

Annual Report 2017 - 2018



KOTHARI PHYTOCHEMICALS & INDUSTRIES LTD.

| | DIN |
|---|---|
| BOARD OF DIRECTORS : SRI A. V. KOTHARI – Director | 02572346 |
| SMT. VEDIKA KOTHARI – Director | 07189991 |
| SRI S. BAGRI – Director | 00659888 |
| SRI A. KHANDELWAL – Director | 00416445 |
| SRI A. AGARWAL – Director | 00054252 |
| SRI A. K. TOSHNIWAL – Managing Director | 06872891 |
| COMPANY SECRETARY : SRI M. L. DAGA | |
| AUDITORS : K RAY & COMPANY, KOLKATA | |
| BANKERS : VIJAYA BANK | |
| REGISTERED OFFICE : C-4, GILLANDER HOUSE, 8, N. S. ROAD, KOLKATA-700 001 | |
| REGISTRAR & SHARE TRANSFER AGENT : MAHESHWARI DATAMATICS PVT. LTD. 23, R. N. MUKHERJEE ROAD (5TH FLOOR), KOLKATA - 700 001 | |
| MANUFACTURING UNITS | |
| PHYTOCHEMICALS DIVISION | : MADURAI (Tamil Nadu) Mfrs. of : Chemicals and Crude Drugs |
| CLARO INDIA DIVISION | : GUMMIDIPOONDI (Tamil Nadu) Mfrs. of : Phenolic Resin |

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DIRECTORS' REPORT
TO THE SHAREHOLDERS

Your Directors have pleasure in presenting ONE HUNDRED TWENTY SECOND Annual Report together with the Audited Statement of Accounts of the Company for the year ended on 31st March 2018.

1. FINANCIAL SUMMARY AND PERFORMANCE OF THE COMPANY :

| PARTICULARS | 2017-18 ₹ | 2016-17 ₹ |
|--|-------------------|-------------------|
| Gross Sales | 237,652,998 | 210,178,242 |
| Other Operating Revenue | 2,355,283 | 1,875,580 |
| Other Income | 23,847,302 | 21,460,865 |
| Total Revenue | 263,855,583 | 233,514,687 |
| Earnings before Depreciation, Amortisation & Taxation | 73,004,834 | 61,528,168 |
| Less: Depreciation and Amortisation | 9,197,315 | 8,598,080 |
| Profit before Taxation | 63,807,519 | 52,930,088 |
| Less: Provision for Taxation | | |
| Current Tax | 14,700,000 | 14,370,000 |
| Deferred Tax (Net) | 3,179,675 | 67,656 |
| Taxation adjustments of earlier years (Net) | - | 285,182 |
| Profit from Continuing Operation | 45,927,844 | 38,207,250 |
| Profit after Taxation from Discontinuing Operations | 31,590,178 | 260,990 |
| Profit for the year | 77,518,022 | 38,468,240 |
| Other Comprehensive Income | 212,169 | (5,784) |
| Total Comprehensive Income | 77,730,191 | 38,462,456 |
| STATEMENT OF RETAINED EARNINGS | | |
| At the beginning of the year | 46,126,696 | 39,348,486 |
| Add : Profit for the year | 77,518,022 | 38,468,240 |
| Add : Other Comprehensive Income (net of taxes) | 212,169 | (5,784) |
| Less : Dividend Paid | 11,649,525 | 9,707,938 |
| Tax on Dividend | 2,371,570 | 1,976,308 |
| Transfer to General Reserve | 50,000,000 | 20,000,000 |
| At the end of the year (Balance) | 59,835,792 | 46,126,696 |
| EPS | 19.97 | 9.91 |

DIRECTORS' REPORT — (Contd.)

2. DIVIDEND

Your Directors are pleased to recommend payment of dividend @ 30 % i. e. ₹ 3/- (previous year 30 % i.e. ₹ 3/-) per ordinary share of ₹ 10/- each for the year under review. The total payout amounts to ₹ 14,044,120/- including ₹ 2,394,595/- as Dividend Distribution Tax.

3. RESERVE

Your company has transferred an amount of ₹ 50,000,000/- to the General Reserve for the financial year ended 31st March, 2018.

4. SHARE CAPITAL

The Paid – up Share Capital of the Company as on 31st March, 2018 was ₹ 38,831,750/-. There has been no change in the Equity Share Capital of the Company during the year.

