37th

ANNUAL REPORT 2008

SPIC

Nourishing growth

Southern Petrochemical Industries Corporation Limited

SPIC
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Southern Petrochemical Industries Corporation Limited

Board of Directors

Dr A C Muthiah	Chairman
Ashwin C Muthiah	Vice Chairman
Kumar Jayant, IAS	Director
M F Farooqui, IAS	Director
Surjit K Chaudhary, IAS	Director
N R Krishnan	Director
M Jayasankar	Director
Jawahar Vadivelu	Director
K Natarajan	Director

Secretary

N Ramakrishnan

Auditors

Fraser & Ross
Chartered Accountants, Chennai

Bankers

Indian Bank	Dena Bank	State Bank of Patiala
Canara Bank	Tamilnad Mercantile Bank Limited	The Bank of Rajasthan Limited
State Bank of Bikaner and Jaipur	Central Bank of India	State Bank of Travancore

Registered Office

73 Armenian Street, Chennai 600 001

Principal Office

SPIC House, 88 Mount Road
Guindy, Chennai 600 032
Voice: +91.44.22350245
Fax: +91.44.22352163
Email: spiccorp@spic.co.in
Corporate website: www.spic.in

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SPIC Nourishing growth

SOUTHERN PETROCHEMICAL INDUSTRIES CORPORATION LIMITED

Registered Office: 73 Armenian Street, Chennai - 600 001.
Principal Office: SPIC House, 88 Mount Road, Guindy, Chennai - 600 032.

NOTICE

NOTICE is hereby given that the **THIRTY-SEVENTH ANNUAL GENERAL MEETING** of the Members of Southern Petrochemical Industries Corporation Limited will be held on Thursday, 25 September 2008 at 3.15 P.M. at Rajah Annamalai Hall, Chennai - 600 108, to transact the following business:

ORDINARY BUSINESS

1. To receive, consider and adopt the audited Balance Sheet of the Company as at 31 March 2008 and the Profit and Loss Account for the year ended on that date and the Reports of the Directors and Auditors thereon.
2. To elect a Director in place of Thiru Jawahar Vadivelu, who retires by rotation and, being eligible, offers himself for re-election.
3. To appoint Auditors and fix their remuneration. Fraser & Ross, the retiring Auditors are eligible for re-appointment.

SPECIAL BUSINESS

4. To consider and if thought fit, to pass, with or without modification, the following resolution as an ORDINARY RESOLUTION:

   "RESOLVED THAT Thiru M Jayasankar, whose period of office shall be liable to determination by retirement of Directors by rotation, be and is hereby appointed a Director of the Company."

5. To consider and if thought fit, to pass, with or without modification, the following resolution as an ORDINARY RESOLUTION:

   "RESOLVED THAT in furtherance of the resolution passed by the Members of the Company at the 36th Annual General Meeting held on 10 April 2007, re-appointing Fraser & Ross, Chartered Accountants as Auditors of the Company, to hold office from the conclusion of the 36th Annual General Meeting till the conclusion of the 37th Annual General Meeting, on a remuneration of Rs.25 lacs plus service tax as applicable and reimbursement of out-of-pocket expenses incurred, approval of the Members be and is hereby further accorded, consequent to extension of the Company's financial year, 1 October 2006 to 30 September 2007, by six months viz, up to 31 March 2008, for payment of an additional sum of Rs. 12,50,000/- (Rupees twelve lac fifty thousand only), as remuneration, plus service tax as applicable and reimbursement of out-of-pocket expenses incurred, to Fraser & Ross, Chartered Accountants, for audit of the financial accounts of the Company relating to the said extended period."

(By Order of the Board)
For SOUTHERN PETROCHEMICAL INDUSTRIES CORPORATION LTD.

