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GUJARAT
FLUOROchemicals
LIMITED

19th Annual Report 2005-06

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Gujarat Fluorochemicals Limited

GUJARAT FLUOROCHEMICALS LIMITED

NINETEENTH ANNUAL GENERAL MEETING

Friday, the 23rd September, 2006

at 11.30 a.m.

at

S/No.16/3, 26 & 27

Ranjitnagar 389 380

Taluka Ghoghamba

Dist. Panchmahals

Gujarat

Request to Shareholders

1. Shareholders are requested to bring their copy of the Annual Report alongwith them at the Annual General Meeting as copies of the Report will not be distributed at the Meeting.
2. Kindly send all your transfer deeds together with Share Certificates for transfer of Shares to our Registrar and Share Transfer Agents at the following address :

Intime Spectrum Registry Ltd.

308, 1st Floor,

Jaldhara Complex

Opp. Manisha Society Off Old Padra Road,

Vasna Road, Vadodara - 390 015

3. Kindly notify change of your address and write only to the Registrar and Share Transfer Agents in respect of any matter connected with your Shares.

BOARD OF DIRECTORS

Shri D. K. Jain

Chairman

Shri Shailendra Swarup

Shri V.P.Mittal

Shri P. K. Jain

Shri V. K. Jain

Managing Director

Shri D. K. Sachdeva

Whole-Time Director

AUDIT COMMITTEE

Shri D.K.Jain

Shri V.P.Mittal

Shri Shailendra Swarup

COMPANY SECRETARY

Shri B. V. Desai

AUDITORS

M/s. Patankar & Associates

Chartered Accountants

BANKERS

Canara Bank

State Bank of Saurashtra

Bank of Maharashtra

REGISTERED OFFICE & PLANT

S/No. 16/3, 26 & 27,

Ranjitnagar 389 380

Taluka Ghoghamba,

Dist. Panchmahals,

Gujarat.

CORPORATE OFFICE

ABS Towers, 2nd Floor,

Old Padra Road,

Vadodara 390 007,

Gujarat.

GUJARAT FLUOROchemicals LIMITED

NOTICE

NOTICE is hereby given to the Members of **Gujarat Fluorochemicals Limited** that the **Nineteenth Annual General Meeting** of the Company will be held at the Registered Office of the Company at S/No. 16/3, 26 & 27, Ranjitnagar 389 380, Taluka Ghoghamba, District Panchmahals, Gujarat, on Saturday, the 23rd September, 2006, at 11:30 a.m., to transact the following business :

ORDINARY BUSINESS

1. To receive, consider and adopt the Profit and Loss Account for the year ended 31st March, 2006, the Balance Sheet as at that date, the report of the Auditors thereon and the report of the Board of Directors for the said year.
2. To declare dividend for the year ended 31st March, 2006.
3. To appoint a Director in place of Shri D. K. Jain who retires by rotation and being eligible offers himself for re-appointment.
4. To appoint a Director in place of Shri Shailendra Swarup who retires by rotation and being eligible offers himself for re-appointment.
5. To appoint Auditors to hold office from the conclusion of this Meeting until the conclusion of the next Annual General Meeting and to fix their remuneration.

SPECIAL BUSINESS

6. To consider and, if, thought fit, to pass, with or without modification, the following resolution as an Ordinary Resolution :
"RESOLVED THAT pursuant to the provisions of Sections 198, 269, 309, Schedule XIII and all other applicable provisions, if any, of the Companies Act, 1956, Shri D. K. Sachdeva be re-appointed, as a Whole-Time Director of the Company, for the period from 29.11.2006 to 28.11.2007 on the terms given hereunder :

I. SALARY

- a) Salary and allowances of upto Rs. 20.00 lacs per annum with annual increment(s) as may be decided by the Managing Director of the Company.
- b) Ex-gratia : 20% of the monthly basic salary payable per annum at the end of the year subject to overall ceiling laid down in Section 198 and 309 of the Companies Act, 1956.

