

19th Annual Report

2005-2006



INDUSTRIAL ORGANICS LIMITED

Board of Directors

Sh Varinder Gupta	- <i>Chairman & Managing Director</i>
Dr M A Zahir	
Sh Chandra Mohan	
Dr (Mrs) H K Bal	
Mrs Dimple Gupta	
Sh Yogesh Goel	- <i>PSIDC Nominee</i>
Mrs Lalita Kapur	- <i>IDBI Nominee</i>

Board's Committees

Audit Committee

Dr M A Zahir, *Chairman*
Sh Yogesh Goel
Dr (Mrs) H K Bal

Investors' Grievance Committee

Dr (Mrs) H K Bal, *Chairman*
Dr M A Zahir
Sh Varinder Gupta

Remuneration Committee

Dr M A Zahir, *Chairman*
Dr (Mrs) H K Bal
Sh Yogesh Goel
Mrs Lalita Kapur

Senior Company Secretary

Sh 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
Oriental Bank of Commerce
Allahabad Bank

Registrar and Share Transfer Agents

Intime Spectrum Registry Limited
A-31, 3rd Floor, Naraina Industrial Area,
Phase - I, New Delhi-110 028.

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Registered Office:

Trident Complex, Raikot Road,
Barnala -148 101
District Sangrur (Punjab)
Phone : +91-1679-244701-07
Fax : +91-1679-244708
E-mail : iol@industrialorganics.com

Head Office:

Trident House,
85, Industrial Area 'A'
Ludhiana - 141 003
Phone : +91-161-2225531-35
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
Fax : +91-1679-285292
E-mail : iol@industrialorganics.com

Website : www.industrialorganics.com

NOTICE

NOTICE is hereby given that the Nineteenth Annual General Meeting of the Members of **INDUSTRIAL ORGANICS LIMITED** will be held on Saturday, the 24th day of June, 2006 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, 2006 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 Yogesh Goel, who retires by rotation and being eligible offers himself for re-appointment.
3. To appoint a Director in place of Dr M A Zahir, who retires by rotation and being eligible offers himself for re-appointment.
4. To appoint a Director in place of Dr (Mrs) H K Bal, who retires by rotation and being eligible offers herself for re-appointment.
5. To appoint a Director in place of Sh Varinder Gupta, who retires by rotation and being eligible offers himself for re-appointment.
6. 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:**7. Appointment of Director**

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

"RESOLVED that Sh Chandra Mohan, who was appointed as an Additional Director of the company pursuant to the provisions of Section 260 of the Companies Act, 1956 and holds office up to the date of this Annual General Meeting be and is hereby appointed as a Director of the company liable to retire by rotation under the Articles of Association of the company."

8. Appointment of Director

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

"RESOLVED that Mrs Dimple Gupta, who was appointed as an Additional Director of the company pursuant to the provisions of Section 260 of the Companies Act, 1956 and holds office up to the date of this Annual General Meeting be and is hereby appointed as a Director of the company liable to retire by rotation under the Articles of Association of the company."

9. Increase in the Borrowing Powers

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

"RESOLVED that pursuant to the provisions of Section 293 (1)(d) and all other applicable provisions, if any, of the Companies Act, 1956 and all other applicable provisions, if any, and supersession to the Ordinary Resolution passed at the Annual General Meeting of the company held on 30th September, 1992, the consent of the company be and is hereby accorded to the Board of Directors of the company to borrow such sum or sums of moneys in any manner from time to time as may be required for the purpose of business of the company with or without security and upon such terms and conditions as they may think fit, notwithstanding that moneys to be borrowed together with moneys already borrowed by the company (apart from temporary loans obtained from the company's bankers in the ordinary course of business) may exceed the aggregate of the paid-up capital of the company and its free reserves, that is to say, reserves not set apart for any specific purpose, provided that, the total amount so borrowed by the Board of Directors and outstanding at any time shall not exceed the sum of Rs 250 crores (Rupees two hundred fifty crores)".

"RESOLVED FURTHER that the Board of Directors be and is hereby authorised to take such steps and do such acts, deeds matters and things as they may deem fit and proper and give/send such notices/directions as may be necessary for the purpose of giving effect to the above resolution."

