

ANNUAL
REPORT
2000-2001



KANORIA CHEMICALS & INDUSTRIES LIMITED

KANORIA CHEMICALS & INDUSTRIES LIMITED

NOTICE

TO THE SHAREHOLDERS

NOTICE is hereby given that the Forty-first Annual General Meeting of the Shareholders of KANORIA CHEMICALS & INDUSTRIES LIMITED will be held at "Sitaram Sekseria Sabhagar" in Bharatiya Bhasha Parishad, 36A, Shakespeare Sarani, Kolkata-700 017, on Tuesday, the 4th day of September, 2001 at 11.00 A.M., to transact the following business:

ORDINARY BUSINESS :

1. To consider and adopt the Profit & Loss Account of the Company for the year ended 31st March, 2001, the Balance Sheet as at that date and the Reports of Directors and Auditors thereon.
2. To approve and declare Dividend on the Preference and Equity Shares for the year ended 31st March, 2001.
3. To appoint a Director in place of Shri T.D. Bahety who retires by rotation and being eligible offers himself for re-appointment.
4. To appoint a Director in place of Shri O.P. Patodia who retires by rotation and being eligible offers himself for re-appointment.
5. To consider and, if thought fit, to pass with or without modification, the following resolution as an Ordinary Resolution :

"RESOLVED that Shri P.M. Narielvala, a Director liable to retire by rotation, does not seek re-election, is therefore, not re-appointed a Director of the Company."

"RESOLVED FURTHER that the vacancy on the Board of Directors of the Company so created, be not filled."

6. To appoint Auditors and to fix their remuneration and, in this connection, to pass the following as an Ordinary Resolution :

"RESOLVED that, pursuant to the provisions of Section 224A of the Companies Act, 1956, Messrs. Singhi & Co., Chartered Accountants, be and are hereby re-appointed Auditors of the Company, to hold office from the conclusion of this Annual General Meeting until the conclusion of the next Annual General Meeting of the Company, at a remuneration of Rs. 2,50,000 (Rupees Two lakhs fifty thousand only) plus travelling and other incidental expenses to be incurred by them in course of their audit."

SPECIAL BUSINESS :

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

7. "RESOLVED that Shri Supriya Gupta be and is hereby appointed a Director of the Company"
8. "RESOLVED that in accordance with the provisions of Sections 198, 269, 309 read with Schedule XIII and other applicable provisions, if any, of the Companies Act, 1956, the Company hereby approves the appointment of and the remuneration payable to Shri T.D. Bahety as Wholetime Director of the Company for a further period of three years with effect from 20th May, 2001 on the terms and conditions set out in the Agreement dated 8th May, 2001 submitted to this Meeting which Agreement is hereby specifically approved and sanctioned with liberty to the Board of Directors to alter and vary the terms and conditions of the said appointment and/or Agreement in such manner as may be agreed to between the Board of Directors and Shri T.D. Bahety, provided they are within and in accordance with the limits specified in Schedule XIII to the Companies Act, 1956 or any amendments thereto."

"RESOLVED FURTHER that if in any Financial year during the tenure of the Wholetime Director, the Company has no profits or its profits are inadequate, Shri T.D. Bahety shall be entitled to receive and be paid as minimum remuneration in that year Salary, Perquisites and Other allowances not exceeding the ceiling of Rs. 15.60 lakhs or Rs 1,30,000 per month."

"RESOLVED FURTHER that the Board of Directors of the Company be and is hereby authorised to take such steps as may be necessary to give effect to this Resolution."

