



COATES OF INDIA LIMITED



Annual Report 2001



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Corporate Information

Board of Directors

Jagdish Narain Sapru - *Chairman*

Bodi Singh Kampani* - *Wholetime Director*

Kazuo Kudo

Rasendu Bhushan Putatunda

Naoki Tsuji

Dr Prabir Kumar Dutt* - *Managing Director*

Dipak Banerjee

Takeshi Kumagai

Hisato Tanemura

Babulal Madhavji Varma

* Executive Director

Timir Baran Chatterjee - *Vice President & Company Secretary*

Board Committees

Audit

Committee

D Banerjee - *Chairman*

B M Varma

R B Putatunda

H Tanemura

Administrative Committee

J N Sapru

Dr P K Dutt

B S Kampani

D Banerjee

R B Putatunda

B M Varma

Shareholders/Investors Grievance Committee

J N Sapru - *Chairman*

Dr P K Dutt

B S Kampani

Remuneration Committee

J N Sapru - *Chairman*

D Banerjee

N Tsuji

Management Committee

Dr P K Dutt

B K Basu

S Bhaumik

T B Chatterjee

A Mukhopadhyaya

B S Kampani

J L Basu

A D Chatterjee

R G Ganguly

N R Sharma

A Puri

Auditors

Lovelock & Lewes

Bankers

Bank of Baroda

Standard Chartered Grindlays Bank

State Bank of India

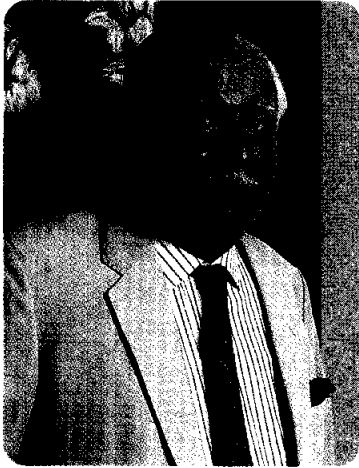
The Hongkong & Shanghai Banking Corporation Limited

Registered Office

Transport Depot Road

Kolkata 700 088

Chairman's Message



Dear Shareholder,

The year 2001 began on an ominous note with the calamitous earthquake in Gujarat with apprehensions of heavier taxation and a possible reversal of the Reforms process. However, such fears were allayed by the Central Budget which revived the “feel-good” factor and provided, for the first time, a road map of reforms which were both challenging and bold. However, the “feel-good” factor was short-lived. The Stock Market scam, Tehelka expose and UTI's US64 fiasco paralysed Parliamentary functioning. Consequently, the road-map of the proposed reforms remained on the drawing board. The disinvestment process was stalled and the Second Generation Reforms remained deadlocked in Parliamentary Committees. The economy, therefore, in the absence of significant fresh investments returned to its sluggish form.

To make matters worse, the terrorist attack on the World Trade Centre on September 11th unleashed a global reaction which left its indelible mark both in politics and economy worldwide and India has not been immune to the aftermath. To add fuel to fire, the failure of the Agra Summit to

progress Indo-Pak détente, followed by continued terrorist attacks in Kashmir and on the Indian Parliament on December 13th, saw the armies of the two sub-continental adversaries eyeball-to-eyeball at the end of the year. Fortunately, this has not resulted in the outbreak of war

Consequently, despite some positive and redeeming features such as, comfortable foodgrain stock, rising Forex reserves and inflation at an all time low of below 2%, the “feel-good” factor remained absent. All eyes are on the forthcoming Central Budget with the industrial sector expectantly looking forward to some measures to put the economy back on track and spur GDP growth from around 5% this year back to the targetted 8% growth per annum.

Your Company continues to be affected by the inert demand for Fast Moving Consumer Goods (FMCG) – which has a direct bearing on your Company's operations. Facing difficult operating conditions a large segment of the packaging industry continues to operate with substantial idle capacity.

Despite the absence of revenue from the Adhesives Business, which was sold to Bostik India Pvt. Ltd., with effect from 1st January, 2001, the Company was able to achieve a net sales of Rs 1854 million – Rs 10 million higher than the previous year. However, the loss of the Adhesives Business was reflected in the lower operating income (PBDIT), excluding extraordinary income. Consequently, the Pre-Tax Profit at Rs 122.30 million was slightly lower in 2001. However, taking advantage of certain tax relief, the Company's Post-Tax Profit at Rs 96.12 million was marginally better than the previous year.

