

INDOKEM LIMITED

41st Annual Report

**2006-2007
(Abridged)**





BOARD OF DIRECTORS	: SHRI MAHENDRA K. KHATAU CHAIRMAN & MANAGING DIRECTOR SHRI N.S. PARULEKAR SMT. LEELA K. KHATAU SHRI KAILASH PERSHAD SHRI S. RAJAGOPALAN SHRI M. SARIN DY. MANAGING 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 MS. LEELA 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)	: 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

NOTICE

NOTICE is hereby given that the Forty-first 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 Monday the 24th September, 2007 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, 2007 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.
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. Kailash Pershad be and is hereby elected as a Director of the Company."

5. 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 Mr. M. Sarin as Dy. Managing Director of the Company for a period of five years with effect from 1st May, 2007 to 31st March, 2012 on the remuneration and other 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 M. Sarin 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 M. Sarin 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."

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

"RESOLVED THAT Company do hereby accord its consent under Section 314 of the Companies Act, 1956 and other applicable provisions, if any, to the payment of remuneration of Ms. Asha M. Khatau, Advisor to the Company, w.e.f. 1st October, 2006."

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 : 10th August, 2007

**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, 5 and 6 as set out above is annexed herewith.
3. The Register of Members and Transfer Books of the Company will be closed from Tuesday the 18th September, 2007 to Monday the 24th September, 2007 (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
Mr. N.S. Parulekar	80	B.Com; LLB; CAIIB.	Banking & Management	1) New Era Fabrics Ltd. 2) Samson Maritime Ltd. 3) Harig Crank Shafts Ltd. 4) Infotech Era India Ltd. 5) Twenty-First Century Printers Limited
Mr. Kailash Pershad	67	Mechanical Engineer	Industrial Management Consultant	1) Godavari Sugar Mills

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

Item No.4

In compliance of the Corporate Governance, Mr. Kailash Pershad who was a Nominee Director of Unit Trust of India is now appointed as an Independent Director at the Board of Directors at their Meeting held on 31st October, 2006. In terms of Section 260 of the Companies Act, 1956. Mr. Kailash Pershad holds office as Director till the conclusion of the Annual General Meeting of the Company to be held on 24th September, 2007, 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 his intention to propose Mr. Kailash Pershad as a Director of the Company at this Annual General Meeting.

None of the Director other than Mr. Kailash Pershad is concerned or interested in the above Resolution.

Your Directors recommend this Resolution for your approval.

Item No. 5

The Members at the Annual General Meeting held on 23rd September, 2002 had appointed Shri M. Sarin as Executive Director w.e.f. 29th April, 2002 to 30th April, 2007. The Board of Directors of the Company at their Meeting held on 27th April, 2007 have, subject to the approval of the Members and other necessary approvals, re-appointed Shri M. Sarin as Dy. Managing Director of the Company for a further period of five years with effect from 1st May, 2007.

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

- A. **Salary:** (In the Grade of Rs.50,000 - 3,500 - 53,500 -4,000 – 57,500 – 4,500 – 62,000 - 5,000 - 67,000 - 5,500 - 72,500).

Basic Salary of Rs.50,000/- (Rs. Fifty Thousand Only) per month w.e.f. 1st May, 2007.

- B. **Commission :** One percent of the Company's net profits in each financial year subject to the overall ceiling laid down in Sections 198 and 309 of the Companies Act, 1956.

C. Perquisites:

- (i) **Housing** : Rent Free furnished accommodation owned or leased/rented. In case no accommodation is provided by the Company, Mr. Sarin 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. Sarin 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. Sarin.
- (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 two Cars with Driver and telephone at the residence of Mr. Sarin. 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. Sarin.
- (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.

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

None of the Director other than Mr. M. Sarin is concerned or interested in the above Resolution.

Your Directors recommend this Resolution for your approval.