9. "RESOLVED that in accordance with the provisions of Sections 198, 269, 309 read with Schedule XIII and other applicable provisions, if any, of the Companies Act, 1956, the Company hereby approves the appointment of and the remuneration payable to Shri O.P. Patodia as Wholetime Director of the Company for a further period of three years with effect from 20th May, 2001 on the terms and conditions set out in the Agreement dated 8th May, 2001 submitted to this Meeting which Agreement is hereby specifically approved and sanctioned with liberty to the Board of Directors to alter and vary the terms and conditions of the said appointment and/or Agreement in such manner as may be agreed to between the Board of Directors and Shri O.P. Patodia, provided they are within and in accordance with the limits specified in Schedule XIII to the Companies Act, 1956 or any amendments thereto."

"RESOLVED FURTHER that if in any Financial year during the tenure of the Wholetime Director, the Company has no profits or its profits are inadequate, Shri O.P. Patodia shall be entitled to receive and be paid as minimum remuneration in that year Salary, Perquisites and Other allowances not exceeding the ceiling of Rs. 15.60 lakhs or Rs 1,30,000 per month."

"RESOLVED FURTHER that the Board of Directors of the Company be and is hereby authorised to take such steps as may be necessary to give effect to this Resolution."

10. "RESOLVED that the consent of the Company be and is hereby accorded to the Board of Directors of the Company, in terms of Section 293(1) (a) and other applicable provisions, if any, of the Companies Act, 1956, to mortgaging and/or charging of all the immovable and movable properties of the Company pertaining to its Renukoot Chemical Works Division, wheresoever situate, both present and future, and the whole of the undertaking of the Company and/or conferring power to enter upon and take possession of the assets of the Company in certain events to or in favour of ICICI Limited (ICICI) in connection with Rupee Term Loan of Rs. 40.00 Crores (Rupees Forty Crores only) lent and advanced by ICICI to the Company."

"RESOLVED FURTHER that the mortgage/charge created and/or all agreements/documents executed/to be executed and all acts done, in terms of the above Resolution by and with the authority of the Board of Directors of the Company, are hereby confirmed and ratified".

Registered Office :

"Park Plaza"

71, Park Street,

Kolkata - 700 016

30th June, 2001

By order of the Board

B.P. DHANUKA

Secretary

NOTES :

1. A MEMBER ENTITLED TO ATTEND AND VOTE IS ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE INSTEAD OF HIMSELF. SUCH PROXY NEED NOT BE A MEMBER OF THE COMPANY. Proxies, in order to be effective, must be received by the Company not less than 48 hours before the meeting.
2. The Explanatory Statement, as required under Section 173 of the Companies Act, 1956, is annexed hereto.
3. The Register of Members and Share Transfer Books in respect of Equity Shares of the Company will remain closed from 21st August, 2001 to 4th September, 2001 (both days inclusive).
4. Members are requested to produce the enclosed attendance slip duly signed as per the specimen signature recorded with the Company for admission to the meeting hall.
5. Members, who hold shares in dematerialised form are requested to bring their Client ID and DP ID Nos. for easier identification of attendance at the meeting.
6. Members are requested to notify immediately any change in their address to the Company and in case their shares are held in dematerialised form, this information should be passed on to their respective Depository Participants without any delay.
7. In all correspondence with the Company, members are requested to quote their account/folio numbers and in case their shares are held in the dematerialised form, they must quote their Client ID Number and their DP ID Number.



8. Dividend on Equity Shares as recommended by the Board, if declared at the meeting, will be paid:
 - a. to those members whose names appear in the Register of Members of the Company, after giving effect to all valid share transfers in physical form lodged with the Company on or before 20th August, 2001; or
 - b. in respect of shares held in electronic form, to those "deemed members" whose names appear on the statements of beneficial ownership furnished by National Securities Depository Limited (NSDL) and Central Depository Services (India) Limited (CDSL), at the end of business hours on 20th August, 2001.
9. Members may inform the Company the details of their Bank account number and Branch so that the same may be incorporated in the dividend warrants.
10. In accordance with the provisions of Section 205A of the Companies Act, 1956, the Company has, from time to time, transferred unclaimed/unpaid dividends relating to the years upto 31st March, 1995, to the General Revenue Account of the Central Government. Members who have a valid claim to any of the unclaimed/unpaid dividends, as aforesaid, may claim the same from the Registrar of Companies, West Bengal, Nizam Palace, Kolkata in the prescribed manner.
11. In accordance with the provisions of Section 205C of the Companies Act, 1956, the unclaimed/unpaid dividends relating to years ended 31st March, 1996, 1997, 1998, 1999 and 2000 will be transferred to Investor Education & Protection Fund on 25th October, 2003, 6th November, 2004, 12th October, 2005, 21st October, 2006 and 5th October, 2007 respectively. Members who have a valid claim to any of the unclaimed/ unpaid dividends, for these years are requested to lodge their claim with the Share Department of the Company at its Registered Office.
12. Facility for making nomination is available for Shareholders.

