

ANNUAL REPORT 2005-06

Chemistry of Values and Value additions...



Kanoria Chemicals & Industries Limited



Kanoria Chemicals Industries Limited



R.V. Kanoria
Chairman & Managing Director



Supriya Gupta



H.K. Khaitan



Ravinder Nath



G. Parthasarathy

BOARD OF DIRECTORS



S.L. Rao



B.D. Sureka



A. Vellayan



T.D. Bahety
Wholetime Director

COMPANY SECRETARY

N. K. Sethia

AUDITORS

Singhi & Co.
Chartered Accountants
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BANKERS

Allahabad Bank
UCO Bank

REGISTERED OFFICE

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During the year 2005-06, the Indian economy displayed strong fundamentals. A growth rate of around 8% sustained over the last three years augurs well for achieving double-digit growth rates in the near future. As a result of robust business confidence, the uptrend in the manufacturing sector is expected to continue and strengthen further.

Investor confidence has propelled the capital markets to dizzy heights. The corporate sector also continues to report unprecedented profitability.

Efforts for the integration of India into the global economy through fiscal and trade measures has moved forward, albeit a little slower than warranted. Further relaxation in capital account convertibility and internal fiscal reforms are important elements of a strategy for global integration.

Global business has identified India as a favourable destination. How soon could India leverage this international attention would, however, depend on removing the remaining rigidities in domestic policy. The crucial issue of infrastructure needs to be addressed with greater clarity on the policy framework required to channelise investment in physical infrastructure, which is a pre-requisite to double digit growth.

Lately the talent base of the country has come under focus. The rapid growth in the services sector over the last decade has been possible because of the availability of skilled manpower, English speaking abilities and the relative low cost of deployment. There is already a perception that the sustained development of this talent base in the country is not keeping pace with the growth in economic activity. Whether India would continue to have these advantages in the future, needs extensive deliberation. Education needs a defined strategic plan so that the advantage we have in this area is sustained. In this context it is worth mentioning that, whereas, affirmative action of industry is essential for increasing education opportunity in the country, the route of job reservations in the private sector and seat reservations in premier educational institutions for backward classes could only jeopardise a healthy expansion of skills and talent.

For Kanoria Chemicals & Industries Limited (KCI), the past year was a busy time with expansion in manufacturing capacities and resultant consolidation of businesses. The twin complimentary expansion projects at Renukoot encompassing a 110 TPD Chlor Alkali plant based on Membrane Cell technology and a 25 MW thermal power plant were commissioned successfully. The Company is embarking upon a project to further enhance capacities in Chlor Alkalies and Chloro derivatives.

This expansion initiative will enable us to cater to the increased demand for value added Chlorine derivatives. Improved Chlorine utilisation and enhanced energy efficient Caustic Soda capacity is likely to result in improved profitability. It would also firmly establish the Company's leadership in the Chlor Alkali industry.

In addition to these projects, expansion in the manufacturing capacity of Aluminium Chloride is under progress.

The Company's stress on its endeavour towards fulfilling its central ethos of sustainability continues. Last year I had reported about the ICMA and TERI awards that were conferred on KCI during 2004-05 for excellence in environment and resource management practices. I am happy to inform you that these practices received further recognition during the year and KCI received three awards, namely the Golden Peacock Eco-Innovation award, the Greentech Environment Excellence award for

outstanding achievement in environment management in the Chemical sector, and the National Award for Fly Ash Utilisation jointly awarded by the Ministry of Power, the Ministry of Environment & Forests and the Department of Science & Technology, Government of India for commercial utilisation of fly ash generated by the Company's power plant at Renukoot.

Progress, however, is not without its share of problems. With a heavy heart, I report of a tragic accident in the chlorine filling section of the Company's Renukoot Plant. On the 29th of March 2006, in what appears to have been the failure of a welding joint in a chlorine tonner, liquid chlorine escaped under pressure. Only those in the immediate proximity were affected. It is indeed unfortunate that six of our dedicated employees lost their lives. The accident, however, was contained and remained confined to the chlorine filling section. There was no threat to the environment.

The local management was sensitive and prompt in assuaging the grief of the bereaved families, by not only ensuring an adequate compensation package but also offering employment to the next of kin. It is must to mention that the plant continued to run without interruption, for which, I would specifically like to record my gratitude to the staff and workmen, without whose trust and cooperation, the situation could not have been mitigated.

The year ahead is expected to be full of challenges for KCI. Expanded production, diversifying markets and constantly increasing competition from within India and overseas demands excellence in everything we do. We look at this prospect with excitement. I am confident that the strengths we have developed over the past four decades, in terms of human relations, process expertise, innovative use of best in class technologies, efficient operations and good understanding of the market would help KCI in achieving another year of great performance.

