



**COATES OF INDIA LIMITED**

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**Annual Report 2000**



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# Corporate Information

## Board of Directors

Jagdish Narain Sapru - *Chairman*

Sambamurti Venkatraman\* - *Director-Corporate Affairs*

Minoru Iseda

Tsutomu Nomoto

Hisato Tanemura

Dr Prabir Kumar Dutt\* - *Managing Director*

Dipak Banerjee

Takeshi Kumagai

Rasendu Bhushan Putatunda

Babulal Madhavji Varma

\* Executive Director

Timir Baran Chatterjee - *Vice President & Company Secretary*

## Board Committees

### Audit Committee

D Banerjee - *Chairman*

B M Varma

R B Putatunda

H Tanemura

### Administrative Committee

J N Sapru

Dr P K Dutt

S Venkatraman

D Banerjee

R B Putatunda

B M Varma

### Shareholders/Investors Grievance Committee

J N Sapru - *Chairman*

Dr P K Dutt

S Venkatraman

## Management Committee

Dr P K Dutt

B K Basu

S Bhaumik

T B Chatterjee

B S Kampani

A Puri

S Venkatraman

J L Basu

A D Chatterjee

R G Ganguly

A Mukhopadhyaya

N R Sharma

## Auditors

Lovelock & Lewes

## Bankers

Bank of Baroda

Standard Chartered Grindlays Bank

State Bank of India

The Hongkong & Shanghai Banking Corporation Limited

## Registered Office

Transport Depot Road

Kolkata - 700 088

# From the Chairman



Dear Shareholder,

The year 2000 ended with an air of despondency with both the GDP and industrial production growing at a lower pace than the previous year. Despite a few favourable factors such as lower trade deficits, increasing forex reserves and a higher export growth, the "feel-good" factor was conspicuously absent. The continuing depreciation of the rupee reflected the structural weakness in the economy. The only achievement of the year 2000 was, if we can call it, the crossing of the one billion population mark.

The year 2001 too began on an ominous note with the Gujarat earthquake casting a gloom and creating fears of heavier taxation and a possible reversal of the Reforms process. Consequently, the Finance Minister's Central Budget came as a pleasant surprise and revived the "feel-good" factor and provided for the first time a road map of reforms which are both challenging and courageous. The proposed withdrawal of all surcharges except 2% Gujarat surtax and lowering of the interest regime is expected to give a boost to industrial revival and the stock markets. It is now for the industry to deliver the goods.

The lower growth in the economy reflected itself in the sluggish demand for Fast Moving Consumer Goods (FMCG). This sector has a direct bearing on your Company's operations, as about 40% of the inks are for the packaging industry. With large idle capacity coupled with sluggish demand many converters for the FMCG sector are operating under difficult conditions and this forces your Company to exercise a greater level of caution in terms of extending credit to this sector.

Despite this your Company was able to achieve a sales growth of 12% in terms of value and 19% in terms of volume. Margins continue to be under pressure on account of increase in cost of inputs which had to be largely absorbed by the Company. The operating income, on a like-to-like basis, was marginally higher than in 1999, and pre-tax profit at Rs. 129 million is considered satisfactory.

You are no doubt aware that the Adhesives Business has been transferred to Bostik India. With the formalities now completed, this comes into effect from 1st January 2001. The loss of this business will inevitably have its impact on your Company's sales and profits in the immediate future although in the year 2001, this transaction is expected to yield an extraordinary income of around Rs. 25 million. Your Management is examining alternatives to bridge this gap.

The operations of the subsidiary, Coates Coatings (CCIL), was satisfactory despite a shrinking market and without any technological inputs from the proposed joint venture with Valspar Corporation. Considering the uncertainty over Valspar's participation in the subsidiary, your Board has therefore taken a decision to re-arrange the capital structure of the subsidiary. The reduction of the capital of the subsidiary and the wiping off the notional goodwill will have no effect on the profits of either company. The resultant reduction in the investment of your Company and its setting off against the Capital Reserve will be reflected in the accounts for the year 2001. In the meanwhile, your Company expects to resolve the uncertainty over Valspar's participation and is looking at other alternatives.

Further growth in the Ink business will call for greater investments and keeping a balance between shareholders' expectation and retention for growth, your Board has recommended an enhanced dividend at the rate of Rs. 4.20 per share which will be net of tax in your hands.

I am happy to advise that the Board of your Company has been further strengthened by the induction of Mr. R. B. Putatunda and Mr. D. Banerjee who bring with them their vast experience of Philips and Unilever Companies respectively. I am sure you will join me in welcoming them.

