



# **Engro Polymer & Chemicals Limited**

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## **Analyst Briefing**

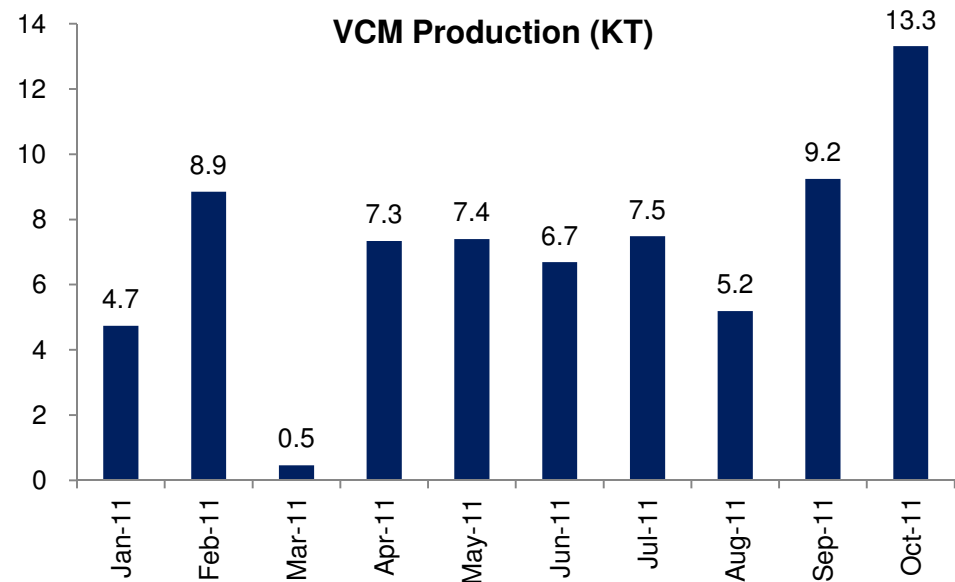
**3Q & YTD 2011 Business Results**

**October 31, 2011**

# VCM Plant Highlights 3Q 2011

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- Post respective start-ups, both Furnaces A and B running at 100% service factor.
- After required repair Furnace B back online on August, 17, 2011. While Furnace A simultaneously shutdown for preventive maintenance.
- Furnace A restarted after tubes replacement on October 5, 2011.
- Average VCM production in October'11 at ~440tpd.
- 21.9KT VCM produced in house vs. 21.5KT in 3Q'10.
- 6KT VCM imported in 3Q'11 to meet production shortfall.



# PVC Highlights 3Q 2011

## Production

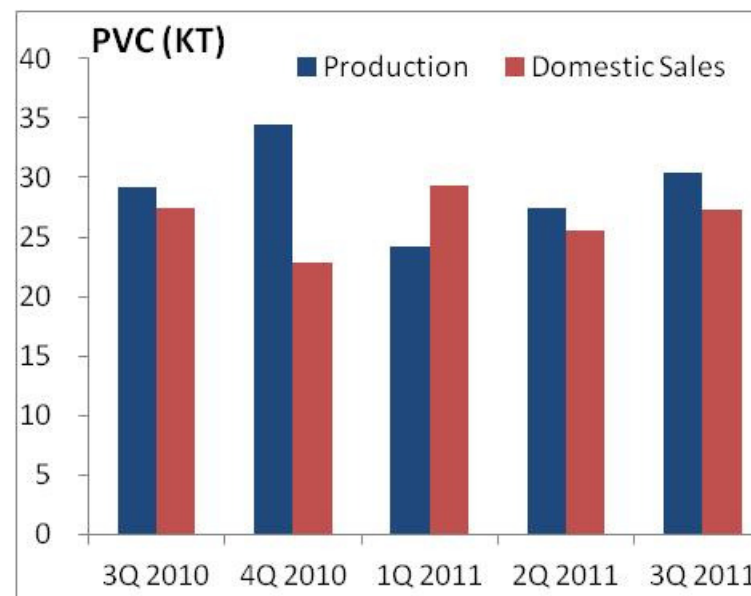
- EPCL produced 30KT in 3Q'11, which was lower than capacity.
- This was mainly due to VCM unavailability.

