

## Southern Petrochemical Industries Corporation Limited

### Board of Directors

Dr A C Muthiah	Chairman
Ashwin C Muthiah	Vice Chairman
T K Arun	Director
B Elangovan	Director
M Jayasankar	Director
B Narendran	Director
Thirumathi Neeta Mukerji	Director
Dr (Thirumathi) S Revathi	Director

### Secretary

N Ramakrishnan

### Auditors

Fraser & Ross  
Chartered Accountants,  
ASV N Ramana Tower  
52 Venkatnarayana Road  
Chennai 600 017

### Bankers

Canara Bank	Dena Bank	Tamilnadu Mercantile Bank Limited
Central Bank of India	State Bank of Patiala	The Bank of Rajasthan Limited

### 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

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Corporate website: www.spic.in

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## 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-NINTH ANNUAL GENERAL MEETING** of the Members of Southern Petrochemical Industries Corporation Limited will be held on Tuesday, 21 September 2010 at 2.45 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 2010 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 M Jayasankar, who retires by rotation and, being eligible, offers himself for re-election.
3. To consider and if thought fit, to pass with or without modification the following resolution as an **ORDINARY RESOLUTION**:

"RESOLVED THAT M/s Fraser & Ross, Chartered Accountants, (Firm Registration No.000829S), the retiring Auditors, being eligible for re-appointment, be and are hereby re-appointed Auditors of the Company to hold office from the conclusion of this Annual General Meeting till the conclusion of the next Annual General Meeting on such remuneration as may be fixed by the Board of Directors of the Company."

#### SPECIAL BUSINESS

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

"RESOLVED THAT Dr (Thirumathi) S Revathi, 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 a **SPECIAL RESOLUTION**:

"RESOLVED THAT pursuant to Section 81(1A) and other applicable provisions, if any, of the Companies Act, 1956, the Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2009 (hereinafter referred to as the "SEBI ICDR Regulations") and the Securities and Exchange Board of India (Substantial Acquisition of Shares and Takeovers) Regulations, 1997, other applicable laws, rules, regulations, the Listing Agreement with the National Stock Exchange of India Limited, the Memorandum and Articles of Association of the Company, and in accordance with the restructuring package approved by the Corporate Debt Restructuring (CDR) Empowered Group at its meeting held on 24 February 2010 and communicated to the Company vide CDR Cell's letter no. BY CDR (JCP) no.1530/2009-10 dated 13 March 2010 and subject to such other approvals, as may be required, consent of the Company be and is hereby accorded to the Board of Directors (hereinafter referred to as "the Board"), which shall be deemed to include any duly authorized

Committee thereof, to issue and allot, on preferential basis, to secured lenders of the Company, as hereinafter mentioned, in one or more tranches, up to 44,05,259 (forty-four lacs five thousand two hundred fifty-nine) Equity Shares of the face value of Rs.10/- each, fully paid up, by way of conversion of the Company's secured debt to the said secured lenders, for a sum of up to Rs.837 lacs (inclusive of the premium), at an issue price of Rs.19/- per share, which includes a premium of Rs.9/- per share, which is not less than the price calculated in accordance with the SEBI ICDR Regulations and on such terms and conditions as may be deemed appropriate by the Board:

Sl. No.	Name of the proposed allottee	Amount of debt being converted into Equity (Rs. lacs)	No. of Equity Shares of Rs.10/- each, fully paid up, being allotted
1	Central Bank of India	317.40	16,70,526
2	Canara Bank (*)	166.80	8,77,894
3	State Bank of Patiala	127.20	6,69,473
4	Dena Bank	83.40	4,38,947
5	United Bank of India (*)	56.40	2,96,842
6	The Bank of Rajasthan Ltd	42.60	2,24,210
7	New India Assurance Company	22.80	1,20,000
8	Tamilnadu Mercantile Bank Ltd	11.40	60,000
9	State Bank of Hyderabad	6.00	31,578
10	Bank of Baroda	3.00	15,789
	Total	837.00	44,05,259

(\*) subject to receipt of confirmation

"RESOLVED FURTHER THAT the Relevant Date in relation to pricing of the aforesaid issue of Equity Shares, in accordance with the SEBI ICDR Regulations would be 24 February 2010, being the date of approval of the CDR package by the CDR Empowered Group."

