

ELANTAS Beck India Ltd.

Annual Report 2011

Exhibitions

ELECRAMA 2012. Mumbai.



Electronics For You Expo 2012. New Delhi.



Board of Directors

Dr. Matthias Wolfgruber
Chairman

Dr. Wolfgang Schütt

Mr. Suresh Talwar

Mr. Ravindra Kulkarni

Mr. Pradeep Mallick

Mr. Prashant Deshpande
(Alternate to Dr. Matthias Wolfgruber)

Mr. Sharadkumar Shetye
(Alternate to Dr. Wolfgang Schütt)

Mr. Rajeev Bhide
Managing Director

Executive Management

Mr. Rajeev Bhide
Managing Director

Mr. Prashant Deshpande
Director- Marketing

Mr. Sharadkumar Shetye
Director- Manufacturing

Mr. Sanjay Kulkarni
General Manager - Finance & Materials

Company Secretary & Head-Legal

Mr. Shirish Dabir

Registered Office & Corporate Office

'Beck House', Damle Path,
Off Law College Road,
Pune 411 004

Works

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

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-sixth Annual Report and the Audited Accounts for the financial year ended 31 December 2011.

Financial Highlights

(₹ '000)

	Year ended 31.12.2011	Year ended 31.12.2010
Income from operations	2,749,778	2,576,592
Profit before Interest, Depreciation & Tax	410,072	521,277
Depreciation	49,980	47,621
Interest	682	327
Profit Before Tax	359,410	473,329
Provision for tax	112,029	149,391
Net Profit	247,381	323,938
Profit & Loss Account brought forward	1,079,251	829,169
Profit available for appropriation	1,326,632	1,153,107
Appropriations:		
Proposed dividend	35,675	35,675
Tax on Dividend distributed	5,650	5,787
Transfer to General Reserve	24,738	32,394
Carried to Profit & Loss Account	1,260,569	1,079,251
	1,326,632	1,153,107

Performance

The sales at ₹ 2668 million for the year ended 31 December 2011 registered a 6 % growth over the sales of ₹ 2514 million for the previous year ended 31 December 2010. However In terms of sales quantity, the tonnage sold during the year ended 31 December 2011 has decreased by 3 % over the previous year.

Input costs, showed an unprecedented rise during the year under review, thereby putting the Company's contribution margins under severe pressure.

The combined impact of, the virtually flat sales during the year, significantly higher raw material procurement costs and, a weak economic climate during the year under review, resulted in a marked decrease in Profit Before Tax.

Dividend

The Directors are pleased to recommend a dividend of ₹ 4.50 per equity share, for the year ended 31 December 2011.

Directors

Dr. Matthias Wolfgruber and Mr. Ravindra Kulkarni retire by rotation at the ensuing Annual General Meeting and being eligible, offer themselves 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

The Company is diligently pursuing for the effective implementation of the Corporate Governance practices and periodical review of these practices is undertaken to ensure that they confirm with the requirements as per the Listing Agreement entered into by 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.

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 2011, 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 2012 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 2012. 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.

Corporate Social Responsibility

1. The Company sponsored the 'Annual Sale' of handicrafts & creations made by intellectually challenged persons, which was organized by Dilkhush Sheltered Workshop, a Mumbai based NGO, in December 2011. The Dilkhush Sheltered Workshop has been very active for the past two decades in the field of providing rehabilitation and occupational opportunities to such special individuals. The Company's representatives were present on this occasion.
2. A donation was given to a registered charitable organization 'Samavedana' which has been founded with the objective of providing financial aid to underprivileged people in the form of highly subsidized surgical and medical services.

Industrial Relations

The Company had reached amicable settlements with its workmen at Pimpri and Ankleshwar in 2010. These wage settlements, which are for a three year period from 1 January 2010 to 31 December 2012, 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
21 February 2012

Suresh Talwar
Director

Rajeev Bhide
Managing Director

Annexure A to the Directors' Report

A. CONSERVATION OF ENERGY:

(a) Following measures were taken to conserve energy:

