

18th Annual Report

2004 - 2005



INDUSTRIAL ORGANICS LIMITED

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Contents	Page No.
Notice	2
Directors' Report	5
Report on Corporate Governance	11
Code of Conduct for Prevention of Insider Trading	17
Auditors' Report	20
Balance Sheet	22
Profit and Loss Account	23
Schedules	24
Cash Flow Statement	34

18TH ANNUAL REPORT 2004-2005**Board of Directors**

Sh Varinder Gupta	- Chairman & Managing Director
Sh K L Dalal	
Dr M A Zahir	
Dr (Mrs) H K Bal	
Sh Yogesh Goel	- PSIDC Nominee
Sh B Dasgupta	- IDBI Nominee
Sh R K Thukral	- Executive Director

Board's Committees**Audit Committee**

Dr M A Zahir, *Chairman*
 Sh Yogesh Goel
 Sh B Dasgupta

Investors' Grievance Committee

Sh K L Dalal, *Chairman*
 Dr M A Zahir
 Sh R K Thukral

Remuneration Committee

Dr M A Zahir, *Chairman*
 Sh K L Dalal
 Sh Yogesh Goel
 Sh B Dasgupta

Senior Company Secretary

Shri Krishan Singla

Statutory Auditors

M/s K K Kapoor & Associates
 Chartered Accountants,
 Ludhiana

Cost Auditors

M/s Ramanath Iyer & Co.
 Cost Accountants,
 New Delhi

Bankers

Punjab National Bank

Registrar and Share Transfer Agents

M/s Alankit Assignments Limited,
 2E/21, Jhandewalan Extension,
 New Delhi-110 055.

Registered Office:

Trident Complex, Raikot Road,
 Barnala -148 101
 District Sangrur (Punjab)
 Phone : +91-1679-244700-07
 Fax : +91-1679-244708
 E-mail : iol@industrialorganics.com

Head Office:

Trident House,
 85, Industrial Area 'A'
 Ludhiana - 141 003
 Phone : +91-161-2640531-35
 Fax : +91-161-2608784
 E-mail : iol@industrialorganics.com

Works:

Village Fatehgarh Chhana,
 Mansa Road, Barnala - 148 101
 District Sangrur (Punjab)
 Phone : +91-1679-285285-86, 9317509474-75
 Fax : +91-1679-285292
 E-mail : ioldhl@industrialorganics.com

Website : www.industrialorganics.com



INDUSTRIAL ORGANICS LIMITED

NOTICE

NOTICE is hereby given that the Eighteenth Annual General Meeting of the Members of **INDUSTRIAL ORGANICS LIMITED** will be held on Saturday, the 25th day of June, 2005 at 10.00 AM at the Registered Office of the company, Trident Complex, Raikot Road, Barnala, District Sangrur, Punjab to transact the following business:

Ordinary Business:

1. To receive, consider and adopt the audited Balance Sheet of the company as at 31st March, 2005 and the Profit & Loss Account for the year ended on that date alongwith the Reports of the Auditors and the Directors thereon.
2. To appoint a Director in place of Sh K L Dalal, who retires by rotation and being eligible offers himself for re-appointment.
3. To appoint a Director in place of Sh Yogesh Goel, who retires by rotation and being eligible offers himself for re-appointment.
4. To appoint a Director in place of Dr M A Zahir, who retires by rotation and being eligible offers himself for re-appointment.
5. To appoint a Director in place of Dr (Mrs) H K Bal, who retires by rotation and being eligible offers herself for re-appointment.
6. To appoint a Director in place of Sh R K Thukral, who retires by rotation and being eligible offers himself for re-appointment.
7. To appoint a Director in place of Sh Varinder Gupta, who retires by rotation and being eligible offers himself for re-appointment.
8. To appoint Auditors and to fix their remuneration.

M/s K K Kapoor & Associates, Chartered Accountants, the retiring Auditors, being eligible offer themselves for re-appointment.

