

HARYANA LEATHER CHEMICALS LIMITED

BOARD OF DIRECTORS

N.K. Jain, Chairman
Pankaj Jain, Managing Director-cum-Vice Chairman
V.K. Garg
H.K. Gupta
H.C. Dutta
Dr. K.S.V. Menon
Dott. Massimo Medini
Marco Medini
Pradeep Behl
Sippy Jain

COMPANY SECRETARY

Silu Nanda

AUDITORS

S.C. Dewan & Co., Panchkula

CORPORATE OFFICE

1405-B, Signature Towers,
South City-I,
Gurgaon - 122 001 (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. Gupta, General Manager - Commercial & Operations
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 Eighth Annual General Meeting of the Members of the company M/s. Haryana Leather Chemicals Limited will be held on Wednesday, the 7th day of August, 2013 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 2013 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 @ 6% for the Financial Year 2012-13.
3. To consider appointing a Director in place of Mr. Pradeep Behl, who retires by rotation and being eligible offers himself for re-appointment.
4. To consider appointing a Director in place of Dot. Massimo Medini, who retires by rotation and being eligible, offers himself for re-appointment.
5. To consider appointing a Director in place of Lt. Gen. (Retd.) H. C. Dutta, 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.

SPECIAL BUSINESS:

7. To consider and if thought fit, to pass with or without modification(s) the following resolution as special resolution.

"RESOLVED THAT subject to the approval of the shareholders in their general meeting and pursuant to the provisions of Sections 198, 269, 309 and 317 of the Companies Act, 1956, read with Schedule XIII and all other applicable provisions, if any, of the Companies Act 1956, approval of the Board of Directors of the Company be and is hereby accorded to the re-appointment of Mr. Pankaj Jain as Managing Director of the Company for a further period of three years with effect from 04.02.2013 on the following terms and conditions: Mr. Pankaj Jain, Managing Director of the Company will be eligible for remuneration within the ceiling limit under Section-II 1(B) of Part-II of schedule XIII to the Companies Act, 1956, as follows:

Salary	: Rs. 1,45,000/- per month
Housing Allowance	: Rs. 58,000/- per month
Other Allowance	: Rs. 25,000/- per month
Medical Allowance/reimbursement for himself and family	: Rs. 4,500/- per month
Leave Travel Allowance/reimbursement for himself and family	: Rs. 9,500/- per month

The Managing Director shall also be eligible to the following perquisites which shall not be included in the computation of the ceiling on remuneration specified in paragraph as above:

1. Contribution to provident fund to the extent not taxable under the Income Tax Act.
2. Gratuity at a rate not exceeding half a month's salary for each completed year of service.
3. Encashment of leave at the end of the tenure.
4. Provision of car for use on Company's business and telephone at residence shall not be considered as perquisites.
5. If and when the Managing Director is required to entertain and / or travel for the purpose of Company's business the Company shall reimburse all actual expenses incurred by him for such entertainment and / or travel.

"RESOLVED FURTHER THAT in the event of any statutory amendment or modification or relaxation by the Central Government to Schedule XIII to the Companies Act, 1956, the Board of Directors be and is hereby authorized vary or increase the remuneration, including the salary, perquisites, allowances, etc., within such prescribed limits or ceiling without any further reference to the Company in General Meeting subject, however to the provisions of Section 302 of the Companies Act, 1956.

RESOLVED FURTHER THAT the Board of Directors of the Company be and is hereby authorized to vary or increase the remuneration within the ceiling as per Schedule XIII and other applicable sections and provisions, if any, of the Companies Act, 1956 and to do all such acts, deeds, things and matters as may be necessary to give effect to the above resolution."

8. To consider and if thought fit, to pass with or without modification(s) the following resolution as ordinary resolution.

