

Touching Lives

Himadri Chemicals & Industries Limited

Annual Report 2005-06

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Himadri Chemicals & Industries Limited

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Cautionary statement

In this Annual Report we have disclosed forward-looking information to enable investors. to comprehend our prospects and take informed investment decisions. This report and other statements – written and oral – that we periodically make contain forward-looking statements that set out anticipated results based on the management’s plans and assumptions. We have tried wherever possible to identify such statements by using words such as ‘anticipate’, ‘estimate’, ‘expects’, ‘projects’, ‘intends’, ‘plans’, ‘believes’, and words of similar substance in connection with any

discussion of future performance. We cannot guarantee that these forward-looking statements will be realised, although we believe we have been prudent in assumptions. The achievement of results is subject to risks, uncertainties and estimates taken as assumptions. Should known or unknown risks or uncertainties materialise, or should underlying assumptions prove inaccurate, actual results could vary materially from those anticipated, estimated or projected. Readers. should bear this in mind.

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Corporate Information

Himadri Chemicals & Industries Ltd

Board of Directors

Chairman
Mr. D.P. Choudhary

Managing Director
Mr. B.L. Choudhary

Executive Directors
Mr. S.S. Choudhary
Mr. V.K. Choudhary

Directors
Mr. S.K. Banerjee
Mr. S.K.S. Narayan
Mr. S.K. Saraf
Mr. S.K. Goenka

CEO
Mr. Anurag Choudhary

President – Projects
Mr. Amit Choudhary

President – Operations
Mr. Tushar Choudhary

Auditors

Agarwal Prasad & Co.
Chartered Accountants
P-45, Khairu Place, 3rd Floor,
Kolkata- 700 072

Secretary
B.L. Sharma

Bankers

Central Bank of India
Citi Bank, N.A.
State Bank of India

Advocates
Sandip Agarwal & Co.
Kolkata

Share Transfer Agents

M/ S. K. Computers
34/1A, Sudhir Chatterjee Street
Kolkata- 700 006
Ph.No: 033- 2219 4815/6797

Registered Office

23-A, Netaji Subhas Road,
(8th Floor) Kolkata- 700 001

Works

1. Netaji Subhas Road, Liluah,
Howrah- 711 204 (W.B)
2. Gadadhar Bhatt Road, Liluah,
Howrah- 711 204 (WB)
3. Mahishtikry, Ps. Haripal,
Dist- Hooghly (WB)
4. Ancillary Industrial Estate,
Visakhapatnam, (A.P.)

Goals...

To graduate from a leadership in coal tar pitch manufacture in India to global leadership.

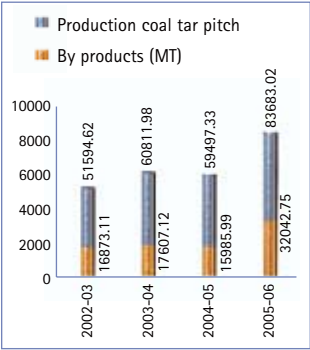
To set up the largest manufacturing base in India for advanced carbon materials.

Financial highlights

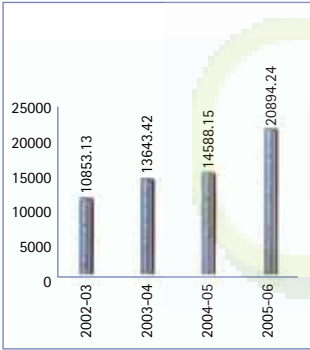
What we achieved in 2005-06...



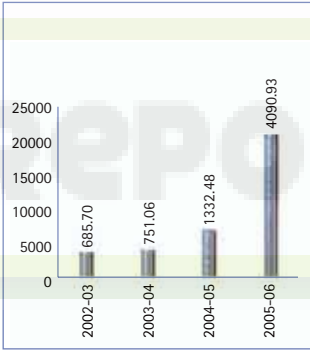
Production of coal tar pitch by-products (MT)



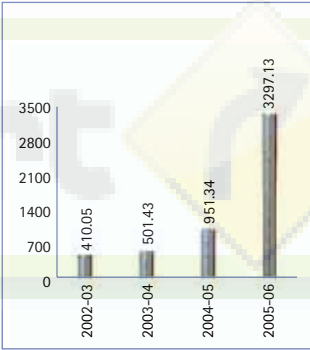
Revenue (Rs./lacs)