II. PERQUISITES

Perquisites will be restricted to Rs. 5,00,000 per annum. Perquisites are classified into three categories A, B and C as follows :

CATEGORY A

1. Housing I : The expenditure incurred by the Company on hiring furnished accommodation for the Whole-Time Director will be subject to a ceiling of Rs. 20,000 per month.
Explanation : The expenditure incurred by the Company on gas, electricity, water and furnishings shall be valued as per the Income Tax Rules, 1962.
2. Medical Reimbursement : Expenses incurred for the Whole-Time Director and his family subject to a ceiling of Rs. 15,000 per annum.
3. Leave Travel Concession : 6% of the basic salary per month for the Whole-Time Director and his family, once in a year incurred in accordance with the rules specified by the Company.

CATEGORY B

The Whole-Time Director shall also be eligible to the following perquisites :

1. Contribution to provident fund, superannuation fund or annuity fund to the extent these either singly or put together are not taxable under the Income-Tax Act, 1961.
2. Gratuity payable at a rate not exceeding half month's salary for each completed year of service.
3. Encashment of leave is as per the rules of the Company.

CATEGORY C

Provision of Car for use on Company's business and telephone at residence will not be considered as perquisites. Personal long distance calls on telephone and use of Car for private purpose shall be billed by the Company to the individual Whole-Time Director.

Notwithstanding anything contained hereinabove where in any financial year, during the currency of the tenure of the Whole-Time Director, the Company has no profits or its profits are inadequate, it will pay him above remuneration by way of salary and perquisites."

7. To consider and, if, thought fit, to pass, with or without modification, the following resolution as an Ordinary Resolution :
"RESOLVED THAT pursuant to the provisions of Sections 198, 269, 309, Schedule XIII and all other applicable provisions, if any, of the Companies Act, 1956, the remuneration of Shri V. K. Jain be and is hereby modified, subject to all other terms of resolution passed by the Members of the Company at their Fifteenth Annual General Meeting held on 26th August, 2002, approving remuneration payable to Shri V. K. Jain remaining unaltered :

Housing I : The expenditure incurred by the Company on hiring furnished accommodation for the Managing Director will be to the extent of basic pay from 1st August, 2006 to 31st December, 2007.



Housing II : In case no accommodation is provided by the Company, the Managing Director shall be entitled to House Rent Allowance subject to the ceiling laid down in Housing I.

Explanation : The expenditure incurred by the Company on gas, electricity, water and furnishings shall be valued as per the Income Tax Rules, 1962.

COMMISSION

Equivalent to four per cent of the net profits of the Company per annum, or pro-rata for a part of the year from 1st April, 2006 to 31st December, 2007."

On behalf of the Board of Directors

Noida
29th July, 2006

D.K. JAIN
Chairman

Registered Office :

S/No. 16/3, 26 & 27, Ranjitnagar 389 380
Taluka Ghoghamba,
District Panchmahals, Gujarat

Notes :

- A Member entitled to attend the Meeting and vote thereat is entitled to appoint a proxy to attend and vote instead of himself. The proxy need not be a Member. Duly executed proxies must be registered with the Company not later than forty-eight hours before the scheduled time of the Meeting.
- The Register of Members and the Share Transfer Books of the Company will be closed from 18th September, 2006 to 23rd September, 2006 (both days inclusive).
- The Explanatory Statement pursuant to Section 173(2) of the Companies Act, 1956 in respect of the Special Business as set out above is annexed hereto.
- Those Members who have not received interim dividend and / or final dividend for 1998-99, and / or 1999-2000 and / or 2000-2001 and / or 2001-2002 and / or 2002-2003 and / or 2003-2004 and / or 2004-2005 declared and paid by the Company, are requested to write to our Registrar & Share Transfer Agents at the following address :
Intime Spectrum Registry Ltd. 308, 1st Floor, Jaldhara Complex Opp. Manisha Society Off Old Padra Road, Vasna Road, Vadodara - 390 015.

