

Indian origin.
Global mindset.

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Himadri Chemicals & Industries Limited

Himadri Chemicals & Industries Limited Annual Report 2006-07

Forward-looking 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 even inaccurate 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.

We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise.

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Corporate information

Board of Directors

- Mr. Damodar Prasad Choudhary** – *Chairman*
Mr. Shyam Sundar Choudhary – *Executive Director*
Mr. Bankey Lal Choudhary – *Managing Director*
Mr. Vijay Kumar Choudhary – *Executive Director*
Mr. Ajay Relan – *Nominee of Citigroup Venture Capital International Growth Partnership Mauritius Ltd.*
Mr. S.K.S. Narayan – *Non-Executive Independent Director*
Mr. S.K. Banerjee – *Non-Executive Independent Director*
Mr. S.K. Goenka – *Non-Executive Independent Director*
Mr. S.K. Saraf – *Non-Executive Independent Director*

Senior Management Team

- Mr. Anurag Choudhary** – *CEO*
Mr. Amit Choudhary – *President, Projects*
Mr. Tushar Choudhary – *President, Operations*
Mr. Rene Genin – *Director, Technical*
Dr. Soumen Chakraborty – *President, Overseas Projects*
Dr. C.R. Natrajan – *President, R&D*

Bankers

- Central Bank of India
Citi Bank, N.A.
State Bank of India
The Hongkong & Shanghai Banking Corporation Ltd.
Yes Bank Ltd.

Registrar & Share Transfer Agents

- M/s. S.K. Computers**
34/1A, Sudhir Chatterjee Street
Kolkata 700 006
Tel: (033) 2219 6797/ 4815
E-mail: agarwalskc@rediffmail.com

Registered Office

- Fortuna Tower
23-A, Netaji Subhas Road
8th Floor, Kolkata 700 001
Tel: (033) 2230-4363/ 9953
Fax: 91-033- 2230-9051
E-mail: info@himadri.com

Auditors

- M/s S. Jaykishan**
Chartered Accountants
12 Ho-Chi Minh Sarani
Suite No. 2D- 2F, 2nd Floor
Kolkata 700 071

Company Secretary & Compliance officer

- Mr. B.L. Sharma

Solicitors & Advocates

- M/s Sandip Agarwal & Co.**
10 Old Post Office Street
Gr. Floor, Room No. 10
Kolkata 700 001

Works

- Unit No.1**
58 N.S. Road, Liluah, Howrah (W.B.)
Unit No.2
27B Gadadhar Bhatt Road, Liluah, Howrah (W.B.)
Mahistikry Unit
Mahistikry, P.S. – Haripal
District Hooghly (W.B.)
Visakhapatnam Unit
Ancillary Industrial Estate
Visakhapatnam (A.P.)

Himadri Chemicals and Industries Limited is India's largest manufacturer of coal tar pitch.

This product represents a critical input in aluminium and graphite electrode manufacture.

In 2006-07, the Company made a decisive extension in its business model.

It embarked on the exercise to fuse its proprietary technology tested in India.

It initiated steps to acquire a manufacturing plant in China to capitalise on its large market.

A precursor to other such plants across the world.

At Himadri Chemicals and Industries Limited, this evolution from an India-centric presence to a global positioning is the result of a distinctively **global mindset**.

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Our goals

- To graduate from a leadership in coal tar pitch manufacturing in India to a global leadership.
- To set up the largest manufacturing base in India for advanced carbon materials.

Our products

- Coal tar distillation products (comprising coal tar pitch, naphthalene and oils).
- Corrosion protection products (including Himcoat enamel, Himcoat primer – B™, Himtape™ and Himwrap™).

Our mission

- Ensure customer satisfaction through building on our core competencies of developing products, processes and people towards achieving global standards of excellence.
- Be a cost leader, unleashing employee potential to satisfy stakeholders whilst being a responsible corporate citizen and adhering to our values.
- Develop employees and facilitate them to excel in their professional, personal and social lives.
- Be proactive in conserving the environment, maintaining high levels of safety and addressing social concerns in the regions in which we operate.