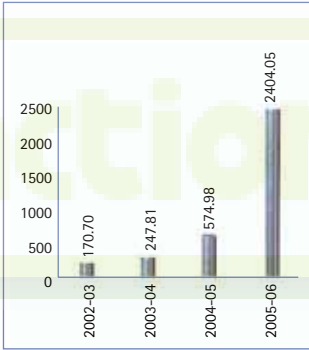
EBIDTA (Rs./lacs)



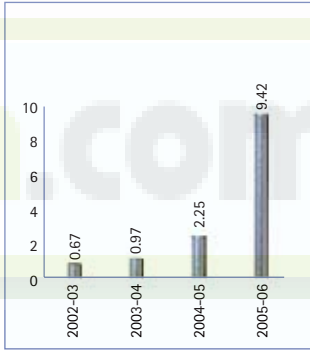
Cash profit (Rs./lacs)



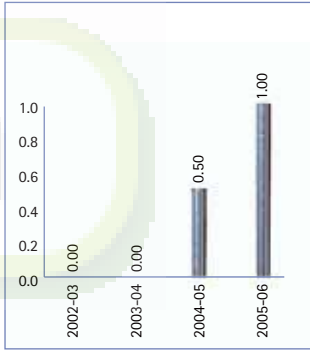
PAT (Rs./lacs)



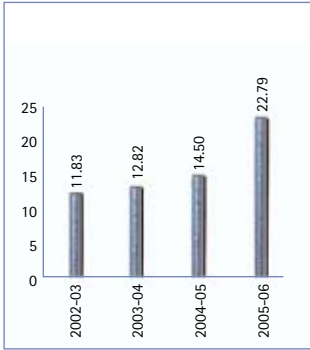
EPS (Rs.)



Dividend per share (Rs.)



Book value (Rs.)



We manufacture coal tar pitch, a hydrocarbon derived from the distillation of coal tar. It is used as a binder for aluminium anodes; it also finds application as a binder and impregnator in the graphite industry for the manufacture of electrodes. Coal tar pitch accounts for about 11.5 per cent of finished aluminium and 46 per cent of graphite electrodes. The Company's product portfolio is divided into coal tar distillation and corrosion protection products.

- 100.46 per cent capacity utilisation for the production of coal tar pitch; 100 per cent capacity utilisation of the Hooghly coal tar pitch manufacturing facility in the first full year of operations.
- 4.2 per cent higher yield through technology upgradation facilitated by in-house research and development.
- 6.4 per cent reduction in fuel consumption due to the installation of a waste heat recovery system.
- 122 per cent expansion in the production capacity of the coal tar pitch at

- Hooghly (28,700 MTPA to 63,700 MTPA).
- Commissioned a new by-product plant in Hooghly for the manufacture of value-added products.
 - Commissioned a pilot plant for the manufacture of advanced carbon materials used in lithium ion batteries with in-house technology.
 - Commenced the supply of coal tar pitch to Dubai Aluminium Co., manufacturer of the highest purity aluminium in the world.
 - Commenced a representative office in China.

Post balance sheet developments till 30th June 2006

- Numbers
- 956.2 per cent increase in net profit to Rs.12.78 crores in first quarter of 2006-07 compared to a net profit of Rs.1.21 crores in the first quarter of 2005-06.
 - 101.4 per cent increase in gross sales to Rs. 88.62 crores in the first quarter of 2006-07 from Rs. 44 crores in the first quarter of 2005-06.
 - 455.92 per cent increase in EBIDTA to

- Rs. 20.18 crores in the first quarter of 2006-07 from Rs. 3.63 crores in the first quarter of 2005-06.
- 1158 basis point increase in the net profit margin to 14.29 per cent in the first quarter of 2006-07 from a mere 2.71 per cent in 2005-06.
 - 965.95 per cent in non-annualised earnings per share in the first quarter of 2006-07 to Rs. 5.01 in 2006-07 from Rs. 0.47 in 2005-06.
 - Trial commissioning of a windmill in Maharashtra in May 2006.

- Setting up of a new coal tar distillation plant in Visakhapatnam; commercial production expected by December 2006.
- Decision to set up another plant at Korba (Chattisgarh).



Chairman's overview



In a growing economy like India, the business of coal tar pitch and downstream products appears to be at an inflection point in terms of its appeal and attractiveness.

This decisive juncture is the result of two developments of paradigm importance:

- A demographic shift in aluminium smelters from a high-energy cost Europe to a low energy cost Middle East.
- An increase in the installed capacity of most Asian aluminium manufacturers to address this global shift on the one hand and growing consumption on the other.

