda
Bank of India
Central Bank of India
IDBI Bank Limited
Indian Overseas Bank
Standard Chartered Bank
State Bank of Hyderabad
State Bank of India
State Bank of Mysore

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.

SANMAR

Directors' Report

The Directors have pleasure in presenting their report along with the accounts for the year ended 31st March 2010.

Corporate Results

	2009-10 Rs.Crores	2008-09 Rs.Crores
Sales and other income	**1062.88**	820.48
Profit before interest, depreciation, tax and exceptional items	**66.73**	30.38
Interest	**124.69**	75.49
Depreciation	**76.38**	53.96
Profit/ (Loss) before tax	**(134.34)**	(99.07)
Provision for tax		
– current tax	**(0.03)**	(0.01)
– deferred tax	**41.91**	32.94
– fringe benefit tax	**0.02**	(0.47)
Profit/ (Loss) after tax before exceptional items	**(92.44)**	(66.61)
Exceptional item (net of tax)	**(35.72)**	–
Profit/ (Loss) after tax for the year	**(128.16)**	(66.61)
Profit brought forward	**78.36**	144.97
Profit/ (Loss) carried to Balance Sheet	**(49.81)**	78.36

The year under report is a landmark year in the history of the company – both in a positive and negative sense. Positive, because, the company could complete two major projects involving an investment of around Rs.900 crores. This has strengthened the fundamentals of the company and has placed the company in league with 'high volume' PVC (Poly Vinyl Chloride) players in the country. Negative in the sense that, in more than four decades of history of the company, the year under reference recorded, unfortunately, the maximum losses, for reasons mostly beyond the control of the management. It may be noted that the company had incurred losses in the current year as well as in the previous year and these are the only two years when losses were registered in the last 39 years of performance of the company. With the completion of the project activities, the management believes that there are good times ahead for the company.

In September 2009, the company commissioned the state-of-the-art greenfield PVC plant at Cuddalore, Tamil Nadu along with the Marine Terminal Facility at an investment of around Rs.650 crores. The plant has been designed with environment friendly features, which include a facility for Zero Liquid Discharge (ZLD) of process effluents and a sea water desalination plant resulting in zero ground water drawl. Due care and attention has been given in configuring and implementing the project to ensure utmost safety in operation. The plant has reached almost 100% capacity utilisation in quick time and the PVC resin produced in the plant has been received well in the market.

The year also witnessed the commissioning of the 48.5 MW coal based power plant at Mettur Dam to replace the power generation of equivalent capacity hitherto carried out on the basis of fuel oil, thus bringing down the cost of energy significantly.

It may not be out of place to mention here that both these projects have had to face long drawn out legal battles caused by environmentalists with hidden agenda. In a far reaching judgement delivered in March 2010, after several legal proceedings at different judicial levels, the Supreme Court of India had upheld that the PVC plant at Cuddalore has been set up after obtaining all approvals that were required for the purpose. In the case of the coal based power plant at Mettur, the approval granted by the concerned authorities was called back and the construction work had to be stopped midway. It took several months for the legal process to get completed, when the company was restored of all the approvals. After restarting the construction activities, the coal based power plant was commissioned in the last quarter of the year.

It is a matter of record that the PVC project which was complete in all respects in February '09 when a ship carrying raw material was also berthed at Cuddalore. However, the plant could be commissioned only in September '09. Similarly, the construction activities of the coal based power plant, which was almost complete, had to be stopped in July '08 due to legal hindrances. The activities at the plant could be restarted only after 15 months with the completion of legal process and the plant could be commissioned in the last quarter of the financial year. The impact of these extraordinary delays in completion of the projects involving an investment of about Rs.900 crores is the main cause for the financial loss in the current year.

The company would like to acknowledge the complete support and cooperation of the Government of Tamil Nadu, banks, vendors and other stakeholders in successful implementation and commissioning of both these projects.

