

# CARBON

IS ESSENCE OF LIFE

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 ‘anticipates’, ‘estimates’, ‘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 our 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.

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

Carbon represents a world of huge possibilities. In a business marked by challenges of innovation, research, technology, process complexity and need for continuous improvement, Himadri has invested in cutting-edge research and reinforced its deep understanding of carbon properties and technology capabilities.

The Company’s competence has been marked by a progressive increase in the number of new products on the one hand and the increasing transformation of waste gases into energy on the other hand.

The result is that Himadri Chemicals is not just one of the widest manufacturers of a bouquet of products but one of the lowest cost manufacturers as well.

MAKING IT POSSIBLE FOR  
THE COMPANY TO GROW  
ITS REVENUES BY 60.46%  
IN ONE OF THE MOST  
CHALLENGING MARKETS  
OF 2011-12.

Contents

Corporate identity 2 Highlights 2011-12 4 Financial Highlights 6 Milestones 8 Chairman’s statements 20

Q&A with CEO 22 Strengths 26 Product portfolio 28 Business drivers 34 Industry overview 37

Finance review 39 Risk management 42 Corporate social responsibility 46 Directors’ Report 48

Management Discussion and Analysis 56 Corporate Governance 62 Financial section 77

HIMADRI CHEMICALS. CARBON CORPORATION. LEVERAGING ITS DEEP KNOWLEDGE OF ONE OF THE MOST VERSATILE SUBSTANCES KNOWN TO MANKIND. TO CREATE CORE PRODUCTS. AND VALUE-ADDED BY-PRODUCTS. WITH THE OBJECTIVE TO EXTEND ONE OF THE MOST EXTENSIVE VALUE CHAINS IN THE CARBON SEGMENT ANYWHERE IN THE WORLD.

Vision

To become a globally acclaimed leader in carbon products by adopting appropriate eco-friendly technologies and enhancing core capabilities through continuous product improvement, technical innovation and customer satisfaction

Mission

- Ensure customer satisfaction by strengthening 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

- Conserve the environment, maintain high levels of safety and address social concerns in the regions of operation

Background

Incorporated in 1987, Himadri Chemicals & Industries Limited commenced its business in December 1990, headquartered in Kolkata (India).

Through the years, the Company has emerged as India's leading and only vertically integrated specialty carbon corporation.

The Company is India's largest coal tar pitch manufacturer with a core competence in the specialty niche business of coal tar distillation.

The Company was able to convert its business model into a model business, validated by leading global investors like Bain Capital, Citi

Venture Capital International, IFC Washington who acquired sizeable stakes in the Company.

Snapshot

- Eight manufacturing facilities -- seven in India and one in China.
- Among a few global manufacturers of Zero Quinolene Insoluble (QI) Impregnating coal tar pitch used in the manufacture of graphite electrodes.
- Manufacturer of advanced carbon material, a critical input in the manufacture lithium-ion batteries.

Dispersed presence

**Domestic:** Four manufacturing facilities in West Bengal. One manufacturing facility each in Vishakhapatnam (Andhra Pradesh), Korba (Chhattisgarh) and Vapi (Gujarat).

**Global:** One manufacturing facility in Shandong Province in China



Critical

Himadri's products represent critical inputs in downstream industries like aluminium, steel, automobile, graphite electrode, infrastructure, lithium-ion batteries, tyres and other rubber products. The Company also generates clean and green power by using waste gas and through investments in renewable wind energy.

