ANNUAL REPORT 2006-07

KCI

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Kanoria Chemicals & Industries Limited

Chemistry of Values and Value Additions

COMPANY SECRETARY
N. K. Sethia

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

BANKERS
Allahabad Bank
UCO Bank

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

Kanoria Chemicals & Industries Limited

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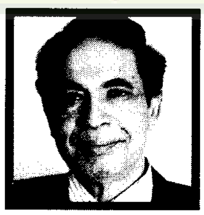
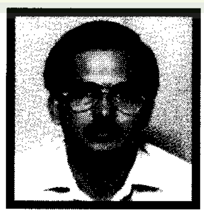
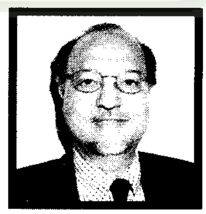
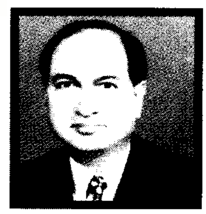
R.V. Kanoria
Chairman & Managing Director

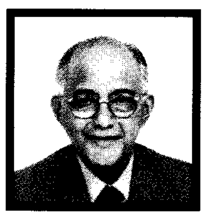
Board of Directors


Supriya Gupta


H.K. Khaitan


Ravinder Nath

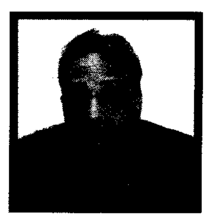

G. Parthasarathy

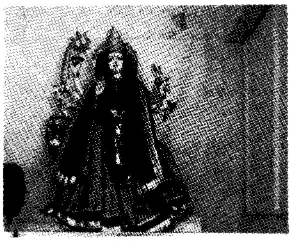

S.L. Rao


B.D. Sureka


A. Vellayan


T.D. Bahety
Wholetime Director


J.P. Sonthalia



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Chairman's Statement

The Indian growth story continues. India's economic engagement with the world is manifesting itself, not only through investments into India, but may be even more so by the significantly increasing presence of Indian companies abroad. The idea of Indian multi-nationals is now a reality.

The manufacturing sector is resurgent and is attracting fresh new investments. The need for basic and manufactured products in a rapidly growing economy is fuelling demand, and, in fact, capacity addition is as yet unable to keep pace. This largely explains the increased levels of inflation afflicting the economy. I believe that fiscal measures to rein in inflation will have only a limited impact. The need is to accelerate investment to meet demand.

In this regard, a balanced approach between growth and inflation assumes importance. The rise in interest rates, as a result of tightening monetary policy, will be counter productive to the ultimate goal of augmenting supply. It is also hurting in terms of costs.

Indian industry has responded admirably to competition. Cost and quality consciousness are now inherent to management philosophy. Much of the inefficiencies, which were controllable have been addressed. External inefficiencies, perpetrated by infrastructural bottlenecks and the lack of a cohesive fiscal policy amongst the States, however, adds to the cost of doing business and undermines competitiveness.

As I have said in previous annual statements, physical infrastructure is a serious priority and needs special attention through policy initiatives and proper channelization of funds. The idea, introduced by the Finance Minister in the Union Budget for 2007-08, of judicious and sectoral usage of the burgeoning foreign exchange reserves should be immediately built upon.

The extension of the value added tax throughout the country will create a positive fiscal environment. The strategy for implementation of a nationwide VAT and consequent movement to a uniform goods and services tax must also include specific time lines for phasing out all other multiple taxation. The States continue to levy taxes across a spectrum of areas, which needs to be consolidated under the same GST umbrella.

The Government has replaced Dividend Tax with Dividend Distribution Tax (DDT). By economic principles, this is still double taxation. Even if these taxes were not to be abolished, for which I firmly believe that there is a strong case, there is still a fundamental argument for doing away with the cascading impact. This can be done by levying DDT, at only the final point of distribution, when dividend passes to the individual taxpayers, or alternatively, at the first point of distribution, a system which did prevail in the Indian context some years back. This kind of system will support multiple layers of holding structures, which are strategically important in an increasingly globalised environment.

The operative performance of Kanoria Chemicals & Industries Limited during 2006-07 was satisfactory, especially at the back of an expansion of Caustic Soda capacity. The Company was able to manage the commodity cycle downturn during the initial months of the last fiscal in the case of Caustic Soda, as well as inordinately high raw material costs for our alcohol based products.

Captive power generation was, in my opinion, a landmark decision for the company, ensuring cost effective supply of reliable power for its energy intensive manufacturing process. With the enhancement of power generation capacity of the Company to 50 MW and constant initiatives for improving process efficiencies, KCI has emerged as one of the lowest cost producers of Caustic Soda in the country.

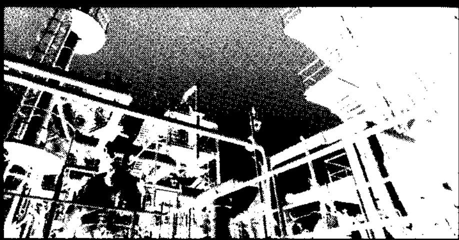
We are pleased that global investors have recognized the potential of our Company. This has enabled us to raise monies at premium over our current share price. The commissioning of the additional 25MW power project in December 2005 and 40,000 TPA Caustic Soda plant in April 2006 has boosted the fundamentals of the Company. The next phase of expansion seeks to further expand Caustic Soda capacity to 130,000 TPA.