The result is that Asia's standalone aluminium capacity increase is expected to outperform the global capacity increase; aluminium capacity in Middle East-Asia is expected to increase by 4 million MT by 2010, with the Indian industry adding another 1.33 million MT until then.

This rapid expansion is expected to hold significant implications for the aluminium industry's upstream and downstream businesses, not just in India but also across Asia. One of the critical upstream businesses that will benefit from this significant development will be that of coal

tar pitch, an intermediate raw material that accounts for about 11.5 per cent of finished aluminium by volume.

Today, India's aluminium industry requires 1,23,900 MTPA of coal tar pitch; by 2010, this demand will rise to 2,83,400 MTPA based on the projected capacity expansions already announced by India's aluminium smelters.

Himadri Chemicals, your Company, is attractively placed to capitalise on this transition for the following reasons:

- It is the market leader for coal tar pitch and one of only three manufacturers in the world of zero Q.I. impregnating coal tar pitch.
- It is a cost leader with the capability to commission capacity at the lowest cost and conversion at the lowest levels in the business.
- It is a technology leader with the capability to offer customers the widest product basket at the highest purity levels.
- It caters to more than 70 per cent of the domestic coal tar pitch market, consolidating its dominance in the domestic industry.
- It has created high entry barriers for competitors to enter into coal tar pitch business through its superior quality products at lower costs. Also the flexibility in the usage of raw materials and the capability to set up capacity at a very low

One of the critical upstream businesses that will benefit from significant global developments will be coal tar pitch

cost (due to in-house fabrication) has reinforced its competitive advantage.

In view of this intrinsic capability and an attractive demand outlook, Himadri Chemicals increased its installed capacity of coal tar distillation from 78,000 MTPA (54,600 MTPA coal tar pitch) to 1,69,000 MTPA (1,18,300 MTPA coal tar pitch) in the span of two years, commissioned in March 2006; going ahead, it expects to increase its Indian capacity by more than 120 per cent by 2010 through the following initiatives:

- A second plant in Visakhapatnam for which land has been acquired and construction commenced.
- Acquisition of land at Korba (Chattisgarh) to set up satellite manufacturing units around large downstream users, increasing their dependence on Himadri through a stronger supply chain.

Concurrent with the decision to strengthen its Indian presence, Himadri is transforming itself into a global Company. The first step towards this goal was through the setting up of a representative office in China that was commissioned in 2005-06. Going forward, the Company intends to set up a large manufacturing base in China in the foreseeable future to capitalise on abundant raw material availability and a large consumer potential.

In addition to this linear and multi-

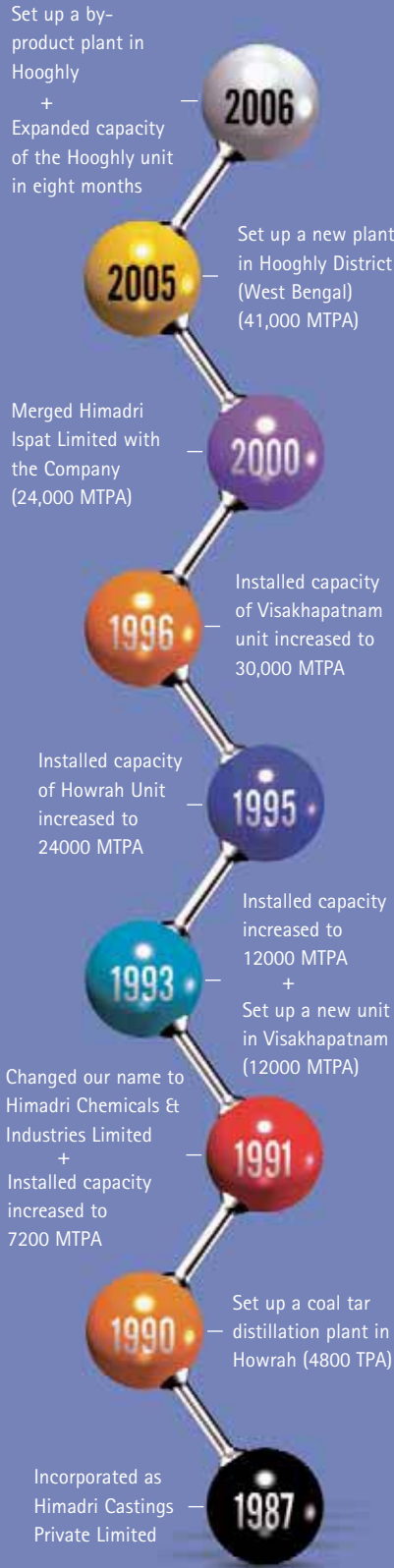
geographic presence, it is Himadri Chemicals' forward integration that provides the greatest excitement: the Company has chalked out plans to extend into downstream carbon technologies through the manufacture of advanced carbon material for lithium ion batteries derived from coal tar.

