SANMAR

Annual Report 2013

CHEMPLAST SANMAR LIMITED

SANMAR

BOARD OF DIRECTORS

P S Jayaraman, Chairman
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
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
The Lakshmi Vilas Bank Limited

AUDITORS

S R Batliboi & Associates LLP
Chartered Accountants
Chennai

Chemplast Sanmar Limited

Directors' Report

The Directors have pleasure in presenting their report along with the accounts for the year ended 31st March 2013.

Corporate Results

	2012-13 Rs. Crores	2011-12 Rs. Crores
Sales and other income	**2523.59**	2352.36
Profit before interest, depreciation and taxes	**255.83**	184.65
Interest	**150.46**	161.36
Depreciation	**93.89**	93.39
Profit/ (Loss) before tax	**11.48**	(70.10)
Reversal/ (Provision) for tax		
– Current Tax	**–**	–
– Deferred Tax	**0.47**	20.96
Profit/ (Loss) after tax	**11.95**	(49.14)
Reversal/ (provision) for income tax relating to earlier years	–	(2.81)
Profit/ (Loss) after earlier years tax	**11.95**	(51.95)

After a consecutive four years of losses due to extremely difficult business conditions, the Company staged a recovery in 2012-13 with a profit after tax of Rs.11.95 crores. The year under reference has witnessed 7% growth in sales & other income over the previous year. This was achieved on the back of a smart increase in the margins achieved on Cuddalore PVC operations overall reduction in operating costs and lower interest outgo.

In spite of a profitable year, taking into account continuous losses incurred over the past four years and with a view to conserve resources, the Directors do not recommend payment of dividend on equity shares for the year 2012-13.

MANAGEMENT DISCUSSION AND ANALYSIS

PVC Business

Review of Operations

The company has two plants for production of PVC resin, one at Mettur Dam to produce Suspension and Paste PVC and the other at Cuddalore to produce Suspension PVC. The Mettur Dam plant is integrated with on-site Vinyl Chloride Monomer (VCM) manufacturing facilities. The Ethylene Dichloride (EDC) required to make VCM for Mettur plant operation is produced at the company's plant at Karaikal using imported ethylene and on-site chlorine. The company imports VCM required for Cuddalore plant operation.

Suspension Resin:

The demand for Suspension resin in India grew sharply in the year under review to around 23 lac tonnes, a growth of 15% over the previous year. Of this, around 12.5 lac tonnes was supplied by domestic producers while the balance was imported into the country. Domestic demand was high due to the very good demand from the pipes segment, the largest application for Suspension PVC.

Prices of Suspension PVC fluctuated in line with the quotes for imported material. As India is one of the largest and fastest growing PVC markets in the world, this has become an attractive and potential market for many international producers.

Towards the end of the year, a significant VCM producer in the region, namely, VCMSB Malaysia, decided to close down their plant. This, coupled with the shutdown of the Tosoh plant in Japan the previous year, took out around 800,000 MT of VCM from the Asian market. This resulted in a spurt in VCM prices. This was mitigated to a large extent by the renegotiation of VCM purchase contract terms, the sourcing of additional quantities of VCM from geographically advantageous locations. Also increase in netbacks on sale of PVC was achieved by optimisation of logistics costs.

Paste Resin:

The market for Paste PVC in India grew to around 105,000 MT, a growth of over 20% over the previous year. The growth was driven by a good growth in the artificial leather segment, which accounts for a major part of the demand for Paste PVC in India. The market is expected to grow further. With this in mind, and to retain the company's pre-eminent position in the Paste PVC market in India, the company has embarked on a grade conversion project to convert the entire Mettur PVC facility (currently capable of producing Suspension PVC, Paste PVC and Battery Separator grade PVC of an aggregate capacity of 66,000 MT per annum) into an exclusive Paste PVC facility of 66,000 MT per annum. This conversion project has since been successfully commissioned.

Domestic prices for Paste PVC dropped significantly during the year due to very low prices quoted for imported Paste PVC. Due to the economic slowdown in Europe and the consequential shrinking of the markets there, European and other international Paste PVC producers have been offering material to India at low prices, affecting domestic prices.

