



# Chemfab Alkalies Limited



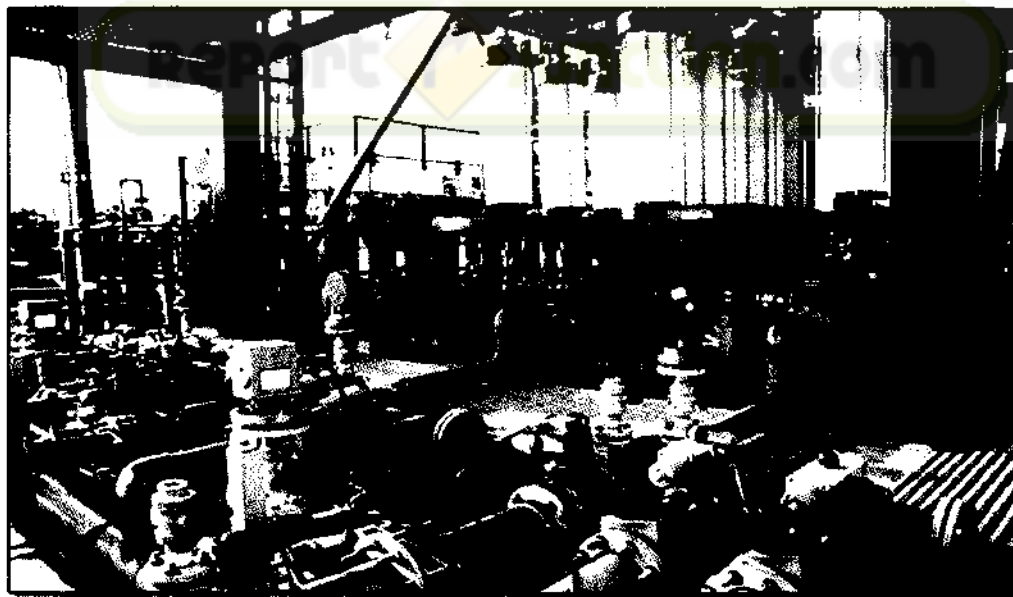
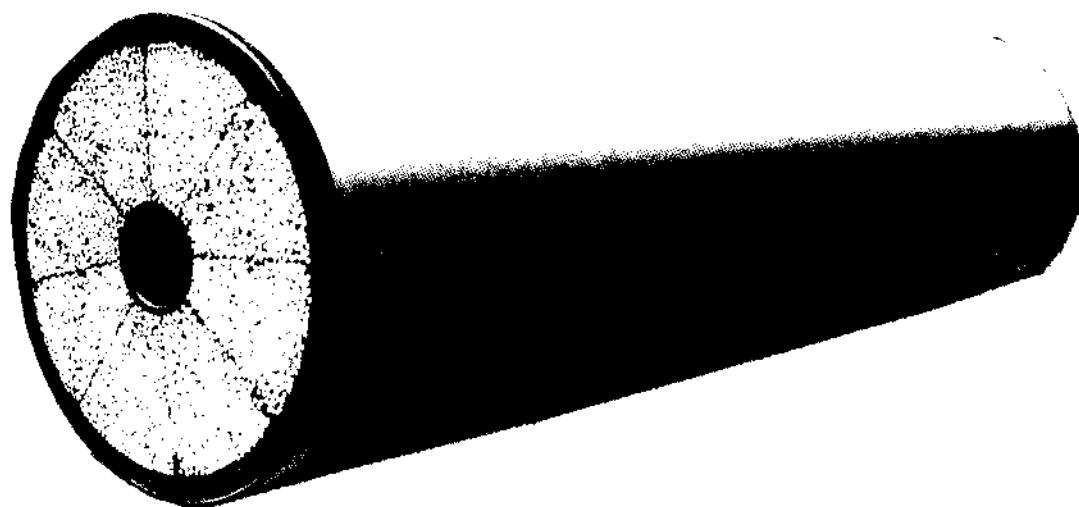
## Annual Report 2005 - 2006



