



Annual Report 2012

CHEMPLAST SANMAR LIMITED

Notice of Annual General Meeting

The Twenty Eighth Annual General Meeting of Chemplast Sanmar Limited will be held on Monday, the 30th July 2012 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 March 31, 2012, the Profit and Loss Account for the year ended March 31, 2012 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.

The retiring Auditors, Price Waterhouse & Co., have expressed their desire not to seek re-election.

A Special Notice dated June 26, 2012 received by the company from a shareholder proposing the name of S R Batliboi & Associates, Chartered Accountants, Chennai as Statutory Auditors for the year 2012-13 is enclosed. The Ordinary Resolution proposed to be moved is

"RESOLVED THAT S R Batliboi & Associates, Chartered Accountants, Chennai (Firm Registration No. 101049W) be and are hereby appointed as Auditors of the company to hold office from the conclusion of this Annual General meeting until the conclusion of the next Annual General Meeting in the place of the retiring Auditors, Price Waterhouse & Co., Chartered Accountants, Chennai, who are not seeking re-election and that the Board of Directors of the company be and is hereby authorised to fix their remuneration".

SPECIAL BUSINESS

5. To consider and if thought fit, to pass the following resolution with or without modification as an Ordinary Resolution.
RESOLVED THAT pursuant to the provisions of Section 293(1)(a) of the Companies Act, 1956 and subject to the approval of any authority, institution or body, whose approval may be required, consent of the company be and is hereby accorded to the Board of Directors to either sell, transfer or dispose off as a going concern the Trubore Piping Systems business of the company with all assets, rights, benefits and other property thereof or relating thereto and all duties and obligations thereof or arising therefrom, or to transfer the assets, property and other rights relating to the Trubore Piping Systems business of the company, to such body corporate, firm or persons and on such consideration as may be decided by the Board taking into consideration relevant factors."
FURTHER RESOLVED THAT the Board of Directors be and is hereby authorised to do, perform, sign, seal and execute all such acts, documents, deeds, matters and things (including the Agreement for the transfer) as may be necessary, usual, proper or desirable for effectuating the transfer and disposal of the said undertaking and for giving effect to this resolution."

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.
- c) Integrated Enterprises (India) Limited is the company's Registrar and Share Transfer Agent. Shareholders are requested to send all requests for transfer 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@integratedindia.in

Registered Office:
9, Cathedral Road
Chennai 600 086
June 27, 2012

(By order of the Board)
M RAMAN
Secretary

Chemplast Sanmar Limited

CHEMPLAST SANMAR LIMITED

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

Item No.5 of the Notice

As the shareholders are aware, the company is engaged inter alia, in the business of manufacture and sale of PVC Pipes and fittings under the brand name "Trubore" and is having manufacturing facilities for the said products at Ponneri, Chennai, Tamil Nadu and Shinoli, Maharashtra (hereinafter referred to as "Trubore Piping Systems business"). In pursuit of its forward integration strategy, the company re-entered the PVC Pipes business in the financial year 2006-07 and the present aggregate installed capacity of the above said plants is 56,000 TPA of PVC Pipes.

Over the last few years the company has been facing major challenges in this business which included very low margin and difficult market conditions resulting in substantial under utilisation of its installed capacity.

The PVC pipes business is more retail oriented business with the business from company-to-end consumer rather than business-to-business segment as in the case of other products of the company and therefore it requires extensive dealer and sales network for achieving high volume of sales. Despite various initiatives taken by your company in this regard desired results could not be achieved and this forward integration has not been strategically beneficial to the company.

In the above context and in order to focus primarily on the company's core business viz. commodity chemicals viz. Chlorochemicals and PVC and as a part of restructuring the operations of the company, the company proposes to sale/ dispose off the Trubore Piping Systems business as set out in the resolution under Item No.5 of the Notice.

In terms of Section 293(1)(a) of the Companies Act, 1956, sale or disposal of the whole or substantially the whole of the undertaking requires the approval of the shareholders of the company. Accordingly, an ordinary resolution under Item No. 5 is submitted for the approval of the shareholders.

The Board of Directors recommend the resolution for approval of the shareholders.

None of the Directors of the company is anyway concerned or interested in the resolution.

Registered Office:
9, Cathedral Road
Chennai 600 086
June 27, 2012

(By order of the Board)
M RAMAN
Secretary

SANMAR HOLDINGS LIMITED

June 26, 2012

The Board of Directors
Chemplast Sanmar Limited
9 Cathedral Road
Chennai 600 086

Dear Sirs

We hereby give notice pursuant to provisions of Section 190 read with Section 225 and other applicable provisions of the Companies Act, 1956 that we intend to move the following resolution as an Ordinary Resolution at the forthcoming Annual General Meeting of the company.

