

# Chemfab Alkalies Limited

## ANNUAL REPORT 2003 - 2004

MEMBER

**Dr.Rao**  
HOLDINGS PTE.LTD

SINGAPORE

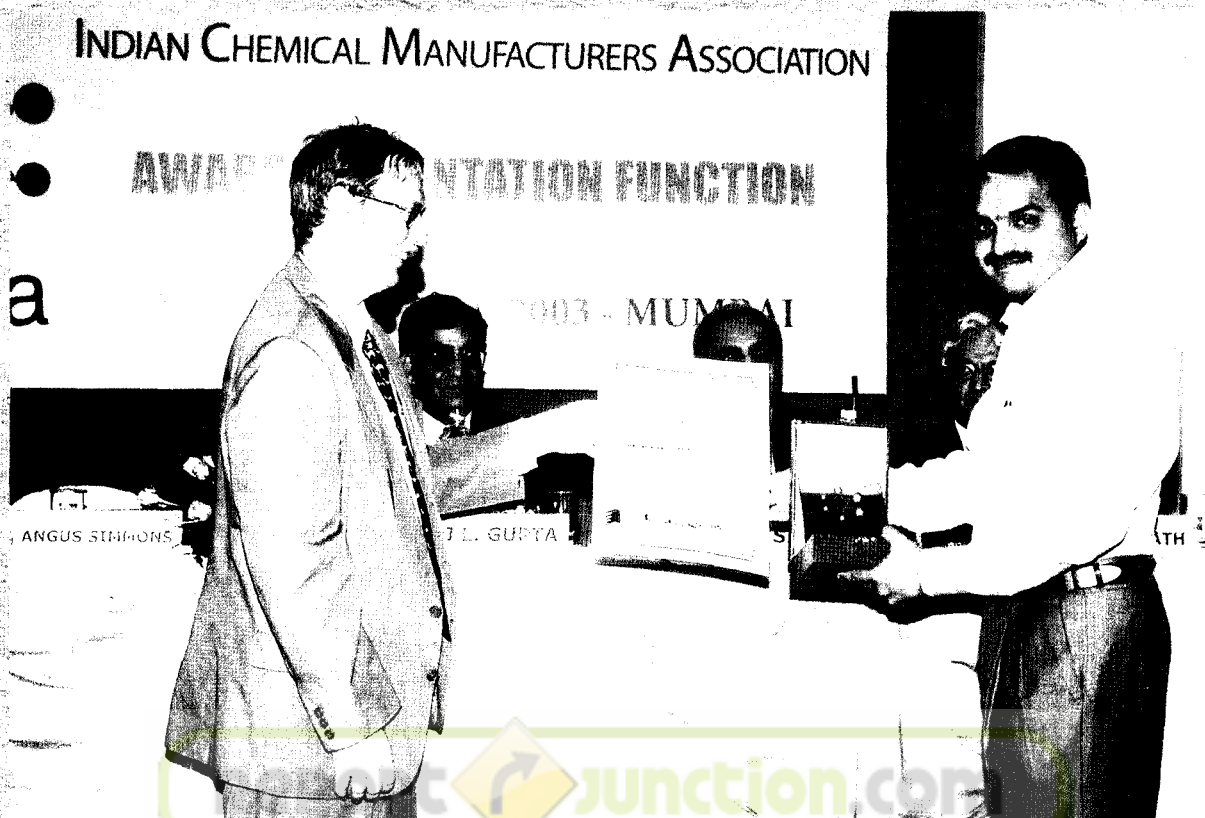
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# INDIAN CHEMICAL MANUFACTURERS ASSOCIATION