Explanatory Statement pursuant to Section 173 of the Companies Act, 1956 :

Re. Item No. 7 :

Shri Supriya Gupta, was appointed as an Additional Director of the Company on 29th June, 2001 and as such he shall hold office only upto the date of Annual General Meeting. Shri Gupta is not a retiring Director. The Company has received a Notice from a Shareholder under Section 257 of the Companies Act, 1956 signifying his intention to propose Shri Supriya Gupta as a candidate for the office of the Director of the Company. The Ordinary Resolution being item No. 7 set out in the convening Notice is intended for the said purpose.

None of the Directors of the Company except Shri Supriya Gupta is interested or concerned in the said resolution.

Re. Item Nos. 8 & 9 :

The Board of Directors has re-appointed both Sarvashree T.D. Bahety and O.P. Patodia as Wholetime Directors of the Company for a further period of three years with effect from 20th May, 2001 upon the terms and conditions set out in the Agreements dated 8th May, 2001 entered into by the Company with Sarvashree T.D. Bahety and O.P. Patodia subject to the approval of the members of the Company. An Abstract of the terms and conditions of the appointment together with the Memorandum of interest is set out below :-

- A. Salary : Rs. 50,000 per month (in the scale of Rs. 50,000 – 5,000 – 65,000) to each Wholetime Director.
- B. Commission : At the rate of 1% (one percent) of net profits of the Company for each financial year computed in the manner laid down in Section 198 and 309 of the Companies Act, 1956 subject to the ceiling of their Annual Salary and shall be payable on pro-rata basis for any broken period/year to each Wholetime Director.
- C. Perquisites : In addition to the aforesaid salary each Wholetime Director shall also be entitled to perquisites like free furnished accommodation or house rent allowance in lieu thereof, gas, electricity, water and furnishings, medical reimbursement and leave travel concession for self and family, club fees, personal accident insurance etc., the monetary value of such perquisites being limited to Annual Salary for each Wholetime Director.

For the purpose of the limit of perquisites :

- a. perquisites shall be evaluated as per Income Tax Rules, wherever applicable, and in the absence of any such Rules, perquisites shall be evaluated at actual cost;
- b. use of Company's car for official purposes, telephone at residence (including payment for local calls and long distance official calls), Company's contribution to Provident Fund and encashment of leave as per the Rules of the Company at the end of the tenure will not be included in the computation of the ceiling on perquisites.

Overall Remuneration :

Subject to an overall limit of 5% of the net profits individually and 10% of the net profits collectively payable to all the managerial personnel together as calculated in accordance with sections 198 and 309 and other applicable provisions of the Companies Act, 1956 read with Schedule XIII to the said Act, as may for the time being in force.

Minimum Remuneration :

In the event of loss or inadequacy of profits in any financial year during the currency of tenure of office of Sarvashree T.D.Bahety and O.P. Patodia, the Company may pay them remuneration by way of salary, perquisites and other allowances not exceeding the ceiling of Rs. 15.60 lakhs per annum to each of the Wholetime Director, but they shall not be entitled to any Commission.

