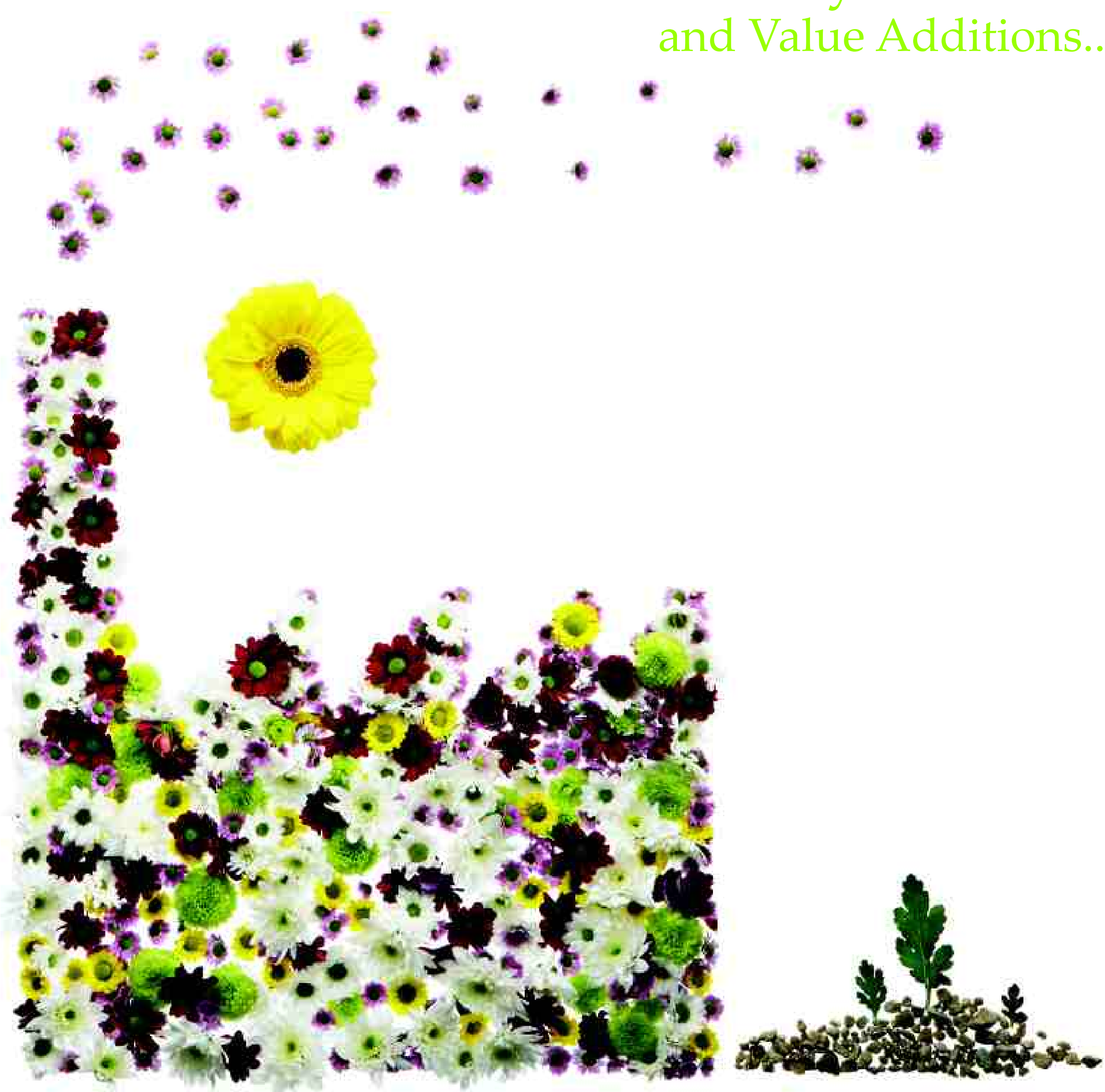
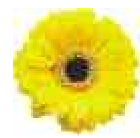
Kanoria Chemicals & Industries Limited

Chemistry of Values
and Value Additions...



