



**ICI India Limited**

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**Annual Report 2006 - 07**

# Use a little Science Make Rooms look Brighter and Open



Painted with  
Branded Emulsion - same shade.

Painted with  
Dulux Light & Space Emulsion.

It takes more than just light coloured paints to make your room look brighter and bigger. Which is why, you need to go for ICI Dulux Light & Space Emulsion Paint powered with patented Lumitec Technology. The paint reflects up to twice\* as much light and makes the room look brighter and more open.



LIGHT  
SPACE

Powered by:  
 Lumitec  
TECHNOLOGY





# ICI India Limited

## Annual Report 2006-07

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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 2006-07**

**BOARD OF DIRECTORS**

**CHAIRMAN**

Mr Aditya Narayan

**MANAGING DIRECTOR**

Mr Rajiv Jain

**DIRECTORS**

Mr Sandeep Batra (Wholetime Director)  
 (w.e.f. 1 April 2007)

Mr David J Gee (upto 30 March 2007)

Mr R Gopalakrishnan

Ms Renu S Karnad

Mr M R Rajaram (w.e.f. 9 April 2007)

Mr Andy M Ransom (w.e.f. 1 April 2007)

Mr M V Subbiah

Mr David R Carter

(Alternate to Mr Andy M Ransom)

**SECRETARY**

Mr R Guha

**REGISTERED OFFICE**

Geetanjali Apartment, 1st Floor,  
 8-B, Middleton Street, Kolkata 700 071

Tel : 033-22267462, Fax: 033-22277925

**CORPORATE OFFICE**

10th Floor, DLF Plaza Tower

DLF Qutab Enclave, Phase-1

Gurgaon 122 002

Tel : 0124-2540400

Fax : 0124-2540849

**WEBSITE**

www.iciindia.com

**KEY COMMITTEES OF THE BOARD**

**Audit Committee**

Ms Renu S Karnad (Chairperson)

Mr R Gopalakrishnan

Mr Andy M Ransom

Mr M V Subbiah

**Remuneration and  
 Nominations Committee**

Mr M V Subbiah (Chairman)

Mr R Gopalakrishnan

Ms Renu S Karnad

Mr Andy M Ransom

**Shareholders/Investors**

**Grievance Committee**

Mr Andy M Ransom (Chairman)

Mr Rajiv Jain

Mr M R Rajaram

**AUDITORS**

BSR & Associates

**BANKERS**

Central Bank of India

Citibank NA

Deutsche Bank AG

Hongkong & Shanghai Banking Corpn.

Standard Chartered Bank

**REGISTRAR AND SHARE**

**TRANSFER AGENT**

C B Management Services (P) Ltd

P-22, Bondel Road

Kolkata 700 019

Tel : 033-22806692-94

Fax : 033-22470263

Email : cbmsl1@cal2.vsnl.net.in



## DIRECTORS' REPORT 2006-07

Your Directors have pleasure in presenting their report for the year ended 31 March 2007.

### BUSINESS ENVIRONMENT

The business environment in India remained positive during 2006-07 with the GDP growing by over 9%, the highest since 1989. While the services and industry segments grew by about 11%, agriculture grew only by about 3%. Despite concerns about high oil prices, interest and inflation rates, the economy is poised to grow by over 8% in 2007-08 and the GDP is poised to cross the milestone of USD 1 trillion, bringing India into a select group of countries in the world.

The Union Budget for 2007-08 reiterated the Government's focus on fiscal consolidation via phased removal of tax exemptions, measures to tame inflation and initiatives for the rural economy/ agriculture aimed at addressing supply side constraints and strengthening the infrastructure and social sectors. The peak customs tariff has been brought down from 12.5% to 10%, closer to the ASEAN levels.

### FINANCE AND ACCOUNTS

Sales and profit during 2006-07 from the continuing businesses recorded a strong growth of 21% and 43% respectively. The total income for the year at Rs 954 cr was ahead of the corresponding figure of Rs 908 cr in the previous year. Profit before tax from operations at Rs 140.1 cr grew by 45% over the previous year reflecting the continuing improvement in the performance of the key businesses and the one-off dividend of Rs 31.1 cr from Quest International India Ltd. prior to the divestment of your Company's shareholding in that company.

