



Himadri Chemicals & Industries Limited



CORE
CARBON
COMPETENCE

Himadri Chemicals & Industries Limited | Annual Report 2007-08

www.reportjunction.com

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.

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

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

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

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.)
Korba, Chhattishgarh

Corporate identity 2 Our achievements over the years 4 Highlights, 2007-08 6
Chairman’s review 8 Business strategy 10 Our strengths 11 CEO’s review 12 Business
segment review 16 Industry & business review 32 Financial review 42 Risk management 48
Himadri’s driving force 52 Report of the Board of Directors 54 Management discussion and
analysis 60 Corporate governance 64 Financial section 78

At Himadri Chemicals, we were primarily a coal tar pitch manufacturing company.

We have now extended to the manufacture of various types of coal tar by-products and derivatives.

This extension will grow our revenues on the one hand. And derisk our business on the other.

At Himadri, we made this forward integration a reality through an overriding capability.

Core carbon competence.

Vision

To become a globally acclaimed leader in coal tar-based products by adopting appropriate eco-friendly technologies and enhancing core capabilities through continuous product improvement, technical innovations and customer satisfaction.

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 while being a responsible corporate citizen and adhering to our values.
- Develop employees and encourage 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.

Objectives 2010

- Emerge among the top three global producers of coal tar products through organic and inorganic growth
- Emerge as the lowest cost and preferred supplier of coal tar products in the world
- Commission an integrated state-of-the-art coal tar distillation complex with a forward extension into oil, naphthalene and other derivatives
- Commission the largest manufacturing fully integrated base for advanced carbon material in the world



Himadri Chemicals leveraged its rich carbon knowledge and experience to spin off three growing and profitable businesses – coal tar pitch, advanced carbon material and carbon black – that represent critical inputs in the downstream aluminium, lithium-ion battery and tyre industries.

Profile

- Himadri Chemicals caters to around 70 percent of the Indian aluminium and graphite electrode industry's requirements of coal tar pitch.
- The Company has extended to the manufacture of advanced carbon; it has also commissioned a plant to manufacture carbon black with a captive power plant.
- The Company's brand-enhancing clients comprise National Aluminium Company Limited, Hindalco Industries Limited, Bharat Aluminium Company Limited, Vedanta Aluminium Limited, Graphite India Limited, HEG Limited, Dubai Aluminium Company Limited, Pt. Indonesia Asahan Aluminium, SGL Carbon SA, Aluminium of Greece, Graftech International Limited and Osaka Gas Chemicals Company Limited, among others.

Products

- Coal tar pitch is used in the manufacture of anodes used in extracting aluminium from alumina; it is also used for impregnating and as binder in graphite electrodes in the electric arc furnace;
- Naphthalene is used in the manufacture of dye and dye intermediates, super plasticizers and

tanning agents.

- Oils find extensive application in paint solvents, carbon black, wood preservation and as a substitute for furnace oil.
- Advanced carbon material is used in making anodes for lithium-ion batteries.
- The Company operates two windmills (2.5MW) in the Dhule district of Maharashtra.