As a result, the Himadri Chemicals enjoys economies of scale and significant market share in supplying a critical raw material to core industries. In future Himadri Chemicals will leverage this core competence in coal tar pitch and extend into the manufacture of valuable and value-added downstream products that we use in our everyday lives. In doing so, Himadri Chemicals will leverage the value of proprietary technology today as well as the scale and service tomorrow before it moves downstream into value-added products over the coming years.

In view of this, I am not only optimistic that Himadri Chemicals will enhance value for all those who hold shares in the Company today; it will continue to do so in a sustainable way over the foreseeable future.

Sincerely

D.P. Choudhary
Mr. D.P. Choudhary
Chairman
(This does not purport to be the proceedings of the meeting.)



What makes Himadri Chemicals special?



■ One of the most competitive manufacturers of coal tar pitch in the world on account of a unique complement of captive (closely guarded) technology on the one hand and captive engineering, design and project implementation on the other.

■ Captive technology competence reflected in an ability to manufacture superior grades of coal tar pitch from diverse raw material permutations.

■ One of only three companies in the world to produce zero Q.I. impregnating coal tar pitch.

■ Achieving 100 per cent overall capacity utilisation in the very first year of its operation at the Hooghly factory.

■ Uses hazard-free processes in manufacturing by investing in advanced equipments.

■ Provides various grades of coal tar pitch covering diverse customers, industries and applications.

■ Brand-enhancing client base comprising Nalco, Hindalco, Balco, Malco, Graphite India HEG, and DUBAL.

■ Fully automated state-of-the-art manufacturing plant at Hooghly resulting in product purity and consistency.

■ Product approvals from world leading aluminium and graphite companies like ALBRAS, ALBA, SGL and Graphtech.

■ Demonstrated project management capability, resulting in the commissioning of a new Hooghly factory (41,000 MTPA) in a mere nine months and more than doubling of the capacity within eight months.

Product profile

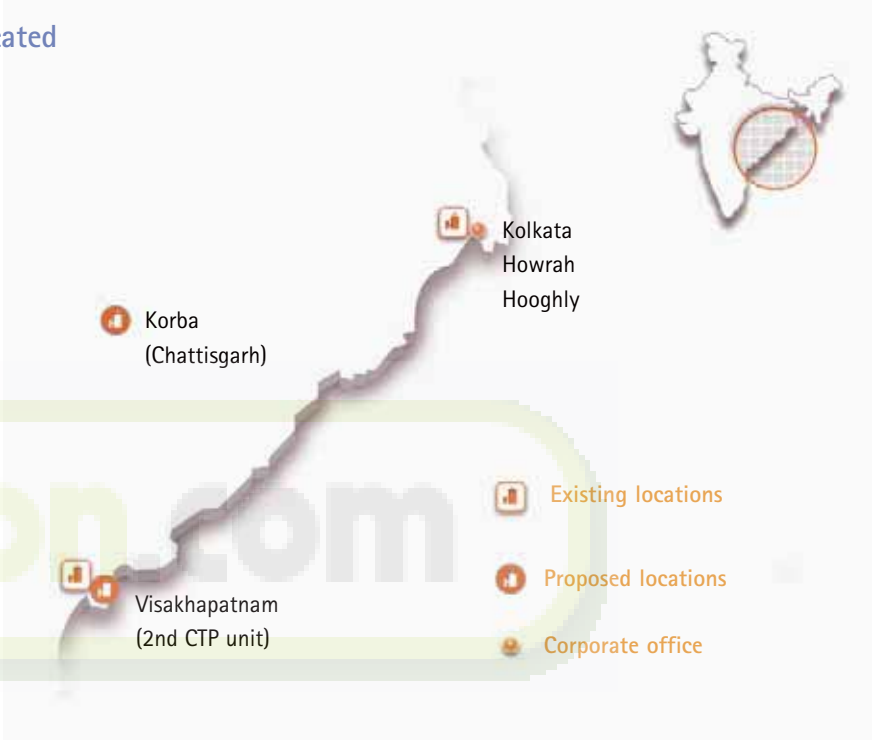
What we manufacture...



