



I G Petrochemicals Limited

***Innovating Today
Transforming Tomorrow***



23rd ANNUAL REPORT 2011-12

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Our theme “Innovating Today. Transforming Tomorrow” showcases our ability to infuse differentiation even in a highly competitive commodity business. Our ability to usher scale and at the same time infuse sustainability promises to lead to a better tomorrow.

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I G PETROCHEMICALS IS ONE
OF THE WORLD'S LARGEST
MANUFACTURER OF PHTHALIC
ANHYDRIDE (PA) AT A SINGLE
PLANT LOCATION.



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Carving a cost-competitive niche

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Founded by the Dhanuka Group of Companies through Mysore Petrochemicals Limited and run by promoters who have a cumulative experience of over three decades in the petrochemical business, I G Petrochemicals has carved a niche for itself by building world-class manufacturing facilities, taking international technical assistance, choosing the right location and undertaking timely expansion.

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Partnering global major

I G Petrochemicals' manufacturing plant has been built in technical collaboration with Lurgi GmbH, a German engineering, construction and chemical process licensing company which has a legacy of over 100 years. By partnering with the best, the Company reduced the set-up time and also ensured that production matches international standards.

Achieving optimal manufacturing capacity

The plant has a total manufacturing capacity of 1,16,110 metric tonnes per annum (two manufacturing plants at the same facility). This capacity is considered to be optimal as per the industry standards and the benefit of a single location further infuses cost-efficiencies.

Strong backward linkages

The Company has long term tie-ups for the procurement of its raw material and has chosen the best mix of local and imports to achieve cost efficiencies. I G Petrochemicals gets 70% of its primary raw material, namely Ortho-xylene (OX), from local market and the balance is imported. Thus, the Company is not solely dependent on imports and at least 70% of the procurement is insulated from the currency fluctuations which can otherwise escalate the raw material costs.

Locational advantage infuses even more cost efficiencies

The Company's facilities are located at Taloja, Maharashtra, in the heart of the chemical hub of the country and just 50 km away from the Jawaharlal Nehru Port Trust (JNPT), Nhava Sheva, Navi Mumbai.



The location is in close proximity to its principal raw material supplier and the major ports in the western region which ensures lower transportation and freight costs, as compared to competitors.

Further on the supply side too, the Company's location enables it to cost effectively service India's key chemical market located in the western region which consumes 80% of the PA production in India. The ports proximity also enables it to reach its key export market in Middle East faster and at a lower cost as against its competitors in Korea and Taiwan. (The world's largest manufacturer of PA is located in Taiwan and the second largest in Korea. BASF which is world's largest producer with multiple locations primarily uses the PA production captively).

Lowest power to sales ratio

The steam generated via the production process is utilised for power generation for captive use and the surplus power is sold to the grid. Thus, the Company enjoys one of the lowest power cost to sales ratio in the industry.

THE SCALE OF I G PETRO'S MANUFACTURING FACILITY IS OPTIMISED TO DELIVER SUPERIOR AND SUSTAINABLE EARNINGS.

On the path to become the lowest cost producer in the world



The Company has planned a brown-field expansion project of 50,000 metric tonnes per annum and as the volume increases economies of scale will push the per tonne cost further down. The new capacity will also entail lower operating and maintenance cost as compared to the competitors and further provide a sharp cost edge.

The Company has done so by its innovative expansion strategy. Being a brown-field expansion, the capex required is far lower as against a green-field expansion, the expansion does not entail fresh investment in land nor will new manpower be required. Further, a major portion of the capex required to build the additional capacities has been raised at a low interest costs from overseas.

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As a part of capacity expansion, the re-engineering will also enable it to recover Benzoic acid from waste material which will add to the bottomline.