Special Business:

9. To consider and if thought fit, to pass with or without modification(s), the following resolution as an Ordinary Resolution:

"RESOLVED that the consent of the company be and is hereby accorded under the provisions of section 293(1)(a) and other applicable provisions, if any, of the Companies Act, 1956 to the creation of second charge by the Board of Directors of the company on all the immoveable properties of the company wheresoever situate, present and future, and the whole or substantially the whole of the undertaking

of the company, the first charge in respect of which is held by Industrial Development Bank of India parri passu with Punjab National Bank in respect of their term loans granted/ to be granted to the company, together with power to takeover the management of the business and concern of the company in certain events, to or in favour of Punjab National Bank to secure:

- A. i) Cash Credit (Hypothecation) not exceeding Rs 325 lacs (Rupees three hundred twenty five lacs only) (with in overall PBF ceiling of Rs 590 lacs) lent and advanced/agreed to be lent and advanced to the company; and
- ii) Packing Credit (within Cash Credit Hypothecation) not exceeding Rs 75 lacs (Rupees seventy five lacs only) (with in overall PBF ceiling of Rs 590 lacs) lent and advanced/agreed to be lent and advanced to the company; and
- iii) Cash Credit (Book Debts) not exceeding Rs 200 lacs (Rupees two hundred lacs only) (with in overall PBF ceiling of Rs 590 lacs) lent and advanced/agreed to be lent and advanced to the company; and
- iv) Bills Discounting Limit (IOUBNLC) not exceeding Rs 150 lacs (Rupees one hundred fifty lacs only) (with in overall PBF ceiling of Rs 590 lacs) lent and advanced/agreed to be lent and advanced to the company; and
- v) FOBNLC not exceeding Rs 75 lacs (Rupees seventy five lacs only) (with in overall PBF ceiling of Rs 590 lacs) lent and advanced/agreed to be lent and advanced to the company; and
- vi) Cash Credit (Hypothecation) at Barnala (within Cash Credit Hypothecation) not exceeding Rs 10 lacs (Rupees ten lacs only) (with in overall PBF ceiling of Rs 590 lacs) lent and advanced/agreed to be lent and advanced to the company; and
- vii) Letter of Credit (DA/DP) (Foreign) not exceeding Rs 1200 lacs (Rupees one thousand two hundred lacs only) (with in overall Non fund ceiling of Rs 1400 lacs) lent and advanced/agreed to be lent and advanced to the company; and
- viii) Inland Letter of Credit (DA/DP) not exceeding Rs 650 lacs (Rupees six hundred lacs fifty only) (with in overall Non fund ceiling of Rs 1400 lacs) lent and advanced/agreed to be lent and advanced to the company; and

ix) Bank Guarantee not exceeding Rs 10 lacs (Rupees ten lacs only) lent and advanced/agreed to be lent and advanced to the company:

B. The interest at the respective agreed rates, compound/ additional interest, commitment charges, premium on prepayment or on redemption, costs, charges, expenses and all other monies payable by the company to Punjab National Bank in terms of working capital limits Agreements/heads of Agreements/Letters of Sanction/ Memorandum of terms and conditions/ Trust Deed or any other Agreement as may be entered into/to be entered into by the company in respect of working capital limits."

"RESOLVED FURTHER that the mortgage/charge created/ to be created and/or all agreements/documents executed/ to be executed and all acts done/to be done in this regard by the Board of Directors be and are hereby approved, confirmed and ratified."

"RESOLVED FURTHER that the Board of Directors be and is hereby authorised to finalise the documents and such other agreements and to do all such acts, deeds, matters and things as may be considered necessary or expedient for giving effect to the above resolution."

"RESOLVED FURTHER that the Board of Directors be and is hereby authorised to mortgage and/or create charge(s) and/or hypothecation/create second/third charge in such manner and in such form upon assets, moveable and immoveable of the company, both present and future and the whole or substantially the whole of the undertaking of the company together with power to takeover the management of the business and concern of the company in certain events, in favour of any bank/financial institution/ any other financial or promotional agency to secure term loans, working capital limits, enhancement of term loans or working capital limits or any other kind of financial assistance as may be deemed necessary, desirable and in the best interest of the company from time to time and to do all such acts, deeds, matters and things as may be necessary or expedient for giving effect to the resolution."