Diversified product portfolio

Broad category	Products	Applicability/developments
Coal tar distillation	Aluminium grade pitch	In pre-baked anode and soderberg in aluminium manufacture
	Graphite grade binder pitch	In graphite electrode manufacture
	Graphite grade zero QI coal tar impregnating pitch	In graphite electrode, nipple impregnation and UHP grade electrode manufacture
	Mesophase pitch	In anode material for Li-ion batteries, carbon/carbon composites
	Special pitches	In refractories, carbon paste, paints/ultramarine blue and water proofing, among others
	Naphthalene	In dyes and dyestuff intermediates, tanning agents, super plasticiser manufacture, pharmaceuticals, disinfectants
	Light creosote oils	In paints and asphalt liquefying, manufacture of phenolic disinfectants
	Wash oil/wood preservative oil	In benzole extraction from the coke oven gas and as a wood preservative
Carbon black	Anthracene oil/Carbon black oil	In carbon black manufacture as a feedstock and in coal tar enamel manufacture
	Carbon black	As a reinforcing agent for rubber, abrasion-resistant, tear-resistant, improving fracture behaviour with improved dynamic mechanical properties
	SSG (Standard synthetic graphite)	In Li-ion batteries to power mobile devices, laptops and other electronic appliances
Advanced carbon material	HPG (High power graphite)	In Li-ion batteries to power automobiles, power tools, EV and HEV
	Carbonised pitch	Intermediate product to be graphitised for final use as anode material
Corrosion protection	Himcoat enamel	Provides anti-corrosion protection to underground and off-shore pipelines
	Himcoat Primer-B	Oil & gas and water and sewage pipelines, tanks underground structures and fittings
	Himtape	Oil & gas, tanks underground structures and fittings
	Himwrap	Provides complete protection to the underground pipeline as it protects the enamel against soil stress, pipe shift, moisture, bacteria and root growth
Sulphonated Naphthalene Formaldehyde	Benton SP-011-- liquid and powder form	It can be used on its own or with admixture formulations for high performance, high fluidity, high strength concrete
Power	Power	Himadri Chemicals successfully commissioned its 12 MW and 8 MW power plants. The 12 MW plant is under IPP mode and 8 MW plant is under CPP mode running on carbon black tail gas. Both the power plants are eligible for carbon credits

# THIS IS WHAT WE ACHIEVED IN 2011-12

## Financial highlights

- Revenues increased 60.46% from Rs. 70,008.26 Lacs in 2010-11 to Rs. 1,12,336.06 Lacs
- EBIDTA increased from Rs.19,255.69 Lacs to Rs. 22,459.60 Lacs; EBIDTA margin declined from 27.50% to 20%
- PAT declined from Rs.11,438.91 Lacs to Rs. 6,331.65 Lacs; PAT margin declined from 16.34% to 5.64% mainly due to MTM losses of Rs. 6720.19 Lacs on account of foreign exchange fluctuations.
- Net worth strengthened from Rs. 84,578.11 Lacs in 2010-11 to Rs. 89,798.68 Lacs
- Gross block (including capital work-in-progress) strengthened from Rs. 96,850.82 Lacs in 2010-11 to 1,23,282.67 Lacs



## Project highlights

- Brownfield expansion of carbon black completed; capacity increased by 140% at Mahistikry; production commenced.
- Greenfield expansion of SNF was completed; capacity increased by 278 % at Mahistikry; production commenced.
- Greenfield plant for manufacturing advanced carbon materials commenced production at Falta, SEZ.
- Greenfield plant for manufacturing coal tar pitch in Longkou, Shandong, (China) was completed; production commenced.
- Greenfield project to set-up liquid pitch terminal at Longkou port is expected to commence operations from the second quarter of the current financial year.
- Brownfield project to expand the capacity of the existing coal tar distillation capacity in India by 60 %, is expected to be operational by the end of the last quarter of the current financial year.
- Brownfield expansion of power plant completed: capacity increased from 12 MW to 20MW



Revenues increased 60.46% from Rs. 70,008.26 Lacs in 2010-11 to Rs. 1,12,336.06 Lacs

## Operational highlights

- Coal tar pitch capacity operated at 108% during the year
- Carbon black plant was commissioned, synchronised and stabilised with the existing capacity during the year
- SNF plant was commissioned production stabilised
- China, plant commenced production and is under stabilisation

