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SUPREME PETROCHEM LTD

ANNUAL REPORT
2009-2010

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BOARD OF DIRECTORS:

M. P. Taparia, Chairman
Rajan B. Raheja
Aziz Parpia
B. L. Taparia
Satish B. Raheja
S. J. Taparia
Hasmukh Shah
M. S. Ramachandran
R. Kannan
Nihalchand Chauhan
Viren Raheja – Alternate Director to Satish B. Raheja

REGISTERED OFFICE:
612, Raheja Chambers,
Nariman Point, Mumbai - 400 021

CORPORATE OFFICE:
Solitaire Corporate Park,
Building No. 11, 5th Floor,
Andheri-Ghatkopar Link Road, Chakala,
Andheri (East), Mumbai - 400 093

PLANTS:
Amdoshi, Wakan Roha Road,
Post : Patansai, Taluka Roha,
Dist. Raigad, Maharashtra - 402 106 and

Ammulavoyil Village, Andarkuppam Post,
Manali New Town, Chennai - 600 103, Tamil Nadu

BANKERS:
State Bank of India
AXIS Bank Ltd.
Central Bank of India
ICICI Bank Ltd.
IDBI Bank Ltd.
Indusind Bank Ltd.
ING Vysya Bank Ltd.
The Karur Vysya Bank Ltd.

AUDITORS:
M/s. Parikh & Shah
Chartered Accountants

INTERNAL AUDITORS:
G.M. Kapadia & Co.
Chartered Accountants

REGISTRARS & TRANSFER AGENTS:
Karvy Computershare Private Limited,
17-24, Vithalrao Nagar,
Madhapur,
HYDERABAD - 500 081

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NOTICE

NOTICE is hereby given that the Twentyfirst Annual General Meeting of **SUPREME PETROCHEM LTD** will be held at Indian Merchants' Chambers, Walchand Hirachand Conference Hall, IMC Marg, Churchgate, Mumbai 400 020 on Wednesday, October 06, 2010 at 4.00 p.m. to transact the following business:

ORDINARY BUSINESS:

1. To receive and adopt the Directors' Report and the Audited Statement of Accounts together with Auditors' Report thereon for the financial year ended June 30, 2010.
2. To declare dividend on equity shares.
3. To appoint a Director in place of Shri Hasmukh Shah, who retires by rotation and being eligible, offers himself for re-appointment.
4. To appoint a Director in place of Shri Aziz Parpia, who retires by rotation and being eligible, offers himself for re-appointment.
5. To appoint a Director in place of Shri M. S. Ramachandran, who retires by rotation and being eligible, offers himself for re-appointment.
6. To appoint a Director in place of Shri Rajan B. Raheja, who retires by rotation and being eligible, offers himself for re-appointment.
7. To appoint Statutory Auditors and fix their remuneration.

SPECIAL BUSINESS:

8. To consider and, if thought fit, to pass with or without modification, as an Ordinary Resolution the following:

   "RESOLVED THAT the consent of the Company be and is hereby accorded in terms of Section 293(1)(a) and other applicable provisions, if any, of the Companies Act, 1956 to the creation by the Board of Directors of the Company of such mortgages, charges and hypothecations in addition to the existing mortgages, charges and hypothecations created by the Company as may be necessary on such of the assets of the Company both present and future, in such manner as the Board may direct, in favour of (i) The Karur Vysya Bank Limited (KVBL) and (ii) The AXIS Bank Limited (AXIS) to secure:

   (i) Rupee Term Loan of ₹ 75.00 crores availed from KVBL and

   (ii) Rupee Term Loan of ₹ 35.00 crores availed from AXIS

   together with the interest thereon at the agreed rates, further interest, liquidated damages, premium on pre-payment, costs, charges, expenses and all other moneys payable by the Company to KVBL and AXIS under the respective Agreement/Loan Agreement entered in to/to be entered into by the Company in respect of the said borrowings.

   RESOLVED FURTHER THAT the Board be and is hereby authorised to finalise with KVBL/AXIS the documents for creating the aforesaid mortgages, charges and/or hypothecations and to accept any modifications to, or to modify, alter or vary, the terms and conditions of the aforesaid documents and to do all such acts and things and to execute all such documents as may be necessary for giving effect to the above resolution".

