

INDOKEM LIMITED

40th Annual Report
2005-2006




INDOKEM LIMITED


INDOKEM LIMITED

CONTENTS

	Page. No.
Notice	2
Directors' Report	4
Corporate Governance Disclosures	7
Auditors' Report	11
Balance Sheet	14
Profit & Loss Account	15
Cash Flow Statement	16
Schedules to Balance Sheet	17
Schedules to Profit and Loss Account	21
Principal Accounting Policies	24
Notes on Accounts	24
Balance Sheet Abstract and Company's General Business Profile	29
Consolidated Balance Sheet	32
Consolidated Profit & Loss Account	33
Consolidated Cash Flow Statement	34
Schedules to Consolidated Balance Sheet	35
Schedules to Consolidated Profit and Loss Account	39
Significant Accounting Policies and Notes to Accounts	41
Subsidiary Company	42,57,65

40 TH ANNUAL GENERAL MEETING

Date : Thursday 31st August, 2006
Time : 4.00 p.m.
Venue : Khatau House, First Floor,
Mogul Lane, Mahim (W),
Mumbai – 400 016

40TH ANNUAL REPORT 2005-2006



BOARD OF DIRECTORS	: SHRI MAHENDRA K. KHATAU CHAIRMAN & MANAGING DIRECTOR SHRI N.S. PARULEKAR SHRI ANIL K. KHATAU SMT. LEELA K. KHATAU SHRI KAILASH PERSHAD (NOMINEE OF UTI) SHRI S. RAJAGOPALAN SHRI M. SARIN EXECUTIVE DIRECTOR
AUDIT COMMITTEE	: SHRI N.S. PARULEKAR CHAIRMAN SHRI MAHENDRA K. KHATAU SHRI S. RAJAGOPALAN
SHAREHOLDERS'/INVESTORS' GRIEVANCE COMMITTEE	: SHRI N.S. PARULEKAR CHAIRMAN SHRI MAHENDRA K. KHATAU SHRI ANIL K. KHATAU
COMPANY SECRETARY	: S. SRINIVASAN
BANKERS	: UNION BANK OF INDIA STATE BANK OF TRAVANCORE DEVELOPMENT CREDIT BANK LIMITED BANK OF INDIA SBI COMMERCIAL & INTERNATIONAL BANK LTD. ANDHRA BANK THE SHAMRAO VITHAL CO-OP. BANK LTD.
AUDITORS	: MESSERS. SHETH DOCTOR & ASSOCIATES
REGISTRAR & SHARE TRANSFER AGENT (SHARE COLLECTION CENTRE)	: MESSERS. SHAREX DYNAMIC (INDIA) PVT. LTD. 17/B, DENA BANK BUILDING 2 ND FLOOR : HORNIMAN CIRCLE, FORT, MUMBAI - 400 001. TEL.NO. : 22702485/22641376 FAX NO. : 22641349
REGISTERED OFFICE	: KHATAU HOUSE, 1 ST FLOOR MOGUL LANE, MAHIM (WEST), MUMBAI - 400 016. TEL.NO.24461975/24450050 FAX NO.: 91-22-24458139/24440826 E-MAIL ID.: iklsecretarial@rediffmail.com
FACTORY	: PLOT NO. 2900, GIDC INDUSTRIAL ESTATE DISTRICT BHARUCH ANKLESHWAR, GUJARAT



INDOKEM LIMITED

NOTICE

NOTICE is hereby given that the Fortieth 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 31st August, 2006 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 31st March, 2006 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 Mrs. Leela K. Khatau, who retires by rotation and, being eligible, offers herself for re-appointment.
3. To appoint Auditors to hold office from the conclusion of this Meeting until the conclusion of the next Annual General Meeting and to fix their remuneration.

SPECIAL BUSINESS :

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

"RESOLVED THAT pursuant to Section 260 of the Companies Act, 1956, and other applicable provisions, of the Companies Act, 1956, Mr. S. Rajagopalan be and is hereby elected as a Director of the Company."