Our customers

- National Aluminium Company Limited (Nalco).
- Hindalco Industries Limited (Hindalco).
- Bharat Aluminium Company Limited (Balco).
- The Madras Aluminium Company Limited (Malco).
- Graphite India Limited.

- HEG Limited.

- Dubai Aluminium Company Limited (Dubal).
- SGL Carbon S.A. (SGL)
- Aluminium of Greece (AOG)
- Graftech International Limited (Graftech)
- Osaka Gas Chemicals Company Limited (Osaka)

Our financials, 2006-07

- 88.43 percent increase in total income from Rs.17,471.27 to Rs.32,921.12 lac.
- 153.32 percent increase in EBIDTA from Rs.4,090.93 lac to Rs.10,363.07 lac.
- 156.11 percent increase in post-tax profit from Rs.2,404.05 lac to Rs.6,156.99 lac.
- 125.31 percent increase in cash profit from Rs.3,522.05 lac to Rs.7,935.65 lac.
- 808-basis point increase in EBIDTA margin from 23.71 percent to 31.79 percent.

Our ownership structure

- The business is promoted by the Himadri Group.
- The promoters hold 51.31 percent share of the Company's equity.
- The Company's shares are listed on the Bombay Stock Exchange, National Stock Exchange and Calcutta Stock Exchange.

What we achieved in 2006-07

In the plants

- A significant reduction in fuel consumption by 44.91 percent through the use of our waste heat recovery system.
- Advanced negotiations for the acquisition of a coal tar distillation plant in China.
- Successfully implemented a by-product plant to manufacture naphthalene during the year.
- Achieved pilot-run production of advanced carbon material, a value-added product consumed in lithium-ion batteries; commenced sample supplies to international customers.

In the marketplace

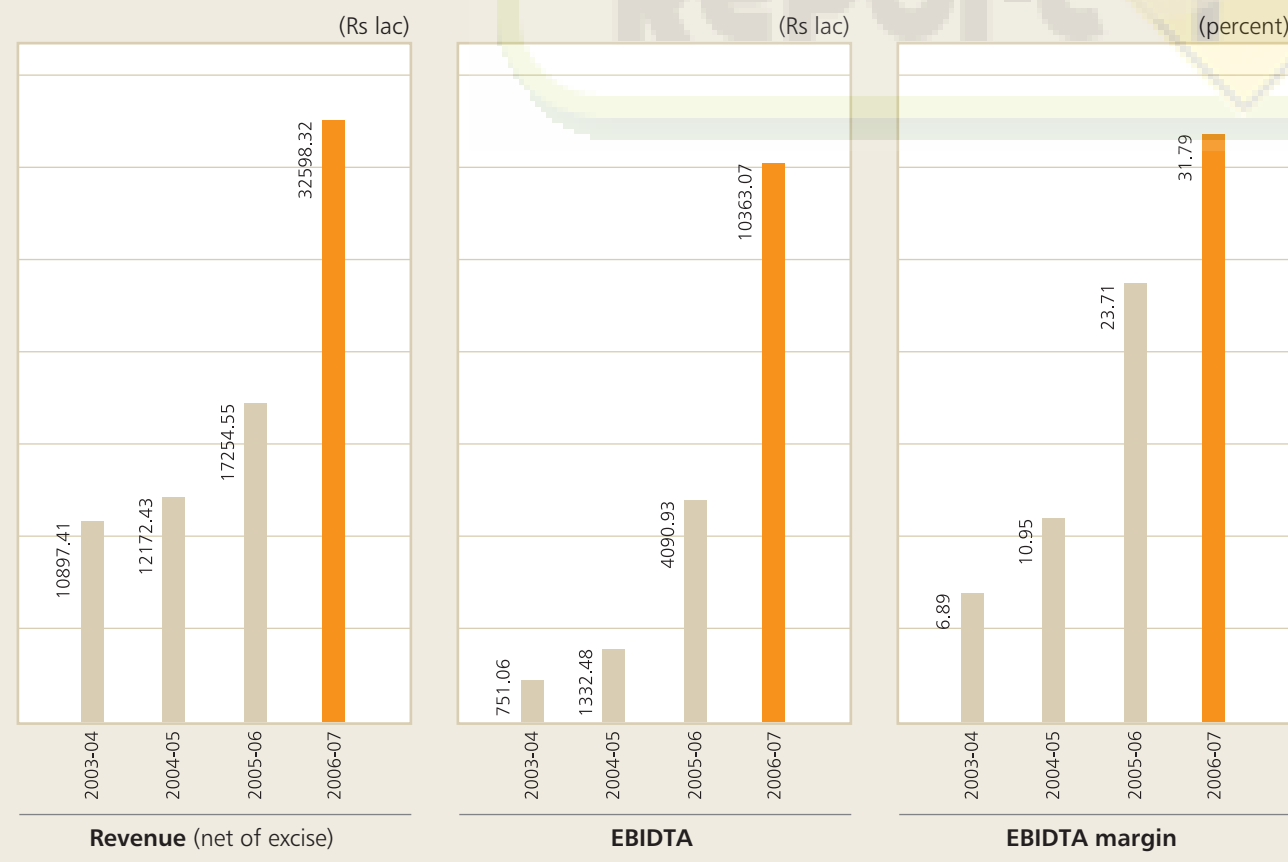
- Increase in sales by 88.76 percent from Rs. 20,698 lac to Rs. 39,070 lac.
- Wider customer base through sales to Dubal, AOG, SGL, Graftech and Osaka.
- Increase in average realisations by 68.63 percent.
- First-time sales of naphthalene with crystallisation above 78.5°C.

