



DAI-ICHI
ANNUAL REPORT
2003-2004

DAI-ICHI KARKARIA LIMITED

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Board of Directors:

Mr. D. M. Neterwala *Chairman*
 Dr. K. H. Gharda
 Dr. H. E. Eduljee
 Mr. J. H. C. Jehangir
 Mr. A. H. Jehangir
 Mr. K. D. Patel
 Dr. S. P. Adarkar
 Dr. K. R. Bharucha
 Mrs. S. F. Vakil *Managing Director*
 Mr. K. B. Baxi *Company Secretary*

Bankers:

Bank of India
 The Shamrao Vithal Co-operative Bank Ltd.
 The Saraswat Co-operative Bank Ltd.
 The Zoroastrian Co-operative Bank Ltd.

Auditors:

P. C. Hansotia & Co.
 Chartered Accountants, Mumbai.

Solicitors:

Mulla & Mulla and Craigie Blunt & Caroe
 Mumbai.
 Amarchand & Mangaldas &
 Suresh A. Shroff & Co., Mumbai.
 Tyabji Dayabhai, Mumbai

Registered Office:

Liberty Building,
 Sir Vithaldas Thackersey Marg,
 Mumbai 400 020.

Works:

105th Milestone, Mumbai-Pune Marg,
 P.O. Kasarwadi, Pune 411 034.
 Kurkumbh Industrial Area, Plot No. D-13,
 Village Kurkumbh, Tal. Daund, Dist. Pune.
 Plot No. 28-A, Opp. Laxmi Starch Ltd.,
 Industrial Development Area,
 Nacharam, Hyderabad 501 507.

Registrars and Transfer Agents:

Sharex (India) Private Ltd.
 17/B, Dena Bank Building,
 2nd Floor, Horniman Circle,
 Fort, Mumbai 400 001.
 Tel.: 22641376/22702485



NOTICE

NOTICE is hereby given that the Forty-fourth Annual General Meeting of the Members of **DAI-ICHI KARKARIA LIMITED** will be held on Wednesday, the 15th day of September, 2004 at 11.30 a.m. at M.C. Ghia Hall, Bhogilal Hargovindas Building, 2nd Floor, 18/20 Kaikhushru Dubash Marg,, Mumbai-400 023 to transact the following business:

Ordinary Business

1. To receive, consider and adopt the Audited Profit and Loss Account for the year ended 31st March, 2004 and the Balance Sheet as at that date together with the Directors' Report and Auditors' Report thereon.
2. To declare a dividend.
3. To appoint a Director in place of Mr. D. M. Neterwala, who retires by rotation and, being eligible, offers himself for reappointment.
4. To appoint a Director in place of Dr. S. P. Adarkar, who retires by rotation and, being eligible, offers himself for reappointment.
5. To appoint a Director in place of Mr. K. D. Patel, who retires by rotation and, being eligible, offers himself for reappointment.
6. To appoint Auditors to hold office from the conclusion of this meeting until the conclusion of the next Annual General Meeting and to fix their remuneration.

By Order of the Board

S. F. Vakil
Managing Director

Registered Office:

Liberty Building,
Sir Vithaldas Thackersey Marg,
Mumbai 400 020.

Date: July 21, 2004

NOTES:

1. A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend the meeting and proxy need not be a member. The instrument appointing the proxy should be deposited at the registered office of the company not less than 48 hours before the commencement of the meeting.
2. The Register of Members and Share Transfer Books of the Company will remain closed from 31st August, 2004 to 15th September, 2004 (both days inclusive) in connection with the Annual General Meeting.
3. Subject to provisions of Section 206A of the Companies Act, 1956, dividend as recommended by the Directors if declared at the meeting, will be payable to those Members whose names appear on the Register of Members on or before 15th September, 2004. In respect of the shares in electronic form, the dividend will be payable on the basis of beneficial ownership as per details furnished by National Securities Depository Ltd. and Central Depository Services (I) Ltd. for this purpose on 30th August, 2004.
4. As regards payment of dividend through Electronic Clearing Services (ECS), Members holding shares in physical forms are advised to submit particulars of their bank account viz., name and address of the branch of bank, 9 digit MICR code of the branch, type of account and account number latest by 27th August, 2004 to the company's share transfer agent M/s. Sharex (India) Pvt. Limited. Members holding shares in the demat form are advised to inform particulars of their bank accounts to their respective depositories participants.