THUS, WITH THE ADDITIONAL CAPACITY, I G PETROCHEMICALS WILL CATAPULT TO THE 3RD LARGEST MANUFACTURER OF PA (AT A SINGLE LOCATION) IN THE WORLD AND THE ENHANCED CAPACITY WILL INFUSE FURTHER ECONOMIES OF SCALE AND WILL RESULT IN FURTHER REDUCTION OF MANUFACTURING COST PER TONNE OF PA PRODUCTION – NEARLY THE LOWEST COST PRODUCER IN THE WORLD.



Geared to address an expanding demand horizon

Phthalic Anhydride is an important chemical intermediate in the manufacture of important industrial and consumer products, is found in almost everything from PVC products to shoe soles, from cables to the paint on the walls, polyester resins for building materials to the plastic products used the world over, from textiles and printing inks to films for packaging.

It is estimated that over half of the PA produced globally is converted to phthalate esters for use as plasticisers in polyvinyl chloride (PVC), commonly used to make door frames, window frames, pipes and cables. Companies add PA to paints and rubber products. They also use it to tan and cure leather products. End user industries in India are expected to grow by around 8-10% per annum and this augurs well for the PA industry.

India's per capita consumption of plastics continues to be a fraction of the global average. Compared to per capita consumption of plastics in US at 109 kg, China at 29 kg, and Brazil at 32 kg, India stands at ~7 kg. The low level of per capita plastic consumption in India is indicative of the growth potential of the plastic industry. As PA is a vital intermediate for the manufacture of plastic, this is a favourable scenario for the PA industry.





According to Goldman Sachs, over the next 30-50 years, India is likely to grow the fastest among the BRIC economies and have the world's fifth largest consumer market by 2025 with about 583 million people forming its middle class. This would give a big boost to the plastic and other consumer-oriented industries and fuel the demand for PA even in the long run.

We also foresee future opportunity from the possibility of introduction of plastic-based currency notes which will necessarily require PA in the production process. Similar plastic-based currency notes are currently being used in Australia.

Looking at it from another angle, the huge capital costs required for setting up a green-field PA plant act as an entry barrier, thereby limiting market supply, while the demand for the product is on the rise. The domestic industry has not seen any new entrant after IGPL. Producers in developed countries are unable to match the costs of the emerging countries and are expected to close down which will further constrain supplies. A scenario which augurs well for the Company.

IG PETROCHEMICALS WITH ITS ADDITIONAL CAPACITIES IN PLACE WILL BE WELL POISED TO CATER TO THE DEMAND IN INDIA AND ACROSS THE GLOBE, GIVEN THE LIMITED CAPACITY ADDITIONS WORLDWIDE.

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Our planned expansion project is well on stream and we expect it to be completed within the targeted period of the first quarter of Financial Year 2013-14.

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Dear Shareholders,

I write to you in the backdrop of a particularly challenging year for the Indian economy in the midst of recession in the Euro zone, muted domestic investment demand and limited fiscal and monetary space to stimulate the economy. Further the hike in crude oil price and the depreciation of the rupee has also impacted the industry and the overall business sentiments. The country's economic growth projections continue to be scaled down and there are expectations that the year 2012-13 would be the second consecutive year of lowest growth, in the past decade, as per the latest CRISIL report on the state of the economy. However, declining global crude oil prices and normal monsoon are positive factors that would help in improving growth rate. The interest rate cycle has been reversed by the RBI.

For I G Petro, the PA market was sluggish especially during the third quarter of the year as the market condition was unfavourable due to heavy dumping in the local markets. The PA manufacturers association made a representation to the Government for imposing Safeguard duty on PA to avoid dumping of PA at cheap rates in order to ease the margin pressure and achieve sustainability. The Government imposed the Safeguard duty of 10% ad-valorem during January 2012 for a period of one year due to which the imports became dearer and the industry started showing some signs of improvement.

However, despite the challenging scenario and difficult conditions, I am happy to share that the Company has delivered good performance by achieving a production of 1,15,673 MT working at 99.62% capacity during the year as against 1,09,147 MT at 94% during the previous year 2010-11.