



IG Petrochemicals Limited

24th Annual Report 2012-13



**Innovating Today
Transforming Tomorrow**

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BOOK CLOSURE

23rd July 2013 to 27th July 2013
(both days inclusive)

24TH ANNUAL GENERAL MEETING

Saturday 27th July 2013 at 3.00 p.m.

VENUE :

Hotel Mandovi, D.B. Bandodkar Road
Panaji, Goa - 403 001.

Tomorrow has its beginning in today.
What we do today is going to shape
our tomorrow.

Today, we are one of the largest
producers of Phthalic Anhydride (PA)
at a single location in the world.

Tomorrow, we will become one of the
lowest-cost producer in the world.

In a business that is driven by commodity approaches and mindset, at IG Petrochemicals, we have always strived to improve, innovate and create that unique competitive advantage based on size, scale and scope to transform into a company that dominates the PA space both in volume as well as value.

At IG Petrochemicals, we are

Innovating Today
Transforming Tomorrow

Our journey so far

Strong Foundation

At IG Petrochemicals, we are one of the very few companies in our space built on strong and solid foundations. The promoters of the Company are the Dhanukas of the H.P. Dhanuka Group, pioneers in the PA space with an unmatched experience of more than four decades. The Company was founded through Mysore Petrochemicals Limited, and started production in 1992-93 as a 100 per cent EOU. A strong technical collaboration with the German engineering giant Lurgi GmbH with an experience of over a century, ensured that the plant was built to latest international standards and systems.

PA – The Product

Phthalic Anhydride (PA), is a white crystalline compound. It is an intermediate of organic chemistry and a versatile industrial chemical. The primary use of PA is as a chemical intermediate for plasticisers in Poly Vinyl Chloride (PVC), which is used for manufacture of diverse consumer and industrial products ranging from bags to back-packs, from cables to credit cards, from dashboards to door panels, furniture to food containers, pipes to plastic utensils, and shoes to shower curtains. PA is also used as an intermediate for Alklyd Resins which is used in manufacture of paints as solvent borne protective coating. It is estimated that PA is the second most important raw material for manufacture of paints in terms of input costs. Another use of PA is in the manufacture of Unsaturated Polyester Resins (UPR) which are used as thermosets to produce fibreglass reinforced plastics used extensively in construction, marine and transportation industries.





Unique Strengths

IG Petrochemicals has several advantages over its competitors that ensure it leads and dominates the PA space in India. These advantages combine to create unique strengths that are difficult for competitors to replicate and therefore, create high entry barriers for new players.

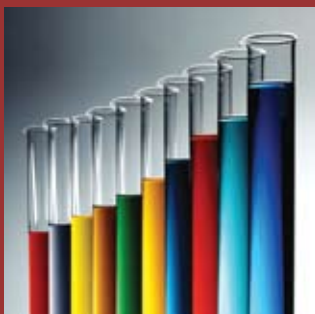
One of the critical success factors is location. An ideal location should be close to both the source of raw material as well as customers. The Company's plant is located at Taloja, about 50 kms. from Mumbai, the commercial capital of India. This location results in multiple advantages for the Company. On the supply side, the major source of raw material for manufacture of PA comes from the same region, creating compelling cost savings in transportation. On the demand side, more than 70 per cent PA produced in India is used in western India. With 90 per cent sales locally, the plant's location just 50kms. from Mumbai enables the Company to be in close proximity to its customers. Moreover, the port of Mumbai is a gateway to all major export markets for the Company, ensuring quicker transit times for its products. Complementing an ideal location is the judicious procurement strategy for Ortho-xylene (OX) - the single raw material required for the manufacture of PA. The Company has a tie-up with the largest petrochemicals company in the country for almost

70 per cent of its requirement of OX. This insulates the Company from international fluctuations in prices as well as currency fluctuations and at the same time, ensures a steady and uninterrupted supply. The balance 30 per cent of OX is procured from other sources, giving the Company a unique procurement advantage of steady supply and best prices. Further, with a daunting capacity of 1,16,110 metric tonnes per annum from its two plants in the same location, IG Petrochemicals has one of the world's largest capacity for PA. Not only is the Company one of the largest single location producer of PA in the world, it is also one of the lowest cost producers of PA in the world. In a business that is increasingly becoming commoditised, the Company has the dual advantage of volumes and costs, making it a leading player in the PA space in the country.

Efficient and Environment Friendly

The Company has obtained ISO 9001:2008 and ISO 14001:2004 certificates. With a rigorous six-sigma programme, the operational efficiency is optimised at the plants. This has resulted in the Company having one of the lowest power cost to sales ratios in the industry.

All plants of the Company follow strict safety norms and procedures, and are environment friendly. The Company believes in reducing emission and in re-cycling its waste to produce value added products.



