KCI

Kanoria Chemicals & Industries Limited

ANNUAL REPORT 2013-14

Kanoria Chemicals
& Industries Limited

COMPANY SECRETARY
N.K. Sethia

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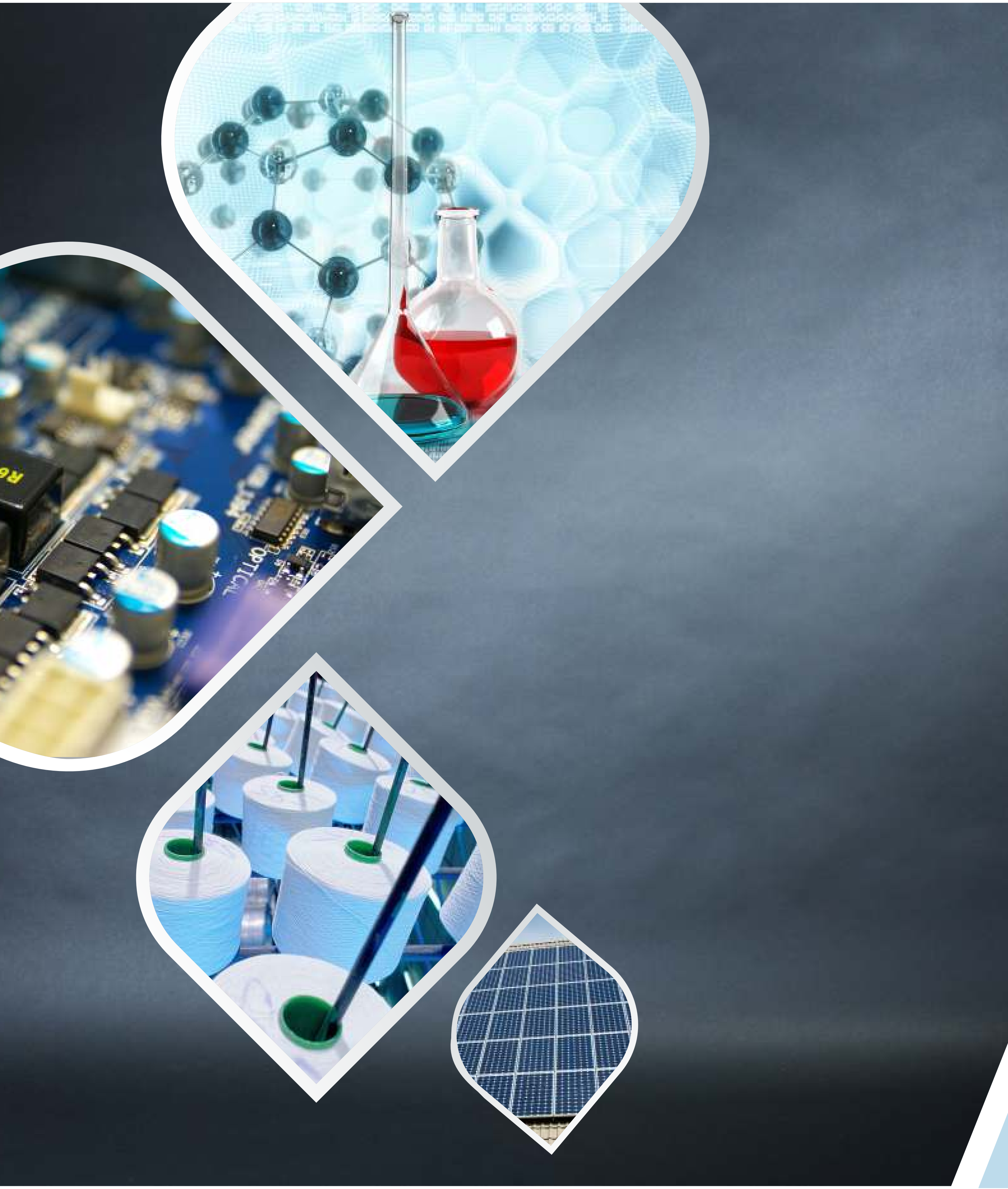
Website: www.kanoriachem.com

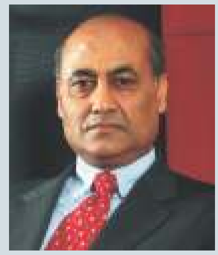
CHIEF FINANCIAL OFFICER
N.K. Nolkha

AUDITORS
Singhi & Co.
Chartered Accountants
1-B, Old Post Office Street
Kolkata - 700 001