By order of the Board
for INDUSTRIAL ORGANICS LIMITED

Place : Barnala
Dated : April 30, 2005

Krishan Singla
Sr Company Secretary

NOTES:

- i) **A member entitled to attend and vote is entitled to appoint a proxy to attend and vote on poll instead of himself/herself and proxy need not be a member. Proxy form in order to be effective must be received by the company not less than 48 hours before the meeting. The blank proxy form is enclosed.**
- ii) All activities for transfer of shares, dematerialization of shares, change of address etc. are carried out by the company through its Registrar and Share Transfer Agents (RTA). Members are requested to make their requests to RTA at the following address:

**M/s Alankit Assignments Limited
'Alankit House'
2E/21, Jhandewalan Extension,
New Delhi-110 055.**
- iii) The Register of Members and Share Transfer Books will remain closed from **Tuesday, the 21st day of June, 2005 to Saturday, the 25th day of June, 2005** (both days inclusive).
- iv) Members who are holding shares in identical order of names under more than one folio are requested to send the relative share certificates to the company for consolidation of the entire holding under one folio.
- v) Documents referred to in the Notice are open for inspection at the Registered Office of the company on all working days, except holidays, between 11.00 AM to 1.00 PM
- vi) Members desiring any information on Accounts or other items of Agenda are requested to write to the company at its Registered Office at least ten days before the date of the Annual General Meeting so as to enable the Management to keep the information ready.
- vii) Members are requested to:
 - a) Intimate their Permanent Account Number.
 - b) Notify the change of address with pin code, to ensure quick delivery of letters.**
 - c) Bring their copies of Annual Report at the meeting.
 - d) Complete the enclosed attendance slip and deliver the same at the entrance of the meeting hall.

**INDUSTRIAL ORGANICS LIMITED****EXPLANATORY STATEMENT PURSUANT TO SECTION 173(2) OF THE COMPANIES ACT, 1956.****Item No. 9**

The company has been sanctioned the enhancement of working capital limits of Rs 2000 lacs from Punjab National Bank. One of the terms of such enhancement of limits is creation of second charge on the immovable properties of the company.

Section 293(1)(a) of the Companies Act, 1956 provides inter alia, that the Board of Directors shall not, without the consent of the company in the general meeting sell, lease or otherwise dispose of the whole or substantially the whole of the undertaking of the company or where the company owns more than one undertaking, the whole or substantially the whole of any such undertaking.

Since the mortgage by the company of its immovable properties as aforesaid in favour of Punjab National Bank may be regarded as disposal of the company's properties/undertakings, the approval of the members is being sought under Section 293 (1)(a) of the Companies Act, 1956 for creating of the said mortgage. Hence, the Board recommends the resolution for your approval.

None of the Directors is concerned or interested in the resolution.

By order of the Board
for INDUSTRIAL ORGANICS LIMITED

Place : Barnala
Dated : April 30, 2005

Krishan Singla
Sr Company Secretary

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DIRECTORS' REPORT**Dear Members**

The Directors of the company have pleasure in presenting the Eighteenth Annual Report and Audited Accounts for the financial year ended 31st March, 2005.

1. FINANCIAL RESULTS

The financial results of the company for the year under report are given below:

(Rs in Lacs)

Particulars	Year ended 31st March, 2005	Year ended 31st March, 2004
Net Sales	8428.94	5377.68
Profit before interest & depreciation	842.10	553.91
Interest	349.98	330.99
Profit before depreciation	492.12	222.92
Depreciation	216.76	189.63
Profit for the year	275.36	33.29
Less: Prior period expenses	7.96	1.28
Profit before tax	267.40	32.00
Provision for tax	12.00	—
Add: Deferred Tax Assets (Net)	305.78	—
Profit after tax	561.18	32.00
Balance brought forward from previous year	(919.35)	1539.46)
Balance carried to the Balance Sheet	(358.19)	(919.35)

2. MANAGEMENT DISCUSSION AND ANALYSIS REPORT**a) INDUSTRY STRUCTURE**

Chemical industry is one of the oldest industries in India. It not only plays a crucial role in meeting the daily needs of the common man, but also contributes significantly towards industrial and economic growth of the nation. The Indian Chemical Industry ranks 12th by volume in the world production of chemicals. The chemical industry accounts for about 14% in the general index of industrial production and 17.6% in the manufacture sector. It also accounts about 13-14% of total exports and 8-9% of total import of the country. Its contribution to the national revenue by way of custom and excise duties is about 20%. The industry, including petrochemicals, and alcohol-based chemicals, has grown at a pace outperforming the overall growth of the industry.

