

Annual Report 2001-02

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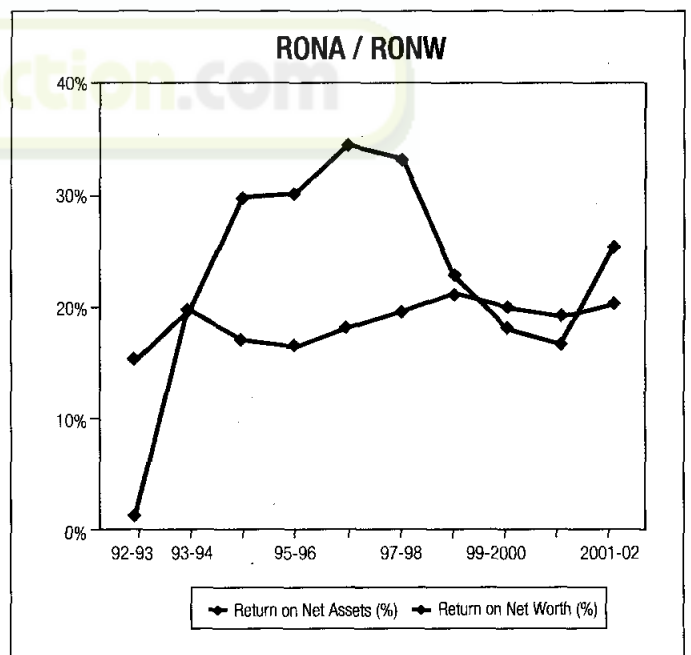
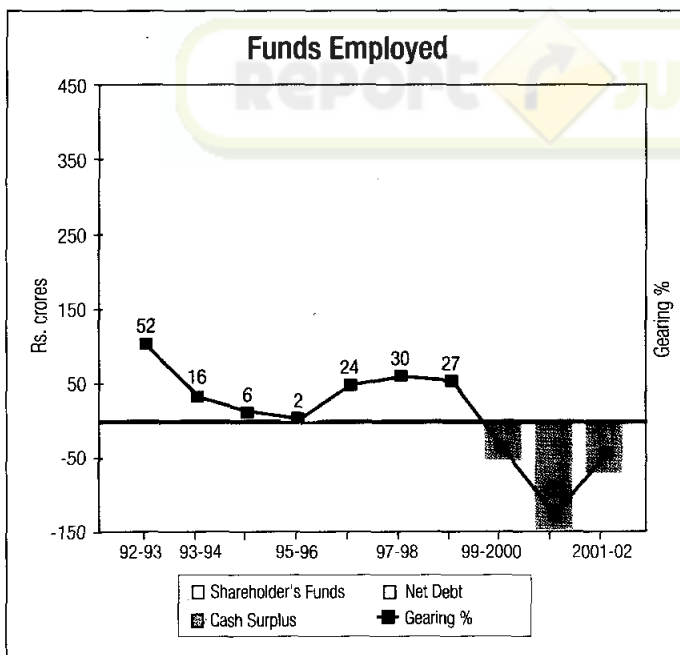
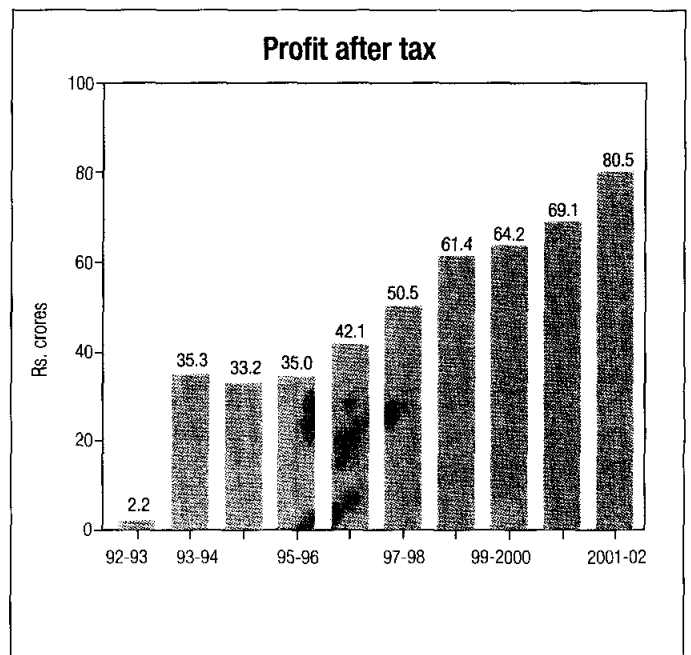
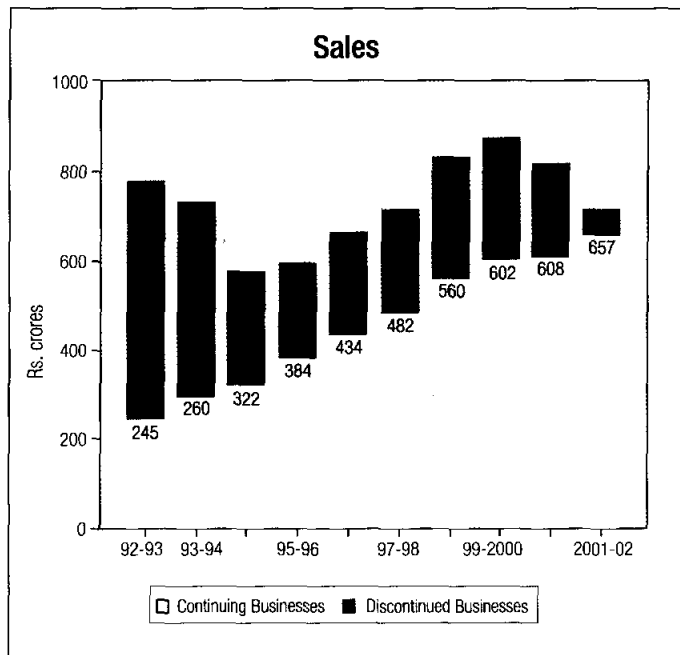