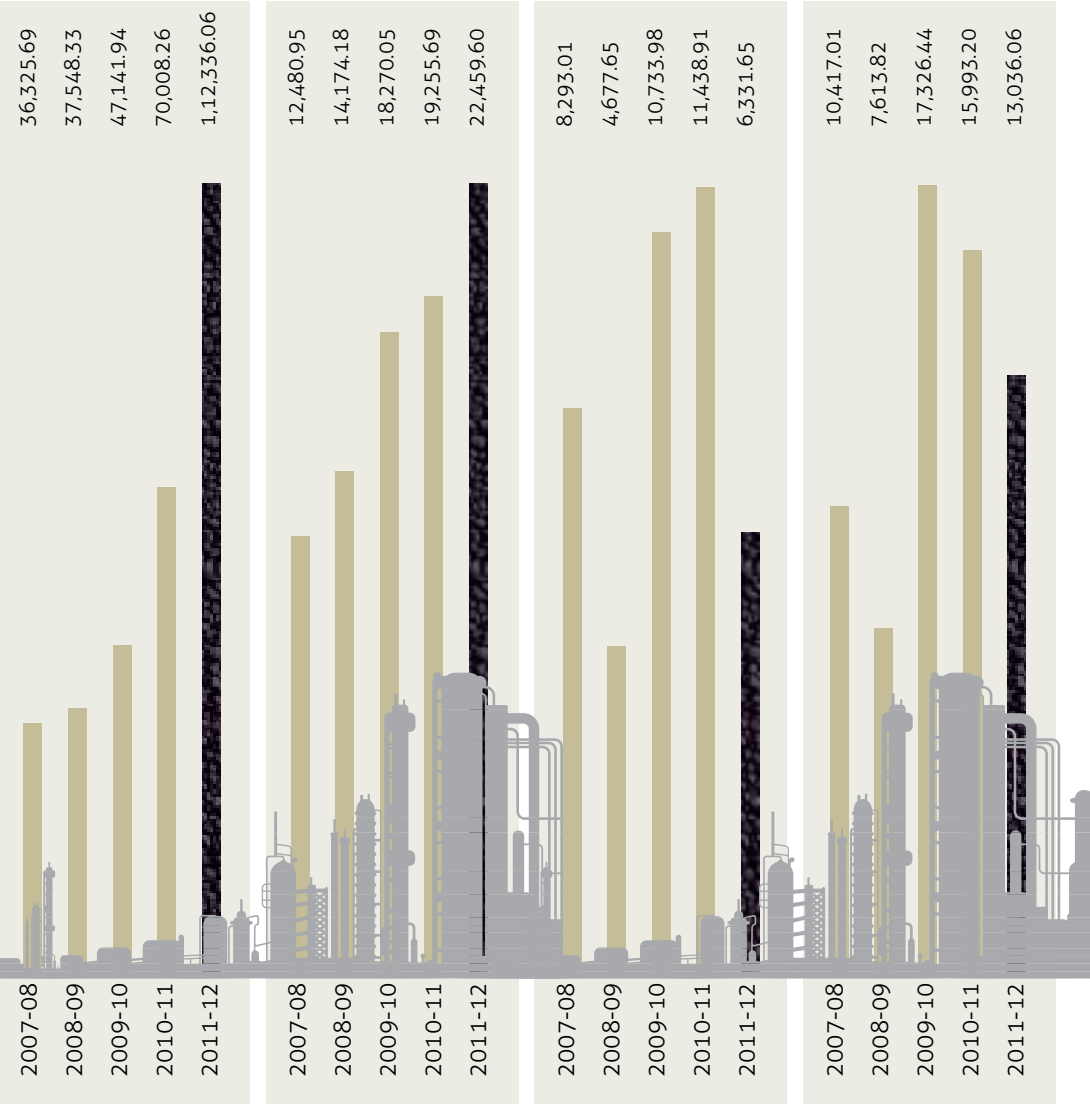


## Marketing highlights

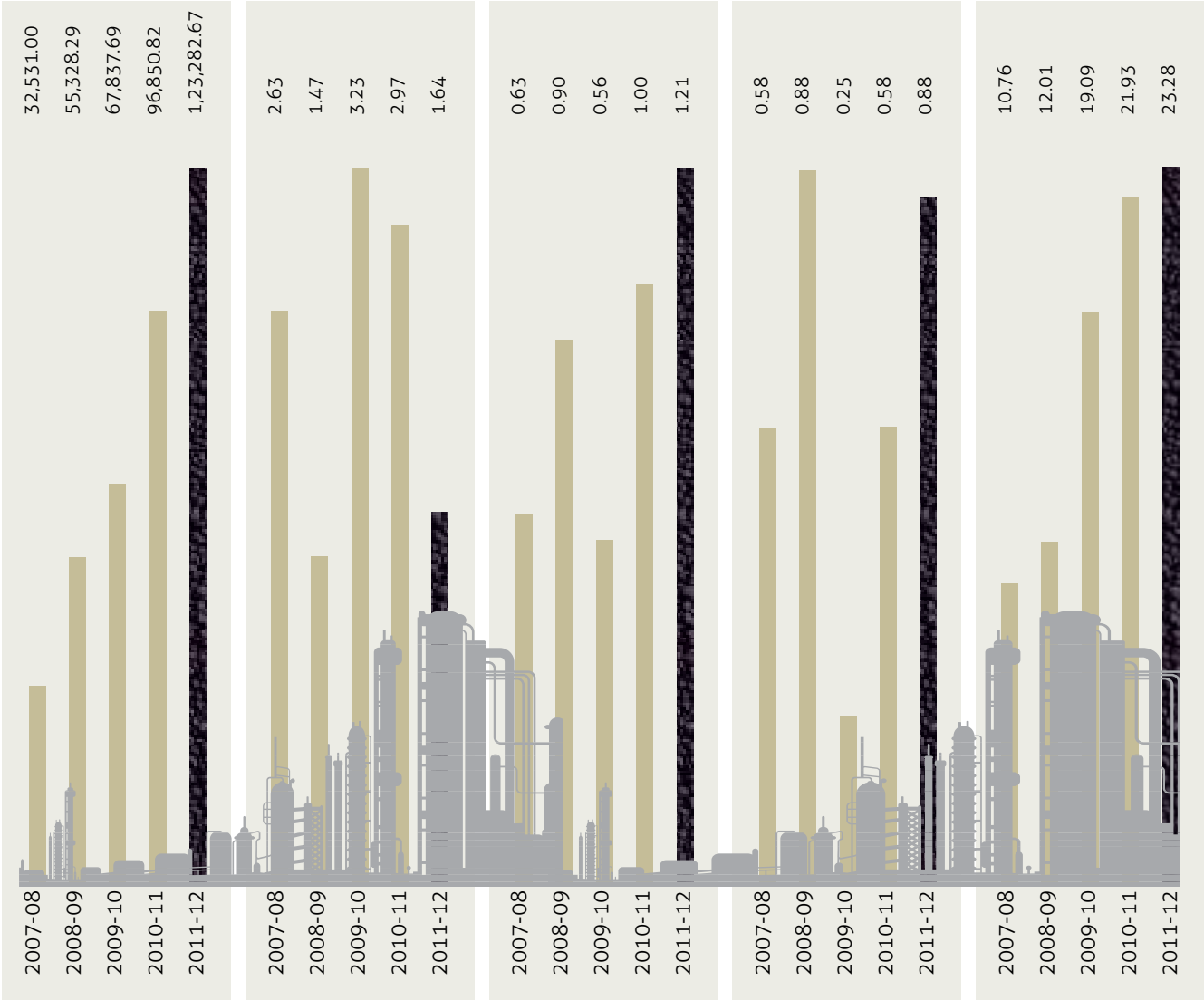
- Entered geographies like Nigeria, the U.A.E, Senegal, Poland to market products
- Established SNF quality among top-end customers; developed the export market
- Established carbon black quality among the tyre and non-tyre segments in the Indian and global market
- Entered the global and Chinese markets for coal tar pitch to be manufactured from China.

