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**Annual Report 2002-03**

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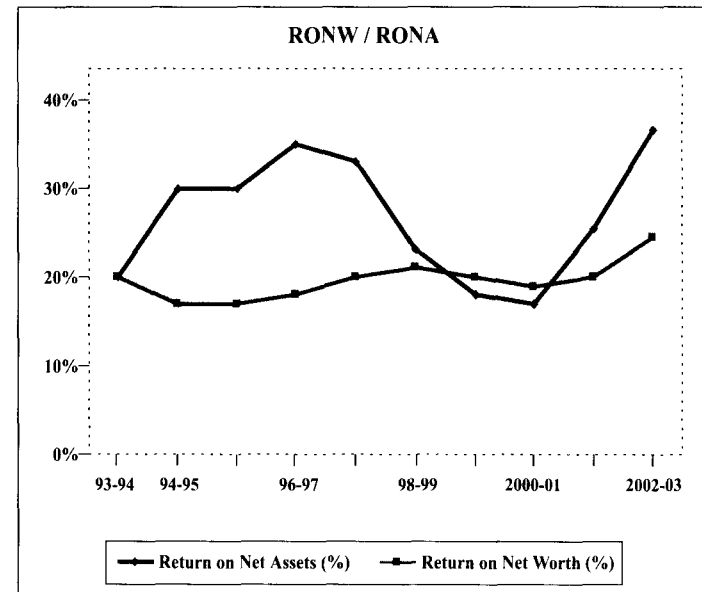
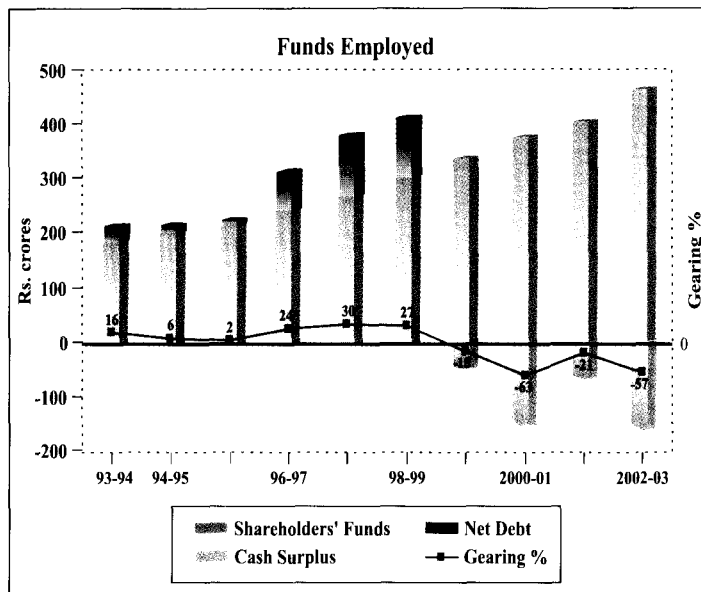
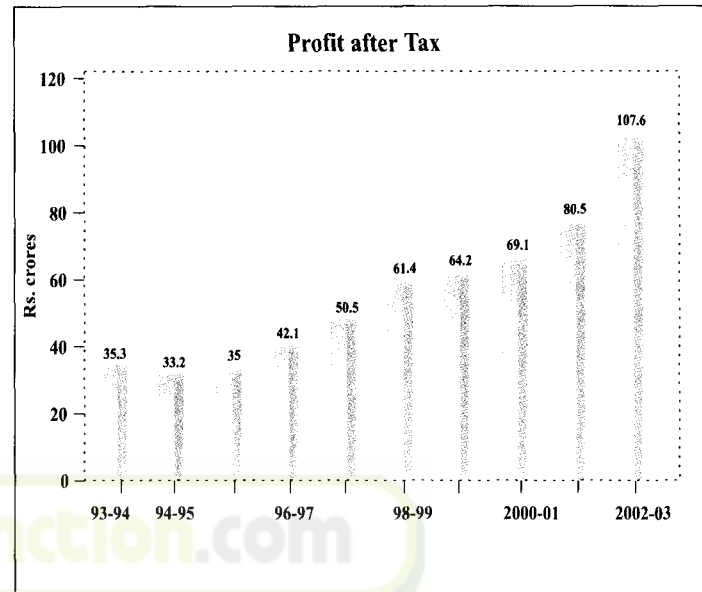
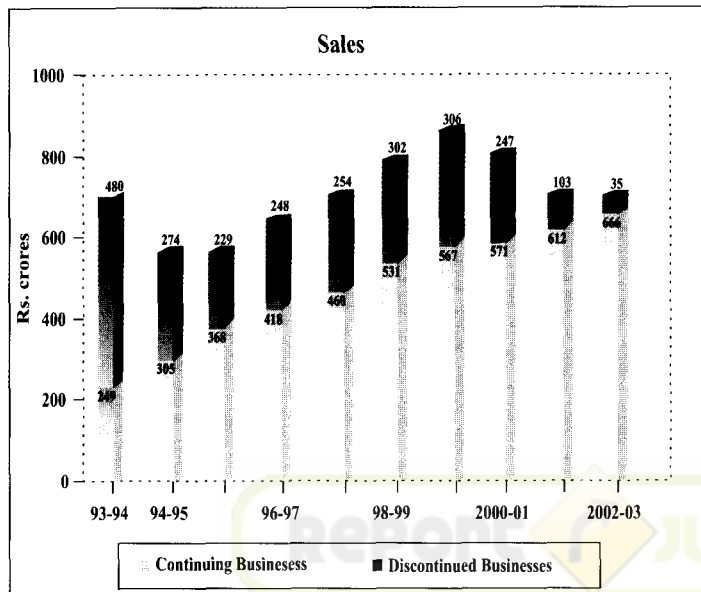