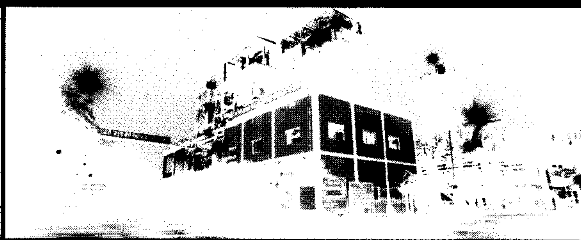
I am happy to report that the International Finance Corporation (IFC) has sanctioned and is participating in the expansion by investing $20 million, of which $15 million is as loan and $5 million is as equity. The Board of Directors of the Company has decided to allot IFC, equity shares worth $5 million at a premium. With this funding, KCI is fully equipped to implement its next phase of expansion, which also includes plans for expanding capacities of downstream Chlorine derivatives.

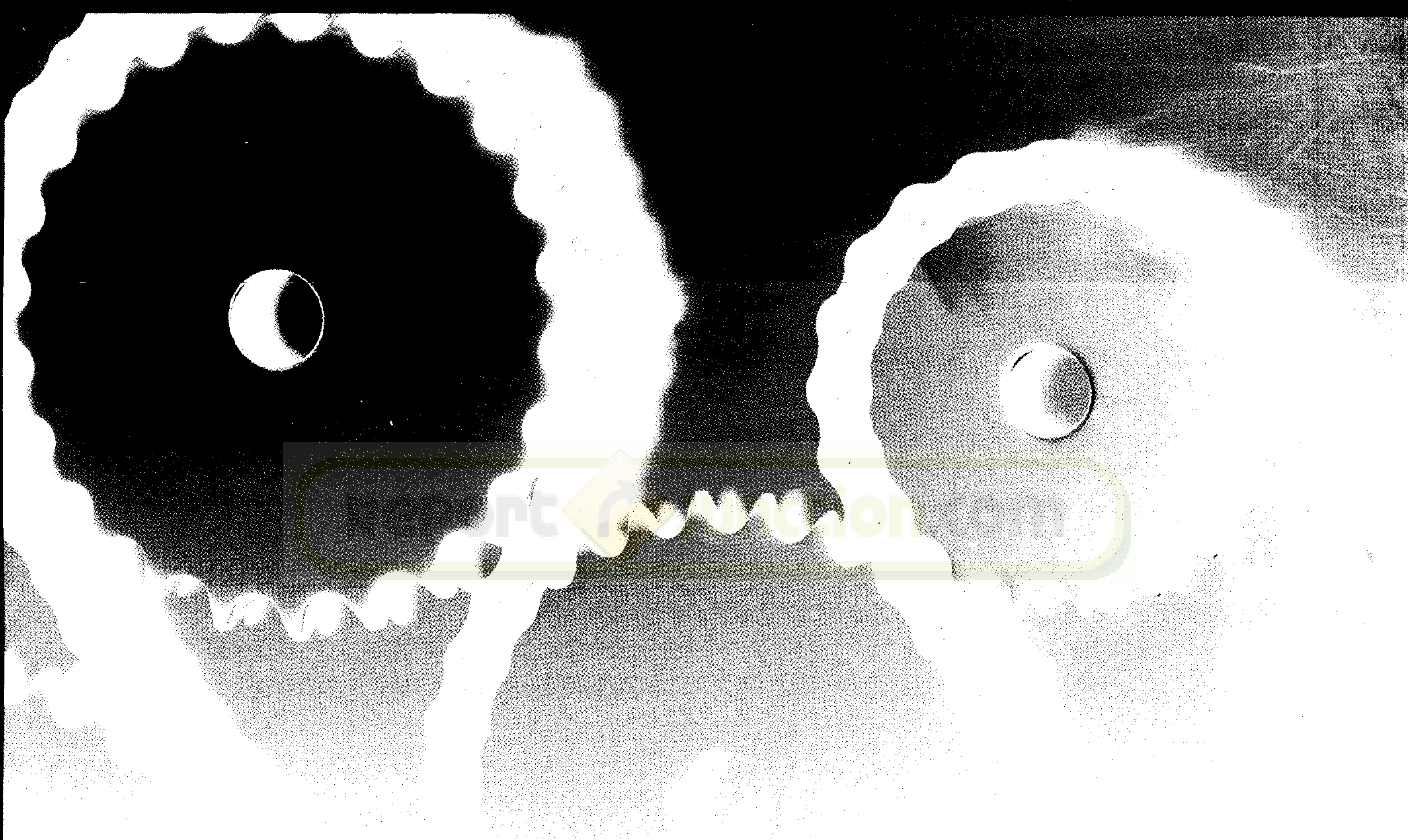
Expanded production, diversifying markets and constantly increasing competition from within India and from overseas, demands excellence in everything that we do. We look at this prospect with excitement. I am confident that the strengths we have developed over the past four decades, in terms of human relations, process expertise, innovative use of best in class technologies, efficient operations and good understanding of the market, would help KCI in sustaining growth.