DAI-ICHI KARKARIA LIMITED

5. Pursuant to the provisions of sub-section (5) of Section 205A of the Companies Act, 1956, dividend for the financial year ended 31st March, 1997 and thereafter which remains unclaimed for a period of seven years will be transferred to Investor Education and Protection Fund (IEPF) established by the Central Government pursuant to Section 205C of the Companies Act, 1956. The Shareholders who have not claimed or encashed their dividend warrants in respect of financial year 1997-98 or thereafter are therefore requested to approach the Company in writing with their folio numbers to facilitate payment.
6. Members whose shareholding is in physical mode are requested to immediately notify any change in their addresses to M/s. Sharex (India) Pvt. Ltd. at 17/B, Dena Bank Building, 2nd floor, Horniman Circle, Fort, Mumbai 400 001 and members whose shareholding is in electronic mode are requested to direct change of their address notification and updations of saving bank accounts details to their respective Depository Participants.
7. The Shareholders desiring any information as regards Accounts are requested to write to the Company at an early date so as to enable the Management to keep the information ready.
8. Members/proxies are requested to bring duly filled Attendance slips and their copies of annual report along with them as copies of the Report will not be distributed at the meeting.
9. Additional information on Directors recommended for appointment or seeking election at the Annual General Meeting is provided under Corporate Governance Disclosure report forming part of this Annual Report.
10. The Annual Accounts of the subsidiary companies and related information will be made available to investors seeking such information. All such documents referred to herein will be available for inspection at the registered office of the company on all working days except Saturday between 11.00 a.m. and 1.00 p.m. upto the date of annual general meeting.

By Order of the Board

S. F. Vakil

Managing Director

Registered Office:

Liberty Building,
Sir Vithaldas Thackersey Marg,
Mumbai 400 020.

Date: July 21, 2004



DIRECTORS' REPORT

Dear Members,

Your Directors have pleasure in presenting the Forty-fourth Annual Report together with the audited accounts for the year ended March 31, 2004.

1. FINANCIAL RESULTS:

	2003-2004 Rs.	2002-2003 Rs.
Sales and Other Income	55,11,97,178	52,17,36,913
Gross Profit	5,91,57,381	2,91,37,572
Depreciation	2,19,01,511	2,27,45,718
Interest	2,06,53,134	2,39,80,879
Profit before Extraordinary & Prior period item & taxation	1,66,02,736	(1,75,89,025)
Add: Extraordinary and prior period item	71,00,163	(27,77,064)
Profit before Tax	95,02,573	(2,03,66,089)
Less: Provision for taxation	37,00,000	(1,80,000)
Less: Deferred Tax	(11,37,555)	40,31,425
Add: Taxation of previous years	—	3,24,212
Write-back of forfeiture of shares/provisions	(4,73,591)	49,98,000
Profit/(Loss) after Taxation	74,13,719	(1,11,92,452)
Balance brought forward	5,37,14,488	6,91,97,425
Amount available for appropriation	6,11,28,207	5,80,04,973
Appropriations:		
Proposed Dividend	38,03,200	38,03,200
Tax on proposed Dividend	4,57,285	4,57,285
Balance carried forward	5,68,67,722	5,37,14,488

2. SEARCH BY CENTRAL BUREAU OF INVESTIGATION:

As part of anti-corruption drive against Government Officials, the Central Bureau of Investigation (CBI) conducted searches on various commercial establishments on a nationwide basis on 25th June 2004. The Company's Registered Office was also part of the search in view of it being a vendor to Public Sector Undertaking. The Investigators did not find any incriminating materials in the premises and as such there was no evidence of the Company being a party to any unwarranted practices.

A cash amount lying in the premises of the Company, held as collateral towards Development Rights was explained to the satisfaction of the concerned authorities. The said cash has been incorporated into the books of accounts of the Company.

The Management is of the opinion that there being no major violations, there would be no consequential liability accruing on the Company.

3. DIVIDEND:

The Directors have recommended payment of dividend for the year ended 31st March 2004 at 5% (Rs. 0.50 per share) amounting to Rs. 38.03 lacs to be paid similar to the previous year.

4. PERFORMANCE:

Though the gross income has shown a growth of 7%, the major increase has come from income on sale of Company's assets.

Though the gross sales from both the Pharma and Polyacrylamide plants have increased by 17% and 27% respectively, there has been a degrowth of 8% in the Speciality Chemical Division, resulting in an erosion to the bottom line.

The divisional performance has been discussed separately in Management Discussion and Analysis Report appearing hereinafter.

