

SIXTEENTH ANNUAL REPORT 2000-2001

Chlor Alkali



Epichlorohydrin



BUSINESS COHESION FOR PROGRESS



Tamilnadu Petroproducts Limited

Business Cohesion For Progress

With the dawn of the new millennium, pace of change in Indian Industry has accelerated with a compulsion for business transformation focussed at being more competitive and adding value to all stakeholders. In TPL, the driving factors for change includes gaining market leadership for its products, leveraging size to effectively control costs, better customer service and building a sustainable business model. Over the past, TPL has rightly focussed on technology upgradation, use of information technology, customer care to bring about cohesion for building competitiveness. One of the most inevitable fall out of globalisation has been the necessity to be cost competitive and sustenance to post WTO era of dismantling of tariff barriers. Realising this, TPL has now set out a strategy to build competitiveness through business cohesion.

TPL, with its two main lines of business viz., Linear Alkyl Benzene (LAB) and Epichlorohydrin (ECH), has plans for effective use of its core competency to consolidate these two business units and emerge stronger.

In LAB business, TPL has already set in motion, its action plan to enhance the capacity to 1,20,000 MTPA and as a sequential step to expand the N-Paraffin unit to an optimum level of 94,000 MTPA. The extensive and cost effective debottlenecking operation, which is expected to be completed by September 2002 would ensure sustaining the domestic market share, at the same time pruning cost of production through economies of scale.

TPL's focus has also been to gain control of the supplies and cost of the major inputs/raw materials and go in for backward integration. The acquisition of the Chlor Alkali Business (Heavy Chemicals Division) during September 2000, provided the solution for an assured captive chlorine availability and at an economical cost, made possible due to synergistic benefits viz. reduction in overheads, lower power cost and overall tax benefits. This ultimately would pave the way for an enhanced capacity utilisation of ECH and reduction in cost of production to be competitive at market place.

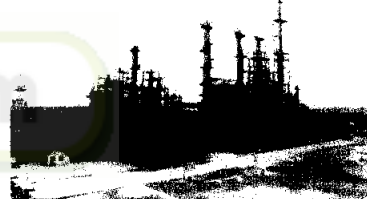
Another Captive Power Plant exclusively for the Chlor Alkali Unit, which is expected to be on line by March 2002, should significantly contribute to improve the performance of the Chlor Alkali Unit, thereby ensuring cost effective supplies of chlorine and enhance the prospects of ECH business. This would also benefit the downstream Epoxy Resin unit, a Joint Venture of TPL's ECH business model.

TPL having defined its vision to be a "Shining Star" has taken the right step forward to achieve its vision and add value to its stakeholders. The strategic initiatives on business cohesion for progress would foster growth to make TPL a fundamentally sound business model.

Chlor Alkali



Epichlorohydrin



Linear Alkyl Benzene



Henkel SPIC





Board of Directors*

M.A. GOWRISHANKAR, I.A.S.	Chairman
Dr. A.C. MUTHIAH	Vice Chairman
M. MADHAVAN NAMBIAR, I.A.S.	Director
HEMANT KUMAR SINHA, I.A.S.	Director
AMBUJ SHARMA, I.A.S.	Director
Dr. K. SATYAGOPAL, I.A.S.	Director
ASHWIN C. MUTHIAH	Director
S. GAJENDRAN (IDBI Nominee)	Director
A.C. CHAKRABORTTI	Director
J.B. DADACHANJI	Director
M.R.B. PUNJA	Director
C. RAMACHANDRAN	Director
P. VEDAGIRI	Finance Director
M. SUNDARAM	Technical Director
D. ARUNACHALAM	Managing Director

AUDIT COMMITTEE *

A.C. CHAKRABORTTI	Chairman
C. RAMACHANDRAN	Member
S. GAJENDRAN	Member
HEMANT KUMAR SINHA, I.A.S.	Member
M.R.B. PUNJA	Member

M.B. GANESH	Secretary
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*As on 23rd July 2001

REGISTERED OFFICE

6, Nungambakkam High Road,
Chennai - 600 034.

Tel : 8254545 / Fax : 8255798

E- mail : isd@tnpetro.com

FACTORY

Manali Express Highway

Manali, Chennai - 600 068.

Tel : 5941350/60/70/80 & 5941501-10

Fax : 5941139

AUDITORS

A.F. Ferguson & Co.,

Chartered Accountants,

7th Floor, Guna Office Complex,

Annexe Bldg., New No.443 (Old No.305/1),

Anna Salai, Teynampet, Chennai - 600 018.

