

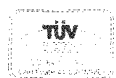


23rd Annual Report

2007-2008



[www.leatherchem.com](http://www.leatherchem.com)



An Italian Joint Venture  
With ICAP SIRA, Italy

**HARYANA**  
LEATHER CHEMICALS LTD

[www.reportjunction.com](http://www.reportjunction.com)

# HARYANA LEATHER CHEMICALS LIMITED

## BOARD OF DIRECTORS

Pankaj Jain, Managing Director  
N.K. Jain  
V.K. Garg  
H.K. Gupta  
H.C. Dutta  
Dr. K.S.V. Menon  
Dott. Massimo Medini  
Piero Tranchinetti  
Pradeep Behl

## COMPANY SECRETARY

Vinay Bhushan

## AUDITORS

S.C. Dewan & Co., Panchkula

## CORPORATE OFFICE

1004, Bhikaji Cama Bhawan  
Bhikaji Cama Place  
New Delhi - 110 066 (India)

## REGISTERED OFFICE AND WORKS

72 - 77, HSIDC Industrial Estate  
Hansi Road, Jind - 126 102 (Haryana)

## EOU DIVISION

52-53, HSIDC, Industrial Estate  
Hansi Road, Jind - 126 102 (Haryana)

## CORPORATE EXECUTIVES

Dr. P.L. Maurya, Chief General Manager - Works  
A.K. Nanda, Technical Advisor  
A.K. Gupta, General Manager - Commercial  
Ramesh Goyal, General Manager - Engg. & Tech.  
Neeraj Bishnoi, General Manager - Marketing

## REGISTRAR & SHARE TRANSFER AGENTS

RCMC Share Registry (P) Ltd.  
B-106, Sector-2,  
Noida - 201 301 (U.P.)

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ISIN for Demat purpose : INE 681F01018

## NOTICE

Notice is hereby given that the TWENTY THIRD Annual General Meeting of the Members of the Company M/s. Haryana Leather Chemicals Limited will be held on Saturday, the 20th day of September, 2008 at 11.30 a.m. at the Registered Office of the Company at 72-77, HSIDC Industrial Estate, Hansi Road, Jind - 126102 to transact the following business:

### ORDINARY BUSINESS:

1. To receive, consider and adopt the Audited Balance Sheet of the Company as on 31st March, 2008 and the Profit & Loss Account for the Year ended on that date together with the Reports of Auditors and Directors thereon.
2. To consider declaring Final Dividend @ 5% for the Financial Year 2007-08.
3. To consider appointing a Director in place of Mr. H. C. Dutta, who retires by rotation and being eligible offers himself for re-appointment.
4. To consider appointing a Director in place of Mr. Piero Tranchinetti, who retires by rotation and being eligible, offers himself for re-appointment.
5. To consider appointing a Director in place of Mr. Pradeep Behl, who retires by rotation and being eligible offers himself for re-appointment.
6. To consider appointing retiring auditors S.C. Dewan & Co., Chartered Accountants as Statutory Auditors of the Company who are eligible and offer himself for re-appointment, to hold office from the conclusion of this Annual General Meeting, until the conclusion of the next Annual General Meeting and to fix their remuneration.

**Regd. Office :**  
**72 - 77, HSIDC Industrial Estate,**  
**Hansi Road, Jind,**  
**Haryana - 126 102**

*Dated : 23rd day of August, 2008*

By order of the Board of Directors of  
Haryana Leather Chemicals Ltd.

VINAY BHUSHAN  
Company Secretary

### Notes:

1. A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote instead of himself. The proxy need not be a member of the Company.
2. Proxies, in order to be effective, must be received at the Registered Office of the Company not less than 48 hours before the commencement of the meeting.
3. Members are advised to notify change in their address, if any, specifying full address in block letters with pin code to the Registrar M/s. RCMC Share Registry (P) Ltd., B-106, Sector-2, Noida-201301 (U.P.).
4. The members/proxies attending the meeting are requested to bring their copies of Annual Report and attendance slip duly filled in for attending the meeting.
5. Shareholders seeking any information with regard to the Accounts may write to the Company Secretary to reach at least 10 days before the meeting so that the information can be made available at the meeting.
6. The Register of Members and the Share Transfer Register shall remain closed from 18.09.2008 to 20.09.2008 (both days inclusive).
7. Members are advised to note the ISIN No. INE 681F01018 allotted to the Company's shares and those who are interested to dematerialize their shares may do so.



