



DAI-ICHI
ANNUAL REPORT
2005-2006

DAI-ICHI KARKARIA LIMITED

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Board of Directors:

Mr. D. M. Neterwala *Chairman*
 Dr. K. H. Gharda (upto 2-9-2005)
 Mr. J. H. C. Jehangir
 Mr. A. H. Jehangir
 Mr. K. D. Patel
 Dr. Anil M. Naik
 Dr. K. R. Bharucha
 Mrs. S. F. Vakil *Vice-Chairperson &
 Managing Director*
 Ms. Kavita Thadeshwar *Dy. 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.

Registrars and Transfer Agents:

Sharex Dynamic (India) Private Ltd.
 Unit 1, Luthra Industrial Premises,
 Andheri-Kurla Road, Safed Pool,
 Andheri (E), Mumbai-400 072
 Tel: 2851 5606/2851 5644



NOTICE

NOTICE is hereby given that the Forty-Sixth Annual General Meeting of the Members of **DAI-ICHI KARKARIA LIMITED** will be held on Wednesday, the 20th day of September, 2006 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, 2006 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 re-appointment.
4. To appoint a Director in place of Mr. A. H. Jehangir, who retires by rotation and, being eligible, offers himself for re-appointment.
5. 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.

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By Order of the Board

S. F. Vakil

Vice-Chairperson & Managing Director

Registered Office

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

Date: June 30, 2006

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 close from 5th September, 2006 to 20th September, 2006 (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 20th September, 2006. 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 4th September, 2006.
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 1st September, 2006 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.

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, 1999 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 1999-2000 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 Dynamic (India) Pvt. Ltd. at Unit - 1, Luthra Ind. Premises, Andheri-Kurla Road, Safed Pool, Andheri (East), Mumbai - 400 072 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 re-appointment on rotational basis 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

Vice-Chairperson & Managing Director

Registered Office

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

Date: June 30, 2006

**DIRECTORS' REPORT**

Dear Members,

Your Directors have pleasure in presenting the Forty-Sixth Annual Report together with the audited accounts for the year ended March 31, 2006.

1. FINANCIAL RESULTS:

	2005-2006	2004-2005
	Rs.	Rs.
Sales and Other Income	58,77,73,125	54,47,50,698
Gross Profit	76,82,189	3,08,78,957
Depreciation	1,53,54,571	2,14,99,747
Interest	1,19,18,837	1,85,05,578
Profit/(Loss) before Extraordinary & Prior period item & taxation	(1,95,91,219)	(91,26,368)
Extraordinary and prior period item	12,32,79,409	10,41,195
Profit/(Loss) before Tax	10,36,88,190	(1,01,67,563)
Less : Provision for taxation	4,20,00,000	1,80,000
Less : Deferred Tax	(2,94,30,645)	40,68,017
Less : Fringe Benefit Tax	8,20,000	Nil
Add : previous years write back	Nil	Nil
Profit/(Loss) after Taxation	9,02,98,835	(1,44,15,580)
Balance brought forward	4,24,22,143	5,68,37,723
Amount available for appropriation	13,27,20,978	4,24,22,143
Appropriations:		
Proposed Dividend	1,52,12,800	Nil
Tax on proposed Dividend	21,33,595	Nil
Transfer to General Reserve	70,00,000	Nil
Balance carried forward	10,83,74,583	4,24,22,143

2. DIVIDEND:

The Board of Directors have recommended a Dividend of 20% i.e. Re. 1 per Equity Share together with a further special additional one time dividend of Re. 1 per Equity Share for the year ended 31st March, 2006, aggregating to Rs. 2/- per Equity Share of Rs. 10/-.

3. PERFORMANCE:

The Company has posted a Profit Before tax of Rs. 1037 lacs in the Current year 2005-2006 as compared to the Loss of Rs. 102 lacs in the Financial Year 2004-2005.

The improved performance is the result of several factors. The main reason is the disinvestment of our Pharma Unit in Hyderabad, and sale of and buy-back of shares of Colour Chem Ltd.

In addition, greater operational efficiency and better fiscal planning and the addition of innovative products and customized solutions for various market segments resulted in some top line growth for speciality chemicals, in spite of the very competitive situation.