"RESOLVED FURTHER THAT the Equity Shares being issued and allotted as aforesaid shall rank *pari passu* in all respects with the existing Equity Shares of the Company."

"RESOLVED FURTHER THAT the Board be and is hereby authorized in its entire discretion to decide to proceed with the issue of the shares and for the purpose of giving effect to

# Notice

this issue and allotment of Equity Shares, to do all such acts, deeds, matters and things as it may in its absolute discretion deem necessary or appropriate for such purpose, including without limitation, to seek listing of the Equity Shares on the National Stock Exchange of India Limited, with power on behalf of the Company to settle any question, difficulty or doubt that may arise in regard to such issue or allotment of shares and in complying with any Regulations, as it may in its absolute discretion deem fit, without being required to seek any further clarification, consent or approval of the

Members and that the Members shall be deemed to have given their approval thereto expressly by the authority of this resolution."

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

Place: Chennai

N RAMAKRISHNAN

Date : 11 August 2010

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 Tuesday, 7 September 2010 to Tuesday, 21 September 2010 (both days inclusive).
4. Members/Proxies should bring the Attendance Slip duly filled in for attending the Meeting. For shares held in dematerialized 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** (RTAs) 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 2000-01, to the Investor Education and Protection Fund constituted by the Central Government.
7. The Company's Equity Shares are listed at 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 RTAs.
9. As per SEBI directive, it shall be mandatory for the transferees to furnish self-attested copy of the PAN (Permanent Account Number) card to the Company/RTAs for registration of transfer/transmission/transposition of shares in the physical form.

### Inspection of documents

All material documents relating to the aforesaid items of business of the Notice are available for inspection by the Members at the Principal Office of the Company on any working day between 11.00 A.M. and 1.00 P.M. prior to the date of the Meeting.

#### Annexure to Notice

#### Details of the Directors seeking re-election/appointment at the 39<sup>th</sup> Annual General Meeting vide Item Nos. 2 & 4 of the Notice dated 11 August 2010

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

The resume in brief and other details of the Directors, whose re-election/appointment is for the consideration of the Members at the ensuing 39<sup>th</sup> Annual General Meeting, are furnished hereunder:

##### **Thiru M Jayasankar**

Thiru M Jayasankar, 74, a chemical engineer, was the President (Managing Director) of Tuticorin Alkali Chemicals and Fertilisers Ltd (TAC) for eight years till his superannuation in 1999. Prior to the assignment in TAC, he was with Tata Chemicals Ltd, for 15 years.

Thiru Jayasankar has over 35 years of experience in the chemical industry, in various functions such as operations, research and development, project development and execution. He has wide exposure in corporate and financial management. Presently, he is a practicing Project Consultant especially in the soda ash and allied chemical industry, both in India and abroad.

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

Private Ltd.

Thiru Jayasankar also holds positions in Board-Committees; as a Member of the Shareholders'/Investors' Grievance Committees of the Company and of TAC, and of the Audit Committees of the Company and of TAC.

Thiru Jayasankar holds 650 equity shares of the Company.

##### **Dr (Thirumathi) S Revathi**

Dr (Thirumathi) S Revathi, 57, is Additional Secretary, Industries Department, Government of Tamilnadu. She is one of the nominees of Tamilnadu Industrial Development Corporation Ltd, on the Board of Directors of the Company. She was appointed Director effective 16 September 2009.

Dr Revathi is also the Chairperson of Tamil Nadu Telecommunications Ltd.

Dr Revathi does not hold any 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 39<sup>th</sup> Annual General Meeting:

#### Item No. 4

Dr (Thirumathi) S Revathi was appointed an Additional Director of the Company by the Board of Directors effective 16 September 2009.

As per the provisions of Section 260 of the Companies Act, 1956, read with Article 106 of the Articles of Association of the Company, Dr Revathi will hold office up to the date of this Annual General Meeting. Notice proposing her candidature for appointment as Director under Section 257 of the Companies Act, 1956, together with the requisite deposit has been received from Tamilnadu Industrial Development Corporation Ltd (TIDCO) viz, a Member.