In the Board room

- Issue and allotment of 45,00,000 equity shares of Rs. 10 each on a preferential basis to Citigroup Venture Capital International Growth Partnership Mauritius Ltd. and others and 15,00,000 equity shares of Rs. 10 each to the promoter group at a premium of Rs. 219.25 per shares, aggregating to Rs. 13755 lac to part finance ongoing projects as well as long-term working capital requirements.
- Issue and allotment of 2,55,000 warrants convertible into equal number of shares of Rs. 10 each on a preferential basis to Citigroup Venture Capital International Growth Partnership Mauritius Ltd. and others and 85,000 warrants convertible into equal number of shares of Rs. 10 each to the promoter group at a premium of Rs. 219.25 per share and received Rs. 78.20 lac towards 10 percent of the warrant subscription amount.

- Listing of equity shares on the National Stock Exchange on 2nd March 2007 to enhance liquidity.
- Proposed dividend of Rs. 5 per share (50 percent) on an equity share of face value of Rs. 10 each.
- Incorporation of a wholly owned subsidiary in Hong Kong for global acquisition and setting up greenfield plants.
- Increase in issued and paid-up share capital from Rs. 2,551.13 lac to Rs. 3,151.13 lac.
- Investment in two windmills (capacity 2.50 MW) in Maharashtra.
- Assigned the 'CCR AA-' and 'P1+' rating by CRISIL. While a 'CCR AA-' rating indicates high degree of strength with regard to honouring debt obligations, 'P1+' reflects high degree of safety with respect to timely payment on the instrument.

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Chairman's review

Dear members

At Himadri Chemicals and Industries Limited, we are continuously seeking to prepone tomorrow today.

So, even as we enjoy an Indian market share in excess of 70 percent, we continue to invest in our scale, our efficiency, customer convenience and geographical footprint.

In doing so, we expect to replicate our evident success in India to across the world over the coming years.

Going global

At Himadri, our ambition to go global is not by chance. It is conscious and timely.

Consider this: the aluminium industry, our principal customer, registered a supply-side growth above seven percent in 2006-07, among the highest in a decade, primarily fuelled by China's demand for the metal. China's aluminium production is likely to grow 46 percent to reach 19.27 million tons by 2010, compared with 13.2 million tons in 2005-06. The Indian aluminium industry increased 19.2 percent to attain a production level of over 10 lac MT during the year under review at a five-year CAGR of 11.30 percent.

Based on the optimism that a quicker aluminium industry growth would increase the demand for our

core product, we undertook the following initiatives:

- We planned to foray into China for the first time through the proposed acquisition of an existing manufacturing facility.
- We set up a representative office in China to strengthen our raw material procurement.
- We invested in a wholly owned subsidiary in Hong Kong to spot global opportunities.

