ELANTAS Beck India Ltd.

Annual Report 2012

ELANTAS
Electrical Insulation

New Corporate Office Building at Pimpri

Atrium

Board of Directors

Dr. Matthias Wolfgruber
Chairman

Dr. Guido Forstbach
(appointed w.e.f. 26 October 2012)

Dr. Wolfgang Schütt
(resigned w.e.f. 26 October 2012)

Mr. Suresh Talwar

Mr. Ravindra Kulkarni

Mr. Pradeep Mallick

Mr. Sharadkumar Shetye
(Alternate to Dr. Guido Forstbach)

Mr. Rajeev Bhide
Managing Director

Executive Management

Mr. Rajeev Bhide
Managing Director

Mr. Sharadkumar Shetye
Director- Manufacturing

Mr. Sanjay Kulkarni
General Manager - Finance & Materials

Mr. Sanjay Deosthali
Business Line Manager - South Asia

Company Secretary & Head-Legal, HRM

Mr. Shirish Dabir

Registered Office & Corporate Office

147, Mumbai-Pune Road,
Pimpri, Pune 411 018

Works

1) 147, Mumbai-Pune Road,
   Pimpri, Pune 411 018

2) Plot No. 1 (A, B & C) & 122,
   GIDC Industrial Area,
   Ankleshwar 393 002

Regional Offices

Bengaluru, Kolkata, New Delhi

website

http://www.elantas.com/beck-india

Auditors

BSR & Co.
Chartered Accountants
703, Godrej Castlemaine,
Next to Ruby Hall Clinic,
Bund Garden Road,
Pune 411001.

Internal Auditors

Mahajan & Aibara
1 Chawla House,
62 Woodhouse Road, Colaba,
Mumbai 400 005.

Solicitors

Talwar Thakore & Associates
3rd Floor, Kalpataru Heritage,
127, M.G. Road, Fort,
Mumbai 400 001.

Bankers

The Bank of Nova Scotia
HDFC Bank Ltd.
Kotak Mahindra Bank Ltd.

Registrars & Share Transfer Agents

Sharepro Services (India) Pvt. Ltd.
Sam Hita Warehousing Complex,
Warehouse No 52 & 53, Plot No 13AB,
2nd Floor, Sakinaka, Andheri (East),
Mumbai 400 072.

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Directors' Report

To the Members,

The Directors have pleasure in presenting the Fifty-seventh Annual Report and the Audited Accounts for the financial year ended 31 December 2012.

Financial Highlights

(₹ in lacs)

	Year ended 31.12.2012	Year ended 31.12.2011
Income from operations	**28,517.24**	27,500.45
Profit before Interest, Depreciation & Tax	**4,186.90**	4,100.72
Depreciation	**474.46**	499.80
Interest	**10.15**	6.82
Profit Before Tax	**3,702.29**	3,594.10
Provision for tax	**944.67**	1,120.29
Net Profit	**2,757.62**	2,473.81
Profit & Loss Account brought forward	**12,605.70**	10,792.51
Profit available for appropriation	**15,363.32**	13,266.32
Appropriations:		
Proposed dividend	**7,293.47**	356.75
Tax on Dividend distributed	**1,183.18**	56.50
Transfer to General Reserve	**275.76**	247.38
Carried to Profit & Loss Account	**6,610.91**	12,605.69
	15,363.32	13,266.32

Performance

The sales at ₹ 2732 million for the year ended 31 December 2012 registered a 2 % growth over the sales of ₹ 2668 million for the previous year ended 31 December 2011. However, in terms of sales quantity, the tonnage sold during the year ended 31 December 2012 marginally decreased by 0.15% over the previous year.

Cost of inputs continued to rise substantially during the year under review, putting the Company's contribution margins under severe pressure, as a consequence. The main reasons for this increase were as follows:

a) Increase in procurement rates of raw material;
b) Weakening of the Indian Rupee during the year by 11 % making the Company's imports dearer; and
c) Huge increases in procurement rates of electricity, fuel and natural gas.

