

ATUL LIMITED

AUDITED ACCOUNTS FOR THE YEAR

ENDED MARCH, 2004



ATUL LTD

27th Annual Report 2003-2004

Directors :

Mr A N Lalbhai
(Chairman)

Mr N N Wadia

Mr R A Shah

Mr G S Patel

Dr S S Baijal

Mr S S Lalbhai
(Managing Director & CEO)

Mr M R Shroff

Mr B S Mehta

Mr H S Shah

Dr H Kaiwar

Mr J L Shah
(Executive Director)

Mrs. S S Shah
(Nominee Director of ICICI Bank Ltd.–upto 31.7.2003)

Mr S A Lalbhai
(Managing Director)

Mr M K Tondon
(Nominee Director of UTI)

Mr S M Datta

Secretary :

Mr T R Gopi Kannan

Auditors :

Dalal & Shah
Chartered Accountants

Cost Auditors :

R Nanabhoy & Co

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u/s. 212 of Consolidated Accounts.

Registered Office:

Ashoka Chambers
Rasala Marg
Ahmedabad 380 006, Gujarat
India

Head Quarters:

Atul 396020, Gujarat
India
E-Mail: sec@atul.co.in
Web Site: www.atul.co.in

Bankers :

State Bank of India
Bank of Baroda
Bank of India
Uco Bank
Karur Vysya Bank
State Bank of Saurashtra
ICICI Bank
UTI Bank

NOTICE

NOTICE is hereby given that the Twenty-Seventh Annual General Meeting of the shareholders of the Company will be held on Friday, the August 06, 2004 at 11.00 a.m. at Thakorebhai Desai Hall, Law College Road, Law Garden, Ellisbridge, Ahmedabad 380 006, to transact the following business :

ORDINARY BUSINESS :

1. To receive, consider and adopt the Balance Sheet as at March 31, 2004 and the Profit and Loss Account for the year ended on that date together with the reports of Directors and the Auditors thereon.
2. To declare a dividend.
3. To appoint a Director in place of Mr. Bansi S Mehta, who retires by rotation under Article 134 of the Articles of Association of the Company and, being eligible, offers himself for reappointment.
4. To appoint a Director in place of Mr. G S Patel, who retires by rotation under Article 134 of the Articles of Association of the Company and, being eligible, offers himself for reappointment.
5. To appoint a Director in place of Mr. Nusli N Wadia, who retires by rotation under Article 134 of the Articles of Association of the Company and, being eligible, offers himself for reappointment.
6. To consider and, if thought fit, to pass with or without modifications, the following resolution as an Ordinary Resolution :

“RESOLVED THAT Messrs Dalal & Shah, Chartered Accountants, be and they are hereby appointed as Auditors of the Company, to hold office from the conclusion of this meeting to the conclusion of the next Annual General Meeting, on a remuneration of Rs15,00,000/- (Rupees fifteen lacs only) plus applicable service tax and the reimbursement of expenses incurred by them for attending to the audit work of the Company.”

By Order of the Board

T R Gopi Kannan
President, Finance &
Company Secretary

May 21, 2004

N.B.

1. A MEMBER ENTITLED TO ATTEND AND VOTE AT THE MEETING IS ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE INSTEAD OF HIMSELF AND A PROXY NEED NOT BE A MEMBER.
2. Printed copies of the Balance Sheet, the Profit & Loss Account, the Directors' Report, the Auditors' Report and every other document required by law to be annexed or attached to the Balance Sheet for the financial year ending March 31, 2004 are enclosed herewith.

3. **Book Closure :** The Register of Members and the Share Transfer Books of the Company will remain closed from July 01, 2004 to July 05, 2004 (both days inclusive).
4. **Distribution of Dividend :** Dividend on Equity Shares, if sanctioned by the General Meeting, shall be paid to those shareholders whose names appear on the Register of the Company as on July 01, 2004. The members are requested to notify immediately any change in address.
5. **Transfer of unclaimed dividend pursuant to Section 205A of the Companies Act, 1956 :** The Company has transferred the unclaimed dividend to Investors' Education & Protection Fund up to the financial year ended on March 31, 1996.

Transfer of unclaimed amount pursuant to Section 205C of the Companies Act, 1956: The Company has transferred into the Investors' Education & Protection Fund unpaid/unclaimed interest on debentures, unpaid/unclaimed fixed deposits and interest thereon upto the financial year ended on March 31, 1997.