It is important to mention that we entered China to cater to local opportunities and also to source low-cost raw material from that country, fuse it with our in-house technology and service the global market. As a result, our presence in China is not based on the need to source and export, it is based on the optimism that we can account for a significant share of that market as well. Since we already possess a leading share of the coal tar pitch market in India, a similar success in China will enable us to emerge as a global leader, faster than an alternative approach.

Going ahead, we are optimistic that we will be able to cater to the rising demand for coal tar pitch in the Middle East, South Africa, South America and Australia. The global production of coal tar is expected to touch 20.6 million tons by 2011 and, out of this, nearly 49 percent is expected to be manufactured in China. As a future-focused organisation, we intend to set up liquid pitch terminals in key Chinese ports to export coal tar pitch in liquid form to meet the requirements of our overseas

customers.

Strengthening our local presence

Concurrently, we undertook a number of initiatives on the Indian front:

- We expect to introduce the concept of 'use and pay' through a dedicated facility for Balco in Korba, Chhattisgarh. This represents a win-win for both: assured sales, lower transportation cost and timely delivery. The Company expects to clone this concept globally for enhanced customer convenience, resulting in an unbeatable competitive edge.
- We fully commissioned a by-product plant to generate value-added products of high margins.
- We succeeded in implementing the pilot production of advanced carbon material with indigenous research. We are now engaged in setting up a commercial scale facility.

Positioning the Company

Himadri is respected for its ability to innovate new processes and technologies. As a result, we have evolved our presence from a mere production-led company to a research-oriented and value-focused organisation.

Consider this:

- We developed our own technology to produce advanced carbon material, a high-margin, value-added product used in lithium-ion batteries. Himadri is the only Company outside Japan that possesses the technology to produce advanced carbon materials. Following the implementation



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of this project India will emerge as the second country in the world to manufacture superior carbon.

■ We are one of only three players in the world to have developed Zero QI Impregnating Coal Tar Pitch used in the graphite industry.

■ We possess a dedicated fleet of special tankers through in-house technology to transport liquid pitch at a temperature above 240°C right to the customer's doorstep.

This rich technology legacy provides us with the optimism to use specialised coal tar pitch as a building block to extend to the production of high value-added products like advanced carbon material, super plasticizer, carbon fibre and needle coke.

Looking ahead

At Himadri, we have chalked out substantial expansion plans to grow both our topline and bottomline.

We are in the process of finalising a joint venture with an existing coal tar distillation plant in China and have plans to set up a greenfield facility there.

We plan to increase our coal tar distillation capacity in

India from 1,69,000 MTPA to 4,00,000 MTPA by 2010 and acquire/set up 6,00,000-MTPA coal tar distillation capacity in China.

The cumulative effect of the two strategies is that we expect to emerge with a combined installed capacity of 10,00,000 tons per annum by 2010, making us one of the largest manufacturers of coal tar pitch in the world.

It is the interplay of local and global as well as margins and volumes that vindicates my optimism that Himadri is on the cusp of sustainable growth over the coming years; it is our long-standing focus on improvement in processes and systems that reinforces my confidence that we will more than replicate what we have achieved until now in our existence in only the next few years.