10. Issue of shares to QIBs

To consider and if thought fit, to pass with or without modification(s), the following resolution as a Special Resolution:

"RESOLVED that pursuant to the provisions of section 81(1A) and all other applicable provisions if any, of the Companies Act, 1956 and all other applicable rules, regulations, guidelines and laws (including any amendment thereto or re-enactment thereof) and the enabling provisions of the Memorandum and Articles of Association of the company and the Listing Agreement entered into by the company with the stock exchanges where the shares of the company are listed and as per the provisions of Chapter XIII A of SEBI (Disclosure & Investor Protection) Guidelines, 2000 ("SEBI Guidelines") and other prevailing statutory guidelines in that behalf and subject to all necessary consents, permissions and approvals and/or sanctions from all the appropriate authorities, including the Securities and Exchange Board of India (SEBI), Government of India, Reserve Bank of India, Financial Institutions, Banks, Agents and Trustees, Stock Exchanges and all other bodies and institutions as may be relevant (hereinafter singly or collectively referred to as "the Appropriate Authorities") and subject to such conditions and modifications as may be prescribed or imposed by any of them while granting any such consents, permissions, approvals and/or sanctions (hereinafter singly or collectively referred to as "the requisite



approvals") and which may be agreed to by the Board of Directors of the company (herein referred to as "the Board" which term shall be deemed to include any committee(s) consisting of one or more members of the Board and/or one or more officials of the company appointed by the Board in this behalf which the Board may constitute to exercise the powers of the Board) the consent, permission and approval of the company be and is hereby accorded to the Board to issue, offer and allot equity shares, securities convertible into equity shares to the Qualified Institutional Buyers and Mutual funds and such other investors as allowed under the guidelines for an aggregating amount not exceeding Rs 50 (Fifty) crores.

"RESOLVED FURTHER that such allotment of equity shares shall be made in accordance with and at the price not less than as calculated in accordance with the provisions of Chapter XIII A of SEBI (Disclosure & Investor Protection) Guidelines, 2000 ("SEBI Guidelines"). The relevant date for the purpose of calculating minimum price for the issue of equity shares shall be 25th May, 2006."

"RESOLVED FURTHER that the equity shares to be issued by the company shall rank pari-passu with existing shares of the company in all respects."

"RESOLVED FURTHER that the Board be and is hereby authorized to issue, offer and allot the requisite number of equity shares to the proposed allottee(s) at such time or times and in one or more tranches, at a price or prices as the Board may in its absolute discretion decide, subject however to the SEBI guidelines and the other applicable laws and on such terms and conditions including the terms of payment as may be mutually agreed between the Board and the proposed allottee(s) and shall also be entitled to vary, modify or alter any of the terms and conditions, including the size of the issue, as may be deemed expedient by the Board and the proposed allottee(s)."

"RESOLVED FURTHER that for giving effect to this resolution, the Board be and is hereby specifically authorized to take all such steps and actions, to give such directions as it may in its absolute discretion, deem necessary or desirable for issue and allotment of equity shares, also to settle any question or difficulty that may arise with regard to the proposed issue, offer and allotment of equity shares and utilization of proceeds."

"RESOLVED FURTHER that the Board be and is hereby authorized to delegate all or any of the powers herein conferred to any Committee of Directors or the Chairman and Managing Director or any other officer or authorized representative of the company to give effect to the aforesaid resolution."

11. Raising of resources through issue of securities in the international market

To consider and if thought fit, to pass with or without modification(s), the following resolution as a Special Resolution:

"RESOLVED that pursuant to Section 81 (IA) and all other

applicable provisions of the Companies Act, 1956 and all other applicable rules, regulations, guidelines and laws (including any modification or re-enactment thereof, for the time being in force) and in accordance with all relevant provisions of the Memorandum and Articles of Association of the company and the listing agreements entered into by the company with the stock exchanges where the company's shares are listed and subject to any necessary approval, consent, permission and/or sanction of the Central Government, Reserve Bank of India, Ministry of Finance and/or any other appropriate authorities, wherever required, and subject to such conditions as may be prescribed by any of them while granting any such approval, consent, permission, or sanction, and which may be agreed to by the Board of Directors of the company (hereinafter referred to as the "Board") and/or duly authorised persons thereof for the time being exercising the powers conferred by the Board by this resolution, consent of the company be and is hereby accorded to the Board to issue, offer and allot, in the course of an international offering to eligible foreign investors (whether or not such investors are members of the company), by way of circulation of an offering circular or prospectus or by way of private placement, Foreign Currency Convertible Bonds (FCCBs)/Global Depository Receipts (GDRs)/American Depository Receipts (ADRs) in the aggregate principal amount not exceeding United States Dollars 10 (ten) Millions in one or more markets, one or more tranche or tranches (hereinafter referred to as "Securities"), to be subscribed in foreign currency, which, at the option of the holders of the Securities may be converted into equity shares of the company, such issue and allotment to be made in one or more tranche or tranches, on such terms and conditions as may be decided and deemed appropriate by the Board at the time of issue or allotment."

"RESOLVED FURTHER that without prejudice to the generality of the above and subject to all applicable laws, the aforesaid issue of Securities may have all or any terms or combination of terms in accordance with international practices including but not limited to conditions in relation to payment of interest, additional interest, premium on redemption, prepayment and any other debt service payments whatsoever, and all such terms as are provided in issue of securities of this nature internationally including terms for issue of equity shares upon conversion of the Securities or variation of the conversion price of the Securities during the term of the Securities and the company is also entitled to enter into and execute all such arrangements/agreements/deeds/documents as the case may be with any lead managers, managers, underwriters, solicitors, advisors, bankers, depositories, custodians, principal paying/transfer/conversion agent, listing agent, intermediaries and all such agencies as may be involved or concerned in such offerings of Securities and to remunerate all such agencies including the payment of commissions, brokerage, fees or the like, and also to seek the listing of any or all of such securities or securities representing the same in one or more stock exchanges outside India."

"RESOLVED FURTHER that the Securities issued in foreign markets shall be deemed to have been made abroad and/or in the international market and/or at the place of issue of the Securities in the international market and may be governed by foreign laws, as applicable."

"RESOLVED FURTHER that the Board may enter into any arrangement with any agency or body for the issue of the Securities, in registered or bearer form with such features and attributes as are prevalent in international capital markets for instruments of this nature and to provide for the tradeability or free transferability thereof as per the international practices and regulations, and under the forms and practices prevalent in the international markets."

"RESOLVED FURTHER that the Board be and is hereby authorised to issue and allot such number of equity shares as may be required to be issued and allotted upon conversion of any Securities referred herein above or as may be necessary in accordance with the terms of the offering, all such equity shares being pari passu with the then existing equity shares of the company in all respects and also to seek the listing of any or all of such shares on the stock exchanges in India where the existing shares of the company are listed."

"RESOLVED FURTHER that the Board be and is hereby authorised to dispose of such Securities as are to be issued and are not subscribed on such terms and conditions as it may in its absolute discretion deem fit".

"RESOLVED FURTHER that for the purpose of giving effect to any issue or allotment of Securities or securities representing the same or equity shares, as described herein above, the Board be and is hereby authorised on behalf of the company to do all such acts, deeds, matters and things as it may at its absolute discretion deem necessary or desirable for such purpose, including without limitation the utilization of issue proceeds, entering into of underwriting, and marketing arrangements, and with power on behalf of the company to settle any questions, difficulties or doubts that may arise in regard to any such issue or allotment as it may in its absolute discretion deem fit."

"RESOLVED FURTHER that the Board may at its absolute discretion do all such acts, deeds, matter and things as it may at its absolute discretion may deem fit for issue of securities or in connection with or incidental to issue of securities including the post issue formalities and without being required to seek any further consent or approval of the Members or otherwise to the end/and intent that the Members shall be deemed to have given their approval thereto expressly by the authority of this resolution".