By Order of the Board
For INDOKEM LIMITED

S. SRINIVASAN
COMPANY SECRETARY

Registered Office :
Khatau House, 1st Floor,
Mogul Lane, Mahim,
Mumbai - 400 016.
Dated : 29th June, 2006

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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.4 as set out above is annexed herewith.
3. The Register of Members and Transfer Books of the Company will be closed from Friday the 25th August, 2006 to Thursday the 31st August, 2006 (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, 2nd Floor, Horniman Circle, Fort, Mumbai - 400001 or at Registered 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
Mrs. Leela K. Khatau	73	B.A.	Company Director	1) Emerald Capital Services P. Ltd. 2) Radio Components & Transistors Pvt. Ltd. 3) Priyamvada Holdings Ltd.
Mr. S. Rajagopalan	67	B.com., A.I.C.W.A.	35 years of experience with leading manufacturing companies in the areas of Accounts, Finance and Audit.	1) Kapsales Electricals Ltd. 2) Refnol Resins & Chemicals Ltd.

40TH ANNUAL REPORT 2005-2006**EXPLANATORY STATEMENT AS REQUIRED UNDER SECTION 173(2) OF THE COMPANIES ACT, 1956.**

Item No. 4

In compliance of the Corporate Governance, Mr. S. Rajagopalan an Independent Director, was appointed as an Additional Director by the Board of Directors at their Meeting held on 27th December, 2005. In terms of Section 260 of the Companies Act, 1956, Mr. S. Rajagopalan holds office as Director till the conclusion of the Annual General Meeting of the Company to be held on 31st August, 2006, liable to retire by rotation. As required under Section 257 of the Companies Act, 1956 a notice in writing have been received together with necessary deposit of Rs.500/- from a Member signifying the Member's intention to propose Mr. S. Rajagopalan as a Director of the Company at this Annual General Meeting.

None of the Director other than Mr. S. Rajagopalan is concerned or interested in the above Resolution.

Your Directors recommend this Resolution for your approval.

By Order of the Board
For INDOKEM LIMITED

S. SRINIVASAN
COMPANY SECRETARY

Registered Office :
Khatau House, 1st Floor,
Mogul Lane, Mahim,
Mumbai - 400 016.
Dated : 29th June, 2006

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INDOKEM LIMITED

DIRECTORS' REPORT

To,
The Members,

Your Directors have pleasure in presenting their 40th Annual Report and Accounts for the year ended 31st March, 2006.

FINANCIAL RESULTS :

	31.03.2006	(Rs. In Lacs) 31.03.2005
Total Income (Net of Increase/Decrease in inventories)	71,68.80	81,00.98
Operating Profit before interest &		
Finance charges, Depreciation & tax	7,22.87	7,30.76
Less : Interest & Finance charges	3,34.92	3,54.43
Profit/(Loss) after interest & Finance		
charges but before Depreciation & Tax	3,87.95	3,76.33
Less : Depreciation	2,91.63	2,95.78
Profit/(Loss) before tax	96.32	80.55
Less : Provision for Wealth Tax/FBT/MAT	(13.08)	(0.02)
Add : Excess(Short) provision for Tax in respect of earlier year.	0.19	(0.04)
Profit/(Loss) after tax	83.43	80.49
Less : Provision for Gratuity for earlier year	-	-
Add : Amount drawn from Capital Reserve	2.06	2.17
Deficit brought forward from last year (Refer to Note 10 of schedule 19)	-	(11,71.91)
Profit / (Loss) carried to Balance Sheet	85.49	(10,89.25)

REVIEW OF OPERATIONS :

SALES, PROFITABILITY AND PRODUCTION :

Current year Sales has come down by 11% over the previous year and stands at Rs.69.25 Crore. Production of Vat Dyes has been lower at 287 MT as against 425 MT in the previous year. This is basically due to stiff competition from China in Exports as well as in Domestic market. However, the Company has to some extent compensated the turnover loss by higher contribution from export of value added products. Part of drop in Sales volume is also from Group Company sales which however has not affected the profitability of the Company.

