



# **Engro Polymer & Chemicals Limited**

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## **Analyst Briefing**

**1Q 2011 Business Results**

**April 29, 2011**

# VCM Plant Highlights 1Q 2011

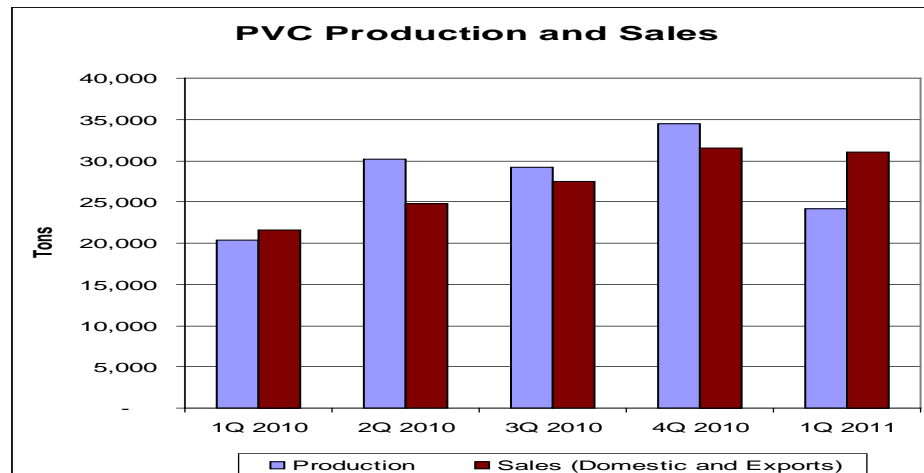
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- Planned Shutdowns were taken during January and March to enhance the operating rate
- Problems rectified during the shutdown
- Plant was restarted in April and operating at 400+ t/day since then
- 14 KT VCM produced in house during 1Q
- 7 KT VCM imported due to VCM plant shutdowns in 1Q

# PVC Highlights 1Q 2011

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- 24 KT PVC produced in house
- Lower than capacity PVC production mainly due to planned PVC maintenance and VCM shutdowns
- 29 KT PVC sold in domestic market
- Domestic PVC – VCM margin of \$420/ton
- 2 KT PVC exported at netback of \$300/ton
- PVC international prices continuously increased during the quarter (\$1,030/t to \$1,140/t)
- Ethylene prices also increased during the quarter (\$1,100/t to \$1,350/t)



# Caustic Soda & EDC Highlights 1Q 2011

## Caustic Soda

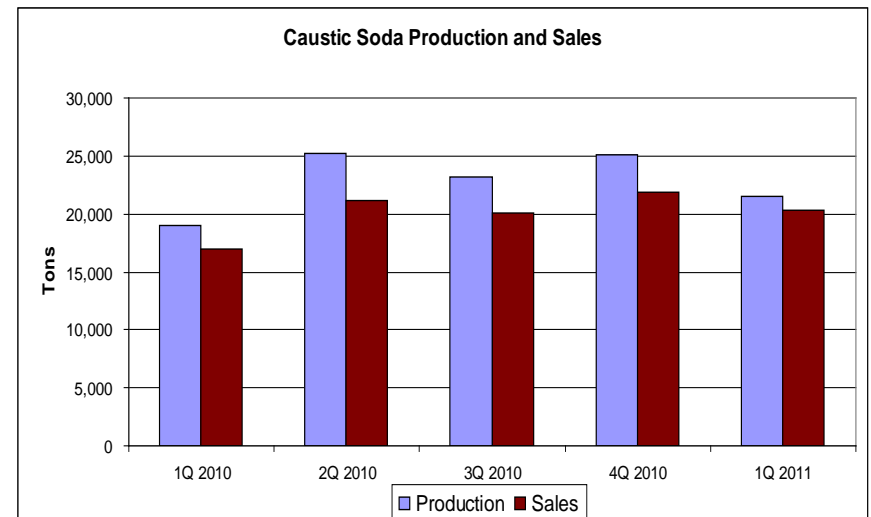
- 22 KT Caustic Soda produced in 1Q
- 20 KT Caustic Soda sold in domestic market
- EPCL continued to be the major player in the South market.
- All production (net of in-house consumption) was sold.
- Major sectors for EPCL Caustic Soda sales
  - Textile sector (60%)
  - Soap and Detergents Sector (30%)
  - Water Treatment and other Sector (10%)