"RESOLVED FURTHER that the Board be and is hereby authorised to delegate all or any of the powers herein conferred to any Committee (consisting of Directors and/or Senior Officials) or Senior Officer of the company or any other Authorised Representatives of the company to give effect to the aforesaid resolution"

12. Increase in the limits for FII Investment

To consider and if thought fit, to pass with or without modification(s), the following resolution as a Special Resolution:

"RESOLVED that pursuant to the applicable provisions of the Foreign Exchange Management Act, 1999 (FEMA), the Companies Act, 1956 and all other applicable rules, regulations, guidelines and laws (including any statutory modification or re-enactment thereof for the time being in force) and subject to all applicable approvals, permissions and sanctions and subject to such conditions as may be prescribed by any of the concerned authorities while granting such approvals, permissions, sanctions, which may be agreed to by the Board of Directors of the company and/or a duly authorised Committee thereof for the time being exercising the powers conferred by the Board of Directors (hereinafter referred to as the Board), the consent of the company be and is hereby accorded for investments by Foreign Institutional Investors including their sub-accounts (hereinafter referred to as 'the FIIs'), in the shares or debentures convertible into shares of the company, by purchase or acquisition from the market under the Portfolio Investment Scheme under FEMA, subject to the condition that the total holding of all FIIs put together shall not exceed 49 per cent of the paid up equity share capital or paid up value of the respective series of the convertible debentures of the company as may be applicable."

"RESOLVED FURTHER that the Board be and is hereby authorised to do all such acts, deeds, matters and things and execute all documents or writings as may be necessary, proper or expedient for the purpose of giving effect to this resolution and for matters connected therewith or incidental thereto."

13. Alternatively use of funds

To consider and if thought fit, to pass with or without modification(s), the following resolution as a Special Resolution:

"RESOLVED that utilization of funds raised / to be raised on the issue of warrants on preferential basis, in addition / in the alternative to the proposed expansion in drugs division of the company as mentioned in the notice of extra ordinary general meeting held on January 07, 2006, for on going expansion schemes and installation of cogeneration project of the company as the Board in its absolute discretion think fit and proper in the best interest of the company be and is hereby approved."

"RESOLVED FURTHER that the Board of Directors be and is hereby authorized to do all the acts, deeds, matters and things as may be deemed necessary proper or expedient for the aforesaid purposes."

By order of the Board
for INDUSTRIAL ORGANICS LIMITED

Place : Barnala
Dated : May 22, 2006

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:

Intime Spectrum Registry Limited
A-31, 3rd Floor, Naraina Industrial Area,
Phase - I, New Delhi-110 028
- iii) The Register of Members and Share Transfer Books will remain closed from **Tuesday, the 20th day of June, 2006 to Saturday, the 24th day of June, 2006** (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 RTA 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.

EXPLANATORY STATEMENT PURSUANT TO SECTION 173(2) OF THE COMPANIES ACT, 1956.**Item No. 7**

Sh Chandra Mohan was appointed as an Additional Director on the Board w.e.f. October 27, 2005 in terms of Article 133 of the Articles of Association of the company. Pursuant to Section 260 of the Companies Act, 1956 he holds office upto the date of ensuing Annual General Meeting. The company has received a notice in writing from a member along with deposit of Rs 500/- under Section 257 of the Companies Act, 1956 proposing his name for the appointment as Director of the company.

He is B Sc in Mechanical Engineering, has a experience of more than five decades in Indian industry. He has distinguished himself throughout his academic and professional career. He was Vice Chairmen and Managing Director of Punjab Tractors Limited for 28 years longest Chief Executive Officer in the Indian corporate world. He has been decorated with numerous awards including Padmashree in 1985 for his contribution to the industry and society as well.

He is also Director in Rico Auto Ltd., Engineering Innovation Ltd., Sandhar Technologies Ltd., Winsome Yarns Ltd., DCM Precision Engineering Ltd., Reva Electric Car Co. Ltd., Kamla Dials & Devices Ltd. and ITIDA CAD Services (Pvt.) Ltd. He is Member of Audit Committee in Winsome Yarns Ltd. and DCM Precision Engineering Ltd. He is not holding any share in the company

The Board has considered that the company would be immensely benefited by his mature advice and recommends the resolution for your approval.