The stalemate regarding Valspar's participation in the Joint Venture in Coates Coatings India Ltd. continues to remain unresolved. Nevertheless, the management, through a series of measures and belt-tightening was able to improve the Profit before Tax from Rs 22.13 million to Rs 25.88 million – a growth of 17% with Profit after Tax recording a growth of 21%.

For better synergy and augmenting future requirement, the Company during the year acquired the entire shareholdings of Rohit (Printing Inks & Paints) Industries Pvt. Ltd. Prior to the above acquisition, Rohit was an exclusive processor for certain ink products of the Company at its plant located at Kandivli, Mumbai. Consequent to the above acquisition, Rohit is now a 100% subsidiary of your Company.

Keeping in mind the future growth and needs of your Company, your Directors have recommended a dividend of Rs 4/- per share.

As a restructuring exercise, the Parent Company is in the process of re-organising its holdings in various subsidiaries under a single holding company. Consequently, under the first phase of the restructuring exercise, 3,511,624 shares of the Company, held by Coates Brothers Plc, U.K., have been acquired, during the year, by Sun Chemical Group, B.V., The Netherlands, (SCGBV), a subsidiary of DIC, Japan. SCGBV now holds 59.42% of the share capital of the Company.

I join the Board in expressing our sincere thank to Messrs. T Nomoto, M Iseda and S Venkatraman who resigned from the Board during the year under review. I also welcome Messrs. K Kudo and N Tsuji for joining the Board as representatives of the Parent Company. The Board of your Company has been further strengthened by the induction of Mr B S Kampani as Wholetime Director. Mr Kampani has been associated with the Company for nearly three decades. I am sure

their appointments at the forthcoming AGM, will have your endorsement.

The Company has been striving to attain higher levels of internal efficiency to combat the external forces and in this regard, the Company has achieved a measure of success as evident from the satisfactory performance inspite of the loss of the Adhesives Business. The Company is presently in the process of setting up a dedicated Black Ink manufacturing facility in Ahmedabad. The commercial production from the said unit is expected to start in March, 2002. With the support of DIC your Company's drive for upgrading technology and equipment will enable the Company to put itself in a stronger position to face the challenges of the future. Given your continued support I look to the future with confidence.



Kolkata
8th February, 2002

J. N. Sapru

COATES OF INDIA LIMITED

Ten-Year Record

TEN YEARS FINANCIAL STATISTICS

	(Rs. Million)									
	2001	2000	1999	1998	1997	1996	1995	1994	1993	1993
	Dec 31	Dec 31	Dec 31	Dec 31	Dec 31	Dec 31	Dec 31	Dec 31	Dec 31	Mar 31
									Dec 31	(9 months)
Sales (Net)	1854	1844	1642	1448	1530	1333	1260	1039	681	777
Profit before Tax	122	129	141	118	114	111	130	171	95	96
Tax	26	39	40	33	32	36	56	70	42	48
Profit after Tax	96	90	101	85	82	75	74	101	53	48
Dividend	30*	32*	31*	30*	30*	27	27	27	15	9
Retained Profit	66	58	70	37	52	48	47	74	38	39
Earnings per Share (Rs.)	13.97	13.08	14.67	12.28#	11.92	10.84	10.78	14.68	12.58@	10.92
Dividend per Share (%)	40@@	42	40	40	40	40	40	40	30	30
Net Worth per Equity Share (Rs.)	113.68***	138.97**	130.51**	120.32**	114.92**	80.00	73.16	66.37	42.51	34.61
PBT to Sales (%)	6.60	7.00	8.59	8.16	7.46	8.33	10.33	16.42	13.95	12.41
PAT on Shareholders Funds (%)	12.27	9.41	11.24	10.20	10.37	13.55	14.74	22.12	22.20	31.56
Debt Equity Ratio	0.46:1	0.45:1	0.4:1	0.49:1	0.47:1	0.61:1	0.62:1	0.42:1	1.12:1	1.70:1
Sources of Funds										
Share Capital	69	69	69	69	69	69	69	69	56	44
Reserves & Surplus	714	888	830	760	722	482	435	388	181	109
Borrowings	359	433	365	405	374	334	310	190	266	262
	1142	1390	1264	1234	1165	885	814	647	503	415
Application of Funds										
Net Fixed Assets	308	318	311	285	255	259	237	192	139	118
Investments	108	299	300	303	20	30	31	18	11	14
Net Current Assets	719	771	650	642	884	590	538	428	349	283
Misc. Expenses	7	2	3	4	6	6	8	9	4	-
	1142	1390	1264	1234	1165	885	814	647	503	415

Notes:

- * Includes Tax on Dividend
- ** After considering Capital Reserve
- *** After considering adjustment of Capital Reserve against value of investments in CCIL
- @ On annualised basis
- @@ Proposed
- # Before provision for diminution in value of investments

Management Discussion & Analysis Report

Overview

The Indian economy is passing through a difficult phase with GDP growth expected to be around 5%. The continued decline of growth in industrial production, poor export performance coupled with rupee depreciation and slump in consumer demand are areas of immediate concern. The international political scenario as well as the tension on India's borders resulted in sagging consumer confidence, poor demand and sluggish industrial activity.