## **Ultrafiltration Capillary Membrane**

### **Multi-Bore Membrane Modules**

400 dia, 100 sqm membrane area



**UF MEMBRANE**

**PRIMARY BRINE PLANT**

## **Chemfab Alkalis Limited**



## *Chemfab alkalis limited*

### **BOARD OF DIRECTORS**

Dr C H Krishnamurthi Rao – Chairman  
Mr Suresh Rao – Vice Chairman  
Mr C S Ramesh  
Mr Sharad V Sheth  
Dr K V Raghavan  
Mr Navratan Dugar  
Mr K Gopalan  
Mr V C Raam Sukaesh  
Dr Muthiah Mariappan

### **COMPANY SECRETARY**

Mr S Ramanujam

### **AUDITORS**

M/s Deloitte Haskins & Sells  
2nd Floor "Temple Tower", 672, Anna Salai, Nandanam, Chennai - 600035

### **BANKERS TO THE COMPANY**

State Bank of India, Kilpauk, Chennai and Bank of Baroda, Tambaram, Chennai.

### **REGISTERED OFFICE AND FACTORY**

#### **Chlor-Alkali Division:**

'Gnanananda Place' Kalapet, Pondicherry - 605 014.  
Phone : 0091-413-2655111 Fax : 0091-413-2655125  
Email: [chemfabalkalis@draoholdings.com](mailto:chemfabalkalis@draoholdings.com) website: [www.chemfabalkalis.com](http://www.chemfabalkalis.com)

#### **CHLORATES DIVISION**

Abishekapakkam, Poornakuppam Post, Pondicherry - 605 007

#### **SALT DIVISION**

Kanthadu Village, Tindivanam Taluk, Villupuram District

#### **CORPORATE OFFICE**

'Team House', GST Road, Vandalur, Chennai - 600 048  
Phone : 0091-44-22750323/24 Fax: 0091-44-22750860  
Email: [team@draoholdings.com](mailto:team@draoholdings.com)

#### **CHENNAI OFFICE**

1A, Majestic Towers, 101, HD Raja Street  
Eldams Road, Chennai - 600 018  
Phone : 0091-44-52031444 Fax: 0091-44-24347959  
Email: [chemfabmktg@draoholdings.com](mailto:chemfabmktg@draoholdings.com)

#### **MEMBRANE HITEC DIVISION**

'Team House', GST Road, Vandalur, Chennai - 600 048  
Phone : 0091-44-22750323 Fax: 009-44-22750860  
Email: [membrane@draholdings.com](mailto:membrane@draholdings.com)

#### **DR. RAO HOLDINGS PTE LTD**

371 Beach Road, #22-07 Key Point, SINGAPORE 199 597  
Phone: 0065 67745994 Fax: 0065 67745997  
Email: [drhkrao@pacific.net.sg](mailto:drhkrao@pacific.net.sg)





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## CHAIRMAN'S SPEECH



Esteemed Share holders,

The year under review is in high gear towards globalisation and the momentum is manifest in the soaring index on the stock exchange. A flourishing economy, augmented by a rapid modernization of the manufacturing sector and a solid surge in the service sector enables the country to confidently settle for an amazing growth trajectory at about 10 percent of the GDP.

The evolution of a knowledge economy, the Look-East policy on economic cooperation and the flow of Foreign Direct Investments are expected to be the contributory factors for sustaining the robust growth over a long period of time. However, the manufacturing sector being the main stay is vulnerable to be upset by the challenges of Energy and Water.

A recent forecast by the World Bank warns about India facing a turbulent water future and reports that the current developments and water management systems are not sustainable unless dramatic changes are chartered and expeditiously executed.

