

ANNUAL REPORT 2004-05

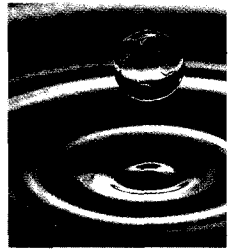


Kanoria Chemicals & Industries Limited



Kanoria Chemicals

Industries Limited



R.V. Kanoria
Chairman & Managing Director



G. Parthasarathy



Ravinder Nath



H.K. Khaitan



Supriya Gupta



A. Vellayan



B.D. Sureka



S.L. Rao



T.D. Bahety
Wholtime Director



O.P. Patodia
Wholtime Director

COMPANY SECRETARY

S.K. Daga

AUDITORS

Singhi & Co.
Chartered Accountants
Kolkata - 700 001

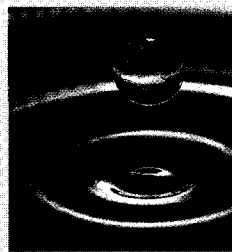
BANKERS

Allahabad Bank
UCO Bank

REGISTERED OFFICE

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

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Chairman's Statement

There is a paradigm shift in global business attitude towards India. Instead of wooing, it is our country's turn to be sought after. Few places on earth offer opportunities for growth that India offers. Above all Indian business has demonstrated its ability to redefine itself hold its own in an era of globalisation. We are well on our way to integrating ourselves with the world economy. The presence of India will be increasingly felt in services, manufacturing and in the export of culture.

The need for adopting the right policies becomes all the more important, as expectations from the country are high. Strengths need to be built upon and shortcomings identified and addressed expeditiously.

Infrastructure is an area that comes immediately to mind. To my mind even our current growth let alone the desired double-digit growth will only be possible if the physical infrastructure keeps pace with demand. The parallel growth of infrastructure at an identical rate to that of GDP growth does not address the backlog. A fresh indicator through indexation of infrastructure growth to outpace economic growth is necessary. Moreover, the weightage allotted to such an index must reflect the priority needs, be it energy, or surface transport, or telecommunications.

One of the most exciting developments during the past year was the nationwide changeover to the Value Added Tax (VAT) system. In my mind, this would have a tremendous effect in making our indirect tax system more efficient, and would create an economic environment conducive to international business. Success of this initiative is imperative for industry to ultimately make India a common market without internal fiscal boundaries. While there is no doubt in the conceptual framework of VAT, it is the implementation that is causing a problem. Presently, uniformity and standardisation across states is missing which has resulted in a vitiated anti-VAT mindset. This may slow down our movement towards a more legitimate and transparent society.

Then there are long pending politically sensitive issues. The decision makers of our policy framework in the country would like policy to be based on a socialistic ideology and yet be such that it results in capitalistic growth. In my view, mismatches in the two areas need to be removed. This would necessitate a logical evaluation of various subsidies prevalent in the economy. While there has been much debate on this issue, a clear roadmap has not been drawn up for identifying and rationalising merit subsidies and eliminating non-merit subsidies. Similarly in the area of labour laws there are many incongruities. The central theme of our labour policies should be based on a system that rewards competencies, rather than be based on socio-political considerations.

In the present economic conditions, companies are being evaluated not only on the basis of financial performance. The differential factor that distinguishes the leaders from the laggards today is governance. This is not restricted to statutory compliance alone but is measured in terms of the disposition and sensitivity of a company towards the community and the larger body of stakeholders.

Playing lip service to corporate social responsibility is not sufficient. It needs a deep-rooted commitment and self-accountability.

Governance is ingrained in the KCI ethos. CRISIL an independent organisation that evaluates corporate governance in firms has recognised KCI's *strong* capability with respect to wealth creation for all its stakeholders while adopting sound corporate governance practices.

In keeping with our focus on sustainability, the subject of corporate social responsibility is very dear to us. In a quiet and effective manner, KCI has taken up need based community development programmes. Details of this initiative are provided in the section of this report titled 'Beyond business..'. I am happy to report that at the time of printing this report KCI's efforts towards sustainable development is being recognised by way of The Energy & Resources Institute (TERI) award for Corporate Excellence in Environment Management for 2003-04 presented in May 2005.

I mentioned in the last report the status of expansion projects that KCI has embarked on. The two major projects for capacity expansion in our Chlor Alkali operations through the Membrane Cell technology and the 25 MW thermal power plant are progressing well and are expected to be completed by the end of the year. Apart from repositioning us in the Indian Chlor Alkali industry, these projects would also significantly de-risk our business.