In the domestic market the sale of traded dyes like Sizing Chemicals, Reactive Dyes etc., have gone up appreciably by 16% and stands at Rs.22.51 Crore as against Rs.19.35 Crore in the previous year.

Profitability of operation has been maintained despite lower volume of sales. This is possible because of better product mix resulting in higher contribution and control on overhead expenses.

PROSPECTS :

Looking to the aggressive competition from China your Company has been making efforts to cut down the cost wherever possible. The Company is also working on some other marketing strategies which should boost the domestic sales of manufactured items. At the same time, our R & D has developed a few new products, which will not only help in improving sales, but will give us better value addition.

In the domestic market for the first time in last twenty-five years, we are seeing a positive trend in Textile Industry. Instead of hearing the news of closing down of one or the other Textile Mills, we are daily hearing the news of either expansion by existing Units or new large Units coming up. This is a very healthy development and should result in good improvement in domestic sales of all the ranges.

All the new Units are putting up sophisticated high speed looms and plan to weave different qualities for Exports. Since ordinary starches can't be used for these qualities, our speciality sizing range should be able to capture lot of this business. This should increase our sizing chemicals business many fold. Our Company is also planning to start manufacturing of Speciality Textile Auxiliaries. We have already hired a senior Production Executive from a MNC, and production to start by August 2006. Since almost all the new Textile Mills are going to concentrate on Exports, they are going to be very strict for the quality of the products. Our own facility will enable us to maintain high norms of standard and thus get us better volumes. Since our present market share in this segment is very low, we are hopeful to increase this business substantially.

EXPORT SALES :

The cost of production has been going up in China, as can be seen by the recent price revision of many of their products. At the same time keeping in mind the fact, that we have been able to develop new products where margins are better, we are sure we will be able to consolidate our position in the International market. Our samples have been already accepted by overseas customers and we have started receiving orders for some of these products. The new products have better value addition and will improve the contribution.

40TH ANNUAL REPORT 2005-2006**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 :

During the financial year under consideration, i.e. 2005-06, the company's exposure to various banks have undergone a small change. One of the bankers for manufacturing division has modified its exposure which is now a mix of term loan and working capital facilities. The foreign invoice discounting facility has also gone up during the year. There has been slight reduction in the interest cost by 50-75 bps, keeping in line with RBI policy.

During the year substantial payments have been made to the banks, financial institutions of the erstwhile Agro division of the company with whom one time settlements have been finalized. Due to this there was a strain on the liquidity of the company.

FIXED DEPOSITS :

The Company held deposits from Public aggregating to Rs.31,000/- (previous year Rs.31,000/-) as on 31st March, 2006 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, Tracklightning Finance and Investments Limited and Royaltern Finance and Investments Limited for the year ended 31st March, 2006 are annexed hereto.

Kapsales Electricals Limited has incurred a loss of Rs.10.47 Lacs during the year and the accumulated losses as on 31.03.2006 stands at Rs.1,101.91 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, 2006 and 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 :

Mrs. Leela K. Khatau retiring by rotation at the conclusion of this Annual General Meeting and being eligible, offers herself for reappointment.

In compliance with the Corporate Governance, Mr. S. Rajagopalan have been inducted as an Additional Director on the Board of Directors of the Company with effect from 27th December, 2005 subject to the confirmation of the Members at the ensuing Annual General Meeting.

In view of compliance of Corporate Governance, Mr. Anil K. Khatau has resigned as Member of the Audit Committee with effect from 26th December, 2005 and in his place Mr. S. Rajagopalan have been inducted as a Member of the Audit Committee w.e.f. from 27th December, 2005.

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, Ankleshwar, Dist. Bharuch, 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 Napthol 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 Petrobased raw material prices. 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 by cost cutting measures and executing profitable orders.



