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IFB

AGRO

Annual Report 2005 - 2006

IFB AGRO INDUSTRIES LIMITED

■ BOARD OF DIRECTORS

Bijon Nag	<i>Chairman</i>
K. Srinivasan	<i>Vice Chairman</i>
Bikramjit Nag	<i>Executive Director</i>
A. K. Banerjee	<i>Wholetime Director</i>

DIRECTORS

Nandan Bhattacharya
Amitabha Kumar Nag
Allen Lawrence

■ GM - FINANCE & COMPANY SECRETARY

Sushil Kumar Agarwal

■ AUDITORS

Maheshwari & Associates
Chartered Accountants

■ BANKERS

Indian Overseas Bank
State Bank of India
HDFC Bank
UTI Bank

■ REGISTERED OFFICE

Plot No. IND-5, Sector-1
East Calcutta Township,
Kasba Industrial Estate,
Kolkata - 700 107
Ph : 2442-0997/98/99
Fax : 2442-1003

■ REGISTRAR & SHARE TRANSFER AGENT

(For both Physical & Dematerialised Shares)
CB Management Services (P) Ltd.
P-22, Bondel Road, Kolkata - 700 019

■ WORKS

Noorpur, P.S. Diamond Harbour
Dist. South 24 Parganas
West Bengal

Durgapur
Dist. Burdwan
West Bengal

Maheshtala
South 24 Parganas
West Bengal

Serampore
Hooghly
West Bengal

Marine Product Processing Plant
Kasba Industrial Estate
East Calcutta Township
Kolkata - 700 107

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Notice to the Members

Notice is hereby given that the Twenty Fourth Annual General Meeting of IFB Agro Industries Limited will be held on 24th August 2006, Thursday, at 11.00 A.M. at Eastern Zonal Cultural Centre at Bidhannagar IA-290, Sector-III, Salt Lake, Kolkata- 700 091 to transact the following business:

AS ORDINARY BUSINESS :

1. To receive, consider and adopt the Audited Accounts together with Reports of Auditors and Directors thereon for the year ended 31st March 2006.
2. To appoint a Director in place of Mr. Bikramjit Nag, who retires by rotation and being eligible offers himself for reappointment.
3. To appoint a Director in place of Mr. Amitabha Kumar Nag, who retires by rotation and being eligible offers himself for reappointment.
4. To appoint M/s. Maheshwari & Associates, Chartered Accountants as Auditors of the Company 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.

By Order of the Board

Sushil Kumar Agarwal

GM - Finance & Company Secretary

Registered Office :

Plot No. IND-5, Sector - 1

East Calcutta Township

Kolkata - 700 107

Date : 30th June, 2006

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NOTES :

1. The Register of Members and Share Transfer Registers of the Company will remain closed from 21st August to 24th August 2006 (both days inclusive).
2. A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote in his stead. A proxy need not be a member of the Company. Proxies, in order to be effective, must reach the Registered Office of the Company at least 48 hours before the meeting.
3. Members are requested to note that dividends not encashed or claimed within seven years from the date of transfer to the Company's Unpaid Dividend Account, will, as per section 205-A of the Companies Act, 1956, be transferred to the Investor Education and Protection Fund, established under Section 205-C of the said Act. Members, who have not yet claimed their Dividend for the financial year 1998-99 are requested to make their claims to the Company's Registrar and Share Transfer Agents, before the same is transferred to the Fund.

Dividends for the financial year ended 31st March 1998, which was unclaimed and unpaid has been transferred to Investor Education and Protection Fund, on 29.10.2005.

4. Members are requested to :
 - a) notify immediately any change in their address to the Company.
 - b) bring their copy of Annual Report in the meeting.
 - c) bring duly filled in attendance slips sent herewith for attending the meeting.
 - d) members holding shares in identical order of names in more than one Folio are requested to write to the Company's Registrar & Share Transfer Agent, CB Management Services (P) Limited enclosing their share certificates for consolidation of all such shareholdings into one folio for better investor service. CB Management Services (P) Limited is the Share Transfer Agent for shares in physical as well as dematerialized forms.

DIRECTORS' REPORT

To the Shareholders,

Your Directors have pleasure in presenting before you the Annual Report together with the Audited Accounts and Auditors' Report thereon for the year ended 31st March, 2006.