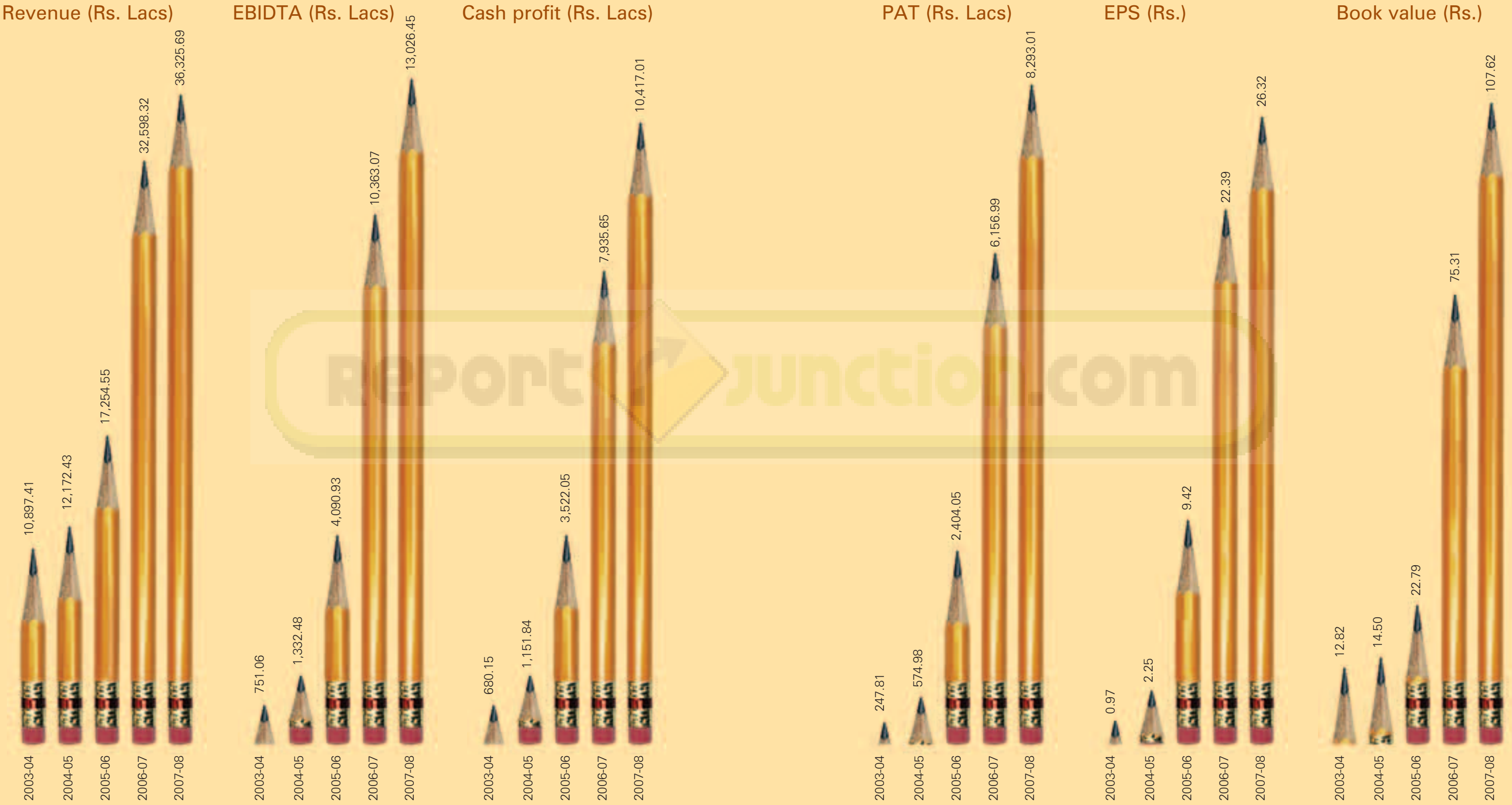
Presence

- The Company is headquartered in Kolkata
- It possesses five facilities at four locations – three in West Bengal (one in Hooghly, two in Howrah), one in Visakhapatnam (Andhra Pradesh) and one in Korba (Chhattisgarh)
- A proposed distillation facility in China.

Pride

- Brand-enhancing certifications reinforce Himadri Chemical's statistical process control technique, leading to consistent product quality, across 22 chemical and physical parameters
- The Company was assigned the corporate credit rating of 'CCR AA' and commercial paper rating of 'P1+' by CRISIL.