ICI India Limited



ICI India Limited

Ten Year Trends



1997



ICI in India

Vision

- Our ambition is to be the industry leader in creating value for the customers and shareholders.
- We will be the most admired specialty products Company in India.

Mission

- We will be the leader in India in chosen specialty products to delight our customers while creating superlative value for the shareholders.
- We will have an inspiring high performance culture underpinned by responsible care for all people and the environment.
- Innovation will be the key driver for our winning in the market place.

Values

We shall

- Show unrivalled understanding of customers and their markets.
- Seize opportunities rapidly, taking intelligent risks when required to bring measurably better products to the market.
- Meet demanding year on year growth targets above industry norms and constantly improve our operational performance.
- Hire, inspire and develop outstanding people by encouraging initiative, supporting new ideas and rewarding delivery.
- Never compromise our commitment to Safety, Health and Environment.



ICI India Limited

Annual Report 2001-02

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ICI INDIA LIMITED ANNUAL REPORT 2001-02

BOARD OF DIRECTORS

CHAIRMAN

Dr A S Ganguly

MANAGING DIRECTOR

A Narayan

DIRECTORS

R L Jain	Chief Executive Officer, Paints & Wholetime Director
M R Rajaram	Chief Financial Officer & Wholetime Director
R Gopalakrishnan	Non-Executive Director
S Hamlett	Non-Executive Director
D S Parekh	Non-Executive Director
M V Subbiah	Non-Executive Director
S Chandra	Non-Executive Director - Govt. of India Nominee

EXECUTIVE TEAM

A Narayan
R L Jain
M R Rajaram
B Rajagopal
D Singh

SECRETARY

R Guha

REGISTERED OFFICE

34, Chowringhee Road,
Kolkata - 700 071
Ph: 033-2267462
Fax: 033-2880804

CORPORATE OFFICE

ICI India Limited,
10th Floor, DLF Plaza Tower,
DLF Qutab Enclave, Phase-I
Gurgaon - 122002
Ph: 0124-6540400
Fax: 0124-6540840

WEBSITE

www.iciindia.com

KEY COMMITTEES OF THE BOARD

Audit Committee

D S Parekh (Chairman)
R Gopalakrishnan
S Hamlett
M V Subbiah

Remuneration and Nominations Committee

M V Subbiah (Chairman)
R Gopalakrishnan
S Hamlett
D S Parekh

Shareholders/Investors

Grievance Committee

S Hamlett (Chairman)
R L Jain
M R Rajaram

AUDITORS

BSR & Co.

