

**INDOKEM LIMITED**



**39th Annual Report  
2004-2005  
(Abridged)**



## INDOKEM LIMITED

<b>BOARD OF DIRECTORS</b>	:	SHRI MAHENDRA K. KHATAU <i>Chairman &amp; Managing Director</i> SHRI N.S. PARULEKAR SHRI ANIL K. KHATAU SMT. LEELA K. KHATAU SHRI M. SARIN <i>Executive Director</i> SHRI KAILASH PERSHAD <i>(Nominee of UTI)</i>
<b>AUDIT COMMITTEE</b>	:	SHRI N.S. PARULEKAR <i>Chairman</i> SHRI MAHENDRA K. KHATAU SHRI ANIL K. KHATAU
<b>SHAREHOLDERS'/INVESTORS' GRIEVANCE COMMITTEE</b>	:	SHRI N.S. PARULEKAR <i>Chairman</i> SHRI MAHENDRA K. KHATAU SHRI ANIL K. KHATAU
<b>COMPANY SECRETARY</b>	:	S. SRINIVASAN
<b>BANKERS</b>	:	UNION BANK OF INDIA STATE BANK OF TRAVANCORE DEVELOPMENT CREDIT BANK LIMITED BANK OF INDIA STATE BANK OF INDIA COMMERCIAL & INTERNATIONAL BANK LTD. ANDHRA BANK THE SHAMRAO VITHAL CO-OP. BANK LTD.
<b>AUDITORS</b>	:	Messrs. SHETH DOCTOR & ASSOCIATES
<b>REGISTRAR &amp; SHARE TRANSFER AGENT (SHARE COLLECTION CENTRE)</b>	:	Messrs. SHAREX DYNAMIC (INDIA) PVT. LTD. 17/B, Dena Bank Building, 2 <sup>nd</sup> Floor Horniman Circle, Fort, Mumbai - 400 001. Tel.No.2270 24 85/2264 13 76 Fax No.2264 13 49
<b>REGISTERED OFFICE</b>	:	Khatau House, 1 <sup>st</sup> Floor Mogul Lane, Mahim (West), Mumbai - 400 016. Tel. No.24461975/24450050 Fax No.: 91-22-24458139/24440826 E-mail ID.: iklsecretarial@rediffmail.com
<b>FACTORY</b>	:	Plot No.2900 GIDC Industrial Estate District Bharuch Ankleshwar, GUJARAT

## 39TH ANNUAL REPORT 2004-2005

## NOTICE

**NOTICE** is hereby given that the Thirty-ninth Annual General Meeting of the **Members of indokem Limited** (formerly known as Khatau Junker Limited) will be held at Khatau House, First Floor, Mogul Lane, Mahim (W), Mumbai - 400 016 on Thursday the 29th September, 2005 at 4.00 P.M. for the purpose of transacting the following business:

## ORDINARY BUSINESS

1. To receive, consider and adopt the Profit and Loss Account for the year ended 31<sup>st</sup> March, 2005 and the Balance Sheet as at that date, together with the Reports of the Board of Directors and Auditors thereon.
2. To appoint a Director in place of Mr. N.S. Parulekar, who retires by rotation and, being eligible, offers himself for re-appointment.

## SPECIAL BUSINESS :

3. To consider and, if thought fit, to pass with or without modification, the following resolution as an ORDINARY RESOLUTION:

"RESOLVED THAT pursuant to the provisions of Sections 198, 269 and 309 and other applicable provisions, if any, of the Companies Act, 1956 and subject to such sanctions as may be necessary, the Company hereby approves the re-appointment of Shri Mahendra K. Khatau as Managing Director of the Company for a period of five years with effect from 1<sup>st</sup> April, 2005 to 31<sup>st</sup> March, 2010 on the remuneration and upon the terms and conditions as set out in the Explanatory Statement relating to this Resolution with liberty and powers to the Board of Directors to alter and vary the terms and conditions and remuneration in such manner as the Board of Directors may deem fit and as is acceptable to Shri Mahendra K. Khatau within the limits specified in Schedule XIII of the Companies Act, 1956 or any amendment thereto."

"RESOLVED FURTHER THAT in the event of any statutory amendment or modification or relaxation by the Central Government to Schedule XIII to the Companies Act, 1956 the Board of Directors be and is hereby authorised to vary or increase the remuneration, including salary, commission, perquisites, allowances etc., within such prescribed limit or ceiling and the Agreement between the Company and Shri Mahendra K. Khatau be suitably amended to give to such modification, relaxation or variation without any further reference to the Members of the Company in the General Meeting."