FINANCIAL

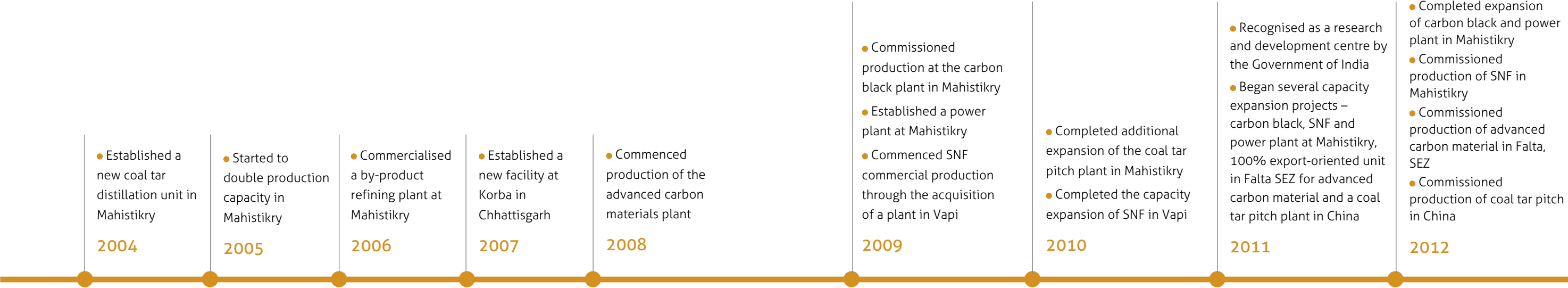
Revenue (net of excise) (In Rs. Lacs)      EBITDA\* (In Rs. Lacs)      PAT (In Rs. Lacs)      Cash profit (In Rs. Lacs)      Gross block (including capital work in progress) (In Rs. Lacs)      EPS (basic) (In Rs.)      Debt-equity ratio      Net debt-equity ratio      Book value per share (In Rs.)



\*EBIDTA is calculated by excluding the effect of foreign currency loss/gain and other income



# THE JOURNEY TILL DATE





# Knowledge and environment friendliness

In a business marked by an increasing responsibility to be environment-friendly, we reconciled value-addition to each product line through the vertical integration of our business model. This connectedness made it possible for us to use the by-products from one process as inputs for another. The Company does not generate any waste that is discharged either in solid or liquid form, all the products are recaptured through an effective waste heat recovery system and the Company enhances value addition. We also capture the tail-gas generated from the manufacture of carbon black to produce power.

The amount of waste generated by the Company

NIL





# Knowledge and capacity creation

In a business marked by the need to enhance viability, we brought our additional capacities into play in a timely manner, which helped reduce project overruns on the one hand and generate scheduled revenues that translated into budgeted payback on the other. During the last seven years, the Company undertook new projects which were completed within the proposed cost and stipulated timelines showcasing the Company's project execution capability.



