Ecoplast Limited

Twenty Fourth Annual Report and Statement of Accounts for the year ended 31st March 2006

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'Mark of Prestige'

QUALITY
ASSURED
COMPANY
ISO 9001

International Standards
Certifications

Lic. No. QAC/R91/0503

This Logo certifies that the Company's Quality Management System complies with the requirement of the International Standard ISO 9001, for "Manufacture and Supply of Plastic Films Excluding Design and Development".

Ecoplast Ltd.

Twenty Fourth Annual Report 2005-2006

Board of Directors :
Mr. P. P. KHARAS – Chairman & Managing Director
Mr. J. B. DESAI – Executive Director
Mr. BANKIM B. DESAI – Director
Mr. P. D. KARKARIA – Director
Mr. J. A. MOOS – Director
Mr. B. B. DESAI – Director (Alternate to Bankim B. Desai. Resigned on 27.10.05)
Mr. N.J.N. VAZIFDAR – Director
Mr. D. T. DESAI – Director (Alternate to Bankim B. Desai. Appointed on 20.01.06)

Secretary : Mr. B. R. Tarafdar

Bankers : UNION BANK OF INDIA
Mumbai Samachar Marg,
Mumbai – 400 023.

Legal Advisors : M. S. Bodhanwalla & Co.
Motlibai Wadia Building,
22D, S. A. Brelvi Road,
Fort, Mumbai – 400 001.

Auditors : M/s. AKKAD MEHTA & CO.
Chartered Accountants,
Vatika Bldg., Flat No. 2,
14 Baptista Rd.,
Opp.Ishwarlal Park,
Vile Parle (W),
Mumbai – 400 056.

Share Registrars & Managers to the Fixed Deposit Scheme : TSR DARASHAW LTD.
Army & Navy Building,
148, Mahatma Gandhi Road,
Fort, Mumbai – 400 001.

Registered Office : National Highway No. 8,
Water Works Cross Road,
Abrama,
Valsad – 396 001, GUJARAT.
E-Mail : ecoval@ecoplastindia.com

Head Office : 4, Magan Mahal,
215, Sir. M. V. Road,
Andheri (E), Mumbai-400 069.
E-Mail : ecobom@ecoplastindia.com

Web site : http:\\www.ecoplastindia.com

C O N T E N T S

NOTICE TO MEMBERS

Notice is hereby given that the TWENTY FOURTH Annual General Meeting of the members of Ecoplast Ltd, will be held on Friday, 1st September 2006 at 11.00 a.m. at the Registered Office of the Company at National Highway No. 8, Water Works Cross Road, Abrama, Valsad – 396 001 to transact the following business :

ORDINARY BUSINESS

1. To receive, consider, approve and adopt the Audited Balance Sheet as at 31st March 2006, the Profit and Loss Account for the year ended on that date and the Reports of the Directors and the Auditors thereon.
2. To declare a Dividend on Equity shares for the financial year ended 31st March, 2006.
3. To appoint a Director in place of Mr. P. D. Karkaria who retires by rotation, and being eligible, offers himself for reappointment.
4. To appoint M/s. Akkad Mehta & Co., Chartered Accountants, retiring Auditors of the Company who are eligible for reappointment, as the Auditors of the Company from the conclusion of this Annual General Meeting to the conclusion of the next Annual General Meeting and to fix their remuneration.

By Order of the Board of Directors
For Ecoplast Limited

B. R. TARAFDAR

Company Secretary & Finance Controller

Mumbai, 28th June, 2006

Notes :

(a) A MEMBER ENTITLED TO ATTEND AND VOTE AT THE MEETING IS ENTITLED TO APPOINT ONE OR MORE PROXIES TO ATTEND AND VOTE INSTEAD OF HIMSELF AND SUCH PROXY NEED NOT BE A MEMBER OF THE COMPANY. THE PROXY FORM DULY COMPLETED MUST BE RETURNED SO AS TO REACH THE REGISTERED OFFICE OF THE COMPANY NOT LESS THAN 48 HOURS BEFORE THE TIME FOR HOLDING THE AFORESAID MEETING.