**ICI India Limited**



# ICI India Limited

## Ten Year Trends





# ICI India Limited

## Annual Report 2002-03

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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 Safety, Health and Environment.



**ICI INDIA LIMITED**  
**ANNUAL REPORT 2002-03**

**BOARD OF DIRECTORS**

**CHAIRMAN**

A Narayan (w.e.f. 3 April 2003)

**MANAGING DIRECTOR**

R L Jain (w.e.f. 1 April 2003)

**DIRECTORS**

M R Rajaram (CFO & Wholtime Director)

R Gopalakrishnan

S Hamlett

D S Parekh

M V Subbiah

S Krishna – Government Nominee  
(w.e.f. 23 September 2002)

**SECRETARY**

R Guha

**REGISTERED OFFICE**

34, Chowringhee Road

Kolkata - 700071

Tel : 033-22267462

Fax: 033-22880804

**CORPORATE OFFICE**

10<sup>th</sup> Floor, DLF Plaza Tower

DLF Qutab Enclave, Phase-1

Gurgaon - 122002

Tel : 0124-2540400

Fax : 0124-2540840

**WEBSITE**

www.iciindia.com

**BOARD COMMITTEES**

**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**

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 : 033-22470263

e mail : cbmsl1@cal2.vsnl.net.in



## DIRECTORS' REPORT 2002-03

Your Directors have pleasure in presenting their report for the year ended 31 March 2003.

### BUSINESS ENVIRONMENT

During 2002-03, the economic environment in India was generally marked by a slow down in growth. The economy registered a growth of about 4.5% compared to 5.4% during the previous year. Whilst the manufacturing and services sectors grew, the agriculture sector suffered a decline by 1% due to a weak monsoon.

Exports from India increased by 18% during 2002-03 to touch a record of \$ 51.7 billion, but with imports also growing by 17%, the trade deficit for the year was \$ 7.6 billion as compared to \$ 6.9 billion in the previous fiscal year. However, the foreign exchange reserves crossed \$ 80 billion because of higher exchange earnings of the services sector and overseas remittances. Moody's upgraded India's foreign currency rating to Ba1 from Ba2 citing improvement in the external liquidity position.

The interest rates during the year fell more than 150 bps because of excess liquidity in the market and limited options for banks to deploy their funds. While the average inflation rate for 2002-03 was 3.5%, it reached a two year high of over 6% by the year-end fuelled by petroleum price increases.

