



DAIKAFIL
CHEMICALS INDIA LIMITED

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13th ANNUAL REPORT
2004-2005

DAIKAFFIL

| | | | |
|---|---|--|---|
| Board of Directors | : | Amit J. Patel | - Chairman. |
| | : | Sishir R. Amin | - Managing Director. |
| | : | Jayant G. Patel | |
| | : | Yoshiaki Tagami | |
| | : | Kishore J. Tanna | |
| | : | Sudhir M. Patel | |
| | : | Jagdish J. Vasa | |
| | : | Aditya A. Patel | - Alternate Director to Yoshiaki Tagami |
| Bankers | : | Karnataka Bank Ltd., | |
| Auditors | : | Gaurang Merchant & Company | |
| Registrars and Share Transfer Agents | : | Intime Spectrum Registry Limited C-13, Panalal Silk Mills Compound L.B.S.Marg, Bhandup(West), Mumbai - 400 078. | |
| Registered Office | : | 52, Nariman Bhavan, Nariman Point, Mumbai - 400 021. | |
| Plant | : | Plot No.E/4, M.I.D.C., Tarapur, Boisar, Dist : Thane – 401 506. MAHARASHTRA | |
| ANNUAL GENERAL MEETING | | | |
| Date | : | September 14, 2005 | |
| Time | : | 11.00 A.M. | |
| Venue | : | M.C. Ghia Hall, Bhogilal Hargovindas Building, 18/20, Kaikhushru Dubash Marg, Mumbai – 400 001 | |

Members are requested to direct all correspondence relating to share matters to the Company's Registrars and Share Transfer Agents.

NOTICE

NOTICE is hereby given that the Thirteenth Annual General Meeting of Daikafil Chemicals India Limited will be held on Wednesday, the 14th day of September, 2005 at 11.00 A.M. at M.C. Ghia Hall, Bhogilal Hargovindas Building, 18/20, Kaikhushru Dubash Marg, Mumbai – 400 001 to transact the following business:

ORDINARY BUSINESS:

1. To receive, consider and adopt the Audited Balance Sheet as at 31st March, 2005 and Profit & Loss Account for the year ended on that date and the Reports of the Board of Directors and Auditors thereon.
2. To appoint a Director in place of Mr. Jagdish Vasa, who retires by rotation, and being eligible, offers himself for re-appointment.
3. To appoint a Director in place of Mr. Kishore Tanna, who retires by rotation, and being eligible, offers himself for re-appointment.
4. To appoint Auditors and to fix their remuneration.

By Order of the Board
for **DAIKAFIL CHEMICALS INDIA LIMITED**

SISHIR R. AMIN
MANAGING DIRECTOR

Registered Office:

52, Nariman Bhavan,
Nariman Point,
Mumbai-400 021
Date : June 30, 2005.

NOTES

1. **A MEMBER ENTITLED TO ATTEND AND VOTE AT THE MEETING IS ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE INSTEAD OF HIMSELF AND THE PROXY NEED NOT BE A MEMBER OF THE COMPANY. THE PROXY, IN ORDER TO BE EFFECTIVE, MUST 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 the Shares Transfer Books of the Company will be closed from Tuesday, the 6th day of September, 2005 to Wednesday, the 14th day of September, 2005 (both days inclusive).
3. The members are requested to:
 - (a) Intimate to the Company's Registrars and Share Transfer Agents M/s Intime Spectrum Registry Private Limited (for shares held in physical form) and to their Depository Participants (DP) (for shares held in dematerialized form) the changes, if any, in their registered address, Bank account number / details etc. at an early date;
 - (b) Quote ledger folio numbers / DP Identity and Client Identity Numbers in all their correspondences;
 - (c) Approach the Company for consolidation of folios, if shareholdings are under multiple folios;
 - (d) Get the shares transferred in joint names, if they are held in single name to avoid inconvenience;
 - (e) Bring their copies of the Annual Report and the Attendance Slip duly filled in for attending the Annual General Meeting;
 - (f) Members desirous of obtaining any information concerning the accounts and operations of the Company are requested to address their questions to the Company at the registered office address so as to reach at least seven days before the date of the Meeting, to enable the information required to be made available at the Meeting, to the best extent possible.
4. Pursuant to Section 205A of the Companies Act, 1956, the amount of unclaimed dividend for the financial year ended 31st March, 1997 have been transferred to the Investor Education and Protection Fund of the Central Government (the "Fund") during the financial year.

DAIKAFFIL**DIRECTORS' REPORT**

Dear Members,

Your Directors present their Thirteenth Annual Report together with the Audited Statement of Accounts along with the Report of the Auditors for the year ended 31st March, 2005.