MANAGEMENT DISCUSSION AND ANALYSIS REPORT

INDUSTRY STRUCTURE AND DEVELOPMENT: OPPORTUNITIES AND THREATS, RISKS AND CONCERNS

Speciality Chemicals:

The Indian Speciality Chemical Market has shown steady signs of recovery as exports signal the engine of growth. The past year has seen a slow expansion of the hitherto depressed markets in the country. With growth in end user markets like paints, textiles, agrochemicals, the Speciality Chemical Industry is expected to grow at 15%, as newer applications and wider usage is envisioned. India could well be a global source for international companies provided Indian Chemical manufactures are able to take on a global mindset. Serious cost cutting and restructuring measures will be required to meet the stiff competition from countries like China. Meanwhile, there is a serious tendency for raw material input prices to rise without the possibility of raising the selling prices in the market. The reduction in custom duties for all chemical inputs, without any corresponding decrease in duties for feedstock is putting a serious strain on margins.

The year has been one of refocusing on the Company's priority business areas. With the Company's continued belief that the best way to deliver value to customers is to build a deep understanding of their performance and productivity needs, the Company has restricted its focus to four core industry sectors viz. Textile, Paints, Cos. Pharma and Oil.

The Company has voluntarily walked out of low margin markets, which were being catered to over the past 25-30 years. The result has been a lowering of turnover, but has in effect improved the Company's prospects for a healthier bottom line.

Today, the Company is projecting itself as more than just a chemical supplier. It intends to stand out, by participating in our customers business and add value through chemical supply and service. We have successfully done this in the Rayon industry and will continue the process to other higher value added area in the Textile industry. Here the markets will dictate the shift towards the more sophisticated finishes (which are also environmentally friendly) and meet each customer's specific needs.

Meanwhile, as customers continue to press for lower prices whilst expecting higher levels of performance, the Company is strained to find newer and more efficient ways of working. This year with the continued pressure on selling, prices impacting bottom line growth, the Speciality Chemical Division was successful in its program of achieving cost reductions by 8%. This was done through a successful VRS program. Additionally, the Company's focus on process optimization and strict control on performance and yields has resulted in an improved Material and Energy balance.

Performance in the Speciality Chemicals Segment has been strong in some sections like Paint and Pigments. However, there has been a delay in commercializing some of the key new development projects where the Company expected to achieve considerable increase in turnover and margins. We hope to commercialize these projects in the current year.

In the Textile area, abolition of quotas by end of this year is expected to open up export of textile processed fabrics and hence suitable high performance chemicals are targeted from this segment. Special additives and Lubricants introduced for Rayon fibre and Filament have been accepted by our customers for local as well as export markets. The Company will focus on products that meet the needs of advanced automation viz. Much higher speeds together with superior performance and possible multi-functional properties.

Demand for spin finish is expected to go up due to expansion in capacity with the existing customers and also with new entrants. New generation finishes developed for specific requirement of customers have been approved and we expect to get increased market share.

High Energy Dispersants and Special Surfactants which add value to Pigment and Paint formulations will be commercialized this year. Home/Personal Care formulations which are gaining importance in the Indian Market are identified as growth areas, and the products introduced recently have been well accepted.

Polyacrylamides:

During 2003, we made good progress with product approvals at several new effluent projects despite the setback we faced due to the delays in start-up schedules of sewage projects in the government sector.



In sugar and mining, we achieved 50% growth over previous year sales, which will continue this year too. We developed advanced products for complex applications in the core sectors namely Paper and Alumina, which will help us to secure major contracts in the current year.

We have introduced new products for Agriculture and specific applications related to Pharma and Food Processing industries and the excellent results seen in the initial trials ensure large volumes in 2004. Our focused work in the coal sector has resulted in product approvals by all major clients and has started generating first bulk orders in the beginning of 2004-05.

Bulk Drugs:

Post 2005 — the Indian Pharmaceutical Industry will recognize product patents, as a signatory to the Trips Agreement. This will result in two major shifts. Companies with strong R&D capabilities and healthy financials will focus on drug discovery research and a possible licensing model. On the other hand, as India begins to respect Intellectual Property Rights, more and more international Pharma Companies will look towards custom synthesis and contract manufacturing with low cost Indian Companies.

From a global stand point the generic drug industry continues to show substantial growth potential. As several branded drugs face patent expiration, and with the continued demand for cheaper drugs from the consumer, the global generic drug market is seen as an exciting opportunity for the Indian Bulk Drug manufacturer.

DIK is positioning itself to take part in this promising future, by upgrading its facilities to Regulatory Standards. The Company has received its first COS for Europe and has started the Regulatory process for the U.S. This will position the Company to move ahead in these markets with products that are going off patent in 2005 and 2006.