The Board commends the election of Dr. Revathi as a Director of the Company for the approval of Members.

#### Memorandum of Interest

Dr Revathi is interested in this resolution as it concerns her appointment. Thiruvalluvar T K Arun and B Elangovan, being nominees of TIDCO, may be deemed to be interested in this resolution.

#### Item No. 5

Members have earlier been apprised that the Company is in continuous discussion with Asset Reconstruction Company (India) Limited ("ARCIL"), who have acquired a significant quantum of assignment rights from the secured lenders of the Company, for restructuring the loan liability to a sustainable level.

In terms of the Rework (restructuring) package for the Company approved by the Corporate Debt Restructuring (CDR) Empowered Group at its meeting held on 24 February 2010, communicated to the Company vide CDR Cell's letter no. BY CDR (JCP) no.1530/2009-10 dated 13 March 2010, secured lenders of the Company have the option to convert a portion of the Company's debt to the extent of Rs.60 crores, in two tranches of Rs.30 crores each, by 31 March 2010 and by 30 September 2010 respectively, into fully paid-up Equity Shares of the face value of Rs.10/- each/-, towards payment of part of their dues at a price of Rs.20/- per share or as per the pricing guidelines of the Securities and Exchange Board of India, whichever is lower.

In this regard, as the Members may be aware, pursuant to the Members' approval, accorded by means of the Special Resolution, at the Extraordinary General Meeting held on 22 February 2010, secured debt of a sum of Rs.30 crores has been converted into equity, in the first tranche, by allotment, on 30 March 2010, of 1,66,66,666 Equity Shares of Rs.10/- each, at a price of Rs.18/- per share (inclusive of a premium of Rs.8/-) per share, to ARCIL, as provided in CDR Cell's letter referred to hereinbefore.

In respect of the conversion of the second tranche of secured debt, advice has been received from ARCIL, vide its letter

ref.ARG II/SG/FY11/5049 dated 4.8.2010, that six banks viz, (i) Central Bank of India (holding 5.29% share in the secured debt of Rs.60 crores earmarked for conversion), (ii) State Bank of Patiala (2.12%), (iii) Dena Bank (1.39%), (iv) The Bank of Rajasthan Limited (0.71%), (v) New India Assurance Company (0.38%), (vi) Tamilnadu Mercantile Bank Ltd (0.19%), and (vii) State Bank of Hyderabad (0.10%) and (viii) Bank of Baroda (0.05%) have opted to convert their portion of the debt of Rs.60 crores into equity. Two other lenders, United Bank of India (0.94%) and Canara Bank (2.78%), who have opted for issue of secured non-convertible debentures, are being requested to opt for equity and exercise of the change in option from them is awaited.

The pricing of the shares for this second tranche is not less than the price as per the pricing formula prescribed under the Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2009 ("SEBI ICDR Regulations"), with reference to the Relevant Date of 24 February 2010, being the date of approval of the Corporate Debt Restructuring package by the CDR Empowered Group which works out to Rs.18.51 per share.

Upon allotment to the secured lenders who have opted for conversion of secured debt into equity, the Equity Shares so allotted shall rank *pari passu* in all respects with the existing Equity Shares of the Company.

The proposed issue of Equity Shares on preferential basis to the secured lenders as aforementioned under Item no.5 of the Notice, will be subject to provisions of the Companies Act, 1956, Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2009 ("SEBI ICDR Regulations"), Securities and Exchange Board of India (Substantial Acquisition of Shares and Takeovers) Regulations, 1997, other applicable laws, rules and regulations, the Listing Agreement with the National Stock Exchange of India Limited and the Memorandum and Articles of Association of the Company.

Pursuant to the SEBI ICDR Regulations, the following disclosures are made:

#### (a) Objects of the Issue:

The object of the issue of the Equity Shares is reduction of the Company's debt to the secured lenders, who have the option to convert a portion of their debt into equity. The Equity Shares allotted to New India Assurance Company ("NIAC") will not be subject to lock-in as NIAC is exempt from such requirement under the SEBI ICDR Regulations; however, lock-in requirement will be applicable to the other allottees.