Besides the delay in project completion as above, the pressure on margins due to increase in input costs and depressed market for Caustic Soda accounted for the loss (after tax) of Rs.128.16 crores recorded during the year. In view of the losses incurred, the Directors do not recommend payment of dividend on equity shares for the year 2009-10.

However, with the completion of all the major projects, the company is now well poised to exploit the market opportunities and is in a position to ride the commodity cycles better. The management believes that it has weathered the storm ably.

MANAGEMENT DISCUSSION AND ANALYSIS

The company has an excellent track record of more than four decades of existence in the Chlor-alkali and PVC businesses. The Caustic Soda business at Mettur Dam has been made environment friendly with the conversion from mercury to membrane based technology, carried out a couple of years earlier, of course well ahead of the time mandated by the regulators. In the PVC business, the company has been a pioneer in many ways - achieving fully integrated operations - both backward and forward, presence in both the commodity and speciality PVC resins businesses with substantial capacity addition in the commodity resins, thanks to recent greenfield expansion and the continuous cost cutting initiatives, etc. The elaborate environment control measures initiated and implemented at the plants at Mettur Dam are unique, particularly in the context of the fact that they have been carried out in plants which are in operation for more than 40 years. The environment standards maintained in these plants are probably the best in the Indian chemical industry.

PVC Business

Review of Operations:

The company has an integrated facility at Mettur Dam with a capacity to produce 64,000 tonnes per annum (TPA) of PVC resin. This facility has the flexibility to produce various grades of PVC resin viz., Suspension, Paste and BSR. Ethylene Dichloride (EDC), the intermediate required for manufacture of PVC, is produced at the company's EDC plant at Karaikal using imported Ethylene and captive Chlorine. The Chlor-alkali/ EDC plant at this location has a captive Marine Terminal which is used for import of Ethylene and export of Caustic Soda.

As stated earlier, during the year, the company also commissioned a new Greenfield project at Cuddalore with a capacity to produce Suspension PVC. The captive Marine Terminal Facility set up at this location is used to import Vinyl Chloride Monomer (VCM), the raw material for manufacture of PVC. The plant, commissioned in September 2009 is operating well at almost full capacity.

The PVC production at Mettur and Cuddalore plants during the year 2009-10 aggregated to 1,36,346 MT. Mirroring Asian PVC prices, Suspension PVC prices in India exhibited a lot of volatility right through the year, with strong prices towards year-end, reflecting growing raw material costs.

Suspension Resin:

Suspension resin demand in India for the year under review is estimated at 17.75 lac tonnes, a robust growth of 27% over the previous year. Of this, around 10.5 lac tonnes were met out of domestic production with the balance coming from imports. Consequently, imports actually surged from 3.70 lac tonnes in the previous year to 7.30 lac tonnes in the year under reference.

Paste Resin:

Consumption in India during the year 2009-10 is estimated at around 70,000 tonnes. Your company's paste resin continues to enjoy a preference with most buyers.

Battery Separator Resin (BSR):

Your company is reviewing the outlook for this product in view of the declining demand and uncertainty in availability of key raw material.

Trubore Piping Systems:

During the first half of the year, the demand for PVC Pipes remained suppressed. With the overall upturn witnessed in the economy, this trend got reversed and the demand for PVC Pipes remained healthy during second half of the year. Tamil Nadu Government's focus on micro irrigation and rural water supply schemes contributed to a stable demand for PVC Pipes.

The greenfield PVC Pipe plant in Shinoli, Maharashtra has been operating well and reached stability during the year. All varieties of pipes are being manufactured meeting the end user requirements. This plant has been approved for supplies to all water supply schemes of the State Government of Maharashtra. The plant has been certified by Bureau of Indian Standards (BIS) for ISI marking for Pressure, Casing, Sewer and SWR Pipes.

During the year, production in the PVC pipes plant at Ponneri in Tamilnadu got affected due to an illegal strike, mainly by the employees of contractors, which started in February 2009 due to which the operations remained suspended till middle of December 2009. The plant has been restarted and pipes are now being manufactured and supplied to the market.