The terms and conditions of appointment of any one of the Wholetime Directors may be altered and varied from time to time during their tenure of appointment in such manner as may be agreed to, between the Board of Directors and them provided such terms and conditions are within and in accordance with the limits specified in Schedule XIII of the Companies Act, 1956, or any amendment thereto.

The Board of Directors recommends both the Resolutions for the approval of the Members. The Agreements, embodying the terms and conditions of the appointment of Sarvashree T.D. Bahety and O.P. Patodia as Wholetime Directors of the Company, as mentioned in the Resolutions, are available for inspection of the Members at the Registered Office of the Company on any working day between 11 A.M. and 1 P.M. and the same will also be available for inspection at the Annual General Meeting.

None of the Directors except Shri T.D. Bahety and Shri O.P.Patodia is interested in the aforesaid resolutions.

Re. Item No. 10 :

ICICI Limited (ICICI) has sanctioned Rupee Term Loan of Rs. 40.00 Crores as mentioned in Item No. 10 of this notice, to restructure the debt portfolio of the Company and to replace high cost loans of IFCI with low cost long term funds to reduce interest costs as well as to improve cash flows. This Term Loan has been secured by mortgage(s) and/or charges on the properties of Renukoot Chemical Works Division of the Company at Renukoot, Dist. Sonbhadra, U.P.

Section 293 (1) (a) of the Companies Act, 1956 provides, inter alia, that the Board of Directors of a Public Limited Company shall not, without the consent of the Company in General Meeting, sell, lease or otherwise dispose of, the whole or substantially the whole of the undertaking of the Company or, where the Company owns more than one undertaking, of the whole or substantially the whole of any such undertakings. Since the mortgage(s)/ charge(s) created/to be created by the Company on its movable and immovable properties, as stated in Item No.10 of this Notice, may be considered to be disposal of the Company's properties/undertaking within the meaning of Section 293(1)(a) of the Companies Act, 1956 it is, therefore, necessary to obtain consent of Shareholders for the creation of such mortgage and/or charge.

The Board, therefore, recommends the resolution for the approval of the Shareholders.

Copies of the relevant documents are open for inspection at the Registered Office of the Company on any working day between 11 A.M. and 1 P.M..

None of the Directors of the Company is concerned or interested in the said Resolutions.

Registered Office :
"Park Plaza"
71, Park Street,
Kolkata - 700 016
30th June, 2001

By order of the Board,

B.P. DHANUKA
Secretary

KANORIA CHEMICALS & INDUSTRIES LIMITED

S.S. KANORIA
Chairman

BOARD OF DIRECTORS

S.S. Kanoria,
Chairman

SECRETARY
B.P. Dhanuka

R.V. Kanoria,
Vice-Chairman & Managing Director

AUDITORS
Singhi & Company
Chartered Accountants
Kolkata - 700 001

Supriya Gupta
H.K. Khaitan
R.N. Kundu,
Nominee IFCI
P.M. Mukherjee,
Nominee IDBI
P.M. Narielvala
D.N. Patodia
B.D. Sureka
A. Vellayan
T.D. Bahety,
Wholetime Director
O.P. Patodia,
Wholetime Director

BANKERS
Allahabad Bank
UCO Bank

REGISTERED OFFICE
"Park Plaza"
71, Park Street,
Kolkata - 700 016

THE "DECADE" IN RETROSPECT

It is now a decade since our country embarked upon a path of liberalisation and reforms, which promises to propel India into the 21st century with hope and aspiration. The transition from being inward looking to that of being a supporter of globalisation has naturally had its impact on Indian business. As we take stock of the decade gone-by, Kanoria Chemicals and Industries Limited can, with pride and satisfaction, acknowledge that change has been managed effectively. The company has a clear and focussed business strategy.