## Sodium Hypo Chlorite

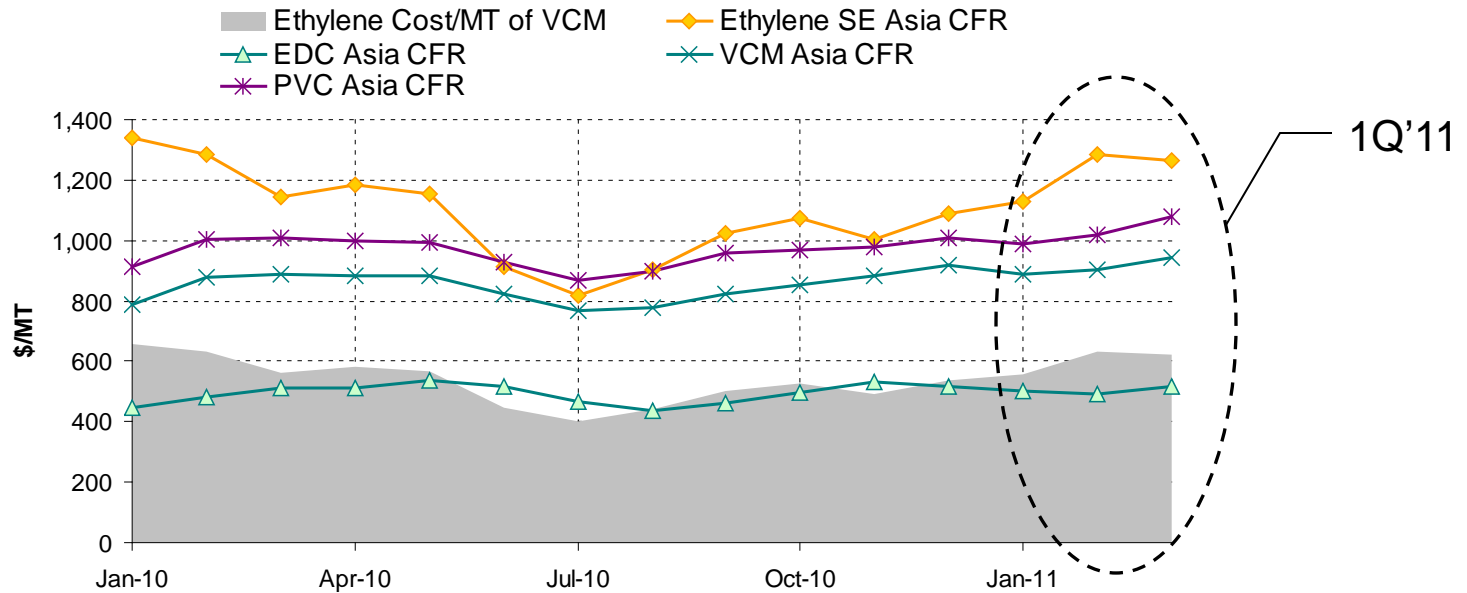
- 4 KT Sodium Hypo Chlorite was produced and sold