6. Pursuant to the directions of SEBI vide circular No. D&CC/FITTC/ CIR – 18/ 2002 dated February 12, 2003, the Company has appointed M/s. Pinnacle Shares Registry Pvt. Limited, Near Ashoka Mills, Naroda Road, Ahmedabad 380025(Pinnacle) , as Registrar and Transfer Agents for physical and demat shares. The members are requested to deal with the aforesaid agency.
7. **Reappointment of Directors :** At the ensuing Annual General Meeting Mr. Bansi S Mehta, Mr. G S Patel and Mr. Nusli N Wadia , retire by rotation and being eligible offer themselves for reappointment. The information or details to be provided for the aforesaid Directors under the code of Corporate Governance are as under :

(a) **Mr. Bansi S Mehta** is a Director of the Company since April 16, 1992. He is a practising Chartered Accountant and is a past President of the Institute of the Chartered Accountants of India. He was involved in educational activities at the under graduate and post graduate levels at the University of Mumbai. He is a Director in the following companies : Atul Limited, Bharat Bijlee Limited, Century Enka Limited, CEAT Limited, Housing Development Finance Corporation Limited, IL&FS Investment Managers Ltd., J. B. Chemicals & Pharmaceuticals Limited, Pidilite Industries Limited, Procter & Gamble Hygiene and Health Care Limited, Varun Shipping Co. Limited, SBI Capital Markets Limited, Sudarshan Chemical Industries Ltd., The Dawn Mills Co. Ltd. and Vinyl Chemicals (India) Ltd. He is an alternate Director of the following companies : Chemetall Rai India Limited, Udhe India Limited, Sasken Communication Technologies Limited and Shaw Wallace Distilleries Limited. He is also a member of Compensation Committee of Housing Development Finance Corporation Limited and a member of Audit Committee of the following companies : Housing Development Finance Corporation Limited, Century Enka Limited, Procter & Gamble Hygiene and Health Care Limited and Atul Limited, and a Chairman of Audit Committee of the following companies : IL&FS Venture Corporation Ltd., J B Chemicals & Pharmaceuticals Ltd., Sudarshan Chemicals Ltd., Sasken Communication Technologies Ltd. and Pidilite Industries Limited.

(b) **Mr. G S Patel** is an M.A. (Economics), LL.B. (Bombay), B.Sc.(Economics) from London School of Economics and Bar at Law from Lincoln's Inn, London. He is the Former Chairman of UTI and a Director of the Company since August 10, 1983.

(c) **Mr. Nusli N Wadia**, 60, has been a director of the Company since March 22, 1978. Mr. Wadia has contributed actively in the deliberations of various organizations such as the Cotton Textiles Export Promotion Council

(TEXPROCIL), Millowners' Association (MOA), Associated Chambers of Commerce & Industry of India, etc. He is former Chairman of TEXPROCIL and also of MOA. He was appointed on the Prime Minister's Council on Trade & Industry in 1998, 1999 & 2000. He was the Convenor of the Special Group Task Force on Food and Agro Industries Management Policy in September, 1998. He was a Member of the Special Subject Group to review regulations and procedures to unshackle Indian Industry and on the Special Subject Group on Disinvestment. He has made a name for himself also in public affairs and has been actively associated with leading charitable institutions. He is also on the Managing Committee of the Nehru Centre. Directorship: The Bombay Dyeing & Mfg. Co. Ltd. (Chairman), The Bombay Burmah Trading Corporation Ltd. (Chairman), Britannia Industries Ltd.(Chairman), Wadia BSN India Ltd. (Chairman), Nowrosjee Wadia & Sons Ltd. (Chairman & Managing Director), Gherzi Eastern Ltd., Tata Iron & Steel Co. Ltd., Tata Chemicals Ltd., Tata Motors Ltd, EIH Ltd. and Atul Ltd. and in 5 foreign companies. He is also member of Remuneration Committee of The Bombay Dyeing & Mfg. Co. Ltd., EIH Ltd., Britannia Industries Ltd. and Chairman of Remuneration Committee of Tata Motors Limited. He is also Chairman of Investment Committee of Britannia Industries Limited.