Date : June 2007

R V Kanoria
Chairman & Managing Director





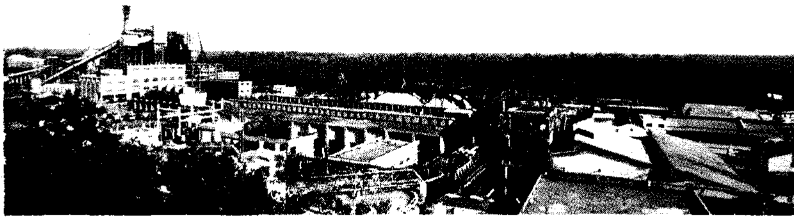
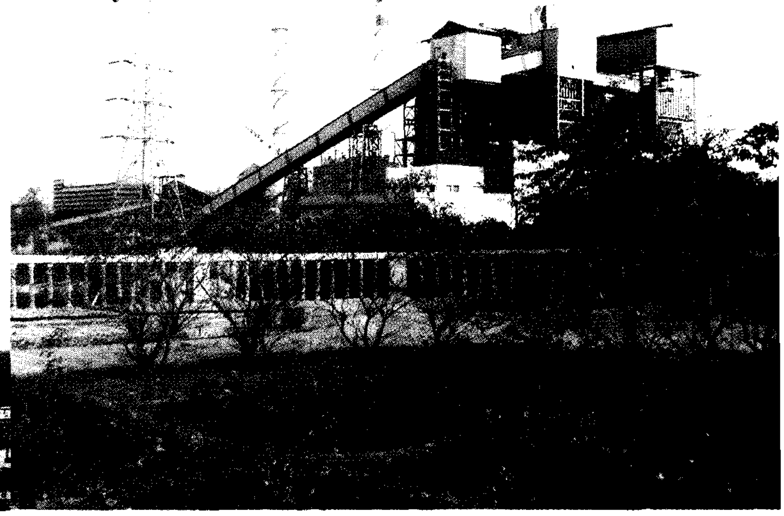


Kanoria Chemicals & Industries Limited (KCI) continues to embrace the pillars of sustainability and transparency in all its operations. This ethos has stood the Company in good stead and is reflected in its track record of profitability and stakeholder value it has been able to generate for over four decades of existence.

The determinant factors for this sustainable economic performance have been the choice of manufacturing technology, and the relentless pursuit of fine tuning this technology to achieve low cost of production. As a result, KCI is one of the lowest cost producers in the country for the basket of products it manufactures. Whether it is the choice of technology or preserving the environment or its initiatives for community and social development, sustainability remains the foremost concern.

The Company believes that environment management is not just cost. Many measures adopted by the Company demonstrate this fact. For example the water conservation measures have lowered the demand for fresh water at the Company's Ankleshwar plant that translates into savings, and therefore, positively impacts its bottom line. This realisation can be best summarised by the Company's 'Waste to Wealth' programme. Treatment of distillery effluent provides the Company with biogas that is used to generate electricity. Water is recycled by a unique Reverse Osmosis process, the use of which has been pioneered by KCI. Further, the treated effluent is used to produce bio compost, which is sold as organic manure.

Consolidation

The company is committed to adopting, besides its obligations under various laws or regulations, the best relevant practices for Corporate Governance. During the year under review, CRISIL reviewed and reaffirmed GVC Level 3 rating to KCI. The rating indicates the Company's strong capability with respect to wealth creation for all its stakeholders while adopting sound corporate governance practices.

KCI has adopted a well laid out Code of Conduct. Every employee of the Company complies with all applicable laws and regulations in his or her business conduct, both in letter and spirit. If the ethical and professional standards set out in the applicable laws and regulations are below that of the Code of Conduct, then the standards mentioned in the Code prevail.

During the year, KCI revisited its vision and mission statements and modified it in keeping with emerging strengths of the Company and changing business environment. (See Box)

As a responsible corporate, KCI continued to undertake socially useful investment and was proactive in community development programmes. In particular, the Company's highly successful watershed management programme around Renukoot was extended last year and the Company is presently engaged in the supervision of 35 check dams in 22 villages.

The KCI Vision

"To be a responsible and respected player in Basic, Fine and Speciality Chemical manufacturing with a Global Footprint"

- Achieving globally benchmarked standards of excellence in all our operations and by being system driven
- Institutionalizing a Knowledge Management System that enables generation, retention and sharing of knowledge across Corporation appropriately
- Exploring and seizing opportunities in emerging and developing economies
- Nurturing an R&D mindset and fostering innovation
- Broadening our product base through a judicious mix of organic and inorganic means
- Establishing a High Performance Work Culture and achieving highest levels of employee engagement
- Following Principles of Corporate Governance and being socially responsible
- Deploying cost effective and appropriate technology