The Company continued making efforts during the year to reduce the aggregate impact of such increases through the use of innovation, R&D & procurement which were moderately successful. However, owing to a contraction of demand for its products arising as a consequence of the economic and manufacturing slowdown last year, the Company was not able to increase its selling prices during the year, to neutralize the adverse impact on its input costs.

The sales volumes were maintained at the same level during the year under review. The Company was able to report a marginal increase in both Profit Before Tax and Profit After Tax.

Dividend

The Directors are pleased to recommend a normal dividend of ₹ 4.50 per equity share and a special dividend of ₹ 87.50 per equity share, of ₹10/- each, for the year ended 31 December 2012.

Directors

During the year under review, Mr. Prashant Deshpande retired as the wholetime Director of the Company with effect from 09 July 2012 and also resigned from the position of Alternate Director to Dr. Matthias Wolfgruber from that date.

Dr. Wolfgang Schütt resigned from the position of the Director of the Company with effect from 26 October 2012 and Dr. Guido Forstbach was appointed as Additional Director with effect from that date.

Mr. Sharadkumar Shetye ceased to be an Alternate Director to Dr. Wolfgang Schütt with effect from 26 October 2012 and was appointed as Alternate Director to Dr. Guido Forstbach from that date.

Mr. Suresh Talwar retires by rotation at the ensuing Annual General Meeting and being eligible, offers himself for re-appointment.

Mr. Pradeep Mallick retires by rotation at the ensuing Annual General Meeting and though eligible, has decided to retire and not offer himself for re-appointment.

As per the requirement under the Listing Agreement, particulars of Directors seeking re-appointment at the ensuing Annual General Meeting form part of the Notice of the meeting.

None of the Directors is disqualified from being appointed as or holding office as Directors, as stipulated under Section 274 of the Companies Act, 1956.

Corporate Governance

Emphasizing on practicing the principles of good Corporate Governance in right earnest & true spirit, has been the motto of this Company throughout. The Board of Directors ensures that the Executive Management of the Company relies on maintaining transparency, accountability and integrity in the functioning of the Company.

Pursuant to Clause 49 of the Listing Agreement, the Management Discussion and Analysis Report, Report on Corporate Governance and the Auditors' Certificate regarding compliance of the same form an integral part of this Annual Report.

Change in address of Registered Office of the Company

The Company's Registered Office has been shifted from 'Beck House, Damle Path, Off Law College Road, Pune 411004' to '147, Mumbai-Pune Road, Pimpri, Pune 411018' with effect from 22 January 2013.

Corporate Social Responsibility

The Company undertook and completed the internal and external painting work for Surhudh Mandal's "Chinchwad Badhir Mook Vidyalaya", a school imparting education to the deaf and dumb, in the month of December 2012.

The Company's employees also in their individual capacities contribute voluntarily to various worthy social causes, befitting the culture of this Company.

Listing on Bombay Stock Exchange

The Company's shares are listed on the Bombay Stock Exchange Limited (BSE).

Directors' Responsibility Statement

Pursuant to Section 217 (2AA) of the Companies Act, 1956, after due inquiry and on the basis of the information received from the operating management and relying upon the report of the Auditors regarding compliance with the Accounting Standards, the Directors confirm that:

1. In the preparation of the annual accounts, the applicable accounting standards have been followed, along with appropriate explanations relating to material departures.
2. The accounting policies have been consistently applied, and reasonable and prudent judgment and estimates have been made so as to give a true and fair view of the state of affairs of the Company as at 31 December 2012, and the profit for the year ended on that date.
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 preventing and detecting fraud and other irregularities.
4. The annual accounts have been prepared on a going concern basis.

Cost Audit

Dhananjay V Joshi & Associates, Cost Accountants, have been re-appointed for the year 2013 to conduct an audit of the cost accounting records maintained by the Company.

Auditors

The Auditors, BSR & Co., Chartered Accountants, Pune, retire at the forthcoming Annual General Meeting and are eligible for re-appointment. The Audit Committee recommends the re-appointment of BSR & Co., as Auditors of the Company for the year 2013. The Company has received a letter from retiring Auditors to the effect that their appointment, if carried out, would be within the prescribed limits under Section 224(1B) of the Companies Act, 1956.