Duty rationalisation:

The Indian PVC industry, including both Suspension and Paste segments, has been suffering unduly from a combination of very low duty protection as also the continuation of dumping from other countries. Import duties on all polymers, including PVC resin, had been brought to a level of 5% in India as against levels of around 6.5% to 20% in other countries. Also, while there are some anti-dumping duties levied on imports of PVC resin, the main sources of PVC imports have been exempted from anti-dumping duties. This has further exacerbated the problem of low priced imports. The industry has been agitating for both an appropriate level of duties on polymers, as also the imposition of anti-dumping duties on all sources that dump material into India. Your company is glad to report that, heeding the industry's pleas, the Government of India has increased the import duties for polymers from 5% to 7.5% in May 2013.

PVC Pipes:

Based on a strategic re-evaluation of business priorities, the Company decided to exit the PVC pipes business. Accordingly, during the year under review, the Company divested the Trubore Piping Systems business.

Risks and concerns:

Low import quotes into India for products like Suspension PVC, Paste PVC and Methylene Chloride affect the profitability of the company.

Ethylene prices are highly volatile – such volatility impacts the input costs of Paste PVC.

Alcohol usage for fuel doping, and the increased usage of alcohol for the potable sector, affect the availability of alcohol for industrial use, resulting in inability of the company to source adequate quantity of alcohol for its operations.

Chlorochemical Business

The company's chlorochemicals business at Mettur Dam is fully integrated. The chloromethanes production draws the chlorine from the on-site caustic soda facility. The power and salt required for manufacture of caustic soda are available from captive sources. Chloroform, produced in the chloromethanes facility, is utilised to produce refrigerant gas.

Caustic Chlor:

During 2012-13, there was an addition of 1.68 lac tonnes of capacity in the country, mainly in the West and partly in the East. A plant of 59,000 MT capacity shut down in the South. Caustic prices were strong right into the fourth quarter of the year – prices started softening around this time.

Increased salt production from the captive salt fields enabled the company to completely avoid purchase of salt. The expansion activities in the salt farm have been commissioned.

Solvents:

The trend seen towards the end of the previous year, of falling prices of chloromethane products in Europe, continued this year as well, and the impact of this was felt in India. European material was being dumped into India at very low prices right through the year, which put enormous pressure on domestic prices. Domestic prices have consequently dropped significantly as compared to the previous year.

To combat this spate of low cost imports dumped into India, the domestic industry has initiated action for an anti-dumping investigation.

Mettron

HCFC 22 demand in India and Asian markets remained healthy and the company operated its plant at full capacity during the year.

In the year under review, the European Union announced the discontinuation of acceptance of HFC-23 based Certified Emission Reduction (CER) credits. This therefore meant that the year under review was the last year where the company earned revenue on sale of CERs. Also, in Europe itself, due to the severe economic slowdown, the market price of CERs has also collapsed to less than a Euro (from earlier levels of around 13 Euros).

Power:

The company's coal based power plant at Mettur was impacted during the year due to a breakdown at one of the two turbines. This affected power production for six months. The plant was brought back on line towards the end of the year. The company has lodged an insurance claim and the claim is expected to get settled in the ensuing year.

Coal prices saw a declining trend during the year.

Risks and concerns:

a) Any 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 affect 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 has 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.
- In the Karaikal plant also, no treated effluent is discharged, as a Zero Liquid Discharge (ZLD) facility is operational. Karaikal plant has a desalination facility to meet water requirement for the process. Similarly, the new Greenfield PVC facility at Cuddalore commissioned in September 2009 is having ZLD facility from the date of commissioning. The company does not discharge water in to 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 source for the plant operations and the entire water requirement of about 3500 kilo litres (kl) per day is being met by sea water desalination 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 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 centres 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 four 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 health camps and running health centers with services of a doctor and para-medical staff and has also been supporting Self Help Groups in and around various plants of the company.

The Tailoring Training Centres are run for Rural Women aiming at Women empowerment where a batch of 75 ladies are trained for 6 months in each batch in Mettur.

Personnel

Industrial relations with employees remained cordial during the year. Human Resource Development activities continued to receive considerable attention. The emphasis was on imparting training and develop the skill set of employees to enable them face the challenges in an increasingly complex work environment.

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 2012-13 was carried out by PKF Sridhar & Santhanam covering all areas of operations. All significant observations were discussed in the audit committee, which met four times during the year under review.