None of the Directors except Sh Chandra Mohan, being the proposed appointee, is interested or concerned in the resolution.

Item No. 8

Mrs Dimple Gupta was appointed as an Additional Director on the Board w.e.f. March 13, 2006 in terms of Article 133 of the Articles of Association of the company. Pursuant to Section 260 of the Companies Act, 1956 he holds office upto the date of ensuing Annual General Meeting. The company has received a notice in writing from a member along with deposit of Rs 500/- under Section 257 of the Companies Act, 1956 proposing her name for the appointment as Director of the company.

She is Industrialist and having wide and rich experience in this field. She is also Director in Mayadevi Polycot Ltd. She is not holding any sharing in the company.

The Board has considered that the company would be immensely benefited by her mature advice and recommends the resolution for your approval.

None of the Directors except Sh Varinder Gupta being a relative of Mrs Dimple Gupta and Mrs Dimple Gupta, being proposed appointee are interested or concerned in the resolution.

Item No. 9

In terms of the provisions of section 293(1)(d) of the Companies Act, 1956, the Board of Directors of the company cannot except

with the consent of the company in General Meeting, borrow moneys, apart from temporary loans obtained from company's bankers in the ordinary course of business, in excess of aggregate of the paid-up capital and its free reserves that is to say reserves not set for any specific purposes.

Presently, the company has power to borrow the money upto Rs 100 (Rupees one hundred) crores apart from the temporary loans. Keeping in view of the Company's business requirements and its growth plans, it is considered desirable to increase the said borrowing powers to Rs 250 (Rupees two hundred fifty) crores.

The Board accordingly recommend the resolution for the approval of the members.

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

Item No. 10

The company is implementing the expansion scheme with a cost of Rs 65 crores consisting of expansion the capacity of acetic acid from 30000 TPA to 50000 TPA, ethyl acetate from 18000 TPA to 33000 TPA, acetic anhydride from 7500 TPA to 12000 TPA, ibuprofen from 720 TPA to 1500 TPA and setting up of captive cogeneration plant with the capacity of 4 MW. This project is being financed by the term loans of Rs 31.64 crores, issue of securities of Rs 30 crores and balance from internal accruals. The shareholders have approved the issue of equity shares or other securities to the QIBs and other investors in its extra ordinary general meeting held on January 07, 2006.

The SEBI came with new guidelines and allowed the listed companies to issue of securities to the Qualified Institutional Buyers under Chapter XIII A of SEBI (DIP) Guidelines. As per these guidelines a listed company may issue equity shares or other securities convertible into shares to the Qualified Institutional Buyers which are not related to the promoters at a price not less than as to be determined as per the provisions of this chapter. Your Directors thought it prudent to raise the long term resources through the issue of securities to the QIBs to part finance the ongoing expansion and/or other expansions to be under taken by the company to make the company globally competitive.

Section 81 of the Companies Act, 1956 provides inter-alia that when it is proposed to increase the issued capital of a company by allotment of further shares, such further shares shall be offered to the existing shareholders of the company unless the members decides otherwise by passing the special resolution.

The Board accordingly recommend the resolution for the approval of the members.

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

Item No. 11

The Company, in order to part finance its proposed expansion plans undertaken / to be undertaken needs to strengthen its financial position by augmenting the long term resources. To achieve the significant competitive advantages, through easy access of large amount from International capital, with extended maturities, at optimal costs, the company may need to issue securities in the international markets as contemplated in the resolution and as may be decided by the Board and found to be expedient and in the interest of the company.

The detailed terms and conditions of the issue as and when

made will be determined by the Board of Directors in consultation with the Merchant Bankers, Lead Managers, Advisors, Underwriters and other experts in accordance with the applicable provisions of law.

Section 81 of the Companies Act, 1956 provides inter-alia that when it is proposed to increase the issued capital of a company by allotment of further shares, such further shares shall be offered to the existing shareholders of the company unless the members decides otherwise by passing the special resolution. The Board accordingly recommend the resolution for the approval of the members.

