

Annual Report 2004-05

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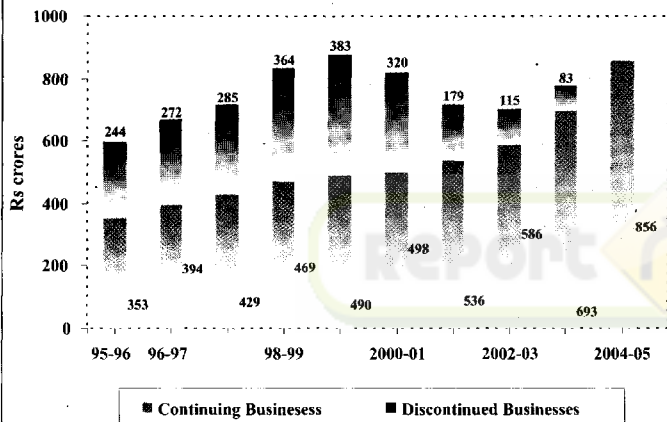
ICI India Limited



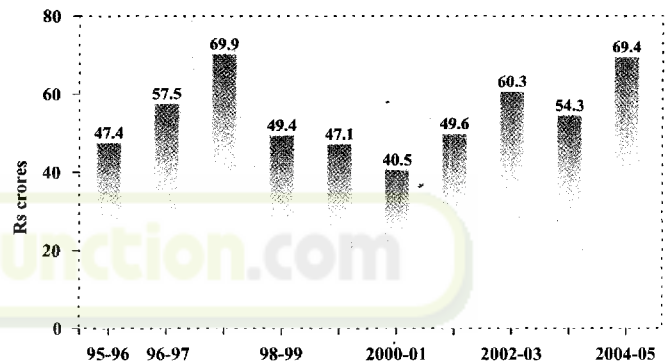
ICI India Limited

Ten Year Trends

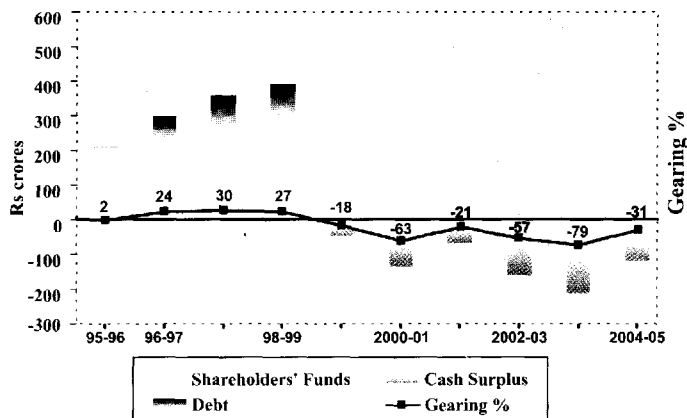
Sales



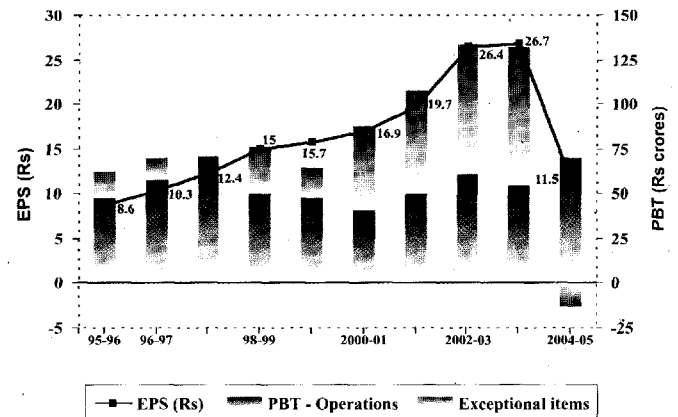
Profit before Tax from Operations



Funds Employed



Earning Per Share & Profit before Tax





ICI India Limited

Annual Report 2004-05

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ICI 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 Security, Safety, Health and Environment.



