



**45th
Annual Report
& Accounts
2001-2002**

COLOUR-CHEM LIMITED

Contents

Notice	2
Directors' Report to the Members	5
Corporate Governance	13
The Chairman's Statement	19
Financial Performance - 10 Years' Highlights	21
Distribution of Income 2001-2002	22
Auditors' Report to the Members	23
Balance Sheet	26
Profit and Loss Account	27
Schedules to Balance Sheet	28
Schedules to Profit and Loss Account	34
Notes	36
Cash Flow Statement	47
Statement relating to the Subsidiary Companies	48
Consolidated Financial Statements	49

DIRECTORS

Dr G Hencken - Chairman (w.e.f. 25.10.2001)
Dr U Cuntze - Chairman (upto 24.10.2001)
Mr R A Shah
Mr K R V Subrahmanian
Mr H K Bilpodiwala
Mr K J Bharucha - Vice-Chairman & Managing Director
Mr P Lindner
Dr R Sergio
Mr P R Rastogi

Mr V Ramanujam
(General Manager - Legal & Company Secretary)

EXECUTIVE COMMITTEE

Mr K J Bharucha
Dr R Sergio
Dr G G Patkar
Mr S C Sachdev
Mr P V Kalawar
Mr C N Bharucha
Dr S Siddhan
Mr N U Nadkarni

AUDITORS

A F Ferguson & Co., Chartered Accountants

SOLICITORS

Crawford Bayley & Co.

BANKERS

State Bank of India
Citibank N.A.
Deutsche Bank
The Hongkong & Shanghai Banking Corpn Ltd.
HDFC Bank Ltd.

REGISTERED OFFICE

Ravindra Annexe
194, Churchgate Reclamation
Mumbai 400 020

THANE WORKS

Mumbai-Agra Road
Balkum Village
Thane 400 608

ROHA WORKS

113/114 MIDC Industrial Area
A.V.P.O. Dhatav, Taluka-Roha
District - Raigad 402 116

Notice

NOTICE is hereby given that the FORTY-FIFTH ANNUAL GENERAL MEETING of COLOUR-CHEM LIMITED will be held at the Patkar Hall, S.N.D.T. University, 1, Nathibai Thackersey Road, Mumbai - 400020 on Thursday, 25th July 2002 at 4.00 p.m. to transact the following business:

ORDINARY BUSINESS

1. To receive, consider and adopt the Profit and Loss Account for the year ended 31st March 2002, the Balance Sheet as at that date and to consider the Reports of the Directors and Auditors thereon.
2. To declare a dividend for the year 2001-2002.
3. To appoint a Director in place of Mr. R.A. Shah who retires by rotation and being eligible, offers himself for reappointment.
4. To appoint a Director in place of Mr. K.R.V. Subrahmanian who retires by rotation and being eligible, offers himself for reappointment.
5. To appoint Auditors to hold office from the conclusion of the forty-fifth Annual General Meeting until the conclusion of the forty-sixth Annual General Meeting at a remuneration to be decided by the Board of Directors.

SPECIAL BUSINESS

6. To consider and, if thought fit, to pass the following resolution, with or without modification, as a Special Resolution:

"RESOLVED that subject to the provisions of Section 309 of the Companies Act, 1956 and Article 116 of the Articles of Association of the Company and within the limits stipulated in Section 309(4) of the Companies Act, 1956, the Company be and is hereby authorised to pay remuneration by way of commission to the Directors resident in India other than the Managing and Whole-time Directors of the Company in respect of each of the five financial years commencing from 1st April 2002 subject to an overall ceiling of 1% of the net profits of the Company for that financial year computed in accordance with the provisions of Section 198(1) of the Companies Act, 1956, or Rs.10,00,000/- (Rupees ten lakhs only) in aggregate, whichever is lower."

"RESOLVED FURTHER that the Board of Directors may, at its discretion, decide the exact amount to be disbursed each financial year by way of commission within the limits

prescribed above and its allocation amongst the eligible Directors."