#### (b) The proposal of the promoters, directors or key management personnel of the issuer to subscribe to the offer:

The issue is being made to secured lenders of the Company in terms of the CDR package, by conversion of secured debt into equity and therefore, the promoters, directors or key management personnel of the issuer are not eligible to subscribe to the offer.

(c) Shareholding Pattern of the Issuer, before and after the preferential issue:

Sl. No.	Category of shareholder	Before Preferential Issue (as on 11 August 2010)		Post Preferential Issue (*)	
		Equity Shares held	% to capital	Equity Shares Held	% to capital
A	<u>PROMOTERS:</u>				
	(i) Tamilnadu Industrial Development Corporation Ltd.	8840000	6.74	8840000	4.41
	(ii) Dr M A Chidambaram Group	40075409	30.55	104772770	52.31
	<b>Sub-Total</b>	<b>48915409</b>	<b>37.29</b>	<b>113612770</b>	<b>56.72</b>
B	<u>NON PROMOTERS:</u>				
	1. The Bank of New York Mellon ( <i>as Depository for Global Depository Receipts</i> )	17217100	13.13	17217100	8.60
	2. Financial Institutions	4775881	3.64	4775881	2.38
	3. Nationalized Banks	10775	0.01	10775	0.01
	4. Mutual Funds	709166	0.54	709166	0.35
	5. Foreign Institutional Investors	7439831	5.67	7439831	3.72
	6. Acquirers ( <i>as per details under Item no.5 of the Notice</i> )	--	--	4405259	2.20
	<b>Sub-Total</b>	<b>30152753</b>	<b>22.99</b>	<b>34558012</b>	<b>17.26</b>
C	<u>OTHERS:</u>				
	7. Foreign Companies	39800	0.03	39800	0.02
	8. Non-resident Individuals	772915	0.59	772915	0.39
	9. Public and others	51292661	39.10	51292661	25.61
	<b>Sub-Total</b>	<b>52105376</b>	<b>39.72</b>	<b>52105376</b>	<b>26.02</b>
	<b>Grand Total</b>	<b>131173538</b>	<b>100.00</b>	<b>200276158</b>	<b>100.00</b>

(\*) inclusive of 4,34,78,260 equity shares to be allotted to FICON Holdings Limited (forming part of the Dr M A Chidambaram group) and 2,12,19,101 equity shares, after conversion of the Fully and Compulsorily Convertible Preference Shares, with the approval of the Securities and Exchange Board of India (SEBI), in respect of which an application has been submitted to SEBI.

(d) Time within which the preferential issue shall be completed:

The allotment of Equity Shares to secured lenders will be completed within 15 days of the passing of the resolution under Item no.5 forming part of the Notice for the Annual General Meeting or within 15 days of the date of approval or permission from any regulatory authority, as may be required, whichever is later.

# Notice / Directors' Report

- (e) The identity of the proposed allottees, the percentage of post-preferential issue capital that may be held by them:

The proposed allottees of the Equity Shares, under Sl. nos.1 to 6 and 8 to 10 of Item no.5 of the Notice are banks; the proposed allottee under Sl. no.7, a public financial institution. The post-preferential issue capital to be held by the said allottees would be:

Sl. No	Name of the proposed allottee	No. of Equity Shares of face value of Rs.10/- each, fully paid-up	% of post-preferential issue paid-up capital
1	Central Bank of India	16,70,526	0.83
2	Canara Bank (*)	8,77,894	0.44
3	State Bank of Patiala	6,69,473	0.33
4	Dena Bank	4,38,947	0.22
5	United Bank of India (*)	2,96,842	0.15
6	The Bank of Rajasthan Ltd	2,24,210	0.11
7	New India Assurance Company	1,20,000	0.06
8	Tamilnadu Mercantile Bank Ltd	60,000	0.03
9	State Bank of Hyderabad	31,578	0.02
10	Bank of Baroda	15,789	0.01
	Total	44,05,259	2.20

(\*) subject to receipt of confirmation

- (f) Change in control/Board of Directors:

There will be no change in control or in the Board of Directors of the Company. The existing Promoter/Board of Directors will continue to be in control of the management.