FINANCIAL RESULTS

	Year ended 31st March 2006 (Rs.'000)	Year ended 31st March 2005 (Rs.'000)
Sales and Other Income (incl. Excise Duty)	22,98,563	19,30,092
Profit prior to Finance charges & Depreciation	47,845	51,664
Less : Finance charges	6,029	3,973
Depreciation	21,498	21,845
Profit before exceptional items	20,318	25,846
Exceptional items : Income/(Expenditure)	(277)	5,261
Profit before Taxation	20,041	31,107
Less/(Add) : Provision for Taxation :		
Current Tax	9,980	8,431
Deferred Tax	(10,230)	4,395
Fringe Benefit Tax	1,645	—
Profit after Tax	18,646	18,281
Prior period adjustments	85	27
Balance carried to Balance Sheet	18,731	18,308

FINANCIAL PERFORMANCE

During the year under review your Company has registered gross turnover of Rs.229.86 crores (as against Rs.193.01 crores in 2004-05) recording a growth of 19%. Profit before depreciation and finance charges has declined by 7.4% mainly due to higher cost of molasses consumed during the year. Interest cost has risen in view of higher borrowings adhered by the Company during the year in order to meet the working capital requirements. In spite of all these, Profit after tax has been marginally higher than last year (by 2%) in view of reversal of deferred tax provision during the year arising due to change in corporate tax rate from 36.59% to 33.66%.

OPERATIONS

During the year, the Company consolidated its position in alcohol business. All over the country, scarcity of molasses prevailed for the 2nd consecutive year due to subdued sugarcane crops. Because of shortage in the supply of the molasses in India, the Company had to import few consignments of molasses during 1st half of the year. Molasses price continued to be on upward trend consequent to huge diversion towards production of ethanol, in the international markets as well.

During the year under review, the Company's marine exports division did well. Export sales have grown by 65% from Rs. 12.42 crores to Rs. 20.50 crores. As a result Company has been able to get one Star Export House status. The Marine products are well accepted in the European and US markets.

The rising cost of crude globally has also affected the Company's profitability due to hike in logistics cost. However, your Company is committed to achieve continuous efficiencies in order to make its operations more profitable.

For detailed analysis of the performance *division-wise*, please refer to Management Discussion and Analysis Section of this Annual Report.

CAPITALEXPENDITUREATDISTILLERY

The Company has embarked on modernisation drive for Rs. 28.50 crores that will ensure captive power, both grain and molasses based spirit whilst confirming to zero discharge norms. Out of Rs. 28.50 crores, the investment of Rs. 10 crores is needed for pollution equipments, power generation plant and related accessories, and Rs. 18.50 crores would be invested in grain based modern distillation facilities.

FINANCE

During the year under review, your Company has been able to repay the entire term loan to EXIM Bank. It has also repaid during the year its other unsecured borrowings of Rs. 200 lacs. However, in order to meet its commitments towards modernisation and related capital expenditure at Noorpur, the Company has tied up with Indian Overseas Bank, its existing banker for a term loan of Rs. 15 crores at a interest rate of BPLR (-) 2%, then worked out at 9% repayable over a period of 4.5 years after allowing moratorium of 1 year. Out of this, company has already availed loan of Rs. 2.90 crores till 31st March 2006.

DIVIDEND

Your Directors have decided not to recommend any dividend for the financial year under review to conserve the resources for the purpose of capital expenditure at its distillery and other units.

DIRECTORS

In accordance with the provisions of the Companies Act, 1956 read with Articles of Association of the Company, Mr. Bikramjit Nag and Mr. Amitabha Kumar Nag retire by rotation and being eligible, offer themselves for re-appointment.

The details about their qualification, other directorships etc. as per Clause 49 of the Listing Agreement are provided separately and annexed to the notice.

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

The Directors, having ensured through the Officer designated for the purpose, hereby confirm :

That in the preparation of the annual accounts, the applicable accounting standards have been followed along with proper explanation relating to material departures;

That the Directors have selected such accounting policies and applied them consistently and made judgements and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profit and loss account of the Company for that period;

That the Directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;

That the Directors have prepared the annual accounts on a going concern basis.

CORPORATE GOVERNANCE

Pursuant to clause 49 of the Listing Agreement, a report on Corporate Governance and the Auditors' Certificate in this regard form part of this report are annexed herewith.

AUDITORS & AUDITORS' REPORT

The Auditors of the Company M/s Maheshwari & Associates, Chartered Accountants retire at the ensuing Annual General Meeting of the Company and have given their consent for reappointment. The Company has received letters from the Auditors to the effect that their appointment, if made, would be within the limits as prescribed under Section 224(1B) of the Companies Act, 1956.

Observations, if any, made in the Auditors Reports have been adequately dealt with in the notes to the financial statements annexed to the Balance Sheet and Profit & Loss Account.