ICI INDIA LIMITED ANNUAL REPORT 2004-05

BOARD OF DIRECTORS

CHAIRMAN

Mr Aditya Narayan

MANAGING DIRECTOR

Mr Rajiv Jain

DIRECTORS

Mr M R Rajaram (Wholetime Director)

Mr David J Gee (w.e.f. 28 January 2005)

Mr R Gopalakrishnan

Ms Renu S Karnad

Mr M V Subbiah

Mr David S Whitewood

(Alternate Director to Mr David J Gee)

SECRETARY

Mr R Guha

REGISTERED OFFICE

34, Chowringhee Road

Kolkata - 700071

Tel : 033-22267462

Fax: 033-22880804

CORPORATE OFFICE

10th Floor, DLF Plaza Tower

DLF Qutab Enclave, Phase-1

Gurgaon - 122002

Tel : 0124-2540400

Fax : 0124-2540849

WEBSITE

www.iciindia.com

KEY COMMITTEES OF THE BOARD

Audit Committee

Ms Renu S Karnad (Chairperson)

Mr David J Gee

Mr R Gopalakrishnan

Mr M V Subbiah

Remuneration and Nominations Committee

Mr M V Subbiah (Chairman)

Mr David J Gee

Mr R Gopalakrishnan

Ms Renu S Karnad

Shareholders/Investors

Grievance Committee

Mr David J Gee (Chairman)

Mr Rajiv Jain

Mr M R Rajaram

AUDITORS

BSR & Associates

BANKERS

Central Bank of India

Citibank NA

Deutsche Bank AG

Standard Chartered Bank

REGISTRAR AND SHARE TRANSFER AGENT

C B Management Services (P) Limited

P-22, Bondel Road

Kolkata-700019

Tel : 033-22806692-94

Fax : 033-22870263

cbmsl1@cal2.vsnl.net.in



DIRECTORS' REPORT 2004-05

Your Directors have pleasure in presenting their report for the year ended 31 March 2005.

BUSINESS ENVIRONMENT

During 2004-05, Indian economy continued its strong performance with an estimated 7% growth in GDP. This was enabled by a growth in industrial production (8%), especially capital goods and consumer products, which grew by 11-12%. Exports grew by about 25%. Rupee, after its weakness in the early part of the year, strengthened in the second half. Inflation, which was around 6-7% for most part of the year, ended at 5% in March 2005.

As the foreign currency reserves touched USD 135 billion during the year, Standard & Poor raised India's long-term foreign currency rating to BB+, reflecting the improving external debt position and good growth prospects. Moody's have placed India's rating as 'Investment Grade'.

The growth in the economy in the coming year is expected to sustain the performance of the last year, assuming a normal monsoon. However, the recent run-away increase in oil prices, which appear to be stabilising at over USD 50 per barrel, remains a concern. This could adversely affect the domestic inflation rate and the GDP growth estimates.

FINANCE AND ACCOUNTS

Sales and profit from the continuing businesses recorded a strong growth of 23% and 56% respectively. Income from investment was also higher by Rs. 7.5 cr compared to the previous year due to difference in phasing. These resulted in a total income of Rs. 782.4 cr for the year reflecting a growth of 10% over the previous year. Profit before Tax from operations at Rs. 69.4 cr grew by 28% compared to the previous year as the improved performance of the continuing businesses more than offset the drop in profit from the businesses divested in the previous year.

The exceptional items during the year amounting to a net charge of Rs. 13.7 cr consist of provisions towards retiral benefits, matters under litigation, charge towards past VRS etc, net of writeback of past provisions no longer required and once off income. It may be recalled that in the previous year, there was an exceptional income of Rs. 77.2 cr mainly on account of profit of Rs. 96.6 cr from divestment of businesses and sale of investment in Indian Explosives Ltd.

Consequently, despite lower tax charge, the Company achieved a Profit after Tax of Rs. 47.2 cr, as against the previous year's Rs. 109.1 cr. In line with the prudent dividend distribution policy followed by the company, the Board has recommended a dividend of Rs. 5.50 per share, which will be paid after the approval of the shareholders at the forthcoming Annual General Meeting. In

this context, it may be noted that in the previous year, in view of the very special occasion of the Golden Jubilee year of the Company and the high level of exceptional income, a dividend of Rs. 12.50 per share was paid as a once off case and hence is not comparable to the current year's proposal.

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

	(Rs. Cr)	
	2004-05	2003-04
Total Income	782.4	708.0
Operating Profit from businesses	93.0	83.2
Depreciation	(20.1)	(24.3)
Interest	(3.5)	(4.6)
Profit Before Tax from operations	69.4	54.3
Exceptional items	(13.7)	77.2
Profit before Tax	55.7	131.5
Tax	(8.5)	(22.4)
Profit after tax	47.2	109.1

The appropriations of profit in 2004-05 are as follows:

	(Rs. Cr)
Transfer to General Reserve	28.0
Proposed Dividend	22.5
Tax on Dividend	3.3

The balance, together with the amount brought forward from the previous year, amounting to Rs. 226.2 cr shall be carried to the Balance Sheet.