ANNEXURE TO THE NOTICE

Explanatory Statement pursuant to Section 173(2) of the Companies Act, 1956

Item No. 6

At the Fourteenth Annual General Meeting of the Company, the Members had appointed Shri D. K. Sachdeva as a Whole-Time Director of the Company for a period of five years from 29th November, 2001 to 28th November, 2006. It is desirable that the Company should continue to avail his services as a Whole-Time Director of the Company, on the terms as contained in the Resolution.

The Directors commend that the proposed Resolution be approved.

None of the Directors of the Company is concerned or interested in the proposed Resolution except Shri D. K. Sachdeva to the extent of his appointment as a Whole-Time Director of the Company.

Item No. 7

At the Fifteenth Annual General Meeting of the Company, the Members had re-appointed Shri V. K. Jain as the Managing Director of the Company for a period of five years from 01st January, 2003 to 31st December, 2007. Having regard to the performance of the Company and the increase in responsibilities of the Managing Director in the future, it is considered desirable that the Company should continue to avail his services as the Managing Director of the Company on the revised terms as contained in the resolution.

The Directors commend that the proposed Resolution be approved.

None of the Directors of the Company is concerned or interested in the proposed Resolution except Shri VK Jain for himself, and Shri DK Jain and Shri P. K. Jain being relatives of Shri V. K. Jain, to the extent of revision of remuneration payable to him as the Managing Director of the Company.

On behalf of the Board of Directors

Noida
29th July, 2006

D.K. JAIN
Chairman

Registered Office :

S/No. 16/3, 26 & 27, Ranjitnagar 389 380
Taluka Ghoghamba,
District Panchmahals, Gujarat

Directors' Report

To the Members of

GUJARAT FLUOROchemicals LIMITED

Your Directors take pleasure in presenting to you their Nineteenth Annual Report for the year ended 31st March, 2006.

1. FINANCIAL RESULTS

Following are the working results for the year 2005-2006:

		(Rs. in Lacs)
	2005-2006	2004-2005
Turnover	18,203.14	17,198.69
Gross Profit before Interest and Depreciation	11,834.07	6,623.79
Less : Interest	129.17	213.03
Profit before Depreciation	11,704.90	6,410.76
Less : Depreciation for the year	740.94	426.07
Less : Write off of amortised expenditure	3.61	3.61
Less : Provision for diminution in value of investments	—	0.31
Profit before Taxation	10,960.35	5,980.77
Provision for Taxation	1,326.87	1,517.68
Profit for the year	9,633.48	4,463.09
Add: Profit brought forward from previous year	89.19	87.08
	9,722.67	4,550.17
Appropriations		
Transferred to General Reserve	8,300.00	3,800.00
Proposed Dividend subject to approval of the shareholders	1,157.80	578.90
Tax on Dividend	162.38	82.08
Balance carried to Balance Sheet	102.49	89.19
	9,722.67	4,550.17

2. MANAGEMENT DISCUSSION AND ANALYSIS REPORT

a) Industry structure and developments

Your Company is engaged in the business of fluorochemicals. Fluorochemicals are primarily used as refrigerants in refrigeration and air-conditioning applications, propellants in aerosols, a blowing agent for insulating foam, and other applications.

There are around 4 manufacturers of fluorochemicals in India, of which your Company is amongst the largest.

Your Company's main products are chlorofluorocarbons (CFC11 and CFC12) and hydrochlorofluorocarbons (HCFC22).

The fluorochemicals market in India comprises of two distinct customer categories - distributors, who cater to the replacement demand, and OEs, who represent requirements for new equipment. Internationally, the market is serviced predominantly by a network of distributors.