5. ADOPTION OF INDIAN ACCOUNTING STANDRAD (IND – AS)

The Company has followed the treatment laid down in the Indian Accounting Standards (Ind AS) for the first time from 1st April, 2017, the date of transition being 1st April, 2016. Accordingly results for the year ended 31st March, 2018 are in compliance with Indian Accounting Standard (Ind AS) notified by the Ministry of Corporate Affairs. Consequently, results for the year ended 31st March, 2017 have been restated to comply with Ind AS to make them comparable.

6. DISCONTINUED BUSINESS OF SOUTHERN SYNTHETICS DIVISION

The unexpired leasehold land right on 10.5 Acres of leasehold land of Southern Synthetics, situated at Plot No. 14, at Sipcot Industrial Complex, Ranipet – 632 403, Vellore District, Tamil Nadu, has been transferred for value consideration, to BBK Leathers (Private) Limited, Chennai. Accordingly, the Southern Synthetics division required closure and has been closed w. e. f. 7th September, 2017.

The old and outdated Plant & Machinery of the division has been discarded for realisation.

7. VOLUNTARY DELISTING OF EQUITY (ORDINARY) SHARES FROM THE CALCUTTA STOCK EXCHANGE LIMITED

During the year, in accordance with the SEBI (Delisting of Equity Shares) Regulations, 2009, the Company applied for Voluntary Delisting of Equity (Ordinary) Shares of the Company from The Calcutta Stock Exchange Limited, the only Stock Exchange where shares of the Company was listed. The Calcutta Stock Exchange Limited vide their letter Ref No. CSE / LD / 14252 / 2018 dated 21st May, 2018 has confirmed the Voluntary Delisting of the Equity (Ordinary) Shares of the Company with effect from 22nd May, 2018.

8. MANAGEMENT'S DISCUSSION AND ANALYSIS

There was improvement in the demand of Phytochemical products, but revenue from Resin is not growing. Production of Formaldehyde and Hexamine has been discarding because of outdated technology and uneconomic size.

DIRECTORS' REPORT — (Contd.)

SEGMENTWISE PERFORMANCE

a) PHYTOCHEMICALS DIVISION

During the year under review, the turnover of the division has increased to ₹ 16.45 Crore as compared to ₹ 12.26 Crore in last year. Prices of Nux Vomica seeds a critical raw material is continuously looking upward trend year after year. Current order book position is reasonable. The Company expects fresh bulk order for Strychnine, Calcium Sennoside and Tolbutamide.

The Division has applied for Environmental Clearance (EC) from the Ministry of Environment and Forest, New Delhi. Once the Term of Reference (TOR) is received from Ministry, Environment Impact Assessment, and Public Hearing will be done for obtaining final Environmental clearance, followed with Consent to Establish (CTE) and Consent to Operate (CTO), for going ahead with production of new phyto products. You directors are doing their best to observe and obtain all these formalities and clearance and hope to start commercial production of new phyto products in the 2nd quarter of the year 2019 – 20.

b) CLARO INDIA DIVISION

The division is not doing very well because of its size. The plant and machineries are getting older and require replacement / modification. Long term viability of this division is uncertain because of uneconomic size and outdated Plant & Machineries.

OPPORTUNITIES AND THREATS

Opportunities exist in the coming days to increase revenue of the Company when commercial productions of new phyto products start. Power cuts, increase in power tariffs and non availability of skilled labours is another area of threat. Any decrease / postponement of products from USA buyers for our product may slowdown our growth. Outdated plant with poor yield and low capacity utilisation is also threat for the survival of Claro India Division.

OUT LOOK

We are planning to complete plant scale upgradation by installing Falling Film Evaporator and Wiped Film Evaporator in Calcium Sennoside plant. This will further improve the quality and yield of Calcium Sennoside 60 %, besides enhancing solvent recovery.

RISK AND CONCERNS

Monsoon appears to be scanty which will result in short supply of Nuxvomica seeds and their prices may shoot up.

The volatility in the exchange rate of US Dollar to Indian Rupee is another area of concern. With the introduction of GST w. e. f. 1st July, 2017 there will be all around increase in the input cost. Increase in input cost beside the discontinuation of Duty Drawback claims, which will reduce profitability of the Company.

INTERNAL FINANCIAL CONTROL SYSTEMS AND THEIR ADEQUACY

Effective Internal control in all operational areas exist in all the Division of the Company. Financial records are maintained according to Accounting Standard introduced by the

DIRECTORS' REPORT — (Contd.)

