



COATES OF INDIA LIMITED



Annual Report 2003



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Corporate Information

Board of Directors

Jagdish Narain Sapru – *Chairman*
Bodi Singh Kampani* – *Wholetime Director*
Kazuo Kudo
Hisato Tanemura

Dr Prabir Kumar Dutt* – *Managing Director*
Dipak Banerjee
Rasendu Bhushan Putatunda
Naoki Tsuji

* Executive Director

Timir Baran Chatterjee – *Vice President & Company Secretary*

Board Committees

Audit Committee

D Banerjee – *Chairman*
R B Putatunda
N Tsuji

Shareholders'/Investors' Grievance Committee

J N Sapru – *Chairman*
Dr P K Dutt
B S Kampani

Administrative Committee

J N Sapru
Dr P K Dutt
B S Kampani
D Banerjee
R B Putatunda

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 Bank
State Bank of India
The Hongkong & Shanghai Banking Corporation Limited

Registered Office

Transport Depot Road
Kolkata 700 088

From the Chairman



Dear Shareholder,

The year 2003 witnessed a turnaround of the Indian economy. The GDP growth was higher than the budget projections and the Indian economy stood up to its global counterparts. Foreign exchange reserves for the first time crossed USD 100 billion mark and the Rupee continued to firm up against the greenback. A lot of money flowed in in the form of FDI and FII as the country became a favoured investment destination. Globalisation and integration had a significant impact on the trade and industry circles in firmly positioning the country in the World Economic Forum. The main driver in the current growth resurgence is the agricultural sector which saw a revival due to good monsoon, increased investment in infrastructure as well as growth in the service and manufacturing sectors.

The economy is poised for a great leap forward characterised by healthy expansion in terms of investment, employment and consumption. This is eminent from the feel good factor generated in the economy which has given rise to increased savings and investment. The retail investor has

come back to the equity markets which is reflected in successful PSU disinvestments and soaring indices in the secondary market. Nevertheless, the high rate of inflation and increase in prices of petro products are adversely affecting the fortunes of the chemical industry. Coupled with the same, the multiple tax structures both at the Central and the State levels have fragmented the industry and given rise to low revenue generation to the exchequer mainly due to poor tax administration. A harmonised tax structure will expand the tax base and generate higher revenues to the Government.

The sluggish demand of the FMCG industry has clouded the fortunes of your Company as the same has a direct impact on the operations. A large section of the Packaging Industry has been crippled with substantial idle capacity thereby impacting growth of the Company's liquid inks segment. However, the silver lining is witnessed in the Publication Inks segment which has shown encouraging growth. Nevertheless, the rise in prices of petro based products and vegetable oils, without any corresponding increase in the sales price, has put pressure on margins. Moreover, increase in power tariff and cost of transportation have aggravated the situation further.

Despite sluggish demand of your Company's products as outlined above, the Company witnessed a moderate increase in net sales which stood at Rs. 2161.66 million against Rs. 2000.65 million in the previous year. The pre-tax profit of Rs. 94.57 million from ordinary activities was lower than

Rs. 118.03 million earned in the previous year due to soaring input costs. The Company was unable to increase prices due to competitive pressures. The lower tax provision in the current financial year due to write back of excess tax provision of the earlier years culminated in a post tax profit of Rs. 75.60 million.

The operations of the subsidiary, Coates Coatings India Ltd., was affected due to the gradual shifting of packaging concept from metal containers to poly-laminated tubes/plastic containers. However, penetration in certain new products, namely battery jacket and tooth powder containers, has helped the subsidiary to post an increase in turnover from Rs. 227.12 million in 2002 to Rs. 237.27 million during the current year. The profit before tax of Rs. 33.88 million stood at a similar level as against Rs. 34.62 million last year. As mentioned in the Directors' Report, Valspar Corporation, USA, is no longer interested in acquiring your Company's Coatings subsidiary and the present position is explained in detail in their Report.

Keeping in mind the future growth and the needs of the Company to deploy resources in a balanced manner, your Directors have recommended a dividend of Rs. 3.50 per share.

The Parent Company continues to increase its stake in the Company by purchase of shares through the creeping acquisition route. The total holding of DIC Asia Pacific Pte Ltd. (DAPPL), Singapore, now stands at 65.76%. The acquisition of shares by the Parent Company is detailed in the Directors' Report. The growing stake of the Parent Company is a measure of its confidence in the Indian Company. The Company hopes to gain from its increasing association with

the ultimate holding company – DIC, Japan, which has now agreed to your Company changing its name to DIC India Ltd.

Mr. B. M. Varma resigned from the Board during the year. I am sure you will join me and the Board in thanking him for his immense contribution during his association of over twenty-five years with the Company.