MANAGEMENT DISCUSSION & ANALYSIS

Paints

Paints business achieved a much-improved performance compared to the previous year. The emphasis on building the premium Dulux portfolio, placement of in-store tinting machines, innovative colour offers and demand generation initiatives with painters/contractors yielded encouraging results with improved channel relationship and consumer satisfaction. Your Company is using its research and development base to bring to the consumer a number of new products with improved performance and special applications.

The business continues to focus on the exteriors, the fastest growing segment. WeatherShield Max and TileShield, the two premium products launched in this segment, quickly gained wide acceptance with the trade and consumers. Dulux



Supergloss 5-in-1, launched in the previous year, continued to win endorsements from painters and consumers. New products in other fast growing segments of Interior emulsions and Exterior primers were also launched. Woodcare is also emerging as an attractive and profitable opportunity. The "Previews" Colour Visualisation Service continues to remain a unique offering from the Company and efforts are on to extend this to interiors of homes.

The 2K range of Polyurethane (PU) based automotive refinishes maintained its leadership position in the market. In the conventional refinish segment, the Eterna, Duco PU and Vektor range of products gained wide acceptance with dealers and users. The trend of customers upgrading from conventional Refinish paints to PU based paints is continuing.

The business is expected to maintain its strong performance especially in key brands in Decorative and 2K segments in the coming year, subject to a normal monsoon and good GDP growth.

Chemicals

Uniqema

Uniqema business grew by 10% during the year with good contribution from textile auxiliaries and personal care products. Improved product mix and sustained efforts in containing costs helped in improving the profitability. The Textiles segment grew well on the back of superior customer service and R&D efforts. Personal Care growth was driven by focus on skin care products of leading FMCG companies. The Lubricants segment recorded significant growth, led by Industrial metal working fluid packages developed in-house. Supplies to Pharmaceuticals, Crop Protection and Industrial application areas reflected a steady growth.

The performance of the business in the coming year would largely depend on the overall economic factors, particularly the anticipated benefits in the post quota regime for Textiles.

National Starch & Chemical

The Adhesive, Starch and Polymer segments performed well with a growth in turnover of 37% over previous year. The business increased its market share in the woodworking, bookbinding and packaging industry. A new Polymer Plant was commissioned during 2004-05, which will support the business in extending its reach in woodworking and cigarette segments. The exports business to SAARC countries continues to grow.

The business will continue to pursue a larger share of the market with emphasis on R&D and new products in various segments.

Rubber Chemicals

The Business recorded an ahead of industry growth of 18% in sales in 2004-05, in the face of stiff competition. Though some price corrections were possible during the latter part of the year, margins suffered due to high input costs. Your Company continues its all out efforts to improve business performance through innovative steps in cost reduction along with higher thrust on export of specialty Rubber chemicals. Turnaround of the business is mainly dependant on further strengthening of international prices to offset continued raw material cost inflation.

RESPONSIBLE CARE - SECURITY, SAFETY, HEALTH, ENVIRONMENT AND CORPORATE SOCIAL RESPONSIBILITY

Your Company maintained its strong commitment to these areas across all its operations. All manufacturing sites of the Company are accredited under ISO 14001.

In line with global standards, your company has now adopted Occupational Safety & Health Administration (OSHA US) Standards which prescribe tighter norms for measuring safety performance. Under the new protocol, the Total Recordable Case (TRC) Rate was 1 for 2004 as compared to 3 in 2003.

The Company continues to pursue its Sustainability policy, which goes beyond the impact of its manufacturing operations to encompass Product Stewardship across the supply chain and relationship with the employees, suppliers, customers and the communities where it operates. The Company actively promotes use of materials which come from renewable and eco-friendly sources; all its operations aim to use technology to maximise process efficiency and minimise the use of raw materials, energy and water.

Paints, Hyderabad site was awarded Prashansa Puraskar for the year 2003 by National Safety Council of India. Uniqema, Thane was awarded the "most improved Uniqema site" at the Global Manufacturing Conference held in the UK.