b) Opportunities and threats

Consequent on the implementation of the Montreal Protocol by developing countries, your Company has started phasing out

chlorofluorocarbon production in terms of its obligations under the Montreal Protocol. Your Company has been successful in mitigating the impact of the phase-out of chlorofluorocarbon by increasing its emphasis on hydrochlorofluorocarbon production and exports. As a strategic response to the changes in the external business environment, your Company had, over the past few years, decided to increase the focus on HCFC22 as the mainstay for the Company's operating profitability, and has been making efforts to improve HCFC22 production efficiencies, increase its cost competitiveness in international markets, and deepen and widen its marketing reach. Accordingly, the Company has been taking several steps in this direction over the past several years, which would enable your Company to be amongst the most cost competitive refrigerant companies internationally. The measures taken by your Company to increase its cost competitiveness and add new revenue streams, include implementing an HF recovery project, a captive power plant, and developing an AHCL market.

c) Segment-wise and product-wise performance

In line with the requirements of the Accounting Standard on Segment Reporting (AS-17), the Company has disclosed performance of these segments in the Note No. 27 of Notes to the Accounts of Annual Report of the Company.

d) Outlook

Internationally, hydrochlorofluorocarbon are expected to witness a growth of around 5% per annum, with increasing use of air-conditioning and refrigeration in developing countries and growth in PTFE demand. Your Company, due to its vast marketing reach and increasing cost competitiveness, has been able to maintain a healthy growth rate over the past few years. Your Company expects to be able to maintain the momentum in growth going into the future.

e) CDM Project

Your Company has been successful in commissioning the Project for Greenhouse Gas Emission Reduction by Thermal Oxidation of HFC23. HFC23 is a waste-product generated during the production of hydrochlorofluorocarbon HCFC22. In fact this project of your Company became amongst the first project in the world, to be registered by the Executive Board of the Clean Development Mechanism (CDM), established under Kyoto Protocol. Subsequent to the closure of the Financial Year 2005-06, your Company has been issued close to a million Certified Emission Reductions (CERs) by CDM Executive Board. Buyers in EU, Japan and Canada (called Annex I Countries under the Kyoto Protocol) need these CERs to be used by them as compliance tools for meeting their obligations under the Kyoto Protocol. The sale of CERs to these buyers would add a healthy revenue stream to your Company's operating results from Q1 of 2006-07 right upto 2012.

f) New Projects

As a part of its diversification and growth strategy, your Company has identified several business opportunities for investment. The Board of Directors of your Company has approved a total investment of around Rs. 350 crores, to implement, subject to necessary statutory approvals, the following projects, at an industrial plot allotted to the company at Dahej, GIDC Estate, Taluka Vagra, District Bharuch, Gujarat:

- a. 52,500 tpa Caustic Soda / Chlorine Plant
- b. 41,500 tpa Chloromethane Plant
- c. 5,500 tpa Poly Tetra Fluoro Ethane Plant
- d. 30 MW Captive Power Plant

The implementation of these projects will increase the product portfolio of the company, increase its cost-competitiveness by making it amongst the most integrated manufacturers in the world, add longevity to its existing fluorochemicals business, expand the Company's size in terms of turnover and assets, and add to its profitability. These projects will also offer growth and diversification opportunities around these new businesses, in the future.

g) Entertainment Business

The entertainment business of the company, carried out through its subsidiary Inox Leisure Limited, continues to show robust growth. Inox has emerged as one of the country's largest and most profitable national chain of multiplex cinema theatres, with

9 operating properties, and another 8 slated to open in the coming year. During the last financial year, Inox Leisure increased its revenues, from Rs. 64 crores to Rs. 109 crores, and its operating profits from Rs. 23 crores to Rs. 36 crores. Inox Leisure expects to continue with a healthy growth rate, by addition of new properties to its existing portfolio.

h) Internal control system and their adequacy

The Company has an adequate internal audit system commensurate with its size and the nature of its business. The internal audit is carried out by an independent firm of Chartered Accountants, who interact with the Audit Committee on a regular basis, with respect to the scope of audit, significant audit observations, and remedial action required, if any.

i) Discussion on financial performance with respect to operational performance

Your Company has been able to marginally grow its level of operating profitability, despite a fall in CFC production, primarily due to its increased focus on HCFC22 production and exports. Treasury operations of the company did quite well last year, in line with market conditions, which led to a healthy increase in profits.

j) Material developments in human resources / industrial relations front, including number of people employed

Your Company continued to have cordial and harmonious relations with all its employees.