The production of alcohol based chemicals specially the production of acetic acid has been a measure index of the development of organics chemical industry of the country. Acetic acid finds application in a wide spectrum of end users,

but it is mainly required in acetic anhydride, VAM, PTA etc. The production of acetic acid has increased from 46700 tons in 1986-87 to 270000 tons in 2003-04. The major factors influencing future demand would be developments in PTA industry. The overall demand for acetic acid is expected to grow at around 7% pa.

Ethyl acetate as a solvent used in a wide range of applications across many industries including surface coating and thinners, pharmaceuticals, flavors and essences and flexible packaging etc. Today there are only nine units in operation with a total capacity of 121500 TPA in the country. Production of ethyl acetate have grown from 18700 tons in 1990-91 to 90000 tons in 2003-04. Exports have been witnessing an increasing trend and have grown from 1474 tons in 1998-99 to 32000 tons in 2003-04. Among the different end use segment of ethyl acetate, the packing, adhesives and pharmaceutical industries is enjoying a healthy growth rate in range of 12 to 15 % pa. Industry is expected to grow on an average rate of 8% pa. and domestic market is estimated to be around 75000 tons in 2007-08.

Acetic anhydride is used mainly in the manufacture of cellulose acetate, drugs, dyes, pesticides and perfumery chemicals. There are only eight units in operation having combined capacity of 55600 TPA. The production of acetic anhydride has increased from 30200 tons in 2000-01 to 40000 tons in 2003-04. It is expected to grow at a rate of 10% pa.

The Indian Pharmaceutical Industry is the largest in the developing world. The Indian Pharmaceutical Industry, now a \$4 billion industry in addition to over \$3.1 billion exports has shown tremendous progress in terms of infrastructure development, technology base and wide range of products. The industry currently produces a wide range of bulk drugs. 300 bulk drugs & formulations based on them are manufactured in the country. There are 10,000 manufacturing units, of which 290 units are in the large-scale sector, 45 Multi-National Companies (MNCs) have manufacturing bases here. India is emerging as one of the largest and cheapest producers of pharmaceuticals in the world, accounting for nearly 8.5% of the world's drug requirements in terms of volume, and ranks amongst the top 15 drug manufacturing countries in the world. In fact, India is currently a world leader in manufacture and export of basic drugs such as ethambutol and ibuprofen.

b) PERFORMANCE REVIEW

There was overall improvement in the performance of the company in production, consumption norms and profitability



INDUSTRIAL ORGANICS LIMITED

in comparison to the previous year's performance. The net sale of the company has increased by 46% from Rs 5777.68 lacs to Rs 8428.94 lacs due to increase in the capacities of all plants and improvement and modification of the existing plant structure. The operating profit before interest and depreciation has increased by 52% to Rs 842.10 lacs during the year under review against of Rs 553.91 lacs during the previous year due to improvement of efficiencies in use of company resources and increase in the prices of the finished products.

The company is manufacturing alcohol-based chemicals like Acetic Acid, Ethyl Acetate & Acetic Anhydride and bulk drug like Ibuprofen. The business segment performance is given below:

Acetic Acid

The production of Acetic Acid has increased from 16067 MT during the previous year to 16737 MT during the year under review showing an increase of 4%. The sale of Acetic Acid has also increased from 5259 MT to 5284 MT during the year under review.

Ethyl Acetate

The production of Ethyl Acetate has increased from 7582 MT to 9112 MT recording an increase of 20% and its sale increased from 7650 MT to 8996 MT during the year under review.

Acetic Anhydride

The production of Acetic Anhydride has decreased by 6% from 4497 MT during the previous year to 4224 MT during the year under review. Accordingly the sale of Acetic Anhydride has decreased to 4224 MT against 4548 MT during the previous year.

Ibuprofen

The production of the Ibuprofen has increased from 129 MT to 350 MT recording an increase of 171% and its sale increased from 115 MT to 359 MT during the year under review. Last year, the production of Ibuprofen was stopped for seven months due to modifications and up gradation of the plant.