Place : Chennai
Date : 21 August 2008

N RAMAKRISHNAN
Secretary

NOTES:

1. **A MEMBER ENTITLED TO ATTEND AND VOTE AT THE MEETING IS ENTITLED TO APPOINT A PROXY TO ATTEND AND ON A POLL, TO VOTE INSTEAD OF HIMSELF AND THE PROXY NEED NOT BE A MEMBER OF THE COMPANY. THE INSTRUMENT APPOINTING THE PROXY TO BE VALID SHALL BE DEPOSITED AT THE REGISTERED/PRINCIPAL OFFICE OF THE COMPANY NOT LATER THAN FORTY-EIGHT HOURS BEFORE THE TIME FIXED FOR HOLDING THE MEETING.**
2. Explanatory Statement of material facts pursuant to Article 76 of the Articles of Association read with Section 173(2) of the Companies Act, 1956, for Item Nos.4 and 5 of the Notice is annexed hereto.
3. The Register of Members and the Share Transfer Register of the Company will remain closed from Thursday, 11 September 2008 to Thursday, 25 September 2008 (both days inclusive).
4. Members/Proxies should bring the Attendance Slip duly filled in for attending the Meeting. For shares held in dematerialised form, the Depository Participant (DP) ID and Client ID numbers should be indicated in the Attendance Slip.
5. For shares held in physical form, any change in address/other details may be intimated immediately to the **Registrar and Transfer Agents viz, Cameo Corporate Services Limited, "Subramanian Building", 1 Club House Road, Chennai - 600 002** by quoting the Folio Number(s). For shares held in demat form, change in address/other details may be intimated directly to the Member's DP.
6. As per the requirements of Section 205A of the Companies Act, 1956, the Company has transferred unclaimed dividends up to 1993-94 to the General Revenue Account of the Central Government and in respect of 1994-95 to 1999-2000 to the Investor Education and Protection Fund constituted by the Central Government. In respect of the amounts remaining in the Unpaid Dividend Account for 2000-01, the Company would transfer the same, at the expiry of seven years, by mid-October 2008 to the aforesaid Fund. Upon such transfer, a Member shall have no claim against the Fund or the Company regarding his unpaid dividend. **Members are therefore requested to promptly lodge their claims for unpaid dividend, if any, in respect of 2000-01 with the Registrar and Transfer Agents or the Company, on or before 27 September 2008.**
7. The Company's Equity Shares are listed on the National Stock Exchange. Annual listing fee has been paid to the said Exchange in time.
8. MEMBERS HOLDING SHARES IN PHYSICAL FORM ARE ENCOURAGED TO NOMINATE A PERSON TO WHOM THEIR SHAREHOLDING IN THE COMPANY SHALL VEST IN THE EVENT OF DEMISE. Nomination forms will be sent to the Members on request by the Registrar and Transfer Agents.

Annexure to Notice

Details of the Directors seeking re-election/appointment at the 37th Annual General Meeting vide Item Nos. 2 and 4 of the Notice dated 21 August 2008

[Pursuant to Clause 49(IV)(G) of the Listing Agreement]

The resume in brief/other details of the Directors, whose re-election/ appointment is for the consideration of the Members at the ensuing 37th Annual General Meeting, are furnished hereunder:

Thiru Jawahar Vadivelu

Thiru Jawahar Vadivelu, 43, holds Master of Business Administration degrees from the Graduate School of Business, University of Chicago, U.S.A. and the Asian Institute of Management, Philippines. Thiru Jawahar has also done a programme in Investment Banking at the London Business School, U.K. He has rich experience in a broad spectrum of financial services.

Thiru Jawahar Vadivelu is the Chairman of Cameo Corporate Services Ltd, Navia Markets Ltd, Cameo Wealth Management Services Private Ltd and Maplewood Financial Services Private Ltd. He is also a Director of National Trust Housing Finance Ltd, ACM Medical Foundation and ACM Educational Foundation.

Thiru Jawahar Vadivelu also holds positions in Board-Committees, as a Member of the Audit Committees of the Company and of National Trust Housing Finance Ltd.

Thiru Jawahar Vadivelu does not hold any shares of the Company.

Thiru M Jayasankar

Thiru M Jayasankar, 72, a chemical engineer, was the President (Managing Director) of Tuticorin Alkali Chemicals and Fertilisers Limited (TAC) for eight years till his superannuation in 1999. Prior to the assignment with TAC, he was with Tata Chemicals Ltd, for 15 years. Thiru Jayasankar is presently a project consultant in the soda ash and allied chemical fields.

Thiru Jayasankar is a Director of Tuticorin Alkali Chemicals and Fertilisers Ltd, Vibrant Specialty Chemicals Ltd and Kamakshi Lamipack Private Ltd.

Thiru Jayasankar also holds positions in various Board-Committees. He is a member of the Shareholders'/Investors' Grievance Committees of the Company and of Tuticorin Alkali Chemicals and Fertilisers Ltd, and of the Audit Committees of the Company and of Tuticorin Alkali Chemicals and Fertilisers Ltd.