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By Order of the Board

 **T R Gopi Kannan**
President, Finance &
Company Secretary

Registered Office :

Ashoka Chambers,
Rasala Marg,
Ahmedabad - 380 006.

May 21, 2004

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Atul Limited										
A TEN YEAR REVIEW										
										(Rs in lacs)
OPERATING RESULTS:	2003-04	2002 - 03	2001 - 02	2000 - 01	1999 - 00	1998 - 99	1997 - 98	1996 - 97	1995 - 96	1994 - 95
REVENUE	60359	61865	60263	59336	53491	56776	47400	48635	42478	26206
OPERATING PROFIT (PBIDT)	5580	9890	8937	9050	7397	11372	8980	8503	5994	3986
INTEREST	2157	3293	3928	4733	4884	5209	4770	4614	2414	1422
GROSS PROFIT	3423	6597	5009	4317	2513	6163	4210	3889	3580	2564
DEPRECIATION	2728	2702	2801	2837	3016	3064	2381	2161	2086	966
TAXATION	469	489	225	5	5	235	136	207	5	32
NET PROFIT	226	3406	1983	1475	(508)	2864	1693	1521	1489	1566
DIVIDENDS	502	728	449	383	85	610	455	782	870	616
(* Inclusive of Dividend Tax)										
PROFIT RETAINED (a)	(276)	2678	1534	1168	(1495)	2202	1219	523	232	931
FINANCIAL POSITION:										(Rs in lacs)
GROSS BLOCK	66647	61026	57245	55961	55500	54873	46564	44177	40711	23082
NET BLOCK	27604	24352	22344	23697	25809	27963	26291	26252	24897	13842
NET CURRENT & OTHER ASSETS	34572	35355	37829	35719	35969	35962	32837	31114	29032	12917
CAPITAL EMPLOYED	62176	59707	60173	59416	61778	63925	59128	57366	53929	26759
EQUITY SHARE CAPITAL	2967	2967	2967	2966	2966	2966	2966	2966	2966	2593
RESERVES AND SURPLUS (b)	25557	25724	22042	23667	22502	24003	19278	18087	17627	13351
SHAREHOLDER'S EQUITY	28524	28691	25009	26633	25468	26969	22244	21053	20593	15943
PREFERENCE SHARE CAPITAL	-	-	-	100	600	600	950	950	900	-
BORROWINGS	30036	27864	32195	32682	35708	36356	35934	35363	32436	10816
PER EQUITY SHARE:										
DIVIDENDS	1.50	2.00	1.50	1.00	0.00	1.50	1.00	2.00	3.00	3.00
(*tax free)										
BOOK VALUE	96	97	84	90	86	90	75	71	69	61

Notes:

- (a) After adjusting amounts in respect of previous year/s.
- (b) Including Revaluation Reserve created in 1985 Rs 776 lacs.
erstwhile Cibatul Ltd which amalgamated with the Company in the respective years.
- (d) Previous years figures regrouped.

DIRECTORS’ REPORT

Dear Members,

The Directors of Atul Limited present the Annual Report of the Company together with the audited Statement of Accounts for the year ended March 31, 2004.

FINANCIAL RESULTS:

			(Rs in lacs)
	<u>2003-04</u>	<u>2002-03</u>	
Sales and Operating Income	59398	60564	
Other Income	961	1301	
Total Revenue	60359	61865	
Profit before taxation	695	3894	
Taxation	469	489	
Profit after tax	226	3405	
Balance brought forward	8253	5319	
Transferred from			
Debenture Redemption Reserve	800	625	
Investment Allowance Reserve	-	281	

(Debits)/Credits relating to earlier years	(38)	(65)
Tax adjustments and interest on refunds	162	1066
Disposable surplus	<u>9403</u>	<u>10631</u>
Appropriation:		
Capital Redemption Reserve	-	1000
Debenture Redemption Reserve	-	250
General Reserve	58	400
Preference dividend paid	-	59
Proposed Dividend	445	593
Dividend Tax on above	57	76
Balance carried forward	<u>8843</u>	<u>8253</u>
	<u>9403</u>	<u>10631</u>

DIVIDEND:

The Directors of the Company recommend payment of dividend of Rs1.50 per share on 2,96,61,733 Equity Shares of Rs10 each fully paid up as on April 1, 2003.