Our achievements over the years



Highlights, 2007-08

Numbers

- Reported a 10.06 percent increase in turnover to Rs. 43,001.33 lacs
- Reported a 25.70 percent increase in EBIDTA to Rs. 13,026.45 lacs
- Reported a 31.27 percent increase in cash profit to Rs. 10,417.01 lacs
- Reported a 34.69 percent increase in net profit to Rs. 8,293.01 lacs

Operations

- The Company achieved 106 percent capacity utilisation.
- The Company raised entry barriers in the production of coal tar pitch through the manufacture of low-cost, high quality products through in-house technology
- The Company commissioned commercial scale production of advanced carbon materials, which find

use in lithium-ion batteries, through a 100 percent EOU status.

- The Company enhanced production yield on the one hand and reduced raw material costs, power costs and fuel consumption on the other
- The Company emerged as the only corporate outside Japan to develop in-house technology to produce quality advanced carbon materials.

Project management

- The Company is in the process of expanding operational capacities across all business verticals.
- The Company entered into a joint venture to set up a greenfield coal tar pitch plant in Longkou (China) to service China, the Middle East, CIS and Africa, as a part of its organic growth strategy.
- The Company identified a coal tar distillation unit, for acquisition in China, as a part of its inorganic growth strategy.

- The Company commissioned its melting plant in Korba, during 2007-08 and plans to build dedicated melting facilities near major customers' plants to accelerate just-in-time delivery.
- The Company is setting up carbon black plant at Mahistikry, Hooghly.
- The Company is setting up a 12 MW power plant from waste heat gas, which will help it earn carbon credits.
- The Company is setting up a facility for using waste heat gas as a fuel for coal tar distillation instead of furnace oil. This will reduce the processing cost and help it earn carbon credit.
- The Company will develop a liquid terminal in Longkou (China) to export liquid pitch.

Fiscal management

- In December 2007, Himadri enhanced its equity base by issuing 23,50,000 warrants to promoters and

4,12,000 warrants to Citigroup Venture Capital at a price of Rs. 426 per warrant, convertible into an equal number of shares.

- It strengthened its debt-equity ratio from 0.76 in 2006-07 to 0.63 in 2007-08 and interest cover from 8.10 to 10.51 in 2007-08.

Marketing

- The Company enhanced exports by 463.88 percent to Rs. 4,568.25 lacs in 2007-08
- It introduced carbonised pitch during the year under review, which is a value added product.
- It maintained robust client relationships through consistently reliable product quality
- It is not just into marketing coal tar pitch as per the specifications of customers. It also provides specialised after-sales service through its experienced team who work close by to improve anode quality.



Chairman's overview

The Company is perched at an inflection point in its existence.

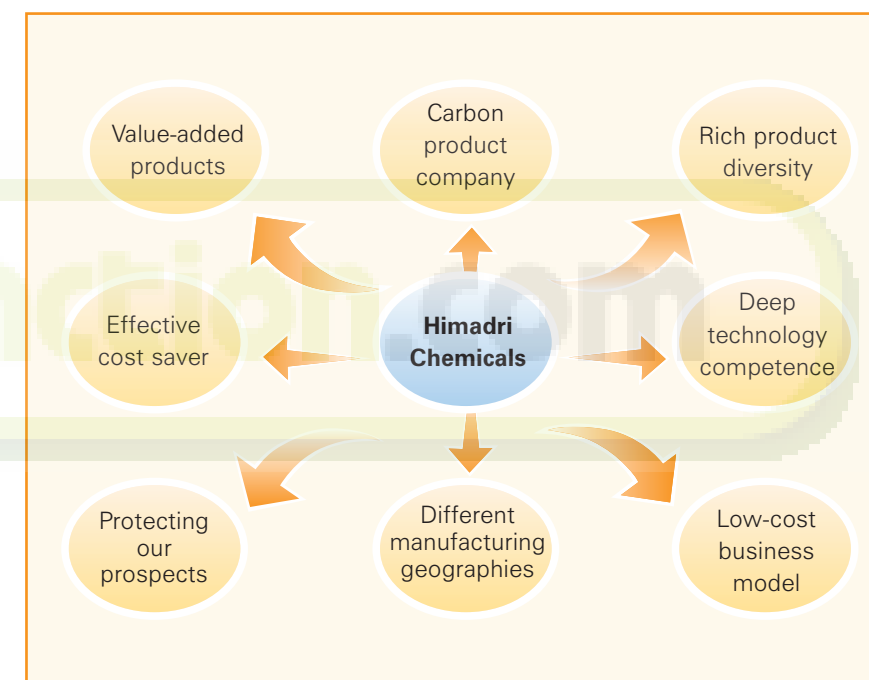
We have drawn a blue print to transform ourselves from a single product company to multi-product organisation by 2009-10