Combating unfettered competition and planning to remain competitive at near "zero" tariffs was the principle goal of this business strategy. The credo of "competitiveness" found the right kind of deep rooted acceptance and commitment within the organisation. Conscious and sustained cost reduction formed the backbone of this credo. Short-term outflows for investments in fixed assets and consequent high interest burdens was the price to be paid for long term competitiveness by way of reduced variable and running costs. The commodity nature of the businesses demanded this.

Electrical energy was the largest cost centre. As a result of liberalisation, the window of opportunity for cost effective, self-generation had become available. An analysis of electrical tariffs for the decade of the 80's threw up startling figures; 13% compounded increase in tariffs on a year on year basis. The challenge was to minimise this increase, as otherwise the company could well go under, with the insulation of licensed imports and high import tariffs getting swiftly dismantled. The concept of the company's 25 MW captive power plant was born.

Should this be liquid fuel based? Or should this be a coal based plant? The trade off between high capital cost and low running cost was decided in favour of lower running costs. Coal was in very close proximity, and the cost of this coal at that time was only 28% as compared to the cost of power from the electricity board. Further, low quality coal was uneconomical to transport over long distances. KCIL thus became a naturally preferred consumer of low quality coal, optimising costs by opting for India's first Internally Recirculating Fluidised Bed Combustion Boiler capable of recirculating the high ash content and handling low grade coal. In one stroke, the variable cost exposure of the company was significantly lowered. In retrospect, it can be safely said that this 25 MW plant is the single most important reason for sustained profitability in extremely adverse circumstances.



Before we move to other initiatives, it is also important to understand the sociological and psychological shifts that were changing the mindset and fabric of India. The explosion of Information Technology, Consumerism and the subsequent influence of a heterogeneous mix of cultures also brought with it Choice, an Awareness for Quality and Concern for the Environment. KCIL was sensitive to these issues and embraced the twin objective of providing quality products with balanced sustainable development.

The two principal locations at Renukoot and Ankleshwar, which includes all the products that the company produces, are ISO 9002 certified. The Renukoot Complex has also been successful in demonstrating its capability of using best environment management practices and is proud to be one of the only, combined producers of Chloro Alkali and Coal based power, to be accorded the coveted ISO 14001 certification.

The goal of harmonization of the relentless pursuit of cost effectiveness with the concern for quality and the environment, churned out a number of innovative solutions. The company's Ankleshwar Division was the first in India to use "bio-gas" recovered from distillery effluent for the generation of electricity, without the intermediate process of generating steam. A unique process for removing damaging hydrogen sulphide from the effluent generated bio-gas, allowed this gas to be fed directly into gas engines, which hitherto was not possible due to the harmful presence of sulphur. Not only did the Ankleshwar Division save considerably on energy cost but also remained consistent in meeting the parallel objective of mitigating the negative effects of effluent disposal.

Not satisfied with the pace of cost reduction generated through in-house strategic thinking, the company roped in Andersen Consulting (now Accenture) to implement a strategic cost reduction exercise. The Management acknowledges the contribution made by Andersen Consulting, not only in significantly reducing annual running costs but more importantly in building a mind set of structured thinking, in identification and resolution of problems. This change is very visible at all levels within the organisation.

The true potential of the location of the company's chloro alkali plant, in a remote part of eastern U.P., had been largely realized by recognising and cashing in on the biggest strength, the availability of cheap coal for power generation. The impending changes in product mix as a result of globalisation was, however, a cause for concern. This was particularly so in the case of chlorine derivatives which were becoming targets of increasing environmental activism. A balanced commitment of resources to development, investment and marketing of such products was probably one of the most difficult issues that this decade subjected the company to. Some harsh decisions had to be taken particularly with regard to 'Lindane', an insecticide, which saw its peak and trough within the span of these ten years. A highly successful marketing effort which put the company's

Lindane on the global market place as the best available brand, came to an abrupt end, under pressure from environmental lobbyists and more so by powerful global agro-chemical companies interested in profiting from their research by necessarily forcing replacement of old with the new.