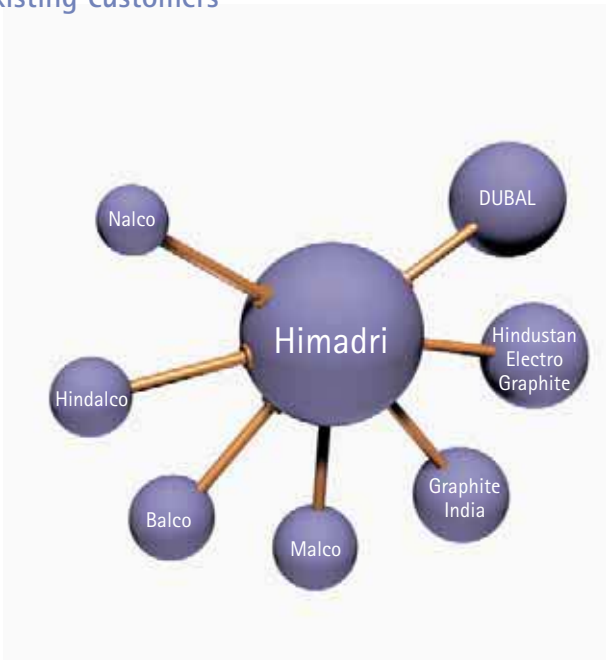
Coal tar distillation products		
Products	What we do	Markets served
Coal tar pitch	Manufacture pitch by processing high temperature coal tar using cutting-edge technology. Essential features comprise low volatile content, high fixed carbon, low ash content and good wettability. Marketed in solid and liquid form.	<ul style="list-style-type: none">■ Used in the aluminium industry to manufacture different types of anodes (pre-baked and soderberg).■ Used as binder and impregnating material for the manufacture of graphite electrodes used in the electric arc furnace by steel plants.■ Used to manufacture special pitches that are used as raw material for refractories and carbon paste etc.
Naphthalene	Hydrocarbons made from coal tar, (by-product of coke ovens)	<ul style="list-style-type: none">■ Used in chemicals like beta naphthol and phthalic anhydride etc.■ Used as a disinfectant in households.■ Used in tanning agents.
Oils	Hydrocarbons made from coal tar, (by-product of coke ovens)	<ul style="list-style-type: none">■ Used as solvents in paints in the form of light creosote oil and in the extraction of benzene from coke oven gas.■ Used as feedstock to manufacture carbon black (heavy creosote oil).■ Used in the preservation of wood (anthracene oil).

Corrosion protection products		
Himcoat enamel	Coal tar-based thermoplastic polymeric coating product.	Used as anti-corrosion protection material in underground and offshore pipelines.
Himcoat primer-B™	Solvent-based synthetic primer.	<ul style="list-style-type: none">■ Used as binding material for metallic surfaces.■ Used in the internal coating of pipes.
Himtape™	Hot applied coal tar solvent in tape form.	<ul style="list-style-type: none">■ Used as a protective for underground and submerged metal surfaces from corrosion and electrolysis.■ Used in oil and gas pipelines, water and sewage pipelines, fire hydrant lines and pipe joints, fittings and couplings.
Himwrap™	A fiberglass tissue with coal tar enamel.	Used as an outer wrap in pipelines

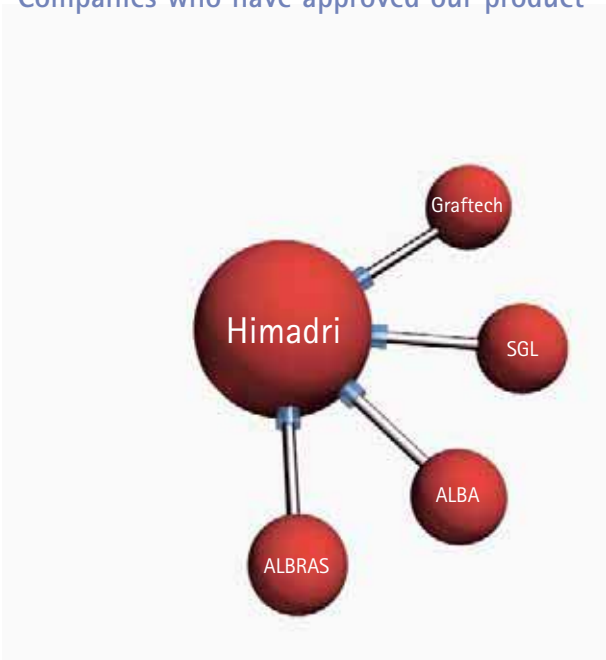
Where we are located



Existing customers



Companies who have approved our product



This... ...