Conservation of Energy, Technology Absorption and Foreign Exchange Earnings and Outgo

Information as required by the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988, relating to Conservation of Energy, Technology Absorption, Foreign Exchange Earnings and Outgo, is given in Annexure A to this report.

Particulars of Employees

Information to be provided under Section 217(2A) of the Companies Act, 1956, read with Companies (Particulars of Employees) Rules, 1975, is given in Annexure B forming part of this report.

Industrial Relations

The Company has reached amicable settlements with its workmen at Pimpri and Ankleshwar in 2013. These wage settlements, which are for a three year period from 1 January 2013 to 31 December 2015, were negotiated separately for the two sites on the basis of "Region cum Industry" principle.

During the year under review, industrial relations continued to remain cordial.

The Board wishes to place on record its appreciation to all employees for their continued contribution to the performance of the Company.

For and on behalf of the Board

Pune	Suresh Talwar	Rajeev Bhide
27 February 2013	Director	Managing Director

Annexure A to the Directors' Report

A. CONSERVATION OF ENERGY:

(a) Following measures were taken to conserve energy:

At Ankleshwar Plant

- Process Instrumentation & automation to enhance productivity and efficiency
- Energy efficient lighting for Chemical & Electrical Laboratory
- Installation of Service tank for K16 Wire Enamels Reactor to enhance energy efficiency
- Procured and put to use a Diesel Operated Forklift with Bharat Stage – III Engine
- Installed and commissioned Seal less canned pump motor for formaldehyde liquid for zero leakage

At Pimpri Plant

- Installation of pneumatic powder handling systems (two numbers) for charging solid raw materials
- Installation of Oil Vacuum pumps in place of water jet vacuum pumps to save electricity and water
- Reduction in process cycle time for products 'Becktol A23' and 'Shipal' to save electrical energy
- Installation of variable frequency drives for new equipment
- Installed one Screw compressor of higher capacity & energy efficiency to meet compressed air requirement for Process, Instruments
- Shifting of ETP closer to plant operations with improved efficiency measures resulting into energy savings

(b) Additional investments and proposals being implemented for reduction of consumption of energy:

At Ankleshwar Plant

- Pilot Reactor 250 Liter capacity to be installed for initial trials of New products
- Fuel & energy efficient Thermopac is planned to replace old design TP10 Thermopac (Year 1987)
- Modernization of existing passenger lift with Inverter based technology for speed control
- Energy efficient equipment & lightings are planned

At Pimpri Plant

- Process Instrumentation & automation to enhance productivity and efficiency
- Installation of Pneumatic conveying system for charging of Powders
- Energy efficient street lighting
- Automatic packing system for Poly Amide Imide products

(c) Impact of (a), (b) above for reduction of energy consumption and consequent impact on the cost of production of goods

In the light of strong growth in the earlier years, we had invested in new higher capacity utilities equipment. However, production volumes lower than the budget resulted in a small rise in overall energy consumption per Metric Ton of production as the base consumption is higher for higher capacity equipment like compressors etc. We have succeeded in keeping the overall consumption in control despite changes in raw materials and processing parameters. Increase in rates of purchased electricity and fuel has also contributed to rise in per Tonne Energy cost.

(d) Total energy consumption and energy consumption per unit of production:

	Year ended 31 December 2012	Year ended 31 December 2011
a. POWER & FUEL CONSUMPTION		
1) Electricity		
a) Purchased Unit (KWH in lacs)		
Total KWH	**28.15**	26.21
Total amount (₹ in lacs)	**190.06**	148.19
Rate / KWH (₹)	**6.75**	5.65
b) Own generation		
i) Through Diesel generator		
Units (KWH in lacs)	**0.72**	1.68
Units per ltr of Diesel Oil	**3.11**	3.16
Cost / Unit (₹)	**15.30**	14.01
ii) Through Steam turbine / generator		
Units (KWH)	**-**	-
Units per ltr of fuel oil / gas	**-**	-
Cost / Unit (₹)	**-**	-
2) Coal		
Quantity (Tonnes)	**-**	-
Total amount (₹ in lacs)	**-**	-
Average Rate (₹ / MT)	**-**	-
3) Furnace Oil (LDO/HSD)		
Quantity (K. ltrs)	**281.00**	287.00
Total amount (₹ in lacs)	**177.00**	160.43
Average Rate (₹ / KL)	**62,989.00**	55,899.00
4) Natural Gas		
Quantity (KM3)	**517.00**	474.00
Total amount (₹ in lacs)	**150.66**	95.14
Rate (₹/ KM3)	**29,141.00**	20,072.00
b. CONSUMPTION PER M.T. OF PRODUCTION		
Products : Wire Enamels, Impregnating Varnishes & Synthetic Resins		
Electricity (KWH)	**171.88**	167.93
Furnace Oil in ltrs (LDO/HSD)	**16.70**	17.28
Coal	**-**	-
Natural Gas	**30.78**	28.55
Others	**-**	-

B TECHNOLOGY ABSORPTION

1. Specific areas in which R & D was carried out by the Company

Two new laboratories became operational in this year – one at Pimpri [Electronic & Engineering Material business] and one at Ankleshwar. The Company's commitment to R&D was further strengthened by this addition.

The R&D team is actively engaged in supporting the Company's technologies through manifold activities to maintain a technological edge, provide effective solutions to customers and improve internal productivity through process improvements and introduction of new cost effective raw materials.

The company's R&D centre is engaged in the development of new insulation materials, and in the absorption of technology acquired from overseas affiliates of ELANTAS group for the manufacture of certain varnishes and polyurethane compounds.

2. Benefits derived as a result of the above R & D

Some of the new products introduced and process improvements carried out were:

- Development of high speed polyester and polyesterimide wire enamels.

- Eco friendly less toxic and RoHS compliant water based varnish
- Development of fast cure energy saving solventless varnish
- Introduction of four new products in the E& EM business segment
- Cost reduction and process improvement in manufacturing

3. Future plan of action

- Continue adaptation of new products from group companies under Technology Transfer in Company's business segments to cater the local market.
- Initiate and continue participation in new global R&D projects for the benefit of local and global customers.
- Improvisation of existing products for cost reduction based on substitution of raw materials and improvement in process efficiency.

4. Expenditure on R & D

(₹ in lacs)

	Year ended 31.12.2012	Year ended 31.12.2011
(a) Capital	**43.02**	29.56
(b) Recurring	**455.64**	365.91
(c) Total	**498.66**	395.47
(d) Total R & D expenditure as a percentage of total turnover	**1.63**	1.35

5. Technology absorption, adaptation & innovation

The technology received from Company's collaborators and/or affiliate companies in respect of new product is modified/ adapted to suit customers' needs.

Information regarding technology acquired through purchase/licensing arrangements during the last five years.

Technology imported	Year of Import	Has the Technology been fully absorbed	If not, when to be absorbed
Absorption of water based insulating varnish technology from affiliate company, in USA.	2011	Yes	-
Absorption of PU compound technology from affiliate company, in Italy	2012	No	2013

C. FOREIGN EXCHANGE EARNINGS AND OUTGO

The information regarding foreign exchange earnings and outgo is contained in Note Nos. 33 & 31 respectively to the financial statements.

Annexure B to the Directors' Report

Information as per Section 217(2A) of the Companies Act, 1956, read with Companies (Particulars of Employees) Rules 1975 forming part of the Directors' Report for the year ended 31 December 2012.

Name	Designation	Remuneration Subject to tax (Rs.)	Qualification	Age & Experience (Years)	Date of Commencement of employment	Last employment held,Designation and Organization
Mr. Rajeev Bhide	Managing Director	8,316,997	B.Com., F.C.A. Post Graduation D.M.M.	55/32	01.03.2000	Vice-President-Finance. International Computers (India) Ltd., Pune.
Mr. Prashant Deshpande*	Director- Marketing	4,529,234	B.E. (Elec.), M.B.A. P.G.- Power Systems	68/47	01.04.1986	Div. Marketing Manager. Crompton Greaves Ltd., Nasik.
Mr. Sharadkumar Shetye	Director-Manufacturing	5,845,101	B.Tech.(Chemical Engg.) D.B.M., M.M.S.	64/42	20.10.1971	-
* Employed for part of the year. Retired with effect from 09 July 2012.						