"RESOLVED THAT pursuant to provisions of section 198, 269, 302, 309 and 311 and other applicable provisions if any of the Companies Act 1956 and subject to the approvals of members at the Annual General

Meeting, Mrs. Sippy Jain be and is hereby re-appointed as a Whole Time Director of the Company at a remuneration of Rs. 34,250/- per month with effect from 07.08.2013."

"RESOLVED FURTHER THAT, Mrs. Sippy Jain, the Director of the Company will also be entitled traveling, boarding, lodging expenses incurred by her in connection with the Company's business and such other benefits as any from time to time, are available to other senior executives of the Company."

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

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

SILU NANDA
Company Secretary

Dated : 5th July, 2013

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 29.07.2013 to 07.08.2013 (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.
8. Members are requested to provide their e-mail address so as they can receive the accounts and other related details on their e-mail only.

Explanatory statement pursuant to section 173(2) of the Companies Act, 1956.

For item No. 7

Mr. Pankaj Jain has been Managing Director of the Company since the incorporation of the Company. As the term of his last appointment expired on 03.02.2013 and his re-appointment is required to be considered for the benefit of the Company.

Considering his contributions and experience the remuneration committee of the Company has considered and approved his re-appointment for a period of three years considering the ceiling of the remuneration under section-II 1(A) of part-II of schedule XIII of the Companies Act, 1956. The details of the remuneration and terms of appointment are contained in the above said resolution. The new remuneration is in line with the existing remuneration and after due consideration of his experience, ability and contribution made to the Company.

Mr. Pankaj Jain is an Industrial Engineer and also promoted the Company M/s Haryana Leather Chemicals Limited in an Industrial backward area with latest technology from European companies. He managed the Company in the capacity of Managing Director for the last twenty seven year. Under his guidance the Company has been continuously going upward in technology and profits.

The Board recommends the approval of the resolution by the shareholders.

Mr. N. K. Jain, Mr. V. K. Garg being his relatives are concerned and interested in the resolution.

The text of the resolution along with the explanatory statement may be considered as an abstract and Memorandum regarding the terms of appointment of Managing Director - as required under section 302 of the Companies Act, 1956.

For item No. 8

Mrs. Sippy Jain has a Master Degree in Literature and Diploma in Textile Engineering and was appointed as the Manager-Graphic Design of the Company in the year 2007. Now looking at her capabilities and experience in designing, visualizing of promotion materials for marketing of Leather Chemicals in India and abroad and seeing her contribution and working in the Company, the Board has recommended her the post of Directorship of the Company. The Company will gain a lot from her experience mainly from her export marketing and business development skills.

Mrs. Sippy Jain has been appointed as the Whole Time Director of the Company and now the Board recommends her re-appointment as the Whole Time Director of the Company on new terms and conditions of the Company.

The Board recommends the approval of the resolution by the shareholders.

Mr. Pankaj Jain and Mr. N. K. Jain being her relative are concerned and interested in the resolution.

DIRECTORS' REPORT

Dear Shareholders,

The directors of Haryana Leather Chemicals Ltd. are pleased to present the 28th Annual Report and Audited Statement of the company's accounts for the year ended on 31st March, 2013.

FINANCIAL RESULTS

A summary of the financial results for the year 2012-2013 is given below:

	2012 - 13 (Rs. in Lacs)	2011 - 12 (Rs. in Lacs)
Sales Turnover (Net of Excise)	3967.14	3219.97
Gross Profit	398.49	294.59
<u>Deductions</u> Depreciation	75.20	74.62
Interest	20.42	17.21
Profit before Tax	302.87	202.76
Less: Provision for Income Tax for the year	92.00	47.15
Less: Provision for Fringe Benefit Tax for the Year	-	-
Less: Provision for Taxation/FBT earlier year	28.11	1.43
Add: Provision for Income Tax written back	-	18.45
Less: Previous year Adjustment	-	-
Less/(Add): Deferred Tax Liability	4.29	2.71
Profit after Tax and available for Appropriation	178.36	169.92
Less: Provision for Dividend	29.45	29.45
Less: Provision for Dividend Tax	5.01	5.01
Less: Transfer to General Reserve	21.58	20.32
Profit carried to Balance Sheet	122.32	115.14

OPERATIONS

During the year the company has achieved a sales turnover of Rs. 3,967 lacs against Rs. 3,220 lacs for the previous year. The net profit for the year is Rs. 178 lacs against Rs. 169.92 lacs for the previous year. The exports are at Rs. 1,673 lacs compared to the previous year's exports of Rs. 1,092 lacs.