NOTES:

- a) The relative explanatory statement, pursuant to Section 173 of the Companies Act, 1956, in respect of the special business under Item No.6 set out above is hereto annexed.
- b) A MEMBER ENTITLED TO ATTEND AND VOTE AT THE MEETING IS ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE INSTEAD OF HIMSELF AND SUCH PROXY NEED NOT BE A MEMBER.
- c) The Register of Members and the Share Transfer Books of the Company will remain closed from Wednesday, 3rd July 2002 to Thursday, 25th July 2002 (both days inclusive).
- d) The dividend on shares as recommended by the Board of Directors, if declared at the meeting, will be payable, subject to deduction of tax at source as applicable, to those members whose names appear
 - (i) as members in the Register of Members of the Company after giving effect to all valid share transfers in physical form lodged with the Company or its Registrars on or before 2nd July 2002 and
 - (ii) as Beneficial Owners as at the end of the business on 2nd July 2002, as per the list to be furnished by National Securities Depository Limited and/or Central Depository Services (India) Limited in respect of the shares held in electronic form.

Members are requested to notify immediately any change in their address.

- e) As per the provisions of the Income Tax Act, 1961, as amended by the Finance Act, 2002, tax @ 10.5% is required to be deducted at source if the gross amount of dividend payable by the Company to a Resident individual shareholder during the financial year exceeds Rs.1,000/-.

Resident individual shareholders who are likely to receive dividend amount more than Rs.1,000/- during a financial year from the Company and their total estimated income from dividend and sources as provided in Section 197A (1B) of the Income Tax Act during such financial year is

not likely to exceed Rs.50,000/- can claim gross dividend without deduction of tax at source by submitting declaration in Form 15G (in duplicate) to the Company on or before 8th July 2002. Please note that it would not be possible for the Company to act upon 15G declarations received thereafter.

- f) In accordance with the provisions of Section 205A of the Companies Act, 1956, the Company has, from time to time, transferred the unclaimed dividends relating to the years upto and including 1994-95 to the General Revenue Account of the Central Government. Members who have a valid claim to any amount being the dividend unclaimed by them, pertaining to the period upto and including 1994-95, may claim the same from the Registrar of Companies, Maharashtra, in the prescribed manner.

In terms of Section 205A (5) of the Companies Act, 1956, unpaid or unclaimed dividend for the year 1995-96 lying in the Unpaid Dividend 1995-96 Account of the Company shall be transferred to the Investors Education and Protection Fund established by the Central Government pursuant to sub-section (1) of Section 205C of the Companies Act, 1956 by August 2003. Individual

intimation has been given, from time to time, to those members whose claim for payment of unclaimed dividend still lies against the Company and such members are requested to seek an early settlement of such claims. Members may please note that no claim of the transferred unclaimed/unpaid dividend shall lie against the Investors Education and Protection Fund of the Central Government or the Company upon transfer of the amounts to the Fund.

By Order of the Board of Directors,

V. RAMANUJAM
General Manager - Legal & Company Secretary

Mumbai, 23rd May 2002

Registered Office:

Ravindra Annexe
194 Churchgate Reclamation
Mumbai - 400020.

Report  junction.com

Notice (contd.)**Explanatory Statement**

As required by Section 173 of the Companies Act, 1956, the following explanatory statement set out all the material facts relating to Item No. 6 of the accompanying Notice dated 23rd May 2002.

Item No. 6

Pursuant to the Special Resolution passed by the members at the fortieth Annual General Meeting held on 28th August 1997, the Directors of the Company resident in India, other than the Managing Director and whole-time Directors, were paid commission within the overall limit of 1% (one per cent) per annum of the net profits of the Company in any financial year subject to an overall ceiling of Rs. ten lakhs. This approval of the members was valid for a period of five years from the year 1997-98.

It is considered fair and just to pay a reasonable remuneration to the non-executive Directors for their services. It is, therefore, proposed to continue the payment of commission to the non-executive Directors for a further period of five

years commencing from the financial year 2002-2003 in the manner prescribed in the Special Resolution set out at item No. 6 of the Notice.

Mr. R.A. Shah, Mr. K.R.V. Subrahmanian and Mr. H.K. Bilpodiwala may be deemed to be concerned or interested in this Resolution.

By Order of the Board of Directors,

V. RAMANUJAM
General Manager - Legal & Company Secretary

Mumbai, 23rd May 2002

Registered Office:
Ravindra Annexe
194 Churchgate Reclamation
Mumbai - 400020.