SUBSIDIARY

Zenith Investments Limited has been the only *non-material subsidiary* of your Company. This company had no operations and has been incurring losses for the past few years. The net worth of this company has fully eroded. During the year as on 31st December 2005, your Company has divested 80% of its shares to Asansol Bottling & Packaging Co. Pvt. Ltd. and made a profit of Rs. 2.60 lacs, which has been shown separately in the profit and loss account. As a result, your Company has no subsidiary as at the end of the financial year.

INDUSTRIAL RELATIONS

The relations between the Employees and the Management have remained cordial during the year and the Board wishes to place on record its deep appreciation of the contributions made by all the employees in the day-to-day operations of the Company.

PARTICULARS OF EMPLOYEES

During the year, there was no employee whose particulars were required to be mentioned under Section 217(2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975.

ENVIRONMENT, CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION, FOREIGN EXCHANGE EARNINGS AND OUTGO

Your Company has in place a system for controlling and monitoring pollutants at all factories complying with environmental standards and legislation. Your Company is committed to ensure a green and pollution free environment as well as clean and safe workplace at all plant locations and work sites.

As required by the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 the relevant particulars are given in the Annexure to this report.

ACKNOWLEDGEMENT

Your Directors express their sincere thanks and place on record their deep appreciation of the valuable patronage extended by the shareholders, valued customers, financial institutions, bankers, Government authorities and the Investors for their continued support and confidence in the Company.

On behalf of the Board

Kolkata, 30th June, 2006

K Srinivasan
Vice Chairman

A K Banerjee
Wholtime Director

Annexure I to Directors' Report**STATEMENT PURSUANT TO SECTION 217(1)(e) OF THE COMPANIES ACT, 1956 READ WITH COMPANIES (DISCLOSURE OF PARTICULARS IN THE REPORT OF BOARD OF DIRECTORS) RULES, 1988.****[A] CONSERVATION OF ENERGY****a). Energy conservation measures taken :**

1. Operating a Co-generation Plant (low-pressure steam turbine-140KW) for reduction of energy costs.
2. Replaced cast aluminium fan of cooling tower by FRP blades for energy conservation.
3. Installation of equipments for heat recovery from waste hot water.
4. Reduction in steam consumption in Fermentation section by modifying operational steps.
5. Achieved almost ZERO consumption of furnace oil in boiler by improving biogas generation in Digesters at ETP.
6. Installation of power capacitors for maximizing power factor (PF) at 0.98, resulting in reduction of power consumption as well as achieving maximum PF rebate.

b) Additional investment proposals, if any, being implemented for further reduction of Energy Consumption :

1. Installation of Medium Pressure (35.0Kg/cm²(g)), Superheated Steam (380°C), Fluidised bed, Biogas and Husk fired Boiler to avoid fossil fuel consumption, green house gas (GHG) emission and energy conservation (under implementation).
2. Installation of 2 nos steam turbine of 600 KW each with the objective of making the plant almost power-free within next one year (under implementation).
3. Installation of further power saving systems.

c) Impact of measures of (a) & (b) above for reduction of energy consumption and consequent impact on cost of production of goods:

The impact of above measures undertaken for reduction of energy consumption through the optimisation of production process is Rs 2.50 Crores (approx.).

[B] TECHNOLOGY ABSORPTION**e) Efforts made in technology absorption as per Form B****Research & Development (R&D)**

1. Specific areas in which R&D carried out by the Company :
 - 1.1 Improvement of fermentation and distillation efficiencies, reduction in consumption of chemicals and speciality chemicals.
 - 1.2 Quality improvement, particularly for the development of special type of yeast and identification of different ingredients of input raw materials, affecting fermentation process.
 - 1.3 Waste utilisation with focus on conservation of water resources through recycling of waste water.
 - 1.4 Environmental safety.
2. Benefits derived as a result of R&D :
 - 2.1 Improved efficiency and yield irrespective of molasses quality.
 - 2.2 Better product quality and market acceptability.
 - 2.3 Cost saving.
3. Projects Under Implementation to Improve Productivity, Water Conservation, Environmental Protection & Safety :
 - 3.1 Grain Spirit Plant to produce high quality Alcohol from multi-feed sources.
 - 3.2 Evaporation and Spray drying Plant for achieving Zero Discharge (of effluents) mandatory under MOEF for all molasses-based distilleries. The said plant will also ensure conservation of water, energy and other resources.