BANKERS
DBS Bank Limited
HDFC Bank Limited
Yes Bank Limited


OPTICAL

Board of Directors



R V Kanoria
Chairman &
Managing Director

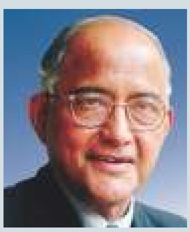
INDEPENDENT DIRECTORS

H K Khaitan

Amitav Kothari

Ravinder Nath

G Parthasarathy



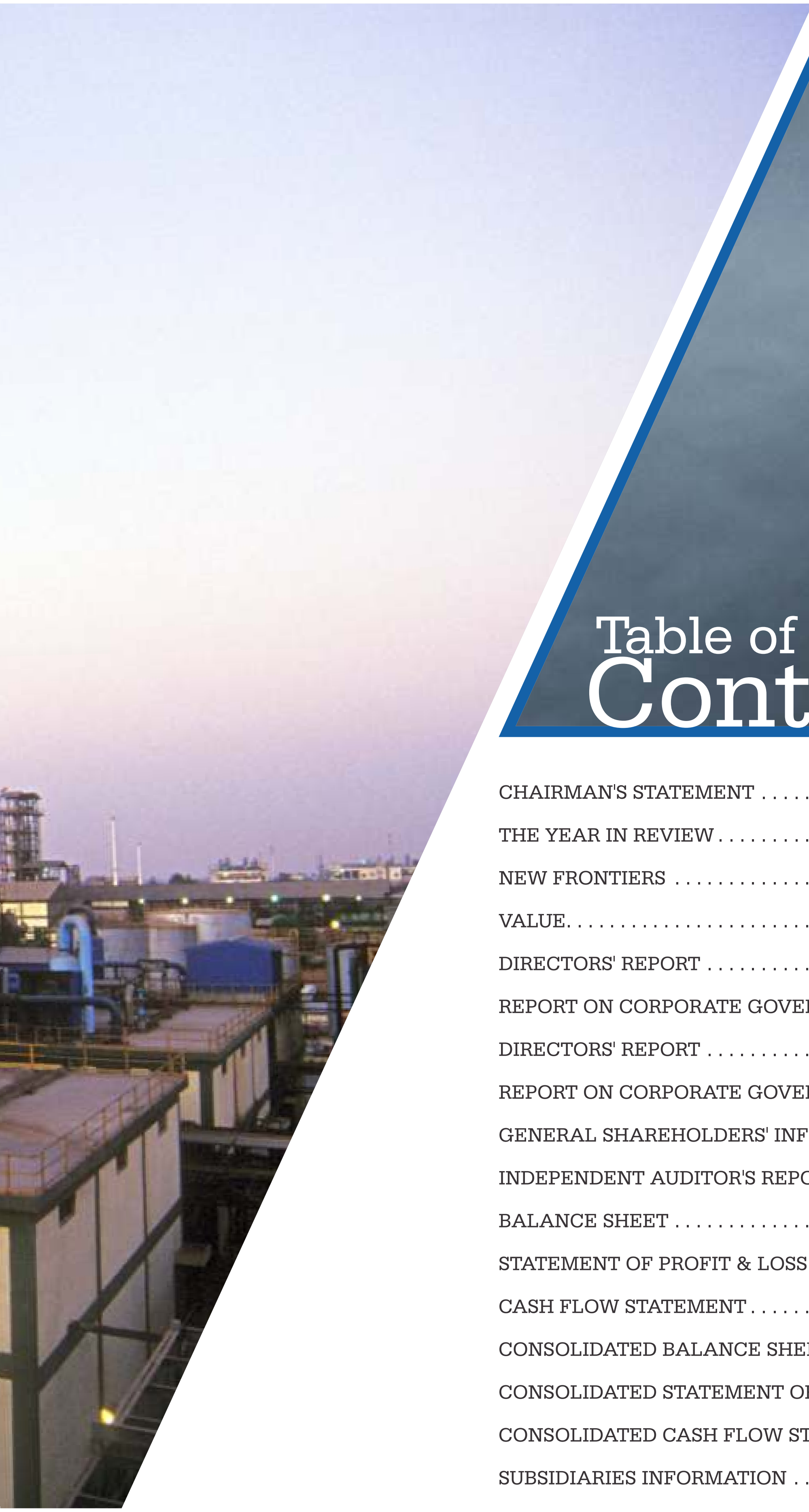
S L Rao

B D Sureka

A Vellayan

J P Sonthalia
Non-Executive Director

T D Bahety
Wholetime Director



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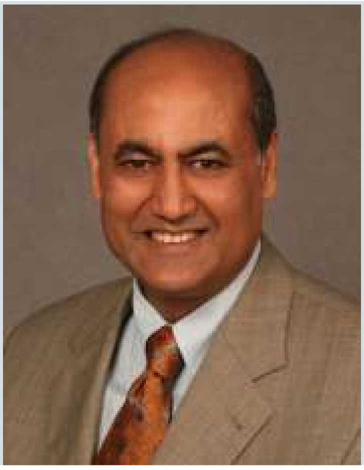

Chairman's Statement

The people of India have elected a government with a majority mandate. It has been 30 years since this last happened. It is indeed historic.

The mood has changed, expectations are high, and the burden of dealing with coalitions has eased. We look forward to speedy action from the government to galvanize the economy and improve the business environment.

Businesses look forward to measures that restore investor confidence. Critical to this objective is certainty and continuity in tax policy, transparent, fair and judicious tax administration and a roadmap to deter and minimize tax litigation. The environment must be fair to both the tax payer and the tax collector.

Better fiscal management is a precursor to sustainable economic growth. High fiscal deficit has been stoking inflation and has remained a cause of concern for several years now. Apart from the volume, it is also necessary to look at the quality of deficit. The rising trend in consumptive expenditure needs to be reversed with more emphasis on productive expenditure. Similarly non-plan expenditure needs to be minimized.

Subsidies need review and must be evaluated based on economic consideration. Wherever considered necessary, these should be targeted and must be effectively transferred to beneficiaries. The best form is direct transfer where the choice of the medium of receipt is left to the recipient.

Introduction of the Goods & Services Tax (GST) could be the single biggest driver of growth. I believe that the majority government at the centre would now be able to arrive at a mechanism for judicious compensation to address the concerns of manufacturing and industrially developed states versus high consumption states. Most states are now aligned to the centre and thus create a favourable environment for implementation of GST. The quicker this happens, the better would be the impact in improving business confidence and competitiveness.