Report  junction.com

Directors' Report to the Members

The Directors present herewith their Forty-fifth Annual Report and the Audited Statement of Accounts of the Company for the year ended 31st March 2002.

FINANCIAL RESULTS

2. The financial results are indicated below in brief:

	2001-2002	Previous Year
	Rupees lakhs	Rupees lakhs
Turnover	34215.62	34413.29
Other Income	1394.21	1703.42
	35609.83	36116.71
Profit before Interest, Depreciation and Tax	3339.30	3038.71
Interest	(608.96)	(670.53)
Depreciation	(1314.61)	(1220.36)
Profit before Tax	1415.73	1147.82
Provision for Taxation		
— Current Tax	(500.00)	(250.00)
— Deferred Tax	(10.20)	—
Profit after Tax	905.53	897.82
Excess/(short) provision for taxation in respect of previous years	23.31	(30.01)
Net Profit after prior year's taxation	928.84	867.81
Balance brought forward from previous year	1565.61	1311.33
Amount available for appropriation	2494.45	2179.14
The Directors have made the following appropriations therefrom:		
(a) General Reserve	100.00	100.00
(b) Proposed Dividend	582.50	466.00
(c) Tax on Dividend leaving a balance to be carried forward of	—	47.53
	1811.95	1565.61
	2494.45	2179.14

DIVIDEND

3. The Board of Directors has recommended a dividend of Rs.5/- per equity share of the face value of Rs.10/- for the year ended 31st March 2002 (previous year - Rs.4/- per share). No tax is payable by the Company on the dividend for the year 2001-2002.

ACCOUNTS AND FINANCE

Term Loans

4. During the year, the Company repaid a sum of Rs.12.20 lakhs to the Industrial Development Bank of India, being the final instalment of the IBRD line of credit availed of by the Company.

5. The Company also repaid during the year Rs.1114.54 lakhs equivalent to US\$ 2.50 million to ANZ Bank, Frankfurt being the second instalment of the Foreign Currency Term Loan of US\$ 7.50 million availed of by the Company.

Commercial Paper

6. The Credit Rating and Information Services of India Limited (CRISIL) has accorded the highest rating (P1+) to Rs.3000 lakhs commercial paper/short term debt programme (enhanced from Rs.2000 lakhs).

Long Term Loan

7. During the year, the Company availed of a long term loan of Rs.1500 lakhs from the Standard Chartered Bank to finance its long term working capital requirements.

Sales Tax Deferred Loan

8. The Company had received last year an Eligibility Certificate from the State Industrial and Investment Corporation of Maharashtra Limited (SICOM) under the sales tax incentive scheme of the Government of Maharashtra, in respect of its investment in fixed assets at Roha. Under this scheme, the Company has been allowed to defer its payment of sales tax to the extent of Rs.427 lakhs for a period of ten years. The sales tax liability is payable in five equal instalments after completion of the ten-year period. During the year under review, the Company has availed of credit under this scheme amounting to Rs. 244.33 lakhs (previous year - Rs. 4.48 lakhs).

Fixed Deposits

9. As at 31st March 2002, an aggregate of Rs.15.19 lakhs representing 153 deposits which had matured during the year remained unpaid pending instructions from the depositors concerned. Since that date,

Directors' Report to the Members (contd.)

36 deposits of an aggregate amount of Rs. 4.04 lakhs have been repaid.

Management Discussions and Analysis

10. Industry Structure and Developments

Colour-Chem manufactures a wide range of Specialty Chemicals – an umbrella term encompassing more than 40 different chemical sectors. Being industrial in nature, demand for its products is derived directly from the demand for the products of its customers and end-users which in turn span a large and diverse industry spectrum.

The Company's main business lines can be classified under two segments viz.

a) Intermediates and Colours

As a result of the long standing association with Bayer AG and Hoechst AG in the past and Clariant AG at present, Colour-Chem has acquired various technologies involved in the manufacture of intermediates associated with industries such as agro-chemicals, pharmaceuticals and colourants. Amongst these, the technology for the manufacture of diketene and its downstream products is unique and the Company is a dominant player in these industrial segments.

