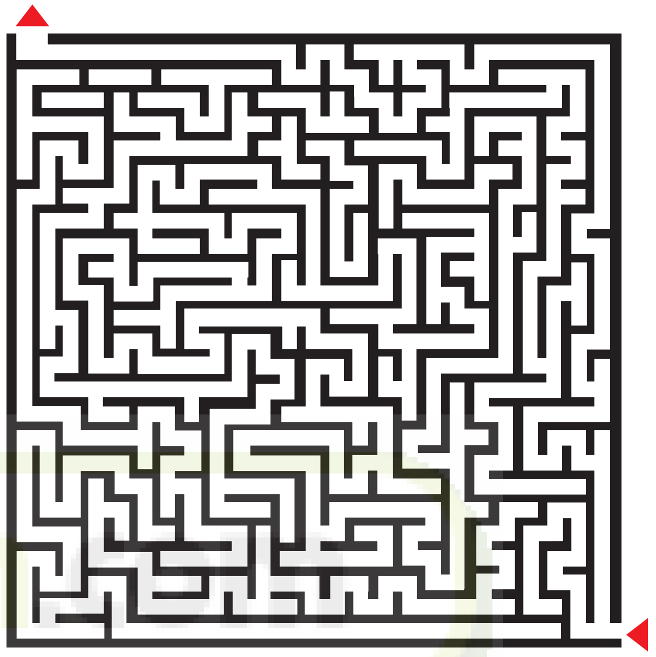

De-mazing the downturn!

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South Asian Petrochem Limited | Annual Report 2008-09

Contents

Corporate Information

(as on 9th May, 2009)

Board of Directors:

P K Khaitan, Chairman

C K Dhanuka, Vice- Chairman

J P Kundra

Dr B Sen

Y F Lombard

P Murari

S Bagaria

S Bhattacharyya
(Nominee of Exim Bank of India)

S K Pai
(Nominee of IDBI Bank Ltd.)

Executive Director & CEO

B Chattopadhyay

Executive Director

M Dhanuka

Executive Director (Corporate)

B K Biyani

Senior Vice President (Finance) & CFO

R K Sharma

Company Secretary & Compliance Officer

K V Balan

Auditors

Lovelock & Lewes

Bankers & Financial Institutions

Bank of Baroda

Bank of India

Canara Bank

Deutsche Bank

Export-Import Bank of India

ICICI Bank Limited

IDBI Bank Limited

International Finance Corporation, Washington

Punjab National Bank

State Bank of India

State Bank of Travancore

Syndicate Bank

United Bank of India

Registered Office

Dhunseri House
4A, Woodburn Park
Kolkata – 700020, India

Plant

JL-126
Mouza- Basudevpur, Haldia,
District: Midnapore (East),
Pin-721 602
West Bengal, India

The year 2008-09 was the start of a global economic slowdown.

Most of our shareholders would be keen to know how we are responding to it.

We are doing so in the way we know best.

By growing our way out of the slowdown.

The most effective way of responding to it.

The PET resin market on the one hand. The global economic slowdown on the other.

Eventually, the former prevailed.

The evidence: the global PET resin market grew 3% in 2008-09.
In a year when most PET resin plants around the world operated at around 70% capacity, SAPL operated at near 100% capacity.

This out performance reinforces SAPL's position as a growing global proxy in a dynamic business.

who we are

Parentage

- The Company is a 100% export-oriented unit established in 1996 belonging to the illustrious Dhunseri Group promoted by the industrialist Dhanuka family of Kolkata.
- The group entered the business of tea production and marketing in 1956 and now owns 12 tea estates across eastern India.

Public holding

- The Company's stock is actively traded on the National Stock Exchange and Bombay Stock Exchange.
- Market capitalisation of Rs. 177.42 crore as on 31st March 2009
- Promoter holding of 55.91% as on 31st March 2009

World-class technology

- Established the 200,000-TPA plant with state-of-the-art technology from Zimmer AG of Germany
- Completed plant automation, establishing its position as one of the world's most modern PET resin manufacturing plants

Location

- ▶ Headquartered in Kolkata
- ▶ PET resin plant spread across 35 acres in Haldia, the strategic port town of West Bengal

Products

- ▶ The Company is among the largest South Asian PET resin manufacturers
- ▶ Products find applications in the packaging of mineral water, carbonated soft drinks, edible oil, cosmetics, toiletries, beer, milk, hot-fill drinks and juices.
- ▶ Product range comprises the finest bottle grade, sheet grade and jar grade PET resin

Award

- ▶ The Company has received the award for the 'Best EOU' (export-oriented unit) in the non-SSI category (plastic products) from the Export Promotion Council for EOUs and SEZs, Ministry of Commerce and Industry, Government of India

Market

- ▶ The Company enjoys a 60-nation footprint across Asia, Africa, Europe and the Americas.
- ▶ Customer portfolio comprises multinationals that provide repeat business.
- ▶ Enjoys substantial domestic presence.