Annual Report 2009-10

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
Axis Bank Limited
HDFC Bank Limited
State Bank of India
UCO Bank
Yes Bank Limited

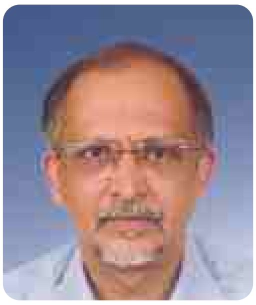
REGISTERED OFFICE
'Park Plaza'
71, Park Street
Kolkata - 700 016

"Sustainable development is the core belief of KCI. It is a passion that goes beyond merely adhering to statutory requirements. Upgradation of environmental protection measures is an ongoing process that has not only helped the Company to pursue its environment friendly approach, but has also ensured sustained profitability of the Company. Its unique approach to make sustainable development a commercially viable process through conservation and recycling has ensured efficient manufacturing operations for the Company."

KCI's Chloro Chemicals plant at Renukoot.

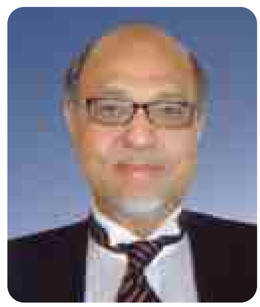
BOARD OF DIRECTORS


R V Kanoria


H K Khaitan


Amitav Kothari


G Parthasarathy

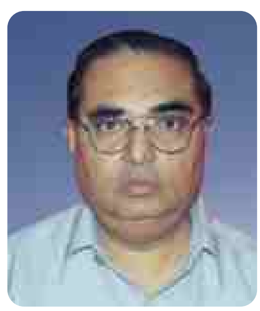

Ravinder Nath


S L Rao


A Vellayan


B D Sureka


J P Sonthalia


T D Bahety

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CHAIRMAN'S STATEMENT

Ever since the Asian currency crisis in 1997, the world continues to face economic shocks. This time last year, the world was grappling with the sharp economic downturn and I had compared the situation with the Great Depression of the 1930s. This year sovereign debt crisis exposes the vulnerability of even the developed countries where bailouts have been necessary.

I believe that lessons can be drawn from the way the Indian economy has managed to prevent large scale adverse impact of the global slowdown on account of its prudent monetary policy and effective regulatory mechanism. The role of Reserve Bank of India is particularly noteworthy.

As we step into the current fiscal, the situation looks better. Despite the relatively high rates of inflation, manufacturing sector has made a strong comeback. Trade also has made a turnaround, growing sharply in the last few months. Corporate profitability is up and there is optimism in the air.

The confidence in India is clear and the inflows of FII and FDI are strong. This, however, has taken a toll on domestic competitiveness both by way of currency appreciation as well as the perceptible absence of further reforms. There is a need for continued reforms which has been on the backburner even though the government is no longer saddled with the left ideology. A push on the next wave of economic reforms is imperative.

The first wave of reforms in the 1990s removed barriers and deregulated industry that has significantly increased India's integration with the rest of the world. Such integration within the country, however, is still to become a reality. A country with much diversity is also so fragmented that its economic markets are not completely homogeneous.

Inter-state differences prevent a common approach to economic issues. Barriers on the movement of goods and services across states, legislative issues in setting up and operating industrial enterprises, documentation requirements of various governmental and municipal authorities and lack of 'co-operative competition' among states, are important issues that prevent India becoming a single 'common market'.

Fiscal integration and harmonization of taxation across the states of India is an important component for transforming India into a seamless economic entity. Distortions in the taxation regime arise out of the plethora of state level taxation that not only erode competitiveness but also cause huge expenses to sustain the tax collection machinery. The introduction of a Goods & Service Tax (GST), for instance, has been delayed and needs quick implementation not only for fiscal simplification, but also to bring down inter-state barriers. This, however, needs to be followed up with comprehensive tax reforms at the state levels to remove multiplicity of taxation such as Entry Tax, Turnover Tax, Municipal Tax, Octroi, Electricity Duty and such like.

The need for infusing higher investment in infrastructure continues to remain critical with particular reference to physical connectivity and commerce between states. Whereas the roads and highways have witnessed some attention in recent years, it still requires major investments that can only fructify through a set of clearly laid down guidelines for effective public-private partnership. Other areas such as airports, ports and power need even more.