Government. Internal Audit is conducted by an Independent Professional firm of Chartered Accountants. The Internal Audit Reports are reviewed and discussed with the senior management and Audit Committee. The measures as suggested by the Audit Committee are implemented as per their directions.

HUMAN RESOURCES

Our employees are core resource and the Company is continuously evolving Policies to strengthen its employee value proposition. The Company is constantly working on providing the best working environment to its employees with a view to inculcate leadership and autonomy among them. Value and competencies of employees and workers are enriched through various development strategies.

CAUTIONARY STATEMENT

The statements contained in the Board's Report & Management Discussion and Analysis contain certain facts relating to the future and therefore are forward looking within the meaning of applicable securities laws and regulations. Various factors such as economic conditions, changes in government regulations, tax regime, other statutes, market forces and other associated and incidental factors may however lead to variation in actual results. This Report should be read in conjunction with the financial statements included herein and the notes thereto. Readers are cautioned not to place undue reliance on these forward – looking statements that speak only as of their dates.

9. DIRECTORS

Smt. Vedika Kothari (DIN: 07189991) was appointed as an additional director on 7th November, 2017 and holding office till the conclusion of next Annual General Meeting. A notice u/s 160 has been received from a shareholder proposing her name for appointment as director of the Company. Necessary resolution has been set out in the notice of Annual General Meeting. Your directors recommend passing of the resolution.

Sri Arun Kumar Kothari (DIN: 00051900) and Smt. Prabhawati Devi Kothari (DIN: 00051860) resigned from the Board w. e. f. 7th November 2017. The Board appreciate and place on record their guidance and valuable services to the Board during the tenure of their association.

Sri Anand Vardhan Kothari (DIN: 02572346) Non – executive Director retires by rotation from the Board and being eligible, offer himself for re – election. The Board recommend his re – appointment.

A brief particular of the Directors seeking appointment or re – appointment has been given in the Statement of Corporate Governance published along with this Annual Report.

None of the Directors are disqualified under Section 164 (2) of the Companies Act, 2013.

DECLARATIONS OF INDEPENDENT DIRECTORS

All Independent Directors have given declarations under Section 149 (7) of the Companies Act, 2013 and that they meet the criteria of Independence as laid down under section 149 (6) of the Companies Act, 2013 and Regulation 16 (b) of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (LODR).

DIRECTORS' REPORT — (Contd.)**BOARD EVALUATION**

The Board evaluates the performance of non – executive and Independent Directors. The Directors evaluate performances of other Directors (excepting himself) and its various sub – committees and provide their feedback to the Nomination & Remuneration Committee. All the non – executive & the Independent Directors are eminent personalities having wide experience in the field of business, Industry & Administration. Their presence in the Board is advantageous and fruitful in taking business decision.

DIRECTORS' RESPONSIBILITY STATEMENT

In compliance with Section 134 (5) of the Companies Act, 2013 your Directors hereby state and confirm that:

- i) in the preparation of the annual accounts, the applicable accounting standards had been followed along with proper explanation relating to material departures;
- ii) the directors had selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the company at the end of the financial year and of the Profit of the company for that period;
- iii) the directors had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the company and for preventing and detecting fraud and other irregularities;
- iv) the directors had prepared the annual accounts on a going concern basis;
- v) the directors had laid down internal financial controls to be followed by the Company and that such internal financial controls are adequate and were operating effectively; and
- vi) the directors had devised proper systems to ensure compliance with the provisions of all applicable laws and that such systems were adequate and operating effectively.

REMUNERATION POLICY

The Company follow a policy on remuneration of Directors and Senior Management Employees. The Policy is approved by the Nomination and Remuneration Committee and the Board. More details on the same are given in the website of the Company. The web – link for the remuneration policy is <https://www.kothariphyto.com/nmp.php>

REMUNERATION RATIO OF DIRECTORS / KEY MANAGERIAL PERSONNEL / EMPLOYEES.

The information required pursuant to Section 197 of the Companies Act, 2013 read with Rule 5 (1) and 5 (2) of the Companies (Appointment and Remuneration of Managerial Personnel) Rule, 2014 in respect of employees of the Company and Directors are given in Annexure 'I' which forms part of this report.

FAMILIARIZATION PROGRAMME

Independent Directors are familiarized from time to time with regard to their roles, rights, responsibilities as enumerated in Schedule IV of the Companies Act, 2013. They are fully

DIRECTORS' REPORT — (Contd.)

appraised with nature of the business in which Company operates. The Independent Directors have been provided with necessary documents, reports and internal control system to familiarise them with the Company's policies, procedures and practices.