Accreditations

- ▶ The Company received quality certifications from renowned national and international agencies like the USFDA, EC, Japanese and Canadian Food and Health Bodies and ITRC.
- ▶ Received ISO 9001:2000 certification from TUVNORD in 2006-07, endorsing its quality commitment.
- ▶ Also received ISO 14001: 2004 and BS OHSAS 18001: 2007 certifications.

New ventures

- ▶ The Company's world scale greenfield project in Egypt is expected to commence by 2012.

Vice Chairman's overview

"It is the combination of these three realities – a bullish India, an under-penetrated rural India and a proactive corporate agenda – that gives me the optimism that we will enhance value in a sustainable way for our stakeholders over the coming years."

Mr. C. K. Dhanuka, *Vice Chairman,* South Asian Petrochem Limited, outlines the Company's performance in the year under review and reasons for optimism in the foreseeable future.

The year 2008-09 was one of the most challenging we have ever seen in our working lives.

As the global financial markets crashed in the last quarter of 2008, consumer confidence disappeared and realisations of a number of commodities declined steeply.

At South Asian Petrochem Ltd, we were not insulated from this meltdown. We were affected by this crisis in the following ways:

▸ Oil prices declined from a high of USD 147/ bbl in July 2008 to USD 38/ bbl during the year 2008-2009 and then USD 50/bbl in March 2009; correspondingly PET resin realisations dropped from USD 1,500/tonne to USD 750/tonne. We were relatively insulated as it is our organisation's practice to keep a minimum raw material inventory based on our existing production schedule.

Our production cost per unit declined owing to better inventory management, energy conservation and enhanced productivity even as production increased.

▶ Despite difficult times our buyers honoured their commitments and we marketed our entire production operating at near 100% capacity.

▶ A sharp decline in PTA prices in September 2009 in the aftermath of the decline in crude prices compelled us to shut for 10 days to pre-empt further inventory losses.

▶ As the financial crisis precipitated, there was a flight of capital out of India leading to a sharp weakening of the Indian currency against the US dollar. Given the fact that the Company had a forex debt of USD 38.49 mn as at 31st March 2009, the weaker rupee required us to mark our debt to the market value of the Indian rupee. This resulted in a forex loss – not a cash outgo - of Rs. 40 cr in 2008-09.

SAPL's business-strengthening initiatives

SAPL performed creditably in the circumstances.

In 2008-09, we grew our production, sales and cash profit over 2007-08 (without considering the forex loss/gain on term loans). Our production cost per unit declined owing to better inventory management, energy conservation and enhanced productivity even as production increased. This assured our shareholders that we strengthened our core competence even in a challenging year.

Reduced power cost: We are investing Rs. 40 crore in an 8-MW coal-fired captive power plant, possessing the versatility to use low F-grade coal. This investment is being made because the cost of furnace oil increased to a peak of Rs. 37 per kg in 2008-09 (from Rs. 8 per kg in 2003). In 2008-09, the satisfactory running of coal-fired HTM made it possible for us to reduce our fuel costs.

PTA delivery: For years we used pneumatic conveyors to transfer PTA from bags to storage/feeding silos. We are planning to replace this with a mechanical conveyor that will consume negligible power, the capital cost of which will be recovered within a year.

Catalyst: The Company proposed to change the polymerisation catalyst from antimony triacetate to antimony trioxide, which will result in substantial cost savings without compromising product quality.

Inventory management: Taking advantage of the location of PTA source, we reduced inventory. Our MEG supplies, sourced internationally, resulted in some inventory loss. We reduced the inventory of our finished products, liberating our cash flow.

Production: Despite a planned shutdown, we achieved a production of 1,92,000 TPA in 2008-09 and are expecting to increase production in the coming year.

Our counter-strategies to beat the global economic slowdown

I am particularly optimistic of our prospects for some good reasons. The Indian PET industry is growing at a healthy rate annually which is considerably higher than the average global growth rate.

Road ahead

At a time when there is a crisis of investing confidence, your management has decided to proceed with its decision to commission a new PET resin plant in Egypt.

We would like to assure our shareholders that even in this global slowdown, the prospects of the plant continue to remain attractive and viable. Moreover, we have achieved financial closure, which makes the plant commissioning a certainty.

There was a delay in the commissioning of this plant due to relocation of the plant site and the resultant statutory clearances linked to the new site. Notwithstanding our earlier proposal to set up a 900-TPD bottle grade PET resin plant at Egypt, I am pleased to state that we relocated the plant to a new, comparable tract at Port Said with a nameplate capacity of 1200 TPD to achieve superior economies of scale.

The prospects of this expansion are assured for the following reasons:

- As opposed to the earlier plan of erecting a plant with an installed capacity of 900 TPD, we expect to now commission a plant of around 1200 TPD, resulting in superior economies of scale.
- Our proposed Egyptian unit will be located a mere 5 km from the port, making it easy to import raw material and dispatch finished products; our Egyptian location will make it possible to deliver finished products to any European market within 48 hours and to any US port within a week.

▶ We are undertaking cost reduction initiatives through the installation of a captive coal-fired power plant, replacement of pneumatic conveying system of PTA with a tube chain conveyor and the introduction of a new catalyst in the process.

▶ We maintained an optimum minimum inventory of a key raw material (PTA) to minimise the prospect of an inventory loss at a time of volatile price movement.