Exports

During the year under review the exports of the company has been increased by 132% to Rs 233.49 lacs as compared to last year's exports of Rs 100.64 lacs.

c) CONTRIBUTION TO NATIONAL EXCHEQUER

Your company has contributed a sum of Rs 1243.22 lacs to the Exchequer by way of Central Excise Duty in addition to contribution through other direct and indirect taxes.

d) SWOT ANALYSIS OF THE COMPANY

Strengths:

1. Strong & old player in alcohol based chemical industry.
2. Committed workforce & cordial industrial relations
3. Better consumer understanding & relationship

Weakness:

1. Locational disadvantages
2. Lack of production of specialty chemicals

Threats:

1. State Governments policies lead to unavailability of alcohol as raw material in the industrial sector.
2. Unavailability of skilled labour in the area.
3. Shortage of the alcohol in the country.

Opportunities:

1. Qualitative alcohol is available outside the country at competitive prices.
2. Alcohol based chemicals are versatile chemicals having a diverse use in PTA, dyes, foodstuff, paint and pharmaceuticals etc.

e) FUTURE PROSPECTS

India is on a fast track of economic development due to overall improvement in investment scenario. Foreign reserves have increased to \$141 billion at the end of this year. The economy has shown modest growth rate of 7 % over the last year. The future of chemical and pharmaceutical industry as a whole seems to be bright. As a result of rapid acceleration in the number of Regional Trade Agreements that India is involved in, chemical industry witnessing changing trade dynamics. The Indian chemical industry has the potential to become a USD 100 billion industry by 2010, thereby registering a compound annual growth rate of 15.5%. This implies that the industry has the potential to grow at a significantly higher growth rate than the 8% growth projected in the 10th five-year plan. Resultantly, the chemical industry's contribution to the India's GDP is expected to grow from the current 6.7% to 12.1%, and its share of the global industry shall increase from 1.9% to 3.9%.

For the first time in many years, the international pharmaceutical industry is finding great opportunities in India. The process of consolidation, which has become a generalised phenomenon in the world pharmaceutical industry, has started taking place in India. The pharmaceutical industry, with its rich scientific talent and research capabilities, supported by Intellectual Property Protection regime, is well set to take a great leap forward.

The Government of India is also taking huge interest in developing the chemicals and pharmaceuticals industry. An amendment to the Indian Patents Act has been carried out through the Patent (Amendments) Ordinance, 2004 with a view to introducing product patents for drugs, food and chemicals. Further the Custom Tariff on alcohol has also reduced from 15% to 10% as a step to develop the industry and to ensure the availability of raw material at competitive and lesser prices.

Alcohol based chemicals are very versatile products being used in many industries like pharmaceuticals, textiles, PTA, flexible packaging, dyestuff, paints and ink etc., which are progressing very fast. Thus the demand for acetic acid and other alcohol based products like ethyl acetate and acetic anhydride is showing continuous increase. The demand for ibuprofen is continuously increasing due to non-availability of alternative better analgesic medicine and India is emerging the main source of the import of this bulk drug in the world.

The company has taken various steps to streamline the production process of the company, which has enabled the company to increase the capacity to produce at lower operating cost. All the factors are expected to result in better performance during the current year.

f) INTERNAL CONTROL SYSTEM AND ADEQUACY

Well established and well defined internal controls, checks and systems are in place at all levels and in all departments of the company, supported by an internal audit conducted by independent Chartered Accountants.

g) HUMAN RESOURCE

The company considers human resources very valuable assets for the development of the organization. To enhance the competencies of the employees, the company organizes a series of in-house as well as external training programmes.

h) CAUTIONARY STATEMENT

Statement in the Management Discussion and Analysis describing the company objectives, projection, estimates and expectations may be "Forward Looking Statements" with in the meaning of applicable laws & regulations. Actual results may differ materially from those expressed or implied. Important factors that could make a difference to the company's operations include but are not restricted to the economic conditions affecting demand/supply and price conditions in the domestic and overseas markets in which the company operates, changes in the Government regulations, tax laws, and other statutes, as also other incidental factors. -

3. DEREGISTRATION OF THE COMPANY FROM BIFR

Due to better performance during 2003-04, the net worth of the company has become positive and the company has come out of the perview of the BIFR w.e.f. 18.06.2004

4. DIRECTORS

During the year under review, there is no change in the directorships of the company.

