

20th Annual Report 2006-2007



IOL CHEMICALS AND PHARMACEUTICALS LIMITED

Board of Directors

Sh Varinder Gupta - *Chairman & Managing Director*

Dr M A Zahir

Sh Chandra Mohan

Dr (Mrs) H K Bal

Mrs Dimple Gupta

Sh Yogesh Goel - *PSIDC Nominee*

Mrs Lalita Kapur - *IDBI Nominee*

Board's Committees

Audit & Risk Management 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

Mrs Dimple 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

Alankit Assignments Limited
2E/21, Jhandewalan Extension,
New Delhi-110 055.
Phone : 91-11-23541234, 42541234
Fax : 91-11-42541967
E-mail : alankit@alankit.com

Contents	Page No.
Notice	1
Directors' Report	3
Management Discussion and Analysis Report	7
Corporate Governance Report.....	11
Whistle Blower Policy	18
Auditors' Report	20
Balance Sheet	22
Profit and Loss Account	23
Schedules	24
Cash Flow Statement	34

Registered Office:

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Barnala -148 101 (Punjab)
Phone : +91-1679-244701-07
Fax : +91-1679-244708
E-mail : contact@iolcp.com

Head Office:

85, Industrial Area 'A'
Ludhiana - 141 003
Phone : +91-161-2225531-35
Fax : +91-161-2608784
E-mail : contact@iolcp.com

Works:

Village Fatehgarh Chhana,
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Fax : +91-1679-285292
E-mail : contact@iolcp.com

Please visit our website : www.iolcp.com

NOTICE

NOTICE is hereby given that the Twentieth Annual General Meeting of the Members of **IOL Chemicals and Pharmaceuticals Limited** will be held on Saturday, the 22nd day of September, 2007 at 10.00 AM at the Registered Office of the Company, Trident Complex, Raikot Road, Barnala, 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, 2007 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 Varinder Gupta, 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 Sh Yogesh Goel, 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 Chandra Mohan, who retires by rotation and being eligible offers himself for re-appointment.
7. To appoint a Director in place of Mrs Dimple Gupta, who retires by rotation and being eligible offers herself 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. Re-appointment of Sh Varinder Gupta as Managing Director of the Company.

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

"RESOLVED that in accordance with the provisions of Sections 198, 269, 309, Schedule XIII and all other applicable provisions of the Companies Act, 1956 (including any statutory modification or re-enactment thereof, for the time being in force) and subject to the approval of any authority, if required, Sh Varinder Gupta be and is hereby re-appointed as Managing Director of the Company, for a period of five years with effect from 1st September, 2007 on the terms and conditions including remuneration as given below:

- 1 a) Basic Salary: Rs 80000/- (Rupees eighty thousands only) per month

b) Perquisites and allowances: Perquisites and allowances shall be in addition to basic salary as follows:

a) House Rent Allowance	50% of basic salary
b) Conveyance Allowance	20% of basic salary
c) Communication Allowance	10% of basic salary
d) Medical Allowance	8.33% of basic salary
e) Newspaper and Periodicals Allowance	5% of basic salary
f) Children Education Allowance	5% of basic salary
g) Provident Fund Contribution	12% of basic salary
h) Bonus	10% of basic salary
i) Gratuity	4.17% of basic salary
j) Uniform Allowance	8% of basic salary
k) Self Development Allowance	13.33% of basic salary
l) Medical CL/GIS	4.17% of basic salary

2 Other Terms

The Managing Director shall also be entitled to the benefits under other benefits, schemes, privileges and amenities, amended salary structure as are granted to the senior executives of the Company, in accordance with the Company's practice and rules and regulations in force from time to time.

"RESOLVED FURTHER that notwithstanding anything to the contrary herein contained, where in any financial year, the Company has no profits or its profits are inadequate, the Company will pay aforesaid remuneration as minimum remuneration to the Managing Director within Schedule XIII of the Companies Act, 1956 and such other guidelines or ceiling fixed by the Government from time to time."