- (g) Issuer's undertaking(s):

The undertaking(s) required to be furnished/disclosed in the Explanatory Statement to the Notice, under the SEBI ICDR Regulations, relating to re-computation of price and lock-in of securities till the re-computed price is paid by the allottee(s) will not be applicable to the Issuer as the Issuer's Equity Shares are listed on the National Stock Exchange of India Limited viz., recognized Stock Exchange for more than the minimum period specified under the said Regulations.

The Issuer shall place a copy of the certificate of the Statutory Auditors before the Annual General Meeting of the Members on 21 September 2010, certifying that the aforesaid issue is being made in accordance with the requirements of the SEBI ICDR Regulations.

In terms of the resolution, the Board is being empowered to issue and allot the Equity Shares as aforementioned, subject to necessary approvals, to the allottee(s) as aforesaid. Consent of Members in General Meeting is necessary, for the above, pursuant to Section 81(1A) of the Companies Act, 1956 and the SEBI ICDR Regulations.

The proposed issue of Equity Shares, on preferential basis, to the allottee(s) as aforesaid, is in accordance with the stipulation of the CDR Cell and is in the interest of the Company.

The Board commends the resolution for the approval of Members.

## Memorandum of Interest

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

(By Order of the Board)

For SOUTHERN PETROCHEMICAL INDUSTRIES CORPORATION LTD.

Place: Chennai  
Date : 11 August 2010

N RAMAKRISHNAN  
Secretary



## DIRECTORS' REPORT

Your Directors present their 39th Annual Report together with the audited statement of accounts of the Company for the financial year ended 31 March 2010.

### OPERATING RESULTS

	(Rupees in crore)	
	2009-10	2008-09
Sales and services	417.07	377.79
Other income	105.76	51.36
Total income	522.83	429.15
Manufacturing and other costs	530.23	925.63
Profit before interest, depreciation and tax	(7.40)	(496.48)
Interest	20.50	127.74
Depreciation	96.67	82.46
Total expenditure	647.40	1135.83
Profit/(loss) before tax	(124.57)	(706.68)
Provision for tax	-	0.53
Profit/(loss) after tax	(124.57)	(707.21)

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, 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 and hybrid seeds.

### OPERATIONS

#### Fertilizer Division

The production and sales performance of the Fertilizer Division for the period under review is as follows:

(in metric tonnes)			
Product	Category	2008-09	2009-10
Urea	Production	--	--
	Sales	--	--
DAP	Production	--	--
	Sales	--	--
Complex Fertilizer	Production	6,225	174,605
	Sales	6,225	174,603
ALF <sub>3</sub>	Production	2,463	3,234
	Sales	2,394	2,058
Gypsum	Sales	148,531	166,305
Zinc Sulphate (Trading)	Sales	--	1,377

Due to constraint on working capital, Urea production remains suspended since March 2007. Your Company manufactured

phosphatic fertilizers during the period under review. Production and sale of complex fertilizers during the financial year was the highest ever achieved.

Towards expediting action for early resumption of production of Ammonia and Urea, your Company, with the support of the Department of Fertilizers, Ministry of Chemicals and Fertilizers, the Ministry of Petroleum and Natural Gas, Government of India and Assest Reconstruction Company (India) Ltd (ARCIL), has executed an agreement on 24 April 2010 with Indian Oil Corporation Limited (IOC) for resumption of supplies of naphtha and furnace oil to recommence production of Ammonia and Urea. Production was slated to commence in May 2010; however, on account of some technical problems that emerged during start-up operations, this had to be postponed. Production is now expected to commence in September 2010.

#### During the financial year 2009-10, your Company

- ❖ obtained environment clearance for establishing production facility to produce Single Super Phosphate;
- ❖ carried out contract-manufacturing of fertilizer intermediates on behalf of other companies; and
- ❖ traded on trial basis in Zinc Sulphate, an important agricultural input, achieving a turnover of Rs.4.3 crores.

#### Market Scene

Fertilizer marketing in India is directly linked to the two major seasons, the *Kharif* and *Rabi*.