PROFITABILITY:

The profitability during the year remained under severe pressure mainly due to higher raw material prices which could not be passed on to customers, lower export realisation due to a weak dollar, lower sales in some high margin product categories due to weak demand and higher amortization resulting from payment under VRS of Rs1050 lacs made during the year. However, the reduction in operating profit was partly offset by lower interest costs resulting from a lower average interest rate. The result of all these factors was that the profit before tax before non-recurring items drastically reduced from Rs3496 lacs to Rs695 lacs.

FINANCE:

The Company continued to access low cost funds, to lower its overall interest cost. The Interest and finance charges (net) during the year amounted to Rs2157 lacs compared to Rs3293 lacs during the previous year, a decrease of 32%. As a result, the net interest cost fell to 3.6% of sales, down from 5.4% in 2002-03. During the year, the Company curbed interest cost further by pre-paying high cost loans (without pre-payment penalty), raising loans in foreign currency, substitution of high cost loans and enhanced utilization of concessional export credits from Banks. The Company is endeavouring bring down these costs further.

Loans borrowed during the year were used for the purposes stated.

The Board wishes to thank the Banks and Financial institutions for their continued support in meeting various long-term and short-term fund requirements.

INSURANCE:

The Company has taken adequate insurance to cover the risks to its assets, profits, employees and third parties based on risk study.

RESEARCH & DEVELOPMENT:

The in-house R&D work was targeted towards timely development of efficient and environmentally sound processes for manufacturing high value fine chemicals, high performance agrochemicals and speciality dyes and dye intermediates. A number of existing processes were revamped so as to improve productivity, yield and quality and enhance solvent recovery. R&D efforts were also targeted towards reducing effluent loads. Interaction with CSIR laboratories was stepped up and some CSIR technologies are at an advanced stage of development and validation.

SAFETY, HEALTH AND ENVIRONMENT:

The Company progressed further on its various initiatives. The overall injuries declined further all around. This was made possible with a well structured and focused campaign. The Company received awards from Gujarat Safety Council, with “site West” receiving a rotating shield for the lowest disabling injury index and a certificate of honor for completing 3 million man-hours without a loss time injury. Some of the employees also received state level awards (Shram Bushan and Shram Shri) from the Gujarat State Government for their contribution during plant emergencies in the past years.

On the Environment front, the efforts of the Company in setting up an Environmental Management System (EMS) with a thrust on improvement yielded good results – AG, BI, PI, PO divisions and IA & RE units were awarded the ISO 14001 certification by BVQI. The EMS implemented in these areas focuses on specific improvement plans with a goal to achieve sustainable development. Preparatory work in the remaining areas is currently underway.

The directors are pleased to state that the Company received the Environmental Clearance from Ministry of Environment & Forests, Govt. of India, for its proposed expansion projects and actions have been initiated to realize them. During the year, more saplings were planted to further expand the greenbelt cover around the campus. The arrival of increasing number of migratory birds during the last year’s breeding season is a testimony of the good environmental standards around Atul Campus.

DIRECTORS:

According to Article 134 of the Articles of Association of the Company, Mr. Bansi S Mehta, Mr. G S Patel and Mr. Nusli N Wadia retire by rotation and being eligible offer themselves for reappointment.

CORPORATE GOVERNANCE:

A Report on Corporate Governance along with a Report from the Auditors of the Company regarding compliance of the conditions of Corporate Governance pursuant to Clause 49 of the Listing Agreement is annexed.

INFORMATION REGARDING CONSERVATION OF ENERGY ETC, EMPLOYEES AND SUBSIDIARIES

Information required under Section 217(1)(e) of the Companies Act, 1956 read with Rule 2 of the Companies (Disclosure of Particulars in the Report of the Board of Directors) Rules, 1988 and information as per Section 217(2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975, as amended from time to time, forms part of this Report. However, as per the provisions of Section 219(1)(b)(iv), the Report and Accounts are being sent to all shareholders of the Company excluding the information relating to conservation of energy, technology absorption and foreign exchange earnings and outgo, and the statement of particulars of employees. Any shareholder interested in obtaining such particulars may inspect the same at the Registered Office of the Company or write to the Company Secretary for a copy.

The Company has four wholly owned subsidiaries namely, Ameer Trading Corporation Limited, Atul Deutschland GmbH, Atul Americas Inc. and Atul Europe Limited. The Company has got exemption from attaching the details as provided under Section 212(1) of the Companies Act, 1956 in respect of the subsidiaries.

