



DAIKAFFIL
CHEMICALS INDIA LIMITED

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15th ANNUAL REPORT
2006-2007

DAIKAFFIL

Board of Directors : Amit J. Patel - Chairman.
 : Sishir R. Amin - Managing Director.
 : Jayant G. Patel
 : Yoshiaki Tagami
 : 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 20th, 2007

Time : 10.30 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.

DAKAFFIL CHEMICALS INDIA LIMITED

Regd. Office: 52, Nariman Bhavan, Nariman Point, Mumbai-400 021

NOTICE

NOTICE is hereby given that the Fifteenth Annual General Meeting of **DAKAFFIL CHEMICALS INDIA LIMITED** will be held on Thursday, the 20th day of September, 2007 at 10.30 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, 2007 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. Amit J. Patel, who retires by rotation, and being eligible, offers himself for re-appointment.
3. To appoint a Director in place of Mr. Yoshiaki Tagami, 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 **DAKAFFIL CHEMICALS INDIA LIMITED**

SISHIR R. AMIN
(MANAGING DIRECTOR)

Registered Office:
52, Nariman Bhavan,
Nariman Point,
Mumbai-400 021
Date : July 31st, 2007.

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 13th September, 2007 to 20th September, 2007 (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 upto financial year ended 31st March, 1997 have been transferred to the Investor Education and Protection Fund of the Central Government (the "Fund").

DAIKAFFIL**DAIKAFFIL CHEMICALS INDIA LIMITED**

Regd. Office: 52, Nariman Bhavan, Nariman Point, Mumbai-400 021

DIRECTORS' REPORT

Dear Members

Your Directors present their Fifteenth Annual Report together with the Audited Statement of Accounts along with the Report of the Auditors for the year ended 31st March, 2007.

FINANCIAL RESULTS:

	2006-2007 (Rupees)	2005-2006 (Rupees)
Sales etc. and other income	14,35,87,305	11,64,29,151
Profit before Depreciation, Interest and Tax	1,32,83,165	1,03,71,321
Less: Depreciation	40,35,888	49,07,439
Interest	6,09,396	11,10,012
	<u>46,45,284</u>	<u>60,17,451</u>
Profit before Tax	86,37,881	43,53,870
Less: Provision for Tax		
Current Tax	11,85,000	3,65,000
Deferred Tax	17,95,000	14,49,795
	<u>29,80,000</u>	<u>18,14,795</u>
Fringe Benefit Tax	83,000	75,000
Profit after Tax	55,74,881	24,64,075
Add: Balance Brought forward from the previous year	(26,39,018)	(51,15,653)
Provision for Income Tax of earlier year	-	12,560
Balance Carried Forward	<u>29,35,863</u>	<u>(26,39,018)</u>

DIVIDEND:

Though the Company has wiped out all carried forward losses and turned the corner, in view of funds requirements for meeting the Company's expansion / diversification plans in near future, the Board have reluctantly decided not to declare any dividend, till the outlook is clear.

PERFORMANCE:

Gross sales for the year aggregated to Rs.14.20 crores reflecting a growth of around 23.17% over the previous year. Inflation of Inputs like Raw Materials & Utilities during the year was slightly higher, thus impacting profitability, though overhead were kept under control.

Profit before Depreciation Interest & Taxes (PBDIT) for the year is high at Rs. 1.33 Crores as compared to Rs. 1.04 crores of previous year an increase of 28%

Profit before Tax is at Rs. 86.38 Lacs as compared to Rs.43.54 Lacs of the previous year an impressive increase of 98.39%.

M/s. G.E.Chemical Company S.A. Luxembourg

Despite Special Resolution passed by the Share holders at the last Annual General Meeting and positive recommendations by all Members of the Takeover Panel, SEBI vide their order No WTM/GA/134/CFO/2/07 dated 5th Feb'07 rejected the application for preferential allotment of 25.10% of the Company's Equity Share to G. E. Chemical Company S.A. on the Ground that Such Exemption would not be in the interest of the Shareholders.

Consequently, the Company is pursuing other alternatives to collaborate with G.E. Chemicals Company S.A. Luxembourg so as to expand our production base that may require Company's financial Participation along with active management of the proposed new set-up.

OUTLOOK:

You are aware that company exports approximately 80% of its production mainly to European Union, South America and Japan. On account of recent legislation passed by European Parliament, Indian Chemical Industry have to bear the burden of huge additional costs arising out of REACH as explained in this report, in order to remain in the Global Market.