The ongoing economic reforms continued albeit at a slower pace. The proposal for introduction of VAT was postponed affecting commercial activity across the country in March 2003.

The growth in the global economy continued to be sluggish and the high oil prices during the latter part of the year affected the growth rates of many developed economies. Under the circumstances, the Indian economy did relatively well to withstand these pressures through growth in the industry and services sectors.

### FINANCE AND ACCOUNTS

ICI India achieved sales of Rs. 701 crores for the year. Sales from continuing businesses grew by 9% over the previous year in spite of adverse factors like uncertainty in VAT implementation, slowdown in overseas markets, effects of the Iraq war and poor monsoon. Paints, National Starch and Nitrocellulose businesses have performed significantly better compared to the previous year. Operating profit at Rs. 87 crores registered a growth of 18% over last year, which was made possible by a turnaround in the Paints business and a substantially improved performance of the National Starch business.

Exceptional items at Rs. 72.9 crores consist of profit on sale of Catalyst business and profit on disposal of surplus properties partly offset by charge for VRS, business reorganization costs and additional contribution to retiral funds necessitated by decline in interest rates.

With the improved operating profit and high exceptional income,

the Company achieved a record Rs. 107.7 crore of profit after tax. Your Board has, as a special case, recommended a dividend of 100% for the year 2002-03.

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

	(Rs Cr)	
	2002-03	2001-02
Sales	700.8	714.9
Operating Profit from businesses	87.0	74.2
Depreciation	23.4	22.9
Interest	3.3	1.7
Exceptional Items	72.9	57.6
Profit before Tax	133.2	107.2
Tax	25.5	26.7
Profit after Tax	107.7	80.5

The appropriations of profit in 2002-03 are as follows:

	(Rs Cr)
Transfer to General Reserve	30.0
Proposed Dividend	40.9
Tax on Proposed Dividend	5.2

Balance of Rs. 31.6 crore, together with the opening balance of Rs. 169.5 crore and Rs. 13.2 crore of Debenture Redemption Reserve written back, is carried forward in the Profit & Loss Account.

No fresh fixed deposit was accepted or renewed during the year and unclaimed matured fixed deposits amounting to Rs. 0.13 crores were repaid during the year.

### MANAGEMENT DISCUSSION & ANALYSIS

#### Paints

The business achieved a much improved outturn compared to the previous year. The special efforts in building the premium DULUX portfolio, in-store tinting machines and innovative colour offers yielded encouraging results with improved channel partnerships and higher consumer satisfaction. The exterior segment continues to be the fastest growing segment and to service the needs of the large institutional segment, the newly constituted Institutional business team established direct relationship with major architects and contractors.

The 2K range of Premium Polyurethane (PU) based automotive refinishes continued to grow strongly and maintained its leadership position in the premium segment. A number of initiatives, viz., introduction of new products, technical training and development of bodyshop management



tools, were launched in order to assist the major motor manufacturers in upgrading their dealerships. In the conventional Refinish segment the Company has launched a new range of PU finishes – Belco, which has gained wide acceptance and market share. The Company has pioneered the launch of in-store tinting offer in conventional refinish paints based on its unique ACS technology, leading to the establishment of a large network of its innovative Duco Colour Centres to provide improved service to the customer and access to the vast colour offer.

With improved operations and innovative new products, the business expects to continue to improve its position in the growing market in the times ahead.

### Industrial Specialties

#### Uniqema

The Uniqema business operated in an environment of uncertainty marked by the economic downturn following 9/11, the communal violence in Gujarat and a weak monsoon. Low market growth in certain segments and a fragmented industry with high competitive intensity led to lower sales. However, the business responded with strong performance in Textiles, Lubricants and the Personal Care sectors but sales to the Crop Protection sector were affected due to the weak monsoon.

Increase in crude oil prices from the third quarter and a sharp upturn in vegetable oil prices escalated the cost of key raw materials. The business focused on innovation and driving down costs to maintain profitability and fuel growth.

With oil prices coming down post the Iraq war, the planned product and cost rationalisation and the continued thrust on innovation, the business expects to improve its performance in the year ahead. A better monsoon this year should also help.