## DIRECTORS' REPORT

Dear Shareholders,

Your directors are pleased to present the TWENTY THIRD Annual Report and Audited statement of accounts of the Company for the year ended on 31st March, 2008.

### FINANCIAL RESULTS

A summary of financial results for the year 2007 - 2008 is given below :-

	(Rs. in Lacs) 2007-2008	(Rs. in Lacs) 2006-2007
Sales Turnover (Net of Excise)	2105.92	2372.87
Gross Profit	178.06	265.93
<u>Deductions</u>		
Depreciation	65.28	61.94
Interest	5.21	08.90
Profit before Tax	107.57	195.09
Less: Provision for Income Tax for the year	30.00	40.00
Less: Provision for Fringe Benefit tax	2.40	2.50
Less: Provision for Taxation Earlier year	2.69	5.91
Less: Previous year Adjustment	0.10	0.19
Less/(Add): Deferred Tax	(10.19)	(3.72)
Profit after Tax and available for Appropriation	82.57	150.21
Less: Provision for Dividend	24.54	24.54
Less: Provision for Dividend Tax	4.18	4.18
Less: Transfer to General Reserve	8.07	18.22
Profit carried to Balance Sheet	45.78	103.27

### OPERATIONS

During the year the Company has achieved a turn over of Rs. 2106 lacs against Rs. 2373 lacs for the previous year and net profit for the year is Rs. 83 lacs against Rs.150 lacs for the previous year. During the year, Company's exports are Rs. 866 lacs compared to the previous year's exports of Rs. 1006 lacs.

This drop in domestic sales and exports is due to the effect of foreign exchange fluctuation, lower sales-as compared to previous year. The main cause for drop in sales is due to price increase in line with input cost.

### DIRECTORS

During the year pursuant to the provisions of the Articles of Association of the Company Mr. H.C. Dutta, Mr. Piero Tranchinetti, Mr. Pradeep Behl directors retire by rotation at the forthcoming Annual General Meeting to be held on 20.09.2008 and being eligible they offer themselves for re-appointment.

### CORPORATE GOVERNANCE

A certificate on the compliance of conditions of corporate Governance has been obtained from the Statutory Auditors of the Company and the same is given as Annexure.

### DIRECTORS' RESPONSIBILITY STATEMENT AS PER SECTION 217(2AA) OF THE COMPANIES ACT, 1956.

The Board of Directors of the Company confirms:

- that in the preparation of the annual accounts, the applicable accounting standards have been followed and there has been no material departure;
- that the selected accounting policies were applied consistently and the directors made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company as at March 31, 2008 and of the profit of the Company for the year ended on that date;
- that 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 for preventing and detecting fraud and other irregularities;
- that annual accounts have been prepared on a going concern basis.

## **FIXED DEPOSIT**

The Company has not accepted / renewed any fixed deposits during the period under review.

## **QUALITY CONTROL**

The Company has successfully maintained the new quality system of ISO 9001-2000. The Company has also integrated its MIS system on SAP with control quality data. The Company is strictly adhering to the quality policy and the quality objectives outlined in the system.

## **EXPORT OPERATIONS**

The Company has maintained most of its export customer base, except in Bangladesh which is a highly price sensitive market. The price rise of some key products was not absorbed by some customers in Bangladesh. The new product offerings targeted for lower segment, will enable the Company to regain its market share in the coming year.

The Company has expanded into newer markets like Thailand, Russia, and Morocco with latest products as per the new market trends. The response of exhibition in Ethiopia is very encouraging and Company has a firm plan to introduce its products in some of the developing markets in east African countries.

China will continue to be Company's main markets for exports and new sales volumes are expected from wet-end segment.

## **TECHNOLOGY DEVELOPMENTS**

The Company has successfully completed the research project on Polyurethane Dispersion Binders and has submitted an application for funding to Technology Development Board (TDB) for commercialization. The Company has received 'in principal' sanction of Rs. 495 lacs from TDB as a soft loan for commercialization of products developed through indigenous research.

The research project of 'Polymeric Fatliquors' sponsored by DSIR (Department of Scientific & Industrial Research) is progressing well and Company has completed stage VII trials and running into stage VIII.

The Company has also identified new markets of PVC Processing Aids and Metal working Fluids to expand the customer base. These markets are registering a significant growth and are very promising, specially the Indian market. The Company's present research set up is well suited to take up product development in these areas using existing infrastructure. The PVC additive research work has already been initiated and for Metal Working Fluids, the Company has identified a technology partner in the USA.