FINANCIAL RESULTS:

| | 2004-2005 (Rupees) | 2003-2004 (Rupees) |
|---|-----------------------|-----------------------|
| Sales etc. and other income | 9,14,51,669 | 8,21,98,691 |
| Profit before Depreciation, Interest and Tax | 95,67,968 | 90,73,327 |
| Less: Depreciation | 54,48,798 | 55,87,060 |
| Interest | 9,96,608 | 14,08,428 |
| | 64,45,406 | 69,95,488 |
| Profit before Tax | 31,22,562 | 20,77,839 |
| Less : Provision for Tax | | |
| Current Tax | 2,50,000 | 1,00,000 |
| Deferred Tax | 12,14,051 | 11,79,826 |
| | 14,64,051 | 12,79,826 |
| Profit after Tax | 16,58,511 | 7,98,013 |
| Add: Balance Brought forward from the previous year | (67,74,164) | (77,30,728) |
| Excess Depreciation of earlier year written back | — | 1,58,551 |
| Balance Carried Forward | (51,15,653) | (67,74,164) |

DIVIDEND:

In view of the past carried forward losses, Your Directors are unable to recommend any dividend.

PERFORMANCE:

The year under review concluded with your Company achieving its Pre-Tax Profit at Rs. 31.23 Lakhs registering a reasonable growth of 50.28% over the previous year.

Despite difficult trading conditions presently prevailing globally, sales grew modestly by 11.19% to touch Rs. 9.14 Crores.

These results were achieved through continuing focus on management of costs, productivity improvements, continuous value addition to products, quality up gradation and strengthening the goodwill of your Company's valued customers. Timely cash flows from operations and retirement of debt resulted in further reduction in interest costs.

OUTLOOK:

The long term fundamentals remain intact and promises reasonable growth prospects except that large economies such as US, EU and Japan still sending elusive mixed signals for global economic recovery.

Your Directors are pleased to inform you that the Company has received during the year ISO9001:2000 certification from the British Standard Institution (BSI) accredited by UKAS & RvA for operating an excellent Quality Management system.

The Company has also received "One Star Export House" status from the Ministry of Commerce and Industry, Government of India, for a period of five years starting from April 1, 2004, in recognition of its success in penetrating the global markets for its products.

The Karnataka Bank Ltd., have also recognised the Company's export initiatives and granted it a "Gold Card" status " for our good track record in export transactions with the bank

Based on such confidence to achieve larger share of export market, the Company is exploring the possibilities of roping in some overseas strategic partner in an attempt to strengthen its presence in the fast growing Textile, Detergent and Paper Industries to meet global and regional aspirations.

Your Directors hope to bring before you such proposal accepted by the Company with assurance that it will be in the long run beneficial for the future growth, and look forward to receive your full support and co-operation.

DIRECTORS:

During the year, Mr. Aditya Patel was appointed as Alternate Director to Mr. Yoshiaki Tagami.

Mr. Jagdish Vasa and Mr. Kishore Tanna, retire by rotation at the ensuing Annual General Meeting and being eligible offer themselves for reappointment.

Their appointment would immensely benefit the Company looking at their business knowledge and expertise.

CORPORATE GOVERNANCE:

Your Company firmly believes that good governance is critical in sustaining corporate development, increasing productivity and competitiveness. It is not a matter of form but of substance, an article of faith and integral to core values of the corporate. We have been continuously striving for excellence through adoption of best governance.

Certificate of the Auditors of the Company regarding compliance of the conditions of Corporate Governance as stipulated in Clause 49 of the Listing Agreement with the Stock Exchange, is enclosed.

PARTICULARS OF EMPLOYEES:

The Company does not have any employee of the category specified in Section 217 (2-A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975.

AUDIT COMMITTEE:

As per the requirements of the Companies Act, 1956 and Listing Agreement, the Company has an Audit Committee consisting of all Independent Directors namely Mr. Kishore Tanna, Mr. Jagdish J. Vasa and Mr. Sudhir M. Patel

The Audit Committee met on three occasions on 23-06-2004, 22-10-2004 and 24-01-2005.

DIRECTORS' RESPONSIBILITY STATEMENT:

Your Directors wish to inform Members that the Audited Accounts containing Financial Statements for the Financial Year 2004-2005 are in full conformity with the requirement of the Companies Act, 1956. They believe that the Financial Statements reflect fairly, the form and substance of transactions carried out during the year and reasonably present the Company's financial condition and results of operations.