"RESOLVED FURTHER that the Board of Directors be and is hereby authorised to do all acts, matters, things and deeds to give effect to the re-appointment of Sh Varinder Gupta as Managing Director of the Company."

By order of the Board
for IOL Chemicals and Pharmaceuticals Limited

Place : Barnala
Dated : June 23, 2007

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 made their requests to RTA at the following address:

Alankit Assignments Limited
2E/21, Jhandewalan Extention,
New Delhi-110 055



IOL CHEMICALS AND PHARMACEUTICALS LIMITED

- iii) The Register of Members and Share Transfer Books will remain closed from **Tuesday, 18th day of September, 2007 to Saturday, 22nd day of September, 2007** (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 (PAN).
 - 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.
 - e) Provide their e-mail Id for quick correspondence with them at investor@iolcp.com**

EXPLANATORY STATEMENT PURSUANT TO SECTION 173(2) OF THE COMPANIES ACT, 1956.

Item No. 2 to 7

The detail of the retiring directors is given in the corporate governance report under heading 'Retiring Directors'.

Item No. 9

Sh Varinder Gupta was re-appointed as Managing Director of the Company for a period of five years with effect from 1st September, 2007 on the following terms & conditions approved by the Board of Directors in the meeting held on 23rd June, 2007 subject to the approval of the shareholders, as approved by the Remuneration Committee in its meeting held on 23rd June, 2007.

Terms & Conditions of appointment:

- 1 Tenure : 5 years from the date of appointment i.e. 1st September, 2007.
- 2 Remuneration : The remuneration will be paid as follow:
 - a) Basic Salary : Rs 80000 /- (Rupees eighty thousands only) per month
 - b) Perquisites and allowances: Perquisites and allowances shall be in addition to basic salary as follows:
 - a) House Rent Allowance 50% of basic salary
 - b) Conveyance Allowance 20% of basic salary
 - c) Communication Allowance 10% of basic salary
 - d) Medical Allowance 8.33% of basic salary
 - e) Newspaper and Periodicals Allowance 5% of basic salary
 - f) Children Education Allowance 5% of basic salary
 - g) Provident Fund Contribution 12% of basic salary
 - h) Bonus 10% of basic salary
 - i) Gratuity 4.17% of basic salary
 - j) Uniform Allowance 8% of basic salary
 - k) Self Development Allowance 13.33% of basic salary
 - l) Medical CL/GIS 4.17% of basic salary

3 Other Terms

The Managing Director shall also be entitled to the benefits under other benefits, schemes, privileges and amenities, amended salary structure as are granted to the senior executives of the Company, in accordance with the Company's practice and rules and regulations in force from time to time.

The above may be treated as an abstract of the terms and conditions of the appointment of Sh Varinder Gupta pursuant to section 302 of the Companies Act, 1956. The Board recommends the resolution for your approval.

None of the Directors except Mrs Dimple Gupta being related to the appointee and Sh Varinder Gupta being the proposed appointee, is interested or concerned in the resolution.

By order of the Board
for IOL Chemicals and Pharmaceuticals Limited

Place : Barnala
Dated : June 23, 2007

Krishan Singla
Sr Company Secretary

DIRECTORS' REPORT**Dear Members**

Your Directors are pleased to present the Twentieth Annual Report and Audited Accounts for the financial year ended 31st March, 2007.

1. Financial Results

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

(Rs in lacs)

Particulars	Year ended 31 st March, 2007	Year ended 31 st March, 2006
Net Sales and other Income	20273.45	15316.48
Profit before interest & depreciation	1884.17	1802.75
Interest	664.63	555.30
Profit before depreciation	1219.54	1247.45
Depreciation	348.94	273.26
Profit for the year	870.60	974.19
Less: Prior period expenses	0.67	1.74
Profit before tax	869.93	972.45
Provision for tax	114.85	246.70
Profit after tax	755.08	725.75
Balance brought forward from previous year	367.58	(358.17)
Balance carried to the Balance Sheet	1122.66	367.58

2. 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 sales of the Company has increased by 32% from Rs 15316.48 lacs to Rs 20273.45 lacs due to increase in the capacities of all plants. The operating profit before interest and depreciation has marginally increased by 4.5% to Rs 1884.17 lacs during the year under review against of Rs 1802.75 lacs during the previous year due to efficient use of resources. The net profit has increased from Rs 725.75 lacs during the previous year to Rs 755.08 lacs during the year under review.