In order to provide continuity, the Principal shareholders and your Board requested Dr. P. K. Dutt to continue as Managing Director for a further period of five years. I am happy to advise that Dr. Dutt has agreed to our request and I am sure it will have your endorsement too.

Mr. S. Venkatraman who has been with the Company for two decades will be retiring from the services of the Company on 31st May 2001 and will be stepping down from the Board at the conclusion of the AGM. Mr. Venkatraman had been very closely associated with the many sided operations of your Company and has made his contribution in several spheres. We shall miss his presence on the Board. I am sure you would like to join me and the Board to thank Mr. Venkatraman for his manifold contribution in the success of your Company and wish him the very best for the future.

The Printing Ink Industry in India is going through a phase of re-alignment, in that a number of international manufacturers are making an effort to enter the Indian Market. In order to meet the challenge it has become essential for your Company to ensure that its products are competitive in terms of quality and price compared to other international manufacturers. It is also equally important to ensure that the Company is in a position to offer a wide range of high technology products commensurate with the technological developments in Graphic Arts.

It is almost a year since your Company became a part of DIC Group of Japan. DIC together with its several subsidiaries, is the world's largest manufacturer of Printing Inks, having a market share of nearly 40%. DIC is not only a leader in Graphic Arts but also has a significant presence in Printers' supplies, machinery, pigments and reprographic products. DIC has net sales of over US \$ 8 billion and an asset base of nearly US \$ 10 billion.

DIC's market leadership is based on its commitment to quality, environment and continuous research - both fundamental as well as applied. DIC is committed to the concept of "sustainable development" and places a high priority on developing products that are environmentally sound. DIC is the founder member of the Japan Responsible Care Council, which was established in 1995. Responsible Care Council is a global movement that relies on self-responsibility to monitor environmental safety and

health standards throughout the life cycles of chemical products, from development and production to distribution, use, final consumption and disposal. The members of the Council pledge themselves to observe these standards and implement them on a continual basis.

In line with the concept of sustainable development, the DIC Group conducts R&D aimed at developing environmentally sound technologies and products. These efforts are supported by the Group's global network of R&D Centres. DIC Group has seven main R&D Centres. Five of these are operated by DIC Group members Sun Chemical and Reichhold in the United States and Europe. The sixth is the DIC Berline GmbH R&D laboratory, an independent research facility that co-operates with the Central Research Laboratory on projects essential to the supporting divisional research and developing new technologies. The seventh and newest centre is operated by Qingdao DIC Finechemicals Co. Ltd. in the Peoples Republic of China. The members of the Group's international R&D network co-operate closely to develop basic technologies and specific product that meet modern needs, contributing to social advancement while reinforcing the DIC Group's position as a leading company. In fiscal 1999, consolidated R&D costs amounted to JY 34.8 billion and accounted for 3.5% of the net sales.

In order to ensure that there is free flow of the technology available with DIC to your Company we have entered into a Technical Collaboration Agreement with DIC and this arrangement will help your Company in its efforts to consolidate and grow substantially in the years to come.

The recently announced Union Budget promises continuation of the reform process and further liberalisation. However, the past experience in implementation requires one to view these pronouncements with circumspection. The strong backing of your Company by its parent DIC, the recently concluded Technology Agreement and the aggressive plans drawn by the Company, allow me to share my confidence in the future of your Company.

Kolkata

8th March, 2001



J. N. Sapru

# Management Discussion & Analysis Report

## Overview

Coates of India Limited (COI) has its headquarter and registered office at Kolkata and manufacturing facilities at Kolkata, Delhi, Mumbai, Chennai, Noida and Ahmedabad. The industrial coatings manufacturing facility of its wholly owned subsidiary Coates Coatings India Limited is located at Bangalore. COI's major revenues are generated from printing inks.

The Company is part of Dainippon Ink & Chemicals Inc. of Japan (DIC). DIC, along with its subsidiaries are the world leaders in Printing Inks with a global market share of nearly 40%. DIC is not only a leader in Graphic Arts but has a strong presence in printers' supplies, machinery, pigments and reprographic products.

The Directors' Report gives in detail the performance of your Company as regard to the Liquid Ink segment and Paste Ink segment and therefore, please refer to "Performance Review" in this regard.

## Industry Structure

The year 2001 is expected to be more challenging with the removal of quantitative restrictions and entry of several international manufacturers in the market. On the other hand, the opening up of the economy and early signs of revival of the economy could lead to growth in demand. There is huge potential in the export market and rigorous efforts are being undertaken to create new markets for our range of products.