Sincerely,

D.P. Choudhary
Chairman

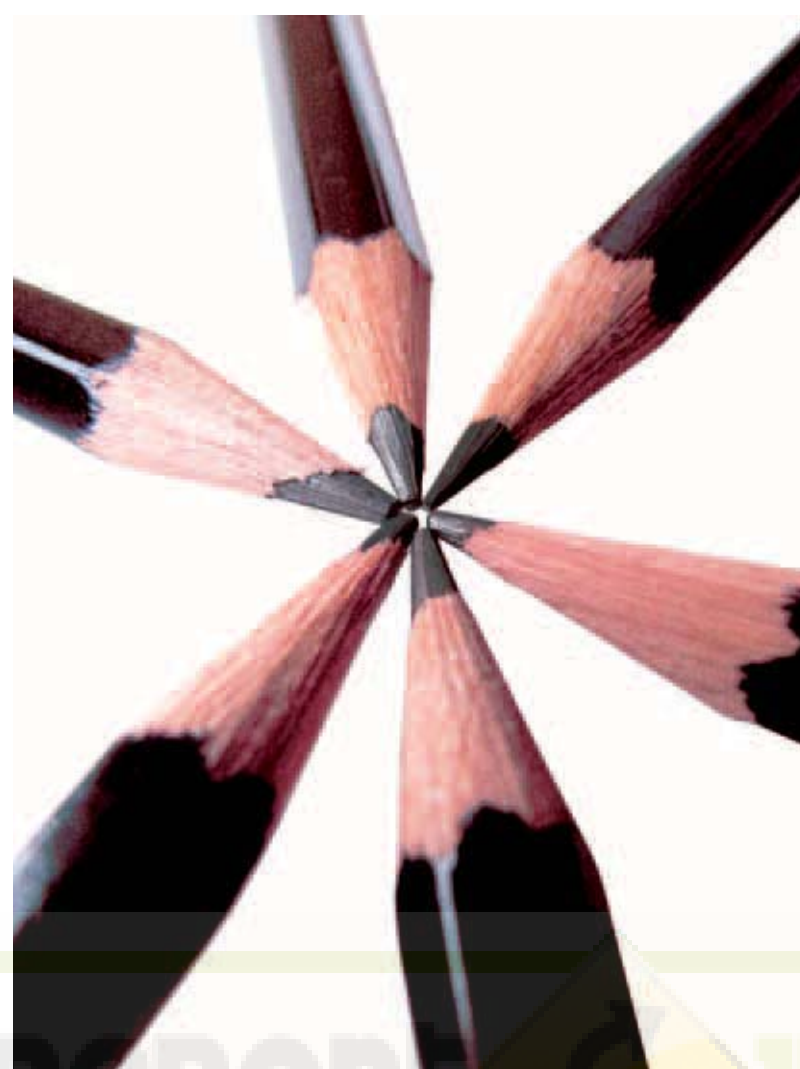
Our rich product portfolio

Product	Application
Coal tar pitch	<ul style="list-style-type: none">■ Used in anodes. It is used to manufacture anodes for extracting aluminium from alumina.■ Used in graphite electrodes which is used in the electric arc furnace of steel plants.■ Used in impregnating pitch. It is also used for impregnation in graphite electrodes at a very high temperature.■ Used in speciality carbon/graphite such as carbon/carbon composite, refractory brick, advanced carbon material for making anode for lithium-ion batteries, etc
Naphthalene	<ul style="list-style-type: none">■ Used in chemicals like beta naphthanol and pthalic anhydride.■ Used to manufacture super plasticizers.■ Used as a disinfectant.■ Used in tanning agents.
Oils	<ul style="list-style-type: none">■ Used in paint solvents.■ Used as feedstock to manufacture carbon black.■ Used in the preservation of wood.
Himcoat enamel	<ul style="list-style-type: none">■ Used in underground and offshore pipelines to prevent corrosion.
Himcoat primer – B™	<ul style="list-style-type: none">■ Used in external coating of pipes.■ Used in binding material for metallic surfaces.
Himtape™	<ul style="list-style-type: none">■ Used in protective coverings for the underground and submerged metal surfaces and in pipelines.
Himwrap™	<ul style="list-style-type: none">■ Used as outer wrap in pipelines.
Advanced carbon material (Setting up commercial scale facilities)	<ul style="list-style-type: none">■ Used in lithium-ion batteries.