MANAGEMENT DISCUSSION AND ANALYSIS REPORT**INDUSTRY STRUCTURE & DEVELOPMENT: OPPORTUNITIES AND THREATS, RISKS AND CONCERNS**

The Indian economy performed well during the year under review. The GDP growth of 8% provided a boost to the Indian Chemical Industry which grew by 14.1% over the previous year. Increase in domestic demand as well as exports led to a focus on technology and productivity against the backdrop of intense competition. This resulted into consolidation and restructuring of Indian Chemical Industry through acquisitions, mergers, strategic alliances as well as divestments and product mix rationalization.

In the past year, the market continued to witness intense competitive activity with both multinationals as well as local players.

Increasing crude oil prices had a serious impact on raw material prices creating severe challenges on the cost front. The unprecedented increase in petroleum and petrochemical costs contributed substantially to inflationary pressure on raw material prices, packaging and distribution costs.

Exports:

The management took immediate steps to boost exports. These measures resulted into higher productivity, cost containment and impressive growth in export performance.

Innovative approach by the management to identify and exploit export potential for the company's products led to new markets for oil field chemicals such as Bangladesh, UAE, Sudan and Nigeria.

In the field of textile auxiliaries, a new approach taken by the management of working closely with select international companies for their needs led to development of value added products for exports. These products are currently being evaluated by the international companies and the management is confident in getting a major share in the export business in this area in the coming year.

Operating Results:

The Sales of the Company for the Speciality Chemical Division grew by over 7% and for the Pharma division there was a drop by over 30% due to disinvestment of the division to a new Company in the month of October 2005. However, in comparison to the relevant period last year, there was a growth of 7%. The Company's focus on exports resulted in a major increase in export revenues of 38%.

Speciality Chemicals:

Speciality Chemical products of the Company, go into various industries like Textile, Paint, Paper, Oil, Water Treatment etc., enhancing the performance of the customers products.

The Company continued significant investments in product innovation and value added performance standards. Efforts continued to drive growth through a focus on close customer contacts and development of customer specific products to fill speciality niche markets. The Company's efforts to work in joint teams, has resulted in the development of several new products that are presently under commercialization at the customer's end.

As customers grow more demanding in an already competitive market, the Company has had to continuously strive to bring differentiated products to the market through innovation and strong process chemistry skills. In the face of increased pressure from the competitive environment, the Company has accelerated its focus on cost competitiveness and cost saving initiatives and aims at achieving increasing levels of operational excellence.

In addition, extensive cost re-engineering programmes, specifically in process technology and manufacturing have been implemented to improve the cost structure of the business. Other cost efficiency measures were taken in the area of energy and water saving, reduction in unit over-heads, and other supply chain initiatives for purchase of chemicals in bulk.

Given the demands of the business environment, the Company further improved operational efficiencies through better management of financial resources and working capital. The Company's efforts to push



higher raw material costs down the chain in higher product prices is gradually bearing fruit, as demand continues to be strong.

The Company hopes to capture future growth opportunities present in the market, through these initiatives. The Company is in the process of enhancing its manufacturing capabilities through investments in new reactors based on the latest available global technology.

The Indian Textile Industry exports are poised to grow at a CAGR of 21% to reach U.S.\$ 50 billion by 2010. The huge demand in export as well as domestic markets has resulted in large expansions at many textile companies with further consolidations in the Industry into the organized sector.

Packages introduced for continuous pretreatment and bleaching of cotton fabric are being evaluated with leading process houses for performance.

Maximum growth will be seen in Apparel fabrics and Home textiles and in the area of Textile finishing for technical and protective textiles.

In the Paper Industry, the Company has achieved significant growth in sales with the help of new products introduced late last year. In the coming year, the Company targets to add several new clients and achieve much higher growth. The Company is also focusing on expanding its product range for the Paper Industry in collaboration with Dai-ichi Kogyo Seiyaku Co., Japan, our technology suppliers. The new products are under trials and the Company hopes to receive additional revenues in the coming year from these new products.

In the Waste Water Treatment and Mineral Processing, the Company was able to retain its business and market share in spite of increased price competition from multinationals.

The business opportunities from sewage and CETP sectors continue to be disappointing with slow progress in the projects startups and low consumptions.

Pharmaceuticals:

In 2005 the Company had obtained approval of its Shareholders through postal ballot for disinvestment of its Pharma Division, in line with the Company's focused business strategy, and exit from its non-core businesses.