Your Directors further confirm that:

- (1) In the preparation of the annual accounts, the applicable accounting standards have been followed along with proper explanation relating to material departures.
- (2) The directors have selected such accounting policies and applied them consistently and 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 at the end of the financial year and of the profit or loss of the Company for that period;
- (3) The directors have taken proper and sufficient care of the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the company and for preventing and detecting fraud and other irregularities;
- (4) The directors have prepared the annual accounts on a going concern basis.

DAIKAFIL

The Company's internal Auditors have conducted audits to provide reasonable assurance that the Company's established policies and procedures have been followed.

SAFETY AND ECOLOGY:

Your Company continues to accord the highest priority to Environment, Occupational Health and Safety with a view to progressively achieve international standards while ensuring compliance with statutory requirements.

FIXED DEPOSITS:

The Company has not accepted any Deposit from the Public during the year under review. As on 31st March, 2005 no unclaimed deposits are lying with the Company.

INSURANCE:

All the Fixed Assets have been adequately insured.

FOREIGN COLLABORATORS:

Daika (Japan) Limited and Kiwa Chemicals Industries (Japan) continue to give their active support in the development of the Company and the Directors put on record their full appreciation for the co-operation being extended by them.

AUDITORS:

The Members are requested to appoint Auditors for the current year and to fix their remuneration. M/s Gaurang Merchant & Co., the retiring Auditors, are eligible for re-appointment and have furnished a certificate to the effect that their re-appointment, if made, will be in accordance with the limits specified in Section 224(1B) of the Companies Act, 1956.

AUDITORS REPORT:

The Auditors have vide para 4 (d) of their Report, made qualification about non compliance of Accounting Standard 15 in respect of the liability for Gratuity payable on retirement of Rs. 8.76 lacs being not provided for and also non compliance with Accounting Standard 28 in respect of impairment of Assets.

The Directors would like to inform that Company has availed Group Gratuity scheme from Life Insurance Corporation of India and an amount of Rs. 8.76 lacs is payable to them in installments as agreed between the Company and Life Insurance Corporation of India. Further, the Company is in the process of ascertaining impairment in carrying amount of assets by appointing a qualified valuer. However, the Board is of the opinion that no such impairment in carrying amount of assets has occurred as on the Balance Sheet date.

CONSERVATION OF ENERGY AND TECHNOLOGY ABSORPTION:

As required under Section 217(1)(e) of the Companies Act, 1956 read together with the Companies (Disclosure of Particulars in the report of the Board of Directors) Rules, 1988 the relevant information is given below.

The Company's operations involve high energy consumption. Wherever possible, energy conservation measures have already been implemented. The Company is making all efforts to optimise the use of energy improved operational methods. The Company has installed a coal fired IBR Boiler which will result into a considerable saving in the cost on account of power and fuel consumption.

Diesel Generating Set worked satisfactorily during the year whenever there was power failure on feeder lines of MSEB.

Relevant data in respect of energy consumption is as below.

| (I) Power & Fuel Consumption | | 2004-2005 | 2003-2004 |
|--|-----|------------------|------------------|
| 1. Electricity | | | |
| Purchased Units | | 5,03,457 | 5,62,614 |
| Total Amount | Rs. | 20,04,852 | Rs. 22,04,054 |
| Rate / Unit (Rs.) | Rs. | 3.98 | Rs. 3.91 |
| 2. Light Diesel Oil / Furnance Oil | | | |
| Quantity (Litres) | | 5,570 | 4,310 |
| Total Amount | Rs. | 1,16,647 | Rs. 96,465 |
| Average Rate (Rs. / Ltrs) | Rs. | 20.94 | Rs. 22.38 |
| 3. Coal | | | |
| Quantity (Kgs) | | 7,71,681 | 7,58,784 |
| Total Amount | Rs. | 25,94,759 | Rs. 20,46,490 |
| Average Rate (Rs./ Kgs) | Rs. | 3.36 | Rs. 2.70 |
| (II) Consumption per Unit of Production | | | |
| Electricity | | Rs. 3.20 P/Kg. | Rs. 4.17 P/Kg. |

FOREIGN EXCHANGE EARNINGS AND OUTGO:

(Rs. in Lakhs)

| | |
|----------------------------|--------|
| Foreign Exchange Earnings: | 749.42 |
| Foreign Exchange Outgo : | 250.05 |

LISTING AGREEMENT COMPLIANCE:

Pursuant to the requirements of the Listing Agreement, the Company declares that its Equity Shares are listed on the Stock Exchange, Mumbai.

PERSONNEL:

Last wage agreement with the workers' union came to an end during the year end and with cordial relationship presently prevailing the management's focus would be to harness human resources to unleash their maximum potential so as to achieve Company's vision and business goals.