"RESOLVED FURTHER THAT the Board of Directors of the Company be and is hereby authorised to take such steps as may be necessary to give effect to this Resolution."

By Order of the Board  
For INDOKEM LIMITED

S. SRINIVASAN

Company Secretary

Registered Office :  
Khatau House, 1<sup>st</sup> Floor,  
Mogul Lane, Mahim,  
Mumbai - 400 016.

Dated : 22nd August, 2005

## NOTES :

1. A MEMBER ENTITLED TO ATTEND AND VOTE IS ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE INSTEAD OF HIMSELF AND SUCH PROXY NEED NOT BE A MEMBER.
2. The Explanatory Statement pursuant to Section 173(2) of the Companies Act, 1956 in respect of item No. 3 as set out above is annexed herewith.
3. The Register of Members and Transfer Books of the Company will be closed from Friday the 23rd September, 2005 to Thursday 29th September, 2005 (both days inclusive).
4. Members are requested to notify any change of their address including Transfer's etc. to the Company's Share Registrar & Transfer Agent office at Sharex Dynamic (India) Pvt. Ltd. 17/B, Dena Bank Building, 2<sup>nd</sup> Floor, Horniman Circle, Fort, Mumbai - 400001 or at Regd. Office Khatau House, Mogul Lane, Mahim (W), Mumbai- 400016.

## 5. INFORMATION REQUIRED TO BE FURNISHED UNDER THE LISTING AGREEMENT :

Name	Age	Qualification	Experience	Other Directorships
Mr. N.S. Parulekar	78	B.Com; LLB; CAIIB.	Banking & Management	1) New Era Fabrics Ltd. 2) Samson Maritime Ltd. 3) Oxides & Specialities Ltd. 4) S.P. Jaiswal Estates Ltd. 5) Navyug Holdings Pvt. Ltd. 6) Harig Crank Shafts Ltd. 7) Infotech Era India Ltd. 8) Twenty-First Century Printers Limited 9) Dempo Inds. Pvt. Ltd.



## INDOKEM LIMITED

### EXPLANATORY STATEMENT AS REQUIRED UNDER SECTION 173(2) OF THE COMPANIES ACT, 1956.

#### Item No. 3 :

The Members at the Extra-Ordinary General Meeting held on 25<sup>th</sup> April, 2000 had approved the re-appointment of Shri Mahendra K. Khatau as Managing Director with effect from 1<sup>st</sup> April, 2000 to 31<sup>st</sup> March, 2005. The Board of Directors of the Company at their Meeting held on 27<sup>th</sup> April, 2005 have, subject to the approval of the Members and other necessary approvals, re-appointed Shri Mahendra K. Khatau as Managing Director of the Company for a further period of five years with effect from 1<sup>st</sup> April, 2005.

The Draft Agreement to be entered into by the Company with the Managing Director inter alia, contain the following terms and conditions.

#### 1. Salary :-

Rs.50,000/- (Rupees Fifty Thousand Only) per month.

#### 2. Perquisites :-

- (i) **Housing** : Rent Free furnished accommodation owned or leased/rented. In case no accommodation is provided by the Company, Mr. Khatau shall receive house rent allowance of Rs.25,000/- (Rupees Twenty Five Thousand Only) per month.
- (ii) **Reimbursement of Gas, Electricity, Water charges and Furnishings** : subject to a maximum of Rs.72,000/- (Rupees Seventy Two Thousand Only) per annum.
- (iii) **House Maintenance Allowance** : Rs.5,000/- (Rupees Five Thousand Only) per month.
- (iv) **Medical Reimbursement** : Reimbursement of expenses incurred by Mr. Khatau for himself and his family, subject to a ceiling of one month's salary in a year or two months' salary over a period of two years.
- (v) **Personal Accident/Mediclaim Policies** : In accordance with the Rules of the Company, however, the premium thereof not to exceed Rs.6,000/- per annum for both the policies.
- (vi) **Leave Travel Concession** : Leave travel allowance for himself and his family once in a year in accordance with the rules of the Company.  
Explanation : "Family" for (v) and (vi) means the Spouse and the Children of Mr. Khatau.
- (vii) **Club Fees** : Fees of clubs subject to a maximum of two clubs.  
No admission and life membership fees shall be paid.
- (viii) **Car with Driver and Telephone** :  
The Company will provide a Car with Driver and telephone at the residence of Mr. Khatau. The provision of car for use on company's business and telephone at residence will not be considered as perquisite. Personal long distance calls and use of car for private purposes shall be billed by the Company to Mr. Khatau.
- (ix) **Earned Leave** :  
On full pay and allowances and perquisites as per the rules of the Company.  
Encashment of leave for a maximum of 60 days at the end of the tenure will be permissible, which shall not be included in the computation of minimum remuneration.
- (x) (i) Company's contribution towards Provident Fund to the extent it is not taxable under the Income-tax Act, 1961.  
(ii) Gratuity not exceeding half a month's salary for each completed year of service.