DAIKAFFIL

Besides Export Trade have been hit hard due to sudden appreciation of around 10% of the Rupee particularly in relation to US \$ and EURO.

In response to several recommendation for the exemption made by the Union Commerce Ministry to protect exports from ravages of the appreciating rupee, the Govt. have now announced measures to ensure that there is no drop in exports.

Under its Policy of liberalization, the Government have reduced Import duties on many important Chemicals from 12.50% to 7 % which is a real threat to small and Medium Enterprises. Besides many multinational Companies have set up large capacity plants in South East Asian Countries & China which pose intense competition in export.

As against these adverse factors, the only ray of hope is that China, which is the most formidable competitor of sourcing for Global Players is fast losing its supremacy as its several Chemical factories are being closed due to high Labour costs and environment problems. This gives the Indian Chemical Industries a fair chance to penetrate in the vacuum thus created, and opens up opportunities for Indian chemical companies in exports.

The Clean-up operations of Chemical Production in China will bring order to the Global Chemical industry.

REACH:

The largest and most-Complex piece of legislation have been passed by European Parliament and Council in December, 2006 which has come into force from 1st June 2007, despite hostile opposition and huge pressure from chemical Industry, political leaders and the USA, against the proposals that would raise serious trade issues, and put million of jobs potentially at risk.

REACH stands for Registration, Evaluation and Authorisation of Chemicals. The objectives are to improve the protection of human health and environment through better and earlier identification of hazard properties of Chemical substances. Data is mandatory for all products to be manufactured and / or marketed for consumption across all 25 EU member states. Besides, its greater responsibility for the Chemical Industry to manage risks and provide safety information. No wonder USA and all the developing Countries firmly oppose EU's unilateral imposition of multilateral precautionary principal based regulation such as REACH.

- **Registration :**
Each producer and importer of chemicals in volume of 1 Ton or more per annum have to register with a new chemical agency in Europe, giving information on properties, uses of safe ways of having the chemicals, so as to assess intrinsic hazards and its impact on human beings as well as environment.
- **Evaluation :**
Through evaluation, public authorities will look into details at registration dossiers and at substances of concern. It is expected that about 30,000 Substances will be scrutinized for animal testing and if not satisfied limit to absolute minimum substances required to be authorised are substances which are Carcinogenic, Mutagenic, Repro-toxic (CMRs) Persistent, Bio-accumulative and Toxic(PBT) and very Persistent and very Bio-accumulative (vPvB).
- **Authorization :**
It means that certain manufacturers or importers will be permitted to use certain chemicals, which are known to be of high concern. It ensure that risks from substances of very high concern (SVHC) are properly controlled or that they are substituted. Also look for alternatives for hazardous chemicals. It is user specific authorization that will be required for chemicals that can cause cancer, mutations or reproductive problems or accumulate in our bodies and harm the environment. In all such case, authorization will be required.

Authorization will be granted only to companies that can show that the risks are adequately controlled or the provision is that if social and economic benefits out-weigh the risks or where no suitable alternatives, technology or products are known or available for that particular application. In such case, authorization will be given but again it is user specific with high restrictions.

DIRECTORS:

Mr. Amit Patel and Mr. Yoshiaki Tagami, retire by rotation at the ensuing Annual General Meeting and being eligible offer themselves for reappointment.

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

CORPORATE GOVERNANCE:

A separate section on Corporate Governance and a certificate from Auditors of the Company regarding compliance of conditions of Corporate Governance as stipulated under Clause 49 of the Listing Agreement with Bombay Stock Exchange Limited, forms part of the Annual Report.

DAIKAFFIL

PARTICULARS OF EMPLOYEES:

The Company does not have any employee of the category specified in Section 217 (2A) 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 Two Independent Directors and One Executive Director namely Mr. Sudhir Patel, Mr. Jagdish J. Vasa and Mr. Sishir Amin.

The Audit Committee met on four occasions on 28-04-2006, 30-06-2006, 31-10-2006 and 18-01-2007.

DIRECTORS' RESPONSIBILITY STATEMENT:

Your Directors wish to inform Members that the Audited Accounts containing Financial Statements for the Financial Year 2006-2007 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.

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, 2007, 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 Leave encashment payable on retirement as the liability for the same is not ascertained and also non compliance with Accounting Standard 28 in respect of Impairment of Assets.

The Company is in the process of creating a separate fund during the current financial year with Life Insurance Corporation of India Ltd., for taking appropriate Leave encashment plan. The full liability of in respect of Leave encashment shall be ascertained by the actuary after which the relevant provision for Leave encashment will be made.