- 3.3 Upgrading the R&D Lab.
- 3.4 Optimising the generation of Biogas for savings in fuel consumption.
- 3.5 Development of bio-fertilizer from waste sludge from both fermentation and ETP.
4. Expenditure on R&D:
 - 4.1 Capital : Rs 1.00 lakhs
 - 4.2 Recurring : Rs 0.45 lakhs
 - 4.3 Total : Rs 1.45 lakhs
 - 4.4 Percentage on turnover : Negligible

Technology Absorption, Adaptation & Innovation

1. Efforts :
 - a) Modifications in the Fermentation & Distillation Sections for producing good quality Rectified Spirit.
 - b) Innovative ideas suggested by in-house Research & Development and by technical collaborators/consultants are being implemented in the area of optimum waste utilisation techniques and for environmental protection.
2. Benefits :
 - a) Savings in consumption of Furnace Oil.
 - b) Benchmarking of fermentation & distillation efficiencies.
 - c) Reduction in conversion cost.
 - d) Higher productivity and yield.
 - e) Better Quality of Extra Neutral Alcohol.
 - f) Better utilisation of by-products.
 - g) Improvement in environmental protection by achieving "Zero Discharge" of effluent.
 - h) Improvement in Water conservation.

[C] FOREIGN EXCHANGE EARNINGS AND OUTGO:

1. Activities relating to export, initiatives to increase exports, developments of new export markets for products and services and export plan:

The Company's marine division meets the most stringent quality specifications under HACCP and USFDA norms, enabling exports to a large number of destinations in Japan, Europe and USA. The credibility of its products is well established amongst overseas buyers. During the year, the Company has done exports to countries like Australia, Belgium, Japan, Qatar, USA, Thailand, UAE and UK. UAE was the new export market catered by the company during the year.

The Company is constantly exploring the prospects of developing new export markets in various parts of the world.

2. Total Foreign Exchange earned and used:

	This year (Rs.'000)	Previous year (Rs.'000)
a) Foreign Exchange Earnings (FOB value)	<u>205,014</u>	<u>124,223</u>
b) Foreign Exchange Outgo:		
- Raw Materials	124,714	278,453
- Components & Spare Parts	1,245	921
- Travelling	1,444	1,594
- Know-how Fees	-	-
	<u>127,403</u>	<u>280,968</u>

During the year, the company has been a net foreign exchange earner.

Annexure II to Directors' Report**MANAGEMENT DISCUSSION & ANALYSIS****PERFORMANCE OVERVIEW:**

During the year under review, overall performance of the company was not very much satisfactory despite gross sales and net sales recording a growth of 18% and 34% respectively over last year. During the first half of the year, company's bottomline was hit badly due to high cost of molasses and as a result Company had to incur losses. However, in the 2nd half with the softening of molasses price and part realisation of government dues on account of higher cost of molasses, your company has been able to achieve positive results. The other income has gone up by 151% mainly due to realising of DEPB income for marine exports and higher miscellaneous receipts for the alcohol and bottling business. Interest expenses have been higher by 51.7% mainly because of higher borrowings in order to maintain molasses inventory at adequate level so as to run the operations smoothly. It is to be noted that company has also earned higher interest than the last year by 62%, by parking idle money with banks and utilising as margin money for executing LCs to overseas suppliers of molasses.

Profit before tax and extra ordinary items stood at Rs.2.03 crores as against Rs.2.58 crores in previous year, showing a de-growth of 21%. Continuous efforts were made so as to reduce operations cost and improve operational efficiency.

Profit after tax was Rs.1.86 crores as compared to Rs.1.83 crores in the previous year. The Company has utilised its internal generation of funds towards meeting higher working capital and partly towards meeting capital expenditure and other assets including creation of infrastructure.

Earning per equity share was Rs.2.43 as compared to Rs.2.38 per share in previous year.

REVIEW OF DIVISIONAL PERFORMANCES:**Alcohol :**

During the year, the sales volume was marginally higher by 1%, in view of inadequate supply of good quality molasses, resulting into fall of yield and thereby overall volumes. Worldwide, the situation of molasses is worsening in view of burgeoning crude oil prices, which open gateways for the growing use of molasses as alternative fuel by blending of ethanol into petrol and diesel. In India also, the Central Government has already made it compulsory to blend 5% ethanol with petrol in ten States and Union Territories with effect from October 2006. This percentage may go up in near future. The World Health Organization has also recommended replacing of molasses spirit with grain spirit for human consumption because of health reasons. Under these circumstances, the division has chalked out investment plans of Rs. 28.50 crores, as summarised in the directors report. After implementation of the capital expenditure, the division's dependency on one feedstock, i.e. molasses, would reduce and the division shall have greater flexibility and can produce better quality spirit at competitive prices.