#### National Starch & Chemical

The Adhesives, Starch and Polymer business performed well with an excellent top-line growth of more than 100% over the corresponding period last year. Consolidation of the adhesive business acquired from Hindustan Lever Limited in December 2001 was completed during the year. The business was successful in capturing significant market share in the book-binding, soap-wrapper and wood-working industry. Volumes of polymers used in the personal care segment and starches used by FMCG industry grew handsomely. Expansion of the Adhesives plant was completed and commissioned in September 2002.

Competitive activity and aggressive marketing efforts by international and domestic majors is expected to increase. However, with the emphasis on introduction of new products in several segments, the business looks forward to further improvement in its outturn in the year ahead.

### Industrial Chemicals

#### Rubber Chemicals

Sales fell compared to the previous year primarily because of continued decline in international prices, strong rupee against the dollar and increased competition from imports. As a result, margins continued to be under pressure. Raw material prices rose with crude oil prices peaking in the last quarter. The business continued to focus on cost reduction and exports of key specialties.

With lower petroleum prices, increased emphasis on specialties and exports and the ongoing cost reduction measures, the business expects better performance in the times ahead.

#### Nitrocellulose

The Nitrocellulose Business continued to perform well growing by 10% with substantially enhanced export volumes while consolidating its position in the domestic market. Planned improvement in product mix by concerted focus on specialties led to better realisations.

With sustained growth, softening of petroleum prices, improved efficiencies and exports, the business expects to more than offset the impending pressures on margins and perform well in the times ahead.

#### Trading

The Trading business achieved increased market penetration of existing product portfolio and addition of new agencies. Despite wide price fluctuations in most of the commodity chemicals, the business successfully maintained its market share in its major product lines.

#### Synetix (Catalyst)

The Synetix business was divested to Johnson Matthey Group ("JM") during the year. As per agreement with JM, the commercial risks associated with the business have been assumed by them with effect from 1 November 2002. Accordingly, the operational results of the Company reflect the performance of the business only up to 31 October 2002. The sale of the business was approved by the shareholders through postal ballot, the results of which were announced on 12 November 2002. The business was thereafter handed over to JM with effect from 2 December 2002.

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

The Company's on-site safety performance continued to be amongst the best with lowest ever injury rates. However, off-site accidents resulted in the Reportable Injury Rate being worse than last year; special efforts are on to improve in this area too.





Implementation of 'Responsible Care Management System' (RCMS) has helped in achieving an excellent performance in the field of safety, health and environment across the various operations of your Company. Waste reduction achieved good sustained performance.

Recognition of the excellent performance came through a number of prestigious national & international awards - 'Prashansa Puraskar' from National Safety Council of India, a Trophy from the Government of Andhra Pradesh, in recognition of good OHS performance and for securing OSHAS-18001 certification by Paints, Hyderabad site and ICI PLC's Leadership awards for sustained excellence in manufacturing for most of the sites of ICI India. For the second consecutive year, ICI India has won 2 out of 5 coveted ICI PLC's 'SSHE Leadership Awards' competing with entries under Health and Product Stewardship categories from the worldwide operations of ICI Group.

Nitrocellulose manufacturing site at Valsad was awarded the CEO's Leadership Award for SSHE in the health category as well as the Best Factory Award. Further, the site has been recommended for ISO 14001, effective April 2003.

The Company made good progress with its 'Challenge 2005' initiative, which contains specific improvement targets in Safety, Health, Environment and Product Stewardship.

#### CONSERVATION OF ENERGY

Continuous efforts to improve energy efficiency resulted in a general improvement in energy consumption across businesses.

Particulars in respect of Conservation of energy, Technology 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.

#### RESEARCH, DEVELOPMENT & INNOVATION

The innovation intensity in the key businesses improved during the year. In Uniqema, 68 new products/formulations were introduced. Paints achieved success through indigenisation, cost reduction and process development apart from improvement in quality, colour range and consistency in all its major products. The new emulsion DULUX Supreme 3-in-1 has now become a well established product in the market place and a new solvent based product DULUX Super 5-in-1 is currently under test marketing. National Starch business also successfully introduced a number of novel initiatives. Focus on process development and cost reduction through value creating projects made significant contributions to improvement in business performance during the year.