The aforesaid perquisites stated in (x)(i) and (x)(ii) shall not be included in the computation of minimum remuneration.

During the tenure of appointment, he will not be entitled to Sitting Fees for attending the meeting of the Board of Directors of the Company. Further, there is no change in the Grades or scale of remuneration as approved by the Members at the Extra-Ordinary General Meeting held on 25<sup>th</sup> April, 2000.

The Draft Agreement between the Company and Shri Mahendra K. Khatau is available for inspection at the Registered Office of the Company during the business hours on any working day.

Shri Mahendra K. Khatau is concerned and interested in the Resolution at item No.3 since it relates to his appointment and remuneration. Mrs. Leela K. Khatau, Mother of Shri Mahendra K. Khatau and Shri Anil K. Khatau, brother of Shri Mahendra K. Khatau may also be regarded as concerned and interested in the same. No other Director is concerned or interested in the resolution.

Your approval to the Resolution is solicited.

The above should also be treated as the abstract of the terms of Shri Mahendra K. Khatau as Managing Director and the memorandum of interest of the Directors in the said appointment as contemplated by Section 302 of the Companies Act, 1956.

By Order of the Board  
For INDOKEM LIMITED

S. SRINIVASAN  
Company Secretary

Registered Office :  
Khatau House, 1<sup>st</sup> Floor,  
Mogul Lane, Mahim,  
Mumbai - 400 016.

Dated : 22nd August, 2005

**39TH ANNUAL REPORT 2004-2005****DIRECTORS' REPORT**

To,  
The Members,  
Your Directors have pleasure in presenting their 39<sup>th</sup> Annual Report and Accounts for the year ended 31<sup>st</sup> March, 2005.

<b>FINANCIAL RESULTS :</b>	<b>31.03.2005</b>	<b>(Rs. In Lacs) 31.03.2004</b>
Total Income (Net of Increase/Decrease in inventories)	<b>81,00.98</b>	81,62.61
Operating Profit before interest & Finance charges, Depreciation & tax	<b>6,96.77</b>	8,03.04
Less : Interest & Finance charges	<b>3,09.03</b>	3,89.92
Profit/(Loss) after interest & Finance charges but before Depreciation & Tax	<b>3,87.74</b>	4,13.12
Less : Depreciation	<b>2,95.78</b>	2,99.35
Profit/(Loss) before tax	<b>91.96</b>	1,13.77
Less : Provision for wealth tax	<b>(0.02)</b>	(0.02)
Less : Prior period items	<b>(11.41)</b>	(2.21)
Less : Short provision for Tax in respect of earlier year.	<b>(0.04)</b>	(0.97)
Profit/(Loss) after tax	<b>80.49</b>	1,10.57
Less : Provision for Gratuity for earlier year	<b>-</b>	(38.23)
Add : Amount drawn from Capital Reserve and Debenture Redemption Reserve	<b>2.17</b>	2.29
Deficit brought forward from last year	<b>(11,71.91)</b>	(12,46.53)
Deficit carried to Balance Sheet	<b>(10,89.25)</b>	(11,71.91)

**REVIEW OF OPERATIONS :****SALES, PROFITABILITY AND PRODUCTION :**

During the year under review, the Company's turnover has seen a reduction in value from Rs.77.99 crore to Rs.77.75 crore showing a marginal decline. This is due to the decrease in our selling prices because of stiff competition from China even though the sales quantity have seen an upward trend.