Despite an early commencement of the south-west monsoon, the country experienced a deficit rainfall of 23% in 2009, the lowest in the last three decades. The Kharif season that coincides with the south-west monsoon (June to September) experienced 77% of normal rainfall. Overall, the rainfall received by the country during the season was 689.9 mm as against the normal 892.5 mm. In your Company's marketing territory viz, the southern peninsula, there was a deficiency of only 4% in rainfall during the south-west monsoon. The rainfall received during the north-east monsoon was 135.3 mm against the normal of 125.5 mm (excess of 8%). The rainfall pattern was not uniform in your Company's area of operations during 2009-10.

#### Fertilizer Industry Scenario

Government of India, realizing the urgent need for bailing out the fertilizer industry, which is passing through testing times, signalled by stagnant production, absence of fresh investment and poor financial health accompanied by high level of imports, imbalanced use of nutrients and deteriorating soil health, has ushered in reform measures by introducing a Nutrient Based Subsidy (NBS) Scheme for P (Phosphatic) and K (Potassic) fertilizers effective 1 April 2010, as announced in the 2009-10 Union Finance Budget. Important changes initiated in the new NBS Scheme are - fixed subsidy per unit of N (Nitrogen), P<sub>2</sub>O<sub>5</sub> (Phosphate), K and Sulphur, subsidy for micro-nutrients (Zinc and Boron) added to fortified fertilizers (fertilizers added with micro nutrients for improving soil fertility and increasing crop productivity) and floating maximum retail price (MRP). The new Scheme is a welcome move for the fertilizer industry and Indian agriculture. As the subsidy is fixed per unit of nutrient for the year, the industry would now be able to tie up raw materials on long-term basis at competitive prices, facilitating the maintaining of domestic production at better levels. Further, unlike in earlier years, importers can plan the quantity and schedule of imports to ensure availability of fertilizers to bridge the gap between demand and indigenous production. The NBS

# Directors' Report

Scheme is expected to be more beneficial to your Company due to the availability of in-house phosphoric acid production facility to the extent of 30% of its total requirement.

Economists have estimated that India could achieve 8-8.5% GDP (gross domestic product) growth in 2010-11 provided the primary (agricultural) sector registers a 4% growth. Due to various factors including inadequate and indiscriminate use of fertilizers and deteriorating soil health, growth of agricultural production has remained below 2% in recent years. With a view to improving soil health, government has initiated action for creating adequate facilities for soil analysis. Better availability of fertilizers under the new NBS Scheme will definitely ensure higher agriculture productivity and equitable distribution of fertilizers across the Country. Given the fact that subsidy is for the nutrient content under the new NBS Scheme, the availability of different types of fertilizers will improve, encouraging the farmers to choose from a basket of products, paving way for improved soil health and higher productivity. The new NBS Scheme would also bring more and more new products fortified with micro/secondary nutrients as additional subsidy is available for customized products. This would provide the impetus for healthy competition among the industry players to offer cost effective products and services to farmers. Government's announcement of separate policy for green-field/ brown-field investments in Urea sector and the new Import Parity Pricing (IPP) policy will pave the way for creation of additional capacities, with many existing Urea manufacturers already announcing plans for new/expansion projects. With the expected improvement in the availability of gas to meet the additional requirement, the growth prospect of the sector is promising. Further, coverage of Urea units under NBS Scheme, simultaneously with the industry becoming homogenous, by way of conversion of all non-gas based units into gas, would definitely provide a level playing field for the various stake holders resulting in healthy competition and better productivity. Government has extended, by six months, the existing New Pricing Scheme-III for Urea, which, in the normal course, was to have been revised effective 1 April 2010. It is further understood that government is considering a special dispensation by way of reimbursement of additional fixed cost for closed Urea plants to enable them to resume production and sustain operations, which will be a welcome step in the right direction.