...brings happiness
into our lives

Aluminium is one of the most popular metals today for a variety of reasons: low density, non-toxic, high thermal conductivity, corrosion resistance, non-magnetic, non-sparking and an ability to be easily cast, machined and formed. It is the second most malleable metal known to man and the sixth most ductile.

Binder pitch is a critical raw material in the manufacture of aluminium. Its quality has a direct impact on the purity of aluminium produced. It is used as a binding material in the manufacture of pre-baked and soderberg anodes that are used in the electrolysis of aluminium manufacture.

Approximately 115 kgs of binder pitch are required to manufacture 1 MT of aluminium, creating a market for around 3.68 MMT of aluminium grade binder pitch in the world.

This product is now acquiring a critical importance in Himadri's product mix; revenue from this single product was 54.48 per cent of the Company's overall revenue in 2005-06.

Growing applications of aluminium

- Malleability and ductility: Kitchen utensils and external building decoration.
- Non-magnetic: Television and radio components, refrigerator and air-conditioner bodies.
- Thermal conductivity: Airplanes and rockets.
- Electrical conductivity: Electrical transmission lines, wires, cables and bus bars.
- Reflectivity: Telescope mirrors, decorative paper, packages and toys.
- Corrosion resistance: Door and window frames, wall cladding, roofing and awnings.
- Hygienic: Beverage cans, bottle tops, foil wrap, foil and semi-rigid containers.
- Lightness: Softball bats, furniture and automobiles.



This... ...



...helps bond better

Graphite is an engineer's friend; the material is valued for its sound heat and electricity conductivity, light weight and high tensile strength.

Binder pitch and zero Q.I. impregnating coal tar pitch are critical materials used in the manufacture of graphite. Each MT of graphite uses around 460 kgs of pitch, including 180 kgs of value-added zero Q.I. impregnating coal tar pitch.

Binder pitch: Used as a binding material in the manufacture of graphite electrodes; there is no substitute material to binder pitch, used for making graphite electrodes.

Zero Q.I. impregnating coal tar pitch:

Used as impregnating material in the manufacture of graphite electrodes and nipples as well as the production of UHP grade electrodes; critical raw material in the production of needle coke, carbon/carbon composites, advanced carbon products and carbon fibres for impregnating pours at high temperature.

Before Himadri Chemicals initiated the production of this grade of pitch in 2000, the product was completely imported into India. The Company derived 15.03 per cent of its revenues in 2005-06 through the supply of this product to the graphite industry; it is the third Company in the world to manufacture zero Q.I. impregnating coal tar pitch.

Growing applications of graphite

- High temperature resistance: Carbon electrodes, plates and brushes (electrical motors).
- Electro-thermal property: Dry cell batteries.
- High temperature resistance: Crucibles, ladles and moulds.
- High carbon content: Carbon-based seals used in the shafts and fuel pumps of jet engines.
- High tensile strength and lightness: Tennis racquets and golf sets etc.



This...



...

...helps make flying
safer

Specialised pitch manufactured by Himadri Chemicals enjoys applications in a number of downstream products that not only enhance a sense of convenience but also reduce costs.

The quality commitment has been institutionalised in the Company's initiative to establish a state-of-the-art research and development laboratory in each of its manufacturing units. The Company's R&D centre employs qualified and experienced professionals, who innovate new grades and customise them around demanding customer needs.

For instance, Himadri's product is used in the manufacture of advanced

carbon precursors used in aircraft brakes, enhancing a sense of safety for millions of passengers.

Its application in aluminium and the increasing use of this metal in the manufacture of gearboxes, motor parts and vehicle body sheets is helping in two ways: assisting manufacturers reduce the cost of vehicles and helping users enhance their mileage efficiency.

Besides, specialised pitch manufactured by the Company is used critically on the top of the sophisticated Agni missile and in other requirements of Indian Defence Research and Development Organisation, helping to protect the nation's sovereignty.