Thiru Jayasankar holds 650 equity shares of the Company.

EXPLANATORY STATEMENT

PURSUANT TO SECTION 173(2) OF THE COMPANIES ACT, 1956, READ WITH ARTICLE 76 OF THE ARTICLES OF ASSOCIATION OF THE COMPANY

The following Explanatory Statement sets out the material facts referred to in Item Nos.4 and 5 of the Notice convening the 37th Annual General Meeting:

Item No. 4

Thiru M Jayasankar was appointed an Additional Director of the Company by the Board of Directors at the Meeting held on 30 April 2007.

As per the provisions of Section 260 of the Companies Act, 1956, read with Article 106 of the Articles of Association of the Company, Thiru M Jayasankar will hold office up to the date of this Annual General Meeting. Notice proposing his candidature for appointment as Director under Section 257 of the Companies Act, 1956, together with the requisite deposit has been received from a Member.

The Board commends the election of Thiru M Jayasankar as Director of the Company for the approval of Members.

Memorandum of Interest

Except Thiru M Jayasankar, none of the Directors of the Company is interested in this resolution.

Item No. 5

At the 36th Annual General Meeting of the Members of the Company held on 10 April 2007, Fraser & Ross, Chartered Accountants, were re-appointed Auditors of the Company to hold office from the conclusion of the said Annual General Meeting till the conclusion of the 37th Annual General Meeting on a remuneration of Rs.25 lacs plus service tax as applicable and reimbursement of out-of-pocket expenses incurred.

Consequent to, and arising from, the extension of the Company's financial year, 1 October 2006 to 30 September 2007, by six months viz, up to 31 March 2008, an additional sum of Rs.12.50 lacs is to be paid to the Auditors, as remuneration, plus service tax as applicable and reimbursement of out-of-pocket expenses incurred, for the work performed by them in auditing the Company's financial accounts relating to the extended period of the financial year.

The Board commends the resolution for the approval of Members.

Memorandum of Interest

None of the Directors of the Company is interested in the aforesaid resolution.

(By Order of the Board)
For SOUTHERN PETROCHEMICAL INDUSTRIES CORPORATION LTD.

Place : Chennai
Date : 21 August 2008

N RAMAKRISHNAN
Secretary

SPIC
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Financial Performance Summary

Particulars	SPIC Consolidated			SPIC Standalone		
	2008 USD Million (18 months)	2008 Rs in lac (18 months)	2006 Rs in lac (18 months)	2008 USD Million (18 months)	2008 Rs in lac (18 months)	2006 Rs in lac (18 months)
Total Income	648.95	259384.57	421769.03	389.21	155565.67	333219.26
PBDIT	17.93	7166.77	16621.00	(13.97)	(5585.07)	(779.14)
Interest	99.20	39650.22	31250.06	95.66	38234.81	29911.49
Depreciation	50.51	20190.48	15207.60	31.50	12590.48	8257.01
Profit Before Tax (PBT)	(131.78)	(52673.93)	(29836.66)	(141.13)	(56410.36)	(38947.64)
Tax	4.27	1708.43	740.30	0.68	272.05	134.94
Profit After Tax (PAT)	(136.06)	(54382.36)	(30576.96)	(141.81)	(56682.41)	(39082.58)
Equity share capital	30.13	12044.82	12044.82	30.13	12044.82	12044.82
Reserves and surplus	80.79	32292.14	35347.46	59.47	23770.87	23770.87
Gross fixed assets	945.91	378081.39	387728.58	676.51	270402.53	276210.11
Net fixed assets	464.90	185819.09	201646.68	330.48	132094.40	143260.47
Total assets	1658.62	662949.25	537548.06	725.41	289946.44	249998.36

As on 31 March 2008, 1 USD = Rs.39.97

DIRECTORS' REPORT

Your Directors present their 37th Annual Report together with the audited statement of accounts of the Company for the 18-month period ended 31 March 2008.