3. Expansion -cum-captive co-generation project

During the year, the Company has implemented expansion-cum-captive co-generation project with a total capital outlay of Rs 7694 lacs resulted in increase in the capacities of Acetic Acid plant from 30,000 TPA to 50,000 TPA w.e.f September, 2006, Ethyl Acetate plant from 18,000 TPA to 33,000 TPA w.e.f September, 2006, Acetic Anhydride from 7,500 to 12,000 TPA w.e.f June, 2006 and of Ibuprofen from 720 TPA to 1,800 TPA w.e.f February, 2007. The Company has also commenced the production of power from the cogeneration plant with a capacity of 4 MW w.e.f. February, 2007. The full impact of the expansion-cum-captive co-generation project will be reflected in the performance in the forthcoming year .

4. Contribution to National Exchequer

Your Company has contributed a sum of Rs 2911.54 lacs as

compared to Rs 2149.94 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.

5. Allotment of Equity Share

During the year under review, 14,00,000 Equity Shares of Rs 10/- each at a premium of Rs 45/- per share were allotted on February 14, 2007, as per SEBI Guidelines.

6. Future Expansions

The Company has further undertaken the expansion of Ibuprofen plant capacity from 1,800 TPA to 3,600 TPA with a capital outlay of Rs 1,311 lacs which is being partly financed from the loans from the institutions and partly through the issue of equity shares on preferential basis. The Company is also envisaging the undertaking of setting up manufacturing facilities of value added products i.e. Acetyl Chloride and Mono Chloro-acetic Acid with a capital outlay of Rs 1,100 lacs and some other value added molecules to further strengthen the operations of the Company.

7. Directors

During the year under review, there is no change in the directorship of Company. In accordance with the provisions of the Companies Act, 1956, Article 146 of the Articles of Association of the Company and 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.

8. Change of name of the Company

The name of the Company has been changed from 'Industrial Organics Limited' to '**IOL Chemicals and Pharmaceuticals Limited**' w.e.f. 5th December, 2006 with the approval of Central Government.

9. Change in Logo of the Company

The Company has adopted new logo which reflects the belief. Just the way Mother Earth nourishes and supports all life forms, Our Company endeavors to support the earth in the same way by being environment-friendly and by minimising wastes and effluents. Our Company wants its client & customers to grow together with the organisation and want to contribute to the growth of the economy by running efficient and effective operations. The application for the registration of the same has been made under Trade Mark Act to the concerned authorities.

10. Corporate Governance

The Company has in place a system of Corporate Governance. A separate report on Corporate Governance alongwith Auditors' certificate regarding compliance with the clause 49 of the Listing Agreement is annexed to this Annual Report.

11. Management Discussion and Analysis Report

The Management Discussion and Analysis Report is given separately in this Annual Report.

12. Safety, Health and Environment

Safety is Company's top priority with regard to employment and the Company has been encouraging safety measures at all



IOL CHEMICALS AND PHARMACEUTICALS LIMITED

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.

13. Investor Services

The Company is committed to provide the best services to the shareholders. 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 shareholder is pending with the Company for reply.

14. Fixed Deposits

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

15. Listing of Shares

The equity shares of the Company continued to be listed and traded on the Bombay Stock Exchange Limited (BSE). The script code of the Company at BSE is 524164. The Company has made all compliances of the Listing Agreement including payment of annual listing fees to the Stock Exchange.

16. 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.

17. 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 2007-08.

18. Industrial Relations

The industrial relations remained cordial and harmonious throughout the year.

19. Whistle Blower Policy

The Company has adopted Whistle Blower Policy w.e.f

June 23, 2007 and a copy of the same is given separately in the Annual Report.

