KCI
Kanoria Chemicals
& Industries Limited

ANNUAL REPORT
2015-16

Kanoria Chemicals & Industries Limited

COMPANY SECRETARY
N.K. Sethia

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GROUP CHIEF FINANCIAL OFFICER
N.K. Nolkha

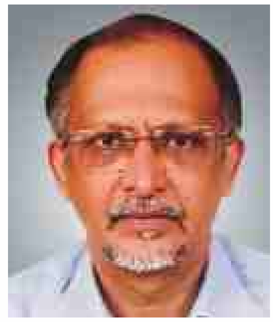
AUDITORS
Singhi & Co.
Chartered Accountants
161, Sarat Bose Road
Kolkata - 700 026

BANKERS
DBS Bank Limited
HDFC Bank Limited
Yes Bank Limited

Board of Directors

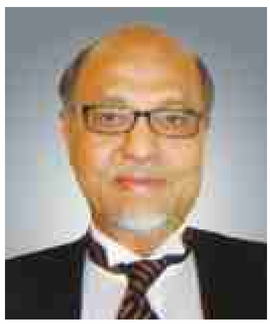
R V Kanoria
Chairman &
Managing Director

M Kanoria



H K Khaitan

Amitav Kothari



Ravinder Nath

G Parthasarathy

S L Rao

A Vellayan

S V Kanoria
Wholetime Director

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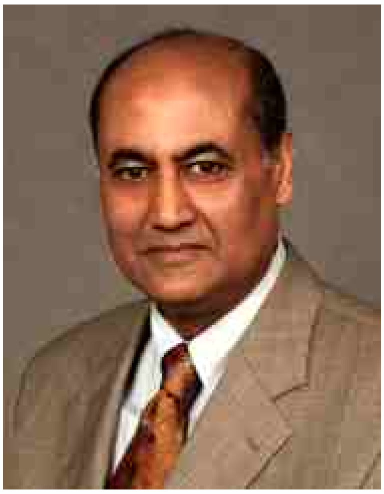
Chairman's Statement



The macroeconomic fundamentals of the Indian economy continue to be excellent. Aided by low oil and commodity prices, the fiscal situation is well under control. Deft management of monetary policy has helped in warding off inflationary pressures. Although the industry is still keen to see lower interest rates, the impact of the policy on controlling inflation seems to have been a success.

The focus of the Indian Government on the ease of doing business is very welcome. The issue, however, is not so much at the centre but the states that have to imbibe the same spirit and facilitate easy and smooth conduct of business.

Measures taken for eliminating corruption and black money are important in imparting health to the economy. It is, however, essential to tackle the root cause of corrupt practices to be able to find a lasting solution, rather than the process remaining just a cleaning up exercise of past actions.

There have been recent murmurings on a proposal for holding central and state elections at the same time. This is certainly desirable and will result in a situation where governments will be able to function without continuously being hindered by electoral compulsions. This will not only lead to better governance but also help in lowering corruption.

Conditions are favourable for the next set of big bang reforms. Initiatives such as the GST are likely to fructify sooner than later, thereby providing a new trajectory to the economy. We hope that political differences are set aside to quickly usher in these reforms.

For the 'Make in India' initiative to succeed, a clear focus on issues affecting competitiveness need to be addressed. Infrastructure and logistics must be once again prioritized. There is a need to focus on employment generation. This requires a bold and radical approach to labour reforms.

The ongoing issue of non-performing assets (NPA) has received much attention. In this context, it is essential to separate the wheat from the chaff so as not to create an atmosphere where money lent to industry is viewed with mistrust. Industry is the primary driver of employment.

After divesting our Chlor Alkali division in the year 2011, the Company has been diversifying into new businesses which have future promise. We entered the electronic automobile components business by acquiring APAG Holding AG headquartered in Dübendorf, Switzerland.

Use of electronics in the automobile industry is growing rapidly. Our investment in this segment has proven to be a good move as APAG has doubled its sales since we took over the operations in the year 2012. Profitability, however, is still elusive as costs were pushed up as a result of the strength of the Swiss Franc. As a part of the strategy for the future APAG acquired a new development company in Germany called CoSyst Control Systems and has also started a development centre in India so that the costs are averaged and distributed. The prospects this year look extremely promising as the strategic changes are expected to yield positive results.

Our investment in Africa was primarily focussed on the high growth opportunity available in the continent. We believe that Africa is poised to be the next global growth driver. Demand for basic goods is increasing steadily and that inter alia prompted us to invest in the textiles sector.

Our foray into Ethiopia, Africa has been a challenge as it was both a new geography and a new industry. The fundamentals of the investment, however, seem sound. The Company has struggled to establish itself in the market and Kanoria Africa Textiles plc would need some time before it yields returns.

The Company is now also refocusing on the chemicals business. We are upgrading technology at our plant in Ankleshwar with the objective of lowering cost and better capacity utilization. Our Vizag plant in the state of Andhra Pradesh is focussing on value addition and is already producing speciality resins. The Company is also identifying new locations for further expanding capacity of existing product lines.

The Indian economy is looking up and presents an opportunity of growth in industry and business. We look at this with great optimism and confidence to steadily enhance the activities of the Company.

R V Kanoria
Chairman & Managing Director

The Year in Review

The economy during 2015-16 demonstrated resilience aided by the strong fundamentals and low oil and commodity prices. The Reserve Bank of India maintained a stable fiscal environment and managed to keep inflationary pressures under control.

While there were concerns of a demand slack with investments remaining flat, industry maintained a positive outlook that the next phase of reforms and government policies would provide a fillip to activities on ground that lead to an industrial revival and higher economic growth.

The pillars of the Company's ethos continued to be constant vigil on costs, good governance, ethical business practices and sustainable policies. These helped the Company to meet the challenges and complete a profitable year of business.

In October 2015, Kanoria Africa Textiles plc, a subsidiary of the Company announced formal inauguration of its integrated denim plant in Ethiopia.

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

MANAGEMENT DISCUSSION & ANALYSIS

FINANCIAL PERFORMANCE WITH RESPECT TO OPERATIONAL PERFORMANCE

During the year under review, the Company delivered strong financial performance with healthy growth in earnings. Revenue from Operations decreased from Rs. 3,107 million to Rs. 2,970 million. However, backed by decreased materials cost the Profit before exceptional items and tax increased by 64% at Rs. 276 million as against Rs. 169 million in the previous year. The Net Profit for the year increased by 39% at Rs. 213 million as against Rs. 153 million in the previous year. The Earnings per Share for the year was Rs. 4.87.

Revenue of APAG Holding AG, the Switzerland based subsidiary of the Company engaged in Electronic Automotive increased by 22% and as a result the Consolidated Revenue from Operations increased to Rs. 5,651 million as against Rs. 5,309 million in the previous year. The appreciation of Swiss Francs following the removal of Swiss Francs – Euro floor rate in Switzerland had an adverse impact on the profitability of APAG and as a result the Company had a Net Loss of Rs. 26 million on a consolidated basis.

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, and other value added products, including Pentaerythritol, Sodium Formate, Acetaldehyde and Hexamine. The Company's Division at Vishakhapatnam in the state of Andhra Pradesh also produces Formaldehyde and Hexamine.

Opportunities

- Forward integration with value added products, such as resins.
- Shift from gas to solid fuel for steam generation.
- Upgrade technology to increase production and reduce costs.

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 an increase in sale of Pentaerythritol and revenue accruing from it increased from Rs. 935 million in 2014-15 to Rs.1,049 million in 2015-16.

Outlook

- Growth impetus in the manufacturing sector expected to improve demand for Alco Chemicals in the country.