## AWARD PRESENTATION FUNCTION

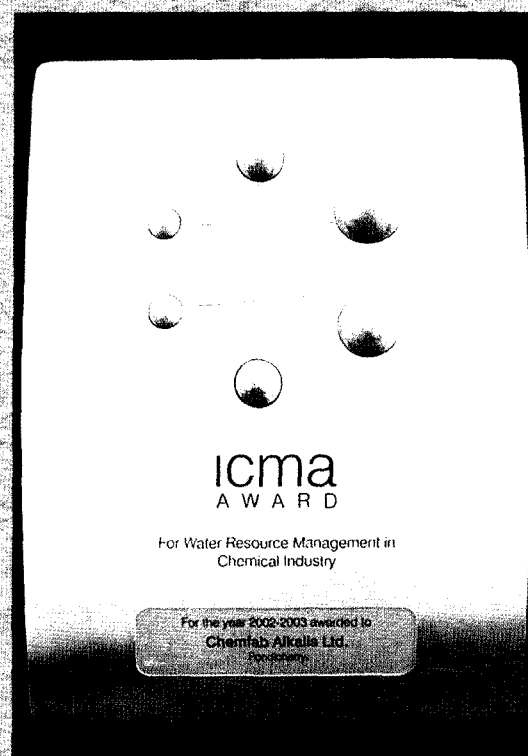
2003 - MUMBAI



ANGUS SIMMONDS

J.L. GUPTA

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### **BOARD OF DIRECTORS**

Dr C H Krishnamurthi Rao – Chairman  
Mr C S Ramesh  
Mr Sharad V Sheth  
Mr Suresh Rao – Vice Chairman  
Mr K Gopalan  
Dr K V Raghavan  
Mr K R Murali Mohan – IDBI Nominee

### **COMPANY SECRETARY**

Mr S Ramesh

### **AUDITORS**

M/s R Janakiraman & Co  
Chennai 600 018

### **BANKERS TO THE COMPANY**

Canara Bank  
45 NSC Bose Road  
Pondicherry 605 001

### **REGISTERED OFFICE AND FACTORY**

'Gnanananda Place'  
Kalapet  
PONDICHERRY 605 014

### **CHLORATES DIVISION**

Abishekapakkam, Poornakuppam Post  
Pondicherry - 605 007

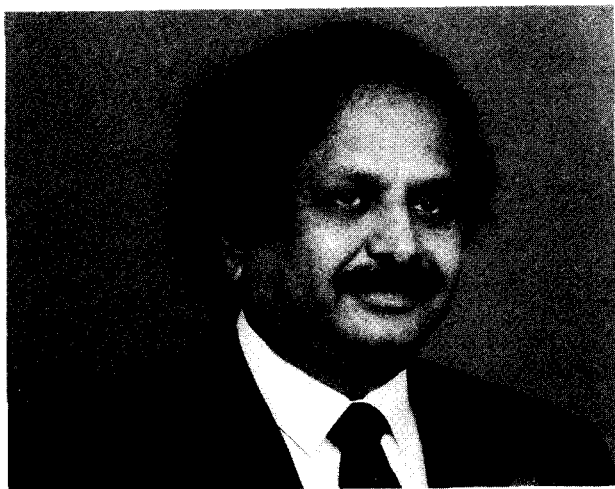
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## CHAIRMAN'S SPEECH



Dear Fellow share holders,

### **Laudable steps on desalination by Central Govt:**

Water, as the elixir of life, is the core of development. The coastal states of India are desperately pursuing the desalination of sea water in order to sustain at least the developments already achieved and to overcome the drought situation.

As a sequel, the government of India has now extended certain incentives like zero duty, besides exemption from Coastal Zone Regulations.

These have been the persistent pleadings of your Company for long, as was reflected in the earlier Annual Reports. Therefore, your Company can rightly rejoice at the acknowledgement of the Government on the need and feasibility of Desalination, for common benefit.

With a 5000 kilometer long coastline, India is one of the very fortunate countries in the world to have access to this abundant resource. It is prudent to harness this wealth in a judicious manner using the best of technologies available. Your company's knowledge base and expertise will be applied in the cause of the nation showing the way to others.