10. KEY MANAGERIAL PERSONNEL

Sri A. K. Toshniwal (DIN 06872891) has been re – appointed as Managing Director for a further period of 3 years w. e. f. 1st April, 2017 till 31st March, 2020.

11. PUBLIC DEPOSITS

The Company has not accepted any deposits from members and public under Section 73 and 76 of the Companies Act, 2013 read with the Companies (Acceptance of Deposits) Rules, 2014.

12. NUMBER OF BOARD MEETINGS HELD

During the year under review five Board Meetings were held, the details of which are given in the Clause 2 (b) of the Corporate Governance Report.

13. COMMITTEES OF THE BOARD

At present the Board has constituted three committees viz. (a) Audit Committee, (b) Nomination and Remuneration Committee and (c) Stakeholders Relationship Committee, the details of which are given under Clause 3 of Corporate Governance Report. After the delisting of the Equity (ordinary) shares of the Company from The Calcutta Stock Exchange, the only Stock Exchange where shares of the Company was listed, with effect from 22nd May, 2018. The Audit Committee, and Nomination and Remuneration Committee may not be required.

14. AUDITORS

K. Ray & Company, (Firm Registration No. 312142E) Chartered Accountants, the Statutory Auditors of the Company where appointed in the 121st Annual General Meeting to hold office until the conclusion of 126th Annual General Meeting.

Jitendra K Agarwal & Associates, (Firm Registration No. 318086E) Chartered Accountants, the Branch Auditors of the Company where appointed in the 121st Annual General Meeting to hold office until the conclusion of 126th Annual General Meeting.

15. AUDIT REPORTS

There are no qualifications or observations or remarks made by the Statutory Auditor in their Report.

16. SECRETARIAL AUDIT REPORT

The Board of Directors of the Company have appointed Sri Ashok Kumar Daga, Company Secretary (Registration No. FCS – 2699) as Secretarial Auditor of the Company for the Financial Year 2017 – 18 in terms of Section 204 of the Companies Act, 2013 and the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014. The report of Secretarial Auditor is attached as Annexure 'II' and forms an integral part of this report.

There are no qualifications or observations or remarks made by the Secretarial Auditor in their Report.

DIRECTORS' REPORT — (Contd.)

17. COMPLIANCE WITH SECRETARIAL STANDARD

Secretarial Standard 1 : Meeting of the Board of Directors and Secretarial Standard 2 : General Meeting, as applicable have been compiled by the Company.

18. CORPORATE SOCIAL RESPONSIBILITY

During the 2017 – 18, your Company achieved profit attracting the applicability of the provisions relating to Corporate Social Responsibility. Accordingly, in compliance with Section 135 of the Act, an amount of ₹ 9.93 Lakh is required to be spent by the Company for CSR activities, that has been carried forward to the next year. The Board has now constituted a Corporate Social Responsibility (CSR) Committee as per the provisions of Section 135 of the Companies Act, 2013. The functions of the CSR Committee will be:

- (a) Formulate and recommend to the Board, a Corporate Social Responsibility Policy which shall indicate the activities to be undertaken by the Company as specified in Schedule VII of the Act;
- (b) Recommend the amount of expenditure to be incurred on the activities referred to in clause (a) ; and
- (c) Monitor the CSR Policy of the Company from time to time.

The members of the CSR Committee will frame a CSR Policy for the Company, for approval by the Board of Directors of the Company which will covers activities relating to

- i) Eradicating extreme hunger and poverty;
- ii) Promotion of education;
- iii) Promoting gender equality and empowering women;
- iv) Ensuring environmental sustainability;
- v) Employment enhancing vocational skills;
- vi) Social business projects;
- vii) Contribution to the Prime Minister's National Relief Fund or any other fund set up by the Central Government or State Governments for socio – economic development and relief and funds for the welfare of the Scheduled Castes, the Scheduled Tribes, other backward classes, minorities and women.

The Report on CSR activities as required under Companies (Corporate Social Responsibility) Rules, 2014, including a brief outline of the company's CSR Policy, total amount to be spent under CSR for the financial year, amount unspent and the reason for the unspent amount, in the Annexure 'III' forming a part of this report.

19. RELATED PARTY TRANSACTIONS

There were no contracts or arrangement entered into by the Company in accordance with the provisions of Section 188 of the Companies Act, 2013. However, Related Party Transactions are entered in ordinary course of business and in accordance with Indian Accounting Standard 24. The Related Party Transactions are disclosed under Note No. 37