For and on behalf of the Board

M. P. Taparia
Chairman

Registered Office:
612, Raheja Chambers,
Nariman Point,
Mumbai - 400 021

Date : July 20, 2010

NOTES

A MEMBER ENTITLED TO ATTEND AND VOTE AT THE MEETING IS ENTITLED TO APPOINT A PROXY OR PROXIES TO ATTEND AND VOTE INSTEAD OF HIMSELF AND A PROXY NEED NOT BE A MEMBER. The Proxy Form should be lodged with the Company at the Registered Office at least 48 hours before the time of the meeting.

An explanatory statement pursuant to Section 173 of the Companies Act, 1956 in respect of the Special Business at item No. 8 of the notice is annexed.

Register of Members of the Company will remain closed from Wednesday, September 22, 2010 to Wednesday, October 06, 2010 (both days inclusive).

Members who hold shares in de-materialised form are requested to write their Client ID and DP ID Number and those who hold shares in physical form are requested to write their Folio Number in the attendance slip for attending the meeting.

Members are requested to bring their copies of the Annual Report to the Meeting.

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ANNEXURE TO THE NOTICE

Explanatory Statement pursuant to Section 173 of the Companies Act, 1956 regarding Special Business.

ITEM NO. 8 :

The Company has been sanctioned/availed of following Term Loans :

(i) Rupee Term Loan of ₹ 75.00 crores (Rupees seventy five crores only) from The Karur Vysya Bank Limited (KVBL) and

(ii) Rupee Term Loan of ₹ 35.00 crores from The AXIS Bank Limited (AXIS)

To meet capital expenditure and to augment long term sources of the Company.

The said term loans are to be secured by appropriate mortgage/ charge in favour of respective banks on such of the assets of the Company both present and future, as may be decided by the Board of Directors. The resolution at Item No. 8 is considered necessary having regard to Section 293(1)(a) of the Companies Act, 1956.

The Directors commend the resolution at Item No. 8 for your approval.

None of the Directors of the Company may be deemed to be in any way concerned or interested in the resolution.

For and on behalf of the Board

M. P. Taparia
Chairman

Registered Office:
612, Raheja Chambers,
Nariman Point,
Mumbai - 400 021

Date : July 20, 2010

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DIRECTORS' REPORT

Your Directors take pleasure in presenting the Twenty First Annual Report together with Audited Accounts of your Company for the year ended June 30, 2010.

1. FINANCIAL RESULTS

(Rupees in Lacs)

	2009-2010	2008-2009
Income (Net of Excise)	161,271.10	139,496.39
Profit before Tax	9,018.40	3,500.57
Tax expenses	2,960.61	1,566.99
Profit after tax	6,057.79	1,933.58
Prior period adjustments	(10.30)	(15.14)
Balance brought forward from Previous Year	1,945.66	2,160.19
Amount available for appropriation	**7,993.15**	**4,078.63**
Appropriation thereof:		
Dividend on equity shares (including corporate dividend tax)	2,032.60	1,132.97
Transfer to general reserve	2,000.00	1,000.00
Balance carried forward	3,960.55	1,945.66

Your Directors recommend a dividend of ₹ 1.80 per equity share for the year 2009-2010.

2. REVIEW OF OPERATIONS

The domestic Polystyrene market grew by 8.5% during the year under review due to all round growth in demand in all product segments. Your Company consciously followed the strategy of exporting only to those countries which gave better netback. This resulted in lower export quantities of 43913 M.T. as compared to 50307 M.T. for the previous year. Demand estimates for the current year continue to remain on a high growth path.

The installed capacity of the Expandable Polystyrene (EPS) plant in Chennai has increased to 27700 TPA from June 1, 2010. Your Company is progressively increasing the production rate to achieve optimum capacity utilization. The outlook for the domestic market for EPS remains positive.

Commercial production of Extruded Polystyrene Board (XPS) commenced from August 2009 and commercial supplies have started. The marketing network is being progressively established. Your Company is focusing on exports to those countries which have mandated insulation in buildings for energy conservation.

Specialty Polystyrene (SPS) business witnessed healthy growth during the year under review. The domestic sale grew by 36% whereas the exports grew by 48%. Considering the anticipated growth your Company plans to upgrade SPS capacity by establishing more lines.