In accordance with the provisions of the Companies Act, 1956 and Article 146 of the Articles of Association of the company and newly adopted Code of Conduct, all Directors of the company except the nominee director of IDBI are liable to retire by rotation and being eligible, offer themselves for re-appointment.

5. CODE OF CONDUCT FOR PREVENTION OF INSIDER TRADING

The company has framed a code of conduct for prevention of insider trading which has been considered and adopted by the Board of Directors. The said code of conduct is given in this annual reports.

6. CORPORATE GOVERNANCE

The company has in place a system of Corporate Governance. A separate report on Corporate Governance form part of the Annual Report of the company. A certificate from the Auditors of the company regarding compliance with the conditions of Corporate Governance as stipulated under clause 49 of the Listing Agreement is annexed to the Report on Corporate Governance.

7. SAFETY HEALTH AND ENVIRONMENT

Safety is company's top priority with regard to employment and the company has been encouraging safety measures at all levels of operation especially at the floor level. Regular training programmes are being conducted to bring in awareness about the importance of safety at the work place. Bi-monthly medical camps are also being organized for the welfare of the members in addition to regular medical facilities provided to them.

8. INVESTOR SERVICES

The company is committed to provide the best services to the shareholders. M/s Alankit Assignments Limited, New Delhi is working as Registrar and Share Transfer Agents (RTA) of the company for transfer and dematerialization of shares. Till date no correspondence/enquiry from any shareholders is pending with the company for reply.

**9. INSURANCE**

All the insurable immovable as well as movable assets of the company including stocks continued to be properly insured and all the insurance policies are in force as on the date of the report.

10. FIXED DEPOSITS

The company has not accepted/renewed any deposits from the public/members during the year under review.

11. LISTING OF SHARES

The equity shares of the company continued to be listed and traded on The Stock Exchange, Mumbai (BSE). The company has made all compliances of the Listing Agreement including payment of annual listing fees to the Stock Exchange.

12. AUDITORS AND AUDITORS' REPORT

M/s K K Kapoor & Associates, Chartered Accountants, Auditors of the company, retire at the conclusion of ensuing Annual General Meeting and being eligible, offer themselves for re-appointment.

The Auditors' Report on the accounts is self-explanatory and no comments are required.

13. COST AUDITORS

The Central Government had directed the audit be carried out of the cost accounts maintained by the company in respect of chemicals by a qualified cost accountant. The Board subject to the approval of the Central Government has appointed M/s. Ramanath Iyer & Co., Cost Accountants, New Delhi as Cost Auditors, for the year 2005-06.

14. INDUSTRIAL RELATIONS

The industrial relations remained cordial and harmonious throughout the year.

15. ENERGY CONSERVATION/TECHNOLOGY ABSORPTION AND FOREIGN EXCHANGE EARNINGS AND OUTGO

Energy conservation continues to be an area of major emphasis in the company. A statement giving details of conservation of

energy, technology absorption, foreign exchange earnings and outgo, in accordance with Section 217(1)(e) of the Companies Act, 1956, read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 is annexed hereto as Annexure I and forms part of the report.

16. INFORMATION ON PERSONNEL

The statement showing the particulars of the employees as required by the provisions of Section 217(2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975 as amended, is not given as no employee was in receipt of remuneration equal to or exceeding Rs 24.00 lacs per annum, if employed for the full year or Rs 2.00 lacs per month if employed for the part of the year.

17. DIRECTORS' RESPONSIBILITY STATEMENT

Directors' Responsibility statement pursuant to the provisions of Section 217(2AA) of the Companies Act, 1956 is enclosed as Annexure II and forms part of the report.

18. ACKNOWLEDGEMENT

The Board of Directors of your company are pleased to place on record their sincere gratitude and appreciation for the assistance and co-operation received from the Union Government, the Punjab Government, the Punjab State Industrial Development Corporation Limited, the Financial Institutions and the company's Bankers, Members, Customers and Business Constituents.

Your Directors also express their appreciation and gratitude for the continued devout, sincere and unstinted services rendered by the counsellors, co-ordinators and facilitators at all levels of operations for the success and progress of the company.

For and on behalf of the Board

Place : Ludhiana	Varinder Gupta	R K Thukral
Dated : April 30, 2005	Chairman & Managing Director	Executive Director