3. RESPONSIBILITY STATEMENT

Your Directors would like to confirm that

- I. in the preparation of the Annual Accounts, the applicable Accounting Standards have been followed;
- 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 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;
- 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.

4. DIVIDEND

Your Directors recommend a dividend of Rs. 2.00 per share (100%) subject to approval of the shareholders. The dividend payout for the year will be Rs. 1,157.80 lacs.

5. CHANGE IN CAPITAL STRUCTURE

The equity shares of your Company have been sub-divided, from one equity share of Rs. 10 each fully paid up, to five equity shares of Rs. 2 each fully paid up.

6. DIRECTORS

Shri D. K. Jain and Shri Shailendra Swarup, retire by rotation and being eligible, offer themselves for re-appointment.

7. SUBSIDIARY COMPANY

Inox Leisure Limited, subsidiary of your Company, had made Initial Public Offer (IPO) during the year and has issued 1,20,00,000 equity shares of Rs. 10 each at a premium of Rs. 110 per share. Your company has disinvested 45,00,000 equity shares, part of its holding, in the said IPO.

The Balance Sheet, Profit and Loss Account, Auditors' Report and Directors' Report and a Statement of your Company's interest in Inox Leisure Limited, as required under Section 212 of the Companies Act, 1956, for the year 31st March, 2006 are annexed hereto.

8. AUDITORS' REPORT

The notes forming part of the accounts are self-explanatory and do not call for any further clarifications under Section 217(3) of the Companies Act, 1956.

9. AUDITORS

Members are requested to appoint Auditors for the current year and to fix, or authorise the Board to fix, their remuneration. The Auditors, M/s. Patankar & Associates, retire and offer themselves for re-appointment. Due notice has been received from them that their appointment, if made, will be in accordance with the limits specified in Section 224 (1B) of the Companies Act, 1956.

10. CORPORATE GOVERNANCE

Pursuant to Clause 49 of the Listing Agreements with the Stock Exchanges, a Management Discussion and Analysis, Corporate Governance Report and Auditors' Certificate regarding compliance of conditions of Corporate Governance are made a part of the Annual Report.

In compliance with the requirements of Clause 49(V), a certificate from the Managing Director and Group Head (Corporate Finance) of the Company, who are responsible for finance function, was placed before the Board.

All the Board Members and Senior Management Personnel of the Company had affirmed compliance with the Code of Conduct for Board and Senior Management Personnel. A declaration to this effect duly signed by the Managing Director is enclosed as a part of the Corporate Governance Report.

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

Information pursuant to Section 217(1)(e) of the Companies Act, 1956, read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988, relating to the matters contained therein is given by way of an Annexure to this Report.

12. PARTICULARS OF EMPLOYEES

There are no employees drawing remuneration in excess of the limits prescribed under the amended Section 217(2A) of the Companies Act, 1956, read with the Company's (Particulars of Employees) Rules, 1975.

13. RURAL DEVELOPMENT ACTIVITIES

The Company undertakes rural development work as part of its ongoing efforts to improve the quality of life of the people in the areas surrounding its plant. As a part of CDM Project of your Company, it has undertaken Sustainable Development activities by committing a fund out of the revenues received by it from the CDM Project. Diligent and sincere efforts in this direction have had a positive impact on the neighbouring community.

14. SAFETY, HEALTH AND ENVIRONMENT

Safety, health and environment have been of prime concern to the Company and necessary efforts were made in this direction in line with the safety, health and environment policy laid down by the Company. Health of employees is being regularly monitored and environment has been maintained as per statutory requirements.

15. INSURANCE

The Company's property and assets have been adequately insured.

16. ACKNOWLEDGEMENT

Your Directors express their gratitude to all other external agencies for the assistance, co-operation and guidance received. Your Directors place on record their deep sense of appreciation for the dedicated services rendered by the workforce of the Company.

On behalf of the Board of Directors

Noida
29th July, 2006

D.K. JAIN
Chairman