3. BUY BACK OF EQUITY SHARES

The offer for buy-back of equity shares which commenced on December 31, 2008 closed on December 04, 2009. Your Company has bought back and extinguished 1537907 equity shares reducing the paid-up share capital of your Company from ₹ 9,837.65 Lacs to ₹ 9,683.86 Lacs.

4. MANAGEMENT DISCUSSION AND ANALYSIS REPORT

Management Discussion and Analysis Report for the year under review as stipulated under clause 49 of the Listing Agreement with Stock Exchanges is presented separately forming part of the Annual Report.

5. HEALTH & SAFETY

Your Company has continued implementation of HSE Management System under the guiding principles of declared 'Health & Environmental Policy'. Both the Environmental Management System and Safety Management Systems continue to be maintained as per ISO:14001 Standard and OHSAS:18001 specifications.

HSE performance index for the period under review was in the 'excellent' range.

Your Company has completed 3244 accident free days and 9.6 million accident free man hours as on June 30, 2010.

6. DIRECTORS

Shri Hasmukh Shah, Shri Aziz Parpia, Shri M. S. Ramachandran and Shri Rajan B. Raheja, Directors of the Company retire by rotation and being eligible offer themselves for re-appointment.

A brief resume of the Directors eligible for re-appointment is given in the report on Corporate Governance.

7. SUBSIDIARY COMPANIES

The two subsidiaries of your Company viz. SPL Industrial Park Limited and SPL Industrial Support Services Limited have not yet undertaken any activities. The Ministry of Corporate Affairs, Government of India by letter dated June 23, 2010 has exempted your Company from attaching a copy of the Balance Sheet and the Profit and Loss Account of the subsidiary companies and other documents required to be attached under Section 212(1) of the Companies Act, 1956 to the Annual Report of your Company. Accordingly, the said documents are not being attached with the Balance Sheet of the Company. A gist of the financial performance of the subsidiary companies is contained in the report. The Annual Accounts of the subsidiaries are open for inspection by any member/investor and the Company will make available these documents/details upon request by any Member of the Company or to any investor of its subsidiaries who may be interested in obtaining the same. Further, the annual accounts of the subsidiary companies will also be kept for inspection by any investor at the Corporate Office of the Company and that of the subsidiary companies.

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8. CONSOLIDATED ACCOUNTS

In accordance with the requirements of Accounting Standards AS21 issued by the Institute of Chartered Accountants of India, the consolidated accounts of your Company and its two subsidiaries are annexed to this Annual Report.

9. DIRECTORS' RESPONSIBILITY STATEMENT

Your Directors confirm that:

(i) in the preparation of the annual accounts, applicable accounting standards have been followed, with proper disclosure of any departures;

(ii) the accounting policies are consistently applied and reasonable, prudent judgement and estimates are made so as to give a true and fair view of the state of affairs of the Company at the end of the financial year;

(iii) that the Directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;

(iv) that the Directors have prepared the accounts on a going concern basis.

10. CORPORATE GOVERNANCE

Your Company continued to implement Corporate Governance practices during the period in line with the requirements of Clause 49 of the Listing Agreement with the Stock Exchanges. A separate section titled 'Corporate Governance' has been included in this annual report. The compliance of 'Corporate Governance' conditions has also been certified by the Auditors and the same is annexed to the report on Corporate Governance.

11. TRANSFERS TO INVESTOR EDUCATION AND PROTECTION FUND

Your Company has transferred an aggregate amount of ₹ 150.73 Lacs till date to the Investor Education and Protection Fund since January 2002.

12. FIXED DEPOSIT SCHEME

The outstanding fixed deposits as on June 30, 2010 were ₹ 2069.50 Lacs. There were 124 due but unclaimed deposits aggregating ₹ 27.95 Lacs out of which 18 deposits aggregating ₹ 4.58 Lacs have been paid as on the date of this report. There are no claimed and unpaid deposits.

13. CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION AND FOREIGN EXCHANGE EARNING AND OUTGO

Information as per Section 217(1)(e) of the Companies Act, 1956 read together with Companies (Disclosure of Particulars in the Report of the Board of Directors) Rules, 1988 is Annexed hereto forming part of this report.