### **WATER MANAGEMENT AT CAL:**

Your company, by virtue of implementing innovative water conservation techniques through near zero discharge philosophy, various membrane technologies like air cooling, recovery of condensate water, recovery of water from sludge, has ensured that the water requirement for the entire operation including the scheduled expansion will be enough and adequate.

The tremendous track record of CAL in Water management is well known. Indian Chemical Manufacturers Association decorated CAL with an

Award for the Best Water Management. This was followed by the Prestigious Green Leaves Award with Number one status, by the Centre for Science and Environment - UNO supported NGO, New Delhi.

### **DESALINATION PROJECT**

Kalapet, where your plant is situated, is an interspersed enclave, separated by a distance of about 10 kms from Pondicherry. The inhabitants, industries and agriculture, depend solely on ground water for their sustenance. Since Kalapet is also a seat of Pondicherry University, the vicinity has witnessed urban agglomeration and the consequent demand for more water. At the same time, corresponding recharging of capacity of the ground water remains obviously inadequate, due to the nature of the terrain. The odd situation calls for a consummate water management with an assured supplementary source.

While your company has taken innumerable innovative steps to conserve water as an in-house discipline, further embarked upon a project for desalination of the nearby sea water in consonance with the corporate philosophy to cater to the captive needs as well as the community and the industrial needs of the proximity.

The project, which demanded a high degree of perseverance, patience and diligence was scheduled for construction on 26.05.2005, after incurring a huge expenditure towards detailed planning, placing of orders on equipment and statutory clearances.

Although, the Honourable Chief Minister of the Union Territory had kindly consented to lay the foundation stone for the construction of the Desalination Plant it was cancelled at the last moment, following a perverse resistance from a few people with vested interest despite the clean chit given by the National Institute of Ocean Technology (NIOT), after a detailed EIA (Environment Impact Assessment) study done by them.

In fact it was the Government which was pressurizing your company on the exigency of an early execution. The Honourable Chief Minister appointed a committee on the same day, to go into the Company's proposals by an Expert Committee. Your Company has finally received on 30th March, 2006, the approval from PPCC on the basis of the recommendation of the Expert Committee. Now that the approval is received, your Company hopes to take up this project and complete it expeditiously, provided there is no further impediment from any quarter.

It is saddening to understand the ground reality; despite the fact that both the Federal and State Government's clear policies of supporting desalination plants all over the



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country, still there is not a single accountable agency which can expeditiously grant approvals and cut down delays and help achieve the objective of sea water desalination in practice.

The Government machinery should closely monitor such policy measures for effective implementation of such inevitable projects like Sea Water desalination, in line with the spirit with which it was enacted in the Parliament as a Policy, if the Government is serious about the healthy Water management plan.

### INVESTMENT PLANS

Existing companies are exploring new strategies in order to tap the burgeoning growth and prosperity of the Indian economy. Their radar screens are constantly scanning the potential product range, emerging trends and technologies for enlarging themselves through expansion, diversification, acquisition and amalgamation.

Accordingly, your company has chalked out water, health care and hydrogen energy as areas of strategic product planning, innovation, research, development and capital investment. This profile has been given shape by your company with the following constructive measures :

#### i. Merger

Membrane Technologies Ltd (MTL) - a specialist in the water treatment, solid liquid separation technologies, the hollow fibre ultrafiltration membrane manufacture, application and global marketing of ultra filtration, hollow fibre membranes, has been merged with your Company.

By discerning these capabilities DuPont of USA has also signed up a global marketing agreement of Ultrafiltration membrane technology, for hot brine filtration, for the chlor-alkali industry.

MTL is popular with the brand image and equity of 'Team Water' and the unique 'Team Energy Herbal Water'. Packaged water has come to stay as a FMCG item billed for a big business across the world. The Ultra filter membrane modules are reciprocal to the growth curve of drinking water. Moreover, considerable demand is being experienced from the waste water treatment plants of the large industrial establishments as a sequel to the enforcement of environmental regulations in all parts of the world. The merger of the MTL with your company is expected to contribute substantially to the revenues while lending a global presence of the CAL products.