## **DIVIDEND**

Considering a stable cash flow situation, adequate profits and accruals during the year, your Directors are glad to recommend a dividend of 5%.

## **PERSONNEL & INDUSTRIAL RELATION**

The Company announced a loyalty bonus to those employees who completed their 20 years of service to the Company.

The New Performance Appraisal System covering all employees is extremely successful in identifying young talent and for rewarding the exceptional performances. The web based Performance Management System (PMS) is still being evaluated for introducing higher accountability amongst senior managers.

## **ENVIRONMENT & POLLUTION CONTROL MEASURES**

The Company's new Reverse Osmosis water treatment system has significantly reduced the water treatment load and wastage. Company's in house test set up for monitoring water parameter has further enabled optimization of treatment cycles.

The Company has taken up extensive landscaping activity in the plant compound to add the green areas.

The Company has also received the First Prize in SME category on safety and environment from Haryana Govt.

## **ACKNOWLEDGEMENT**

The Directors wish to express their sincere thanks and gratitude to their various business partners, suppliers, domestic & international dealers and financial institutions, who have contributed in the Company's growth.

The directors also wish to congratulate those employees who have completed 20 years with the Company and appreciate their loyalty and commitment.

For and on behalf of the Board of Directors  
of Haryana Leather Chemicals Limited

Place : New Delhi  
Date : 19th August, 2008

N.K. JAIN  
Chairman



## ANNEXURE A

INFORMATION AS PER SECTION 217(1) (E) READ WITH COMPANIES (DISCLOSURE OF PARTICULARS IN THE REPORT OF BOARD OF DIRECTORS) RULES, 1988 AND FORMING PART OF THE DIRECTORS' REPORT FOR THE YEAR ENDED 31st MARCH, 2008.

### A) CONSERVATION OF ENERGY

The Company has been able to reduce energy cost due to reasons such as :

1. Running of spray drier on UHBVNL power as and when available instead of continuous operation on Gen sets.
2. Due to lower sale of Syntans which is more fuel intensive.

Total energy consumption and energy consumption per unit of production as per Form A of the Annexure to this rule is as under :

	Current Year 2007-2008	Previous Year 2006-2007
1. Power and Fuel Consumption		
i) Electricity		
a) Purchased Unit		
(KWH)	264404	275387
Total Amount (Rs.)	1292855	1259087
Rate/Unit (Rs.)	4.88	4.570
b) Own Generation		
1. Through Diesel Generator		
Unit (KWH)	134257	200958.10
Units/Ltr.of Diesel Oil	2.84	3.00
Cost/Unit (Rs.)	10.78	10.450
ii) Coal	Nil	Nil
Quantity		
Total Cost		
Average Cost		
iii) Furnace Oil /HSD Oil		
Quantity (K. ltrs.)	207.00	316.03
Total Amount (Rs.)	5184835	7255502
Average Rate (Rs. K. ltr.)	25042.67	24445
iv) Others/Internal Generation	Nil	Nil
Quantity		
Total Cost		
Rate Unit		
2. Consumption per unit of production		
Production (MT)	3387	3644
Electricity (KWH/MT)	117.69	130.71
Furnace / HSD Oil (Ltrs./MT)	47.14	68.34
Coal	-	-
Others	-	-



## **B) TECHNOLOGY ABSORPTION**

### **a) Research & Development (R & D)**

#### **1. Specific area in which R & D carried out:**

- a) DSIR (Department of Scientific & Industrial Research – Govt. of India) sponsored research project on 'Polymeric Fatliquors' has completed stage VII trials and is progressing well. The particle size studies have enable stabilization of recipe and the process.
- b) The Reverse Osmosis plant has been stabilized and Bacteria control is under progress.
- c) 'Freeze Tolerance' of finishing chemicals has been completed and products are optimized for cold climate countries like Russia, Poland and North China.
- d) Formaldehyde control in melamine syntan has been completed to meet the international standards.

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

- a) Customer response in cold climate countries has improved due to improved Freeze Tolerance. The Company can expect higher sales volume from these countries.
- b) Waste water discharge has significantly reduced due to RO plant resulting in water savings.
- c) Higher sales potential of melamine syntan due to formaldehyde control as per European safety standards.

#### **3. Future Plan of Action**

- a) To complete remaining stages of trials of R & D project on Polymeric Fatliquors.
- b) To take up studies on 'Hot Light Ageing' of pigments to attempt Automotive Leather sector.
- c) To take up product development work on Acrylic Processing Aids for PVC and develop a customer base in non leather industries.
- d) To develop metal working fluids suitable for Auto component market using existing technologies in fatliquor area. An agreement with 2V industries, Detroit USA has been executed for development and commercialization.