Exceptional items during the year amounting to a net income of Rs 446.1 cr (previous year charge of Rs 11.0 cr) consist mainly of profit from divestment of Uniqema and Advanced Refinish businesses and the sale of Company's shareholding in Quest International India Ltd. Consequently, the Company achieved a Profit after tax of Rs 448.4 cr, as against the previous year's Rs 50.2 cr.

Following a prudent dividend policy on profit from operations, the Board has recommended a dividend of Rs 7.00 per share (previous year - Rs 6.00 per share) for the year 2006-07. In addition, considering the unusually high exceptional income this year, an additional one off special dividend of Rs 20.00 per share has also been recommended. Thus the total recommended dividend is Rs 27.00 per share, which will be paid after the approval of the members at the forthcoming Annual General Meeting.

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

	(Rs cr)	
	2006-07	2005-06
Total Income	954.3	907.8
Operating profit	164.9	121.9
Depreciation	(22.5)	(21.8)
Interest	(2.3)	(3.6)
<b>Profit before tax from operations</b>	<b>140.1</b>	<b>96.5</b>
Exceptional items	446.1	(11.0)
<b>Profit before tax</b>	<b>586.2</b>	<b>85.5</b>
Tax	(137.8)	(35.3)
<b>Profit after tax</b>	<b>448.4</b>	<b>50.2</b>

The appropriations from the profit for 2006-07 are as follows:

	(Rs cr)
Transfer to General Reserve	67.0
Proposed Dividend	110.3
Tax on Dividend	18.8

The balance of Rs 252.3 cr, together with the amount brought forward from the previous year, shall be carried to the Balance Sheet.

No fresh public deposits were accepted by the Company during the year. Unclaimed deposits and unclaimed dividends amounting to Rs 0.2 cr were remitted into the Investor Education and Protection Fund of the Central Government as required under section 205C of the Companies Act, 1956.

### BUY BACK PROPOSAL

The share buyback through market operations, which was approved by the members through postal ballot on 14 September 2006 and announced by the Company soon thereafter, could not be pursued as the market price of the Company's shares has been ruling above the maximum price approved by the members, on account of buoyancy in the stock market, robust performance of your Company and business divestments during the year at attractive prices.

Considering the above and the strong Balance Sheet of your Company with a large cash surplus, the Board has formulated a new buyback proposal in addition to the proposed dividend payout (including tax) for the year of about Rs 129 cr. Accordingly, a meeting of the Board has been convened on 26 May 2007 to consider a proposal for buyback of the Company's shares, at a price not exceeding Rs 575/- per share from minority shareholders through market operations. The members will be separately informed about the details of this proposal after necessary Board approvals.

### MANAGEMENT DISCUSSION & ANALYSIS

#### Paints

The Paints business delivered an impressive performance compared to the previous year. Sales grew 22% led by strong growth in both Decorative and Refinish business segments.

The emphasis during the year has been on building the premium Dulux portfolio, placement of in-store tinting machines, new color offers and demand-generation initiatives through painters/contractors, resulting in improvements in channel relationships and consumer satisfaction.

In the Decorative segment, exteriors continued as the fastest growing range and the business further expanded its portfolio in this category. Exterior primer and Exterior Alkali Bloc, which were launched in this year, have gained share in their respective categories. WeatherShield Tex, introduced in the previous year, has further consolidated its presence in the textured paint segment.



In Interior Emulsions, the Company has strengthened its portfolio with the addition of the Dulux Light & Space and introduction of bases for deeper shades. Light & Space is powered by a unique patented Lumitec Technology that helps reflect up to twice as much light thereby making the rooms look bright and spacious.

The business launched Color Futures 2007, a selection of colors predicted to be the preferred colors for the current year. Well-known contemporary personalities in the fashion and film world have been signed up as Brand Ambassadors for select product lines, to improve the visibility and customer recall of your Company's products and their features.