June 2006

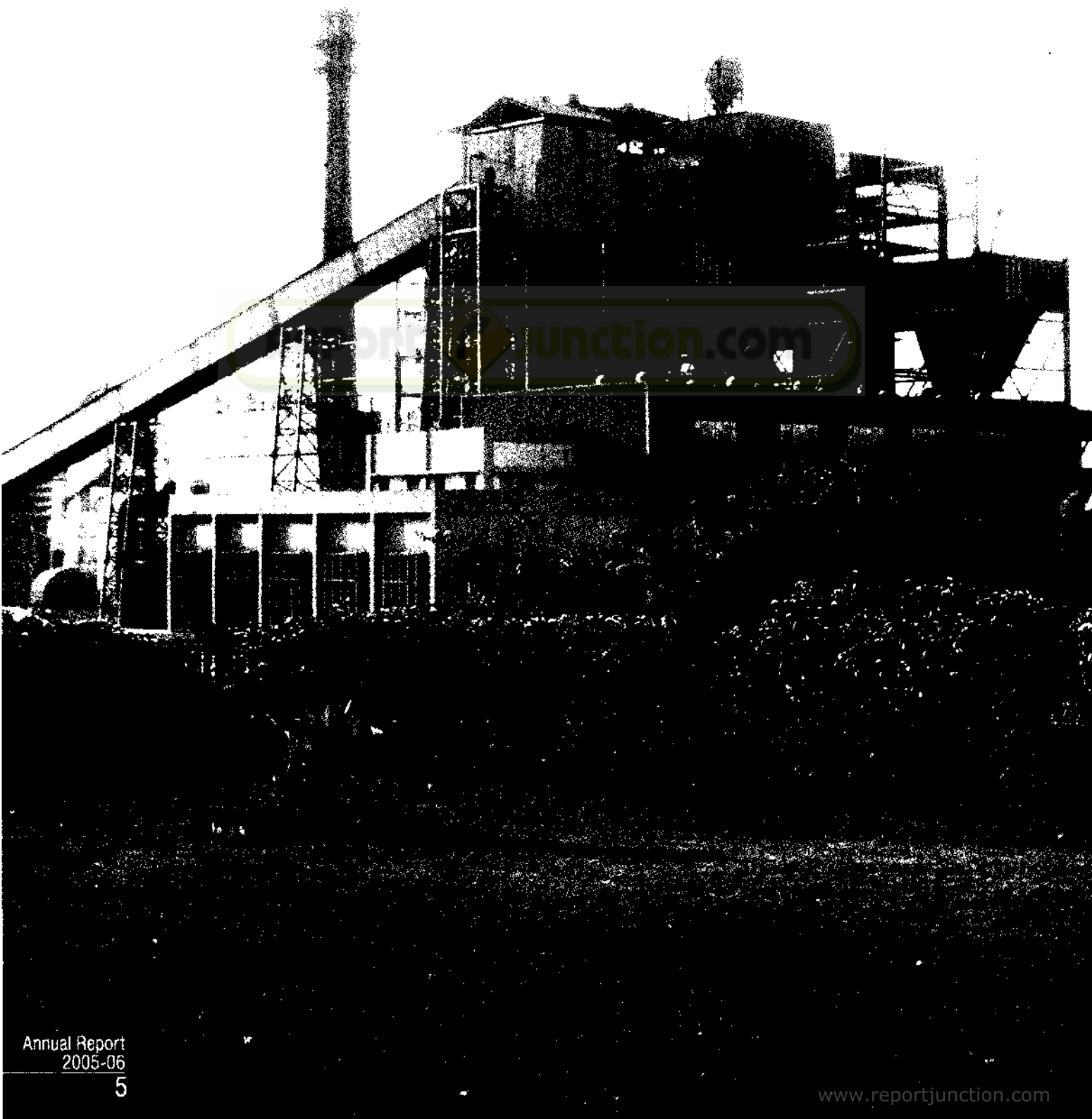
R V Kanoria
Chairman & Managing Director



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CONSOLIDATION

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CONSOLIDATION

The past year was a period of consolidation for KCI in many respects. The Company's strong value creation and corporate governance came by way of a reaffirmation of CRISIL GVC Level 3 rating. Chlor alkali manufacturing capacity was nearly doubled with more expansion on way. The power generating capacity was also doubled from 25 MW to 50 MW by adding another thermal power plant. Over the years the Company's policy of restructuring its finances has lowered the cost of debt.

These achievements have obviously not happened overnight but are the result of the inherent growth strategy of the Company and the steady course it has kept on the pillars of transparency and sustainability.

The Chairman's Statement is in a sense a summary of the Company's performance and the issues that influence this performance. For an insight into the growth philosophy of the Company, we present below excerpts from the Chairman's Statement in the annual reports of KCI over the past five years along with a short commentary on their present relevance.

2000-01

"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. An analysis of electrical tariffs for the decade of the 1980'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. KCI thus became a naturally preferred

The unrelenting efforts of the company to achieve competitiveness through low cost, low wastage, integration and technology efficiency, have paid dividend. This is visible in the reputation of the Company and in creating stakeholder wealth.

Backward and forward integration of products and processes is a key component of the low cost structure of the Company. Investing in captive power generation was a visionary approach that has created a special position for the Company in the Indian Chlor Alkali industry.



Kanoria Chemicals
Industries Limited

Forward integration of products has provided flexibility and value addition to KCI's operations. This concept is still extremely relevant in the Company's growth strategy.

Innovative use of technology has consistently helped in keeping costs low by ensuring low wastage and optimum energy balancing. KCI's Alco Chemicals Division at Ankleshwar has pioneered usage of several technologies such as producing electricity directly from biogas and using reverse osmosis technology for recovery of water from distillery effluent. 'Waste to Wealth' is an ongoing programme at this Division.

Enlarging the product base through value additions to existing products, co-products and by-products is a continuous process. This has encouraged the company in manufacturing and marketing Aluminium Chloride and a new generation water treatment chemical Poly Aluminium Chloride (PAC).

Good corporate governance practices have become an indelible character of the Company.

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.

"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, KCI 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..."

"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..."

"The foundations of sustained profitability seem to have been well-laid. It is time to concentrate on building on the product base. 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..."

2001-02

"The primary objective of remaining competitive through sustained cost reduction and the added objective of developing long term credibility have, in my opinion, been addressed effectively. The company continues to stress on becoming the lowest cost producer of its basket of commodity chemicals. It also strives to build an image of long term trust by adopting the true spirit of good corporate governance..."