### **Continuing efforts to install sea water desalination project**

Your Company is going in for the state-of-the-art Pre-treatment and Novel Technology for Intake Designs and

has already incurred a sizeable expenditure on the project. The Company plans to install One MGD Sea Water Desalination Plants in stages. The Company, apart from meeting its captive requirements of water, plans to produce Potable Water to meet the requirements of Industries. This will help the water based Industries to function effectively without causing depletion of ground water. As the Government has no planned source to provide water to Industries, **Sea Water Desalination** is the only solution to meet the water requirement of the industries.

When this innovative project is on stream, it will be an eye opener to the Country on a novel way to produce potable water from sea water.

Needless to stress that it is the success of your Company's innovation and pioneering effort of bringing the Membrane Technology into India – at Pondicherry – 20 years ago, which was responsible for the mandate of Central Government to the Industries to change over to pollution free membrane cell process. This reputation will be echoed again once the desalination plant gets into operation.

### **Local Government Involvement**

In a single window clearance meeting held by the Pondicherry Government, decisions were taken in the presence of all Government officials as well People's elected Legislative Representative where your Company had appealed for specific help and clearances from the Government and had committed to complete the project within one year of zero date, of all clearances.

In spite of enervating efforts, the zero date could not be set in motion. Since the Government and the Company are awaiting the clearance of the ITDC / PIPDIC as decided rightaway in the single window meeting, for the sea water pipeline.

Your Company has made necessary arrangements for the finance, agreements with the overseas vendors for equipment supply of which some have already been procured.

### **The Implementation of Government Policies**

The policy makers at the Government are taking laudable steps on Sea Water Desalination; but the implementation is not keeping pace. The need of the hour is a concerted co-ordination between the various government agencies,



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elected public Representatives, and the Industry to hasten up the process of clearance and setting up of Sea Water Desalination plants which will ensure that the people in the coastal areas of country do not suffer for want of water, when the source is at their doorstep.

We request that the central government acting in consultation with the local governments establish a Fast Track Green channel initiative clearance for desalination projects within a committed time frame. This alone will enable the country to convert the Dreams and Vision of our Honourable President of India into realities.

In this context, it is worthwhile quoting the recommendations of the Central Ground Water Board, which is an organisation, functioning under the Ministry of Water Resources with a mandate to develop and disseminate technologies and monitor natural policies on sustainable development of water resources. In a recent recommendation to a Joint Parliamentary Committee the Board has stated that

**“Efforts should be made to conserve water recycling of waste water and supplementing fresh water by desalination of sea water in coastal regions”.** It has also added to say that in similar efforts there is a need for integrated approach involving public health professionals, water providers, natural resource managers, industry and the public.

This needs response from all concerned, for a future bright and sustainable economic development of the country.

#### **ICMA recognition on CAL efforts on Water Conservation**

It is a matter of great delight that has become an annual event that your company's efforts and innovations are recognized by neutral intellectual bodies. During this year, the Indian Chemical Manufacturers Association for the very first time in the history of India has given an award for the best “Water Recycling and Conservation of the Company's efforts”.

Such encouragement will further enthuse your company's efforts for new innovations and achieve better water management.

On your behalf and on my own behalf, I thank ICMA for giving us such a coveted National award to your Company.

#### **Innovation on Membrane Technology based Brine Filtration**

Innovation is now accepted as the driving force for any nation's development and stature, and it has been the ‘Mantra’ of your company right from the inception. As a technology leader and trend setter, your Company, in collaboration with Membrane Technologies Limited, have installed and are very successfully operating the full scale commercial plant for filtering the feed brine to the electrolyzers. This eliminates many filtering routes, improves the system by using degradable alpha cellulose and enhancing the purity of brine. Besides, there will be saving of water as well as increasing the life of Resin and Membrane and thereby increasing the efficiency of the whole plant.

I am glad to announce that, after a diligent appraisal, the Dupont, USA have now proposed a joint effort to market this product globally.

#### **Your Company Performance**

During the year the overall performance of all the Divisions of the Company has been good.

The Chlor-Alkali Division, in spite of many constraints, has achieved a higher capacity utilisation and the sustained efforts in marketing yielded higher revenues.