14. PERSONNEL

Excellent relations were maintained throughout the year. The Directors acknowledge the sincerity and dedication of the employees which has contributed to the improved operating results.

As required by the provisions of Section 217(2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975 as amended, the names and other particulars of employees are set out in the Annexure to the Directors' Report. However, as per the provisions of Section 219(1)(b)(iv) of the Companies Act, 1956 the Report and the Accounts is being sent to all shareholders of the Company excluding the aforesaid information.

Any shareholder interested in obtaining such particulars may write to the Secretary at the Registered Office of the Company.

15. AUDITORS

The retiring auditors M/s. Parikh & Shah, Chartered Accountants having furnished the necessary certificate u/s. 224(1-B) of the Companies Act, 1956 are eligible for re-appointment. The members are requested to re-appoint the auditors. There are no qualifications or adverse remarks in the auditors' report.

16. ACKNOWLEDGEMENT

The Directors take this opportunity to thank the Company's Bankers for their guidance and support. The Directors are also thankful to Suppliers, Customers and other Business Associates for their continued co-operation and support extended to your Company.

For and on behalf of the Board

M. P. Taparia
Chairman

Place : Mumbai
Date : July 20, 2010

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ANNEXURE I TO THE DIRECTORS' REPORT

INFORMATION AS PER SECTION 217(1)(e) READ WITH COMPANIES DISCLOSURE OF PARTICULARS IN THE REPORT OF THE (BOARD OF DIRECTORS) RULES, 1988 AND FORMING PART OF THE DIRECTORS' REPORT FOR THE YEAR ENDED JUNE 30, 2010.

A. CONSERVATION OF ENERGY

The on-going programme of energy conservation is on course and electrical energy saving to the extent of 343590 units has been achieved during the year under review at the manufacturing facilities at Amdoshi (Maharashtra). The energy conservation programme has also resulted in reduction in consumption of Furnace Oil to the extent of 42381 Kgs. during the year under review.

B. TECHNOLOGY ABSORPTION

The technology for Polystyrene sourced from ABB Lummus Crest Inc has been fully absorbed by your Company which successfully further developed the technology and expanded the installed capacity to 272000 TPA on its own.

The technology for Expandable Polystyrene (EPS) was taken from S H Chemical Company, Republic of Korea. This technology has been absorbed by your Company and successfully developed further to increase the capacity of the plant to 27700 TPA.

The technology for the Cup Grade EPS has been received from NOVA Chemical Inc and absorption of this technology is in progress.

Technology flows from Ultrabatch, Italy for manufacturing high end masterbatches have commenced and are being assimilated in your Company.

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ANNEXURE - FORM A

Form for disclosure of particulars with respect to conservation of energy.

A. Power and fuel consumption

		Current Year July 01, 2009 to June 30, 2010	Previous Year July 01, 2008 to June 30, 2009
1	**Electricity**		
(a)	Purchased		
	Units (KWH)	**31796720**	28842819
	Total amount (₹ Lacs)	**1,725.72**	1,369.91
	Rate/unit (₹)*	**5.43**	4.75
(b)	Own Generation		
	Through Diesel Generator		
	Units (KWH)	**509149**	92425
	Unit per ltr. of diesel oil	**3.05**	3.74
	Cost/Unit*	**13.36**	15.76
2	**Furnace Oil**		
	Quantity (MT)	**1700.25**	15318.34
	Total amount (₹ Lacs)	**414.31**	326.06
	Average rate (₹ per Kg.)*	**24.37**	21.29

B. Consumption per unit of production

Product	PS	EPS	XPS	PS	EPS	XPS
Electricity (KWH/MT)	**186.60	181.50	3443.42	**170.90	NIL	NIL
Furnace Oil (Kgs/MT)	8.90	39.90	NIL	9.14	NIL	NIL

* Average of all plants

** Including Speciality Polystyrene

For and on behalf of the Board

Place : Mumbai
Date : July 20, 2010

M. P. Taparia
Chairman

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MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY OVERVIEW

The stabilisation of the world economy alongwith a domestic GDP growth of 7.2% during 2009 - 10 saw improved demand conditions from all segments including polymers. The Government partially rolled back the stimulus package by increasing excise duty by 2% which had marginal impact on demand growth.