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

Item No. 12

The Foreign Institutional Investor (FIIs) have assumed a crucial role in the Indian capital market. It is proposed to facilitate greater FIIs investment in the company which would not only provide depth and liquidity to the company's share but will also reflect the company's commitment to the highest standard of disclosure, transparency and corporate governance, its operational efficiencies, global competitiveness and proven management track record, which are the preferred investment qualification for FIIs.

In term of the provisions of Portfolio Investment Scheme under the Foreign Exchange Management (Transfer or issue of Security by a Person Resident Outside India) Regulation, 2000, the Foreign Institutional Investor (FIIs) may invest in the equity shares/convertible debenture upto the sectoral cap/ statutory limit as applicable to the Indian companies, subject to the approval of the board of directors and approval of the Member of the company by way of special resolution.

The Board of Directors of the company at its meeting held on May 22, 2006 inter alia proposed, subject to the approval of the members by way of the special resolution to enhance the said FII investment limit to 49 percent of paid-up equity capital or paid-up value of the respective series of the convertible debentures of the company.

The Board accordingly recommend the resolution for the approval of the members.

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

Item No. 13

The members in its meeting held on January 07, 2006 has approved the issue of 14,00,000 warrants on preferential basis and the funds raised are to be utilized to part finance the expansion project of Drug division of the company. The Board thought it prudent to use the funds raised / to be raised by issue of these warrants in addition or in the alternative to these objects, to complete the ongoing expansion scheme and installation of cogeneration project expeditiously.

The Board accordingly recommend the resolution for the approvals of the members.

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

By order of the Board
for INDUSTRIAL ORGANICS LIMITED

Place : Barnala
Dated : May 22, 2006

Krishan Singla
Sr Company Secretary



INDUSTRIAL ORGANICS LIMITED

DIRECTORS' REPORT

Dear Members

Your Directors are pleased to present the Nineteenth Annual Report and Audited Accounts for the financial year ended 31st March, 2006.

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, 2006	Year ended 31st March, 2005
Net Sales and other income	15316.48	8428.94
Profit before interest & depreciation	1802.75	842.10
Interest	555.30	349.98
Profit before depreciation	1247.45	492.12
Depreciation	273.26	216.76
Profit for the year	974.19	275.36
Less: Prior period expenses	1.74	7.96
Profit before tax	972.45	267.40
Provision for tax	246.70	(293.78)
Profit after tax	725.75	561.18
Balance brought forward from previous year	(358.17)	(919.35)
Balance carried to the Balance Sheet	367.58	(358.17)

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 global chemical market is estimated at approximately USD 1.7 trillion. Western Europe is the largest chemical-producing region followed by North America and Asia.

The Indian Chemical Industry ranks 12th by volume in the world production of chemicals. The industry's current turnover is about USD 30.8 billion which is 14% of the total manufacturing output of the country. The export of chemicals in the year 2002 was USD 5.88 billion, which forms almost 0.9 % of the world export of chemical products and about 13% of the country's total export. Substantial proportion of these exports goes to the USA, Europe and other developed nations. Its contribution to the national revenue by way of custom and excise duties is about 20%. India is strong in basic chemicals that go into production of consumer items like paints, dyes, soaps, medicines, toiletries, cosmetics, etc. The industry, including petro-chemicals, and alcohol-based chemicals, has grown at a pace outperforming the overall growth of the industry.

Alcohol and alcohol based units constitute an important segment of the Indian Chemical Industry which plays a vital role in the country's economy. Alcohol and alcohol based units account for 11-12 percent of the total capital employed in the manufacturing sector and employ 6 percent of the country's factory workforce. The alcohol based chemical industry has been endeavouring to promote export of value added chemicals rather than molasses and alcohol. Organic chemicals produced in India have a strong market in the Middle East, Africa, Far East, European countries and neighbouring Pakistan.

The Indian pharmaceutical industry has shown tremendous progress in terms of infrastructure development, technology base creation and a wide range of production. Even while undergoing restructuring, it has established its presence and determination to flourish in the changing environment. The industry now produces bulk drugs belonging to all major therapeutic groups. Strong scientific and technical manpower and pioneering work done in process development have contributed to this. The country ranks 4th worldwide accounting for 8% of world's production by volume and 1.5% by value. It ranks 17th in terms of export value of bulk actives and dosage forms. Indian exports are destined to more than 200 countries around the globe including highly regulated markets of US, Europe, Japan and Australia.