Backward integration of the intermediate manufacturing has rendered Colour-Chem a leading organic pigments producer in the country with a market share of around 24%. The Company serves a variety of clientele belonging to the industrial sectors such as paint, printing ink, plastics, etc. Overall, the pigment industry is characterised by a high degree of fragmentation and the excess capacity thus created has resulted in aggressive competition resulting in severe pressure on cross-margin both in the domestic and overseas markets. The Company is exploring new avenues of application to widen the customer base and improve capacity utilisation.

b) Specialty Chemicals

This segment of the business caters to textile, leather and several industries dealing with surfactants and performance chemicals.

The industrial segment related to textile and leather chemicals have several players both in the organised and small scale sectors. Colour-Chem ranges amongst the first three players in both these industries. In the recent past, several new multinational companies have set up their business of leather chemicals in India resulting in an increasingly competitive environment.

Colour-Chem has successfully entered the field of specialty chemicals to primarily cater to niche applications. These specialties enhance performance characteristics of a variety of products resulting in value added end-products for different market segments.

11. Opportunities and Threats

- Further tariff reduction from the current level of 30% would impact global competitiveness of local manufacture and would increase scope for imports into India. While this would impact our manufacturing business it would present an opportunity for our associate companies to export to India and would therefore augment our trading business.
- Any increase in oil prices would translate into higher raw material costs which would further erode profits.
- The Company's in-house R&D activities which are focussed on developing new products that meet the special needs of customers provides a competitive edge.
- The Company is well positioned to undertake custom synthesis of intermediates and fine chemicals and has received several enquiries from overseas which are being evaluated.

12. Segment-wise performance

(i) Intermediates and Colours

During the year under review, the demand for specific pesticide intermediates was less than that in the previous year. However, the Company was able to offset this through higher sales of esters to the pharmaceuticals and colourants markets and generating additional business through introduction of several new intermediates for the pharma, agro and specialty markets. A huge fluctuation in the price of acetic acid resulted in a pressure on margins.

Due to the global slowdown and the highly competitive nature of the business, the pigment dyestuffs and their dispersions could not achieve the targeted growth and both domestic and export sales suffered as a consequence. However, since the start of 2002, an improvement in the global outlook has resulted in increased sales and the market is expected to remain buoyant in the current financial year.

(ii) Specialty Chemicals

The textile chemicals and laminating adhesives businesses registered substantial increases in turnover over the previous year, however the decline in the exports of leather products as a consequence of the global economic slowdown adversely impacted the sales of leather chemicals. With the introduction of basic raw materials for the crop protection and detergents industry, the functional chemicals business has grown and the positive trend is likely to be sustained in the coming year. The Company introduced several new products both in leather chemicals and textile chemicals.

13. Outlook

The outlook for the Company as a whole is satisfactory. Since its product portfolio spans a variety of markets, it is not significantly impacted by adverse trends in any one industry. Despite a sluggish business environment which made top-line growth difficult, your Company was able to improve profits largely through various internal initiatives undertaken over the last few years – from human resources to cost saving measures to improved efficiencies. These have all resulted in a far more cost effective organisation. The concept of Continuous Improvement Process which addresses several operational issues including ecology, safety, productivity, quality and costs has been well established and the Company is constantly improving its processes and readying itself to meet the challenges of global competition.

14. Risks and Concerns

- Keen competition particularly in the pigments business has made it impossible to increase prices and for several years the Company has

had to absorb increased raw material, energy and other costs. This has placed immense pressure on the margins and made the Company resort to significant cost reductions.

- Manufacture of the agrochemical Monocrotophos is likely to be gradually phased out in India. Subsequent discontinuation of the use of intermediate monomethyl acetoacetamide will significantly impact the utilisation of diketene capacity at Thane which in turn would render unviable the manufacture of acetoacet methyl ester and acetoacet arylides, the other items in the diketene based product mix.

15. Internal control systems and their adequacy

The Company has effective internal control systems commensurate with the size of the Company. This is further supplemented by audit being carried out by an external firm of Chartered Accountants. The internal auditors conduct audits of various departments, functions and locations based on an annual audit plan. They report their observations/ recommendations to the Audit Committee which comprises three non-executive Directors. The Committee reviews the audit observations and follows up on the implementation of all remedial measures as also recommends increased scope of coverage, if necessary.