INDOKEM LIMITED

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 Investment in its Subsidiary Companies and advances made to them.

With regard to Kapsales Electricals Ltd., the Company is awaiting relief package and in view of the above, no provision has been made.

With regard to Investments in the other two Subsidiaries, since the Investments are of long term nature, no provision has been made for diminution in value.

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 :

	31.03.2006	31.03.2005
i) EXPENDITURE IN FOREIGN EXCHANGE CAPITAL		
<u>Value of imports on C.I.F. basis</u>		
Raw Material	6,81,82	5,95,48
Capital goods	-	4,96
Travelling	1,12	4,26
Commission	1,60	4,99
Others	-	-
Total	6,84,54	6,09,69
ii) EARNINGS IN FOREIGN EXCHANGE		
F.O.B. value of exports	13,79,07	18,07,30
Technical Fees earned	22,03	22,33
Total	14,01,10	18,29,63

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, 1st Floor,
Mogul Lane, Mahim,
Mumbai - 400 016.

Dated : 28th July, 2006

40TH ANNUAL REPORT 2005-2006

ANNEXURE – 1

CORPORATE GOVERNANCE DISCLOSURES :

In terms of the Schedule of implementation of Clause No.49 of the Listing Agreement on Corporate Governance, your Company has been complying with the requirements of the said Clause to the extent and in the manner stated hereunder :

A. Company's Philosophy on Corporate Governance

The Company's Philosophy on Corporate Governance envisages the attainment of the high level of transparency and accountability in the functioning of the Company and the conduct of its business internally and externally including its inter action with employees, shareholders, consumers and institutional and other lenders and places due emphasis on regulatory compliance.

The Company will continue its efforts in raising the standard in Corporate Governance and will also review its systems and procedures constantly to keep pace with the changing economic environment.

B. Board of Directors

The Board comprises the Managing Director, the Executive Director and Non-Executive Directors. As on 29th June, 2006 the strength of the Board was Seven Directors. The Managing Director and Executive Director are the only Whole-time Directors, the remaining Five being Non Executive Directors.

C. Remuneration of Directors

	Rupees in Lacs
Managing Director & Executive Director : (Salary, Allowances, contribution to Provident Fund, Superannuation Fund, Gratuity Fund, Value of perquisites)	16.54
Non-Executive Directors : Sitting Fees	0.76
TOTAL	17.30

The Managing Director and the Executive Director have a service contract of five years, with a notice period of three months by either party.

The Company has no Stock Option Scheme for any of its Directors.

D. Board Meeting :

The Board met five times during the year on 27/04/2005, 29/07/2005, 22/08/2005, 27/10/2005 and 25/01/2006.

The attendance of Directors at the Board Meetings (BOD) and Annual General Meeting (AGM) was as follows :

Sr. No.	Name of Director	No. Of Board Meetings Attended	Attendance at Last AGM	Outside Committee Position held Member/Chairman	
1.	Mr. M.K. Khatau - Whole time Managing Director	5	Yes	-	-
2.	Mr. N.S. Parulekar - Non-Executive Director	5	Yes	2	5
3.	Ms. Leela K. Khatau - Non-Executive Director	5	Yes	-	-
4.	Mr. Anil K. Khatau - Non-Executive Director	5	No	-	-
5.	Mr. Kailash Pershad - Non-Executive (Nominee Director of UTI) Director	4	Yes	-	-
6.	Mr. S. Rajagopalan - Non-Executive (Director w.e.f.27/12/2005) Director	-	N.A	-	-
7.	Mr. M. Sarin - Executive Director	5	Yes	-	-

E. Audit Committee :

The Audit Committee comprises three Directors, Shri N.S. Parulekar (Chairman), Shri M.K. Khatau, Shri S. Rajagopalan. The Company Secretary, Mr. S. Srinivasan acts as the Secretary of the Committee.

The Committee held Five meetings during the year on 27th April, 2005, 29th July, 2005, 22nd August, 2005, 27th October, 2005 and 25th January, 2006. The table below gives the attendance record.