#### ii. Diversification

Your company is planning to diversify into downstream

and other chloro chemicals. Mono Chloro Acetic Acid, Aluminium Chloride, Hydrogen peroxide, and Sodium Chlorate are identified as eligible candidates.

Since Health Care Products are emerging as a potent arena of profitable operations, your company is engaged in the in-house development and commercial manufacture of sodium free salt, carbohydrate free sugar and cold processed membrane filtered sesame oil. This health care division is proposed to be hived off into retail Chain health store - a separate company at an appropriate time, depending upon the progress of the negotiations on a FDI of this business. Incidentally, this measure would also enable globalise the product perception and technological talents of your company.

#### iii. Expansion

Your company after obtaining the Central Government nod for expansion of capacity, had applied to the Pondicherry Pollution Control Board for environmental clearance.

#### iv. Research and Development

The Hydrogen produced from your plant is of the highest purity and is preferred by industrial users manufacturing safe and sophisticated edible products. Your company's hydrogen utilisation is one of the highest in the industry.

The present phenomena of globalisation, environmental mandates, skepticism on the uninterrupted availability of fossil fuel has driven the government as well as the industries to look for an alternate energy source and have identified Hydrogen as a safe, secure and replenishable material.

The promise of Hydrogen economy particularly in the automobile sector has opened up new hopes as also challenges for the industry. In order to synergise the company's product with the emerging high value demands, a research and development programme is proposed to be undertaken. A frame work with five modules has been drafted. This will include deployment of advanced materials such as nano carbon tubes, nano metal hydrides and nano membranes into the systems and tools of hydrogen economy. The excellence, standards and the caliber of the project is designed to qualify for international patenting.

#### v. Governance

Despite the impact of globalisation, most of the Indian corporate bodies have not discarded their managerial ethos, where the directors derive their identity on blood and business relationship and the hierarchy of management is not based on professionalism. Nor a





transition to professional management is perceptible, embracing the globally accepted Corporate Governance standards.

Globally, in the case of excellently managed companies, the corporate houses invariably look for independent directors of unquestionable integrity, knowledge, intelligence, energy and commitment with an exceptional competence to offer creative guidance and leadership. Comprehensively compiled and constantly updated registers of potential independent directors are not available with professional bodies and institution detailing their professional competence in corporate secretarial, finance, marketing, legal and IT disciplines, with easy access.

Another acrid phenomenon is the Directors appointed by the financial institutions are also not helpful in this respect, since most of them are exposed only to specific department of activity and not conversant with the intricacies of modern management techniques or accountability. With legal immunity, their contribution and guidance to the management of the company is negligible or almost nil.

Hence, it is high time that leading institutions like IIM (Indian Institute of Management) and BITS (Birla Institute of Technology and Science) took up the task of training of potential independent directors so that the Corporate Governance of the Indian Companies are conducted with the efficiency expected to perform the best governance duly taking care of share holders interest as well. Professional institutions may also consider compiling such register of competent professional directors.

To start with, your company is exploring the possibility of constituting an invited independent professional advisory board on the said pattern.

## **FINANCIAL AFFAIRS**

### **Quarterly Audited Results**

As a part of good Corporate Governance, your Company continues to publish regularly the audited quarterly results within 7 (seven) days, as against the period of 3 months permitted by the listing agreement.

The concept and credo of high degree of professionalism has already been put to proof by your company in appointing as statutory auditors Deloitte Haskins and Sells who holds a recognition as globally one among the big four auditing firms. The company is communicating with the shareholders on its activities through the website, including Quarterly audited balance sheets and reports

### **FI loans settled**

When your Company took up Phased Expansion Program, there was no other way except to resort to Financial institutions with high costs of Finance. Thanks to the Indian Government's liberal Finance policies and opening up of Banks to fund Industry directly. By adopting the process of good financial planning, the company has completely settled the high cost loans from all the three institutions IFCI, IDBI and ICICI thereby saving substantial finance charges. We thank all the three institutions for their support rendered.