"RESOLVED THAT S R Batliboi & Associates, Chartered Accountants, Chennai (Firm Registration No. 101049W) be and are hereby appointed as Auditors of the company to hold office from the conclusion of this Annual General meeting until the conclusion of the next Annual General Meeting in the place of the retiring Auditors, Price Waterhouse & Co., Chartered Accountants, Chennai, who are not seeking re-election and that the Board of Directors of the company be and is hereby authorised to fix their remuneration".

Yours faithfully
For SANMAR HOLDINGS LIMITED
P U ARAVIND
Director

BOARD OF DIRECTORS

P S Jayaraman, Chairman
S Gopal, Managing Director
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

Krishnagiri & Panruti, Tamil Nadu
Vedaranyam, Tamil Nadu
Cuddalore, Tamil Nadu
Ponneri, Tamil Nadu
Shinoli, Maharashtra
Karaikal, Puducherry

PVC

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

Industrial Alcohol

Industrial Salt

PVC

Trubore Piping Systems

Trubore Piping Systems

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

CONTENTS

	Page
Notice of Annual General Meeting	3
Board of Directors	5
Directors' Report	7
Annexure to the Directors' Report	13
Auditors' Report on financial statements	16
Five Year Summary	21
Profit and Loss Account	22
Balance Sheet	23
Cash Flow Statement	24
Notes forming part of the Accounts	25

Directors' Report

The Directors have pleasure in presenting their report along with the accounts for the year ended March 31, 2012.

Corporate Results

	2011-12 Rs.Crores	2010-11 Rs.Crores
Sales and other income	2352.36	2114.75
Profit before interest, depreciation and taxes	182.17	182.41
Interest	158.88	156.41
Depreciation	93.39	92.78
Profit/ (Loss) before tax & exceptional item	(70.10)	(66.78)
Reversal/ (Provision) for tax		
– Deferred Tax	20.96	18.89
Profit/ (Loss) after tax before exceptional item	(49.14)	(47.89)
Exceptional item net off tax	–	7.26
Profit/ (Loss) after tax	(49.14)	(40.63)
Reversal/ (Provision) for income tax relating to earlier years	(2.81)	(1.56)
Profit/ (Loss) after earlier years tax	(51.95)	(42.19)

In view of the losses incurred, the Directors do not recommend payment of dividend on equity shares for the year 2011-12.

MANAGEMENT DISCUSSION AND ANALYSIS

PVC Business

Review of Operations:

The company operates an integrated facility at Mettur Dam to manufacture PVC resin. This facility has the flexibility to produce various grades of PVC resin, viz. Suspension, Paste and Battery Separator. The intermediate - Ethylene Dichloride (EDC) - required for manufacture of PVC is in turn produced at the company's EDC plant at Karaikal using imported Ethylene and captive Chlorine – Chlorine in turn is manufactured at the company's two Chlor-alkali facilities located at Mettur Dam and Karaikal.

The year under review is the second full year of operation of the Greenfield project at Cuddalore for production of Suspension Resin.

Chemplast Sanmar Limited

Suspension Resin:

Suspension resin demand in India for the year under review is estimated at 20 lac tonnes, a marginal growth of around 4% over the previous year. Of this, around 12.4 lac tonnes were met out of domestic production with the balance coming from imports. Demand growth was limited due to unseasonal rains in certain parts of the country as well as the tight liquidity position that existed for most part of the year.

In line with the fluctuations in Asian PVC prices, Suspension PVC prices in India also fluctuated right through the year. However towards end of the year both PVC and VCM prices moved up strongly.

Tosoh, Japan is one of the largest merchant exporters of VCM. With an accident severely limiting operations in Tosoh, Japan from Nov 2011 onwards global markets witnessed severe VCM supply crunch resulting in spurt in VCM prices. Simultaneously, with the uncertain political situation in Iran, Crude prices rebounded strongly, reflecting in strong Ethylene prices. Both these developments led to a margin squeeze for our PVC resin.

Cyclone "Thane":

The company's plant at Cuddalore suffered minor damage from Cyclone "Thane" towards the end of December 2011 and the operations recommenced within a week.

It is a matter of great pride that your company was able to resume operations so fast, thanks to the excellent design parameters adopted while construction of the plant.

Paste Resin:

Consumption in India during the year 2011-12 is estimated at 85,500 tonnes registering a growth of around 8% over the previous year. Market growth has been limited due to the tight liquidity situation. Here again the margins were impacted due to fluctuations in selling prices and higher Ethylene cost.

Battery Separator Resin (BSR):

Your company has temporarily suspended production of BSR due to uncertainty in availability of a key raw material.