The Company has been constantly striving to attain higher internal efficiency to combat the pressure imposed by the external sources and has been virtually successful in the same which is reflected in the satisfactory performance in spite of the loss of the highly remunerative Adhesives business. Further, the recent reduction of peak level of customs duty by 5% and the abolition of Special Additional Duty of 4% will marginally reduce the raw material cost and boost profitability. It is also anticipated that the expected demand growth in the FMCG sector will lead to better business prospects for the Company. With the continued support from the parent group your Company's efforts to upgrade the technology and equipment will enable the Company to put itself in a stronger position to face challenges of the future. The Company's focus on Research and Development has enabled it to develop certain environment-friendly products to cater to some niche markets. I am extremely confident of the future and look forward to your continued support.



Kolkata
4th March, 2004

J. N. Sapru

COATES OF INDIA LIMITED

Ten-Year Record

TEN YEARS FINANCIAL STATISTICS

(Rs. in Million)

	2003 Dec 31	2002 Dec 31	2001 Dec 31	2000 Dec 31	1999 Dec 31	1998 Dec 31	1997 Dec 31	1996 Dec 31	1995 Dec 31	1994 Dec 31
Sales (Net)	2162	2000	1854	1844	1642	1448	1530	1333	1260	1039
Profit before Tax	95	118	122	129	141	118	114	111	130	171
Tax	19	33	26	39	40	33	32	36	56	70
Profit after Tax	76	85	96	90	101	85	82	75	74	101
Dividend	27 *	27 *	30 *	32 *	31 *	30 *	30 *	27	27	27
Retained Profit	49	58	66	58	70	37	52	48	47	74
Earnings per Share (Rs.)	10.98	12.29	13.97	13.08	14.67	12.28 #	11.92	10.84	10.78	14.68
Dividend per Share (%)	35 @	35	40	42	40	40	40	40	40	40
Net Worth per Equity Share (Rs.)	129.47	122.43	113.68 ***	138.97 **	130.51 **	120.32 **	114.92 **	80.00	73.16	66.37
PBT to Sales (%)	4.39	5.90	6.60	7.00	8.59	8.16	7.46	8.33	10.33	16.42
PAT on Shareholders Funds (%)	8.52	10.03	12.27	9.41	11.24	10.20	10.37	13.55	14.74	22.12
Debt Equity Ratio	0.48:1	0.48:1	0.46:1	0.45:1	0.4:1	0.49:1	0.47:1	0.61:1	0.62:1	0.42:1
Sources of Funds										
Share Capital	69	69	69	69	69	69	69	69	69	69
Reserves & Surplus	823	774	714	888	830	760	722	482	435	388
Borrowings	425	408	359	433	365	405	374	334	310	190
	1317	1251	1142	1390	1264	1234	1165	885	814	647
Application of Funds										
Net Fixed Assets	380	347	308	318	311	285	255	259	237	192
Investments	108	108	108	299	300	303	20	30	31	18
Net Current Assets	826	790	719	771	650	642	884	590	538	428
Misc. Expenses	3	6	7	2	3	4	6	6	8	9
	1317	1251	1142	1390	1264	1234	1165	885	814	647

Notes:

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

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 endeavour 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 8 members, comprising :

- Two Executive Directors in the whole-time employment of the Company.
- Three Non-Executive Independent Directors, drawn from amongst persons with experience in business, finance, technology and management.
- Three 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, 2003

Name of Director	Category	Directorships held in other Companies*		Committee Memberships held in other Companies**	
		As Director	As Chairman	As Member	As Chairman
Mr J N Sapru	Non-Executive	2	3	3	3
Dr P K Dutt	Executive	1	Nil	Nil	2
Mr B S Kampani	Executive	Nil	Nil	N. A.	N. A.
Mr D Banerjee	Non-Executive	5	Nil	1	N. A.
Mr K Kudo	Non-Executive	1	Nil	N. A.	N. A.
Mr R B Putatunda	Non-Executive	1	Nil	1	Nil
Mr H Tanemura	Non-Executive	Nil	Nil	N. A.	N. A.
Mr N Tsuji	Non-Executive	1	Nil	N. A.	N. A.

* 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.

*** Mr B M Varma, Non-Executive Director, resigned from the Board with effect from 1st November, 2003.

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C) *Board Meetings held during the year*

During the financial year ended 31st December, 2003, six Board Meetings were held on 15th January, 6th March, 23rd April, 25th June, 30th July and 29th October.

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

Name of Director	Meetings Attended	Attendance at last AGM
Mr J N Sapru	6	Yes
Dr P K Dutt	6	Yes
Mr B S Kampani	6	Yes
Mr D Banerjee	6	Yes
Mr K Kudo	1	Yes
Mr R B Putatunda	6	Yes
Mr H Tanemura	1	No
Mr N Tsuji	3	No
Mr B M Varma *	6	Yes

* Ceased to be a Director w.e.f. 1st November, 2003.

E) Particulars of Directors retiring by rotation and seeking re-appointment have been given in the Notice convening the 56th 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 Chairman*

The Audit Committee of the Company comprises of three members, two 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".

Mr T B Chatterjee, Vice President & Company Secretary, has been designated as the "Secretary" to the Audit Committee.