#### INFORMATION TECHNOLOGY

In order to improve customer service, your Company has successfully implemented an integrated information system, SAP, in the Paints business. Apart from providing better service to customers, it is expected to enhance efficiency in the supply chain

across all the depots and factories.

Uniqema business has launched an E-commerce web-site for its distributors to do business transactions including placing of orders, retrieving key information on the order status, viewing the statement of accounts etc. on a real time basis.

#### HUMAN RESOURCES

Cordial relations with the employees prevailed at all the Company locations during the year. The total number of employees of the Company as at 31 March 2003, was 1216. Productivity improved across the Company. The particulars of employees as required under section 217(2A) of the Companies Act, 1956, are attached to this report (refer page 37).

#### INTERNAL CONTROL SYSTEMS

Your Company has well established procedures for internal control across its various locations, commensurate with its size and 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 commensurate with the operations of the Company and reports to the Audit Committee of the Board.

#### CORPORATE RESTRUCTURING

In line with its strategy, your Company continued its focus to grow the core businesses, whilst optimising value from the non-core ones. The cost of Business re-organisation triggered by the business divestments has been included under exceptional items.

#### CORPORATE GOVERNANCE

The Company has been in full compliance of the norms of Corporate Governance as outlined in clause 49 of the Listing Agreement with the CSE, Kolkata and NSE and BSE, Mumbai. Annexure II to this report summarises the state of compliance by the Company of the mandatory as well as non-mandatory norms of Corporate Governance as provided in the said clause.

#### DIRECTORS

In the Board meeting held on 31 January 2003, Dr. A S Ganguly conveyed his desire to retire as Chairman of the Board. The Board reluctantly accepted his request to retire as Chairman with effect from 3 April 2003. The Board records its deep gratitude and appreciation of his highly valued contribution and wise counsel as Chairman of the Company from August 1996 through a period of intense change.

In the same meeting, the Board accepted Mr A Narayan's request to relinquish his office as Managing Director of the Company with effect from 1 April 2003. The Board records its deep appreciation to Mr A Narayan for his significant and valuable contribution to the Company throughout his long and distinguished career with ICI, spreading over a period of 24 years.





The Board has appointed Mr R L Jain as the Managing Director with effect from 1 April 2003, subject to the approval of shareholders in the forthcoming Annual General Meeting on 30 July 2003.

On an invitation from the Board, Mr A Narayan has joined the Board as a non-executive director in the casual vacancy caused by the retirement of Dr A S Ganguly, in accordance with section 262 of the Companies Act, 1956, and was elected as the non-executive Chairman of the Board with effect from 3 April 2003.

Mr S Chandra, Government nominee, resigned from the Board on 5 July 2002. The Board records its deep appreciation of Mr Chandra's valuable contribution to the Company during his tenure on the Board of the Company. Mr S Krishna was appointed as the Government nominee on the Board with effect from 23 September 2002, in the casual vacancy caused by the resignation of Mr Chandra.

Mr M V Subbiah and Mr S Krishna, Directors, are due to retire by rotation in the forthcoming Annual General Meeting and are eligible for reappointment.

A brief resume of Mr R L Jain, Mr M V Subbiah and Mr S Krishna is given in the section on Corporate Governance attached to this Report.

#### 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:

- a) in the preparation of the Annual Accounts, the applicable accounting standards have been followed;
- b) 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 2003; and
  - the profit for the year ended on that date.
- c) 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
- d) they have prepared the annual accounts on a going concern basis.

#### Cautionary Statement

Business Expectations for the year ahead assume that the Indian

economy will grow in line with the forecast of about 6% with a reasonable monsoon in 2003. Statements in this report particularly those which relate to Management Discussion and Analysis 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.

#### SUBSIDIARY COMPANIES

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. (refer page 36 )

In terms of the shareholders agreement with Orica, the Joint Venture partner for Indian Explosives Ltd. ("IEL"), the Company has exercised its PUT option calling upon Orica to buy the 51% holding in IEL held by the Company. Orica have filed two suits in Mumbai High Court, the details of which have been covered in note 15 of Schedule 19 to the Accounts.