The performance of the Chlorate division was good and it has catered to the needs of Indian Space Research Organisation.

I am glad to inform the shareholders that by encouragement of Middle Management involvement and with better planning, your Company produced a record quantity of 80,000 MT Industrial Grade Salt and the entire captive requirements has been met. There was no outside procurement of salt and in fact the Company also started selling some surplus quantity of Salt, to industries.

#### **Finance**

The finances of the Company are stable and the operations are quite satisfactory.

Fellow share holders are aware of the quantum of contribution of the Small and Medium Enterprises (SME) in terms of technology and innovations. However, when



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the Country is starved of drinking water and is in dire need of newer technologies, the Infrastructural Development Corporations, and the Nationalised Banks need to be more sympathetic to the genuine requirements of the SME, bestowing the same attention they accord to mega projects.

But unfortunately the focus of these Institutions is on Mega projects and no proper encouragement is given for SME the real torch bearers of many innovative ideas and projects. It is high time that the lending Institutions are attuned to meet the financial needs of SME and champion their causes. After all, the SME constitute the backbone of industrial infrastructure of the country and their well being is an indicator of nation's economic health.

### **Management**

The Management has ultimately committed to a sustainable strategy to include environmental, social and economic aspects in all business decisions as per the norms

stipulated by the stringent standards of ISO 9000, 14001 and OHSAS.

Further, complete transparency in operation of the laws is observed as per the guidelines issued by Securities Exchange Board of India.

Change over to a system of team based management from the triangle based hierarchy, fixing responsibility on team leaders and monitoring for success with reasonable compensation packages has set your Company in a good proper direction of growth with the full participation of each and every one.

I have to congratulate your staff and workers for their excellent performance this year.

On your behalf, I again congratulate your staff and workers for a good performance and wish better ones ahead.

Thank you,

Dr C H Krishnamurthi Rao





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## DIRECTORS' REPORT

Your Directors have pleasure in presenting the Twenty First Annual Report together with the Audited Statements of Accounts for the year ended 31<sup>st</sup> March, 2004.

### FINANCIAL RESULTS

Particulars	current year (31/03/2004) Rs/lakhs	previous year (31/03/2003) Rs/lakhs
Profit before Interest and Depreciation.	1,530	1,019
Less: Interest	471	497
Profit Before depreciation	1,059	522
Less: Provision for Depreciation	381	381
Net Profit (loss)	678	141
Add: Profits / (loss) from Earlier years	94	100
Total funds available for appropriation	772	241
Less: Transfer to General Reserve	75	10
Debenture Redemption Reserve	0	85
Taxation	52	10
Dividend (including tax on dividend)	103	42
Deferred Tax Liability	299	-
Balance carried forward	243	94

### OPERATIONS

- During the year under review the production of Caustic Soda lye was higher at 35,602 MT as against 32,023 MT in the previous year and the profit was Rs.678 lakhs as against Rs.141 lakhs in the previous year before tax.
- The Chlorates Division's performance was also satisfactory.
- The Salt Division had a Record production of 80,000 MT of Industrial Grade Salt.

### DIVIDEND

The Directors recommend for the approval of Interim Dividend declared by the Board of Directors of the Company for the year ended 31<sup>st</sup> March, 2004 by the Shareholders at the ensuing Annual General Meeting.

Dividend on 34,70,000 Equity Shares	Rs
of Rs. 10/- each	86,75,000

### FOREIGN EXCHANGE EARNINGS AND OUTGO

During the year under review, the Foreign Exchange Earnings was Rs. 42,72,306/- and the Foreign Exchange outgo was Rs.58,86,747/-