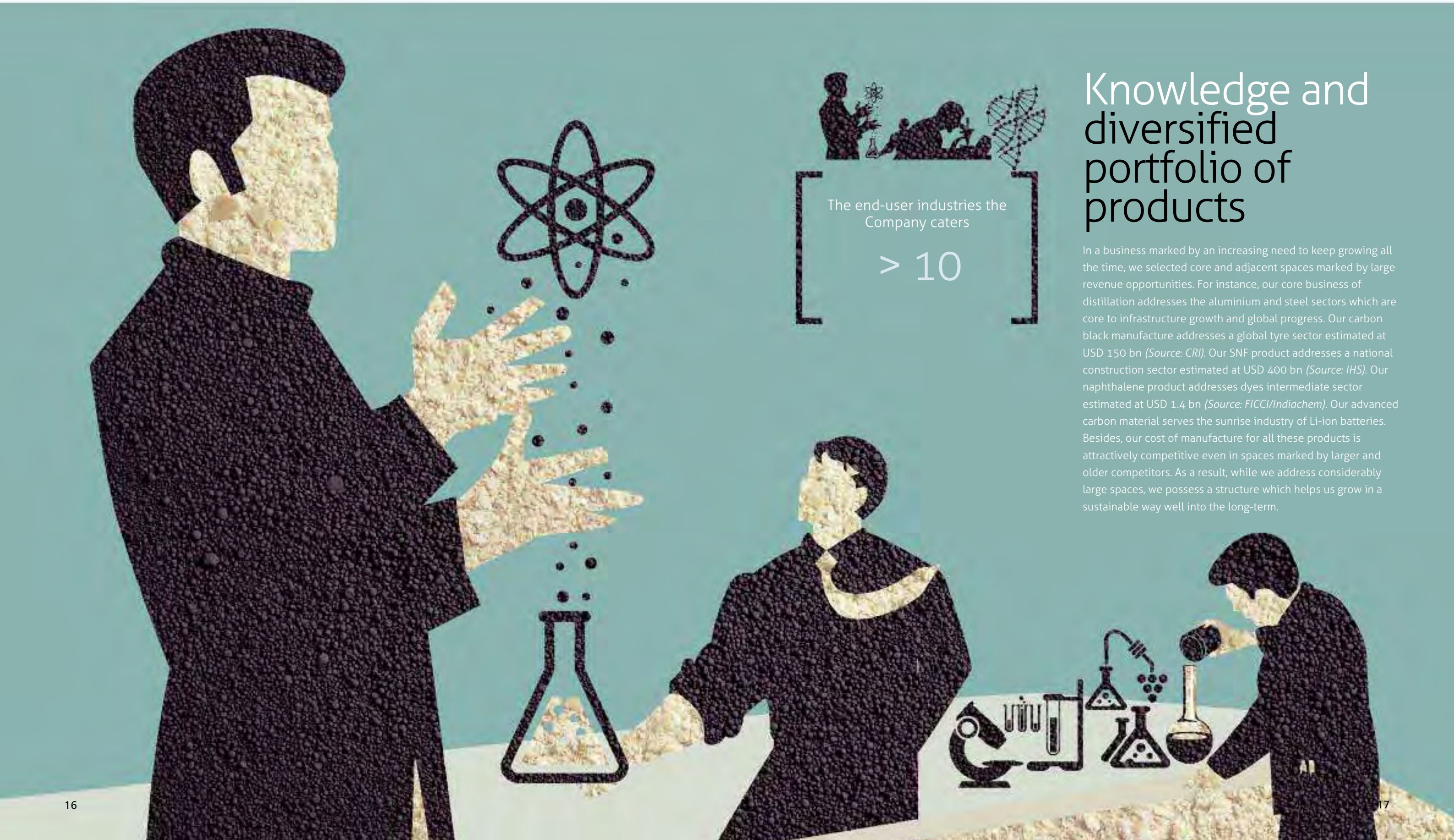
# Knowledge and adjacent spaces

In a business marked by the need to enhance organisational value, we successfully explored adjacent spaces across all our product lines. For instance, we manufactured just two products through the process of distillation until 2005. Over the years distillation generated the following by-products – coal tar pitch, oil and naphthalene. In turn, oil generated carbon black and power, while Naphthalene generated SNF, a revenue-generating product. By exploring each successive adjacent space, we are now an eight-product organisation, which is a significant achievement for a Company with no non-distillation revenues until 2005.

The total product portfolio  
of the Company

8





# Knowledge and diversified portfolio of products

In a business marked by an increasing need to keep growing all the time, we selected core and adjacent spaces marked by large revenue opportunities. For instance, our core business of distillation addresses the aluminium and steel sectors which are core to infrastructure growth and global progress. Our carbon black manufacture addresses a global tyre sector estimated at USD 150 bn (*Source: CRI*). Our SNF product addresses a national construction sector estimated at USD 400 bn (*Source: IHS*). Our naphthalene product addresses dyes intermediate sector estimated at USD 1.4 bn (*Source: FICCI/Indiachem*). Our advanced carbon material serves the sunrise industry of Li-ion batteries. Besides, our cost of manufacture for all these products is attractively competitive even in spaces marked by larger and older competitors. As a result, while we address considerably large spaces, we possess a structure which helps us grow in a sustainable way well into the long-term.