#### **4. Expenditure on R & D.**

i) Capital	:	Rs. 16.08
ii) Recurring	:	Rs. 18.80
iii) TOTAL	:	Rs. 34.88
iv) Total R & D expenditure as percentage of total turnover	:	1.66 %

### **b) Technology Absorption, Adaption & Innovation**

(as per form B of the annexure to this rule).

#### **1. Efforts in brief made towards technology absorption and innovation.**

No new technology has been imported. All previously imported technologies have been fully absorbed and commercially scaled.

## **C) FOREIGN EXCHANGE EARNINGS AND OUTGO**

- a) The Company's foreign exchange earnings out of export was Rs. 866 lacs.
- b) The expenditure in foreign exchange during the financial year under review is Rs. 256.22 lacs. This is related to payment towards raw materials, import of capital goods, payment of overseas travel of directors & employees.

For and on behalf of the Board of Directors  
of Haryana Leather Chemicals Limited

Place : New Delhi  
Date : 19th August, 2008

N.K. JAIN  
Chairman





## MANAGEMENT DISCUSSION AND ANALYSIS REPORT

### a. Industry Structure

Leather industry in India and other major leather producing countries is quite stable. However the sudden jump in cost of inputs due to petroleum product will cause instability in short term. However, with more value added products in fashion segment, the need for high performance chemicals will continue to grow. There is continuous decline in leather production in Europe and USA but India, China, Turkey, Bangladesh, Pakistan and some African countries will remain as potential growth countries due to lower manufacturing costs.

### b. Opportunities & Threats

#### Opportunities

There are new opportunities for Indian Leather Chemical Industry as we can compete better due to new USD - EURO relation. Some of the major domestic customers of leather chemicals are finding European products more expensive and are likely to substitute them with domestic brands if they can offer competing quality. For export markets, the softening of Indian Rupee against USD has brought a good relief for Indian exporters of leather chemicals.

#### Threats

The instability in prices of raw materials coupled with shortages can cause serious threat to the leather chemical industry. Most of the input costs for leather chemicals are based on oil prices which have become highly unpredictable and are on continuous rise. It may not be possible to pass on the entire cost increase to the customer and the margins of leather chemical companies can come under pressure. However the high fashion chemicals are no longer price sensitive and can compensate for lower profits in the commodity items.

### c. Segment-wise or product-wise performance

In the domestic market, Kolkata sales and market share has continued to grow while sales in southern and northern India will remain stable.

In exports, China has shown stable sales with growth opportunities in the wet end segment.

Product-wise, the Company's Fatliquor section has performed better due to higher volumes. The synthetic Tanning agent department has shown a decline due to partial loss of sales in Bangladesh. The Company hopes to consolidate this department by diversifying into PVC additives.

### d. Outlook

The outlook of Indian Leather Chemical industry is quite promising with higher growth coming from both domestic and foreign markets. There will be higher emphasis on safety and environmental compliances, specially related to banned substances. The new fashion trend will make tougher demands on leather chemical industry in terms of more durable finishes. Only those producers of chemicals, who have in house research, development and test facilities, will be preferred. The Company has already achieved a leading position in terms of research and product offerings and enjoys a high reputation of its products in terms of performance and safety.

### e. Risks & Concerns

Company's main concern will remain price instability of inputs and availability of items Acrylic Monomers and Solvents. Heavy foreign exchange fluctuation can also erode Company's profitability especially on exports.

### f. Internal control Systems and their adequacy

The Company has sharpened its focus on costs fluctuation of inputs and the new SAP ERP system ensures that the cost and selling price relationship is as per established profitability norms. The Company's tighter control on receivables has enabled improved cash flow and a healthier debtor base. A very strict control on slow moving items has ensured that inventories are valued correctly. The new SAP MIS system is fully stable and has proved extremely beneficial for sharing of information relating to production, quality and purchasing for better integration with finance.

### g. Discussion on financial performance with respect to operational performance

Lower sales revenues and profits as compared to previous years are mainly due to foreign exchange fluctuation and a steep and sudden increase in the cost of inputs. The reduction in volumes is mainly due to Company's shift from commodity items to more value added products and a tighter control on receivables. Rising costs in inputs and energy will continue to put pressure on the margins. But the Company hopes to regain its profitability by optimizing the product offering and also adding new customer base in non leather industries.