No occupational illness was reported during the year.

A combined contribution of Rs 13.75 lacs from the Company and its employees was made during the year towards relief operations for those affected by the Tsunami.

CONSERVATION OF ENERGY, RESEARCH, DEVELOPMENT & INNOVATION

Continuous efforts to improve energy efficiency by close monitoring of operational parameters resulted in a general improvement in energy consumption across businesses. The innovation intensity in the key businesses improved during the year. Particulars in respect of Conservation of Energy, Technology



DIRECTORS' REPORT 2004-05 (Contd.)

Absorption and Foreign Exchange Earnings and Outgo, pursuant to section 217(1)(e) of the Companies Act, 1956 are given in Annexure I to this report.

INFORMATION TECHNOLOGY

Successful running of SAP in Paints business has resulted in transparency, speed and on-line data availability. SAP has also been integrated with emerging mobile technology to provide real time information on inventories, outstanding etc. to the field force through an Intranet-based Information Portal "AgniNET".

An ERP system was successfully implemented in National Starch & Chemical business during the year.

HUMAN RESOURCES

Cordial relations with the employees prevailed at all the Company locations during the year. The total number of employees as at 31 March 2005 was 1203 in ICI India. A statement containing the particulars of employees as required under section 217(2A) of the Companies Act, 1956 is attached (page 14).

INTERNAL CONTROL SYSTEMS

Your Company has well-established procedures for internal control across its various locations, commensurate with its size and operations. The organization is adequately staffed with qualified and experienced personnel for implementing and monitoring the internal control environment. The internal audit function is adequately resourced commensurate with the operations of the Company and reports to the Audit Committee of the Board.

CORPORATE GOVERNANCE

The Company has been in full compliance with the norms of Corporate Governance as outlined in clause 49 of the Listing Agreements with the CSE, Kolkata and NSE and BSE, Mumbai. Annexure II to this report summarizes the status of compliance of the norms of Corporate Governance as provided in the said clause.

DIRECTORS

Mr S Hamlett resigned from the Board with effect from 28 January 2005. While reluctantly accepting his resignation, the Board recorded its deep gratitude and appreciation for his committed and highly valued contribution as a Director of the Company from January 2000 through the period of intense change and restructuring in the Company.

The Board appointed Mr D J Gee as a Director with effect from 28 January 2005, in the casual vacancy caused by the resignation of Mr S Hamlett. Mr D S Whitewood was appointed as an Alternate Director to Mr D J Gee with effect from 28 January 2005.

Mr M R Rajaram and Mr R Gopalakrishnan, Directors, retire by rotation at the forthcoming Annual General Meeting and are eligible for reappointment.

AUDITORS

The auditors have, vide their letter dated 1 March 2005, informed the Company that their name has been changed to BSR & Associates with effect from 1 March 2005.

M/s BSR & Associates (formerly known as BSR & Co.) 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 judgements 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 2005, 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; and
- they have prepared the annual accounts on a going concern basis.

Cautionary Statement

Statements in this report, particularly those which relate to Management Discussion and Analysis and Annexure 1, describing the Company objectives, projections, estimates and expectations may constitute "forward looking statements" within the meaning of applicable laws and regulations. Actual results might differ materially from those that are expressed or implied in the event of changes in the assumptions/market conditions.

SUBSIDIARY COMPANY

The statement of particulars relating to the Company's subsidiary Quest International India Limited, ("QIIL") pursuant to Sec 212 of the Companies Act, 1956, is attached to this report. (page 38)

The Company has applied for the Central Government's approval for not publishing the full accounts of its subsidiary QIIL, as part of its Annual Report. A summary of the Balance Sheet as on 31 March 2005 of QIIL and its performance for the year ended on that date is given in Page 57.



CONSOLIDATED RESULTS

As required under the Listing Agreement, audited consolidated financial results are provided in the Annual Report. In the current year, the consolidated accounts include the performance of QIIL, in which your Company holds majority shareholding. QIIL, in the current year, recorded over 26% growth in sales and 78% in Profit after Tax with strong performance in exports and the Flavours segments.

A summary of the consolidated financial performance of the Company and its subsidiaries, after eliminating inter Company transactions, is given below:

	(Rs. Cr)	
	2004-05	2003-04
Total Income	892	909
Profit before Tax from Operations	79	70
Profit before Tax	64	142
Profit after Tax	55	113
Total assets employed	598	582
Total shareholder Funds	521	511

The current year's figures of Income and Profit are not comparable with those of the previous year on account of business divestments in the previous year.