LEGAL ADVISOR

T. Raghavan,

25, Mowbrays Road, Chennai - 600 018.

REGIONAL OFFICE

3rd Floor, YMCA Cultural Centre Building,

1, Jai Singh Road, New Delhi - 110 001.

Tel : 3365275 / 3364962

BANKERS

State Bank of India

State Bank of Hyderabad

State Bank of Bikaner & Jaipur

State Bank of Patiala

Punjab National Bank

Bank of America

Standard Chartered Bank

ABN Amro Bank

HDFC Bank Ltd.

SECRETARIAL DEPARTMENT

Manali Express Highway,

Manali, Chennai - 600 068

Tel : 5940761 (Direct) 5941501-10 Ext.(2388)

REGISTRAR & SHARE TRANSFER AGENTS

Cameo Corporate Services Limited

"Subramanian Building",

1, Club House Road, Chennai - 600 002

(Tel: 8460084 / 8460395) Fax : 8460129

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OPERATING RESULTS AT A GLANCE

(Rs. in Crores)

	1996-97	1997-98	1998-99	1999-2000	2000-2001
Gross Profit	103.00	98.77	114.57	142.01	151.33
Interest	26.48	23.11	28.62	23.05	34.53
Profit before depreciation	76.52	75.66	85.95	118.96	116.80
Depreciation	27.17	25.64	25.81	35.48	42.89
Provision for tax	6.40	12.75	14.30	32.50	22.50
Profit after tax	42.95	37.27	45.84	50.98	51.41
Extraordinary Item	-	-	-	-	63.02
Profit after Extraordinary Item	-	-	-	-	114.43
Transfer to:					
Debenture Redemption reserve	-	-	-	-	12.50
General reserve	4.29	3.73	73.04	26.34	63.02
Networth (*Net of Revaluation Reserve)	283.22*	299.80*	322.55*	355.83*	445.48*

NOTICE FOR THE SIXTEENTH ANNUAL GENERAL MEETING

NOTICE is hereby given that the Sixteenth Annual General Meeting of the Company will be held at 3.05 p.m. on Thursday the 30th August 2001 at Kamaraj Arangam, No. 492 (Old No. 574-A), Anna Salai, Teynampet, Chennai 600 006 to transact the following business :

ORDINARY BUSINESS

1. To receive and adopt the audited Balance Sheet as at 31st March 2001 and Profit and Loss Account of the Company for the year ended 31st March 2001 and the Report of the Directors and Auditors.
2. To declare a dividend
3. To appoint a Director in the place of Thiru JB Dadachanji who retires by rotation and being eligible offers himself for re-election.
4. To appoint a Director in the place of Thiru P. Vedagiri who retires by rotation and being eligible offers himself for re-election.
5. To appoint a Director in the place of Thiru Ambuj Sharma who retires by rotation and being eligible offers himself for re-election.
6. To consider and if thought fit, to pass with or without modification the following resolution as a Special Resolution :

"RESOLVED THAT A.F. Ferguson & Co., Chartered Accountants, the retiring Auditors be and are hereby reappointed as the Auditors of the Company to hold office until the conclusion of the Seventeenth Annual General Meeting on such remuneration as may be decided by the Board of Directors plus reimbursement of out of pocket expenses and levies such as service tax etc."

SPECIAL BUSINESS

7. To consider and if thought fit, to pass with or without modification the following resolution as an Ordinary Resolution :
"RESOLVED THAT Thiru C. Ramachandran be and is hereby appointed as Director of the Company."

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

"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 mortgaging and / or charging by the Board of Directors of the Company of all the immovable and movable properties relating to Linear Alkyl Benzene Complex of the Company, present and future, and the whole of the undertaking of the Company together with power to take over the management of the business and concern of the Company in certain events, to or in favour of ICICI Limited to secure Rupee Term Loan of Rs.10,000 lakhs lent and advanced by ICICI Limited together with interest thereon at the respective agreed rates, interest, compound interest, additional interest, liquidated damages, commitment charges, premia on prepayment, costs, charges, expenses and other monies payable by the Company to ICICI Limited under the respective Heads of Agreement / Loan Agreement / Letters of Sanction / Memorandum of Terms and Conditions entered into / to be entered into by the Company in respect of the said term loan."

"RESOLVED FURTHER that the Board of Directors of the Company be and is hereby authorised to finalise with IDBI, the documents for creating the aforesaid mortgage and / or charge and to do all such acts and things as may be necessary for giving effect to the above resolution."