The government needs to provide a stimulus to investment. The reintroduction of Investment Allowance has been a half baked measure and needs to be suitably extended for investments below Rs. 100 crores. There is no reason why this should only be limited to large companies. It should cover all business entities irrespective of their size.

It is also time that investment unfriendly taxes such as the Minimum Alternate Tax (MAT) and Dividend Distribution Tax (DDT) are swiftly reviewed, amended or just repealed.

There is expectation that the manufacturing sector would get the much needed policy impetus to realize its potential. Lately the sector has been constrained with ground level issues such as difficulties faced in land acquisition and environment clearances. Growth of the manufacturing sector can have a salutary spiralling impact on the rest of the economy and create much needed employment.

The Land Acquisition Act needs a relook. Concerted effort towards strengthening the infrastructure sector is necessary.

Limited availability and high costs of power in the country erodes the competitiveness of industry. With high dependence on thermal power generation, it is critical to ensure supply of coal to power plants. This reinforces the need for either privatization of the coal sector or an enabling transparent mechanism for possible lease of coal blocks.

It is imperative that investor confidence is restored. It is unlikely that policy decisions alone, such as allowing higher FDI, would be sufficient. It has to be necessarily accompanied by simpler and swift procedures and a welcoming stance by the government machinery that would genuinely rekindle interest of global investors. Good governance is crucial for this transformation and I have great faith in the expressed motto of "less government, more governance".

With regard to Kanoria Chemicals & Industries Limited; I had reported last year the commissioning of an automated Resin Plant in our manufacturing facility at Vishakhapatnam in the state of Andhra Pradesh. During the year under review, the Company signed a non-binding memorandum of understanding with Momentive Specialty Chemicals Inc., USA for cooperation in manufacture and sale of specialty phenolic resins, Formaldehyde and Hexamine. The end market of these products continues to grow and we are hopeful that we would be able to take this cooperation agreement to its logical conclusion.

Our plant at Vishakhapatnam received the Occupation Health and Safety Assessment Series (OHSAS) 18001 certification for health and safety management systems. In recognition of the Company's efforts in this regard, the National Safety Council awarded the Division a Certificate of Appreciation on the World Day for Safety and Health at Work on 28 April 2014.