- Installation of bulk Storage Tanks of 25kl each, at Pimpri, for Raw Materials (Methoxy Propanol Acetate and Castor Oil) to eliminate barrel handling and improve operating efficiency
- Installation of pneumatic powder handling system for charging solid raw materials
- Installation of Barrel pumps and Oil Vacuum pumps in place of water jet vacuum pumps to save electricity, fuel and water
- Reduction in process cycle time for products 'Dobeckans' and 'Dobeckot 5401' to save electricity
- Installation of variable frequency drives for more number of motors
- Automatic packing system for UP resins to improve productivity and efficiency
- Installation of intermediate Storage tanks (Five) for Phenolic & Alkyd Resins used as intermediates for Varnishes to enhance energy efficiency, reduce drum handling to enhance storage capacity and eliminate drums filling for intermediates
- Replacement of 10-15 year old VF drives with new energy efficient versions for reaction kettles & thinning vessels. The Drives are housed in 3 Panel (2 drives per panel). These drives are integrated in the SIEMENS PCS7 System for monitoring & controlling
- Replaced two GA15FF Screw compressors with higher capacity & energy efficient GA55 VSD FF Screw compressor to meet compressed air requirement for Process, Instruments & Nitrogen Plant
- Replaced 12 Window Air Conditioners with BEE Five Star rated energy efficient Split Air Conditioners
- Energy efficient lighting is provided in warehouses. Total 35 lamps of 23 watts are installed

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

- Process Instrumentation & automation to enhance productivity and efficiency
- Installation of Pneumatic conveying system for charging of Powders
- Relocation of Effluent Treatment Plant at Pimpri aimed at cost and energy efficient ETP operations
- Energy efficient lighting for Chemical & Electrical Laboratory
- Installation of Service tank for K16 Wire Enamels Reactor to enhance energy efficiency,
- Replacement of old accessories with new energy efficient versions.

(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 invested in new higher capacity utilities equipment. However, production volumes lower than the budget, resulted in rise in overall energy consumption per Metric Ton of production as the base consumption is higher for higher capacity equipment like compressors etc. 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 2011	Year ended 31 December 2010
a. POWER & FUEL CONSUMPTION		
1) Electricity		
a) Purchased Unit (KWH in '000)		
Total KWH	2,621	2,525
Total amount (₹ '000)	14,819	14,106
Rate / KWH (₹)	5.65	5.59
b) Own generation		
i) Through Diesel generator		
Units (KWH in '000)	168	234
Units per ltr. of Diesel Oil	3.16	3.20
Cost / Unit (₹)	14.01	12.73
ii) Through Steam turbine / generator		
Units (KWH)	-	-
Units per ltr. of fuel oil / gas	-	-
Cost / Unit (₹)	-	-
2) Coal		
Quantity (Tonnes)	-	-
Total amount (₹ lakhs)	-	-
Average Rate (₹ / MT)	-	-
3) Furnace Oil (LDO/HSD)		
Quantity (K. ltrs.)	287	263
Total amount (₹ '000)	16,043	11,293
Average Rate (₹ / KL)	55,899	42,870
4) Natural Gas		
Quantity (KM3)	474	469
Total amount (₹ '000)	9,514	7,230
Rate (₹ / KM3)	20,072	15,423
b. CONSUMPTION PER M.T. OF PRODUCTION		
Products : Wire Enamels, Impregnating Varnishes & Synthetic Resins		
Electricity (KWH)	167.93	160.43
Furnace Oil in ltrs. (LDO/HSD)	17.28	15.31
Coal	-	-
Natural Gas	28.55	27.25
Others	-	-

B TECHNOLOGY ABSORPTION

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

The Company's Research and Development Centre (R&D Centre) was engaged in the development of new synthetic insulation materials for application in the electrical industries, and in the absorption of technology acquired from overseas affiliates of the ELANTAS Group for the manufacture of certain wire enamels and varnishes to meet local customer requirements. The R&D Centre also worked on the development of more eco-friendly wire enamels based on raw materials having lower toxicity. Further, development of coatings for the construction industry with focus on developing water based products was also carried out.

The past efforts taken towards participating in training programme for M.Tech. students from local institutes on subjects which are complimentary to our business, were continued. Two poster presentations were made at a renowned Institute, on the use of Nano additives in wire enamels and synthesis of a new varnish intermediate.