9. To consider and if thought fit, to pass with or without modification the following resolution as a Special Resolution :

"RESOLVED THAT pursuant to the provisions of Section 372A and other applicable provisions, if any, of the Companies Act, 1956, other Statutory approvals and subject to the approval of Financial Institutions, if required, approval be and is hereby given to the Board



of Directors of the Company (hereinafter referred to as "the Board" which term shall include any Committee(s) which the Board have or may hereafter constitute to exercise the powers of the Board including the powers conferred by this resolution), for investing upto US \$ 50 Million by way of subscription or otherwise in the equity share capital of a wholly owned subsidiary of the Company to be established in Mauritius which will be the investment arm for the proposed overseas projects viz., N-Paraffin / Linear Alkyl Benzene Project in Gulf Co-operation Council Country and Linear Alkyl Benzene Project in South East Asian Region notwithstanding that the aggregate of such proposed investment in the wholly owned subsidiary together with the existing investments made and the loans / guarantees given by the Company may exceed the limits prescribed under Section 372A of the Companies Act, 1956."

"RESOLVED FURTHER that the Board of Directors of the Company be and is hereby authorised to determine the actual sum to be invested and the time and manner of such

investment and to do all and any of the matters arising out of and incidental to the said investment."

10. To consider and if thought fit, to pass with or without modification the following resolution as a Special Resolution :

"RESOLVED THAT in accordance with the provisions of Section 309 and other applicable provisions, if any, of the Companies Act, 1956, and subject to the approval of Central Government / Financial Institutions, a sum not exceeding 1% of the net profits of the Company for each year, computed in the manner referred to in sub section (1) of Section 198 of the Companies Act, 1956, be paid to and distributed amongst the Directors of the Company (other than Managing / Whole-time Directors) in such amounts or proportions and in such manner and in all respects as may be directed by the Board of Directors, in addition to the sitting fees payable to Directors and such payment shall be made in respect of the profits of the Company for each year of the period of five financial years commencing from 1st April 2000."

By order of the Board
for TAMILNADU PETROPRODUCTS LIMITED

M.B.GANESH
Secretary

26th May 2001
Chennai - 600 034.

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 a proxy need not be a member of the Company.
2. An Explanatory Statement pursuant to Section 173(2) of the Companies Act, 1956 in respect of Resolutions set out against item Nos.7 to 10 of the Notice is annexed hereto.
3. The Register of Members and the Share Transfer Books of the Company will remain closed from 17th August 2001 to 30th August 2001 (both days inclusive).
4. Members are requested to notify immediately any change in their address to the Company/ Share Transfer Agents / Depository Participants.
5. The unclaimed dividend upto the financial year ended 31st March 1995 has been transferred to the General Revenue Account of the Central Government. Claims on unclaimed dividend, if any, for the financial years 1995-96, 1996-97, 1997-98, 1998-99 & 1999-2000 shall be made to the Company or Share Transfer Agents.
6. Shareholders seeking any information with regard to accounts are requested to write to the Company at an early date so as to enable the Management to keep the information ready.
7. Members / Proxies should bring the Attendance slip duly filled in for attending the Meeting.
8. All documents referred to in the accompanying Notice and the Explanatory Statement are open for inspection at the Registered Office of the Company during office hours on all working days except Saturdays and holidays between 9-00 a.m. to 5-30 p.m. upto the date of the Annual General Meeting.

EXPLANATORY STATEMENT PURSUANT TO SECTION 173(2) OF THE COMPANIES ACT, 1956**Item No.7**

The Board of Directors at their Meeting held on 26th May 2001 co-opted Thiru C. Ramachandran as an Independent Director under Corporate Governance Guidelines. He was inducted taking into consideration his earlier association with TPL as Chairman and his valuable contribution to the growth of the Company. Thiru C. Ramachandran a retired Officer from Indian Administrative Service was Principal Secretary to Government of Tamilnadu, Industries Department. During his service in Government he had held senior positions and served as Director and Chairman of leading Public / Joint Sector Companies.

As per Section 260 of the Companies Act, 1956 (the Act), Thiru C. Ramachandran appointed as Additional Director shall hold office only upto the next Annual General Meeting. The Company has received Notice under Section 257 of the Act from a Member proposing Thiru C. Ramachandran for appointment to the Office of Director along with a deposit of Rs.500/-.

Hence the proposed resolution.

None of the Directors of the Company except Thiru C. Ramachandran is interested in the resolution.