BANKERS

State Bank of India
Central Bank of India
Citibank N.A.
Deutsche Bank AG
Standard Chartered Grindlays Bank

REGISTRAR AND SHARE

TRANSFER AGENTS

C B Management Services Private Limited
P-22, Bondel Road,
Kolkata-700019
Phone : 033-2806692-94
Fax : 033-2470263
E-mail: cbmsl1@cal2.vsnl.net.in



DIRECTORS' REPORT 2001-02

The Directors have pleasure in presenting their report for the year ended 31 March 2002.

BUSINESS ENVIRONMENT

The Reserve Bank of India (RBI) reported a GDP growth of 5.4% in 2001-02 as against 4% in the previous year. While agriculture recovered in 2001-02 after two consecutive years of decline, the industrial sector performed poorly, with a growth rate of 3.3%, the lowest in the past 8 years. For 2002-03, RBI has projected a GDP growth of 6.5% with inflation below 4% and a softening interest rate regime.

Subdued consumer demand and pressures on disposable income are expected to pose continuing challenges to industrial growth during 2002-03. Fluctuations in oil prices are expected to increase input costs, putting increased pressures on profitability.

FINANCE AND ACCOUNTS

ICI India sales for the year were Rs. 715 cr. On a comparable basis, sales from continuing businesses grew by 7% over the previous year in a tough market environment, with strong performance in Uniqema, National Starch and Syntetix. The operating profit at Rs. 74 cr improved by 11%, through focused marketing to penetrate new areas, introduction of new and innovative products, improved manufacturing efficiencies and tight control on costs. Interest costs were down from Rs. 3.5 cr in the previous year to Rs. 1.7 cr in 2001-02.

Exceptional items at Rs. 57.6 cr consist mainly of profit of Rs. 42.9 cr from divestment of Pharmaceuticals business and Rs. 30.2 cr from disposal of surplus properties, partly offset by provisions for voluntary retirement payouts, business reorganisation costs and additional contribution to pension fund arising from drop in interest rates.

An additional provision for deferred tax of Rs. 4.6 cr relating to past periods has been created out of accumulated reserves, due to change in the method of computing tax provision in accordance with the mandatory accounting standard.

Taking into account the high level of exceptional income during the year, the Board is pleased to recommend as a special case, a dividend of Rs. 10 per share, subject to tax as applicable, amounting to Rs. 40.9 cr, as against the previous year's payout of Rs. 5.50 per share.

During the year, the first instalment of debentures amounting to Rs. 11.7 cr was redeemed. The balance in the Debenture Redemption Reserve is considered adequate to provide for redemption of the balance on applicable due dates.

No fresh fixed deposit was accepted or renewed during the year and deposits aggregating Rs. 0.19 cr were repaid.

The performance highlights of the Company for the year are summarised below:

	(Rs. Cr)	
	2001-02	2000-01
Sales	714.9	818.4
Operating Profit from businesses	74.2	67.1
Depreciation	22.9	23.1
Interest	1.7	3.5
Exceptional Items	57.6	46.4
Profit before Tax	107.2	86.9
Tax	26.7	17.8
Profit after Tax	80.5	69.1

The appropriations of profit in 2001-02 are as follows:

	(Rs. Cr)
Transfer to General Reserve	24.0
Proposed dividend, subject to tax	40.9

Balance of Rs. 15.6 cr together with the opening balance of Rs. 153.9 cr is carried forward in the Profit and Loss Account.