Trubore Piping System:

In pursuit of its forward integration strategy, the company re-entered the PVC Pipes business in the financial year 2006-2007 and the present aggregate installed capacity of the company's plants at Ponneri and Shinoli is 56,000 TPA of PVC Pipes.

Over the last few years, the company has been facing major challenges in this business which included very low margin and difficult market conditions resulting in substantial under utilisation of its installed capacity. Despite various initiatives taken by your company, desired results could not be achieved. The company therefore proposes to sell/ dispose off the Trubore Piping Systems business subject to necessary approval from the shareholders of the company and other approvals as may be required.

Risks and concerns:

- a) The thin spread in import duty of just 2.5% between PVC (5%) and the intermediates VCM & EDC (2.5%) affects the contribution of the PVC business.
- b) Ethylene prices are driven by international supply-demand balance and get disproportionately affected by Cracker shutdowns, which impacts the input cost for Mettur PVC operations.

- c) Increased consumption of alcohol in the potable sector affects availability of alcohol for industrial use, resulting in inability of the company to source adequate quantity of alcohol/ molasses for its operation.

Chlorochemical 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 EDC and Chloromethane products.

Caustic Chlor:

During the year under review, Indian Caustic Soda industry witnessed an addition of around 1.7 lac tonnes of capacity, with most of the addition happening in the Western region. With Chlorine consumption limiting Caustic production and with Chlorine values chartering in negative territory, Caustic prices remained robust right through the year. The smart recovery in Asian Caustic prices post the curtailed operations at Tosoh, Japan also helped in greater recovery of prices in the last quarter.

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 demand from this sector continued to be robust throughout the year. However, with US & European economy not doing too well, demand in these countries plummeted and towards the second half of the year, producers in these countries started targeting Indian market with supply of material at substantially lower prices. This was also aided by the plummeting Chlorine values. Thus, domestic prices came under severe strain right through the second half of the year.

Mettron:

HCFC 22 demand in Asian/ Middle Eastern markets remained healthy during the year. Your company was able to operate its plant at near full capacity during the year.

Your company also earns Certified Emission Reduction (CERs) from its Clean Development Mechanism project. Quantities have come down and only a small part is at lower prices.

Metkem:

The operation of the Polysilicon and wafer making facilities continued to be under suspension in view of persisting unviable global prices. While prices are recovering now, they have still not reached levels where operation of the company's facility would be profitable. Your company is closely watching the developments.

Risks and concerns:

- a) The surge in international Coal prices would affect the cost of generation of power, thereby impacting cost of production of both Caustic/ Chlorine and other products.
- b) Unseasonal rains and climate change 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 put in place a ZLD facility at Mettur to completely recycle and reuse the liquid trade effluents generated, including solid waste, inside the plants. Not a drop of its treated effluent is let out from the factory premises since September 2009.
- The company had invested in Air Cooled Condensers (ACC) in the Coal based power plant at Mettur for the sole purpose of conserving water. Around 30 lac litres of water is saved on a daily basis.
- The ACC also paved the way for reducing the internal consumption of power in the Coal based power plant. The normal internal consumption for similar sized power plant vary from 11-12% of total generation whereas with ACC in place the internal consumption at Mettur plant is less than 10% of the total generation.
- Karaikal plant also has a desalination facility. In this plant also, no treated effluent is discharged as a Zero Liquid Discharge (ZLD) facility is operational.
- Similarly, the new greenfield PVC facility at Cuddalore commissioned in September 2009 is a ZLD facility from the date of commissioning. The company does not discharge water into land or sea. The ZLD facility also enables complete recycling.
- A unique feature of the PVC plant at Cuddalore is that it does not draw any water from the ground for the plant operations and the entire water requirements of about 3500 kilo litres (kl) per day is being met by the sea water desalination plant and recycling initiatives (ZLD).
- The company has kept a mobile VCM monitoring station at the Cuddalore PVC plant which would, on a real time basis, monitor the presence of VCM in the workplace. The company has a mobile van equipped with Gas Chromatograph to monitor VCM in and around the villages in Cuddalore.

CSR initiatives:

The company attaches utmost importance to sustainable development.

At Mettur, the company maintains three schools where primary, matriculation and higher secondary education is imparted to about 2500 students from the local community. The company also offers free education at different centers in the villages around the plant area to provide supplementary after-school coaching. The company provides thirty lac litres of drinking water every day to the nearby villages. It has six rural health centers in and around Mettur, with diagnostic facilities where free medicines are also dispersed.

The company also provides preventive healthcare services by conducting periodical heal camps and has also been supporting Self Help Groups in and around Mettur.