The Company continues to focus on APIs and Intermediates in the pain management, anti depressant, CNS stimulant and anti anxiolytic areas. These therapeutic areas have shown the most growth worldwide in the past year. The future will see the Company partner International players and help, develop and manufacture products, prepare regulatory dossiers and file for regulatory approvals. With drugs valued at \$ 60 billion expected to go off patent by 2006, and more than 65% of clinically used drugs becoming generic in a decade's time, the Company will look to partner global generic players in order to maximize each others' opportunities.

To this end, the Company's focus will be on strengthening its R&D and Quality Assurance functions. Presently, the R&D is working on molecules going off patent in 2008, whilst it continues process improvements on its earlier developed products. Additionally, the Company hopes to position itself as a penultimate stage contract manufacturer by leveraging its technological and manufacturing abilities to the utmost.

INTERNAL CONTROL SYSTEMS AND THEIR ADEQUACY

The Company has an adequate system of internal control in all the spheres of its activities and is commensurate with the size and the nature of its business. It ensures adequate protection of the Company's resources provision of accurate and speedy financial statements and reports and compliance with the Company policies and procedures and other statutory and legal obligations. The internal control is supplemented by effective internal audit being carried out by reputed external firms of Chartered Accountants, who are independent of the Statutory Auditors. The Management regularly reviews the findings of the internal auditors and effective steps to implement any suggestions/observations of the internal auditors are taken and mentioned regularly.

FINANCIAL PERFORMANCE WITH RESPECT TO OPERATIONAL PERFORMANCE

The profit for 12 month period before tax increased by Rs. 298.64 lacs as compared to net loss of Rs. 203.66 lacs of the previous year resulting in a profit before tax of Rs. 95.03 lacs for the year.

There was a de-growth in the sales by 2.14% due to a major restructuring exercise being carried out by the Company.

MATERIAL DEVELOPMENTS ON HUMAN RESOURCES/INDUSTRIAL RELATIONS FRONT, INCLUDING NO. OF PEOPLE EMPLOYED

The Company believes that motivated employees are the most important resource if the Company has to attain business growth and retain the customers. Development and harmonization of the knowledge and skills of the employees of the Company have gone a long way in fulfilling the organizational goal of delivering the best value to

the Customers and honouring the mission of optimizing the performance of our customers' processes - time and time again.

Cordial relations were maintained throughout the year. The Company has initiated many steps in the career and personality development of the employees belonging to different departments. The employees attended various seminars/workshops to enhance their skills and knowledge.

As part of restructuring program to achieve cost reductions, Voluntary Retirement Scheme was administered during the year under report and 42 employees have opted for scheme and were relieved. As on March 2004, the total number of employees on the rolls of the Company at Corporate Office and all locations was 394.

5. FIXED DEPOSITS:

Out of the fixed deposits totalling to Rs. 335.48 lacs as at 31st March, 2004, deposits amounting to Rs. 1,68,000/- which matured, have not been claimed by the depositors on the said date.

6. INFORMATION PURSUANT TO SECTION 217 OF THE COMPANIES ACT, 1956:

- (a) Information as per Section 217(2A) of the Companies Act, 1956, read with Companies (Particulars of Employees) Rules, 1975 which forms part of this Report, is not annexed herewith. However, any shareholder interested in obtaining such particulars may write to the Company Secretary at the Registered Office of the Company.
- (b) The particulars as prescribed under sub-section (1)(e) of Section 217 of the Companies Act, 1956, read with Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 are given in Annexure 'A' to this Report.

7. DIRECTORS:

In accordance with the provisions of the Companies Act, 1956 and Articles of Association of the Company, Mr. D.M. Neterwala, Dr. S.P. Adarkar and Mr. K.D. Patel retire from the Board of Directors by rotation and are eligible for reappointment. Brief resumes of the above Directors, nature of their expertise, number of Companies in which they are Directors or members of the committees of the Board as stipulated in the clause 49 of the Listing Agreement of the Stock Exchanges are given in section on Corporate Governance attached to this Report.

8. DIRECTOR'S RESPONSIBILITY:

Pursuant to Section 217(2AA) of the Companies (Amendment) Act, 2000 the Directors' confirm that:

1. in the preparation of the annual accounts, the applicable accounting standards have been followed;
2. appropriate accounting policies have been selected and applied consistently, and have made judgements 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 at March 31, 2004, and of the profit of the Company for the period April 1, 2003 to March 2004;
3. proper and sufficient care has been taken 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;
4. the annual accounts have been prepared on a going concern basis.

9. CORPORATE GOVERNANCE:

The Company has taken adequate steps to ensure that all mandatory provisions of Corporate Governance as prescribed under the amended Listing Agreements of the Stock Exchanges with which the Company is listed are complied with. A separate report on Corporate Governance is attached as a part of the Annual Report along with the Auditors' statement on its compliance.