Further the Board is of the opinion that no impairment in carrying amount of assets has occurred as on the date of Balance Sheet.

DAIKAFFIL**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.

		2006-2007	2005-2006
(I)	Power & Fuel Consumption		
	1. Electricity		
	Purchased Units	506583	5,47,869
	Total Amount	Rs. 27,61,162	Rs. 21,58,110
	Rate / Unit (Rs.)	Rs. 5.45	Rs. 3.94
	2. Light Diesel Oil / Furnance Oil		
	Quantity (Litres)	5,800	4,900
	Total Amount	Rs. 2,17,504	Rs. 1,75,070
	Average Rate (Rs./Kgs)	Rs. 37.50	Rs. 35.73
	3. Coal		
	Quantity (Kgs)	8,98,030	8,69,615
	Total Amount	Rs. 37,95,030	Rs. 33,82,498
	Average Rate (Rs./Kgs)	Rs. 4.23	Rs. 3.89
(II)	Consumption per Unit of Production		
	Electricity	Rs. 1.88 P/Kg.	Rs. 2.03 P/Kg.

FOREIGN EXCHANGE EARNINGS AND OUTGO:

	(Rs. in Lacs)
Foreign Exchange Earnings:	1054.72
Foreign Exchange Outgo :	335.27

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:

Wage agreement with the worker's union has been duly executed in the last year which is valid till 30/11/2007 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:

The Directors take this opportunity to express their appreciation for the dedicated and sincere efforts put in by all employees for continued good performance of the company.

The Directors wish to place on record their gratitude to all our valued, Customers, Bankers and the shareholders for their unstinted support and for the confidence reposed in the company management.

For and on behalf of the Board,

Mumbai
Mumbai, June 29, 2007

AMIT J. PATEL
CHAIRMAN

DAIKAFFIL

MANAGEMENT DISCUSSION AND ANALYSIS

1) BUSINESS OF THE COMPANY

A Information about the Company:

Daikaffil Chemicals India Ltd. established on 19/6/1992, is an 16 years old company. The main strength of the Organisation lies in its employees and the technological superiority of the products manufactured, which has enabled the Company to maintain a steady growth over the years and also create and establish its brand name "DIKAPHOR " in the Industry. The Company has an open culture with transparency in operations and a professional approach in innovations of its products, work and processes.

Daikaffil has been consistently meeting challenges of the dynamic business, rising costs, industry demands and competitive scenario, in order to meet profitability and manage the resources more effectively, meeting customer's expectations at the same time.

B How the Industry Fared

The Chemical Industry continues to do well riding high on the growth in Textiles and Paper Sectors. GDP growth of 8.5% for the year has been supporting and so has been the growth of 10.5% in Manufacturing and 3% in agriculture. These are the indicators of the buoyant economy. Only concern has been the inflation, which has been hovering around 6%. The Raw material prices for the majority of the period in this year have been on a rise.

Sales growth for DAIKAFFIL has been in line with the Industry growth. The growth this year is led by Textile and Paper business. The management therefore looks to the future with confidence, even though there is increasing competition from other Chemical Companies especially from China.

C SWOT Analysis

The Company continues to identify gaps in the customers needs as well as the industrial demands of its Brighteners both for Textiles and Paper and has been expanding its brand portfolio.

Value additions, customer responsiveness and satisfaction are keys to performance and for retaining the market share. Delivering the products at the prices which are competitive, inspite of rise in Raw Material cost and still maintain profitability is an ongoing challenge requiring a continuous working on improving internal operational efficiencies. Daikaffil has been therefore continuously working in the areas of product improvements, innovation in products and services. Various Brighteners have been offered addressing the needs of the Industry both on quality and price.

There is a growing competition visible with more and more players entering the industry and the way business is transacted getting redefined.

D Segment wise performance :-

The Company has only one segment of activity namely " Dyes /Optical Whitening Agents " in accordance with the definition of " Segment " as per the Accounting Standard 17 issued by the Institute of Chartered Accountants of India. The performance of the Company is discussed separately in this report.

E Risks & Concerns

Macro economic conditions do affect the Company operations as is the industry. Low demand, political instability, natural calamities may affect the business. Business therefore cannot be risk free. What is important is to correctly assess the risk area wise, understand the impact and initiate action to mitigate the risks. General risk areas are classified under heads like statutory compliances, financial, government regulations and policies, market related, operational, products and technology. Availability of Raw Materials at the right price and at the right time is crucial for maintaining steady supplies to the customers.