## EDC

- 23 KT EDC was produced during 1Q
- 3 KT EDC exported

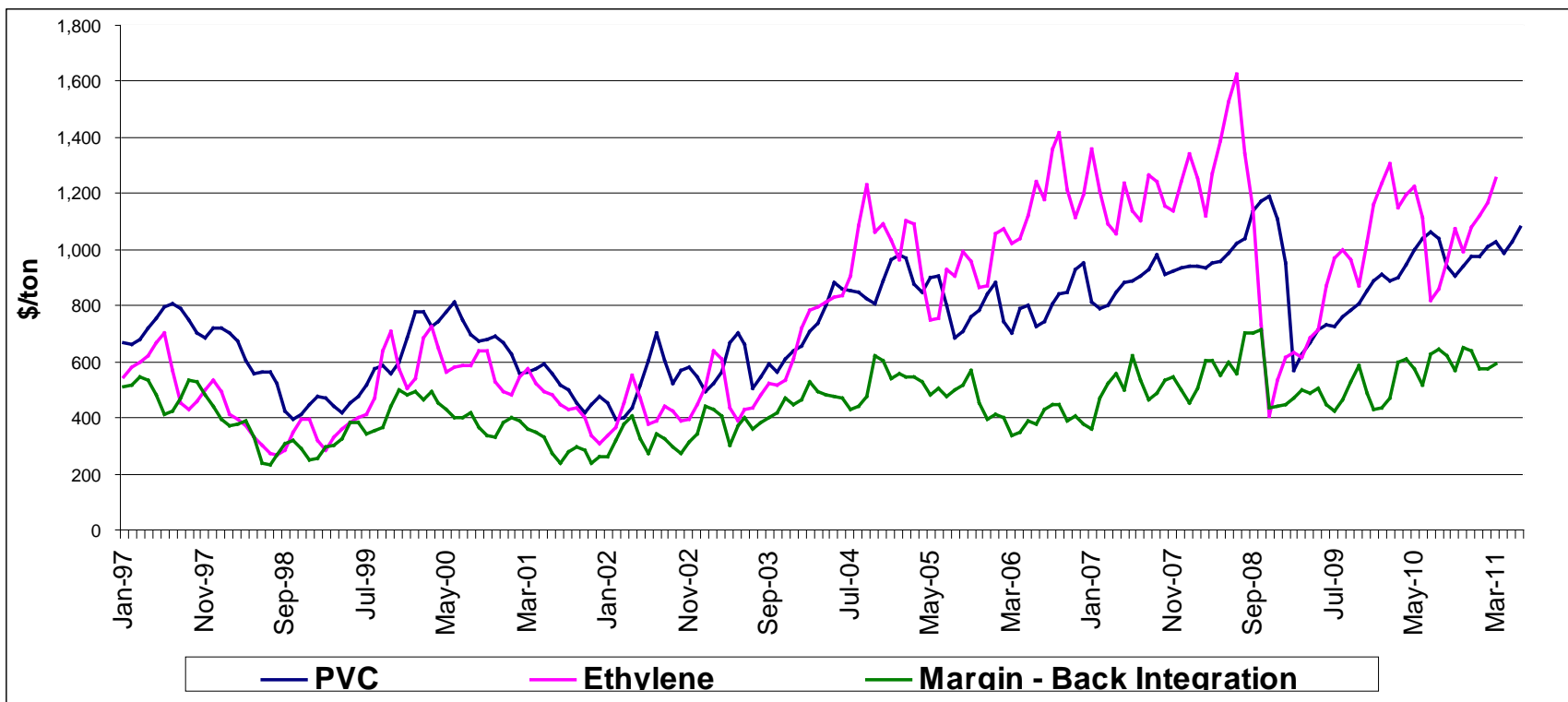


# International Prices in 1Q 2011



- **PVC:** Seasonal pick in demand, relatively tight supply and high ethylene costs
- **Ethylene:** High oil prices and relatively tight supply increased prices

# Back Integration & Historical PVC-Ethylene Delta



Moving Averages (\$/ton)	Project Assumptions	5 yr	3 yr	1 yr	Jan-11	Feb-11	Mar-11
PVC	750	914	928	997	988	1,025	1,083
Ethylene	800	1,092	1,018	1,072	1,123	1,166	1,253
NaOH C&F	246	356	380	387	402	374	372
Domestic Margin	468	518	550	599	573	575	595