The division's performance has suffered to a greater extent because of molasses crisis during the 1st half of the year. Your company is yet to receive full AMTC relief from the government for the higher molasses cost.

On IMFL, your Company has launched its product "Volga" Vodka in Orissa during the year under review. The response was good. The Company has carried out wide promotion for its prime brand 'Volga' Vodka in West Bengal, Orissa and North East, as a result its sales has gone up by 62% as compared to last year. During the year, there has been unfortunate fire incident on 15th November 2005 in its Mahestala works. Your Company made war footing arrangements and the factory was brought to normalcy within a period of 4 working days. The insurance claim has been settled. The Division is continuously trying to improve the standard of its products with better spirit and beautiful packaging so as to attract large consumer base.

Marine :

The Marine Division has performed exceedingly well. Its exports sales were up by 65% over last year. With the rise in export turnover to Rs. 20.50 crores, the company has received one Star Export House status from DGFT. The division has reduced its dependency on the third party processing and in turn wants to establish itself as the reputed exporter of marine products throughout the world. The

quality of its processed marine products is well accepted in overseas countries in view of stringent quality checks followed by the division. The volume of domestic business was up by 114% in view of effective marketing drives for Kolkata, Bangalore and Delhi markets. The division has recorded a growth of 25% in feed trading business. It has entered into back to back arrangements with the farmers, who are buying feed from the Company, getting all technical support and supplying marine products to the Company.

OPPORTUNITIES & CHALLENGES:

The Company has been continuously trying to grab new opportunities. During the last year, Company has identified grain spirit production and marketing as one of the good opportunity in view of rising cost of molasses and lower availability due to diversion to alternative fuels. The Government of West Bengal may remove the privilege area for the country spirit in West Bengal in the coming years. The company is geared up to face this challenge by increasing its bottling capacities by efficient methodologies and strengthening its marketing channels.

The company makes its best efforts to attain to further efficiencies in fermentation and distillation, improve upon its bio-gas generation so as to reduce fuel cost, and to further improve its power generation so as to reduce the cost of production. Company is giving continuous emphasis so as to cut costs on inputs, minimise wastages and make optimal use of human resources on all fronts.

In IMFL, the Company visualises ample opportunity but at the same time it wants to consolidate first in West Bengal, Orissa and north-eastern states and only after the consolidation is done, then it intends to move to other states. To establish its position further, the company is concentrating on quality and packaging of the product. At the same time, it wants to continue its sales promotion drive in line with the market.

In Marine Division, it foresees good export potential for its marine products and therefore it has plans to increase export volumes this year as well and to further reduce dependency on third party processing. The company has been trying to develop different types of value added products for its marine food business. Once liked by the consumer, this should give impetus to the marine food business in the near future. The DEPB benefits are also available to the Company, which should help to make better deals in export markets. It plans to cut down its production and overhead costs further. It endeavours to strengthen its farmers network so as to achieve higher volume growth in feed trading business during the following year.

Business Outlook:

The Company believes in adapting itself to changes from that of functioning in a protected environment to that of accepting competition and achieving business excellence through improved operations. The company continuously improves its distribution channels, boost up its sales promotion activities and wants to invest in facilities that would give it cost advantage over its competitors. The accountability of each divisional head has been fixed and they have been given freedom of operations in their respective areas. At the same time, Company has also introduced performance linked compensation packages so as to boost morale and achieve higher profitability.

Human Resources :

The human resources are vital resource in giving the Company a competitive edge in the current business environment. During the year company had hired talented human resources to raise its HR strength. Company has been very instrumental in parting training programmes for its executives at all levels. The management recognises that it is only through motivated and committed employees that the Company will achieve its aims. Hence, the Company endeavours to take care of the welfare and betterment of the employees. Total number of employees in the company was 315 as on 31st March 2006 as against 313 as on 31st March 2005.

Internal Control System :

The Company has an effective internal control system to ensure optimal use of Company's resources and protection thereof, accurate and speedy compilation of accounts and management information reports and to comply with laws and regulations. The Company has an exhaustive budgetary control system and actual performance is reviewed with reference to budgets by the management on a monthly basis. The Company has a well-defined organisation structure, authority levels and internal guidelines and rules for conducting business transactions. The Internal Auditors of the Company conduct regular audit to ensure adequacy of internal control systems, adherence to management instructions and policies and compliances with the law and regulations.