Following the change in the majority ownership and the consequent de-linking of the Company from TotalFinaElf, the Company thought it desirable to withdraw itself from the Adhesives Business. This was mainly due to TotalFinaElf's intention to retain Adhesives Business under the "Bostik" brand name in its fold and not to part

with their technology in this business and brand name after the expiry of the technical collaboration agreement. In the background of the above, the members at an Extra Ordinary General Meeting held on 18.12.2000 approved the transfer of Adhesives Business to Bostik India Private Limited (a company of Bostik Australia Pty. Ltd. under TotalFinaElf Group) with effect from 1st January, 2001. The sale of Adhesive Business of the Company yielded an extra ordinary income of Rs. 25 million during 2001. However, the loss of this business would make an impact on the future operations of the Company both in terms of sales and profitability. Adhesives Business of the Company maintained a steady growth in the past and during 2000, this division registered a net sales of Rs. 182 million with 42% sales growth.

## Performance by Business Segment

The Company was able to increase its sales of printing inks both in terms of quantity and value. A detailed analysis of the segment-wise sales is provided below along with the details of traded goods and share of traded and manufacturing goods in the total turnover of the Company. The market is growing at a moderate rate and the Company is maintaining a cautious approach in extending credit especially in liquid ink segment. The Company has gained considerably due to careful planning and continuous value addition to products and services. Quality upgradation and prudent product mix have played a significant role during the year. With the divestment of Adhesives Business w.e.f 1.1.2001, the Company is examining alternative opportunities in allied areas as well as expanding its Ink manufacturing facilities at Ahmedabad and other factories.

## Turnover of Manufactured Goods — Product-wise

(Quantity M.T., Value Rs. Million)

Product	2000		1999		Growth (%)	
	Quantity	Value	Quantity	Value	Quantity	Value
<b>Printing Inks</b>	<b>12063</b>	<b>1766</b>	10394	1625	16	9
<b>Synthetic Resins ##</b>	<b>7</b>	<b>1</b>	21	2	-67	-50
<b>Industrial Adhesives</b>	<b>1663</b>	<b>204</b>	1136	143	46	43
<b>Press Room Chemicals</b>	<b>145</b>	<b>14</b>	89	8	63	75
<b>Total</b>	<b>13878</b>	<b>1985</b>	11640	1778	19	12

## For export only

## Turnover of Traded Goods

(Rs. Million)

Product	2000		1999		Growth (%)	
	Quantity	Value	Quantity	Value	Quantity	Value
<b>Press Aids</b> (Litres)	<b>376510</b>	<b>24</b>	346851	23	9	3
<b>Rubber Blankets</b> (Sq. Mtrs.)	<b>985</b>	<b>4</b>	237	1	315	233
<b>Machine</b> (Nos.)	<b>52</b>	<b>1</b>	14	1	271	25
<b>Printing Inks</b> (Kgs)	<b>286051</b>	<b>87</b>	235527	66	21	33
<b>Adhesives</b> (Kgs)	<b>10354</b>	<b>3</b>	10925	4	-5	-21
(Nos)	<b>27902</b>	<b>2</b>	33602	1	-17	14
<b>Others (M.T.)</b>	<b>57</b>	<b>8</b>	66	9	-14	-19
<b>Total</b>		<b>129</b>		105	-	22

## Performance — Product-wise (Manufactured Goods) in Percentage Terms

Product-mix	2000		1999	
	Value %	Quantity %	Value %	Quantity %
<b>Printing Inks</b>	<b>89</b>	<b>87</b>	91	89
<b>Synthetic Resins</b>	—	—	—	—
<b>Industrial Adhesives</b>	<b>10</b>	<b>12</b>	8	10
<b>Press Room Chemicals</b>	<b>1</b>	<b>1</b>	1	1
<b>Total</b>	<b>100</b>	<b>100</b>	100	100

## Share of Manufactured Goods and Traded Goods in Percentage Terms

Particulars	2000	1999
<b>Manufactured Goods</b>	<b>94</b>	94
<b>Traded Goods</b>	<b>6</b>	6
<b>Total</b>	<b>100</b>	100

## Operational Performance

The Analysis of Profit for the year is given hereunder

(Rs. Million)