Our journey ahead

The PA business, because of its very nature as being an intermediate chemical product, is largely a commodity business. Value addition happens at the end-user stage. And like in any other commodity business, the most important competitive advantage accrues from leveraging economies of not only size, but also of scale and scope.

PA is obtained through a process of conversion of OX, and as such, it is this conversion cost that becomes the single most important component of both the selling price as well as operating margin. Clearly, expansion of plant and increasing capacities is an ideal way ahead to lower costs and gain an advantage.

However, being a commodity business, the capex cost are very high and the margins are low. This deters and discourages new entrants into the field.

It is here that IG Petrochemicals is leveraging its innovation.

The Company is in the process of expanding its capacity at the same location with a third PA plant as a brown-field expansion. Compared to a green-field expansion, there will be no additional capex required for land and other utilities.

The additional capacity will be to the tune of 50,000 tonnes per annum. At a cost of ₹ 225 crores, funded partly with internal accruals and low cost overseas debt, this expansion will result in the Company having one of the lowest conversion cost in the world.

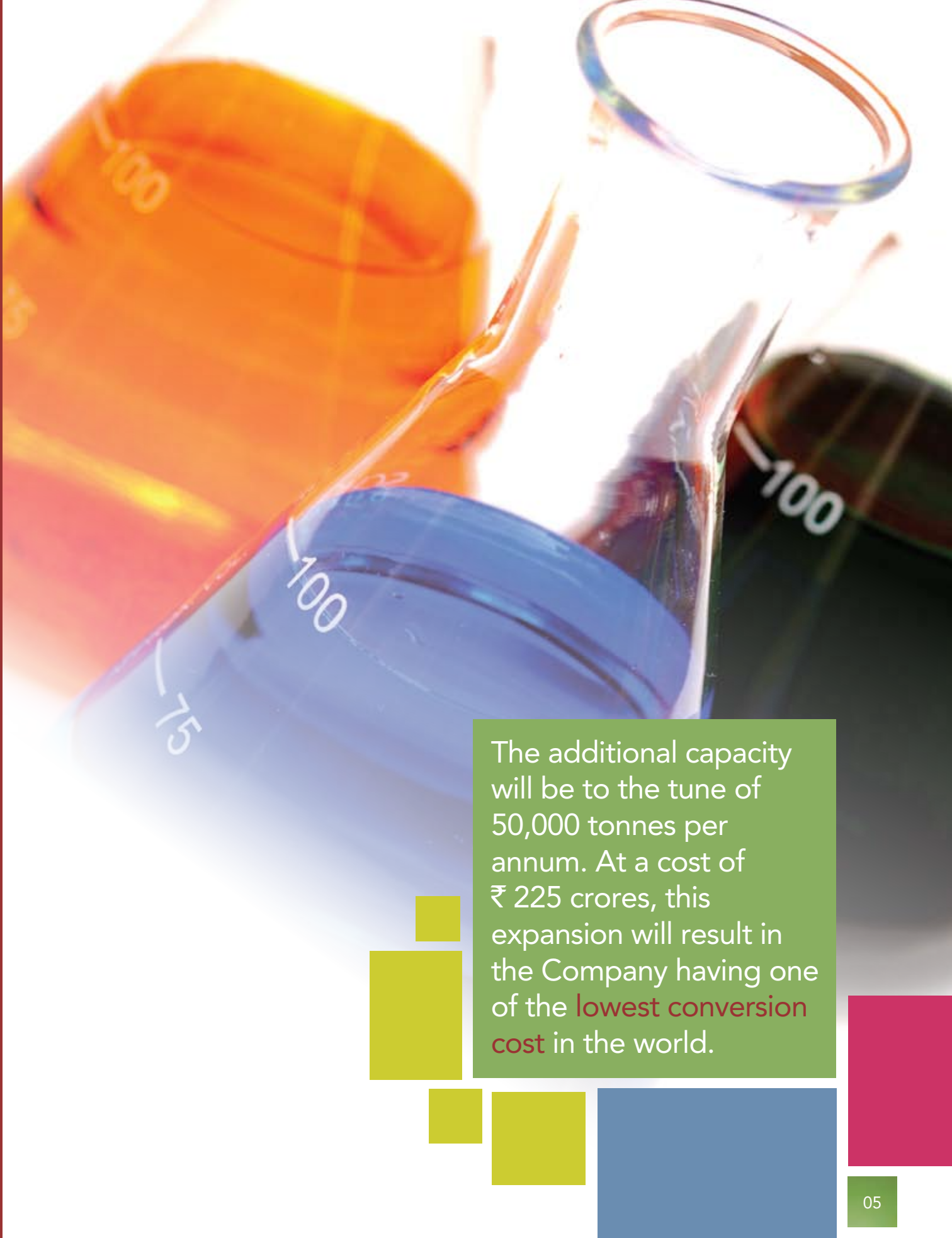
The third plant is expected to commence production during the second quarter of the current financial year 2013-2014.