This is an interesting and opportune time to be communicating with you. The Company is perched at an inflection point in its existence. For years, we were principally a coal tar pitch Company with a marginal presence in the manufacture of profitable by-products.

In 2007-08, we made a significant extension in our identity: we extended from a predominantly single product manufacture to the manufacture of advanced carbon material; in 2008-09, we expect to move into the manufacture of carbon black, even as we are still engaged in expanding our coal tar pitch capacity within India and now in China.

These rapid moves on the x- and y-axis are laying the foundation of a compelling business model, which I will explain as follows:



We strengthened our EBITDA from Rs.10363.07 lacs to Rs. 13026.45 lacs in 2007-08.

The result of this interplay (most initiatives were in place during the last financial year) was that we grew our revenues from Rs. 32,598.32 lacs in 2006-07 to Rs. 36,325.69 lacs in 2007-08 and strengthened our EBITDA from Rs.10,363.07 lacs to Rs. 13,026.45 lacs during the period.

At Himadri, as we strengthen this interplay, we will grow our business in scale and quality with sustainable implications over the coming years.

Sincerely

Mr D.P. Choudhary

Business strategy

Strengthening local presence

- Set up dedicated facilities closer to the customer in Korba, Chhattisgarh (near the Balco plant)

Global leader in coal tar by-product

- Organic and inorganic growth - Established greenfield manufacturing facility in the People’s Republic of China and liquid pitch terminals in Chinese ports to strengthen its supply chain; acquired an existing coal tar distillation plant, located in proximity of raw material sources.
- Sourced cheaper raw material through JVs in China
- Ensured demand and supply stability
- Catered to increasing demand in India, the Middle East, South Africa and Australia

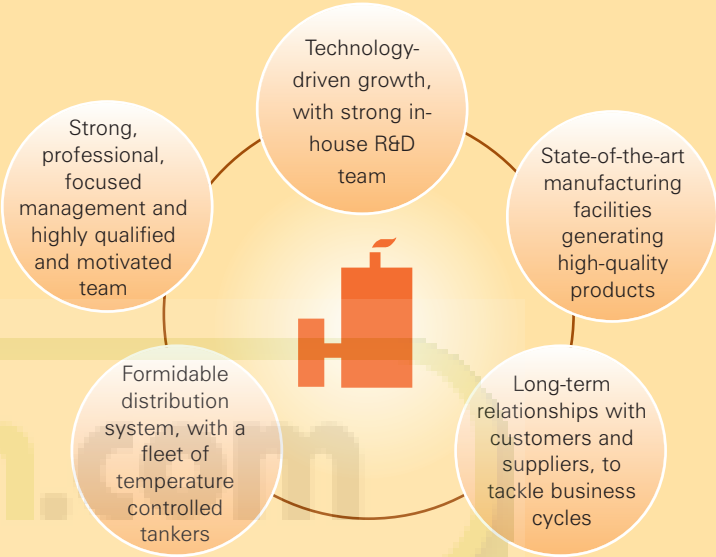
Expand products range

- Upgraded plants to make them fully integrated coal tar distillation complexes comprising high-margin, value-added products catering to diversified industries
- Embarked on a forward integration to make carbon black from oil with an installed capacity of 50,000 MTPA and a 12 MW power plant from waste heat gas
- Advanced carbon material
- Super plasticizer
- Needle pitch coke
- Various high-value products from oils