However, the investors may seek the copies of the annual reports and related detailed information of the subsidiaries by writing to the Company Secretary at the registered office of the Company.

RESPONSIBILITY STATEMENT:

Pursuant to Section 217(2AA) of the Companies Act, 1956 the Directors confirm that:
(iii) in the preparation of the annual accounts, the applicable accounting standards have been followed;

(iv) Such accounting policies have been selected and applied consistently and such judgements and estimates have been made as are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company as on March 31, 2004 and of the profit of the Company for the year ended on that date.

(v) proper and sufficient care has been taken for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities; and

(vi) The attached annual accounts for the year ended March 31, 2004 have been prepared on a going concern basis.

AUDITORS AND AUDITORS' REPORT:

Dalal & Shah, the Auditors of the Company, will retire at the conclusion of the ensuing Annual General Meeting. They have given their consent to continue to act as Auditors of the Company for the current year, if reappointed. Members are requested to reappoint them and fix their remuneration.

The relevant notes forming part of the accounts are self-explanatory and give full information and explanation in respect of the observations made by the Auditors in their Report.

ACKNOWLEDGEMENT:

The directors express their sincere thanks to all customers, employees, lenders and suppliers for their continuing support.

For and on behalf of the Board of Directors

Arvind N Lalbhai
Chairman

Mumbai
May 21, 2004

Management Discussion and Analysis

Overview

After six years of consistent improvement, in 2003-04 the performance of the Company was adversely affected. While the decline in sales was only of the order of 2%, the fall in PBT from operations was quite steep at 80%. The main reasons for the decline in performance are higher input prices, little scope for increasing prices of finished goods, lower export realisation due to a weak dollar and weak demand. Growth in profitability in future will depend on cost competitiveness, ability to deliver good value and superior customer relationship management. The Company embarked on several initiatives to secure the future. Three projects were successfully commissioned during the year whose benefits will accrue from 2004-05. These are production of pharma intermediates, technology upgradation and capacity expansion of para cresol and distillation facility for Agrochemicals. These projects will on the one hand reduce variable cost significantly and on the other hand launch high-value, high-margin products. Breakthrough was achieved

to stabilize two other projects for manufacture of intermediates which when successfully completed will add significantly to the top and bottom lines. The Company further significantly reduced its interest cost and rationalized its manpower. On the whole, though marred by a weak performance, the year witnessed sustained efforts towards future consolidation and growth.

1) Segment: COLORS

a) Industry structure and developments

Global dyes market continued to reel under pressure of over-supply (excess capacity) during 2003-04. The major end-user segment of textiles continued to be increasingly demanding on price competitiveness with its obvious impact on the prices of the dyes. Customers continued to look for value added products with reduced per kg cost of the dyed substrate. Trend of the shift of the market from the countries in the West to those in the East continued in 2003-04. China and other Asian countries increased their influence and gained further shares in the manufacture and consumption of dyes.

Currency was volatile during 2003-04 with Euro gaining and USD weakening significantly. The fluctuations in the price of the cotton fibre were significant and affected the operations of the textile units adversely.

b) Review of Operations

Softening of selling prices and weak demand in some high-margin product groups coupled with a weak US dollar adversely affected sales and profitability.

c) Opportunities and threats

With the withdrawal of quota restrictions under the WTO Agreement for global textile trade, the manufacturing activity in India is expected to go up manifold. The major threat is competition from China. Other countries like Bangladesh, Sri Lanka, Kenya, Turkey and East European countries are also likely to make a dent in India's aspirations. Support from the Government in terms of policies and infrastructure (especially for the Processing Sector) will play a key role in the Indian entrepreneurs' efforts to compete on the global scale.

d) Risks and concerns

Pressure on pricing is potential in view of the end-customers endeavouring to be globally competitive. With import duties going down, imports will be sizeable, and hence competition from MNCs as well as Chinese/Korean dyes suppliers may increase.

e) Outlook

Dismantling of quota restrictions may lead to a major growth particularly in the organised sector. The Company will endeavour to get a good share of this growth through attainment of lower costs and better technical services.

2) Segment: Speciality and Other Chemicals

a) Industry Structure and Developments