What is heartening, however, is that the management was alive to this apprehension and had put in place an alternative strategy for chlorine utilization. A brand new plant for the production of Aluminium Chloride was set up. In a short span of five years, KCIL has become the leading producer of aluminium chloride in the country. In promoting the in-house use of chlorine, which was difficult to transport, the company also brought within its fold, on a job work basis, the production facilities of Chlorinated Paraffin Wax producers in the vicinity of its plant at Renukoot. A separate cell at the Corporate Office in Delhi is constantly on the job to identify new opportunities in chlorine based chemicals, as the company is conscious of the uncertainty of life cycle of such products.

Concentration on backward and forward integration obviated the need to re-look the portfolio of businesses. There was clearly a mismatch in the competencies available and the competence required in managing the company's erstwhile textile business. The Textile Divisions' turnover was a fraction of the total, and it was also eating into the bottomline. This apart, the management needs were alien in nature to the technical skill base of an inherently chemical company, making the decision of hiving off this division quite easy. The company now concentrates only on its core businesses of chemical manufacture and power generation.

"Activity based costing". This concept was little understood in the organisation. Historical methods of allocation of fixed costs distorted decision-making. It was important to rightly attribute costs to their respective spending points and to rectify pricing, marketing and production strategies. As a result of this exercise, it became imperative to segregate the company's Salt Works and put it under a separate division, de-linking it from its erstwhile profit centre, the Renukoot Chemical Works Division. Not only did this result in substantially improving the performance of the salt works division but also proved an eye-opener for the company. It has set the management thinking about the merits of a captive salt works at such a long distance in the coastal interiors of Kutch.

The selection of technologies, biased towards lower running costs, and the relentless drive to cut expenses, particularly in per-capita usage of power and steam did allow the company to maintain its internal organic growth. During the decade, the Pentaerythritol plant, the Formaldehyde plant, the Industrial Alcohol Distillery and other smaller plants were considerably expanded. In Pentaerythritol and in Formaldehyde, KCIL enjoys a leadership position in the country.



The concept behind this Report is to provide our stakeholders with an overview of the thought processes which governed KCIL's functioning during this decade of liberalisation. A comprehensive strategy encompassing competitiveness, quality and concern for the environment has been successfully implemented.

The current year in review has been very much like recent years, in terms of maintaining output in all the production plants. Market conditions have been difficult. The last quarter of the year did see some firming of realisations in the chloro alkali business. The Ankleshwar Division, however, continues to face adverse market conditions both in terms of demand as well as in margins. The company's captive power plant was subjected to a forced outage on account of mechanical failure, which had a material impact on the results of the company. The team at the power division has worked effortlessly to set things right and the plant is performing satisfactorily. Besides this, there was a major breakdown in the company's 65 KA rectifier, which too has affected the bottomline of the company.

Vast quantities of knowledge are now freely available through the "Web". Not only is it important to harness this knowledge, but also to use it intelligently. Connectivity and dissemination within the organisation is being addressed with urgency. The company has taken up the implementation of an ambitious state-of-the-art ERP System, which would provide 'desk top' flow of information of high quality at high speed. The major locations of the company would be electronically linked on real time basis and facilitate the key decision makers of the organisation in fine tuning their decision making. Multiple accumulation of data will be avoided. Systems and processes will become lean and structured. It is my sincere opinion that this ERP programme, when finally operational in mid 2002, will reduce costs and radically modernise the functioning of the management. It will also bring the fruits of this knowledge driven world to the personnel at backward and remote locations of the company's plants.

The future of the company looks promising. The foundations of sustained profitability seem to have been well-laid. It is time to concentrate on building on the product base through development, expansion and through technological and strategic alliances. The endeavour during the next few years would be precisely in this direction. Now that the ability to withstand competition has been considerably built up, it is also time to take advantage of this resilience to explore new opportunities for growth.

June, 2001

R.V. Kanoria
Managing Director