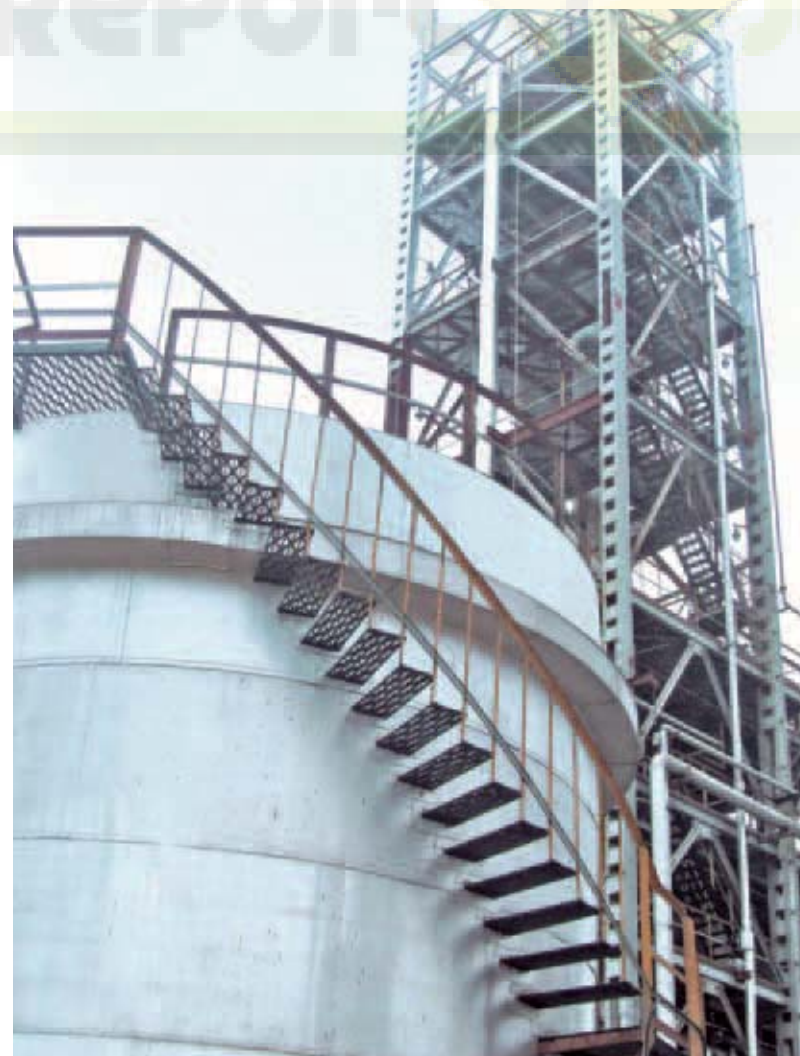
Global mindset

In most businesses, there is a latent desire to stay within established markets and within one's comfort zone.

Not at Himadri.



89%
increase in turnover
in 2006-07



In 2006-07, we resolved to extend our presence from the national to the international through the following initiatives:

- Advanced stage of negotiation to acquire a coal tar distillation plant in China, which would enable us to locate our presence in one of the fastest growing commodity markets of the world and bring globally benchmarked practices into India.
- Investment in a wholly owned subsidiary in Hong Kong to manage our global customer presence and facilitate our acquisition strategy.
- Setting up a representative office in China to probe ground realities related to demand, supply and pricing.
- Matching the product quality expectations of global giants like Dubal, Alcoa, AOG, SGL and Graftech, leading to enhanced business.

Prudent strategy

In most businesses, there is a tendency to be academic even when it is time to be action-driven.

Not at Himadri.



153%

increase in operating profit in 2006-07

We believe that successful companies are more market-driving than market-driven. Our mindset is reflected in the following strategies:

- We are setting up a greenfield manufacturing facility in China, not just with the objective to manufacture but also to strengthen our supply chain. Following the setting up, the Company will leverage the presence of a large coke and steel industry in China for its raw material.
- We expect to introduce the concept of 'use and pay', commissioning a satellite manufacturing unit adjacent to the point of consumption. The Company set up a plant in Korba (Chhattisgarh) near Balco as a precursor to more such satellite manufacturing plants in India and abroad. With customers increasingly focusing on solutions – a convergence of products and services – this strategy will assure them of regular supplies.
- To enrich the product basket with margin-accretive offerings, we plan to manufacture advanced carbon material and refined naphthalene, followed by super plasticizer, carbon fibre and needle coke.

The Company invested nearly Rs. 19,000 lac in the business over the five years leading to 2006-07, strengthening the EBIDTA margin by more than 2500 basis points; the volume-value mix approach is expected to enhance profitability in the future.