20. 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.

The Company has received the "National Award for Energy Conservation" (2nd prize) in the chemical sector for the year 2006 from the Ministry of Power, Government of India, consecutively for the second year.

21. 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 lacs per annum, if employed for the full year or Rs 2 lacs per month if employed for the part of the year.

22. 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.

23. Acknowledgement

We are pleased to place on record our 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.

We also place on record our sincere appreciation for the contribution made by the employees at all levels. Our consistent growth is made possible by their devout, sincere and unstinted services.

For and on behalf of the Board

Place : Chandigarh
Dated : June 23, 2007

Varinder Gupta
Chairman & Managing Director

ANNEXURE I TO THE DIRECTORS' REPORT

Information as per 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 and forming part of the Directors' Report for the year ended 31st March, 2007.

I CONSERVATION OF ENERGY

1.1 Energy conservation measures taken:

- a) Networking of the heat exchangers has been done to save the heat energy & cooling water.
- b) Brine consumption have been reduced by using chilled water which ultimately reduced the steam consumption.
- c) PHE's and corrugated type heat exchangers are installed in place of Shell & Tube Heat Exchangers which gives more efficiency hence saves energy.
- d) Replacement of old gear boxes and agitators with new hellical type gear boxes and agitators to save power.
- e) Newly designed Furnace for Acetic Anhydride Plant to save power, steam and furnance oil.
- f) Replacement of old evaporator in Ibuprofen plant with agitated thin film evaporator to save diesel.

1.2 Additional investments and proposals, if any, being implemented for reduction of consumption of energy.

- a) Changing the oxidation technology to save power.
- b) Changing the oxidation reactor in Acetaldehyde Plant to save steam and power.
- c) Shifting of ordinary distillation to multi pressure distillation system to save steam and power.
- d) Heat exchanger networking
- e) By utilizing the vent off gases as cooling media to save electrical energy.

1.3 Impact of measures taken at (1.1) and (1.2) above for reduction of energy consumption and consequent impact on the cost of production of goods:

These measures have been resulted in saving of power, steam and fuel consumption.

1.4 Total energy consumption and consumption per unit of production as per Form-A of the annexure in respect of industries specified in the schedule thereto.

Particulars	Unit	2006-07	2005-06
A. Power and Fuel Consumption			
1. Electricity			
a) Purchased Units	KWH IN LACS	146.87	165.72
Total Amount	RS IN LACS	631.54	716.94
Rate/Unit	RS/KWH	4.30	4.33
b) Own Generation			
i) Through Diesel Generator			
Units	KWH IN LACS	4.92	5.51
Units per liter of HSD	KWH	3.57	3.47
Cost/Unit	RS/KWH	8.20	9.10
ii) Through Turbine Generator			
Units	KWH IN LACS	84.11	NIL
Units per MT of Steam	KWH	104	NIL
Cost/Unit	RS/KWH	3.12	NIL
2. Coal		NIL	NIL
3. Furnace Oil	KL	1601.84	1676.02
4. Others/Internal Generation		NIL	NIL
B. Consumption per unit of production			
Acetic Acid	KWH/MT	315	367
Ethyl Acetate	KWH/MT	95	109
Acetic Anhydride	KWH/MT	371	463
Ibuprofen	KWH/MT	3621	3803



IOL CHEMICALS AND PHARMACEUTICALS LIMITED

II TECHNOLOGY ABSORPTION

Efforts made in technology absorption as per Form B of the annexure :

FORM-B

Disclosure of particulars with respect to technology absorption.