16. Financial and Operational Performance

(i) Highlights of Financial Performance:

(Rs. Lakhs)			
Item	2001-02	2000-01	Change (%)
Turnover	34215.62	34413.29	(0.6)
Other Income	1394.21	1703.42	(18.1)
Sub-total (1+2)	35609.83	36116.71	(1.4)
Total Expenditure (excluding interest)	33585.14	34298.36	(2.1)
Profit before Interest and Tax	2024.69	1818.35	11.4
Operating margin	5.7%	5.0%	
Profit after Tax	905.53	897.82	0.9
Return on capital Employed	11.3%	8.9%	
Inventory Turnover – Times	6.4	6.0	
Current Ratio	2.5	2.9	
Debt : Equity Ratio	0.36	0.44	

Directors' Report to the Members (contd.)

(ii) Operational Performance

The Sales turnover for the year was marginally lower at Rs. 34216 lakhs as compared to Rs. 34413 lakhs in the previous year. This decrease is mainly attributable to lower export sales consequent to the global economic slowdown in the year 2001-02.

The increase in the operating margin in a relatively difficult business environment reflects the improvement in the operational efficiencies of the Company, through sustained efforts to reduce costs, improve yields and introduce new products. An optimal utilisation of capital has ensured lower cost of capital and an improved return on investment. The Company's financial strength - short term as well as long term - is reflected in its strong Current Ratio and its Debt: Equity Ratio.

The Company is hopeful of a further improvement in its performance during the current year.

17. Human Resources/Industrial Relations

The Company had 1341 employees on its rolls as on 31st March 2002. Relations between employees at various levels and the Management have been co-operative and collaborative. The Company's efforts to reduce costs in various areas had the support of all concerned which enabled it to achieve significant breakthroughs in cost-reduction.

The Company initiated steps to identify talent, assess the competencies of Managers, develop the potential of human resources and continued to train and motivate employees at all levels to excel. A Sales Incentive Scheme was launched for sales personnel. The Performance Management Scheme for Officers was fine-tuned to promote a target driven culture. Efforts are being made to communicate to employees on a regular basis, the criticality of remaining globally competitive. To this end, constant endeavours are in progress to align employees' efforts to achieve the Company's goals and aspirations.

Foreign Exchange Earnings and Outgo

18. The foreign exchange earnings of the Company amounted to Rs.8253.73 lakhs (previous year - Rs.9659.97 lakhs). The net foreign exchange earnings of the Company after deducting outflow on all

accounts, amounted to Rs.5047.05 lakhs against Rs.6506.75 lakhs in the previous year.

Capital Expenditure Projects

19. During the year under review the Company incurred an aggregate capital expenditure of Rs.620.97 lakhs.

Safety and Ecology

20. By strict adherence to Clariant Guidelines, your Company has achieved a high degree of success in the field of safety and environment preservation. As per ISO 9000 standards, the Company has extensive maintenance schedules for timely maintenance of all pollution control equipment.

Improved safety awareness amongst all the employees, through training programmes at all levels has vastly improved your Company's results in the area of industrial health and hygiene, as well as process safety. Your Company continuously ensures the proper management of all wastes - gaseous, liquid and solid - as well as proper categorised storage of raw materials in warehouses. An incinerator is used in Roha to incinerate process sludge whereby such wastes are disposed of in a safe manner.

Emergency Management Network

21. Local Emergency Management (LEM) teams are set up at both factories at Thane and Roha to take care of any eventuality. These along with the Country Emergency Management (CEM) are linked with the group Global Emergency Management (GEM) in Europe.

Engineering

22. In order to have a better management of working capital, your Company continues to judiciously hire energy plants and outsource a few utilities which helps in containing cost in a difficult economic environment. Although there has been an increase in fuel, electricity and water rates, your Company has been successful in reducing costs by monitoring/eliminating wastes and by having strict cost control measures in place.

Subsidiary Companies

23. The Report and Accounts of the Subsidiary Companies are annexed to this Report along with the statement pursuant to Section 212 of the Companies Act, 1956. However, in the context of the mandatory requirement to present consolidated accounts, which