At the heart of this lowest conversion cost advantage is innovation. While we are all used to front-end, visible innovation

that can be seen, touched and experienced, innovation also happens in processes and systems. Even though these are not tangible, the benefits flowing from such innovation lead to unique advantages.

One of the major innovations made by the Company is optimum utilisation of surplus steam. After expansion there will be higher generation of steam due to which the Company will become self-sufficient in its power needs and in turn help in substantial savings in energy costs.

The Company is also innovatively re-engineering certain areas in plants for better efficiency and cost reduction. This has enabled the Company to recover Benzoic Acid from wash water, thereby creating value and enhancing the profitability of the Company.



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Transforming tomorrow

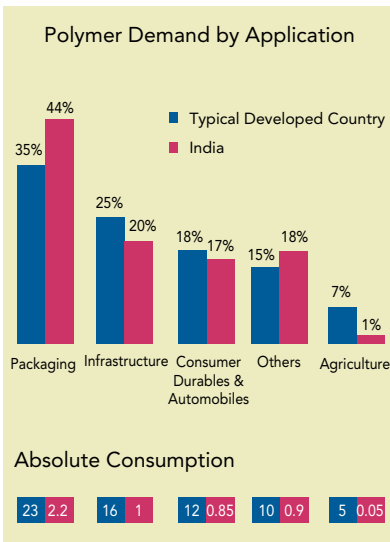
We are living in a world surrounded by plastics. Technological advances are creating newer applications for plastics that are entering our lives and our lifestyles like never before.



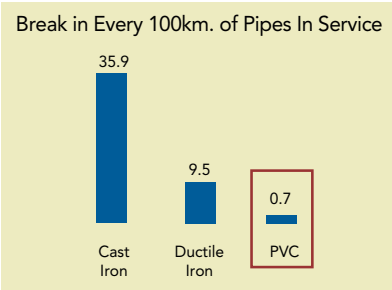
From bibs to boots and from skirts to shoes, plastics are becoming indispensable in the modern society and increasingly making their presence in areas like medical supplies to office supplies. The demand for plastics is growing and is expected to remain buoyant in the foreseeable future.

In spite of a seemingly unending array of applications and an unprecedented range of products, India is still amongst the lowest per capita consumers in the world. The per capita consumption of plastics in India is merely 5 kgs. compared to a global average of 25 kgs. In south-east Asia and China, it is 30 kgs. and 10 kgs. respectively.

This clearly indicates that plastics are still largely under-utilised in India. Consider this :



Certainly, there is a huge potential for growth and it is expected that demand from the infrastructure and agricultural sectors will be the key drivers of growth in the future. In the infrastructure space, plastics and polymers have immense utilisation opportunities in the form of pipes, cables as well as geo-synthetics. PVC pipes are superior as they have a much longer life span of over 100 years, and also because of their obvious advantages in light-weight leading to reduced handling and transportation costs. The water distribution systems in cities like London and Shanghai are being modified with plastic pipes.



Technological advances are opening up new application areas for plastics. One promising application is currency notes. Australia and Singapore already have plastic currency. In India, the Reserve Bank of India has plans to introduce one billion ₹ 10 notes in polymer/ plastic on a trial basis in Kochi, Mysore, Jaipur, Bhubaneswar and Shimla.

As demand for plastics in India is set to grow at a very attractive pace, and it is this



growth in the plastics and polymers that underpins the growth of PA in the country. High capex, long-gestation periods and competitive markets, all combine to create high entry barriers for new entrants into this space.

And IG Petrochemicals is ideally placed with a unique combination of strategic location, cost-advantages and brown-field capacity expansion to capitalise on this opportunity and

TRANSFORM TOMORROW!

Chairman's Message



In spite of the strong global and domestic headwinds, the Company has delivered an outstanding performance for the year.

Dear Shareholders,

As you are all aware, the year 2012-13 was another challenging year for the global economy. The debt-repayment crisis in Eurozone dominated world headlines, particularly in the middle of 2012 as Greece dangerously tottered towards bankruptcy. While the heads of governments in Europe did a commendable job of ensuring that the

Euro did not collapse, the crisis again returned in March 2013 with banks in Cyprus. One bright spot was the rebounding of the US economy, led by a resurgent corporate sector. Brent crude oil prices remained over US\$ 100 per barrel for most part of 2012, averaging US\$ 111.67 per barrel, slightly higher than an average of US\$ 111.26 per barrel in 2011.