Effective cost management

- Positioned as the lowest-cost producer
- Leveraged extensive R&D to reduce fuel consumption, optimise raw material mix and expand the value-added products range

Our strengths



Our strategy

Aggressive organic and inorganic growth to achieve our goals



Growth drivers

- The Company inked an MoU with Qatar Aluminium Ltd to supply a substantial part of Qatar Aluminium’s pitch requirements, warranting assured sales for expanded capacities.
- More MoUs and sales tie-ups are at a negotiation stage.
- Using oil as fuel for coal tar distillation but will extend to the use of waste heat gas generated in manufacturing units as fuel for the distillation of coal tar, resulting in lower operations cost and carbon-credit eligibility.
- Instituted a fully integrated process to utilise waste generated from one division into productive economical use.

CEO's review

Our big success in 2007-08 was reflected in our ability to strengthen our business for the moment and foreseeable future.

Mr. Anurag Choudhary,
CEO of Himadri Chemicals,
reviews the Company's
performance and previews the
organisation's direction



"Our effective integration, cost leadership, in-house technology leverage and production efficiencies will enhance our turnover, profits and shareholder value in 2008-09 and beyond."

Q: Were you pleased with the working of the Company in 2007-08?

A: It was a satisfactory year from a couple of important perspectives. First, even with an 11.43 percent increase in our topline we were able to achieve a 34.69 percent increase in our bottomline during the year under review. Secondly, we strengthened our business through initiatives that will result in a progressive rise in turnover and profits. So my answer to the question is this: our big success in 2007-08 was reflected in our ability to strengthen our business for the moment and foreseeable future.

Q: In what specific ways did the Company strengthen its business for the future?

A: It was in 2006-07 that we announced that our intention to extend our core carbon competence into the manufacture of advanced carbon material, which enjoys downstream applications in the manufacture of lithium-ion batteries. This was a complex and closely-guarded technology; no company outside Japan possesses this knowledge. I am pleased to inform our shareholders that we succeeded in creating this product on a fully commercial basis from January 2008, with completely in-house technology. Going ahead, we expect to significantly enhance the capacity of our 100 percent EOU and carve out a fair share of the global market.

Q: What were the other business-strengthening initiatives in 2007-08?

A: In the manufacture of coal tar pitch we have for long imported a part of our raw material requirement from China. We process this material within India, market the end-product within the country and export it to various countries. In view of the

rising cost of oil and freight, we recognised that if this business model is expanded to China itself we would save on costs and enjoy additional margins for exports made from that country. In view of this, we embarked on the creation of a distillation plant in China in 2007-08, which we will commission during 2009-10.

This port-based plant in China will be advantageously placed: it will source off grade raw material from proximate locations, convert with efficiency, supply the end-product to users within China and export the rest to users in the Middle East, South East Asia, South Africa and Australia, among others. At Himadri, we see the Chinese plant strengthening our access to low-cost raw material, enhancing our marketing flexibility and sharpening our responsiveness to market dynamics.

There are some other factors that accelerated our decision-making: the market for aluminium in China is growing annually at around 25 percent during 2007, the coal tar pitch available in that country is not of a standard quality, the demand for a better quality raw material from

Chinese aluminium manufacturers is rising and we have already demonstrated an ability to manufacture a high quality of coal tar pitch. By a logical extension, it was imperative for us to commission a manufacturing capacity in that country – and we embarked on one.

Q: The Company embarked on an ambitious project to manufacture carbon black. Why?