The total production has marginally decreased from 447 MT to 425 MT due to lack of availability of the required finance to set off the increase in the prices of major raw materials. Though there was enough demand for finished goods, the Company could not cope up, due to sharp increase in the cost of production. In view of this the Trading Division Sales was Rs.42.74 crore during the current year as compared to Rs.39.92 crore in the previous year. The turnover of manufacturing division was Rs.35.01 crore during the year as compared to Rs.38.09 crore in the previous year.

**PROSPECTS :**

In view of the sharp increase in the cost of raw materials which are petroleum based, the prices of which are moving upward globally, the price realisation have shrunk considerably leading to reduction in contribution. Further the international competition have stiffened to such an extent that the prices of our product have come under tremendous strain in the domestic and international markets. Still Company is making all round efforts to contain costs and effecting profitable orders.

**DIVIDEND :**

Though company has made profits in the current year, it is unable to declare any dividend in view of the carry forward losses from the previous years.

**FINANCE :**

The cash generations from the operations during the year 2004-05 were Rs.7.44 crore. Due to increase in the raw materials costs which are based on Petroleum products, the prices of which went substantially up during the year, the company's production cost has also gone up substantially. This has resulted in realising lower cash generations from operations as compared to previous year. The liquidity crunch faced by the company due to payments being made to financial institutions and banks continues. The company is trying to boost its operations domestically as well as internationally. The company is making best of efforts to identify new customers internationally and during the year the company has successfully finalised business with 7 new customers.

On the domestic front, after a gap of about two decades, the major customer of the company viz. textile industry has started looking up. The company expects to register a substantial improvement in the domestic top-line from January '06.

The company is negotiating with financial institutions and banks on an on-going basis for modifications in the original one-time settlement orders. Also, the company is negotiating with existing working capital bankers to restructure their exposure in consonance with the company's requirements and to re-look at the interest charged by the banks. The company is hopeful that there will be a positive response from the working capital bankers & financial institutions & bankers for one time settlements in the near future.



## INDOKEM LIMITED

### FIXED DEPOSITS :

The Company held deposits from Public aggregating to Rs.31,000/- (previous year Rs.33,000/-) as on 31<sup>st</sup> March, 2005 and same remained unclaimed till date.

### INSURANCE :

*All the assets of the Company including Plant & Machinery, Building, Stocks etc. are adequately insured.*

### SUBSIDIARY COMPANIES :

Pursuant to Section 212 of the Companies Act, 1956, the Audited Accounts with the Auditors' and Directors' Reports' of the subsidiary companies Kapsales Electricals Limited, Tracklighting Finance and Investments Limited and Royaltern Finance and Investments Limited for the year ended 31<sup>st</sup> March, 2005 are annexed hereto.

Kapsales Electricals Limited has incurred a loss of Rs.55.04 Lacs during the year and the accumulated losses as on 31.03.2005 stands at Rs.1,091.44 Lacs.

As stated in the last Annual Report since accumulated losses have exceeded the net worth, the company has been registered as a Sick Industrial Company with the BIFR.

### DIRECTORS' RESPONSIBILITY STATEMENT :

The Board of Directors of the Company confirms :

- i) that in the preparation of the annual accounts, the applicable accounting standards have been followed and there has been no material departure;
- ii) that such selected accounting policies were applied consistently and the directors 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 as at March 31, 2005 and of the Profit of the Company for the year ended on that date;
- iii) that proper and sufficient care has been taken for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
- iv) that the annual accounts have been prepared on a going concern basis.

### DIRECTORS :

Mr. N.S. Parulekar retire by rotation at the conclusion of this Annual General Meeting and being eligible, offer himself for re-appointment.

Mr. M.K. Khatau is reappointed as Managing Director of the Company by the Board of Directors at their Meeting held on 27<sup>th</sup> April, 2005 for a period of five years from 1<sup>st</sup> April, 2005 till 31<sup>st</sup> March 2010. The reappointment of Mr. M.K. Khatau is subject to the approval of the Shareholders and other necessary approvals.

Mr. V.K. Sharma, Nominee Director of Unit Trust of India resigned from the Board with effect from 29<sup>th</sup> October, 2004. The Board records its appreciation of the valuable services rendered by Mr. V.K. Sharma during his tenure as a Director of your Company. Unit Trust of India proposed the nomination of Mr. Kailash Pershad as a Nominee Director and has been appointed as a Non-rotational Director effective from 29<sup>th</sup> October, 2004 in the vacancy caused by the resignation of Mr. V.K. Sharma.

### CORPORATE GOVERNANCE :

Disclosures on the points relating to the Corporate Governance are given in Annexure - 1 to this report.