The company has recorded 53% growth in sales in export market as compared to last year.

DIRECTORS

Pursuant to the provisions of the Articles of Association of the Company, the directors - Mr. Pradeep Behl, Dot. Massimo Medini, Lt. Gen. (Retd.) H.C. Dutta retire by rotation at the forthcoming Annual General Meeting to be held on **7th August, 2013** and being eligible they offer themselves for re-appointment.

STATUTORY AUDITORS

The statutory Auditors of the company M/s. S. C. DEWAN & Co., Chartered Accountants, Panchkula are retiring at the forthcoming Annual General Meeting and they are eligible for re-appointment offers themselves for the same. Their appointment, if made, will be in accordance with section 224 (1-B) of the Companies Act, 1956 (hereinafter referred to the "Act").

Auditor's report does not need any comments from the directors.

PARTICULARS OF EMPLOYEES u/s 217(2) (A)

The company did not employ any person drawing a remuneration of Rs. 5,00,000/- or above for one month or part of the month or Rs. 60,00,000/- or above for one year, whose particulars are required to mention u/s 217(2)(A) of the Companies Act, 1956.

SECRETARIAL COMPLIANCE CERTIFICATE

As the paid up share capital of the company is more than Rs. 10,00,000/- and below Rs. 5,00,00,000/- so a certificate from the Company Secretary in practice is attached with the report as per the requirements of section 383A of the Companies Act, 1956 who has conducted audit of the books and other documents of the company and given the certificate.

TRANSFER OF FUNDS TO INVESTOR EDUCATION AND PROTECTION FUND:

As the Company is distributing dividend to its shareholders since 2006 on recommendation of the shareholders of the Company. The Board also authorised to take all the necessary steps to transfer the unpaid / unclaimed Dividend of Equity Shareholders for the year 2005-2006 to the Investor Education and Protection Fund (IEPF) of the Central Government established under sub-section (1) of section 205C of the Companies Act, 1956 on the date as per the provisions of the relevant section of the Act.

FIXED DEPOSIT

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

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 has been given below as Annexure.

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

The Board of Directors of the company confirms that:

- i. during the preparing of the annual accounts, the applicable accounting standards have been followed and no material departure has taken place;
- ii. the selected accounting policies were applied consistently and the directors made judgments and estimates that are reasonable and prudent so as to give an accurate view of the state of affairs of the company as at 31st March, 2013 and of the profit of the company for the year ended on that date;
- iii. 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;
- iv. annual accounts have been prepared on an ongoing concern basis.

QUALITY CONTROL

The focus of company's quality control has been to comply to REACH legislation (Registration, Evaluation and Authorization of Chemicals) of ECHA (European Chemical Agency) and to update changes in restricted substance list (RSL). Though most vendors have started certifying materials but regular validation from outside testing labs like SGS and INTERTEK has been carried out throughout the year. The company has also outlined an expansion plan of quality control lab to include more chromatography equipment to cover the expanding list of restricted substances.

All the quality incidences reported by customers in domestic and export market were promptly attended and resolved to their full satisfaction. The company continues to comply with the quality policy and the quality objectives outlined in the ISO 9001-2000 and ISO 14001 internal system and ISO certification are under renewal.

EXPORT OPERATIONS

Company's efforts to increase exports have yielded significant results in most of the areas. The overall increase of sales revenue can be attributed mainly to an export growth of nearly 53% with revival of some key markets. Introduction of some high value products to markets in Poland and China also resulted in increased exports. Company also invited important dealers from Indonesia and Ethiopia for training and orientation on company's new line of products targeted for these markets.