#### CONSOLIDATED RESULTS

As required under the Listing Agreement, consolidated accounts conforming to the applicable Accounting Standards are attached to the Annual Report. A summary of the consolidated financial performance of the Company and its subsidiaries, after eliminating inter-company transactions, is as follows:

	2002-03	2001-02
	(Rs Cr)	
Gross Sales	1011	1038
Operating Profit from businesses	124	119
Profit before Tax	151	129
Profit after Tax	113	92
Net assets employed	615	581
Total shareholders' funds	498	440

#### 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

New Delhi  
30 May 2003

A NARAYAN  
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. DISCLOSURE OF PARTICULARS WITH RESPECT TO CONSERVATION

			2002-03	2001-02
<b>1. Power &amp; Fuel Consumption</b>				
<b>a. Electricity</b>				
(i) Purchased				
Unit	Lac Kwh		249.27	292.97
Total amount	Rs.Lacs		1207	1408
Rate	Rs/Kwh		4.84	4.81
(ii) Own generation				
(Through diesel generator)				
Unit	Lac Kwh		0.93	0.75
Total amount	Rs.Lacs		3760	2583
Rate	Rs/Kwh		11.34	6.27
<b>b. Coal</b>				
Quantity	Tes		6019	11275
Total amount	Rs Lacs		123	225
Average Rate	Rs/Te		2041	1992
<b>c. Fuel Oil</b>				
Quantity	Kl		7054	7531
Total amount	Rs Lacs		830	750
Average Rate	Rs/Kl		11769	9963

N. A. = Not Applicable

### 2. Consumption per unit of production

	Electricity (Kwh/Te)		Fuel Oil (Kl/Te)		Coal (Te/Te)	
	2002-03	2001-02	2002-03	2001-02	2002-03	2001-02
Paints	138	142	0.01	0.01	NA	NA
Uniqema	202	202	0.06	0.07	NA	NA
National Starch	70	171	0.01	0.03	NA	NA
Synetix	2199	2906	0.65	0.99	NA	NA
Rubber Chemicals	2674	2734	0.41	0.40	2.05	3.45
Pharmaceuticals	NA	7425	NA	NA	NA	NA
Nitrocellulose	1940	2052	1.11	1.15	NA	NA

N. A. = Not Applicable

### B. DISCLOSURE OF PARTICULARS WITH RESPECT TO 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.
- Improvement of existing products through process validation of their manufacturing process.
- New products introduced in the specific market segments like book binding, woodworking and packaging.
- Development & Commercialisation of new surfactants for Textile auxiliaries, Spin Finishes Health & Personal Care, Crop Protection & Polymer & Lubricants Markets.
- Introduction of new application concepts.

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

- Introduction of new products and increase in market penetration of the use of existing products.
- Cost savings through import substitution.

##### (c) Future plan of action

- Use of alternative cost-effective raw materials for the existing formulations.

- Reduce overall cost and lead time for production.
- Development of new products in chosen segments.

#### (d) Expenditure on R&D

	2002-03	2001-02
(i) Capital	-	6
(ii) Recurring	206	248
(iii) Total	206	254
(iv) Total R & D expenditure as a percentage of turnover	0.3%	0.3%

### 2. Technology Absorption, Adaptation and Innovation

#### (a) Efforts

- 68 new products were developed and commercialised in 2002-03.

#### (b) Benefits

- 34% of the year's turnover of Uniqema business came from new product/application.

#### (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	1999	Yes	
Tinters Manufacture	2002	No	In progress

### C. FOREIGN EXCHANGE EARNINGS AND OUTGO

The Company significantly increased its exports of Rubber Chemicals.

#### Future Plans

Use R & T strengths to improve forex earnings.

#### Total Foreign Exchange earned & used

	2002-03	2001-02
Earned	54,63	77,33
Used	114,93	102,47

On behalf of the Board

New Delhi

30 May 2003

A NARAYAN

Chairman