The country is also showing excellent performance on the export front. The exports have increased from Rs 15213.24 crores during the year 2003-04 to Rs 16681.14 crores during the year 2004-05. 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 in comparison to the previous year's performance. The net sale of the company has increased by 82% from Rs 8428.94 lacs to Rs 15316.48 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 114% to Rs 1802.75 lacs during the year under review against of Rs 842.10 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 16737 MT during the previous year to 29659 MT during the year under review showing an increase of 77%. The sale of Acetic Acid has also increased by 150% from 5284 MT to 13230 MT during the year under review.

Ethyl Acetate

The production of Ethyl Acetate has increased from 9112 MT to 14009 MT recording an increase of 54% and its sale also increased by 54% from 8996 MT to 13823 MT during the year under review.

Acetic Anhydride

The production of Acetic Anhydride has increased by 21% from 4224 MT during the previous year to 5095 MT during the year under review. Accordingly the sale of Acetic Anhydride has increased by 19% to 5043 MT against 4224 MT during the previous year.

Ibuprofen

The production of the Ibuprofen has increased from 350 MT to 622 MT recording an increase of 78% and its sale increased from 359 MT to 611 MT during the year under review signifying a healthy growth of 70%.

Exports

During the year under review, the exports of the company has been increased by 377% to Rs 1113.66 lacs as compared to previous year's exports of Rs 233.49 lacs.

c) CONTRIBUTION TO NATIONAL EXCHEQUER

Your company has contributed a sum of Rs 2149.94 lacs as compared to Rs 1243.22 lacs in the previous year to the National 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. Accepted product quality
2. Strong distribution network
3. Inherent technical expertise in alcohol based industry
4. Transparency in business
5. Strong product portfolio
6. Committed work force & cordial industrial relations
7. Sales tax exemption
8. Ability to develop products as per customer requirements

Weakness:

1. Location disadvantage
2. Economies of Scale
3. Production of specialty chemicals

Opportunities:

1. Vast untapped Regulated markets
2. USFDA compliant plant
3. Improve economies of scale with proposed expansions and self reliance for energy requirements
4. New product/molecule development
5. Multiple product basket
6. Crop diversification project of State Governments
7. Backward & Forward integration of Products
8. Presence in agro-based industry

9. Opening up of neighboring markets like Pakistan

Threats:

1. Excess Government regulation in movement of alcohol
2. Adverse change in Government policies
3. Competitors capacity building

e) FUTURE PROSPECTS

The Indian chemical industry has the potential to grow around \$100 billion by 2010 according to KPMG's analysis based on survey of the industry. This would imply an annual growth rate of 15.5%. For the industry to achieve this size specialty and knowledge chemical segments would need to grow at 16.4 percent (current growth rate is 7.9%) and 27% (current growth rate is 12.3%) respectively, while the basic chemicals segment would need to sustain its current growth rate of 7.7%. This would mean that the Indian industry's composition would change to match the profile of the chemical industry in global market.

Acetic acid, one of the world's most important chemicals, is used in a variety of products from textiles to pharmaceuticals. Major applications are in the manufacture of Vinyl Acetate which has its main outlets in paints, adhesives and coatings and PTA. The overall demand for acetic acid is expected to grow at around 7% pa. In terms of Acetic acid capacity, Asia has now overtaken North America to become the largest region. The Asian market still accounts for about 30% of the US acetic acid exports.

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 115000 tons in 2007-08.

Among the different end use segment of Acetic anhydride, pharmaceuticals enjoying growth rate of 12 to 15 % pa, Dyestuff industry 5% to 6% pa and others 6% to 7% pa.

Driven by the knowledge skills, growing enterprise, low costs, improved quality and demand (domestic and international) the pharmaceuticals sector has witnessed a tremendous growth over the past few years - from a turnover just of Rs 5000 crores in 1990 to over Rs 50,000 crores during 2004-05. Exports have also grown very significantly to over Rs 16700 crores during this period.