▶ We reduced the finished goods inventory cycle by 19% in 2008-09 through superior inventory management.

▶ We strengthened the product portfolio and customer presence through the introduction of a wider product range.

▶ We accelerated the project planning for a new PET plant in Egypt to gain access into the African and Middle Eastern markets.

▶ Our Egyptian plant's power cost will be 30% lower than the corresponding cost within India.

▶ The plant will capitalise on the proximity of raw materials (PTA+MEG) from Saudi Arabia, Europe and the Middle East, reducing logistic costs; it will also capitalise on the proximity of consuming markets like Europe, Israel, N. Africa, N. America and Egypt. The size of the Egyptian and neighbouring markets are estimated at 1,00,000 tonnes per annum while the size of the European market is estimated at 3.763 mn tonnes.

▶ The plant will enjoy a free-zone status with all corresponding fiscal and trade incentives.

Optimism

At South Asian Petrochem in 2009-10, we are looking to a stabilise topline on the one hand and improve bottomline on the other. The divergence would be on account of a decline in the production cost on various measures initiated by the Company. We also expect to install a coal-based power plant (to be commissioned by the first quarter of 2010), the benefits of which will be evident in 2011-12. The result is that the Company expects to emerge as one of the most competitive in the world.

I am particularly optimistic of our prospects for some good reasons. The Indian PET industry is growing at a healthy rate annually, which is considerably higher than the average global growth rate.

I am optimistic that India will sustain its growth rate owing to an increase in disposable incomes and a greater respect for hygiene. Interestingly, much of the Indian growth is coming out of rural India, which continues to be under-penetrated.

It is the combination of these three realities – a bullish India, an under-penetrated rural India and a proactive corporate agenda – that gives me the optimism that we will enhance value in a sustainable way for our stakeholders over the coming years.

Highlights

Financials

- Sales increased 10.61% from Rs. 100,466.11 lacs in 2007-08 to Rs. 111,123.38 lacs in 2008-09
- EBIDTA declined 43.37% from Rs. 12,678.82 lacs in 2007-08 to Rs. 7,180.55 lacs in 2008-09
- Pre-tax profit declined 71.88% from Rs. 7,413.12 lacs in 2007-08 to Rs. 2,084.30 lacs in 2008-09
- PAT declined 71.66% from Rs. 5,552.86 lacs in 2007-08 to Rs. 1,573.43 lacs in 2008-09

Operational plans

- Install an 8-MW coal fired captive power plant, enabling electricity generation from low grade coal and a substantial power cost reduction
- Replace compressors with a mechanical chain conveyor for PTA conveying, reducing power consumption from 500 KW to 15 KW
- Use of antimony trioxide, a new catalyst

Marketing

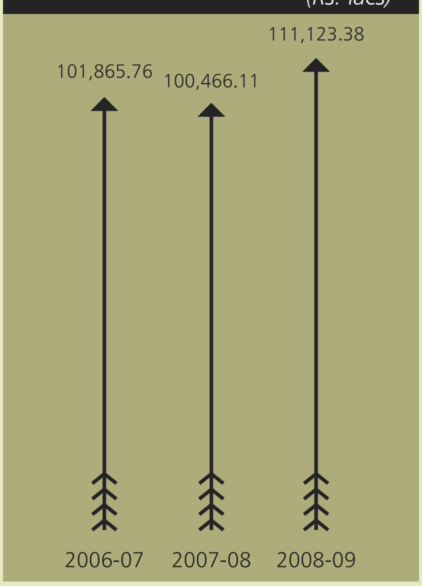
- Increased our proportion of revenues derived from within India as a proportion of our total revenues from 36% in 2007-08 to 42% in 2008-09
- Derived 39% of our exports from Europe and the Middle East

Project Egypt

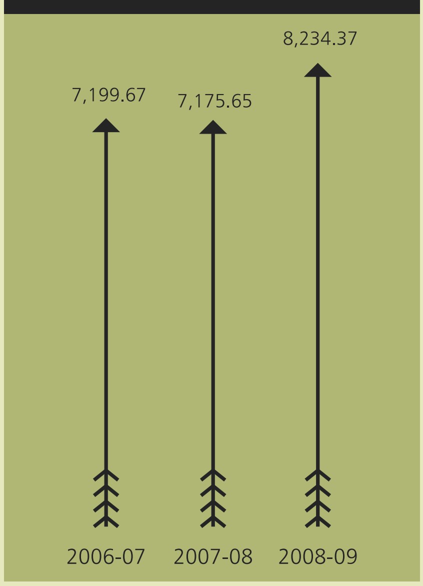
The Company's proposed 1,200-TPD greenfield project in Egypt will facilitate easy raw material procurement from Saudi Arabia and Middle East; it will also enable the Company to market its products deeper in these markets and strengthen its brand in US and the European Union owing to freight savings and quicker delivery.

What our numbers indicate

Revenue (Turnover net of excise) *(Rs. lacs)*



Cash profit* *(Rs. lacs)*



* Without considering the forex loss/gain on term loans

Contribution of domestic market to total revenue