### POWER AND FUEL CONSUMPTION

Alkali Products	Current year [31/03/2004]	Previous year [31/03/2003]
<b>1. ELECTRICITY</b>		
a] Purchased Units	9,68,99,700	8,74,45,650
Total amount / Rs	29,13,31,310	26,20,49,910
Rate / unit [gross]	Rs. 3.01	Rs. 3.00
b] Consumption per Tonne of Electro Chemical Production KWH/AC	2,722	2,731
<b>II. FURNACE OIL</b>		
a] Purchased		
Quantity (KL)	137	276
Total amount/Rs	15,77,895	29,86,227
Average rate Per KL/Rs	11,484	10,820
b] Consumption:		
Furnace Oil [KL]	140	253
Amount/Rs	16,36,543	26,74,231
Amount per KL/Rs	11,674	10,570

### CHLORATE

#### 1. ELECTRICITY

Purchased Units	90,85,027	84,49,982
Total amount / Rs	2,69,16,337	2,49,36,066
Rate / Unit [Gross]	Rs. 2.96	Rs. 2.95
Consumption per Tonne of Sodium Chlorate Production KWH/AC	5,680	5,665

#### II. HUSK

a] Purchased		
Quantity (MT)	1,414	1,241
Total Amount/Rs	22,02,091	15,06,758
Average rate Per MT/Rs	1,557	1,214
b] Consumption		
Husk [MT]	1,433	1,228
Amount/Rs	22,40,258	14,57,980
Amount Per MT/Rs	1,564	1,187





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## SEA WATER DESALINATION PLANT

At the Single Window Clearance Committee Meeting held by the Pondicherry Government, the company has given a commitment to put up the sea water Desalination plant within one year from the zero date i.e. the date all government clearances are received. The company is yet to receive the route clearance from ITDC and on receipt of the same the laying of the pipeline will commence. The company has tied up for technology and agreement has been entered with the technology supplier for procurement of machinery. The company has also tied finance for the proposed sea water desalination project.

## FIXED DEPOSITS

The Company has not accepted any deposits from the public.

## DIRECTORS

Directors Mr Sharad V Sheth and Mr.K.Gopalan retire by Rotation and being eligible offers themselves for reappointment at the ensuing Annual General Meeting.

Dr. K.V.Rahavan who was co-opted as a Additional Director during the year retire at the ensuing Annual General meeting and being eligible offers himself for appointment.

## AUDITORS

The present auditors of the company M/s R Janakiraman & Co retire at the ensuing Annual General Meeting and are eligible for re-appointment.

## COST AUDITOR

The Company has re-appointed Mr.V.Kalyanaraman, Cost Accountant as the cost auditor of the company for the year 2004-2005 subject to the approval of the Central Government.

## PARTICULARS OF EMPLOYEES

Information as per section 217 [2-A] of the Companies Act, 1956, read with the Companies [particulars of employees] Rules, 1975 form of this report. However, as per the provisions of Section 219 [1] [b] [iv] of the Companies Act, 1956, the report and accounts are being sent to all shareholders of the Company excluding statement of particulars of employees Under section 217 [2-a] of the Act. Any shareholder interested in obtaining a copy of the statement may write to the Company Secretary at the Registered office of the company.

## RESEARCH AND DEVELOPMENT

The Company is pursuing its efforts on R & D in the areas of process improvement and downstream product Development. The Government of India, Ministry of Science & Technology, Department of Scientific and Industrial Research has renewed recognition to the Company's In-house R & D upto 31<sup>st</sup> March 2007.

## INDIAN CHEMICAL MANUFACTURERS ASSOCIATION (ICMA) AWARD.

ICMA for the year 2003 have given award to CAL for its Water Resource Management in the Chemical Industry. This Award, constituted for the first time, has been given to the Company in recognition of its effort and success in water conservation measures.

## DIRECTORS RESPONSIBILITY REPORT

As per Section 217 [2AA], the Companies Amendment Act, 2000, the Directors responsibility statement is enclosed.

## CORPORATE GOVERNANCE

The Securities and Exchange Board of India [SEBI] advised the Stock Exchanges to make certain Amendments in the Listing Agreements with regard to Corporate Governance. The Company has implemented the Corporate Governance Requirements and Report on compliance of Corporate Governance is enclosed as Annexure to Directors Report.