ACKNOWLEDGEMENT:

Your Directors place on record their deep appreciation and thanks for all the timely assistance and support given by the Company's Bankers. The employees are instrumental in your Company's steady progress year after year and the Directors convey their deep appreciation of commitment and contribution made by the employees. It would not be out of place to extend our sincere thanks to valued Customers globally, whose continuous support is a pillar of strength. Last but not the least, Your involvement as Shareholders is greatly valued and look forward to your continuing support.

For and on behalf of the Board,

AMIT J. PATEL
CHAIRMAN

Mumbai, June 30, 2005

DAIKAFIL**MANAGEMENT DISCUSSION AND ANALYSIS****1) BUSINESS OF THE COMPANY****A Business Segment**

The Company's business covers:

- (a) Optical Brightening Agents (OBAs) mainly used in Textiles, Papers, Pulp and Detergents.
- (b) Intermediates and Naphthols for pigments.

Whereas in OBAs, main competition in domestic market emanates from well known MNC subsidiaries operating in the country and their cheaper imports from Principals in EU who are now in the process of closing such unremunerative production, thereby giving better opportunities globally.

Your Company exports 77 % of its OBA production mainly to Italy, Spain, UK and Thailand.

Based on excellent quality maintained since last few years, sales of Intermediates have had relatively smooth sailing particularly with the Clariant Group, the pigment major worldwide.

Kiwa Chemicals Ind. (Japan) have fully co-operated in procuring their requirements of Naphthols from the Company.

B SWOT Analysis

- The Company is one of the few ISO 9001:2000 certified units manufacturing Optical Brighteners and Pigment Intermediates. This quality certification would give the Company an edge in the International Markets due to its strength in Quality Management System.
- The quality of all the products are up to international standards which have been well approved by Multinational Companies and Japanese Collaborators.
- Current installed capacities may not match the additional demands due to the expected boom in the textile industry resulting in cheap imports.
- Domestic sales have to be activated through the appointment of state wise Marketing Agents / Stockist / Distributors.
- Gap between demands and supply of brighteners for Textiles, Papers and Detergents.
- Political Stability & Economy on a take off.
- Textiles sector receiving large scale foreign investment due to the lifting of the Textile Quota system from 1/1/2005 which may create big demands of the Optical Brighteners.
- Government commitment to 'reform and liberalisation process'.
- Effective in-house strength of Research and Development, supply management and project completion.
- Sound order backlog to sustain performance.
- New Government policy initiative in Textile Chemicals.
- The Company faces threat from competitors, especially China, both in domestic and export markets. The price Competition in the domestic market for some of the products may affect profitability. The process of globalisation also increase threat of competition from few MNC subsidiaries, operating domestically.

C Quality Policy

Constant vigilance is maintained at every stage of process from input of raw materials and utilities till the finished goods are ready packed and delivered. Quality has remained as Company's motto and main objective to enhance customers satisfaction.

D Research & Development

Consequent to special efforts put in by R & D, the Company have put in the export market a Optical Brightner mainly used in detergents as there are very few players left in the European Industry.

E Joint Venture

The Company is all the time on a look out for a strategic partner so as to tie up with the view to increase market share of the Company.

2) INTERNAL CONTROL SYSTEMS AND THEIR ADEQUACY:

Your Company remains committed to ensuring an effective internal control environment that provides assurance on the efficiency of operations and security of its assets.

The adequacy and effectiveness of the internal control environment across the various business as well as compliance with the laid down systems and policies are comprehensively monitored by your Company's well established internal audit processes both at divisional and corporate levels.

3) FINANCIAL PERFORMANCE & ANALYSIS:

The Company's net sales and other income from operations in the year 2004-05 was Rs. 914.52 Lakhs against Rs. 821.99 Lakhs in the previous year, an increase of 11.26%. The export sales and other income registered an increase of 18.39% to reach Rs. 749.42 Lakhs in the year. The profit before taxation was Rs. 31.22 Lakhs.

The improvement in turnover and net profit during the year under review reflects the continuous efforts of the Management and the employees towards cost reduction, improvement in process technology and efficiency, improvement in productivity and development of new products.

4) HUMAN RESOURCE DEVELOPMENT / INDUSTRIAL RELATIONS:

Human Capital is one of the key elements of sustainable competitive advantage and shareholder value creation. Your Company's human resource philosophy aims at nurturing an organizational culture that respects people, empowers and enables them to deliver quality performance.

5) CAUTIONARY STATEMENT:

Statements relating to projections & objectives are made on certain assumptions, forecasts and visible trends in the industry, subject to change, due to several uncertain factors prevailing in the economy.