Item No.6

The Board was informed that Ms. Asha Khatau is employed as Advisor to the Company. The Management of the Company has decided to revise her remuneration with effect from 1st October, 2006 which includes Basic Salary and other allowances aggregating to Rs.23,850/- per month.

Since Ms. Asha Khatau is wife of Mr. Mahendra K. Khatau, Chairman & Managing Director of the Company, it is required to obtain consent of Members for payment of remuneration exceeding Rs.10,000/- per month.

The said appointment of Ms. Asha Khatau is approved by the Board of Directors at their meeting held on 31st October, 2006.

Mr. M.K. Khatau and Ms. Leela K. Khatau are relatives of Ms. Asha M. Khatau and hence are interested in the above resolution.

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 : 10th August, 2007

DIRECTORS' REPORT

To,
The Members,

Your Directors have pleasure in presenting their 41st Annual Report and Accounts for the year ended 31st March, 2007.

(Rs. In Lacs)

FINANCIAL RESULTS:

Total Income (Net of Increase/Decrease in inventories)

Operating Profit before interest & Finance charges, Depreciation & tax

Less: Interest & Finance charges

Profit/(Loss) after interest & Finance charges but before Depreciation & Tax

Less: Depreciation

Profit/(Loss) before tax

Less: Provision for Wealth Tax/FBT

Add: Excess(Short) provision for Tax in respect of earlier year.

Profit/(Loss) after tax

Less: Provision for Gratuity for earlier year

Add: Amount drawn from Capital Reserve and Debenture Redemption Reserve

Surplus brought forward from last year

Surplus carried to Balance Sheet

31.03.2007	31.03.2006
74,86.11	71.68.80
8,04.21	7.22.87
4,02.30	3.34.92
4,01.91	3.87.95
2,89.88	2.91.63
1,12.03	96.32
19.26	13.08
5.76	(0.19)
98.53	83.43
-	-
1.96	2.06
85.49	-
1,85.98	85.49

REVIEW OF OPERATIONS:

SALES, PROFITABILITY AND PRODUCTION:

Current year Sales has marginally come down compare to the previous year sales and stands at Rs.69 Crore. Production of Vat Dyes has been higher at 330 MT as against 287 MT in the previous year. The reduction in Sales is basically due to competition from China in Exports and Domestic market.

In the domestic market the sale of traded dyes like Sizing Chemicals, Reactive Dyes etc., have gone down to Rs.41.28 Crore.

Profitability of operation has been increased by 15.71 lacs despite the marginally reduction in the volume of sales. This was possible because of optimum product mix resulting in higher contribution and strict control on overhead expenses.

PROSPECTS:

During the previous financial year, U.S. Dollar has depreciated by around 10%. This has made prices of chemical products further cheaper, forcing the company to pass on additional discounts to consumers on VAT Dyes.

However, the positive development is that a number of large Textile units have come up in various parts of the country, from where we have been able to get good business for sizing chemicals. New units have started using our products in bulk quantity, which will give a big boost to our domestic sales.

EXPORT SALES:

Export Sales for the year under review were slightly better as compared to the previous year. But appreciation of Rupee vis-à-vis Dollar by 10% in April/May, 2007, has badly affected our Export contribution. Moreover, China has also raised their prices of imported raw materials due to withdrawal of export incentive by their Government, which will further affect our cost prices. Efforts are on to get higher prices from our overseas Customer.

DIVIDEND:

Though Company has made profits in the current year, it is unable to declare any dividend in view of the need to plough back the earnings for the Operations of the Company.

FINANCE:

During the financial year i.e. 2006-2007 the Company approached Indian Overseas Bank for Rent Securitisation Term Loan of Rs.405.00 Lacs which has been availed by the Company. The Company also has submitted proposal to existing Bank for refurbishment of Term Loan for Rs.400.00 Lacs and Working Capital Term Loan of Rs.600.00 Lacs including consolidation of Consortium of two Divisions with option to exit from Small exposure Banks and to enhance the Foreign Bill discount limit with Union Bank of India. During the year, rate of interest has increased substantially due to increase in BPLR by almost all the Banks.