The domestic Polystyrene market grew at 8.5%. Your Company during the year under review started concentrating on high end markets where higher growth is envisaged in the coming years. Exports were low due to slow down in European countries and also due to your Company's strategy of exporting only premium grades and to those countries which give better net back.

Demand revival was also seen in Specialty Polystyrene (SPS) business. The domestic sales grew by 36% whereas the export sales grew by 48%. Your Company has plans to exploit the demand potential by adding further lines for SPS including masterbatches.

During the year your Company developed several new grades of special additive masterbatches for both domestic and overseas customers. Your Company also successfully established olefinic compounds for environment friendly lead acid batteries thus replacing imported grades. New range of High Gloss HIPS and Coloured FR HIPS was developed during the year for use in appliances and water filters both for domestic and export markets.

Extruded Polystyrene (XPS) plant became operational from August 2009 and has been stabilised. Commercial supplies have commenced and market development is in progress. Grades using 50% CO2 have been developed as these are more environment friendly.

Your Company established several grades of Extruded Polystyrene Board for insulation as well as cornices application. Your Company is focusing its marketing efforts for XPS Board not only in the domestic market but also in the countries where insulation of buildings for energy conservation is mandatory. Distribution setup and sales force are being strengthened.

The increased installed capacity of 27700 TPA of Expandable Polystyrene (EPS) at Chennai plant was commissioned on June 1, 2010 after receiving all statutory approvals. Optimum capacity utilization is expected by October 2010. Your Company's EPS product is already well established in the market.

Your Company during the year implemented SAP ERP system. Training of all users is continuing. Once the system is stabilised it will help your Company in better management of inventories, receivables and improve overall operational efficiencies.

OUTLOOK

Polystyrene (PS): The Polystyrene outlook is positive. Three Polystyrene applications are expected to grow exponentially in India in the coming years.

- Domestic Appliances
- Foamed food service ware
- Purified water filters.

Considering the growth in these applications the domestic Polystyrene market is estimated to grow @ 12% during the current year. To cater to the increasing demand of high value premium PS grades like ESCR, High Gloss grades, basic resin for Noryl etc. it is proposed to revamp one of the existing PS lines to increase the production capacity of such grades from 48,000 TPA to 72,000 TPA. This revamp is slated for completion by June, 2011.

Implementation of GST in April 2011 will help bring in efficiencies in distribution thus reducing logistics costs.

EPS: The domestic market grew by about 18% during the year under review. Similar growth is expected in the current year. The domestic market for EPS continues to be good. The thrust areas for EPS market development continue to be:

- Buildings and Construction industry for providing insulation for roofs and walls, for wall panels and sandwich panels.
- Fish boxes and other cold chain requirements as EPS provides effective insulation properties for transportation of perishable goods.
- EPS pallets which are light weight and economical alternative to conventional wooden pallets.
- Packaging of electronic goods and other white goods for which demand growth is very strong.

In view of the estimated growth in the domestic EPS market, your Company is evaluating the viability of further increasing the capacity of the Chennai plant to 33000 TPA.

SPS: Your Company is hopeful of further strengthening its position in SPS business during the year and is confident of achieving 80% growth on year-on-year basis in domestic and export markets. Considering the growth anticipated in the coming years, your Company is augmenting the capacity by installing four more lines for compounding.

XPS : Awareness about insulation in buildings for energy conservation is gaining momentum. Rising energy costs and growing concern about protecting the environment, augurs well for the product. Green building movement spearheaded by IGBC, TERI & Griha are getting well accepted by the building industry in India.

Your Company's product branded as INSUBOARD has got good response from architects and consultants and was used successfully for the Common Wealth Games Village in Delhi.

PROJECTS

Your Company would be incurring a capital expenditure of ₹ 125 crores during 2010-11 on the following capacity building projects and also revamp of PS line as mentioned above.

Cup Grade & EPS at Amdoshi (Maharashtra) : The projects for setting up of 24000 TPA EPS plant at the existing plant site in Maharashtra and 20400 TPA plant for manufacturing Cup

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Grade EPS at the plant site in Maharashtra have been taken up simultaneously and is making good progress. Detailed engineering is nearing completion. Civil work commenced from mid November 2009, all major equipment are expected on site by September 2010. Commercial production is expected in the first quarter of 2011.