During this year, your company had carried out many sales promotion activities in order to build the "TRUBORE" brand amongst the end users. With a total PVC pipes capacity of 56,000 TPA spread at two locations in Tamil Nadu and Maharashtra, the company is well placed to achieve the benefits of attractive value addition in the pipes business.

Risks and concerns:

(a) The thin spread of just 3% between import duty on PVC (5%) and the intermediates VCM and EDC (2%) affects the contribution of the PVC business.
(b) Ethylene prices are driven by international supply-demand balance which could impact the input cost of PVC for the Mettur operations.
(c) The fall in sugar crop production and the consequential reduction in availability of molasses as also the sharp rise in prices of molasses and industrial alcohol has resulted in the inability of the company to source molasses/ industrial alcohol at viable prices for its operations.

Chlorochemicals Business

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

Caustic Chlor:

During the year under review, Indian Caustic Soda industry witnessed an addition of over 2.5 lac tonnes of capacity, with almost 2.0 lac tonnes getting added in the Western region. With most consuming sectors like Textile and Paper not doing well, and with excess availability in Asia as well as surplus capacity within the country, prices remained under pressure right through the year.

While your company has adequate captive capacity for meeting its salt requirement, unseasonal rains during several months impacted salt production adversely and forced the company into buying salt from outside sources.

Solvents:

The major demand for Chloromethane products is from the pharma sector, and this sector rebounded smartly towards the later half of the year. Also, with poor Caustic Soda prices pushing chlorine values up, and with declining production in USA & Europe, Chloromethane prices rose sharply in this period.

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.3.29 crores during the year.

Mettron:

HCFC-22 demand in Asian/ Middle Eastern markets picked up smartly in the second half of the year. Also, with mitigating factors in China limiting production there, international prices in these markets picked up.

Domestic demand for HCFC-22 also picked up as production in the air conditioning sector rose sharply.

HCFC production was at 1,792 MT. Your company also earns Certified Emission Reduction (Carbon Credits) from its Clean Development Mechanism project.

Metkem:

Due to reduced demand in the global solar market and falling prices for Polysilicon, the new Polysilicon plant that was successfully commissioned in 2008-09, operated only for a short period of time in 2009-10. The manufacturing operation of Polysilicon had to be suspended in May 2009 due to cost of Polysilicon produced being higher than current market price of Polysilicon. Similarly, the Silicon Wafer prices also took a hit as prices dropped steeply from Rs.205 to Rs.91 per wafer. With the result, wafer operation was shutdown in March 2010.

Risks and concerns:

(a) The slowdown in the end-use segments of the caustic soda industry as also commissioning of additional Caustic Soda capacity in the country is a concern, as this will impact selling prices.

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

Environment

As a responsible corporate citizen, the company has continuously improved upon its manufacturing processes, tapping new technologies to make production processes efficient and keeping well ahead of mandated norms in compliance with environmental standards. The company is fully committed to environment protection and has made dramatic improvements in its processes over the years by making considerable investments, within the limitations of the latest available technologies.

In the true spirit of protecting the environment, the company has taken several positive initiatives, some of which are discussed below:

- The company has converted its manufacturing process from Mercury cell to environment friendly Membrane cell process for producing Caustic Soda, well ahead of the mandated time period at an investment of approximately of Rs.80 crores at Mettur in the year 2007-08.

- The company has put in place a ZLD facility at Mettur at an investment of Rs.26 crores to completely recycle and reuse the liquid trade effluents generated, including solid waste, inside the plants. This breakthrough ZLD process also involves a high recurring revenue outgo of approximately Rs.100 lacs annually. The initial teething trouble posed by this facility has been addressed and not a drop of its effluent moves out from the factory premises now.

  Similarly, a unique feature of the Cuddalore PVC facility is that no trade effluent from PVC plant operations will be discharged into land or sea, since a ZLD facility has been built for the purpose at an investment of Rs.24 crores and recurring cost of Rs.100 Lacs per year.