MANAGEMENT DISCUSSION & ANALYSIS

• Paints

The business performed creditably by gaining market share in certain segments and launching new products in the Decorative Paints segment of the business. Dulux Supreme 3-in-1, a new emulsion paint with superior washability, fungal resistance and smoothness, was launched nationally and won endorsement by both consumers and painters. Marketing efforts were stepped up in the premium portfolio of Dulux products with significant investments in brand building. Thrust on placement of in-store tinting machines to efficiently serve consumers and improve channel partnership was continued. An Institutional Business team has been set up to service the needs of the large institutional segment.

The 2K range of Polyurethane (PU) based automotive refinishes grew strongly and strengthened its leadership position in the premium segment. The company focused on upgrading the dealerships of major vehicle manufacturers supported by training and technical inputs. Several new products were introduced to cater to customer requirements which have been received well in the market.

Faster growth in the housing sector is expected on account of incentives given by the government and increased financing options. This will have a positive impact on the Paints industry. The exterior category is expected to maintain its rapid growth and along with in-store tinting, will remain an area of focus for the industry. Your company will continue its efforts to secure improved position in this industry.



The automotive refinish industry is undergoing a rapid upgradation from conventional nitrocellulose-based products to PU based products, which provide a superior finish along with higher durability and a wider range of shades. ICI India is well positioned to drive this change in the market, in view of its access to extensive R&D capability, innovation and superior market reach.

• Industrial Specialties

Uniqema

Uniqema business continued to operate well in a highly fragmented market with high competitive pressures. There were particularly strong performance in Spin Finish, Cleaning, Lubricant and Crop Protection SBUs. The slow down in the economy coupled with adverse external events restricted growth in Personal Care and Polymers. Focus on driving down costs helped maintain profitability and a strong emphasis on innovation facilitated growth.

The industry is expected to grow ahead of GDP growth but is likely to remain intensely competitive; consolidation in the industry can be expected in the times ahead. Given its global technological strengths, Uniqema is better positioned than several others in the field, to meet these challenges.

National Starch & Chemical

In December 2001, ICI India acquired Hindustan Lever Limited's Adhesives business, which was successfully integrated with the company's existing portfolio, leading to the business growing by 172% over the previous year. The key growth drivers were consolidation of business in the cigarette industry and improved presence in the packaging, book binding and woodworking segments. Technology for manufacture of Hot Melt Adhesives for soap wrappers was developed and commercialized in 2001.

This industry is also expected to grow ahead of GDP growth and given its technological strengths, your company will continue to pursue a larger share of the market. Competitive activity is on the rise and aggressive marketing efforts by international majors can be expected. The business plans to enter new areas in certain niche segments.

• Industrial Chemicals

Synetix

The Synetix business continued to perform strongly growing by 24%, fuelled by the acquisition of the Nickel Catalyst Business of Hindustan Lever Limited in December 2001 and a 26% growth in exports. A new manufacturing facility for purification catalyst was commissioned at Panki during the year. A new product for primary reforming was launched successfully during the year.

The business outlook remains good in view of growing exports. With the domestic Fertiliser industry unlikely to see new capacity in the short term and weak prospects in the existing naphtha based plants, there will be negative pressures on this segment of the business. However, the fast growing refining sector presents a growth opportunity for the business.

The Polymers, Chemicals, Edible Oils and Oleochemicals areas are growing in line with domestic GDP growth and exports from these segments are well positioned to grow.

Rubber Chemicals

The Rubber Chemicals Business performed commendably in a tough year characterised by declining prices and depressed demand from the rubber processing sector; continued focus on cost reduction at every level and the strategy of aggressive pursuit of business share in new markets for select products paid dividends. Export sales of key specialties doubled.

The outlook for this industry remains challenging in view of rising raw material prices and declining product prices; your Company's strategy of growing its specialty segment leaves it better positioned for the future.

Nitrocellulose

The Nitrocellulose Business grew by 6% in the domestic market while consolidating export volumes achieved in the previous year. Alongwith significant improvements in Engineering and SSHE standards, the Valsad manufacturing site achieved ISO 9001 certification in 2001.

The global demand for the product is expected to improve during the course of the current year, leading to growth in exports. Reduction in import tariff is expected to be offset by rupee depreciation.