The Company's solar power generation activity at Village Bap in the Jodhpur district of Rajasthan remained satisfactory. Government policies in this sector, however, remain apathetic, which is affecting the viability of projects for renewable energy generation in the country. The government needs to provide a renewed policy thrust and sort out procedural issues to prevent jeopardizing existing investment in this area. The Renewable Energy Purchase Obligation scheme needs to be enforced. The government needs to provide the necessary framework to ensure that obligations under the scheme are met.

APAG Holdings AG, Switzerland has become a wholly owned subsidiary of the Company, as notified on 30 June 2014. The past year was a successful one for APAG with revenue growth exceeding targets. APAG is collaborating in India to enhance its engineering activities. The work related to increasing APAG's manufacturing capacity in the Czech Republic has started. We expect the new plant to be completed on schedule later this year. We believe that with increased capacity and enhanced engineering capability, APAG would be able to cater to increasing demand more effectively.

Kanoria Africa Textiles PLC, a subsidiary of the Company in Ethiopia has made considerable progress in its greenfield project to manufacture denim fabrics at Debre Zeit, about 44 kilometres from the capital Addis Ababa. Orders for all major equipment and machinery have been placed. Significant work has also been completed with regard to recruitment of personnel and building effective production and support teams. The first phase of production is expected to start within this year and the composite plant with spinning, dyeing, weaving and processing will become operational within the fiscal year 2014-15.

The Company is poised well to consolidate its diversification. Our management philosophy is based on the tenets of good governance, sustainable policies and ethical business practices. These are the pillars on the strength of which we are confident that the future of the Company is bright.

R V Kanoria
Chairman &
Managing Director

The Year in Review

MANAGEMENT DISCUSSION & ANALYSIS

The economy continued to face constraints and GDP growth was below the 5% level for the second consecutive year. With lack of new investments and a tight money policy, the industrial production in the country remained flat during 2013-14.

The business philosophy of the Company is based on the tenets of good governance, sustainable policies and ethical business practices. These have provided the Company the strength to face challenging market conditions. KCI was able to maintain profitability and returns to shareholders with its steady vigil on costs and a well placed diversification plan.

The diversification initiatives of the Company are described in the subsequent section titled 'New Frontiers'.

Financial Performance with respect to Operational Performance

During the year under review, the Company delivered strong financial performance with healthy growth in revenues and earnings. Revenue from Operations increased by 40% to Rs. 3,398 million as compared to Rs. 2,426 million in the previous year. Backed by this strong operational performance and higher investment income, the earnings of the company increased manifold. The Profit before exceptional and extraordinary items and Tax was at Rs. 346 million as against Rs. 75 million in the previous year. The Net Profit for the year was Rs. 273 million as against Rs. 48 million in the previous year. The Earnings per Share for the year stood at Rs. 6.25 as against Rs. 0.89 in the previous year.

Revenues of APAG Holding AG, the Switzerland based subsidiary of the company, increased by over 56%. As a result the consolidated Revenue from Operations of the company increased by 46% to Rs. 5,414 million as compared to Rs. 3,714 million in the previous year. The consolidated Profit before exceptional and extraordinary items and Tax was at Rs. 426 million as against Rs. 116 million in the previous year. The consolidated Net Profit for the year was Rs. 337 million as against Rs. 79 million in the previous year. The consolidated Earnings per Share for the year stood at Rs. 7.71 as against Rs. 1.48 in the previous year.

ALCO CHEMICALS SEGMENT

Industry structure and development

The Alco Chemicals Division located at Ankleshwar in the state of Gujarat is engaged in the production of Formaldehyde, which is sold as well as further synthesized into value added products. These products include Pentaerythritol, Sodium Formate, Acetaldehyde and Hexamine. The Company's Division at Vishakhapatnam in the state of Andhra Pradesh also produces Formaldehyde and Hexamine.

Opportunities

- Further forward integration with resins.
- Shift from gas to solid fuel for steam generation.
- Upgrade technology to increase production and reduce costs.
- Offer value added services

Threats

- Slow growth of the manufacturing and construction sectors could affect demand.
- Cheaper imports and dumping of Pentaerythritol and Hexamine could squeeze margins.
- Erratic supply of electricity and declaration of 'power holidays' may increase input costs.

Performance

The operations of the Alco Chemicals Division remained stable during the year. There was significant increase in sale of Formaldehyde and revenue accruing from it increased from Rs. 1,114 million in 2012-13 to Rs. 1,888 million in 2013-14.