The Refinish business saw another year of good growth. The Conventional Refinish segment was further strengthened by the addition of products such as Eterna, Vektor and Duco PU which were well received in the market. During the year, the business leveraged its strong R&D base and achieved compliance with the global environmental standards for all its products.

The Advanced Refinish (2K) business, constituting a part of the Paints business was divested with effect from 16 March 2007. Given that the profitability of this business was dependent on the supply of products by PPG Industries, USA under a contract valid only upto mid 2009, the divestment was completed in a value enhancing manner.

The outlook for 2007-08 appears positive for the business. The government's thrust on infrastructure and continuance of tax incentives on home loans and reduced custom duties on inputs will have a favourable impact on the paints industry. However rising crude prices, partly cushioned by a strong rupee, will impact input costs leading to pressure on margins. The increase in interest rates could adversely affect the housing and automobile sectors, which in turn may lead to a slow down in the demand for paints.

## Chemicals

### National Starch & Chemical

The Adhesive, Starch and Polymer businesses performed well with sales growing by 18%. The Adhesive business registered good growth in the Book Binding, Tobacco and Wood working segments. The recent acquisition of controlling interest in Polyinks Pvt Ltd., a Hotmelt Adhesives company, helped the business to improve its market share in the book binding and soap wrapper adhesive segments. A new manufacturing facility is also being set up through Polyinks Pvt Ltd. to cater to the North Indian markets more efficiently.

Over the last few years, the Adhesive business has seen global players setting up new capacities in India. With customs duty nearing ASEAN levels, competition will further intensify from imports as well as the low cost local players. To effectively deal with the situation, the business has intensified its focus through value selling, leveraging its first mover advantage with a lower cost base to enhance its market position.

In the Glass Fibre Polymers business, customers are at present being serviced through imported products, pending build up of critical mass in volumes. The food and pharmaceutical starch business is also currently being serviced through imports; appropriate strategy for local manufacturing will be worked out after the roll out the new food regulations by the government based on the comprehensive law passed last year.

### Uniqema

The Uniqema Business was divested during the year with due approval from shareholders through Postal Ballot. The financial effect of the divestment of the Uniqema business has been reflected as an Exceptional item in the Profit & Loss Account.

## RESPONSIBLE CARE - SECURITY, SAFETY, HEALTH, ENVIRONMENT ('SSHE') AND CORPORATE SOCIAL RESPONSIBILITY

Your Company sustained its high standards of SSHE performance during the year. Paints business continued to build on its Product Stewardship initiatives aimed at providing safer paints which comply with international standards to its consumers. Programmes to continuously drive down waste generation across the businesses were pursued. Distribution safety initiatives were further reinforced during the year through transporter training and Haulier audits.

No occupational illness was reported during the year.

## CONSERVATION OF ENERGY, RESEARCH, DEVELOPMENT & INNOVATION

There has been 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.

## INFORMATION TECHNOLOGY

Several IT initiatives have been taken during the year for improving service levels to the customers. A new system of Color Merchants has been commissioned in Paints business to capture full profile of all registered contractors, including their primary and secondary sales achievements; this information will be used for designing efficient sales promotion schemes. An on-line browser based system, giving up-to-date information on sales, collections, pending orders, etc., has been launched. A number of other initiatives such as automated reports to support despatches and on-line connectivity with important warehouses have been taken to provide better visibility of inventories and to expedite despatches.

## HUMAN RESOURCES

Cordial relations with the employees prevailed at all the Company locations during the year. The total number of employees on the rolls of the Company, including its subsidiary, as at 31 March 2007 was 874. A statement containing the particulars of employees as required under section 217(2A) of the Companies Act, 1956 is attached as **Annexure II**.



## INTERNAL CONTROL SYSTEMS

The company has an effective Risk Management framework, which helps the Board to monitor the exposure and state of controls in the key business processes. 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 and reports to the Audit Committee of the Board.

## CORPORATE GOVERNANCE

The Company is in due compliance with all the mandatory norms of Corporate Governance as outlined in clause 49 of the Listing Agreements with the CSE, NSE and BSE; **Annexure III** to this report summarizes the details of such compliance.