Rising prices of Raw Materials, Utilities and the Rupee appreciation against US Dollar and Euro are a major cause of concern.

F Research & Development [R&D] and Technology

Research and Development activity of the Company continued carrying out research in its Brighteners, Naphthols, quality up gradation of its existing products ,process developments etc.

The benefits derived as a result of R&D have been in development and commercialization of new products mainly brighteners.

- 2) **Internal control systems and their adequacy :**
 Improved productivity was the key in simplifying the business processes. Daikaffil has an adequate internal control system at place which assures that : All the transactions are authorised, recorded and reported correctly. The operations are conducted in an efficient and cost effective manner. The assets of the Company are adequately protected. The key elements of the internal control system of the Company are : Organisation structure is well defined and limits of authorisation are well assigned.
 The presence of internal control environment across various business as well as compliance with laid down systems and policies are comprehensively monitored by internal processes both at divisional and corporate levels.
- 3) **Financials performance & Analysis :**
 Gross Sales for the Year aggregated to Rs. 1419.20 Lakhs reflecting a growth of around 23.17 % over the previous year.
 Overheads were kept under control. Overall overheads as a percentage to sales, dropped from 11.38% to 10.88%.
 Profit before Depreciation, Interest and Taxes for the year is higher at Rs.132.83 lakhs as compared to Rs. 103.71 lakhs of previous year reflecting a growth of 28.07%.
 Depreciation for the year is lower at 40.36 lakhs as compared to Rs 49.07 lakhs of previous year.
 Profit before tax is at Rs. 86.38 lakhs as compared to Rs. 43.54 lakhs which is a growth of 98.39%
- 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.


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DAIKAFFIL**CORPORATE GOVERNANCE**

Company's Policies on the Corporate Governance and due Compliance Report on specific areas wherever applicable for the year ended 31st March, 2007 are hereunder divided into the following areas:-

I. COMPANY'S PHILOSOPHY ON CORPORATE GOVERNANCE:

Company's Philosophy of Corporate Governance is intended to bring about

- Transparency and Professionalism in activities of the organization.
- Implementation of policies and procedures prescribed by the Company to ensure high ethical standards in all its business activities and responsive management.

II. BOARD OF DIRECTORS:**(a) Composition of the Board**

- The Board of Directors of the Company consists of eminent persons with considerable expertise and experience in business and industry.
- The composition of the Board of Directors with reference to Executive and Non Executive Directors meets the requirement of code of Corporate Governance.
- Out of Six Directors, there is One Non-Promoter Executive Director namely Mr. Sishir R. Amin and Two Promoter Non - Executive Directors namely Mr. Jayant G. Patel and Mr. Amit J. Patel.
- There are three independent Directors namely Mr. Yoshiaki Tagami, Mr. Jagdish J. Vasa and Mr. Sudhir M. Patel.
- Mr. Aditya Patel was appointed as an Alternate Director to Mr. Yoshiaki Tagami on 31st January, 2005.

(b) Number of Board Meetings held and attended by Directors

Board Meetings are held at least four times during the year coinciding with the presentation of each quarterly result. During the last financial year, five Board Meetings were held on 28th April, 2006, 30th June, 2006, 31st July, 2006, 31st October, 2006 and 18th January, 2007.

The Meetings were attended as follows.

- Mr. Jayant G. Patel, Mr. Amit J. Patel, Mr. Sishir R. Amin attended all the five Meetings.
- Mr. Aditya Patel (Alternate to Mr. Yoshiaki Tagami) attended all the five Meetings.
- Mr. Sudhir Patel and Mr. Jagdish Vasa attended four Meetings.

All the Directors attended the last Annual General Meeting held on 25th September, 2006 except for Mr. Yoshiaki Tagami.

(c) The details of other Directorships and Committee Membership:

Name of the Directors	Category of Directors	No. of Other Directorships held	No. of other Board Committee(s) Of which He/she is	
			Member	Chairman
Jayant G. Patel	Promoter – Non Executive	1	0	0
Amit J. Patel	Chairman – Promoter – Non Executive	1	0	0
Sishir R. Amin	Non Promoter – Executive	1	0	0
Sudhir M. Patel	Independent – Non-Executive	11	4	1
Jagdish J. Vasa	Independent – Non-Executive	6	1	0
Yoshiaki Tagami	Independent – Non-Executive	0	0	0
Aditya Patel	Promoter – Non Executive (Alternate to Mr. Yoshiaki Tagami)	1	0	0