(b) The Register of Members and the Share Transfer books of the Company will remain closed from 11th August, 2006 to 1st September 2006 (both days inclusive)

(c) Dividend as recommended by the Directors for the year ended 31st March, 2006, if declared, will be deposited in a separate bank account within five days of declaration thereof and will be payable before 30 days from the date of declaration of dividend to those shareholders whose names appear in the register of Members as at the close of business on 1st September 2006. The Dividend in respect of shares held in the dematerialized form will be paid to the beneficial owners of the shares whose names appear in the Register and Index of Beneficial Owners as on close of business hours on 10th August 2006, as per details furnished by the depositories for this purpose.

(d) Members seeking further information on the Accounts are requested to write to the Company at least seven days before the meeting, so that relevant information can be kept ready at the meeting.

(e) Members are requested to notify any change in their address to M/s TSR DARASHAW LTD., Army & Navy Building, 148 Mahatma Gandhi Road, Fort, Mumbai 400 001.

(f) In accordance with the provisions of Section 205A of the Companies Act, 1956, the Company has, from time to time, transferred the unclaimed dividends relating to the years upto and including 1997-98 to the General Revenue Account of the Central Government. Members who have a valid claim to any amount being dividend unclaimed by them, pertaining to the period upto and including 1997–98, may claim the same from the Registrar of Companies, Gujarat in the prescribed manner.

In terms of Section 205A (5) of the Companies Act, 1956, dividends remaining unpaid or unclaimed for a period of seven years from the date of transfer to the unpaid / unclaimed dividend account of the Company shall be transferred by the Company to the Investor Education and Protection Fund established by the Central Government pursuant to sub-section (1) of Section 205C of the Companies Act, 1956. Members are requested to seek early settlement of claim for payment of unpaid dividend from the Company. Members may please note that no claim of the transferred unclaimed / unpaid dividend shall lie against the Fund or the Company upon transfer of the amounts to the Fund.

By Order of the Board of Directors

B. R. TARAFDAR

Company Secretary & Finance Controller

Mumbai, 28th June 2006.

FINANCIAL HIGHLIGHTS

(Rs.'000)		31-3-2006	31-3-2005	31-3-2004	31-3-2003	31-3-2002
OPERATION						
Sales (Net)		**319,700**	352,976	284,962	271,895	319,955
Other Income		**636**	708	478	623	1,650
Operating Income [Before Depreciation and Investment Allowance]		**11,405**	20,568	21,671	29,426	30,253
Profit before Tax		**2,231**	12,300	14,091	20,331	21,540
Profit after Tax (including prior period items)		**2,555**	7,910	11,444	14,792	14,461
Dividend and Corporate Tax thereon		**3,421**	5,131	6,769	6,769	5,400
Retained Earnings		**(866)**	2,779	4,675	8,023	9,061
Earnings per Share (Rs.) [On Face Value of Rs.10/-]		**0.85**	2.64	3.81	4.93	4.82
ASSETS						
Gross Block		**182,190**	179,835	176,648	170,920	167,306
Net Block		**102,414**	108,673	112,461	104,279	110,354
Net Current Assets		**95,308**	94,878	79,882	83,765	79,350
Total Assets		**221,564**	248,177	218,934	214,115	223,869
NET WORTH						
Equity Capital		**30,000**	30,000	30,000	30,000	30,000
Reserves and Surplus		**85,327**	86,193	83,886	79,822	73,023
Net Worth		**115,327**	116,193	113,886	109,822	103,023
Book value per share (Rs.) [On Face Value of Rs.10/-]		**38.44**	38.73	37.96	36.61	34.34
BORROWINGS						
Long Term		**7,641**	8,986	3,790	9,468	17,147
Short Term		**60,912**	58,077	55,703	48,958	49,254
		68,553	67,063	59,493	58,426	66,401
RATIOS						
Profit before tax to Sales and other Income	%	**0.70**	3.48	4.94	7.46	6.70
Profit before tax to Net Worth	%	**1.93**	10.59	12.37	18.51	20.91
Dividend to Equity Capital	%	**10**	15	20	20	18
Dividend to Net Worth [Yield]	%	**3**	4	6	6	5
Return on Capital Employed	%	**5**	10	12	15	18
Dividend Cover	Times	**0.75**	1.54	1.69	2.19	2.68
Current Ratio	Ratio	**1.69:1**	1.62:1	1.67:1	1.83:1	1.57:1
Long Term Debt:Equity	Ratio	**0.26:1**	0.30:1	0.13:1	0.32:1	0.57:1