Notes:

1. The nature of employment is contractual.
2. Other terms and conditions: as per Company's rules.
3. Gross remuneration includes allowances, Company's contribution to provident and superannuation funds, provision for medical entitlement as per Company's rules, monetary value of perquisites calculated as per Income Tax Act / Rules and does not include provisions for leave encashment, premium for gratuity and group insurance.

Management Discussion & Analysis Report

The year under review was fraught with a series of developments and a combination of factors which, together, resulted in adversely affecting economic growth during the year under review, especially the manufacturing economy, in India. Rising energy costs, increasing raw material prices and high cost of borrowings amongst other factors had the effect of depressing industrial demand and industrial production was almost stagnant. Some sectors even showed negative growth during the year under review.

The Company was no exception to these developments and its performance too was adversely hit by the factors mentioned above during the year under review. Additionally, a weak Indian Rupee hurt imports and exerted additional pressure on the margins during the year under review. As a consequence, the Company's profitability and profits were lower when compared with the previous years.

The Company nevertheless continues to take several counter measures to mitigate the situation to the extent best possible by continuing to focus on cutting costs, creating cost effective alternatives and creating higher value added through the use of R&D, Innovation and supply chain improvements.

Manufacturing of higher quality products in all its business lines especially focused on addressing concerns of environment, safety and energy efficiency supported by strong technical services and solutions provision remain the major drivers of the Company's business activities.

Segment wise Performance

Electrical Insulation Systems

The Company's Business Lines-Primary Insulations and Secondary Insulations which constitute the Electrical Insulation Systems (EIS) business, continued to play a dominant role in the overall business activities of the Company, by accounting for 84% of total business of the Company.

The year 2012, will be marked as a watershed year in the annals of Indian Economic History, where the economic growth decelerated, while inflation remained stubbornly high during most part of the year. There was a marked economic deceleration during the year even when compared to 2008, a year during which the global economic meltdown occurred. Obviously, there are many explanations which could be attributed to this phenomenon, however, the significant decline in "Real Economy" or the manufacturing segment, is one of the major factors that can be attributed to moderation in growth. According to latest CSO estimates, the GDP growth, which is sliding back to back during FY 13, is likely to touch a new low of just about 5%. The manufacturing segment in the same period was one of the worst affected segments where the estimated growth would be much below 2%.

The Indian Electrical Industry, which is the primary user segment of our EIS products, has not remained insulated from this incongruent situation, carving out its worst performance of the last decade. According to the IEEMA statistics, the physical output across all the segments of Electrical Equipment Industry, be it rotating machines, transformers or switchgears, have come down on YoY basis, a clear sign of demand contraction. The Industry as a whole has in fact registered a negative growth of close to 4% during first half of current Fiscal with no immediate revival in sight. The order book position is also at all time low leading to sub optimal capacity utilization across various segments of Indian Electrical Industry.

The performance of your Company needs to be reviewed against the backdrop as detailed above, particularly the on-going phase of demand contraction.

During the year under review, your Company has been able to improve its already dominant position in EIS. While the volume growth is 2.6% over 2011, the corresponding value growth is close to 7%. These growth indices clearly indicate increased market penetration and improved market share of your Company. This positive performance, under the present volatile situation, was possible due to sustained market oriented timely actions taken by your Company including selective value engineering led by strong R&D. Your Company continues to be market leader in the arena of Electrical Insulation Systems.

Going forward, the chances of immediate demand revival appear to be bleak with industry experts speculating the earliest revival only by end 2013. By and large, this estimate is in sync with overall economic scenario that is being witnessed currently. Your Company however is reasonably certain of continuing its growth momentum-albeit moderated, with a blend of innovative business strategies combined with a focused market driven R&D efforts to remain ahead at market place.