FINANCE

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

The auditors in their report have referred an opinion with regard to creation of deferred tax asset. They have also commented that the company's accumulated losses at the end of the financial year are more than fifty percent of its net worth after considering the reversal of creation of deferred tax asset in line with their opinion. Consistent with the practice, which was followed in earlier years, the company has created net deferred tax assets in respect of depreciation and carry forward losses in the current year also. The net deferred tax asset for the year 2012-13 is Rs.47 lacs, bringing the total net deferred tax asset to Rs.8184 lacs as of 31st March 2013. Considering the income it expects to generate from its installed asset base in future years, the company believes that the requirements of the Accounting Standard 22 - Accounting for Taxes on Income relating to the creation of deferred tax asset are satisfied. The company's accumulated losses at the end of financial year are less than fifty percent of its net worth after considering the creation of deferred tax asset.

The auditors, in the annexure to their audit report, have mentioned that "the funds amounting to Rs.79,762.04 lacs raised on short term basis by way of working capital have been used for long term investment in non-current assets and funding of losses".

Given the nature of its operations, the company is able to generate cash surplus from working capital. Because of the continuous nature of its operations, this cash surplus is expected to remain as a long term fund in the company and hence the company believes that its utilisation for investment in non-current assets and funding of losses will not result in tenor mismatch.

The amount of Rs.79,762.04 lacs mentioned by the auditors represents the cumulative position as on 31st March 2013. As will be seen from this report, the company has staged a recovery in 2012-13 and generated sufficient profits and other long term resources to leave a long term surplus for the year, after meeting all its long term obligations. The company expects this trend to continue in the future.

Sale of Trubore Piping System

Over the last few years, the company was facing major challenges in this business which included very low margin and difficult market conditions resulting in substantial under utilization of its installed capacity. Despite various initiatives taken by the company, desired results could not be achieved. The company has therefore sold the Trubore Piping Systems business as a going concern to Messrs. Prince Pipes and Fittings Private Limited, Mumbai in October 2012.

DELISTING OF SHARES

As reported last year, following the completion of all the formalities under the Securities and Exchange Board of India (Delisting of equity shares) Regulations, 2009 ("Delisting Regulations"), the equity shares of the Company were de-listed from BSE Limited, The National Stock Exchange of India Limited and The Madras Stock Exchange Limited effective June 25, 2012.

AUDIT COMMITTEE

The Audit Committee comprises four directors namely, Mr M S Sekhar (Chairman), Mr V K Parthasarathy, Mr S V Mony and Mr M N Radhakrishnan. The composition of the Audit Committee is in conformity with the requirements of the Companies Act, 1956.

DIRECTORS

Mr S Gopal, Managing Director retired from the Board effective 31st March 2013 on reaching superannuation. The Directors place on record their appreciation of his contribution during his tenure as Deputy Managing Director and Managing Director of the company.

In March 2013, Mr B Natraj was appointed as an additional director and he holds office upto the date of the ensuing Annual General Meeting. Notice under Section 257 of the Companies Act, 1956 has been received from a member proposing the appointment of Mr B Natraj as director of the company and the Directors commend this proposal to the shareholders.

Mr P S Jayaraman was reappointed as Chairman of the company for a further period of three years effective 1st April 2013.

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

AUDITORS

S R Batliboi & Associates LLP, (Formerly S R Batliboi & Associates), Chartered Accountants, Chennai, retire and are eligible for re-appointment.

STATUTORY INFORMATION

Information as required under Section 217 of the Companies Act, 1956, to the extent applicable and relevant is furnished in annexures forming part of report.

DIRECTORS' RESPONSIBILITY STATEMENT

a) In the preparation of the annual accounts for the year ended 31st March 2013, the applicable accounting standards have been followed by the company.

b) The Directors have selected such accounting policies and applied them consistently and made judgements and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the company as at 31st March 2013 and of the profit of the company for the year ended that date.

c) The Directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the company and for preventing and detecting fraud and other irregularities.

d) The accounts of the company have been prepared on a going concern basis.

CAUTIONARY STATEMENT

Statements made in the report, including those stated under the caption "Management Discussion and Analysis" describing the company's plans, projections and expectations may constitute, "forward looking statements" within the meaning of applicable laws and regulations. Actual results may differ materially from those either expressed or implied.

For and on behalf of the Board
P. S. JAYARAMAN
Chairman

Chennai
October 19, 2013