## DIRECTORS

Ms R S Karnad, Director, will retire by rotation at the forthcoming Annual General Meeting and is eligible for reappointment.

Mr D J Gee resigned from the Board with effect from 30 March, 2007. Mr M R Rajaram stepped down from the Board on 31 March, 2007, prior to his retirement after serving the Company for over 35 years. The Board placed on record its deep appreciation of the valuable services rendered by Mr Gee and Mr Rajaram during their tenure as Directors of the Company. The Board also placed on record its appreciation of the valuable services rendered by Mr D S Whitewood during his tenure as Alternate Director to Mr D J Gee.

Mr A M Ransom was appointed as a Director with effect from 1 April 2007 in the casual vacancy caused by the resignation of Mr D J Gee. Mr Ransom will hold office up to the date of the forthcoming Annual General Meeting, being the date on which Mr Gee would have retired by rotation.

Mr S Batra was appointed as a Wholtime Director for a period of five years with effect from 1 April 2007 subject to the approval of the shareholders in the forthcoming Annual General Meeting.

Mr M R Rajaram was appointed as an Additional Director with effect from 9 April 2007. He shall hold office up to the date of the forthcoming Annual General Meeting and is eligible for re-appointment.

The Company has received due notice under Section 257 of the Companies Act, 1956 proposing the appointment / reappointment of M/s A M Ransom, S Batra and M R Rajaram as Directors of the Company at the forthcoming Annual General Meeting.

## AUDITORS

M/s BSR & Associates 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 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 2007; 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

Some of the statements in this report, describing the Company's objectives and expectations expressed in good faith, may constitute "forward looking statements" within the meaning of applicable laws and regulations. Actual results might differ materially from those, in the event of changes in the assumptions/market conditions.

## SUBSIDIARY COMPANIES

The Company had during the year acquired further shares in its subsidiary Quest International India Ltd in two lots from the other shareholders of that company, making it a wholly owned subsidiary of the Company since October 2006. Thereafter, the entire shareholding in that company was sold in March 2007. The net effect of the above transactions are reflected as an Exceptional item in the Profit & Loss Account.

The Company acquired on 15 December 2006 a controlling stake (67%) in Polyinks Pvt Ltd. (PPL), which is engaged in the Hotmelt Adhesives business, having significant synergies with the National Starch & Chemical business of the Company.

The statement of particulars relating to the Company's subsidiary PPL, pursuant to Sec 212 of the Companies Act, 1956, is attached to this report. (page 68)

The Company has obtained the Central Government's approval for not attaching the full accounts of its subsidiary PPL to its annual accounts. A summary of the Balance Sheet as on 31 March 2007 of the said PPL and its performance for the year ended on that date is given in page 68.

## 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 the Company's subsidiary Quest International India Ltd. (up to 1 March 2007) and Polyinks Pvt Ltd. (from 15 December 2006). A summary of the consolidated financial performance of the Company and its subsidiaries, after eliminating inter company transactions, is given below:





	(Rs cr)	
	<u>2006-07</u>	<u>2005-06</u>
Total Income	1057	1027
Profit before Tax from Operations	117	105
Profit before Tax	603	94
Profit after Tax	463	53
Total assets employed	871	608
Total shareholder Funds	870	542

The current year's figures of income and profit are not comparable with those of the previous year on account of acquisition and divestment of businesses during the year.

## ACKNOWLEDGMENT

The Directors wish to convey their gratitude and appreciation to all the employees of the Company for their valuable contribution 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  
16 May 2007

A NARAYAN  
Chairman

## ANNEXURE I

### 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

		<u>2006-07</u>	<u>2005-06</u>
(a) Electricity			
(i) Purchased			
Unit	Mwh	11249	16980
Total cost	Rs Lacs	482	704
Rate	Rs/Kwh	4.28	4.14
(ii) Own Generation			
Units	Mwh	447	151
Units / KL of diesel oil	Kwh	4109	7882
Cost / unit	Rs / Kwh	8.83	8.68
(b) Coal			
Quantity	Tes	-	6759
Total cost	Rs Lacs	-	203
Average rate	Rs / Te	-	3004
(c) Fuel Oil			
Quantity	Kl	1659	2650
Total cost	Rs Lacs	446	528
Average rate	Rs / Kl	26883	19915