The Company paid dues of Financial Institutions / Non Convertible Debenture holders by arranging alternative fund from other Banks and Substantial contribution from Promoters.

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, 2007 are annexed hereto.

Kapsales Electricals Limited has incurred a loss of Rs.17.74 Lacs during the year and the accumulated losses as on 31.03.2007 stands at Rs.11,19.65 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.

At the hearing of BIFR on 12/10/2006, the BIFR Bench appointed IDBI as the Operating Agency with direction to submit a Scheme for revival of the Company.

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, 2007 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:

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

In view of the Corporate Governance, Mr. Kailash Pershad has been inducted as an Additional Director on the Board of Directors of the Company with effect from 31st October, 2006 subject to the confirmation of the Members at the ensuing Annual General Meeting.

Mr. M. Sarin is re-appointed w.e.f. 1st May, 2007 as Dy. Managing Director of the Company for a further period of 5 years by the Board of Directors subject to confirmation of the Members at this Annual General Meeting.

Mr. Anil K. Khatau has tendered his resignation as Director of the Company on 8th August, 2007. The Board placed on record its appreciation for the valuable contribution of Mr. Anil K. Khatau during the tenure of his office as Director of the Company.

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 caters 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, as well as steep increase in raw material prices which are Petrobased, the prices of which have increased sharply. 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 better product mix and cost cutting measures.

INTERNAL CONTROL SYSTEMS AND THEIR ADEQUACY:

There is good Internal Audit System in the Company through adequate Internal control procedures and regular operations review etc. However, adequate coverage was not possible due to paucity of staff.

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 re-appointment.

AUDITORS' REMARKS:

The Auditors have commented on the diminution in the value of Investments 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:

		31.03.2007	(Rs. in '000) 31.03.2006
i)	EXPENDITURE IN FOREIGN EXCHANGE CAPITAL		
	<u>Value of imports on C.I.F. basis</u>		
	Raw Material	7,95.11	6,81.82
	Capital goods	—	—
	Travelling	1.37	1.12
	Commission	—	1.60
	Others	4.39	—
	Total	8,00.87	6,84.54
ii)	EARNINGS IN FOREIGN EXCHANGE		
	F.O.B. value of exports	17,47.21	13,79.07
	Technical Fees earned	22.21	22.03
	Total	17,69.42	14,01.10

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: 10th August, 2007

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 Dy. Managing Director and Non-Executive/Independent Directors. As on 10th August, 2007 the strength of the Board was Six Directors. The Managing Director and Dy. Managing Director are the only Whole-time Directors, the remaining four being Non Executive Directors.

C. Remuneration of Directors

Managing Director & Dy. Managing Director:

Salary, Allowances, contribution to Provident Fund, Superannuation Fund, Gratuity Fund, Value of perquisites

Rs. in Lacs
22.27

Non-Executive Directors:

Sitting Fees

0.68

TOTAL

22.95

The Managing Director and the Dy. Managing 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 27/04/2006, 29/06/2006, 28/07/2006, 31/10/2006 and 31/01/2007.

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/ Independent Director	5	Yes	2 1
3.	Ms. Leela K. Khatau	Non-Executive Director	5	Yes	— —
4.	Mr. Anil K. Khatau (Ceased to be a Director from 8/8/2007)	Non-Executive Director	3	No	— —
5.	Mr. Kailash Pershad (Director w.e.f.31/10/2006)	Non-Executive Director/ Independent Director	2	No	— —
6.	Mr. S. Rajagopalan Independent Director	Non-Executive Director/	4	No	— —
7.	Mr. M. Sarin (Re-designated as Dy. Managing Director w.e.f. 1 st May, 2007)	Executive Director	4	No	— —