Trading

The Trading portfolio grew by 11% reflecting increased market penetration of existing product portfolio and addition of new agencies. The business successfully introduced bulk shipments of MMA monomers and Tri-chloroethylene and third country sales of Aniline and MEG.

In the current year, while availability of some of the products is expected to become tight, the business expects to offset this through new agencies.

• Pharmaceuticals

As members are aware, the Pharmaceuticals Business has been divested to M/s Nicholas Piramal India Limited (NPIL) during the year. As per agreement with NPIL, the commercial risks associated with the business have been assumed by them with effect from 1 January 2002. Accordingly, the operational results of the Company reflect the performance of the business only upto 31 December 2001. The sale of the business was approved by the shareholders through postal ballot, the results of which were announced on 19 March 2002. The business was thereafter handed over to NPIL with effect from 27 March 2002.

• Internal Control Systems

Your Company has well established internal control procedures across its various locations, commensurate with its size and nature of operations. The organisation is adequately staffed with qualified and experienced personnel



for implementing and monitoring the statutory and internal control environment. The internal audit function is adequately resourced and reports independently to the Audit Committee of the Board.

RESPONSIBLE CARE - SECURITY, SAFETY, HEALTH AND ENVIRONMENT

The Company's safety performance continued to be amongst the best with lowest ever reportable as well as classified injury rates. Implementation of 'Responsible Care Management System' has helped in achieving an excellent performance in the field of safety, health and environment across the various operations of your Company.

Recognition of the excellent performance came through a number of prestigious national and international awards - RoSPA 'Highly commended in the International Sector Award' in Chemical Industry and British Safety Council award for the fifth year in succession for Pharmaceuticals operations at Ennore, the National Safety Council award for Paints operations at Rishra and ICI PLC's Leadership awards for sustained excellence in manufacturing for most of the sites of ICI India, to name a few.

The Board is happy to report that ICI India was ranked among Top 10 "Greenest Corporations in India" in TERI - BT survey. During the year, two more Paints sites - Mohali and Hyderabad - secured ISO 14001 certification to bring the total of the sites with ISO 14001 certification to four. This year, 2 out of 5 covenanted ICI PLC's SSHE Leadership awards were bagged by ICI India, competing with entries from several units of ICI PLC's worldwide operations.

As a way forward, the Company is pursuing its 'Challenge 2005' initiative which contains specific improvement targets in Safety, Health, Environment and Product Stewardship. Significant progress was made during the year towards achieving these targets.

ICI India accords a very high priority to the hygiene monitoring at work place and health assessment of all employees. The plants and processes are continuously upgraded to improve hygiene and health standards. Suitable training is imparted to all the employees to enhance their awareness of health related matters. During the year, no case of work related occupational illness was reported from ICI India.

The Company has also established an integrated Product Stewardship programme aimed at meeting customer needs for improved products, which are safer, have minimum risk of adverse health effects and low environmental impact.

CONSERVATION OF ENERGY etc.

The particulars in respect of conservation of energy, technology absorption and foreign exchange earnings and outgo, pursuant to Sec 217(1) (e) of the Companies Act, 1956 are given in the Annexure I to this report.

As can be seen from the Annexure, there has been a general improvement in energy consumption across businesses. Continuous efforts are being made to improve energy efficiency by close monitoring of operational parameters.

CORPORATE GOVERNANCE

Annexure II to this report summarises the state of compliance by the Company of the norms of Corporate Governance as provided in Clause 49 of the Listing Agreement with the CSE, Kolkata and NSE and BSE, Mumbai.

RESEARCH, DEVELOPMENT & INNOVATION

The business driven innovation management process made good progress during the year. The innovation intensity at several of our key businesses improved, with Uniqema leading the way at 38%. 59 new products were introduced, which gave rise to significant sales during the year. Paints business had a major success with its Dulux Supreme 3-in-1 in the Emulsion market. Focus on process development and cost reduction through value creating projects, in most businesses, made significant contributions to business performance improvements during the year.

Networking and projects with selected Universities and leading Research Institutions continued in the areas of relevance to Uniqema, Paints, Syntex and National Starch.