For naphtha-based Urea plants, government is working out a definitive time-frame for natural gas connectivity to minimize the cost of production of such units and thereby, reduce government's outgo towards subsidy. Till such time, it is anticipated that government would continue its support to existing naphtha/ furnace oil and LSHS (Low Sulphur Heavy Stock) based units under the New Pricing Scheme-IV, also taking into consideration the lower fixed cost of these units vis-a-vis new investments in the sector. As per the current indication, your Company is expected to get gas connectivity by December 2012.

## Pharmaceuticals Division

SPIC's Pharmaceuticals Division consists of four sub-divisions, namely, Penicillin-G (Pen-G), Active Pharmaceutical Ingredients (API), formulations and industrial enzymes.

In **Pen-G business**, the unit's production was 678 Million Mega Units (MMU) in 2009-10 as against 1,895 MMU in 2008-09. There was a maintenance turnaround for overhauling between May and August 2009. Sales were 838 MMU in 2009-10 as against 1,767 MMU in 2008-09. Pilot trials (new technology) were conducted in August 2009.

The year, 2009-10, was depressing for Pen-G operations, as prices of Pen-G imports from China tumbled to USD (American Dollar) 7.47 per Billion Units (BU) as against USD 10.22 per BU in

2008-09. Even as domestic Pen-G prices continued to plummet against cheaper Chinese imports, prices of most of the critical inputs like sugar, furnace oil, phenyle acetic acid shot up, increasing the variable cost of indigenous manufacturers.

The power situation in Tamilnadu deteriorated during the year under review, with power cuts ranging between 20-40%, which affected operations severely. Over and above the normal power cut, there was also a mandatory 100% cut during peak hours (6 PM-10 PM) daily, compounding the woes of the unit, which depends heavily on grid power, due to high cost of generation of captive power.

The gain of the year was implementation of the new Pen-G strain plus technology know-how satisfactorily and rapidly scaling it up during September-December 2009. The benchmark was set at almost 10,250 BU per batch of 210-215 hours' fermentation *vis-a-vis* 4,850 BU per batch with the old technology. In real terms, a 20% increase in productivity and about 22% reduction in cost have been realized, adding to the cost reduction obtained by commissioning of coal fired boilers vis-a-vis the old furnace oil fired boilers, bringing down steam cost substantially.

The continued downtrend of imported Pen-G prices from China, which broke the sub-USD 8 barrier led to the decision to halt Pen-G production temporarily from January 2010.

In July 2009, the Company filed a petition with the Director General (Anti-dumping), Ministry of Commerce, Government of India, praying for anti-dumping duties in respect of imports of Pen-G and 6-APA from China. After about eight months of survey, inspection and evaluation, there was an announcement of interim levy of anti-dumping duties on Pen-G and 6-APA by the Director General (Anti-dumping). However, the interim duties are yet to be implemented. Efforts are on by your Company and Alembic with the Ministry of Chemicals and the Ministry of Finance, Government of India, to implement the anti-dumping duties in order to provide a level playing field and lend viability to the fermentation-based antibiotic industry in the country.

In **API business**, the unit just managed to hold on to marginal operations with existing range of products and customer base. Delay in receipt of the renewed WHO-GMP (World Health Organization-good manufacturing practice) certification, resulted in loss of orders during the first six months of the year, curtailing the top-line and contribution (same was the case with Formulation business). The limited capacity, increased cost of power - due to grid power shortage and costly self-generation through diesel based generators - dampened the possibility of expanding the business.

In **Formulation business**, the unit managed to hold on to sustainable operations during the year under review. Exports to Myanmar, Haiti, Iran, Algeria and Sri Lanka were continued during the year, however, at a slightly lower level than the previous year. Contract-manufacturing services for bulk customers improved steadily with more volumes and value; basket of customers also increased.

In **Industrial Enzymes business**, the unit managed to consolidate its strength of technical marketing in the leather and textile segments, where the increase in market share and sales growth has been positive in 2009-10 compared to 2008-09. Exports to China, Vietnam and Dubai gained ground during the year.

Completion of the commissioning of the plant at Maraimalai Nagar [MM Nagar] (relocated from Porur) was halted due to financial constraints and the fermentation and downstream operations could not be carried out as planned at MM Nagar. During the period November 2009 to February 2010, fermentation could be carried out at Pen-G plant due to the fact that Pen-G had