Item No.8

The Company had availed a Rupee Term Loan of Rs.10,000 lakhs to fund part of the requirement for acquisition of Heavy Chemicals Division of SPIC and also to part fund the normal capital expenditure of the Company. The aforesaid term loan as per the terms and conditions is to be secured by an extension of first mortgage and charge on all immovable and movable properties of the Linear Alkyl Benzene Complex of the Company, both present and future ranking pari passu with the charges created and / or to be created in favour of the existing charge holders.

As per Section 293(1)(a) of the Companies Act, 1956 the Board of Directors shall not, without the consent of the shareholders in general meeting, sell, lease or otherwise dispose of the whole or substantially the whole of the undertaking of the Company or where the Company owns more than one undertaking, of the whole or substantially the whole, of any such undertaking.

Since mortgaging / charging by the Company of its movable and immovable properties as aforesaid in favour of ICICI Limited is regarded as disposal of the Company's properties / undertakings,

approval of the Members is required under Section 293(1)(a) of the Companies Act, 1956, for creation of such mortgages / charges.

Hence the proposed resolution.

None of the Directors is interested in the resolution.

Item No.9

The Company is planning to expand its LAB business overseas based on the core competencies built by the Company in the LAB business. Various locations at Gulf Co-operation Council Countries in the Middle East Region and in the South East Asian Region have been identified. The Company is proposing to establish a wholly owned subsidiary in Mauritius which would be the investment arm for the overseas projects.

The above investment would be funded from borrowed funds.

The aggregate of the loans and investments so far made, the amounts for which guarantees or security so far provided to other bodies corporate along with the proposed investment to be made would exceed limits prescribed under Section 372A of the Companies Act, 1956 and therefore prior approval of the Members by way of a special resolution at a general meeting is required.

Hence the proposed Special Resolution.

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

Item No.10

The role and responsibility of Directors have considerably increased with introduction of various amendments to the Companies Act, 1956 and also under Corporate Governance Guidelines introduced by SEBI / Stock Exchanges. In view of the additional responsibility that the Directors have to shoulder and also for the contributions made by the Non Whole-time Directors at the Board and other Sub Committee Meetings spending their valuable time giving suggestions and formulating policies / plans for the further growth of the Company, the practice of compensating the Non Whole-time Directors has become prevalent among most of the leading corporates. The remuneration payable by way of commission would be within the limits permitted under the Companies Act, 1956.

Hence the proposed Special Resolution.

The Non Whole-time Directors may be deemed to be concerned or interested in the resolution.

By order of the Board
for TAMILNADU PETROPRODUCTS LIMITED

M.B. GANESH
Secretary

26th May 2001
Chennai - 600 034.



DIRECTORS' REPORT

To

The Shareholders

The Directors have pleasure in presenting their Sixteenth Annual Report on the business and operations of your Company and the audited Statement of Accounts for the year ended 31st March 2001.

FINANCIAL RESULTS

	(Rupees in Crores)	
	2000-2001	1999-2000
Profit Before Depreciation and Interest	151.33	142.01
Interest	34.53	23.05
Profit after Interest	116.80	118.96
Depreciation	42.89	35.48
Profit Before Tax	73.91	83.48
Provision for Tax	22.50	32.50
Profit after Tax	51.41	50.98
Extraordinary Item	63.02	—
Transfer to General Reserve	63.02	26.34
Balance Carried to Balance Sheet	47.87	30.00

OPERATIONAL PERFORMANCE

Linear Alkyl Benzene (LAB) Division

99631 MTs of LAB were produced as against 87481 MTs during last year. LAB production for the year was highest achieved by our Company. During the year there has been steep increase in the costs due to the surge in the world oil prices. On sales growth, efforts are focussed to concentrate in South and Eastern part of our country while expanding in the North markets as well. Continuous efforts to service the customers enabled the Company's products to be patronised well by the customers. Currently, our sales strategy is being designed to result in maximum demand growth to ensure a long term prospects of LAB business. During the year the LAB exports were limited to the extent of surplus available after meeting the domestic demand. The foreign exchange earnings through direct exports were Rs.39.60 Crores.

Epichlorohydrin (ECH) Division

3620 MTs of ECH were produced as against 951 MTs during last year. The sale of ECH was restricted to Markets of remunerative segments only, due to international price scenario. The foreign exchange earnings through ECH exports was Rs.2.42 Crores. The installation of new mixer for Allyl chloride production in Epichlorohydrin plant for reduced consumption of raw materials and for increasing the on stream efficiency has been taken up and the various activities are in progress.