Electronic & Engineering Materials

The business segment today primarily includes Electronic & Electrical (EL) Compounds & deals with Speciality Epoxy & Polyurethane products for Auto Electric & Electronic, Power & Electronic capacitors, Transformer Castings, Current & Potential Transformers, PCB Protection etc. This is an outcome of the Company having discontinued supplying speciality resins for special purpose paint applicators to a single customer.

As was seen in case of Electrical Insulations Systems, this business segment too was adversely affected during the year under review due to high raw material costs, a week rupee and a significant demand slowdown, especially in the second half of the year under review.

The business of Electronic & Electrical Compounds is a major thrust area for the Company. The Company's offerings by way of Speciality Epoxy & Polyurethane Products with excellent Thermal, Electrical & Mechanical properties for Auto & allied industries, have been well received by the markets and slowly beginning to be distinguished as speciality offerings. This will enable them to combat the competitive pressures from low-cost, commoditized product offerings also present, and enable the Company to explore appropriate value creation opportunities in this business.

Despite the gradual slowing down of automotive production from the third quarter of the year under review, which we believe is a temporary situation arising out of global concerns in response to the crisis of confidence in the Euro Zone, the Indian Auto industry is growing and India is poised to become a major hub for Auto Components manufacturing. The Company looks forward to offer world-class products in line with the global technical specifications & has geared up to meet these challenges. Company offers UL (Underwriters Laboratory) approved, RoHS & REACH compliant products to meet specific customer demand.

The Company is focusing its efforts to offer/develop import substitute particularly for Electronic Sector, targeted at attaining major growth and an improved market position for this product line. These efforts encompass technical improvements through a systematic scale-up process as well as enhancement in response time for new product and applications development. In addition, certain new products were developed and added in this market which will help create opportunities to expand our markets. The response from the customers to such new products was quite encouraging.

In order to address concerns about continuing future availability of key raw materials, efforts are being made to develop alternative sources for our inputs in addition to trying to explore Synthetic raw material alternatives in place of materials of natural origin.

Current Future & Outlook

In the wake of the Indian economy anticipated to grow only at around 4.5% to 5% during the fiscal 12/13, the business prospects for the coming years do not look extremely encouraging. Not only have growth estimates fallen to an all-time low in the last decade, but the structural position of the Indian economy also seems weaker with a high fiscal deficit and current account deficit.

The resilience shown by the Indian economy in 2009/10 in the face of the global meltdown seems to have been weakened and a variety of problems look imminent if not addressed decisively and boldly by the government.

This situation, however, the Company believes, also means that all the potentially adverse developments have already been largely factored in and discounted by the investing community and consumers. Under such circumstances, businesses should await the right signals of growth & improvement and avail of all such growth opportunities going forward. Such positive signals will be likely to be seen with better policy implementation, more infrastructural focus and spending as well as reforms and traction on the power sector and allied activities. Considering that the nation will go to the hustings in 2014, it is inevitable that reforms-oriented policy making and decisiveness will need to be exhibited by the government in power.

The Board, therefore, considers that the Company should be managed in a lean and tight manner.

Company Performance

The Company's performance during the year under report was flat. Sales at ₹ 2732 Mio. during the year ended 31 December 2012 showed a small increase of 2% over the previous year, however, in terms of volume, sales marginally decreased by 0.15% as compared to the previous year. The Company registered a marginal growth in profitability as compared to the previous year.

Rising cost of inputs due to increase in procurement rates of raw material, electricity, fuel & natural gas and rupee devaluation leading to dearer imports marked its effect on product margins. Overall inflationary trend and economic slowdown added further woes to the declining margins.

The Company continued to focus on reducing costs of its operation and other administrative costs, which yielded positive results and helped in registering a better profit return, both before and after tax. The Profit before Tax stood at ₹ 370 Mio. and Profit after Tax was reported at ₹ 276 Mio.

Net Cash Flows from operating activities during the year at ₹ 256 Mio. were however lower as compared to ₹ 341 Mio. during the previous year.