1. Research & Development (R & D) :

a) Specific areas in which R & D is carried out by the Company:

1. Development the continue process of Mono Chloro-acetic Acid & Acetyl Chloride.
2. Working of petro based new product i.e. I.B.B.
3. Also working of new Product (Ciprofloxacin, Paracetamol, Rabiperzole etc.)
4. Rectifying the deviation of plant.
5. Designing of new equipment for expansion of existing plant through chemcad.
6. Simplifying routes for efficient recovery and cost reduction.
7. Identifying & synthesising the impurities.
8. Analysis of material balance, energy balance, mass transfer & heat transfer networks.
9. Reduction in cost of production & improvement in the quality of the products.

b) Benefits derived as a result of the above R & D :

Reduction in cost of production & improvement in the quality of the products.

c) Future plan of action:

The R & D team is pursuing other option to improve process parameters so as to reduce the product cost and is also looking forward in other value added chemical & drugs

d) Expenditure on Research & Development:

Expenses incurred on R & D are booked in respective general accounting heads.

2. Technology Absorption, Adaptation & Innovation: Nil

3. Foreign Exchange Earnings & Outgo:

(Rs in lacs)

Used	136.03
Earned	2107.60

ANNEXURE II TO THE DIRECTORS' REPORT

Directors' Responsibility Statement

Pursuant to provisions of section 217(2AA) of the Companies Act, 1956, it is hereby confirmed that:

1. in preparation of the annual accounts, the applicable accounting standards had been followed along with proper explanation relating to material departures.
2. the directors had selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profit or loss of the Company for that period;
3. the directors had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
4. the director had prepared the annual accounts on a going concern basis.

For and on behalf of the Board

Place : Chandigarh
Dated : June 23, 2007

Varinder Gupta
Chairman & Managing Director

MANAGEMENT DISCUSSION AND ANALYSIS REPORT**1. Industry Structure, Development and Outlook**

The Chemical industry which includes basic chemicals and its products, petrochemicals, fertilizers, paints, gases and pharmaceuticals etc, plays an important role in the overall development of our economy. The 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 our nation.

The chemical sector accounts for about 17.6% in the output of manufacturing sector 13-14% in total exports and 8-9% in total imports of the country in 2005-06. It contributes about 3% in GDP. It contributes in the national revenue about 18-20% of total collection by way of various taxes. India is the 12th largest producer of chemicals in the world but constitutes a relatively small portion of 1.9% of global sales and 1.5% of international trade.

The chemical industry in India is fragmented with few large companies. There are about 6,600 chemical manufactures. This sector has made good progress during the last five years and turned from a net importer in the 1990s to a net exporter. At present the share of chemicals in total exports is about 14% against 11.9% in 1999-2000. On the other hand its share in total imports declined from 10.5% in 1999-2000 to 8.6% in 2004-05. During 1999-2005 there has been annual growth of 21.3% in exports of all chemicals as against 17.8% in total exports. Basic chemicals constitute major share of exports. On the other hand imports of all chemicals grew by 14.5% against 17.9% in total imports of the country.

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 % of the total capital employed in the manufacturing sector and employ 6 % of the country's factory workforce. The alcohol based chemical industry has been endeavoring 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 neighboring Pakistan.

Driven by the knowledge skills, growing enterprises, low costs, improved quality and buoyant demand (both domestic and international), the pharmaceutical sector's value of output grew more than tenfold from Rs 5,000 crore in 1990 to over Rs 55,000 crore during 2005-06. Indian pharmaceutical companies now supply almost all the country's demand for formulations and nearly 70% of demand for bulk drugs. With value of exports at over Rs 21,000 crore or US \$4.7 billion in 2005-06, India is today recognized as one of the leading global players in pharmaceuticals. Indian pharmaceutical companies produce about 20% to 22% of the world's generic drugs (in terms of value). Internationally, recognized as amongst the lowest-cost-producers of drugs, India holds fourth position in terms of volume and thirteenth position in terms of value of production in pharmaceuticals.

Increasing number of Indian pharmaceutical companies have been getting international regulatory approvals for their plants from agencies like USFDA (USA), MHRA (UK), TGA (Australia), and MCC (South Africa). India has the largest number of USFDA approved plants for generic manufacture. Considering that the pharmaceutical industry involves sophisticated technology and stringent "Good Manufacturing Practice" (GMP) requirements, major share of Indian pharma exports going to highly developed western countries bears testimony to not only the excellent quality of Indian pharmaceuticals but also price-competitiveness.