### MANAGEMENT DISCUSSION AND ANALYSIS :

The Company is manufacturing Vat Dyes at Plot No.2900, GIDC Industrial Estate, Dist. Bharuch, Ankleshwar, Gujarat. The Company cater to both Domestic and International market. Our products have application in important industries like textiles etc. The Company has geared up production significantly to meet the demand. We have a good team of technical and commercial professionals and expertise in Dyes, Manufacturing and Marketing.

Apart from manufacturing of Vat Dyes, the Company is also involved in marketing of various other dyestuff like Reactive Dyes, Direct Dyes, Acid Dyes and Naphthol Bases Specialty Textile Auxiliaries and Sizing Chemicals used by Textile Industry. Further, our Technical Executives are spread over various parts of the country who not only provide Technical services to our customers for our products, but also help their clients in solving their own Technical problems. This has resulted into a relationship where our Company is looked upon by many of our customers as partners in business and not just as suppliers.

Profitability for the year was affected due to increasing competition from both local manufacturers and imports, as well as steep increase in raw material prices, especially petrochemicals. During the current financial year performance is expected to remain at the same level as the last financial year. However, the Company is trying its best efforts to achieve optimum level of production.

The current year's profits are severely affected due to increase in the cost of inputs which are Petro based, whose prices have sharply increased globally. Hence the profit margin have come under strain as increase in finished product cannot be increased due to stiff competition both domestic as well as international front.



**39TH ANNUAL REPORT 2004-2005****INTERNAL CONTROL SYSTEMS AND THEIR ADEQUACY :**

There is Internal Control System in the Company through adequate Internal Audit and regular operations review etc.

**AUDITORS :**

M/s. Sheth Doctor & Associates, Chartered Accountants, Auditors of the Company, retire at the forthcoming Annual General Meeting of the Company and, are eligible for reappointment.

**AUDITORS' REMARKS :**

The auditors have commented on the diminution in the value of investments in its Subsidiary Companies and advances made to them.

As explained in Note No. 7 and 8 of the Accounts, the Company is awaiting relief package and in view of the above, no provision has been made.

**EMPLOYEES :**

Information as per Section 217(2A) of the Companies Act, 1956 read with the Companies (Particular of Employees) Rules, 1975 is not applicable to the Company as none of the employees are drawing salary more than Rs.24 lacs per annum.

The employees have extended their full support and valuable contribution which helped the Company to carry on the business under difficult conditions caused by liquidity crunch. The Company and the management convey their appreciation and thankfulness for the same.

**CONSERVATION OF ENERGY :**

A Statement showing particulars as per Form A, under Section 217(e) of the Companies Act, 1956 read with the Companies (Disclosure of Particulars in the Report of the Board of Directors) Rules, 1988 is given as Annexure 2 and forms part of this Report.

**RESEARCH & DEVELOPMENT AND TECHNOLOGY ABSORPTION :**

Research and development activities were more focussed on process improvement to reduce raw material cost and to save on time cycles. Developments in Laboratory are being implemented at plant.

Company could introduce couple of new products to the range and envisages good demand from export market.

**FOREIGN EXCHANGE EARNINGS AND OUTGO :**

The details of expenditure and earning in foreign currencies during the period under review are as under :

		(Rs. in '000)
	31.03.2005	31.03.2004
i) EXPENDITURE IN FOREIGN EXCHANGE CAPITAL		
<u>Value of imports on C.I.F. basis</u>		
Raw Material	5,95,48	4,87,61
Capital goods	4,98	—
Travelling	4,26	651
Commission	4,99	16,24
Others	Nil	Nil
Total	<u>6,09,69</u>	<u>5,10,36</u>
ii) EARNINGS IN FOREIGN EXCHANGE		
F.O.B. value of exports	18,07,30	16,70,51
Technical Fees earned	22,33	3,50
Total	<u>18,29,63</u>	<u>16,94,01</u>

**ACKNOWLEDGEMENT :**

The Board expresses its gratitude to the Company's Bankers, the participating Financial Institutions, Customers and Government Agencies for their continuous help, co-operation and support.

For and on behalf of the Board

**MAHENDRA K. KHATAU**  
Chairman & Managing Director

Registered Office :  
Khatau House, 1<sup>st</sup> Floor,  
Mogul Lane, Mahim,  
Mumbai - 400 016.  
Dated : 22nd August, 2005