Company has also initiated alliances with competitors to initiate exports in those markets where the company could not find appropriate agents. Such alliances, especially in Latin America, can be extremely viable and beneficial for export growth. The company is also exploring possibility of setting up a representative office in the US to serve Latin American markets.

TECHNOLOGY DEVELOPMENT

The first phase of TDB funded project for commercialization of Polyurethane Dispersions has been successfully completed and the company has decided not to scale up to second phase in immediate future. Considering the revised phasing plan, the company has revised the financial outlay and has pre-paid the TDB loan of Rs. 125 lacs in monthly installment. As per the deed of settlement the monthly repayments covering the principle amount of TDB and the applicable interest started in Oct. 2012 and have concluded in June 2013. The scale up, if required in future, is proposed to be funded from internal accruals.

Plant erection work for the new spray dryer required for technology development of new generation of Di-Sulphone syntans, Acrylic impact and flow modifiers for PVC is in full swing and final stages. Upto March 2013, most of the equipment was in place - except the heater unit. The stress testing of structure, dry air run are planned between July - August 2013. The entire commissioning and testing is projected to be completed before Sept. 2013.

DIVIDEND

Considering the current growth and profitability, the directors are pleased to recommend continuation of dividend of 6%.

PERSONNEL & INDUSTRIAL RELATION

Industrial relation remained cordial across all segments of skilled and unskilled workforce.

The company has been able to maintain cordial relations across all levels of workforce. The attrition rate of skilled workforce has been negligible. The feedback to employees through the annual appraisal system has instilled a sense of deeper responsibility amongst the mid-level managers and they are being further trained to take bigger operational responsibilities. The company has maintained the yearly increments and bonus system to ensure motivation at all levels.

ENVIRONMENT & POLLUTION CONTROL MEASURES

The company has been able to satisfactorily meet various statutory regulations of state pollution control board. The periodic sampling of air and water carried out by inspecting agency has validated that company has strictly adhered to the waste discharge norms. In spite of increased production, the waste water discharge has not increased due to tighter control of wash cycles. The company continues to deliver all solid waste to Gujarat Enviro Protection & Infrastructure (Haryana) Pvt. Ltd. (GEIPL) common treatment facility for disposal.

The company is also actively considering various new technologies for waste water recovery. Preliminary discussions with some German Companies have revealed that using vacuum distillation process the waste water can be recovered using minimum energy. A techno – commercial evaluation of this technology is currently under progress.

ACKNOWLEDGEMENT

The Directors would like to extend their deep regards and sincere thanks to company's suppliers, domestic and international dealers, representatives, service providers, financial institutions and technical consultants for their continued support.

The directors also acknowledge and appreciate the commitment of all the employees who are putting their best efforts towards company's goals and objectives.

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

Place : GURGAON
Date : 5th July, 2013

N.K. JAIN
Chairman

PANKAJ JAIN
Managing Director-cum-Vice 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, 2013.

A) CONSERVATION OF ENERGY

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

Form A

			Current Year 2012 - 13	Previous Year 2011 - 12
1.		Power and Fuel Consumption		
	a)	Electricity Purchased (KWH)	270844	252464
		Total Amount (Rs.)	2130650	1550900
		Rate / Unit (Rs.)	7.87	6.14
	b)	Own Generation		
		- Through Diesel Generator		
		Unit (KWH)	82393	70283
		Units / Ltr. of Diesel Oil	2.01	2.22
		Cost / Unit (Rs.)	21.96	17.53
		- Coal	Nil	Nil
		Quantity		
		Total Cost		
		Average Cost		
		- Furnace Oil / HSD Oil Quantity (K. Ltrs.)	204.49	159.10
		Total Amount (Rs.)	8799162	6213567
		Average Rate (Rs. K. Ltr.)	43029	39054
		- Others / Internal Generation	Nil	Nil
		Quantity		
		Total Cost		
		Rate Unit		
2.		Consumption per Unit of Production		
		Production (MT)	4548	3890
		Electricity (KWH / MT)	79.86	82.99
		Furnace / HSD Oil (Ltr. / MT)	36	32.94
		Coal	-	-
		Others	-	-