## Sales & Market

- 27KT was sold in the domestic market
- High PVC resin prices resulted in higher scrap imports
- Int'l PVC and Ethylene prices started declining from August 2011.

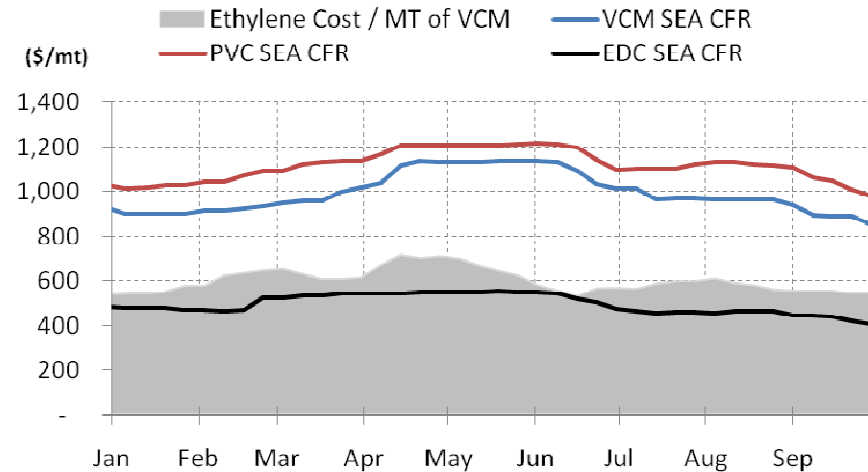
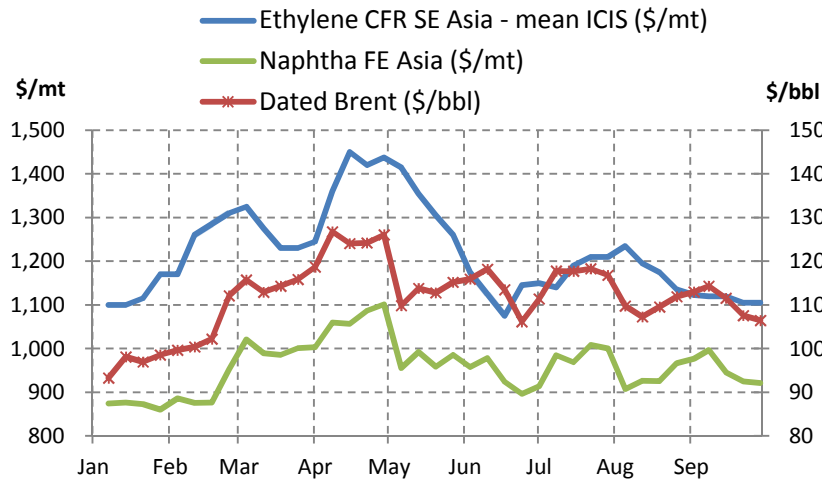
## Margin

- EPCL Domestic PVC-VCM margin dropped to \$351/ton 3Q'11 vs. \$414/ton in 2Q'11.



(KT)	3Q 2010	3Q 2011	YTD 2011	YTD 2010
PVC Production	29	30	82	80
EPCL Sales Domestic	27	27	82	74
Resin Imports	4.2	1.3	3.1	18
Scrap Imports	10.1	11.8	37.2	30.8
Total Demand	42	40	122	123
<b>EPCL Share</b>	<b>66%</b>	<b>68%</b>	<b>67%</b>	<b>60%</b>

# International Prices in 3Q 2011



- Ethylene: Excess Middle East supply and weak downstream demand
- PVC: Weak Chinese demand & availability of low priced US resin in Sep'11

# Caustic Soda & EDC Highlights 3Q 2011

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## Caustic Soda

- 26KT Caustic Soda produced in 3Q'11
- 22KT Caustic Soda sold in domestic market
  
- EPCL continued to be the major player in the South market.
- Surplus production sold in the North market.