C) *Meetings and Attendance during the year*

During the financial year ended 31st December, 2003, four meetings were held on 5th March, 24th June, 30th July and 29th October, 2003 and the attendance were as under :

Name of Director	Meetings Attended
D Banerjee	4
R B Putatunda	4
N Tsuji	1
H Tanemura	1
B M Varma	4

4 Remuneration Committee

The Remuneration Committee of the Company comprises of three Directors, two of them are "Independent" Non-Executive Directors and one Director representing the Parent Company. The names of the members of the Remuneration Committee, including its Chairman, are provided elsewhere in this Annual Report under the heading "Corporate Information". During the year ended 31.12.2003, one meeting was held on 15th January, 2003.

Name of Director	Meeting Attended
J N Sapru	1
D Banerjee	1
N Tsuji	1

Remuneration paid/payable to the Directors for the financial year ended 31st December, 2003:

(In Rs)

Name of Director	Sitting Fees	Salary	Performance Bonus	Commission	Perquisites	Total
Mr J N Sapru	40,000	N. A.	N. A.	511,369	N. A.	551,369
Dr P K Dutt	N. A.	1,594,962	266,250	1,022,737	690,078	3,574,027
Mr B S Kampani	N. A.	805,708	141,000	282,000	596,580	1,825,288
Mr D Banerjee	55,000	N. A.	N. A.	150,000	N. A.	205,000
Mr K Kudo	N. A.	N.A.	N. A.	N.A.	N. A.	N. A.
Mr R B Putatunda	50,000	N.A.	N A	150,000	N. A.	200,000
Mr H Tanemura	N. A.	N.A.	N. A.	N.A.	N. A.	N. A.
Mr N Tsuji	N. A.	N.A.	N. A.	N.A.	N. A.	N. A.
Mr B M Varma *	50,000	N.A.	N. A.	125,000	N. A.	175,000

* *Ceased to be a Director w.e.f. 1st November, 2003*

All remuneration paid/payable are within the ceiling prescribed under the provisions of the Companies Act, 1956.

- Except the Managing Director and the Whole Time Director, all the members of the Board are liable to retire by rotation. The appointment of the Executive Directors is governed by the resolutions passed by the Board, as per recommendation of the Remuneration Committee, which cover the terms and conditions of such appointment read with the service rules of the Company, subject to final approval by the members.
- No Severance Fee is payable.
- Performance Bonus is determined on the basis of the status of the Inventory and Debtors, Profitability and overall financial position of the Company.

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5. Shareholders'/Investors' Grievance Committee**A) Composition**

The Shareholders'/Investors' Grievance Committee comprises of three Directors. The Chairman is a non-executive Director. The names of the members of the Shareholders'/Investors' Grievance Committee, including its Chairman, are provided elsewhere in this Annual Report under the heading "Corporate Information".

Mr T B Chatterjee, Vice President & Company Secretary, has been designated as the "Compliance Officer".

B) Attendance

During the year ended 31.12.2003, one meeting was held on 6th March, 2003, and all the members were present at the said meeting.

C) Status of Transfers

During the year ended 31st December, 2003, 8,463 shares, in physical form, were processed for transfer. There were no pending share transfers as on 31.12.2003.

D) Complaints

During the year ended 31.12.2003, the Company received 28 nos. complaints from shareholders mainly relating to non-receipt of Dividend Warrants/Annual Reports. A complaint was also received from SEBI regarding non-receipt of dividend by a shareholder. The Company has duly redressed all the grievances to the satisfaction of the members. As on 31.12.2003, there were three cases relating to disputes over ownership of shares pending before various courts in which the Company has been made a party and one case is pending due to non-receipt of necessary documents from the shareholder.

6. General Body Meetings**A) Particulars of last three Annual General Meetings**

AGM	Year Ended	Venue	Date	Time
55th	31.12.2002	Williamson Magor Hall Bengal Chamber of Commerce & Industry Royal Exchange 6, Netaji Subhas Road, Kolkata – 700 001	25.06.2003	3.00 p.m.
54th	31.12.2001	As above	24.04.2002	3.00 p.m.
53rd	31.12.2000	As above	07.06.2001	3.00 p.m.

No Special Resolutions were put through Postal Ballot at the last Annual General Meeting. No Special Resolution requiring a Postal Ballot is being proposed at the ensuing Annual General Meeting.

B) Particulars of last three Extra-ordinary General Meetings:

Purpose	Venue	Date	Time
Sale of Adhesives Business	Williamson Magor Hall Bengal Chamber of Commerce & Industry, Royal Exchange 6, Netaji Subhas Road Kolkata – 700 001	18.12.2000	11.00 a.m.
Allotment of shares to Coates Brothers Plc on Preferential Basis; Re-appointment and revised remuneration payable to Managing and Wholtime Directors	As above	2.12.1993	3.00 p.m.
Issue of shares on Rights Basis	As above	18.12.1992	3.00 p.m.