B) TECHNOLOGY ABSORPTION

a) Research & Development

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

- Developed new generation syntans based on Di Sulphone. After thorough testing in-house and at customer end, the results are completely satisfactory and the product has met all the performance parameters. The product has been launched for application in furniture upholstery leather and the feedback is very encouraging.

As of now the product is based on imported base material which has higher purity than what is locally available. The commercial viability has been validated using the imported base material.

- b) The project to develop fully-synthetic automotive leather fatliquor could not be concluded. Various approaches were tried and all the results point only towards adopting the polymeric intermediates. The company has reoriented its strategy and has developed many polymeric intermediates with the view to compound with other synthetic lubricating materials. Considering the complexity of the project, the company had approached M/s. Vismon-Spain to jointly carry out this research, but even they have not been able to conclude the formula in past six months. The work is on-going and is expected to take another one year.
- c) Due to ongoing expansion of "Restricted Substance List" (RSL) under REACH, the company has faced significant challenges in developing detection techniques on banned substances using chromatography techniques. But by deploying external testing agencies, the company has ensured that all its products remain free from restricted substances. All domestic and export customers are being continuously supported with appropriate certification.

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

- a) Due to addition of Di-Sulphone syntans the company has strengthened its presence in high value added products which are import substitutes. As the competition in commodity syntans is increasing, the development of di sulphone resin will enable the company to avoid a drop in profit margins on syntans which are facing price pressure due to higher fuel cost.
- b) The continuous updating of detection techniques on banned substances has ensured that the company continues its presence in European market where the exports are not possible without complying with REACH requirements.

3. Future Plan of Action

- a) To develop chromatography techniques for detection of SCCP (Short Chain Chlorinated Paraffin) and MCCP (Medium Chain Chlorinated Paraffin) in various raw materials & to ensure all finished products are free from them. For this a new Chromatograph from Agilent US has been ordered. After its installation, the detection techniques will be standardized.
- b) To continue development project of fully-synthetic automotive leather fat liquor in collaboration with Vismon Spain.
- c) To evaluate performance of ICAP IRSEA, Italy product – especially very soft acrylics and Polyurethanes for the purpose of import and compounding. The company has held preliminary discussions with M/s. ICAP SIRA and wishes to rework its product portfolio to remain abreast with newer trends in leather finishing.

4. Expenditure on R & D. (Rs. in lacs)

- | | | |
|---------------------------------|---|--------|
| i) Capital | : | 2.41 |
| ii) Recurring | : | 58.15 |
| iii) TOTAL | : | 60.56 |
| iv) Total R & D expenditure | : | 1.53 % |
| as percentage of total turnover | | |

b) Technology Absorption, Adaptation & Innovation

(as per Form-B of the annexure to this rule)

1. Efforts made towards technology absorption and innovation.

- i) All indigenously developed technologies have been commercialized except for "Polymeric Fatliquors".
- ii) All previously imported technologies have been fully absorbed and commercialized.

c) Foreign Exchange Earnings & Outgo

- a) The company's foreign exchange earnings out of export (Inclusive of foreign exchange fluctuations) were Rs. 1,673 lacs.
- b) The expenditure in foreign exchange during the financial year under review is Rs. 372.62 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 : GURGAON
Date : 5th July, 2013

N.K. JAIN
Chairman

PANKAJ JAIN
Managing Director-cum-Vice Chairman

MANAGEMENT DISCUSSIONS AND ANALYSIS REPORT

a. Industry Structure

The domestic and foreign leather industry has remained stable with robust demand and order book.