## INDUSTRIAL RELATIONS

Industrial relations continued to remain cordial during the year under review.

For and behalf of the Board of Directors

Dr C H Krishnamurthi Rao  
Chairman

Place : Chennai

Dated: 7<sup>th</sup> April, 2004

**ANNEXURE - I****DIRECTORS' REPORT****MANAGEMENT ANALYSIS AND DISCUSSION REPORT****INDUSTRY STRUCTURE AND DEVELOPMENT**

Your company is in the manufacture of heavy chemicals like caustic soda, chlorine, hydrogen gas, sodium chlorate and Industrial Grade salt for captive use.

The above alkali products are used extensively in Paper, Aluminium, Detergents, Pharmaceuticals, PVC, Rayon and a host of other industries. This industry is highly power intensive and power constitutes nearly 50% of the cost. The caustic market is generally restricted to the same geographical zone. As the products are moved by road transport, the market is restricted to 500 to 600 kms Radius. Today in the country, there is a surplus of caustic due to excess capacity. This coupled with imports by actual users has dampened the prices of caustic soda.

**OPPORTUNITY AND THREATS**

Your company is the first in the country to bring in environmentally friendly and energy efficient Membrane Cell Technology and became a trend setter in the industry. Your company has many firsts to its credit including the lowest effluent generation surpassing minus standards.

Your company is the technology leader in the industry. The technology, location of plant to nearby consuming centre, a captive salt field nearby and a satisfied and dedicated customer base are the key strengths. The threats are from increasing power tariffs, larger import and dumping of caustic by captive chlorine producers,

**OUTLOOK**

Your company in view of the strengths enumerated above is confident of maintaining its track record. In India still 30% of the caustic production is Mercury Cell. The awakening and increasing public awareness on pollution matters and tightening Environmental Laws will force the closure of the mercury plants. The Mercury units have to convert to membrane technology or close down. Also with no major expansion envisaged by existing units and no new grassroot plant coming up and with a projected annual growth of 5 to 7 % the caustic industry expects turnaround in the near future.

**RISKS AND CONCERNS**

There are no major risk and concerns except the increasing power tariff and quality of power. The company is seriously pursuing the plans to put up a captive power plant to meet its power requirements.

**SEGMENT REPORTING**

Not applicable to your company.

**INTERNAL CONTROL SYSTEMS AND THEIR ADEQUACY**

Your company has a well defined internal controls and procedures. This is further strengthened by internal audit done concurrently. The company has also an Audit committee consisting of three independent Directors to monitor the functioning. In addition the company has introduced ISO 14001 and OSHAS 180001 systems to take care of critical operational areas. Your company also utilises the services of other professional bodies like CLRI/TEERI/NEERI and other professional consultants to continuously analyse and upgrade the operations.

**MATERIAL DEVELOPMENT IN HUMAN RESOURCES/INDUSTRIAL RELATIONS FRONT INCLUDING NUMBER OF PERSONS EMPLOYED.**

Your company believes that Human beings are the greatest assets of the company. The company's human Resource policy aims in this direction. The company right from the inception has maintained cordial relationship with the employees and as on 31<sup>st</sup> march the company has given direct employment to 190 persons and indirect employment to 1000 persons.

This year onwards the company has gone for Team based organisation structure dispensing with the hierarchy based organisation structure. The organisation goals have been more specifically defined and performance based work culture ushered in.

**CAUTIONARY STATEMENT**

Statement in this Report on Management discussion and Analysis describing the company's views may be forward looking statement within the meaning of applicable security regulations and laws. These assumptions are based on certain expectations on demand, imports, availability of power rates etc., and any change in government laws, economic situation in the country may mark a difference to company's operation.

The company assumes no responsibility in respect of forward looking statements herein which may undergo changes in future for reasons beyond the control of the company.

For and on behalf of the Board of Directors

Dr C H Krishnamurthi Rao  
Chairman

Place : Chennai

Dated: 7<sup>th</sup> April, 2004