India is today recognized as one of the leading global players in the manufacture of pharmaceuticals - it holds 4th position in terms of volume and 13th in terms of value of production. It is also recognized that the cost of drugs produced in India is amongst the lowest in the world.

India's rich human capital is believed to be the strongest asset for this knowledge-led industry. Various studies show that the scientific talent pool of 4 million Indians is the second largest English speaking group worldwide, after the US. India today has the largest number of US Food & Drug Administration (FDA) approved drug manufacturing facilities outside the US.



It is estimated that by the year 2010 industry has the potential to achieve Rs 1,00,000 crores in formulations with bulk drug production going up from Rs 8000 crores to Rs 25,000 crores. In fact, India is currently a world leader in manufacture and export of basic drugs such as ethambutol and ibuprofen. Ibuprofen expected growth rate in domestic market is around 7% to 8% and in export 5% to 6%, while global growth rate is around 4% to 5%. Moreover the worldwide analgesic market is estimated to be worth \$50 billion during the year 2005 and is expected to increase to \$75 billion by the year 2010 and \$105 billion by the year 2015.

f) INTERNAL CONTROL SYSTEMS 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

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

h) RISK MANAGEMENT

We continuously identify, monitor and manage risks. It enables us to protect our margins in adverse business conditions and maximize them in favorable markets. A description of the various main risks to which the company is exposed is shown below as well as the approach taken by management to control and mitigate those risks.

Credit risk

Credit risk is associated with losses that occur when debtors are unable to meet their repayment obligations on time. The company has established internal policies to determine the credit worthiness and reliability of potential customers.

Liquidity risk

This refers to the possibility of default of a company to meet its obligations because of unavailability of funds to meet both operational and capital requirements. In order to ensure adequacy of its funding, cash flow forecasts are prepared regularly and actions taken appropriately.

Foreign exchange risk

The company is exposed to foreign exchange risk with respect to foreign currencies, denominated mainly in US dollars, on revenue and supplies. However, the risk is hedged partly as the company is engaged both in imports and exports and partly through the purchase of currency derivatives.

Personnel risk

Personnel risk deals with the risks that effect the safety or stability of personnel within an organization. These are managed by through occupational health and safety management and maintaining Good industrial relations which minimize these risks and provides an organization with a competitive edge through maintaining high moral and

highly experienced staff.

Insurance

In order to reduce and mitigate identifiable risks 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.

i) 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. EQUITY SHARE WARRANTS

The Board has allotted 14,00,000 Equity Share Warrants, carrying option to convert each warrant into one equity share of Rs.10/- each at a premium of Rs.45/- per share within a period of 18 months from the date of allotment i.e. February 09, 2006, as per SEBI Guidelines

4. EXPANSION SCHEME CUM SETTING UP CAPTIVE CO-GENERATION PLANT

The company is implementing the expansion scheme consisting of capacity enhancement of acetic acid from 30000 TPA to 50000 TPA, ethyl acetate from 18000 TPA to 33000 TPA, acetic anhydride from 7500 TPA to 12000 TPA & ibuprofen from 720 TPA to 1500 TPA and setting up of 4 MW captive cogeneration plant with a total capital outlay of Rs 6500 lacs. The project is being financed by the term loans of Rs 3164 lacs from the Banks and issue of securities aggregating to Rs 3000 lacs and balance from the internal accruals. The scheme is likely to be completed during the current year.

5. DIRECTORS

During the year under review, Mr K L Dalal has resigned from the directorship from the company w.e.f. January 14, 2006 due to not keeping well his health. He has served the company for last 12 years. Mr R K Thukral has resigned from the directorship and executive directorship of the company w.e.f. February 07, 2006. Dr Daljit Singh who was appointed on February 07, 2006 has resigned from the directorship of the company w.e.f. March 13, 2006 due to his preoccupation. The nomination of Sh B Dasgupta was withdrawn by IDBI and appointed Mrs Lalita Kapur in his place w.e.f. May 04, 2005. We place on record our appreciation for services rendered by them during their tenure as Directors of the company.

During the year the company has appointed Sh Chandra Mohan and Mrs Dimple Gupta as additional directors w.e.f.