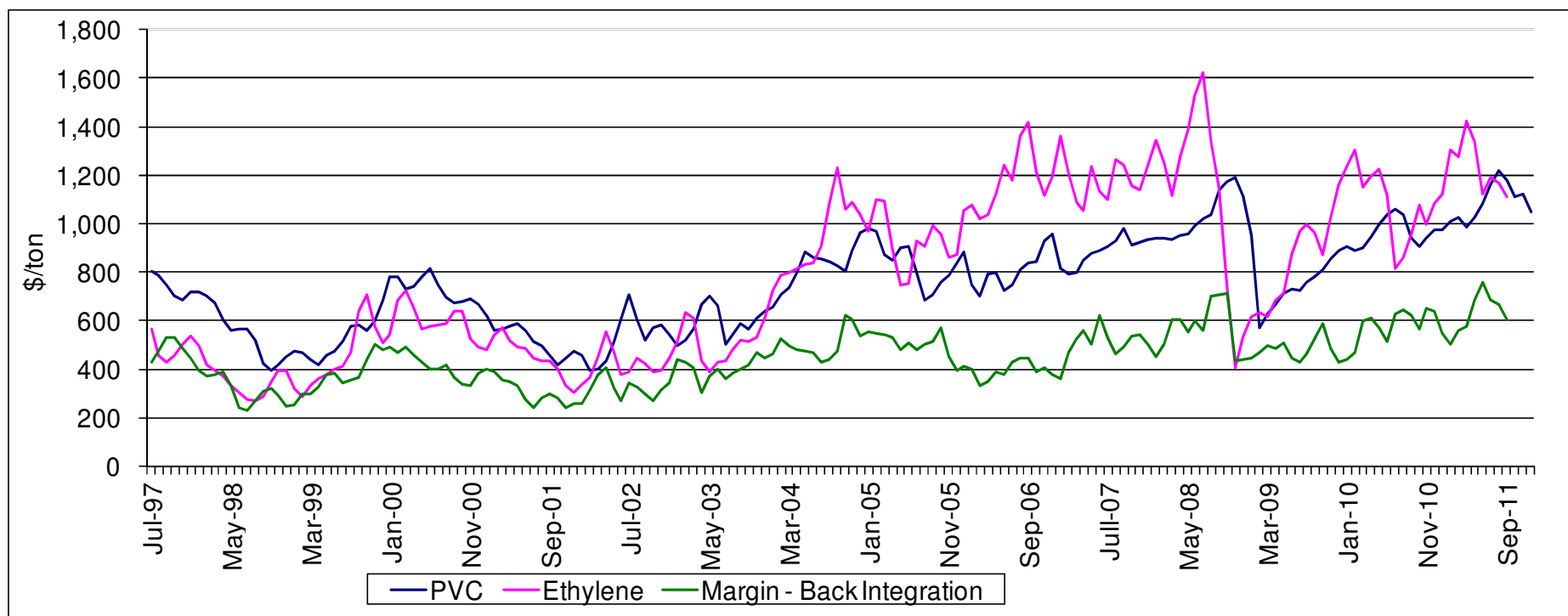
## Sodium Hypochlorite

- 5KT Sodium Hypo Chlorite was produced and sold

## EDC

- 8KT EDC exported

# Back Integration & Historical PVC-Ethylene Delta



Moving Averages (\$/ton)	Project Assumptions	5 yr	3 yr	1 yr	Jul-11	Aug-11	Sep-11
<b>PVC</b>	750	943	933	1,080	1,111	1,125	1,051
<b>Ethylene</b>	800	1,094	996	1,184	1,192	1,168	1,113
<b>Caustic Soda</b>	246	371	384	407	471	403	400
<b>Integrated Margin (Domestic)</b>	468	541	553	620	683	666	607