2. Opportunities and Threats**Opportunities**

1. Wider distribution network and customer relations.
2. High quality human resources.
3. Backward & Forward integration of Products.
4. Presence in agro-based industry accepted product quality
5. Steady growth in demand due to higher investment in health care.
6. Increase in standard of living which has lead to development of organic chemical industry .

Threats:

1. Strengthening of Indian rupee against US dollar.
2. Legislative restrictions.

3. Business Segment Performance

The Company deals in main two segments i.e. Chemical and Pharmaceuticals. While under chemical division the Company manufactures Acetic Acid, Ethyl Acetate & Acetic Anhydride and under pharmaceuticals division, the Company manufactures bulk drug i.e. Ibuprofen. The segment wise performance is given below:

Acetic Acid

The production of Acetic Acid has increased from 29659 MT during the previous year to 39566 MT during the year under review showing an increase of 33%. The sale of Acetic Acid has also increased by 17% from 13230 MT to 15523 MT during the year under review.

Ethyl Acetate

The production of Ethyl Acetate has increased from 14009 MT to 17127 MT recording an increase of 22% and its sale also increased by 24% from 13823 MT to 17177 MT during the year under review.

Acetic Anhydride

The production of Acetic Anhydride has increased by 86% from 5095 MT during the previous year to 9492 MT during the year under review. Accordingly the sale of Acetic Anhydride has increased by 85% to 9312 MT against 5043 MT during the previous year

Ibuprofen

The production of the Ibuprofen has increased from 622 MT to 873 MT recording an increase of 40% and its sale increased from 611 MT to 844 MT during the year under review signifying a growth of 38%.



4. Future Prospects

The chemical industry has large and growing domestic market potential due to low per capita consumption of key petrochemicals such as 3 Kg against global average of 17 Kg for plastics and only 4 kg against 23 kg for polymers, good R & D base with access to low cost and high quality human resources and major raw materials are available within the country or readily importable. The chemical industry has globe presence in the export of dyes, pharmaceuticals and knowledge chemicals. 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. Alone organic chemical industry has the potential to grow around \$ 27 billion by that time. This would imply an annual growth rate of 16.4 percent (current growth rate is 7.9%) for this industry. 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 that is in textiles, food processing and pharmaceuticals etc. Major applications are in the manufacture of Vinyl Acetate which has its main outlets in paints, adhesives & 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 packaging, 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.

India is an attractive global destination for Pharmaceuticals due to availability of low cost, high quality production and regulatory compliances, large and growing number of USFDA approved plant capacity and low cost of research and world class testing facilities. The Pharmaceutical industry has the potential to grow around \$ 31 billion by 2010 at an annual growth rate of 27% (current growth rate is 12.3%). The Indian share to the global industry could increase from 1.9% in 2001 to 3.9% in 2010.

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 and anti inflammatory 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.

5. Risk Management

Our Company believes that there is no activity without risk but

at the same time you have to tread very cautiously and with care. Our Company encourages the members to take appropriate measures to manage the risk in their sphere to maximize the value addition in their every activity which will result in wealth maximization of every stake holder. It enables us to protect our margins in adverse business conditions and maximize them in favorable markets.

A description of the main risks to which the Company is exposed as well as the approach taken by the management to control and mitigate those risks is shown below:

Competition risk

Our Company may face competition from indigenous as well as foreign suppliers. Over the years our Company has de-bottlenecked and expanded the installed capacities of its chemicals and pharmaceuticals divisions. Our Company expects to further increase the installed capacity of its pharmaceuticals division with appropriate investment, strengthening its economies.

Geographic risk

A significant dependence on a particular market could be a risk in the event of a selective downturn in that region. Our Company's sales are spread throughout the country and has also expanded the export to about 20 countries to mitigate this kind of risk.

Technological risk

Technological advances could result in asset obsolescence warranting a high cost of replacement. Our Company is using the latest technology in the manufacturing, processing and quality control measures and keeps itself in touch with the latest advancement in technology and tries to adopt the same to remain efficient in productivity and cost minimization.

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