OPERATING RESULTS

(Rupees in crore)

	2006-2008 (18 months)	2005-2006 (18 months)
Sales and services	1477.50	3274.29
Other income	78.16	57.90
Total income	1555.66	3332.19
Manufacturing and other costs	1611.50	3339.98
Profit before interest, depreciation and tax	(55.85)	(7.79)
Interest	382.35	299.11
Depreciation	125.90	82.57
Total expenditure	2119.76	3721.66
Profit/(loss) before tax	(564.10)	(389.48)
Provision for tax	2.72	1.35
Profit/(loss) after tax	(566.82)	(390.83)

SPIC operates its business in four divisions:

1. The **Fertilizer** Division manufactures fertilizers and fertilizer intermediates.
2. The **Pharmaceuticals** Division manufactures Penicillin-G Potassium (fermentation-based), active pharmaceutical ingredients (APIs), finished dosage products, industrial enzymes and plant-based nutraceuticals.
3. The **Engineering/Construction Services** Division offers specialized and extra high voltage transmission line construction, railway electrification, operation and maintenance and related engineering services.
4. The **Agri-business** Division offers products for sustainable agricultural development with a global footprint—tissue culture plants, hybrid seeds, bio-fertilizers, bio-pest control agents for eco-friendly crop production.

SPIC's strategic investments *inter alia* in subsidiaries and joint ventures are as follows:

Indo-Jordan Chemicals Company Limited, Jordan

Manufacture of phosphoric acid, sulphuric acid

SPIC Fertilizers and Chemicals FZE, Dubai

Manufacture of ammonia, urea

SPIC Petrochemicals Limited, India

Manufacture of polyester filament yarn (PFY), purified terephthalic acid (PTA)

Ind-Ital Chemicals Limited, India

Manufacture of synthetic resins, both liquid and powder, used in automotive, abrasives, railway brake blocks, paints and inks

Orchard Microsystems Limited, India

IC design

Tamilnadu Petroproducts Limited, India

Manufacture of linear alkyl benzene (LAB); epichlorohydrin (ECH); heavy alkalyte; caustic soda; chlorine; hydrochloric acid; ammonium chloride; sodium hypochlorite

Technip India Limited, India

Global engineering, procurement and construction (EPC) services for refinery, oil and gas, petrochemical, chemical, fertilizer, power, environmental and pharmaceutical industries

EDAC Engineering Limited, India

Electro-mechanical erection works for power, petrochemical and industrial plants. Fabrication of structural, piping, ducting, tanks, vessels, non-pressure components and windmill towers, used in power, petrochemical and infrastructure sectors. Deputation of specialized manpower to overseas project sites

Tuticorin Alkali Chemicals and Fertilisers Limited, India

Manufacture of soda ash, ammonium chloride, sodium bicarbonate, ammonium bicarbonate and bio-products

Manali Petrochemical Limited, India

Manufacture of propylene oxide, propylene glycol, polyols

SPEL Semiconductor Limited, India

Turnkey wafer sort; IC assembly; test sub-contracting

OPERATIONS

Fertilizer Division

The Fertilizer Division produced 257,701 metric tonnes (MT) of urea and 220,902 MT of phosphatic fertilizers during the 18-month period ended 31 March 2008. Sale of urea and phosphatic fertilizers were 263,590 MT and 224,188 MT respectively.

The production and sales performance of the Fertilizer Division for the period under review as compared with performance during the previous three financial years, is as follows:

Product	Category	2003-04	2004-05	2005-06 (18 months)	2006-08 (18 months)
Urea	Production	621,078	678,810	983,207	257,701
	Sales	635,727	661,434	1,008,237	263,590
DAP	Production	313,062	369,525	519,618	193,905
	Sales	316,096	369,717	519,246	194,405
Complex Fertilizer	Production	11,508	34,656	14,805	26,997
	Sales	14,259	32,172	14,275	29,783
ALF_3	Production	4,008	3,411	6,566	6,132
	Sales	3,045	5,905	6,524	6,234
Gypsum	Sales	4,57,850	5,57,565	9,59,801	3,17,054

Due to constraints of working capital, urea production remains suspended since April 2007.

Some of the Fertilizer Division's operational achievements during 2006-08 were:

- Aluminium flouride plant capacity was augmented to produce 25 MT/day and a record monthly production of 738.24 MT was achieved during September 2007.
- Environmental clearance has been obtained from the Ministry of Environment & Forests, Government of India, for the enhanced production capacities of urea, di-ammonium phosphate (DAP) and aluminium fluoride at our fertilizer complex.
- Despite shut down, the plant and machineries are maintained in good condition.