A: At Himadri, we derived creosote oil as a by-product of the distillation process. This oil was marketed to carbon black manufacturers. Nearly 1.85 tons of creosote oil generated one tonne of carbon black. We recognised the opportunity within this reality; we were literally funding transporters for the supply of the product and paying indirect taxes on the same. As a result, we identified the opportunity of consuming the creosote oil in-house for the manufacture of carbon black and utilising the transportation and indirect taxes saving to enhance our competitiveness.

There was a more compelling reason for our integration into the manufacture of carbon black. By the

time we scale our distillation capacity in 2010, we will be in a position to generate a significant quantity of creosote oil. This raw material quantum will be sufficient for us to commission a carbon black facility with acceptable economies of scale. Result: we will be completely self-sufficient for our raw material requirements for the onward manufacture of carbon black. Besides, we will bundle this plant with a 12 MW captive power facility that will use waste heat gas (that would otherwise have been wasted), earn carbon credits and reduce our overall cost of production. The result is that our carbon black manufacturing plant will be globally competitive, even at today's commissioning costs from day one.

Q: How will you like to explain the Company's reinvented business model?

A: I will concise the business model in just two words - integration and value-addition. Our integrated business model will

enable us to produce advanced carbon out of coal tar (raw material); it will enable us to generate by-products of creosote oil and naphthalene through the distillation process; it will enable us to integrate forwards from creosote oil into carbon black and power; it will enable us to add value to naphthalene and manufacture super-plasticizers used in ready mix concrete. We will emerge as a company manufacturing various types of coal tar by-products and its derivatives by 2009.

I must also make this point: in the distillation process, there are a number of products, representing one percent to two percent of our throughput but accounting for high value-added by-products. While their respective quantities may appear insignificant, the reality is that these by-products fetch attractive realisations. Once we have commissioned all our distillation expansions, we are optimistic that the quantum of revenues derived from these by-products will be attractive enough to enrich our bottomline.

Q. What could be the entry barriers for others entering this line of business?

A: Coal tar pitch represents a key input in the production of aluminium, as the quality of coal tar pitch is critical for the quality of finished metal and cost of production. In case of high metal/impurities in the coal tar pitch, the metal produced will have a correspondingly low purity. In case the other chemical properties are not strictly as per the desired specification of the smelters, the per MT carbon and power consumption will be higher. The smelters cannot compromise on the quality of coal tar pitch. To respond to this reality we provide coal tar pitch matching 22 demanding chemical and physical properties required for aluminium manufacture.

The technology for manufacturing high-quality coal tar pitch is not available from any technology providing company and globally has been developed only by actual manufacturers, over the years. The time required for a quality

approval of coal tar pitch for any new source by the aluminium smelters is around 18-24 months. Coal tar pitch is required to be delivered to the aluminium smelters in liquid form at a temperature of more than 240 degree Celsius; for this purpose a specialised fleet of tankers are required and this has been developed in-house by the Company.

In case of liquid pitch imports specialised liquid pitch handling and storing facility is to be created at the port and the distance from the port to the aluminium smelters are very high, so local infrastructure has to be created for transporting the material at 240 degree Celsius.

The Company is strengthening its business model by forward integrating to the manufacture of advanced carbon material, carbon black, super plasticizer, etc.

Q: What is the outlook for the Company?

A: We are highly optimistic about the Company's prospects for the

following reasons: progressive increase in our distillation capacity, scaling of the advanced carbon capacity, commissioning of our carbon black and power plant capacities as well as setting up a manufacturing facility for super plasticizers from naphthalene. We expect to cap our raw material costs through effective integration and production efficiencies, resulting in enhanced topline, bottomline and shareholder value over the coming years.

Our vision is to convert Himadri from primarily a coal tar pitch Company into a global brand with core carbon competence.

How we enhanced value for our shareholders in 2007-08

During 2007-08, Himadri Chemicals reported a positive EVA of Rs. 2,528.13 lacs, indicating that the Company exceeded shareholder expectations.



In 2007-08, Himadri Chemicals reported a positive EVA of Rs. 2,528.13 lacs