10. SUBSIDIARY COMPANY:

In terms of approval granted by the Central Government under Provisions of Section 212(8) of the Companies Act, 1956 copies of the Balance Sheet, Profit and Loss Account, Report of the Board of Directors and Report



of the Auditors of the Subsidiary Companies viz. Baker Oil Treating (I) Ltd. and Dai-Ichi Gosei Chemicals (India) Limited have not been attached to the Balance Sheet of the Company. The company will make available these documents/details upon request by any member of the Company in obtaining the same. However, pursuant to Accounting Standards 21 of the Institute of Chartered Accountants of India and Listing Agreement as prescribed by SEBI, Consolidated Financial Statements presented by the Company includes the financial information of its above subsidiaries.

11. LISTING

The Equity Shares of your Company are presently listed on The Stock Exchange, Mumbai and the Company has paid the annual listing fees for the financial year 2004-2005.

DE-LISTING

Subsequent to Members approval at the last Annual General Meeting held on 5th September, 2003 for delisting voluntarily Company's equity shares from Stock Exchange, Ahmedabad and Pune, the Company had taken requisite steps under guidelines notified by the SEBI and the equity shares of the Company have been de-listed from Stock Exchanges at Pune w.e.f. 6th October, 2003 and from Ahmedabad w.e.f. 9th October 2003 respectively.

12. RELATED PARTY DISCLOSURES:

The Company has made disclosures in compliance with the Accounting Standard on Related Party Disclosures as required by clause 32 of the Listing Agreement of Mumbai Stock Exchange.

13. CONSOLIDATED ACCOUNTS:

The Company has also published the consolidated financial statements in respect of the Company and its subsidiary as required by clause 32 of the Listing Agreement of Mumbai Stock Exchange.

14. HEALTH, SAFETY & ENVIRONMENT:

Health, Safety and Environmental protection continue to remain one of the priority areas of the Company.

The Company continues to put special emphasis on Environmental, Health and Safety from conception and design of new products, optimization of process, to commercial manufacturing and delivery of goods to the customers. A special committee ensures good sanitation and hygienic conditions in the plants and canteen.

Safety requirements are built-into the high design of the facility. The facility is provided with appropriate hydrant system and a battery of lightening arrests encompassing the entire area. Different types of extinguishers are provided at various locations. All these systems are regularly monitored and maintained to ensure good operational condition.

Environmental impact assessment and hazop studies of our process are performed right from development stage to scale up at various levels and up to commercial production. Our commitment is to select operationally safer and environmentally cleaner process right from R&D stage itself and constant upgradation of existing production technologies.

Periodic safety audits and meetings are conducted. The recommendation of the meetings are implemented and reviewed in the following meeting to ensure compliance. Even minor incidents are reported, instigated and steps are taken to avoid recurrence of such incidents. New methodologies of operations are introduced after training the personnel.

In addition to the periodic in-house safety audits, the plants continue to carry out regular examination and special tests to monitor the well-being and health of the employees. Good sanitation and hygienic conditions in the plants and canteens as well as good housekeeping at the plants are ensured.

During the year the Local Crisis Group -2 Pimpri – Chinchwad, Pune constituted by the Central Government review meeting at Kasarwadi Unit witnessed the Mock Drill and appreciated our Emergency Preparedness Plan on safety.

Periodic training program on safety, occupational health and 5 "S" are conducted for all the personnel.

DAI-ICHI KARKARIA LIMITED

15. INDUSTRIAL RELATIONS:

The industrial relations during the year were cordial and peaceful and the Company received full cooperation and support from all its employees.

16. FORM A & B REPORT:**Conservation of Energy, Technology Absorption and Foreign Exchange Earnings and outgo:**

The particulars as prescribed under sub-section (1)(e) of Section 217 of the Companies Act, 1956 read with Companies (Disclosure of particulars in respect of Board and of Directors) Rules, 1988 are given in Annexure 'A' to this report.

17. AUDITORS:

The present auditors, Messrs. P. C. Hansotia & Co., Chartered Accountants, retire at the conclusion of the forthcoming Annual General Meeting and being eligible offer themselves for reappointment.

18. ACKNOWLEDGEMENT:

Your Directors wish to place on record their appreciation of the contribution made by the employees of the Company. The Directors would also like to thank customers, suppliers, regulatory and government Authorities, Stock Exchange and bankers for their continued and unstinted support.

For and on behalf of the Board of Directors

D. M. NETERWALA
Chairman

Place : Mumbai
Date : July 21, 2004

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