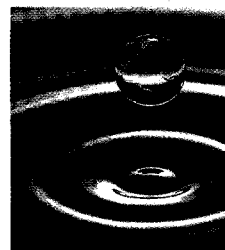
During the year the company witnessed a mixed business cycle. Robust price trends in Caustic Soda improved our revenue streams in the Chloro Chemicals segment of our business. This uptrend is likely to sustain over the next financial year. The Alco Chemicals division, on the other hand, was severely handicapped because of abnormally high input costs, particularly that of its main raw material, molasses. Added to these dumping of finished products into the country continued to exert adverse pressure. The company has initiated suitable anti-dumping proceedings.

Market dynamics notwithstanding, at KCI the mood is completely optimistic. The organisation is poised to face the future with determination and with several long-term plans falling into place; it is well prepared to meet future challenges.

June 2005

R V KANORIA

Chairman & Managing Director
Kanoria Chemicals & Industries Limited





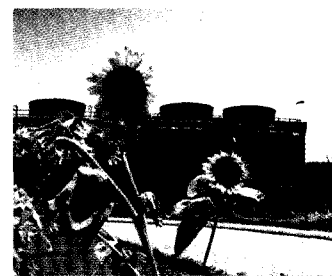




Kanoria Chemicals & Industries Limited (KCI), guided by its core ethos of sustainable development, has entered into a growth path that embraces all stakeholders of the company.

The company's vision "*To be India's leading manufacturer of chemical intermediates with a focus on sustainability and transparency*" summarises its guiding philosophy and business objectives.

Consistently driven by its ethos of sustainability and transparency, KCI has invested carefully in augmenting its business in areas of strength and streamlining focus in areas that have future potential. At KCI, **sustainability** encompasses the product mix, technology and processes that the company has adopted, financial working, marketability, human resources and above all the environment in which the company operates.



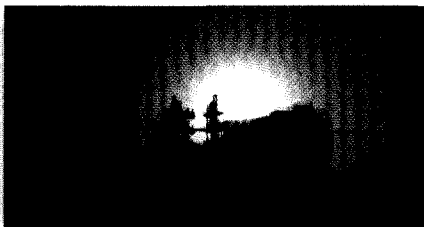
KCI has evolved and honed its strategy to excel in its business segments. This strategy engages all stakeholders in a manner that promotes efficiency and collaborative partnerships. A leading component of this strategy is to prepare its employees for sustained productivity so that their skill sets continue to match contemporary best practices.

In its quest for becoming the leader in the country, the company is steadfastly pursuing newer technologies and expanding its backward and forward linkages in manufacturing processes. This approach has enabled the company in becoming the lowest cost manufacturer in several product categories that the company manufactures.



The company focuses on *transparency* in its relationships with its stakeholders. These relationships have been built over years and have evolved on the dictates of the heart rather than the mind. Conscious efforts towards achieving these objectives look beyond just conforming to statutory compliance.

KCI believes in ethical business practices and maintains high levels of *corporate governance* standards. More than three-fourths of the Board of Directors consists of Independent Members comprising of experts with multi-disciplinary background. Recognising such governance practices at KCI, CRISIL has rated the company at 'GVC Level 3'. This rating endorses our practices and indicates KCI's strong capability to create wealth for its stakeholders while adopting sound corporate governance practices.



As a responsible corporate citizen, KCI has developed a scientific basis for providing sustainable livelihoods to people in and around its manufacturing locations. Both KCI units at Renukoot and Ankleshwar are ISO 14001 certified. This apart, a separate horticulture department in

these plants are involved in greening projects for several years now.

KCI's ethos also guides the company to continuously empower its employees for germination and cross-pollination of ideas, creation of a pool of talent to eventually provide leadership and continuity



in the ideology and culture of the company. The strong employee involvement in the company is reflected in the low attrition rate, high safety standards and increased productivity.

Innovation in approach is critical to the success of the company. Be it technological innovations to enhance the manufacturing process, reduce costs, optimise production and quality of the products; innovations in environment sustainability through better effluent treatment and solid and gas waste management; innovation in the company's community outreach programme; or innovation in managing our human resources; the company encourages its employees to think out of the box for enhanced and sustainable competitiveness in an increasingly globalising economy.