SPS : Four more lines for compounding are being installed thus enhancing the current capacity to 33,500 TPA by end September, 2010. Further expansion by adding two more lines to increase capacity to 43,800 TPA are scheduled for commissioning by July 2011.

Gas Power Project : Agreements for gas transmission and allocation for the gas engine based Captive Power Plant of 3500 KVA, have been signed with GAIL. Pipelines for gas delivery have been laid at the plant site. The project will be completed by April / May 2011.

Minor Port : The purchase of balance land is currently not progressing due to village opposition to land acquisition by a large industrial house in the vicinity of our site. The issue relating to construction of approach road is also pending with various authorities. Work on our Port project would commence only after the same are resolved.

SEZ : Land acquisition for the Special Economic Zone (SEZ) is progressing well. However, the draft direct tax code proposes to remove the tax incentive to units to be set up in SEZ. Your Company is therefore having a relook at the viability of the SEZ project.

OPPORTUNITIES

The rationalisation of PS capacities all over the world is creating opportunities for your Company in many countries where it is an active participant.

The growing GDP lead rise in standard of living with change in lifestyle and mushrooming of shopping malls has given rise to a spurt in demand for food packaging, white goods, food serviceware etc. which consumes PS creating opportunities for your Company to increase its sale of PS.

The increased awareness to bring about energy efficiency and environment protection gives rise to increased consumption of products for hot and cold insulation thereby boosting the consumption of EPS and XPS, both of which are produced by your company.

The availability of gas at the plant site is creating an opportunity for use of gas engines for generating captive power and steam which will act as a buffer against power shortages and help in cost reduction.

THREATS

Low tariff barrier and FTA with various countries pose a threat to your Company by providing opportunities for cheaper imports particularly from ASEAN countries who still have surplus PS capacity.

The growing domestic EPS demand offers a lucrative market for cheaper imports from countries having large EPS manufacturing capacities. The Industry is conscious of these threats and the industry association is keeping a close watch on such imports and it would take appropriate action, if situation warrants, against such imports as permitted under law.

BUYBACK OF EQUITY SHARES

The offer of buy-back of equity shares at a maximum price of ₹ 14/- per share which commenced on December 31, 2008 closed on December 04, 2009. Your Company has bought back and extinguished 1537907 equity shares reducing the paid-up share capital of your Company from ₹ 9,837.65 Lacs to ₹ 9,683.86 Lacs comprising of 9,68,38,613 equity shares of ₹ 10/- each.

AWARDS & RECOGNITION

Your Company has achieved the following recognitions and awards during the period under review :

- Environment Excellence Gold Award 2009 from Green Tech Foundation, New Delhi.
- Suraksha Award 2008 for safety from National Safety Council of India.
- National Safety Award 2009 from Ministry of Labour and Employment.
- Longest accident free period award during the period 2008 – 09 from National Safety Council, Maharashtra Chapter, Mumbai.
- Gold Award 2010 for safety from Green Tech Foundation, New Delhi.

RISK & CONCERNS

PS and EPS are internationally traded commodities and therefore your Company is vulnerable to global market forces. The main raw material Styrene Monomer being wholly imported is subject to global demand/supply and pricing risks. The strategies devised by your Company to minimize these risks include raw material procurement contracts with in built flexibility, focus on sale of niche products, selling prices linked to global Polystyrene prices etc.

Sale in overseas markets is of concern due to changing global economic scenario. However, the effort to develop new customers and countries, strengthening existing partnership by introducing new products etc will mitigate this risk to a large extent.

Foreign exchange risks are minimised by SPL's export revenues and due to selling price parity of domestic product with the landed cost of imported products. Also your Company hedges its open foreign exchange exposures to avoid impact of foreign exchange rate fluctuations.

Insurance policies to adequately cover plant and machinery on reinstatement basis, stocks of finished goods and raw materials, projects under erection and also third party liabilities have been purchased by your Company. Your Company has adequate loss of profit insurance policy to cover loss of gross profit if any, due to interruption. The management periodically reviews the adequacy of the insurance cover.

HUMAN RESOURCES/INDUSTRIAL RELATIONS

Your Company's industrial relations continued to be harmonious

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