Name of Director	No. of Meetings held	No. of Meetings Attended
Mr. N.S. Parulekar	5	5
Mr. M.K. Khatau	5	5
Mr. Anil K. Khatau (Resigned w.e.f.26/12/2005)	5	4
Mr. S. Rajagopalan (Appointed w.e.f. 27/12/2005)	5	-

The Committee's powers and role are stipulated at Clause 49 of the Listing Agreement.



INDOKEM LIMITED

F. Shareholders/Investors' Grievance Committee :

- The Company has formed an Investors/Shareholders Grievance Committee with the following terms of reference :
 - (a) ensure redressal of the shareholders and investors complaints relating to transfer of shares non-receipt of Balance Sheet etc.
 - (b) Redressal of investors complaints in respect of non-receipt of dividends/interests/payments on redemption of preference shares, debentures, bonds or such other instruments that are redeemable.

The Composition of the Committee as on 31st March, 2006 is as under :

- (1) Mr. N.S. Parulekar (Chairman – Non Executive Director)
- (2) Mr. M.K. Khatau
- (3) Mr. A.K. Khatau (Non Executive Director).
- (4) Mr. S. Srinivasan, Company Secretary acts as a Secretary of the Committee.

The quorum for the Committee Meeting is two Directors.

During the year, the Committee held four meetings (on 27th April, 2005, 29th July, 2005, 27th October, 2005, and 25th January, 2006). All the above Members attended the Meetings. We have satisfied all the complaints received from investors. Further, the Board of Directors have delegated the powers to approve, transfer of the securities allotted by the Company to a Share Transfer Committee Meeting. The Committee held 16 Meetings during the year and approved the transfer of the shares lodged with the Company. All the transfers of shares received by the Company have been complied within the time limit.

G. Remuneration Committee

The Company does not have a Remuneration Committee. The remuneration payable to the Managing Director/ Executive Director is approved by the Board of Directors and then by the shareholders at the General Meeting and such other Authorities as may be necessary.

H. Key information :

Key information such as annual operating plans, budgets, quarterly working results, minutes of audit committee and other committees are made available to the Directors.

The Board is informed of all affairs including materials, financial and commercial decisions from time to time.

I. Disclosures :

There are no materially significant related party transactions that may have potential conflict with the interests of the Company.

The Company has complied with the requisite regulations relating to capital markets. There are no penalties or strictures imposed on the Company by Stock Exchange or SEBI or any Statutory authority, on any matter related to capital markets, during the last three years.

Quarterly results are approved by the Audit Committee and taken on record by the Board of Directors and submitted to the Stock Exchange in terms of the requirements of Clause 41 of the Listing Agreement.

Quarterly results are normally published in English and Marathi newspapers.

J. Web Site :

The Company is holding its own Web Site displayed at www.indokem.co.in

E-mail ID : iklsecretarial@rediffmail.com

K. General Shareholder information :

1) Annual General Meetings :

The last three Annual General Meetings of the Company were held as under :

Financial Year	Date	Time	Location
2004-2005	29/09/2005	4.00 p.m.	Khatau House, Mogul Lane, Mahim, Mumbai – 400 016
2003-2004	17/09/2004	4.00 p.m.	—do—
2002-2003	08/09/2003	11.30 a.m.	—do—

No Special resolutions were required to be put through postal ballot last year.

2) Financial Calendar :

Period	Board Meeting to approve Quarterly Financial Results
1 st Quarter ending 30 th June, 2006	30 th July, 2006
2 nd Quarter ending 30 th September, 2006	last week of October, 2006
3 rd Quarter ending 31 st December, 2006	last week of January, 2007
4 th Quarter ending 31 st March, 2007	last week of April, 2007
Year ending 31 st March, 2007 (Audited)	June/July, 2007.
Annual General Meeting for the year ending 31 st March, 2007	End of August / September, 2007