##### 2. Consumption per unit of production

	<u>2006-07</u>	<u>2005-06</u>
<b>Electricity (Kwh per Te/Kl)</b>		
Paints	103	108
Uniqema	138	144
National Starch	143	143
Rubber Chemicals	-	2392
Catalysts	1529	1526
<b>Fuel Oil (Kl per Te/Kl)</b>		
Paints	0.01	0.01
Uniqema	0.04	0.04
National Starch	0.01	0.01
Rubber Chemicals	-	0.40
Catalysts	0.60	0.54
<b>Coal (Te per Te)</b>		
Rubber Chemicals	-	3.0

#### 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, efficient use of resources and improving environment friendliness of the products.

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

The business achieved sales growth ahead of market. Major benefits derived from the R&D initiatives are:

- Launch of new and innovative products;
- Increase in market reach and penetration; and
- Cost savings through substitution of raw materials.

###### (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.

The Polymer business laboratory at Thane is evaluating opportunities to take up research work to develop products for servicing Personal Care segment on a global scale.

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

	<u>2006-07</u>	<u>2005-06</u>
(i) Capital	25	9
(ii) Recurring	277	365*
(iii) Total	<u>302</u>	<u>374</u>
(iv) Total R & D expenditure as a percentage of turnover	0.3%	0.4%

\* includes salary and overheads relating to R&D accounted under the respective heads of account.

#### 2. Technology Absorption, Adaptation and Innovation

##### (a) Efforts & Benefits

- New and innovative products like WeatherShield Tex, Dulux Light & Space have been launched.



## (b) 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 plan of action
Tinters Manufacture	2002	Yes	NA
Detergent for new trend fabrics like microfibres, Polyester Lycra etc.	2003	Yes	NA - The business has been divested during the year
Polymerization Technology	2005	No	Technology absorption is in progress

## C) FOREIGN EXCHANGE EARNINGS AND OUTGO

## (a) Total Foreign Exchange earned and used:

	(Rs lacs)	
	2006-07	2005-06
Earned	11,02	22,77
Used	184,12	181,82

Forex earnings have come down with the divestment of Rubber Chemicals business in the previous year.

## (b) Future Plans

Use innovation and R&D strengths to reduce costs through process improvements and import substitution.

## BALANCE SHEET ABSTRACT AND COMPANY'S GENERAL BUSINESS PROFILE

## I Registration details

Registration No. : U24292WB1953PLC021516 State Code : 21  
Balance Sheet date : 31 - 03 - 2007

## II Capital raised during the year (Amount in Rs lacs)

Public Issue : NIL Rights Issue : NIL Bonus Issue : NIL Private Placement : NIL

## III Position of mobilisation and deployment of funds (Amount in Rs lacs)

Total Liabilities : 877,75 Total Assets : 877,75

## Sources of Funds

Paid-up Capital : 40,87 Reserves and Surplus : 828,78  
Secured Loans : NIL Unsecured Loans : NIL  
Deferred Tax Liability : 8,10

## Application of Funds

Net Fixed Assets : 133,29 Investments : 825,72  
Net Current Assets/(liability) : (81,26) Misc. Expenditure not written off : NIL

## IV Performance of Company (Amount in Rs lacs)

Turnover : 954,32 Total Expenditure : 814,21  
Profit/(Loss) before Tax : 586,23 Profit/(Loss) after Tax : 448,42  
Earnings per share in Rs. : 109.72 Dividend rate % : 270

## V Generic names of three Principal Products/Services of Company

Item Code No. (ITC Code) : 3209 Product Description : Emulsion Paints  
Item Code No. (ITC Code) : 3408 Product Description : Synthetic Enamels  
Item Code No. (ITC Code) : 3506 Product Description : Adhesives