Viewed in this context, Coates' overall performance has been satisfactory. After the sale of Adhesives Business, the Company's revenues are generated exclusively from Printing Ink which comes under "Graphic Art" Segment. During the year, the Company expanded its sales with its wider application in printing and packaging technology. The overall performance of the Company was as under:

(Rs. Million)

Particulars	2001	2000
Net Sales	1854.47	1843.94
Other Income	50.28	43.17
Total Income	1904.75	1887.11
PBDIT	205.97	215.79
Interest	49.13	51.45
PBDT	156.84	164.34
Depreciation	34.54	34.98
PBT	122.30	129.36
Tax (including Deferred)	26.18	39.25
PAT	96.12	90.11

Adhesives Business of the Company was sold on 1.1.2001. Hence, the results for the year 2001 are not comparable with that of 2000.

Industry Structure

The year 2002 is going to be another challenging year for the Industry. Market conditions continue to be sluggish, however, early signs of recovery are visible. The growth of the industry is closely linked with the growth in literacy rate and the increase of consumer demand in FMCG sector. The FMCG sector, which has a direct bearing on your Company, continues to operate under difficult conditions with demand remaining sluggish. The excess capacity, already built up by some major packaging houses, aggravated the situation further.

However, there is huge potential in the domestic market

in view of the country's large population and the Government's continuous effort for growth in literacy rate. Positive growth is also expected in the consumer demand during the year under review. Special emphasis has been laid on developing new markets in the overseas by taking recourse to appropriate strategies. All these augurs well for the industry.

The Company has, during the year ended 31.12.2001, earned an extra-ordinary income of Rs 25 million arising out of the sale of the Adhesives Business with effect from 1.1.2001. With the exit from Adhesives Business, the Company has focussed exclusively on Printing Inks.

COATES OF INDIA LIMITED**Performance**

Despite the absence of revenue from the Adhesives Business, the Company has been able to achieve a net sales of Rs. 1854 million which is higher than Rs. 1844 million achieved in 2000 (inclusive of Adhesives Business). Ink sales registered an overall growth of 20% in terms of volume and 11% in terms of value. However, the Company has adopted a cautious approach towards sales due to high incidences of credit risks especially in liquid ink segment. Creditworthiness of customers is continuously evaluated and requisite steps, as deemed necessary, are appropriately taken. Effective market research and quality upgradation has also played a significant role during the year. The focus is now on improving the fundamentals of operations with thrust on delivering better economic value to our shareholders. There is greater stress on further improving customer satisfaction and enhancing brand leadership built up so assiduously over the last five decades. The Directors' Report gives in detail the performance of your Company and therefore, please refer to "Performance Review" in this regard.

Outlook

The Industry is witnessing a re-alignment of forces. The mantra for growth has been quality blended with safety, health and environment. The Company being part of DIC Group, whose vision is based on commitment to quality, environment and research both fundamental and applied, is poised to substantially gain due to transfer and free flow of technology from its parent company. Although, the general outlook of the industry is currently not very encouraging, the Company has developed necessary strength to face global competition both in terms of product range and quality standards.

Adequate plans are in place, both for the short-term and long-term, to enhance shareholder value. Export and Quality Assurance continue to be the thrust areas for utilization of additional capacities and improved customer satisfaction. DIC is taking keen and active interests in the growth and future prospects of the Company.

Internal Control Systems

The Company has an adequate system of internal controls commensurate with the size and nature of its business. Management Information Systems (MIS) and

the Budgetary Control measures are the backbone of our control mechanism. Regular internal audits and checks ensure that the responsibilities are executed effectively. Any material change in the business outlook is reported to the Board from time to time. An effective budgetary control on all capital expenditure ensures that actual spending is in line with the capital budget. The internal control system of the Company is also reviewed by the Audit Committee of the Board periodically and on their suggestions, improvements are carried out.

Industrial Relations

The relationship with the employees and unions continue to remain very cordial. There was unity of purpose among all levels of employees - continuously striving for betterment and improvement in work practices and productivity. This reinforces the success of the human relationship factor that is one of the cornerstones of the Company's work philosophy. At the year end 630 employees were on the payroll of the Company.