# Operating Highlights

		2011	2010
		1Q	
<b>Production:</b>			
PVC	KT	24	20
VCM	KT	14	2
EDC	KT	23	20
Caustic Soda	KT	22	19
<b>Sales:</b>			
PVC Domestic	KT	29	22
PVC Export	KT	2	-
Caustic Domestic	KT	20	17
EDC Export	KT	3	14
<b>EPCL PVC-VCM Margin</b>	<b>\$/ton</b>	<b>423</b>	<b>295</b>
<b>International PVC-VCM Margin</b>	<b>\$/ton</b>	<b>158</b>	<b>138</b>
<b>Contribution Margin</b>	<b>Rs. M</b>	<b>1,283</b>	<b>568</b>
<b>PAT</b>	<b>Rs. M</b>	<b>(59)</b>	<b>(154)</b>

# Financial Highlights – 1Q 2011 vs. 1Q 2010

	Quarter ended March 31, 2011	Quarter ended March 31, 2010 (Restated)	Remarks
Net Sales	4,123,660	3,283,754	(1.) DOMESTIC PVC SALES: 29 KT of PVC sold at \$1,166/ton as compared to 22 KT at \$1,127/ton last year. (2.) PVC EXPORTS: 2 KT of PVC exports at FOB \$1,066/t were made as compared to nil last year (3.) EDC EXPORTS: 3KT of EDC at \$447/t was exported as compared to 14KT at \$350/t last year (4.) DOMESTIC CAUSTIC SALES: 20KT of Caustic Soda was sold at Rs.35,655/ton as compared to 17KT at Rs.31,155/ton last year.  (5.) POWER SUPPLY: There were no power sales to KESC as compared to 7 MW last year  (6.) The weighted average exchange rate increased from Rs. 85.4/\$ in 1Q 2010 to Rs. 86.6/\$ in 1Q 2011 contributing further to the growth in revenue.
Cost of goods sold	<u>(3,580,054)</u>	<u>(3,074,833)</u>	Mainly due to higher sales in 1Q 2011. Additionally VCM related fixed cost that was being capitalized in 1Q 2010 were charged to P&L in 1Q 2011.
<b>Gross Profit</b>	<b>543,606</b>	<b>208,921</b>	
Distribution & marketing expenses	(192,612)	(120,713)	Mainly due to higher product sales and 2 KT PVC exports as compared to nil in 1Q 2010.
Administrative expenses	(77,688)	(60,779)	
Other operating Income / (Expense)	<u>22,093</u>	<u>6,658</u>	
<b>Operating profit / (loss)</b>	<b>295,399</b>	<b>34,087</b>	
Finance Costs	<u>(387,317)</u>	<u>(282,375)</u>	Mainly due to Project related debt financing. After the completion of the project, the entire amount is being charged off to profit and loss account. The outstanding loans are a \$52 M loan from IFC and Rs. 7,800 M loan from local Banks. Uptil March 31, 2010, borrowing costs amounting to Rs. 72.79 M were being capitalized as part of Project cost. Remaining difference is attributable to movement in Kibor and Libor year-on-year, being 12.41% vs. 13.76% and interest charge on long term loan obtained during 4Q 2010.
<b>Loss before taxation</b>	<b>(91,918)</b>	<b>(248,288)</b>	
Taxation	33,024	93,911	
<b>Loss after taxation</b>	<b><u>(58,894)</u></b>	<b><u>(154,377)</u></b>	



# Business Outlook

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- Focus on stable VCM Plant operations at 400+ t/day in 2Q
- Profitability of the Company will continue to depend on operations of the integrated facility
- PVC and Ethylene prices expected to remain at high levels in 2Q due to high oil and supply demand pressures
- Stable domestic PVC demand expected due to demand from agricultural and construction sectors and pipe exports to Afghanistan
- Caustic Soda sales expected to remain inline with production (net of in-house consumption)

# Thank You

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