DIRECTORS' REPORT

To

The Shareholders,

The Directors are pleased to present the Twenty-Fourth Annual Report and Audited Accounts for the year ended 31st March 2006.

1. FINANCIAL RESULTS

		Rs.'000
	31-3-2006	31-3-2005
Net Sales	**319,700**	352,976
Other Income	**636**	708
Sales and Other Income	**320,337**	353,684
Operating Profit (before Depreciation)	**11,405**	20,568
Less: Depreciation	**9,174**	8,268
Profit before tax	**2,231**	12,300
Less: Provision for Tax		
Current Tax	**1,900**	4,155
Deferred Tax Credit	**(2,857)**	968
Fringe Benefit Tax	**570**	0
Profit after Tax	**2,618**	7,177
Prior period adjustment	**534**	733
Short Provision of Tax for Prior Years	**(597)**	0
Net Profit after prior period items	**2,555**	7,910
Add : Balance brought forward	**25,176**	23,896
Profit available for Appropriation	**27,731**	31,806
APPROPRIATION :		
Transfer to General Reserve	**500**	1,500
Dividend on Equity Shares	**3,000**	4,500
Corporate Dividend Tax	**421**	630
Balance Carried Forward	**23,810**	25,176
	27,731	31,806

2. DIVIDEND

To conserve Cash resources for up-coming projects the Directors recommend a dividend of 10% for the year (previous year 15%) on the equity shares, for approval at the Annual General Meeting.

3. CAPITAL AND FINANCE

The Company continues to source its working capital from Union Bank of India, without any enhancement *in the existing facilities amounting to Rs.62.50 million.*

The Company has also availed of Rupee Term Loan of Rs. 2.45 million for purchase of Land.

4. FIXED DEPOSIT

The Company continued accepting Fixed Deposits from the public during the year under review. The Company received Rs. 2.25 million under the scheme during the year. At the close of the year there were no Fixed Deposits due for payment which remained either unclaimed or unpaid, except 19 deposits amounting to Rs. 514,000 which have matured but have not been claimed. Of these, 11 deposits amounting to Rs. 3,79,000 have been renewed or repaid upto the date of this Report.

The Company has complied with all the requirements of the Companies (Acceptance of Deposits) Rules, 1975.

The Company's Fixed Deposit scheme is rated "FA"- by CRISIL, indicating "Adequate Safety".

5. OPERATIONS

Domestic Sales

Earlier in the year prices of raw material polyethylene peaked to 60% above levels prevailing earlier. Several mid-size customers faced severe working capital shortage, leading to a situation where sales necessarily had to be curtailed or discontinued. Added to this situation was the fact that customers for multilayer films were unable to obtain escalations in laminate prices from FMCG companies, leading to a squeeze on our customers' profit margins.

One of the leading customers increased captive film production capacity, affecting sales in the last quarter of the year. Subsequently, the lost business has been regained. Another key customer switched their film consumption to extrusion coating, resulting in lower sales volumes, for this critical application.

Polyester film prices for lamination dropped by 50%, due to excess production capacity and severe competition. This situation sparked a trend towards a move to laminates from surface printed films, affecting the Company's printed film business.