Particulars	2000	1999	%
<b>Net Sales</b>	<b>1843.94</b>	1641.74	12
<b>Other Income</b>			
<b>Recurring</b>	<b>43.17</b>	40.69	6
<b>Non-recurring :</b>	<b>—</b>	12.48	-100
<b>Total Income</b>	<b>1887.11</b>	1694.91	11
<b>Operating Income before considering extraordinary income</b>	<b>215.79</b>	210.64	2
<b>PBDIT</b>	<b>215.79</b>	223.12	-3
<b>Interest</b>	<b>51.45</b>	52.23	-1
<b>PBDT</b>	<b>164.34</b>	170.89	-4
<b>Depreciation</b>	<b>34.98</b>	29.88	17
<b>PBT</b>	<b>129.36</b>	141.01	-8
<b>Operating PBT (excluding Other Income)</b>	<b>86.19</b>	87.84	-2
<b>Tax</b>	<b>39.25</b>	40.00	-2
<b>PAT</b>	<b>90.11</b>	101.01	-11

## Outlook

The Industry is undergoing realignment of market players and international ink manufacturers are making an effort to enter the Indian market. Entry of international players into India is expected to change the market scene. The Company is already a part of DIC Group. DIC's market leadership is based on its commitment to quality, environment and continuous research both fundamental as well as applied. In order to ensure that there is a free flow of technology, the Company has entered into a Technical Collaboration Agreement with DIC after obtaining necessary approval of the Government of India and this arrangement will help the Company in its efforts to consolidate and grow substantially in the years to come.

Plans have been made both for the short-term and long-term to enhance the shareholder value. Export and Quality Assurance have been identified as thrust areas for utilization of additional capacities and improved customer

satisfaction. Cost control measures, rationalisation of resources continue to receive high priority.

## Internal Control Systems

The Company has an adequate system of internal control commensurate with the size of the Company and the nature of its business and detailed procedural manuals are in place. Working closely with experts, the management continuously reviews the internal control procedures for further improvement. The Company encourages and recognises improvements in work practices through "kaizen".

## Industrial Relations

The Company has, during the year, concluded four-year Agreements with the respective unions at Mumbai, Kolkata, Delhi, Noida and Chennai. These agreements, while offering improved pay and benefits, also aims at better work practices and productivity improvements.

# Corporate Governance

Though the Code on Corporate Governance is mandatory for the fiscal year 2001, your Company has voluntarily complied with almost all the regulations as laid down in the Code for the financial year ended 31st December, 2000.

The Company's policies on and level of compliance of the code of Corporate Governance are detailed below :-

## 1. Company's Philosophy on Corporate Governance

Corporate Governance refers to a combination of regulations, procedures and voluntary practices that enable companies to maximise stakeholders' value by attracting financial and human capital and efficient performance.

As a responsible corporate citizen, it is the earnest endeavor of the Company to improve its focus on Corporate Governance by increasing accountability and transparency to its shareholders.

## 2. Board of Directors

### A) Composition

The Board of Directors of the Company consists of 10 members, comprising of :

- Two Executive Directors in the whole-time employment of the Company
- Four Non-Executive Independent Directors, drawn from amongst persons with experience in business, finance, technology and management.
- Four Non-Executive Directors nominated by and representing the parent company

The Chairman of the Board is an Independent Non-Executive Director.

B) *Other Directorships/Committee memberships held :*

Name of Director	Category	No. of Directorships/Committee Memberships held in other Companies	
		Director	Committee Member
Mr J N Sapru	Non-Executive	8	7
Dr P K Dutt	Executive	1	1
Mr S Venkatraman	Executive	2	1
Mr D Banerjee	Non-Executive	Nil	Nil
Mr M Iseda	Non-Executive	5*	Nil
Mr T Kumagai	Non-Executive	20**	Nil
Mr T Nomoto	Non-Executive	14*	Nil
Mr R B Putatunda	Non-Executive	1	Nil
Mr H Tanemura	Non-Executive	Nil	Nil
Mr B M Varma	Non-Executive	3	Nil

\* Companies incorporated outside India

\*\* 19 companies are incorporated outside India

C) *Board Meetings held during the year*

During the financial year ended 31st December, 2000, ten Board Meetings were held on 5th January, 28th February, 27th March, 24th April, 29th May, 7th July, 24th July, 29th August, 24th October and 17th November.

D) *Attendance of Directors at Board Meetings and last Annual General Meeting :*

Name of Director	Meetings Attended	Attendance at last AGM
Mr J N Sapru	10	Yes
Dr P K Dutt	9	Yes
Mr S Venkatraman	9	Yes
Mr D Banerjee *	N.A.	N.A.
Mr M Iseda **	2	Yes
Mr T Kumagai **	Nil	No
Mr T Nomoto **	Nil	No
Mr R B Putatunda ***	1	N.A.
Mr H Tanemura **	1	Yes
Mr B M Varma	10	Yes

\* Appointed as Director w.e.f. 08.03.2001

\*\* Appointed as Director w.e.f. 24.04.2000

\*\*\* Appointed as Director w.e.f. 17.11.2000