- Technical studies on plant's fuel and feed switch over to natural gas (NG) are being carried out.

Market scene

The performance of the Fertilizer Division, as Indian agriculture, depends to a large extent on the monsoon. The major cropping seasons in India are the *kharif* and *rabi*. The *kharif* season is during the south-west monsoon, between June and September, in the rain-fed and irrigated parts. The *rabi* season is during the north-east monsoon, between October and December, when agricultural activity shifts to the irrigated parts.

The monsoons during the period were more or less normal except the north-east monsoon 2007, which was exceptionally good. Tamilnadu, Andhra Pradesh and Karnataka received copious rains, which ensured recharge of the water table.

Awards won by Fertilizer Division in 2006-08

- Fertilizer Association of India award for *Best environmental protection in 2006-07; SPIC's NP/NPK fertilizer plant* was the best among India's fertilizer units.
- "International Safety Award for the year 2006" was received in 2007 from the British Safety Council, UK, for the 28th consecutive year.

Fertilizer industry scenario

India is the third largest producer and consumer of chemical fertilizers and accounts for about 13% of total global consumption. Indian fertilizer industry's growth and development is directly linked to the performance of the agricultural sector. There has been an uneven growth in consumption in the past few years as the same is directly related to monsoon; however, the growth in consumption of total nutrients during 2007-08 has been estimated at 22.59 million MT (MMT) as against 22.04 MMT during 2006-07. Consumption of Nitrogen (N) marginally increased to 14.51 MMT from 14.05 MMT, whereas consumption of Phosphatics (P_2O_5) marginally declined to 5.47 MMT from 5.66 MMT. Potash (P) consumption registered a growth of 2.61 MMT from 2.33 MMT. Lower consumption of P_2O_5 was mainly attributable to inadequate availability.

While the consumption is in increasing trend, production has not increased to the required level. In fact, production of N and P at 10.902 MMT and 3.709 MMT during 2007-08 showed a decline of 5.4% and 16.5% respectively over the production achieved in 2006-07.

The gap between the demand and indigenous production is met out of imports; urea import was high at 6.93 MMT during the current year as against 4.72 MMT during the previous year; DAP and muriate of potash (MoP) imports were at 2.72 MMT and 4.42 MMT respectively during the year as against 2.88 MMT and 3.45 MMT respectively imported during the previous year.

Steep increase in import of fertilizers and its intermediates by the country as well as surging global demand for fertilizers for the bio-fuel segment pushed up fertilizer price manifold. To illustrate, in just over twelve months, the price of urea has increased from USD 328/MT to USD 840/MT, DAP, from USD 395/MT to USD 1268/MT and phosphoric acid, from USD 560/MT to USD 2300/MT. Despite such a steep price rise in the international market, the farm gate price has remained static since 2002, which has resulted in the fertilizer subsidy bill burgeoning to over Rs.1 lac crores during 2007-08.

Lag in reimbursement of input-cost escalation

There has been an average increase of 40% in the price of petroleum inputs in the last 18 months. The spiraling input cost has strained the working capital of fertilizer companies. This is due to the fact that reimbursement of input-cost escalation by the Government is made after a lag of more than twelve months. This will require significant additional working capital and place enormous strain on the profitability of fertilizer manufacturing companies.

New Pricing Scheme Stage-III

The Government has approved the New Pricing Scheme (NPS) Stage-III for urea units in the country. The scheme is effective from 1 October 2006 to 31 March 2010. The NPS Stage-III has been formulated keeping in view the recommendations of the Working Group on Urea Policy set up under the chairmanship of Dr Y K Alagh.

Under the NPS Stage-III, all the non-gas based urea units have to switch over to natural gas/liquefied natural gas (NG/LNG) within three years. Units not so converted within three years will be reimbursed concession only on the basis of the Import Parity Price (IPP) of urea. The Company has completed the technical feasibility for such feedstock conversion from naphtha to NG. The Company has initiated discussions with the prospective suppliers of NG for a long-term supply agreement. The Company is also actively pursuing the option of putting up a floating storage-cum-regasification unit (FSRU) through a competent agency, as a stopgap arrangement till such time NG is made available to the unit.

New Urea Investment Policy

The Government has recently approved the new Urea Investment Policy governing the revamp/expansion of existing units (brown-field units)/ setting up of new units (green-field units) and price recognition in respect of urea produced after such expansion/creation of new capacity.