On the positive side, new potential lamination film customers were developed. Speciality films to the Pharma packaging sector grew by 50%. Significant growth was also recorded in critical applications of laminates for lube-oil and hot-filled sauces.

More important, films developed for a critical industrial application, with technical support from a large USA based multinational, were successfully tested and accepted by customers. This application - a specialty - will be in commercial use in the current year, for domestic and export sales.

Domestic sales volume was lower by 17%, as compared to the previous year.

With the advent of competition from two new film suppliers in the Middle East, some low price but commodity film business, had to be sacrificed. Sales volumes were lower by 20%, as compared to the previous year. Those customers buying films for speciality applications, continued purchases. Four new export customers were developed.

Conclusion

The adverse impact of the market environment resulted in a 9% lower net sales income, and a business volume lower by 18%, as compared to the previous year.

6. PROSPECTS FOR THE CURRENT YEAR:

The higher projections for the current year are based on the implementation of a mnltidimensional strategy to:

a. Make commercial sales of films in a specialty industrial market segment, consisting of 12 domestic and one export customer, which will add about 4% to volume growth but 13% to additional revenues. Hitherto these films were imported.

b. Make deeper inroads into the largest segment of the business - Lamination - adding more customers and promoting critical film applications, such as "seal - peel" and metalisable films.

c. Promote films in two new market segments where customer needs are only partially satisfied.

d. Rationalize all overhead costs, with savings built into the Budget.

e. Further improve operational efficiencies.

This approach, along with the pursuit of new projects for unique value-added products, will secure the future growth of the Company.

7. CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION, FOREIGN EXCHANGE EARNINGS AND OUTGO

Information in accordance with Clause (e) of Sub-section (1) of Section 217 of the Companies Act, 1956, read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 and forming part of the Directors' Report for the financial year ended 31st March 2006 is given in the Annexure to this Report.

8. PARTICULARS OF EMPLOYEES

Information as per Section 217(2A) of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules, 1975 is not provided, as the same is below the limits prescribed under relevant rules.

9. AUDITORS' QUALIFICATIONS

The Auditors are required to qualify in their Report, with regard to the issue of Bonus Shares to the tune of Rs.10 Million by capitalisation of Revaluation Reserves in June 1994, on the plea that this is contrary to the recommendation of the Institute of Chartered Accountants of India.

In this connection the Directors would again like to clarify that the Company has been legally advised that the then prevailing provisions of the Companies Act, 1956 did not prohibit or restrict the Company from capitalizing its Revaluation Reserves by issue of Bonus Shares. The Capitalisation did not involve any release of the Company's assets to its shareholders, and in fact it froze any possibility of its distribution, except in the event of winding up.

Furthermore the Memorandum and Articles of Association of the Company also provided for and permitted the capitalisation of Revaluation Reserves by issue of Bonus Shares. The Bonus Shares were issued when the Company was a closely held Company, to whom the guidelines for issue of Bonus Shares by Public Company, as framed by SEBI, did not apply at the relevant time.

The Auditor's qualification was also based on the recommendation issued by the Institute of Chartered Accountants of India subsequent to the Company's issue of Bonus Shares. The Directors are therefore of the opinion that both according to the accounting principles and principles of Company Law, the Company was justified in capitalizing its Revaluation Reserve.

10. SUBSIDIARY COMPANY

As required under Section 212 of the Companies Act, 1956, Audited Statement of Accounts, Report of the Board of Directors and Auditors for the year ended 31st March 2006, for JAMPORE PRINTERS LIMITED are annexed herewith.

11. LISTING OF EQUITY SHARES

The Company's equity shares are listed on the Stock Exchange at Mumbai. The Company has paid listing fees for the period 1st April, 2006 to 31st March, 2007.

The Company's shares are now traded in 'Dematerialized Form.'