# Operating Highlights

	(units)	YTD 2011	YTD 2010	3Q 2011	3Q 2010
<b>Production:</b>					
PVC	KT	82	80	30	29
VCM	KT	57	36	22	22
EDC	KT	75	70	27	24
Caustic Soda	KT	72	67	26	23
<b>Sales:</b>					
PVC Domestic	KT	82	74	27	27
PVC Export	KT	3	-	1	-
Caustic Domestic	KT	65	58	22	20
EDC Export	KT	15	33	8	10
<b>PVC-VCM Margin (In house+ Imported)</b>	\$/ton	398	277	351	301
<b>International PVC-VCM Margin</b>	\$/ton	135	122	147	133
<b>Contribution Margin</b>	Rs. M	3,411	2,128	1,053	891
<b>Loss after Tax</b>	Rs. M	<b>(440)</b>	<b>(762)</b>	<b>(245)</b>	<b>(313)</b>

# Financial Highlights – YTD 2011 vs. YTD 2010

Description	Period Ended		% of Sales	Variance		Variance Analysis
	YTD 2011	YTD 2010		Amount	%	
<b>Net Revenue</b>						
PVC	9,093,090	7,201,823	74%	1,891,267	26%	<b>Price Impact:</b> Rs. 111 / ton in 2011 versus Rs. 97.5 / ton in 2010; Last year qty 74K MT - <b>Impact Rs. 1,001 M</b> <b>Quantity Impact:</b> 82K MT in 2011 versus 74K MT in 2010; Price Rs. 111 / ton in 2011 - <b>Impact Rs. 890 M</b>
Caustic Soda	2,360,276	1,921,194	19%	439,082	23%	<b>Price Impact:</b> Rs. 36.1 / ton in 2011 versus Rs. 32.9 / ton in 2010; Last year qty 58K MT - <b>Impact Rs. 185.6 M</b> <b>Quantity Impact:</b> 65K MT in 2011 versus 58K MT in 2010; Price Rs. 36.1 / ton in 2011 - <b>Impact Rs. 252.7 M</b> Increase in Caustic soda prices due to strong demand and tight supply from competitors during the period.
Sodium Hypochlorite	145,404	151,035	1%	(5,631)	-4%	<b>Price Impact:</b> Rs. 10.6 / ton in 2011 versus Rs. 10.06 / ton in 2010; Last year qty 15K MT - <b>Impact Rs. 8.10 M</b> <b>Quantity Impact:</b> 13.7K MT in 2011 versus 15K MT in 2010; Price Rs. 10.6 / ton in 2011 - <b>Impact Rs. (13.78 M)</b>
Sale of Power	20,081	107,144	0%	(87,063)	-81%	During the current period electricity supplied to Engro Fertilizers Limited @ <b>Rs. 5.52 / KWH</b> where as in period ended September 30, 2010, electricity was supplied to Engro Fertilizers Limited @ <b>Rs. 7.34 / KWH</b> . During the corresponding period, the Company supplied <b>2.4 Mwh</b> of electricity to KESC for a total value of <b>Rs. 80.305 M</b> .
Export sales	757,925	1,176,216	6%	(418,291)	-36%	EPTL exported <b>3.026K MT</b> of PVC Resin in the current period amounting to <b>Rs. 278.2 M</b> . No sales of PVC were made in the last period. Markets include Turkey, Sri Lanka and India.  In the current period, EPTL has exported only <b>8.9K MT</b> of Ethylene Di Chloride (EDC) amounting to <b>Rs. 285.5 M</b> as compared to <b>33K MT</b> which amounted to <b>Rs. 1,176 M</b> in the last period. Further during the current period EPCL also exported <b>6.2K MT</b> of PVC resin amounting to <b>Rs. 192 M</b> where no such exports were made in the corresponding period.
Export Rebate	-	102	0%	(102)	-100%	
Less: Dealers Commission	(63,929)	(45,223)	-1%	(18,706)	41%	
<b>Net Revenue</b>	<b>12,312,847</b>	<b>10,512,291</b>	<b>100%</b>			