- The new Policy provides *inter alia* that the additional urea from the revamp of existing units would be recognized at 85% of the IPP with the floor and ceiling price of USD 250/MT and USD 425/MT respectively.
- Urea from expansion of existing units (investments of more than Rs.3,000 crores) would be recognized at 90% of the IPP with the floor and ceiling price of USD 250/MT and USD 425/MT respectively.
- Price of urea from green-field units will be recognized through a bidding route with percentage discount over the IPP and with an appropriate floor and ceiling price, which will be worked out by the Department of Fertilizers, Government of India, based on prevailing gas prices.
- Coal gasification based urea projects would be treated at par with a brown-field or green-field project.
- Joint venture projects abroad will be encouraged through firm off-take contracts for a maximum quantity of 5 MMT, with pricing decided on the basis of prevailing market conditions and in mutual consultation with the joint venture company in accordance with the pricing principle recommended by Prof. Abhijit Sen Committee.

Pharmaceuticals Division

SPIC's Pharmaceuticals Division consists of four strategic sub-divisions, namely, Penicillin-G (Pen-G), active pharmaceutical ingredients (APIs), formulations and industrial enzymes.

In **Pen-G business**, production was 2,833 MMU in 2006-08 (18-month period) as against 2,961 MMU in 2005-06 (18-month period). Sales were

2,863 MMU during the period under review as against 3,103 MMU in 2005-06. The industry was subjected to a roller coaster ride during the period under review with the demand-supply and pricing of Pen-G fluctuating wildly, at levels never witnessed before. While international prices of Pen-G, till January 2007, hovered around USD 6.30 to 6.50 per BU (Billion Units) CIF, it rapidly doubled and almost tripled to USD 18.50 per BU, by April 2007. However, by mid-October 2007, prices started heading south, as rapidly as it had scaled the peak, to touch a bottom of USD 7 by January 2008, only to again rebound to USD 15 by March 2008. In line with the above trend, the unit's performance significantly improved during the period under review and sales realization was better than in the previous financial year, 2005-06 despite lower production and sales.

A significant jump in exports to 275 MMU was achieved during the year under review as against 87 MMU in 2005-06. Further market expansion is planned in the USA and Canadian markets in the coming years.

To beneficially tap and exploit the buoyant market conditions, it is proposed to invest further in technology to stabilize/exploit existing Pen-G strain and outsource and adopt new strain, de-bottleneck downstream process and upgrade utilities and accessories.

Further, a few niche products, with Pen-G as the raw material, like D-Penicillamine, Benzathine Penicillin, Procaine Penicillin, Penicillin-G Sodium, Bacampicillin and Penamicillin are also being planned for initiation/commercialization in the near future.

In **API business**, the generic drugs segment has emerged as a very promising market. SPIC Pharma was able to put up a stable and consistent performance during the period under review with substantial improvement in products, yields and costs, leading to higher contribution. The unit was able to forge good business relationships with some of the reputed players in this segment. New products like Morantal Tartrate, Pentosan Polysulfate, Topiramate, Venlaflaxine and Irbesartan were developed through in-house R&D (DSIR-accredited) and were commercialized. Trading opportunity was established in Omeprazole.

The unit has identified excellent business opportunities in some of the niche products like D-Penicillamine, Ipriflavone, Risedronate Sodium and Pentosan Polysulfate. The unit is gearing itself to cater to the low-volume, high-value segments backed by such niche products and is further pursuing opportunities in CRAMS (contract research and manufacturing services).

It is proposed to upgrade, modernize and augment the R&D facility and the API Plant to cater to the expanding market segment and aim for higher accreditations like current good manufacturing practice (cGMP), certificate of suitability (CoS) etc.

In **Formulation business**, the unit was able to secure and execute good export orders for its anti-histaminic products (syrups), anti-TB products, aerosol sprays etc, to African and Asian markets during the period under review. The unit proposes to concentrate on maximizing exports and make further forays into other overseas markets that offer good business potential in the near future. In addition to re-launching in-house marketing in Tamilnadu, the unit also expects to expand its reach into the other southern markets during the current year.

The unit has also commenced contract-manufacturing services for bulk customers and is looking at expanding the customer and product base. Having a strong base in Pen-G manufacture, the unit is proposing to set up a Betalactam formulation facility during the current year, to convert Pen-G into semi-synthetic Penicillins (SSPs) and Cephalosporins to tap domestic/overseas markets with an inherent cost advantage.