CORPORATE RESTRUCTURING

In line with its stated strategy, your Company continues to take specific steps to grow its core businesses and divest non-core ones. During the year 2001-02, the company invested a sum of Rs. 151.9 cr. to obtain a controlling stake in Quest International India Limited, a joint venture with Hindustan Lever Limited (HLL). The company also acquired the Nickel Catalysts and Adhesives Businesses from HLL for a total consideration of Rs. 27.6 cr. In pursuance of its efforts to unlock value from under-performing assets, the office building in Kolkata and a few residential buildings in Delhi and Kolkata were sold during the year.

HUMAN RESOURCES (HR)

People continue to be at the heart of delivering the Company's strategy. The HR agenda was at the leading edge of 'best operating practice', driven by feedback received from the Employee Satisfaction Surveys carried out every year. Considerable progress was made to provide greater autonomy to the individual businesses in the management of HR to best suit their unique requirements. Investment in capability building, supported by greater transparency in the performance management system, continued to build the foundation of a robust career and succession planning system. Cordial employee relations across the Company and improved people productivity contributed to business success.

At the grass-root level, multi-skilling and multi-tasking have been further promoted as a key driver for profitable growth.



The particulars of employees specified under Section 217(2A) of the Companies Act, 1956 read with rules made thereunder, are attached to this report (Ref. page 31).

INFORMATION TECHNOLOGY

Nickel Catalysts and Quest International businesses, which were acquired during the year, were speedily integrated into the communication and IT infrastructure of ICI India. Upgradation of communication network to meet emerging needs of the ICI India businesses is in progress. Detailed evaluation and all preparatory work necessary for launching a project to replace the current customer facing systems in the Paints business with a centralised SAP R/3 system has been completed. A web based initiative in the Uniqema business for securely extending the ERP to the distributors, customers and mobile sales force is in the final stages of development and testing.

DIRECTORS

Dr A S Ganguly, Mr R Gopalakrishnan and Mr M R Rajaram are due to retire by rotation and are eligible for reappointment.

Mr A Narayan was reappointed as the Managing Director with effect from 1 August 2001 subject to the approval of the Members. Mr R L Jain and Mr M R Rajaram are being re-appointed as Wholtime Directors with effect from 1 June 2002 for a period of 5 years.

The approval of the Central Government u/s 198 and 309 of the Companies Act, 1956 regarding remuneration to the Wholtime Directors for the year 2000-01 has been received, subject to approval of the Members.

Necessary resolutions in respect of the above are being put up for the shareholders' approval in the forthcoming Annual General Meeting.

AUDITORS

M/s B S R & Co (an associate firm of the KPMG Group) retire as the Auditors of the Company at the conclusion of the forthcoming Annual General Meeting and being eligible have offered themselves for reappointment.

DIRECTORS' RESPONSIBILITY STATEMENT

Your Directors confirm that:

- in the preparation of the Annual Accounts, the applicable accounting standards have been followed.
- they have 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 as on 31 March 2002, and
- the profit for the year ended on that date.

- they have taken proper and sufficient care 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.
- the annual accounts have been prepared on a going concern basis.

SUBSIDIARY COMPANIES AND GROUP RESULTS

The statement and particulars relating to the Company's subsidiaries Indian Explosives Limited, Initiating Explosives Systems India Limited and Quest International India Limited, pursuant to Sec 212 of the Companies Act, 1956, are attached to this report (Ref. page 32).

Consolidated Results

As required under the current listing norms, consolidated financial statements are being published in the current year's Annual Report. The summary of the consolidated financial performance of the Company and its subsidiaries, after eliminating inter Company transactions, is as follows:

	<u>2001-02</u> (Rs. Cr)
Sales	1042.0
Operating Profit from businesses	118.9
Profit before Tax	129.0
Profit after Tax	91.8
Total Assets Employed	605.3
Total Shareholder Funds	440.3

ACKNOWLEDGEMENT

The Directors wish to convey their gratitude and appreciation to all the employees of the Company for their valuable contributions during the year. They also wish to place on record their appreciation to the Company's customers, shareholders, investors, bankers, agents, suppliers, distributors and other business associates for their cooperation and support.