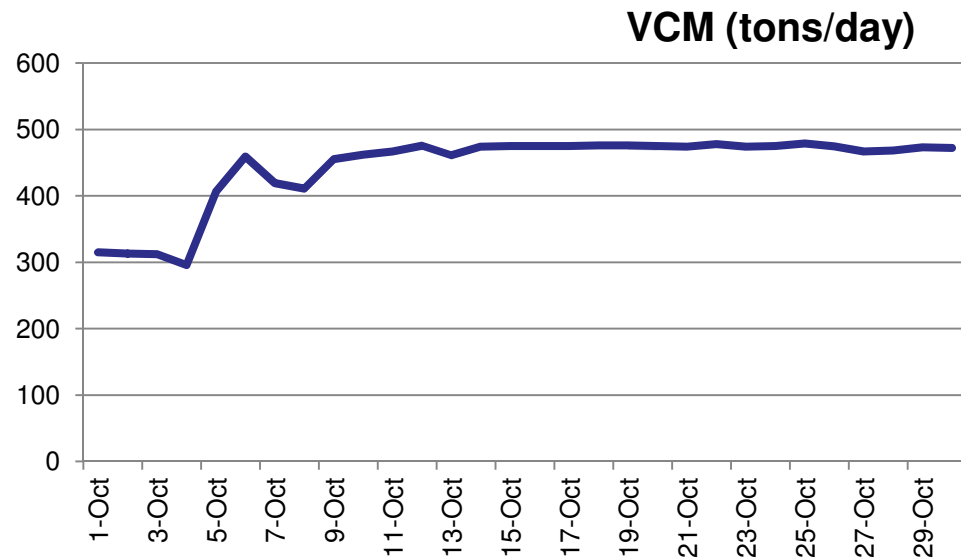
# Financial Highlights – YTD 2011 vs. YTD 2010

Description	Period ended		Variance		Variance Analysis
	YTD 2011	YTD 2010			
			Amount	%	
<b>COST OF SALES</b>					
Raw and packing materials consumed	6,700,573	6,997,933	(297,360)	-4%	The favorable variance has arisen mainly due to: - <b>Rs 490 M</b> savings on lower imported VCM quantity and higher own manufactured VCM quantity. - Savings of <b>Rs. 80 M</b> in Caustic production as compared to 2010. - Offset by higher Ethylene weighted average cost by \$ 209 from \$ 1,024 in 2010 having a negative impact of <b>Rs.273 M</b> .
Salaries, wages and staff welfare	444,443	336,246	108,197	32%	
Fuel, power and gas	1,517,960	1,258,952	259,008	21%	Weighted average gas cost upto June 30, 2011 was <b>Rs. 382.37/mmbtu</b> , which increased to <b>Rs. 424.15/mmbtu</b> during the current quarter.  Main reason for the variation is that utility costs related to the VCM plant were being capitalized in the corresponding period last year. The cost charged to P&L in the current period amounts to <b>Rs. 433 M</b> versus <b>Rs. 171 M</b> in 2010.  Further variation is attributable to higher gas consumption per ton of product produced since plants were operating at lower than capacity due to low product load of VCM plant
Repairs and maintenance	199,880	204,038	(4,158)	-2%	During the current period repairs and maintenance cost of rehabilitation and revamping of Furnace A and B have been capitalized as compare to corresponding period.
Depreciation	854,373	716,743	137,630	19%	The increase in the manufacturing related depreciation expense is mainly attributable to the depreciation on the VCM Plant amounting to <b>Rs. 140.86 M</b> which has been charged to P&L during the current period . During the comparable period, the depreciation on the VCM plant commenced from July 1, 2010.
Others	955,310	1,075,285	(119,975)	-11%	
Inventory movement	179,575	(714,471)	894,046	-125%	Represents difference between opening and closing work-in-progress and finished goods.
	<b>10,852,114</b>	<b>9,874,726</b>	<b>977,388</b>	<b>10%</b>	

# Business Outlook

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- Focus on maintaining stable VCM Plant operations for extended period at design throughput rates.
- Production performance of the VCM plant expected to improve.
- Prices expected to be volatile due to global economic unrest.
- Power/Gas shortages in winter may affect demand.



**Thank You**

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