### **Dividend**

Considering reasonable profit your company has earned during this year, the directors have recommend another 75% to be paid for the year ending 31st March, 2006, in addition to the already paid interim dividend of 25% thereby the total dividend for the year would be 100%, subject to your approval.

### **Share Split**

As approved by you, your Company's shares have been split to Indian Rupee 5 denominations. I also request the share holders to demat their physical shares and nominate their nominees, to avoid any legal complication of succession.

### **NSE listing**

Your company has applied for listing in the NSE (National Stock Exchange) and is awaiting the response.

### **CONCLUSION**

The performance of the company is commendable. The outlook is positive. We have got an excellent team of executives and employees and I acknowledge their enthusiasm for the progress and prosperity. With your continued support and determination of the operating team, your company is confident of continuous growth and flourish in line with the India Inc. great progress.

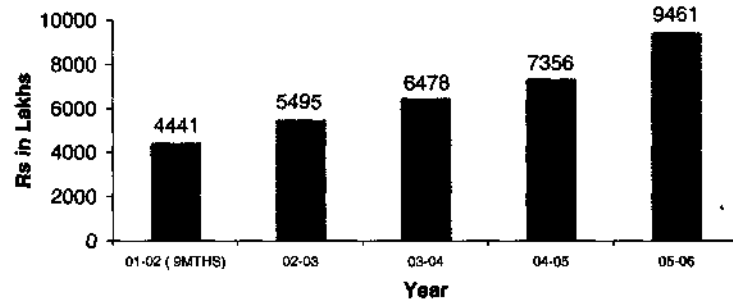
Thank you,

Dr C H Krishnamurthi Rao

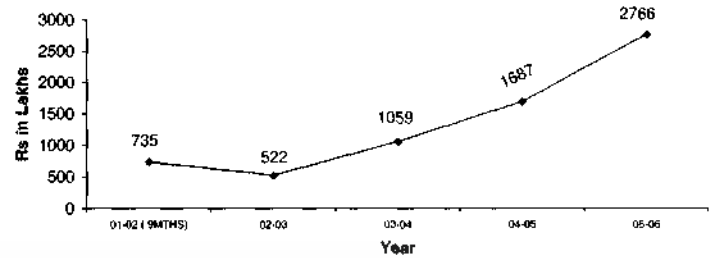


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Net Sales for last 5 years

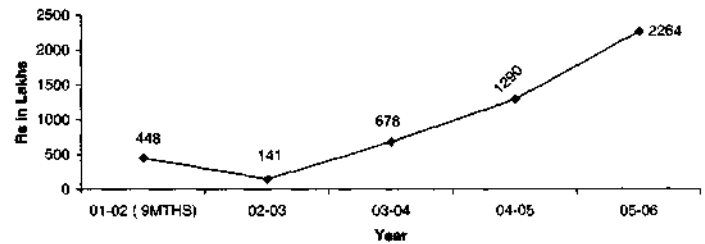


Cash Profit for last 5 Years

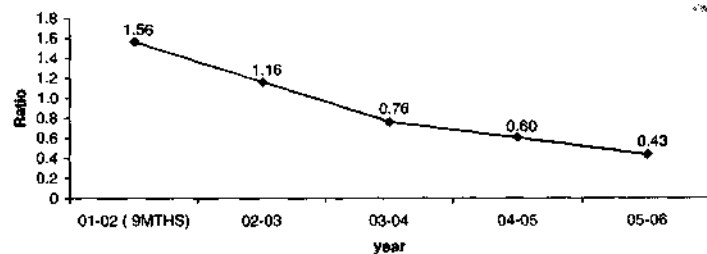


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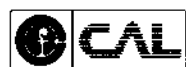
Profit Before Tax for last 5 Years