12. DIRECTORS

Mr. Bhupendra B. Desai alternate Director to Mr. Bankim B. Desai resigned with effect from 27.10.2005. The Board at its meeting held on 20th January 2006, appointed Mr. Dhananjay T. Desai, as an alternate Director to Mr. Bankim B. Desai.

Mr. P. D. Karkaria, retires by rotation at the ensuing Annual General Meeting and being eligible offers himself for reappointment.

13. CORPORATE GOVERNANCE

Pursuant to Clause 49 of the Listing Agreement with the Stock Exchange, a report on Corporate Governance and a Certificate obtained from the Auditors of the Company regarding Compliance with the conditions of Corporate Governance form part of this Annual Report.

14. DIRECTORS' RESPONSIBILITY STATEMENT

i) Pursuant to section 217 (2AA) of the Companies Act, 1956, the Directors confirm that:

In the preparation of the Annual Accounts, the applicable accounting standards have been followed and that there are no material departures from the applicable accounting standards.

ii) The Directors have selected such accounting policies and applied them consistently and made judgements and estimates that are reasonable and prudent so as to give a true and care view of the state of affairs of the Company at 31st March, 2006 and of the profit of the company for the year ended on that date;

iii) The Directors have taken proper and sufficient care 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;

iv) The Directors have prepared the Annual Accounts on a going - concern basis.

15. AUDITORS

M/s. Akkad Mehta and Co., Chartered Accountants, Auditors of the Company retire at the ensuing Annual General Meeting, and are eligible for reappointment. A Certificate to the effect that their reappointiment, if made, will be in accordance with the limit specified in Subsection (I -B) of Section 224 of the Companies Act, 1956 has been furnished.

16. ACKNOWLEDGMENT

The Directors take this opportunity to place on record their deep sense of gratitude to the Banks, Central and State Government departments, their local authorities especially, at Valsad, for their guidance and support. The Directors are also grateful to the customers, the suppliers and business associates of the Company for their continued co-operation and support. The Directors also express their appreciation for the total commitment, dedication and hard work put in by every employee of the Company and are grateful for the confidence and faith shown by the members of the Company in them.

On behalf of the Board of Directors

P.P. KHARAS
Chairman & Managing Director

Mumbai, 28th June 2006.

ANNEXURE TO THE DIRECTORS' REPORT

STATEMENT CONTAINING PARTICULARS PURSUANT TO THE COMPANIES (DISCLOSURE OF PARTICULARS IN THE REPORT OF BOARD OF DIRECTORS) RULES, 1988 AND FORMING PART OF DIRECTORS' REPORT.

A. CONSERVATION OF ENERGY

Adequate measures have been taken to avoid waste of energy. The requirement of disclosure with respect to conservation of energy is not applicable to the Company.

B. TECHNOLOGY ABSORBTION

RESEARCH & DEVELOPMENT (R & D)

1. Several new film structures were developed for consumer flexible packaging applications and for non-packaging applications. The range of speciality adhesive films was extended to other applications, with promising growth potential.

2. The Company filed a patent application for a process to manufacture polyamide (nylon). Also, for the first time in India the Company developed a barrier film, produced on its existing production line - a unique process.

3. Future plan of action :-

   (a) To continue development of special purpose films which are currently being imported.

   (b) To evaluate new generation of polyolefins, that have the potential to provide lighter weight packaging (lower thickness), without compromising on performance or which can be employed for higher packaging speeds, while maintaining the seal integrity of the pack.

   (c) To simulate packaging conditions and provide to customers comparative behaviour of existing and new polymers on packaging systems.

4. **R & D Expenditure** (Rs'000)

	31.03.06	31.03.05
a) Capital Expenditure	—	—
b) Recurring Expenditure	**679**	653
c) Total Expenditure	**679**	653
d) Total R & D Expenditure as a percentage of total turnover	**0.21%**	0.18%

C. TECHNOLOGY ABSORPTION, ADOPTION AND INNOVATION

Continuous efforts are made towards technology absorption, adoption and innovation by developing new film structures for applications in speciality market segments. The thrust has been on improving the quality of all products and developing new products to compete effectively in the market place.