ACKNOWLEDGMENT

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

24 May 2005

A NARAYAN

Chairman

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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

1. Power & Fuel Consumption

		2004-05	2003-04
(a) Electricity			
(i) Purchased			
Unit	Mwh	20002	29388
Total Amount	Rs Lacs	891	1448
Rate	Rs/Kwh	4.45	4.93
(ii) Own Generation			
Unit	Mwh	154	74
Units/Kl of diesel oil	Kwh	3650	3825
Cost/Unit	Rs/Kwh	7.05	10.85
(b) Coal			
Quantity	Te	9878	9802
Total Cost	Rs Lacs	242	210
Average Rate	Rs/Te	2448	2140
(c) Fuel Oil			
Quantity	Kl	2793	7250
Total Amount	Rs Lacs	439	853
Average Rate	Rs/Kl	15731	11767



DIRECTORS' REPORT 2004-05 (Contd.)

2. Consumption per unit of production

	Electricity (Kwh/Te)		Fuel Oil (KL/Te)		Coal (Te/Te)	
	2004-05	2003-04	2004-05	2003-04	2004-05	2003-04
Paints	115	127	0.01	0.01	-	-
Uniqema	152	176	0.04	0.05	-	-
National Starch	155	157	0.02	0.02	-	-
Rubber Chemicals	2690	3224	0.35	0.40	2.82	3.02
Nitrocellulose	-	1945	-	0.99	-	-
Catalysts	1721	2762	0.56	0.90	-	-

B. ABSORPTION OF TECHNOLOGY

1. Research & Development (R&D)

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

During the year, R&D activities continued to concentrate on development of new products and applications with focus on yield improvements, efficient use of resources and enhancement of quality of finished products.

Paints : An eco-friendly biocide is under development, which would demonstrate your company's commitment to Responsible Care.

Chemicals : In Fibre finish, new products have been developed for fine denier Polyester Staple and Viscose fibre. Polymers for new application areas such as "Carpet flocking" are being explored.

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

As a result of these initiatives, the businesses achieved sales growth well ahead of the market. Contribution from R&D including share of new products increased significantly during the year.

In Paints, a new range of premium exterior products, WeatherShield Max and TileShield, were launched successfully during the year. Colored bases in WeatherShield for deep and vibrant shades were also launched during the year.

In Chemicals, a low cost Synthetic bottle labeling Adhesive was developed and commercialized. Several approvals were obtained for existing Metal working formulations from leading customers in India and Middle East.

(c) Future plan of action

R&D efforts of your Company will continue to focus on development of new products and applications, efficiency improvements and waste reduction, savings in energy consumption and introduction of environment friendly products.

(d) Expenditure on R&D

	2004-05	(Rs. lacs) 2003-04
(i) Capital	11	19
(ii) Recurring	406	277
(iii) Total	417	296
(iv) Total R & D expenditure as a percentage of turnover	0.55%	0.43%

2. Technology Absorption, Adaptation and Innovation

(a) Efforts

More than 47 new products were commercialized during the year for Textiles, Health and Personal Care, Crop protection and Specialty Industrials segments.

(b) Benefits

11% of the year's turnover of Uniqema business came from new products/application introduced during the year.

(c) Particulars of technology imported in the last 5 years from the beginning of the financial year

Technology imported	Year of import	Has the technology been fully absorbed?	If not fully absorbed, reasons and future plans of action
Tinters Manufacture	2002	Yes	NA
Detergent for new trend fabrics like microfibers Polyester Lycra etc.	2003	Yes	NA
Polymerization Technology	2005	Yes	Technology absorption is in progress

C. FOREIGN EXCHANGE EARNINGS AND OUTGO

(a) Total Foreign Exchange earned and used:

	2004-05	(Rs. lacs) 2003-04
Earned	31,11	53,27
Used	178,59	155,03

The overall foreign exchange earned has come down on account of divestment of Nitrocellulose business in March 2004.

The foreign exchange use has gone up during the year mainly on account of increased imports, which have become attractive due to reduction in import tariffs.

(b) Future Plans

Use innovation and R&T strengths to enhance forex earnings.

On behalf of the Board

Gurgaon
24 May 2005

A NARAYAN
Chairman