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

Some of the new products introduced and process improvements conducted were:

- Eco-friendly and less toxic and RoHS compliant variants of wire enamel and epoxy compound products
- Development of new modified Polyamide hardener for epoxy insulating systems

- Introduction of four new products in the E&EM business segment
- Bilateral exchange of technology with the Global R&D network of ELANTAS aimed at knowledge sharing, problem solving and shortcoming development lead-time
- Cost reduction and process improvement in manufacturing
- Development of a new substitute additive for manufacturing wire enamels

3. Future plan of action

- Focus on the introduction of water based and faster curing varnishes
- Continue development work on less toxic and RoHS compliant wire enamels and varnishes.
- Continue adaptation of new products from group companies under technology transfer in our business segments to cater to local demand potential
- Initiate and continue participation in new global R&D projects for the benefit of local and global customers
- Increase the level of interaction and collaboration with local institutes working in the area of research in polymer industry and other areas complimentary to the Company's business
- Undertake new project under the Responsible Care initiative

4. Expenditure on R & D

(₹ '000)

	Year ended 31.12.2011	Year ended 31.12.2010
(a) Capital	2,956	2,011
(b) Recurring	36,591	36,993
(c) Total	39,547	39,004
(d) Total R & D expenditure as a percentage of total turnover	1.35	1.42

5. Technology absorption, adaptation & innovation:

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

Information regarding technology acquired through purchase / licencing arrangements during the last five years:

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

C. FOREIGN EXCHANGE EARNINGS AND OUTGO

The information regarding foreign exchange earnings and outgo is contained in Note Nos. 26 & 24 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 2011.

Name	Designation	Remuneration Subject to tax (₹)	Qualification	Age & Experience (Years)	Date of commencement of employment	Last employment held, Designation and Organization
Mr. Rajeev Bhide	Managing Director	7,106,798	B.Com., F.C.A., Post Graduation D.M.M.	54/31	01.03.2000	Vice-President-Finance. International Computers (India) Ltd., Pune.
Mr. Prashant Deshpande	Director- Marketing	5,364,209	B.E. (Elec.), M.B.A. P.G.- Power Systems	67/46	01.04.1986	Div. Marketing Manager. Crompton Greaves Ltd., Nasik.
Mr. Sharadkumar Shetye	Director- Manufacturing	4,861,929	B.Tech.(Chemical Engg.) D.B.M., M.M.S	63/41	20.10.1971	-

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 saw a certain domestic economic situation develop which adversely influenced the performance of the Indian economy, especially of the manufacturing sector. Whilst high inflation continued to prevail, expensive crude oil, rising raw material prices and restricted credit availability collectively resulted in depressing demand, slowing down Industrial production and prospects of manufacturing growth fading as the year progressed.

On the background of this landscape, the Company's growth prospects were also severely affected and its margins remained under pressure, especially in the second half of the year under report. Consequently, its profits and profitability were lower, as compared to the previous year.

The Company however, continues to pay attention to its chosen focus areas of R&D, innovation, technical modernization and supply chain optimization in order to improve profitability, enhance competitiveness and innovate its product offerings to customers.

Segment wise Performance

Electrical Insulation Systems

Our Electrical Insulation Systems (EIS) business, comprising the Business Lines-Primary Insulation and Secondary Insulation, continues to be the mainstay of the Company's business, accounting for 81 % of the total business of the Company.

2011 was a turbulent year for the Indian Economy in general and for the Indian Power Sector in particular. After two consecutive years of 8% plus growth, the GDP growth for the current fiscal is optimistically projected at 6.8%, the lowest in the last three years. The growth index for manufacturing segment is slated to be just about 3.9% against an expansion of more than 7% witnessed during last fiscal. To add to this, RBI's initiatives during 2010 & 2011 to contain inflation by increasing bank rates for a record 13 consecutive times in about 20 months upto October 2011, also adversely affected the growth momentum by tightening money supply, curbing investments and dampening demand.

The power sector witnessed a sharp deceleration in growth during 2011. Almost all major segments like rotating machines, alternators, transformers, winding wires etc. remained subdued and under utilized during the year under review, particularly so, in the second half of the year. The common observation across various segments clearly indicates a sharp reduction in the electrical equipment enquiries and postponement of capital projects. The market uncertainty was such that a majority of our supply chain partners remained apprehensive building up inventories. Even today, there is a marked uncertainty in the economic environment which continues to cause industry to hold back expansion and growth plans.

The competition, particularly from overseas, on the other hand, continues to be in an aggressive mode focusing its attention on the major equipment manufacturers by offering attractive commercial terms for alternate systems.