No technology has been imported by the Company over the last five years.

D. FOREIGN EXCHANGE EARNINGS AND OUTGO

Activities relating to exports; initiatives taken to increase exports; development of new export markets for products; and export plans :

With the advent of competition from two new film suppliers in the Middle East, some low price but commodity film business, had to be sacrificed. Sales volumes were lower by 20%, as compared to the previous year. Those customers buying films for specialty applications, continued purchases. Four new export customers were developed. Efforts are being made to promote specialty films in the export market.

		(Rs'000)
a)	Foreign Exchange Earnings	: 115, 662
b)	Foreign Exchange Outgo	: 69, 309

For and on behalf of the Board of Directors

P. P. Kharas
Chairman & Managing Director

Mumbai, 28th June, 2006

MANAGEMENT DISCUSSION AND ANALYSIS

Industry Structure and Developments

Last year (the Twenty-Third Annual Report, 2004-05) we had outlined those factors responsible for sharply escalating prices of polymers. There are indications, that the circumstances that have driven prices to unprecedented levels will continue till end 2007.

Inspite of the tight supply situation till 2007, informed sources in the Industry predict that polymer demand in India is expected to grow by 14% p.a.; from 4.7 million MT in 2005 to 19 million MT by 2015, making India the third largest polymer consumer globally. Historically, the consumption of plastics between 1990 and 2004 has grown at a CAGR of 15%.

Another survey reveals that there are several factors which can impact on the growth of the plastic processing industry, namely:

- High level of excise duty (1 6%) and VAT 12.5%.
- Presence of a large grey market, encouraged by high rates of excise duty and sales taxes.
- Multiple units under the same promoter to obtain excise duty exemptions under the SSI ambit.
- Poor quality of power, leading to increased wastage.
- Lack of quality infrastructure - power, roads and ports.
- Lack of trained manpower.

When you consider these adverse factors, in reality the growth will probably be around 10% p.a.

Most of the existing polymer producers: RIL, IPCL, HPL, GAIL, IOC have announced plans for expansion of naphtha - cracker capacity, based on imported crude oil. All the new capacities in the Middle - East will be based on low-cost natural gas - leading to a rather unfavorable competitive situation in India.

On the positive side, customs duties on import of commodity polymers have been reduced in the last budget from 10% to 5% of CIF. Customs duties on import of capital equipment have also been reduced to 12.5% of CIF.

Basic information relating to the Plastics Industry in 2005 and the scenario in 2015, as projected by an Industry survey is as follows :

	2005	2015
1. Major raw material producers	15	15
2. Processing units approx.	20,000	20,000
3. Turnover	Rs. 250 billion	Rs. 1300 billion
4. Capital Assets	Rs. 470 billion	N.A.
5. Raw Material Production approx.	4.7 million MT	N.A.
6. Raw Material consumption approx.	3.9 million MT	19 million MT
7. Equipment - Direct / Indirect	2.5 million	9.5 million
8. Export Value approx.	USD 1104 million	USD 10 billion
9. Revenue to Government approx.	Rs. 60 billion	Rs. 160 billion

The survey further states that :

The Industry is highly fragmented: - public limited companies form less than 5% of the units.

- 82% of the units are under SSI.
- Overall only 16% of the units have ISO Registration.
- The average value of investment in a unit is around Rs. 63 lacs.

The raw materials predominantly used by the Company are polyethylene (PE) and co-polymers of ethylene. The polymer consumption profile in India is similar to the global demand profile.

The domestic demand of PE at 2.2 million MT p.a. in 2005-2006, exceeds production of 1.8 million MT p.a.

The PE for films corresponds to about 70% of the total consumption. The specialty segment for polyethylene lamination films for flexible packaging is limited to 50,000 MT p.a. of which 30,000 MT p.a. is produced in-house by laminators.