In **Industrial Enzymes business**, the potential for varied industrial application for enzymes has increased with existing and newer areas of application.

It is proposed to shift the plant from the existing location at Porur to Maraimalainagar, the objective being to synergize biotechnology into biopharmaceuticals, while investing further in technology to stabilize/exploit existing strain for Protease, Amylase and Pectinase and outsource and adopt new strain for Cellulase, Lypase, Phytase, de-bottleneck downstream process, upgrade utilities and accessories etc.

Strategic alliance for marketing/distributing/technical support services has been explored and formalization is on the anvil.

New leads for exports have been established and official launch in South-East Asia, Middle East and China is expected shortly.

The unit expects to strengthen itself and enhance its market share of enzymes for the leather and textile processing industries and poultry feed and supplement industries in the coming years.

Engineering/Construction Services Division

SPIC's Engineering/Construction Services Division (SPIC-SMO) has a long-standing expertise in implementing complex large-scale projects. In 2006-08, SPIC–SMO achieved a turnover of Rs.306.15 crores, an increase of 166% (Rs.184.45 crores in 2005-06) and executed in India and abroad several contracts involving extra-high voltage transmission lines, operation and maintenance, turnaround maintenance, inspection maintenance and repair services and railway electrification works.

Five major transmission line projects and one rural electrification project were successfully completed and commissioned during the year. Presently, three transmission line projects are under execution for Power Grid Corporation of India Ltd (PGCIL) in the regions of Chattisgarh, Madhya Pradesh and Tamil Nadu, and five projects in rural electrification works under the Government of India's Rajiv Gandhi Grameen Vidyutikaran Yojana/Accelerated Power Development and Reform Programme launched under the aegis of the Ministry of Power, Government of India, for PGCIL, in Uttar Pradesh and Rajasthan.

During the current year, SPIC-SMO bagged contracts for a value of Rs.256.68 crores from PGCIL, which include major contracts viz, (1) rural electrification works in Sultanpur, Uttar Pradesh and Jhalawar, Rajasthan under the Government of India's Rajiv Gandhi Grameen Vidyutikaran Yojana scheme for Rs.90.40 crores, (2) supply and construction of Korba–Birsinghpur 400 kV DC transmission lines (231 kms.) in Chattisgarh and Madhya Pradesh for Rs.91.63 crores and (3) supply and construction of Damoh–Bhopal 400 kV DC transmission lines (221 kms.) in Madhya Pradesh for Rs.74.65 crores. The group further bagged contracts for design, supply and construction for a value of Rs.16.58 crores from CORE, Allahabad for railway electrification works in Bhadrachalam, Andhra Pradesh.

PGCIL, in addition to its target of achieving 60,000 circuit kms. of extra high voltage transmission lines before 2012, also has plans to improve rural electrification through accelerated power development programmes and power system strengthening schemes in various states. The Indian Railways also have ambitious plans for electrification of many sections in the next few years. SPIC-SMO has plans to capitalize on these power sector development programmes in order to improve the business avenues.

Agri-business Division

In tissue culture, the thrust was on banana, gerbera and anthurium plants. 3.67 million banana plants (Rs.401.95 lacs), 0.99 million gerbera plants (Rs.256.20 lacs) and 0.04 million anthurium plants (Rs.77.20 lacs) were produced and sold during 2006-08. Total number of plants produced during the period was 4.7 million.

The seeds business achieved a turnover of Rs.1240.09 lacs. During the year, new hybrids in tomato and okra were launched for commercial marketing. It is also planned to deal in Bt. cotton seeds in the near future. Efforts are underway to expand the business in the northern and western states of the country. A foray into seeds export is also planned.

In respect of bio-products, sales of Neemgold, a neem-based bio-pesticide; Biogold, a bio-fertilizer; Cytozyme, a plant growth promoter and Wanis, a plant extract having fungi-static properties, aggregated Rs.613.73 lacs during the year.

SUBSIDIARIES/JOINT VENTURES/INVESTMENTS

Indo-Jordan Chemicals Company Limited, Jordan (IJC)

In 2006, IJC produced 233,090 MT of phosphoric acid, a capacity utilization of 104%. Sales for the year were 235,344 MT. As a result of the higher production and better realization, net profit for the year 2006 was USD 10.27 million.