Report on Corporate Governance

The Directors present the Company's Report on Corporate Governance :

I. MANDATORY REQUIREMENTS

1. Company's Philosophy on Corporate Governance

Corporate Governance refers to a combination of regulations, procedures and voluntary practices that enable companies to maximise stakeholders' value by attracting financial and human capital and efficient performance.

As a responsible corporate citizen, it is the earnest endeavor of the Company to improve its focus on Corporate Governance by increasing accountability and transparency to its shareholders, bankers and customers.

2. Board of Directors

A) Composition

The Board of Directors of the Company consists of 10 members, comprising :

- Two Executive Directors in the whole-time employment of the Company
- Four Non-Executive Independent Directors, drawn from amongst persons with experience in business, finance, technology and management.
- Four Non-Executive Directors nominated by and representing the parent company

The Chairman of the Board is an Independent Non-Executive Director.

B) Other Directorships/Committee Memberships held :

As on 31st December, 2001

Name of Director	Category	Directorships held in other Companies *		Committee Memberships held in other Companies **	
		as Director	as Chairman	as Member	as Chairman
J N Sapru	Non-Executive	2	3	3	3
Dr P K Dutt	Executive	1	Nil	1	Nil
B S Kampani	Executive	Nil	Nil	N.A.	N.A.
D Banerjee	Non-Executive	Nil	Nil	N.A.	N.A.
K Kudo	Non-Executive	Nil	Nil	N.A.	N.A.
T Kumagai	Non-Executive	1	Nil	Nil	Nil
R B Putatunda	Non-Executive	1	1	Nil	Nil
H Tanemura	Non-Executive	Nil	Nil	N.A.	N.A.
N Tsuji	Non-Executive	Nil	Nil	N.A.	N.A.
B M Varma	Non-Executive	1	Nil	Nil	Nil

* Excludes Directorships held in Private Limited Companies, Foreign Companies, Companies u/s 25 of the Companies Act, 1956 and Memberships of Managing Committees of various Chambers/Institutions.

** Memberships/Chairmanships of Audit Committee, Shareholders' Grievance Committee and Remuneration Committee have been considered.

COATES OF INDIA LIMITEDC) *Board Meetings held during the year*

During the financial year ended 31st December, 2001, seven Board Meetings were held on 8th March, 29th March, 27th April, 7th June, 31st July, 30th August and 30th October.

D) *Attendance of Directors at Board Meetings and last Annual General Meeting :*

Name of Director	Meetings Attended	Attendance at last AGM
J N Sapru	6	Yes
Dr P K Dutt	7	Yes
B S Kampani *	1	N.A.
D Banerjee	7	Yes
M Iseda **	1	N.A.
K Kudo ***	2	N.A.
T Kumagai	Nil	No
T Nomoto **	1	N.A.
R B Putatunda	7	Yes
H Tanemura	3	Yes
N Tsuji ***	Nil	N.A.
B M Varma	6	Yes
S Venkatraman ****	4	Yes

* *Appointed a Director w.e.f. 30.10.2001*

** *Ceased to be a Director w.e.f. 07.06.2001*

*** *Appointed a Director at the conclusion of the AGM held on 07.06.2001*

**** *Ceased to be a Director from the conclusion of the AGM held on 07.06.2001*

E) *Particulars of Directors being appointed at the Annual General Meeting and Directors retiring by rotation and seeking re-appointment have been given in the Notice convening the 54th Annual General Meeting and Explanatory Statement, attached thereto.***3. Audit Committee**A) *Terms of Reference*

The Audit Committee acts as a link between the management, the statutory and internal auditors and the Board of Directors. The Committee provides the Board with additional assurance as to the adequacy of the Company's internal control systems and financial disclosures. The broad terms of reference of the Audit Committee are to review with the Management and/or Internal Auditors and/or Statutory Auditors in the following areas :

- i) Overview of Company's financial reporting process and financial information disclosures;
- ii) Review with Management, the annual financial statement before submission to the Board;
- iii) Review with Management, external and internal Audit Reports, the adequacy of internal control systems;
- iv) Review the adequacy and effectiveness of accounting and financial controls of the Company, compliance with the Company's Policies and applicable laws and regulations;
- v) Recommending the appointment and removal of external Auditors, fixation of Audit Terms.

B) *Composition, name of members and Chairperson*

The Audit Committee of the Company comprises four members, three of whom are "independent" Non Executive Directors and one Director representing the Parent Company. The names of the members of the Audit Committee, including its Chairman, are provided elsewhere in this Annual Report under the heading "Corporate Information".