Chlor Alkali Division

26732 MTs of Caustic Soda and 18335 MTs of Chlorine was produced during the period from 27th September 2000 to 31st March 2001. The Chlor-Alkali business had to face pressure on prices due to excess supply over demand. However international prices have firmed up resulting in imports becoming dearer. This resulted in improvement in the price of caustic soda towards end of the year though the situation resulted in the softening of prices of chlorine front. Export of 63 MTs of Ammonium Chloride realised a total value of Rs.7.39 lakhs.

TAKE OVER OF CHLOR ALKALI BUSINESS

The Management exploring various options to improve the ECH business considered acquisition of Chlor Alkali Business (CAB) of SPIC to be ideal, as it would provide backward integration assuring chlorine supplies to enhance the capacity utilisation of ECH plant and thereby reduce the cost of production of ECH.

M/s Ernst & Young Private Limited were engaged to do business valuation of Heavy Chemicals Division of SPIC. The unit was acquired at a purchase consideration of Rs.125 crores plus / minus net current assets & loans and the payment will be made spread over two and half years commencing the take over. The take over was effective from 27th September 2000.

Consultants were also engaged for manpower study in the unit and based on their recommendation the business was taken over with a reduced manpower.

Increase in gross block of fixed assets following take over of Chlor Alkali Unit provides for tax shield in the form of depreciation besides savings in local taxes on supplies of chlorine. Plans are afoot to install a 18.8 MW captive power plant at the Chlor Alkali Unit to reduce the high cost of power incurred for production of caustic soda and chlorine.

DIVIDEND

Your Directors deciding to retain the same percentage of dividend as paid in the previous year have now recommended payment of dividend of 25% on the equity share capital, amounting Rs 22.49 Crores.

SAFETY, HEALTH & ENVIRONMENT

Your Company continues to maintain high standards of safety. Your Company has won "Safety Star Award" from National Safety Council, Tamilnadu Chapter for the year 1999 for good safety performance. Also Your Company has been awarded National Safety Awards by the Ministry of Labour, Government of India, during the year.

Your company had also implemented extensive preventive health care measures for the benefit of its employees.

RESEARCH & DEVELOPMENT

R&D efforts towards improvement in the manufacturing process of LAB is likely to materialise soon which would help in enhancing the quality of your Company's products. Your Company's R&D is actively pursuing development of a eco-friendly process for Epichlorohydrin manufacture. Your Company is also carrying out collaborative projects in association with SPIC Science Foundation towards adding value to by products. Continued efforts of research & development are being taken on Sodium heating medium.

CORPORATE OFFICE

The construction of Corporate Office of your Company at Cenotaph Road, Chennai, a prime locality, is fast progressing and is expected to be ready for occupation during last quarter of 2001. The proposed corporate office located at a vantage

point would enhance the image and prestige of the Company.

FUTURE OUTLOOK

There is a good demand for your Company's LAB in the global market in South East Asia, Middle East and Europe. Your Company is planning capacity augmentation and hence is focussing also on long term export contracts to ensure stable export volumes resulting from the capacity augmentation. The capacity expansion programme of Normal Paraffin unit to 94,000 MTs and LAB unit to 1,20,000 MTs have been taken up and the engineering work is in progress. The Microprocessor based Distributed Control System for LAB Plant has been upgraded to meet the new capacities of plant and also to improve energy efficiency. The utilities expansion to meet the requirements of the expanded capacity of LAB plant has been started.

With measures taken for consolidation of ECH business, expansion of LAB capacity to retain our competitive edge in the domestic market, plans are also afoot to implement projects in Middle East, and explore avenues in South East Asia also with a view to spread our presence overseas and become a global player.

INVESTMENTS

- (i) It was a year of consolidation for Henkel SPIC India Limited, recording an impressive sales of Rs.301 crores for the year (12 months) ended 31st December 2000 compared to Rs.272 crores (15 months) in the previous year. HSIL also posted a maiden net profit of Rs.3.04 crores compared to the loss of Rs.5.87 crores in the previous year.
- (ii) Petro Araldite Private Limited (PAPL) achieved a turnover of Rs.64.60 crores for the year ending 31st March 2001. PAPL's production and sales have stabilised during the year. While the turnover has improved, the capacity utilisation of the plant continues to be under pressure. Consequent to Ciba divesting their stake in PAPL in favour of Vantico Performance Polymers Private