On behalf of the Board

Gurgaon
22 May 2002

Dr A S Ganguly
Chairman



ANNEXURE I TO THE DIRECTORS' REPORT

DISCLOSURE OF PARTICULARS WITH RESPECT TO CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION, FOREIGN EXCHANGE EARNINGS AND OUTGO PURSUANT TO SECTION 217 (1) (e) OF THE COMPANIES ACT, 1956

A. CONSERVATION OF ENERGY

		2001-02	2000-01
1. Power & Fuel Consumption			
a. Electricity			
(i) Purchased			
Unit	Lac Kwh	292.97	304.43
Total amount	Rs. lacs	1408	1460
Rate	Rs./Kwh	4.81	4.80
(ii) Own generation			
(a) Through diesel generator			
Unit	Lac Kwh	0.75	5.29
Total amount	Rs. lacs	2583	2894
Rate	Rs./Kwh	6.27	5.61
(b) Through steam turbine generator		N.A.	N.A.
b. Coal			
Quantity	Tes	11275	15051
Total amount	Rs. lacs	225	275
Average rate	Rs./Te	1992	1830
c. Fuel Oil			
Quantity	Kl	7531	7138
Total amount	Rs. lacs	750	747
Average rate	Rs./Kl	9963	10471

N.A. = Not Applicable

2. Consumption per unit of production

	Electricity (Kwh/Te)		Fuel oil (Kl/Te)		Coal (Te/Te)	
	2001-02	2000-01	2001-02	2000-01	2001-02	2000-01
Paints	142	153	0.01	0.01	NA	NA
Uniqema	202	204	0.07	0.07	NA	NA
National Starch	171	236	0.03	0.04	NA	NA
Synetix	2906	3976	0.99	1.68	NA	NA
Rubber Chemicals	2734	2500	0.4	0.4	3.45	3.53
Pharmaceuticals	7425	7344	NA	NA	NA	NA
Nitrocellulose	2052	1884	1.15	1.06	NA	NA
Polyurethanes	NA	55	NA	NA	NA	NA

N.A. = Not Applicable

B. ABSORPTION OF TECHNOLOGY

1. Research & Development (R&D)

(a) Specific areas in which R&D is carried out by the Company

- Upgradation of Paints formulations
- Import substitution of key inputs
- Process validation for improving throughput and reducing waste

(b) Benefits derived as a result of the above R&D

The benefits have been discussed in the main report under 'Management Discussion & Analysis'.

(c) Future plan of action

- Focus on innovation led new products and applications
- Continuously striving for improvements in variable costs
- Improvements in quality of products and services
- Continuous reduction in waste generation

(d) Expenditure on R&D

	2001-02	2000-01
(i) Capital	6	3
(ii) Recurring	254	292
(iii) Total	260	295
(iv) Total R&D expenditure as a percentage of turnover	0.3%	0.4%

2. Technology Absorption, Adaptation and Innovation

(a) Efforts

The R & T efforts are business-focused for meeting the market requirements. Necessary inputs are obtained from ICI PLC, where required, to build technological edge over competition.

(b) Benefits

New and improved products to expand market reach and grow new business.

Saving in energy consumption and waste reduction.

59 new products launched in Uniqema during the year.

(c) Particulars of technology imported in the last five years from the beginning of the last financial year

Technology imported	Year of import	Has the technology been fully absorbed?	If not fully absorbed, reasons and future plans of action
Hot Melt Adhesives Technology from National Starch and Chemical	1999	Yes	N.A.

C. FOREIGN EXCHANGE EARNINGS AND OUTGO

The Company significantly increased its exports of catalysts, rubber chemicals and nitrocellulose.

Future Plans

Sustain and grow exports in the above businesses. However, export earnings are expected to come down with divestment of Pharmaceuticals business.

Total foreign exchange earned and used

	2001-02	2000-01
Earned	7733	7229
Used	10247	15928

On behalf of the Board

Gurgaon
22 May 2002

Dr A S Ganguly
Chairman