On this background, with the demand pull virtually missing, the business of EIS remained under pressure throughout the year. In fact, with demand contraction during the year, the EIS business of the Company went down by a marginal 1.3% in volume, while showing a 7.3% value growth over 2010 achievements. The margins remained under pressure despite two back to back upward price revisions by the Company consequent to rising raw material costs. This pressure was magnified because of a sharp and severe depreciation in the Rupee towards the last quarter of 2011. In spite of these adverse developments, your Company has maintained market leadership in the EIS segment.

Looking ahead, although the business sentiments, for the time being continue to be depressed, your Company believes that the market will begin to recover slowly but surely. The Government of India's ambitious plans of addition of 100000 MW of power generating capacity during the XII Five Year Plan commencing April reinforces this belief. Accordingly, your Company has already initiated proactive measures to ensure that the increasing and diverse requirements coming from Indian Power sector are met satisfactorily.

Electronic & Engineering Materials

The business segment primarily includes three major product lines and involves the manufacture of a variety of performance oriented, speciality products and solutions going into diverse electronic, electrical and engineering applications. These are:

- Electronic & Electrical (EL) Compounds
- Speciality Resins
- Construction chemicals

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

Within this business segment, the business of Electronic & Electrical Compounds is a major thrust area for the Company and involves manufacturing insulating systems having casting, potting and encapsulating applications with end-use in electronic and electrical components & parts.

Focused efforts targeted at attaining major growth and an improved market position were taken by the management in this product line. These efforts encompassed technical improvements through a systematic scale-up process as well as enhancements in response time for new product and applications development. In addition, certain new products were developed and added in this market which helped expand our market and maintain leadership, particularly in auto electrical sector. The response from the customers to such new products was very encouraging.

The expanded range of EL Compound products under development now include speciality epoxy and polyurethane formulations & blends that can provide a menu of critical features to our products such as strength, flexibility, thermal conductivity, thermal shock and high glass transition temperature. Importantly, in keeping with global environmental concerns, the Company's product development initiatives are also aligned to offer a range of RoHS compliant products and systems to its customers.

In order to address concerns about continuing future availability of key raw materials, efforts are being made to develop synthetic alternatives in place of raw materials of natural origin.

The Company is quite optimistic about the revival of the Indian manufacturing economy and the emerging opportunities and business prospects in this business segment, as a consequence.

Current Future & Outlook

India Inc. stands precariously balanced at this juncture and while the past two years performance has been much below expectations, the acceleration of growth and progress in the coming years will largely depend on the following macro level economic and socio-economic factors:

- Government's ability to manage and control Country's widening trade and fiscal deficits and curb inflation
- Increased spending on the education sector and allowing greater participation of the private sector in the areas of vocational training and skills development, leading to enhanced employability and help address the problem of talent scarcity
- Timely and well planned enhancements to the country's infrastructure
- Intervention through bold policy reforms by a strong political leadership
- Revival in investment growth

As regards the outlook in the near future, the current situation does not directly indicate a quick economic recovery and certain key economic factors do not point towards an early revival of the markets. Especially for the Company's business, power sector reforms and implementation of new capacities remain solely on paper as of now. Nevertheless, the fundamental strength of the Indian economy and its potential for growth cannot be doubted and provide hope for future business growth.

Under the circumstances, the Company takes a cautious view of the immediate future, but believes that growth opportunities will selectively arise over the next years. Accordingly, it will continue to work on enhancing its competitiveness and responsiveness to the dynamic business environment.

Company Performance

The Company's performance during the year under report registered a de-growth in profitability as compared to the previous year. Sales at ₹ 2668 Mio. during the year ended 31 December 2011 showed a small increase of 6% over the previous year. However, in terms of volume, sales were almost flat as compared to the previous year.

As stated earlier, significant downward pressures on product margins brought about due to very severe increase in procurement costs of a host of key raw materials, coupled with the overall slowing down of the economy, resulted in a decrease in overall contribution margins vis-a vis Y2010. Despite a number of innovative steps taken by the Company to reduce costs through value engineering, Profit before Tax at ₹ 359 Mio. was lower than the previous year. Profit after Tax at ₹ 247 Mio. was lower than previous year by 24%. Net Cash Flows from operating activities during the year however, at ₹ 347 Mio. were higher as compared to ₹ 163 Mio., during the previous year mainly as a result of significant and more efficient working capital management.