Debt Equity ratio for last 5 Years







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# CHEMFAB ALKALIS LIMITED

## KEY FINANCIALS AT A GLANCE

PRODUCTION OF CSL	QTY/M.T	38,725	37,657	35,602
SALES OF CSL	QTY/M.T	37,206	36,358	34,364
NET SALES	Rs/LACS	9,461	7,356	6,478
INTEREST PAID	Rs/LACS	219	285	471
NET PROFIT BEFORE TAX	Rs/LACS	2,264	1,290	678
DIVIDEND	%	100	100	25
RESERVES AND SURPLUS	Rs/LACS	4,422	2,834	2,128
NET WORTH	Rs/LACS	4,880	3,181	2,475
<b>KEY RATIOS:</b>				
GROSS PROFIT RATIO	%	32	27	24
NET PROFIT RATIO	%	18	15	10
RECEIVABLE TURNOVER RATIO	DAYS	26	24	31
DEBT EQUITY RATIO	TIMES	0.43	0.60	0.76
D.S.C.R	TIMES	1.87	2.39	1.19
E.P.S	Rs	18.09	15.82	9.02
BOOK VALUE PER SHARE	Rs	53	46	36

### GENERAL NOTE :

# RESERVES INCLUDES DEFERRED TAX LIABILITY

# STOCK SPLIT EFFECT GIVEN TO PRIOR YEARS FOR COMPARABILITY.

[www.reportjunction.com](http://www.reportjunction.com)



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## DIRECTORS' REPORT

Your Directors have pleasure in presenting the Twenty third Annual Report together with the Audited Statements of Accounts for the year ended 31st March, 2006

### FINANCIAL RESULTS

Particulars	Current Year 31/03/2006 Rs/lakhs	Previous Year 31/03/2005 Rs/lakhs
Profit before Interest and Depreciation	2,985	1,972
LESS: Interest	219	285
Profit Before Depreciation	2,766	1,687
Less: Provision for Depreciation	502	397
NET PROFIT/[Loss]	2,264	1,290
ADD : Profits /[loss] from earlier years	601	243
Total funds available for appropriation	2,865	1,533
Less: Transfer to General Reserve	143	153
Taxation	605	192
Dividend [including tax on dividend]	494	392
Deferred Tax Liability	232	195
Debit Balance in Profit & Loss Account on Amalgamation	16	0
Balance carried forward	1,375	601

### OPERATIONS

1. During the year under review the production of Caustic Soda lye was higher at 38,725 MT as against 37,657 MT in the previous year and the profit was Rs.2,264 lakhs as against Rs.1,290 lakhs in the previous year, before tax.
2. The Chlorates Division's performance was also satisfactory.
3. The Salt Division had a production of 70,165 MT of Industrial Grade Salt during the last season.
4. The Health Products Division was started on 6th July, 2005 and its performance is expected to improve in the coming years.

5. During the year under review, the proposal to amalgamate M/s Membrane Technologies Limited with your Company was approved by High Court of Madras vide its Order dated 8th March, 2006. Consequently, the current year's Accounts would reflect the consolidated position of both the Companies as on 31st March, 2006.

### DIVIDEND

The Directors recommend the payment of the following Final Dividend for the year ended 31st March, 2006 for approval by the Shareholders at the ensuing Annual General Meeting:

#### Final Dividend on

91,71,697 Equity Shares of  
Rs.5/- each at 75% absorbing  
a sum of

Rs.3,43,93,864/-

This is in addition to the Interim Dividend of 25% [Rs.86,75,000/-] already declared and paid by the Company.

### FOREIGN EXCHANGE EARNINGS AND OUTGO

During the year under review, the Foreign Exchange Earnings was Rs.1,03,30,894 /- and the Foreign Exchange Outgo was Rs.7,58,46,109/-.