The business was transferred to Inogen Laboratories Pvt. Ltd., a Joint Venture with GVK Bio and Dai-ichi Karkaria Ltd., in October 2005. The new Company, namely Inogen Laboratories Private Limited, is engaged in the business of process development, custom synthesis, scale up and manufacture of new chemical entities and Pharma Intermediates.

The Company believes that the spin off, of its Pharma business with a continued stake in Inogen will not only provide strategic focus to the Company, but will enable the Company to enter the emerging area of Contract Research.

The growing opportunity in the CRAMS segment and the expected gold run in the outsourcing and Contract Research And Manufacturing Services, together with the opportunity to Partner with multinationals and large global pharma companies, is seen as an attractive opportunity for the Company.

Dai-ichi Karkaria believes that its presence in the Pharma Industry, through Inogen, will strengthen the Company's position, whilst it continues to focus on its core strengths in Speciality Chemicals and the Oil & Refinery Sector better than generics segment which was highly competitive.

INTERNAL CONTROL SYSTEMS AND THEIR ADEQUACY

The Company has an adequate system of internal controls in all business spheres of its activities which are 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. In addition, the Audit Committee of the Board regularly addresses significant issues raised by the internal and the statutory auditors.

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 its 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 on 31st March, 2006, the total number of employees on the rolls of the company at Corporate Office and all locations was 286.

CAUTIONARY NOTE:

Certain statements in the MDA section may be forward looking and are stated as required by applicable laws and regulations. Many factors may affect the actual results, which could be different from what the Directors envisage in terms of future performance and outlook.

4. FIXED DEPOSITS:

Out of the fixed deposits totaling to approximately Rs. 248 Lacs as at 31st March, 2006, deposits amounting to Rs. 4.18 lacs which matured, have not been claimed by the depositors on the said date.

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

- a. The company has no employees of category specified as per Section 217(2A) of the Companies Act, 1956, read with Companies (Particulars of Employees) Rules, 1975 during the financial year.
- 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 this annexure to this Report.

6. DIRECTORS:

During the year Dr. K. H. Gharda has resigned from the Board w.e.f. 2nd September, 2005.

In accordance with the provisions of the Companies Act, 1956 and Articles of Association of the Company, Mr. D. M. Neterwala and Mr. A. H. Jehangir 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.

7. DIRECTOR'S RESPONSIBILITY STATEMENT:

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 judgments 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, 2006, and of the profit of the Company for the period April 1, 2005 to March 31, 2006;

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.

8. CORPORATE GOVERNANCE:

The Company has taken adequate steps to ensure that all mandatory provisions of Corporate Governance as prescribed under the amended Listing Agreement of the Bombay Stock Exchange Limited 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.

9. 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 (India) Limited 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 Standard 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.

10. LISTING:

The Equity Shares of your company are presently listed on The Bombay Stock Exchange Ltd. and the Company has paid the annual listing fees for the financial year 2006-2007.

11. 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 The Bombay Stock Exchange Ltd.

12. 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 The Bombay Stock Exchange Limited.

13. HEALTH, SAFETY & ENVIRONMENT:

Safety, Health & Environment protections 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.

Periodic safety audits and meetings are conducted. The recommendation of the meeting are implemented and reviewed in the following meeting to ensure compliance. Even minor incidents are reported, investigated and steps are taken to avoid recurrence of such incidents.

Periodic training programmes on safety are conducted for all the personnel and conducting Mock Drills of "On site Emergency Control Plan" checks their response to the emergency calls. Employees are always alert, prompt and capable of tackling emergency situations in the plants.

A special committee ensures good sanitation and hygienic condition 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 arrestors encompassing the entire area. Different types of

extinguishers are provided at various locations. All these are regularly monitored and maintained to ensure good operational condition. In addition to the 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.

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. Last year we have conducted special hazop study for PPD Plant. Our commitment is to select operationally safer and environmentally cleaner process right from R&D stage itself and constant upgradation of existing production technologies.

Company's efforts in improving Safety, Health, & Environment protection measures have resulted into "No Reportable Accidents" during this year and we could achieve Accident Frequency Rate (F.R.) 0.00 and Accident Severity Rate (S.R.) 0.00.

14. INDUSTRIAL RELATIONS:

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

15. 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.

16. 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.

17. 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

S. F. VAKIL
Vice-Chairperson &
Managing Director

K. D. PATEL
Director

Place : Mumbai
Date : June 30, 2006