In 2007, IJC's phosphoric acid production got restricted to 150,010 MT, a capacity utilization of 67%, due to plant equipment problem and unprecedented increase in the price of sulphur, a key raw material. Sale of phosphoric acid was at 148,086 MT. As a result of the lower production and steep increase in the price of raw material, IJC made a cash profit of USD 5.65 million in 2007.

Action has been initiated to make the plant run at full capacity and the rise in price of raw materials (sulphur and rock phosphate) is expected to be compensated by increase in the price of phosphoric acid from April 2008.

SPIC Fertilizers And Chemicals FZE, Dubai (SFC)

SFC's efforts to relocate the project, after securing commitment for firm supplies of gas, are still continuing. The Jebel Ali Free Zones Authority (JAFZA) is also assisting SFC in its efforts to tie-up gas for the project, so that the plant could be completed and advantage taken of the prevailing good international demand for fertilizers. Other options to implement the project are also being examined.

SPIC Petrochemicals Limited (SPIC Petro)

SPIC Petro's project for manufacture of purified terephthalic acid (PTA) and polyester filament yarn (PFY) is presently under revival.

Asset Reconstruction Company (India) Ltd [ARCIL] has acquired the loan facilities/rights of some of the lenders such as ICICI Bank, Bank of Baroda and Dena Bank. Industrial Development Bank of India Ltd has also re-assigned its loan facilities/rights to its Stressed Assets Stabilization Fund [SASF]. ARCIL/SASF together have acquired substantial quantities of debt extended to SPIC Petro.

As part of the revival process and to identify a joint venture partner interested in participation, ARCIL engaged Tata Consulting Engineers [TCE] to do a valuation of SPIC Petro's assets and to establish the sustainable debt level of the project. TCE has completed its study and submitted a report to ARCIL. The report has been quite positive about the value of the assets and the possibility of revival with an appropriate restructuring.

ARCIL had further entrusted the job of preparing the Information Memorandum to YES Bank, who have contacted a number of potential strategic and financial investors to help revive and complete the project.

Once the interest of the investor(s) in participating in the project has been established, ARCIL/YES Bank will proceed to negotiate with the short-listed investor(s). The investor(s) in turn may take some time to complete a due diligence and to finalize the transaction.

SPIC Petro is closely working with ARCIL on this exercise and the progress on the efforts taken has been satisfactory.

With the involvement of the lenders, for the first time, in the project revival, and the efforts taken so far, it is hoped that a new investor will be identified soon to restart the implementation of the PTA-PFY project of SPIC Petro.

Meanwhile, the validity of the license from Mitsui Chemicals, Japan, for the manufacture of PTA has also been extended up to March 2009.

Ind-Ital Chemicals Limited (Ind-Ital)

Ind-Ital's operations remained suspended during the year under review due to persisting labour issues affecting consequently, its operational viability.

Orchard Microsystems Limited (OML)

During the year under review, OML had become the wholly-owned subsidiary of SPIC, consequent to the merger of SPIC Holdings Ltd, the erstwhile holding company of OML, with SPIC, pursuant to the Scheme of Amalgamation sanctioned by the Hon'ble High Court of Judicature at Madras, by its Sanction dated 16 February 2007. During the financial years, 2006-07 and 2007-08, OML reported a cash loss of Rs.0.36 lacs and Rs.0.22 lacs respectively.

Tamilnadu Petroproducts Limited (TPL)

During 2007-08, TPL's epichlorohydrin (ECH) and chlor alkali plants achieved a capacity utilization of 89.7% (97% in 2006-07) and 99.5% (105% in 2006-07) respectively. In LAB business, TPL focused on remunerative sales volume by restricting the plant capacity. The plant on-stream factor was more than 95%. Export of LAB was maintained to have presence in international market.

As the fuel oil costs are soaring, various energy conservation measures have been taken to reduce fuel oil consumption. In LAB business, margins have shrunk due to excess availability of the product and unabated rise in prices of raw materials consequent to rise in crude prices. While energy costs are on a continuous rising trend, the full pass through in domestic prices did not happen due to global ECH prices. Import price is lesser than the domestic production cost. Also, the rupee appreciation coupled with reduced customs duty and FTA import were factors for preference to import. However, TPL was not