Leather has become a symbol of luxury and its use in luxury articles, furniture and automotive continues to grow inspite of economic recession in some European countries. Indian tanneries are also utilizing their full potential after stabilization of the individual or common effluent treatment plants. The depreciation of Indian rupee w.r.t. USD will have a positive effect in exports of leather and will also boost export of leather chemicals. Indian leather industry which still suffers from quality / price issues is making all out efforts to compete with China and that is good news for leather chemical sector.

b. Opportunities & Threats

Opportunities:

Leather industry remains a labour intensive industry worldwide. Due to lower labour cost in India, the leather industry will continue to grow in India. The emerging tanneries in furniture and automotive leather industry at Kanpur, Jalandhar and Kolkatta have already put India in the elite club of high-fashion leather producing countries like Italy and Turkey. These tanneries will eventually require advanced chemical technologies which are environment friendly and the company is ready with latest offerings to service this sector.

The shift of leather production from Western Europe to Asia continues due to differential wage structure. As per data gathered during participation in international leather fairs, emerging Asian economies like Vietnam, Bangladesh and Thailand are expanding their leather production infrastructure. Even in India the ban on export of unfinished leather stays in place ensuring significant value addition to leather through application of chemicals. Since the company's product range conforms to the REACH regulations, the company can expect a continued growth in demand of its products from both these markets in the long-term.

Threats:

There is no significant threat except the inflation and wide fluctuation in foreign currencies. The current depreciation of INR vs USD may affect the profitability of those products which are dependent on imported raw materials as the entire material cost increase cannot be passed on to the tanners. Fluctuation in International petroleum prices, further affecting the prices of raw materials, can also affect the profitability.

c. Segment-wise or product-wise performance

Product wise, the company expects growth in wet-end segment in the domestic sector and for exports the company is relying on its updated product offering in finishing. Customers producing gloving in Kolkatta and upholstery at Kanpur leather have remained the focus during the year. There is significant improvement in market share at Jalandhar leather producing belt. Company's thrust to tap some international dealers who buy in neutral unbranded packing has added significant volumes.

The syntan division which yields just 10% of sale and consumes 80% of the fuel cost has been a serious concern due to rising cost of diesel. The company is planning a continuous production shift to reduce fuel cost and may outsource some commodity items.

d. Outlook

Safety and environment regulations on banned substances will bring new challenges and make tougher demands on leather chemical industry. Company's laboratories are fully competent to meet such demands. The challenge of rising fuel cost will need to be addressed through more energy efficient production cycle. The general outlook for leather industry in India is bright and company's export thrust will remain the growth engine for future. The company foresees a huge potential in Latin American Markets where the company has not been able to make any in - roads so far. The company plans to initiate a representative office in the US to service these markets after obtaining required statutory approvals in the coming year.

e. Risks & Concerns

Company's main concern in the coming year will be environment and safety regulations and to remain updated. Inflation, energy costs and shortage of unskilled labour have also been a reason of worry and concern. Foreign exchange and petroleum price stability are essential to ensure a steady demand and a control on the input costs.

f. Internal control systems and their adequacy

The company's internal controls on costs, yield and profitability remain very tight. Each raw material cost is notified to higher management for a pricing review. A regular monitoring of fuel cost, deployment of contracted unskilled labour force is monitored on daily basis. Supplies to domestic dealers are linked to their payments through a computerized control. A tight check on bank charges is also evident in reduced financial expenses. Due to installation of CCTV camera system, there are reduced incidences of pilferage of items lying in open yards.

The future controls will be targeted to reduce turnaround time of inventory and reduce delivery period. A new production planning and scheduling system has been introduced to track orders and delivery.

g. Discussion on financial performance with respect to operational performance

Higher sales revenues in export market as compared to previous years are due to a well planned expansion of markets, dealers and products. Higher exports have also yielded higher profitability as the export product portfolio is mainly for those items where the value addition is higher as compared to general product range.