The decadal Census exercise has commenced and when completed would provide us important insight into the demographic profile of the country. Policy makers must keep this profile in perspective and assign due importance to the large segment of our productive population between the age of 15 and 59 years, currently estimated to be over 700 million. Involving the large number of people in the economic process and ensuring commensurate productivity can transform the country and take it to next level of the growth trajectory.

This would require large scale efforts in capacity building and policies that promote inclusive growth. An integral component of this approach is creating a policy framework for private participation in education and health. The Right to Education Act is an important milestone but the delivery mechanism needs clarity.

The manufacturing sector should take centre stage as a vehicle for ensuring economic growth but, more importantly, as a medium for creating employment opportunities for the productive population. Excessive dependence of the fiscal system on revenues from the manufacturing sector needs a revisit. In this respect the proposed Direct Tax Code is desired legislation but lacks a strategic dimension. I do hope that a comprehensive review of the provisions contained in the draft code is undertaken that is not limited to cosmetic changes.

The past year was a difficult one for the Company. Volatility in prices and higher raw material costs posed a stiff challenge. For instance, the Caustic Soda prices fell on account of higher supply through dumped imports and domestic capacity expansion. With regard to the Alco Chemicals segment of the Company, poor sugar output during the year raised price of molasses to uncompetitive levels and threatened the operations of the distillery at Ankleshwar. In-house improvement in the fermentation process, however, ensured better yields and our constant vigil on costs helped us through.

Our Greenfield project at Vishakhapatnam, Andhra Pradesh is nearing completion and is expected to be ready by September this year, a delay of two months from the July dateline that I had mentioned in my last report. Market prospects for Formaldehyde and Hexamine, the products in the first phase, are positive and the project would strengthen the Company's market leadership in that segment.

The Company also entered into a Joint Venture with Soluciones Extractivas Alimentarias of Spain. The JV, Minerva Flavours and Fragrance Pvt. Ltd., would set up a flavours and fragrance manufacturing facility at Vishakhapatnam. The work on the project is progressing as per schedule and the first phase of the project is likely to be completed by the last quarter of 2010. Despite the fact the KCI is a minority stakeholder in the JV, it would provide the Company a wider product experience and a step forward in the synergistic low volume, high value business.

The Company faced a major setback during the year that had nothing to do with business cycles. The rotor in one of the two 25 MW thermal power plant that provides captive power to KCI's Chloro Chemicals facility at Renukoot, broke down and the plant had to be shut down. The repairs took inordinate amount of time and the fault persisted for over six months impacting operations and profitability. Not only did the Company have to draw on more expensive grid power, the revenue stream from selling excess power from the captive power plants to UPPCL also temporarily dried up.

As a part of ongoing product development strategy, I am happy to note positive developments in value added products such as those in the Chlorinated Paraffin segment. The strategy is in the next phase of evolution with the desired goal of shifting from a commodity mindset to more value added products and, at the same time, expanding the export footprint.

The challenges faced during 2009-10 have only steeled our resolve and we will consciously and concertedly improve practices where necessary, innovate and consolidate. I am confident that the strong base of the Company developed over the last five decades will continue to aid overall growth.

I am happy to mention that the Company completes 50 years since its incorporation in December 1960. We would be holding our 50th Annual General Meeting this year. We would, however, wish to celebrate 50 years of manufacturing activity and commemorate the year 2014.

R V Kanoria
Chairman & Managing Director

CONSOLIDATION

At Kanoria Chemicals & Industries Limited (KCI), we believe that excellence is a continuous process. The process includes dealing with external factors such as business cycles, as well as internal factors that develop unexpectedly.

The Company turns 50 years since the date of its incorporation in December 1960. Commercial production in its first plant at Renukoot commenced in 1964 and KCI would commemorate its golden jubilee in the year 2014 and celebrate five decades of operations.

It has been a long and satisfying journey that includes setting up a Polyol manufacturing facility at Ankleshwar in 1983. KCI is now in the process of setting up a third Greenfield manufacturing unit in Vishakhapatnam in Andhra Pradesh to be ready later this year.

Apart from adding new manufacturing facilities, KCI has steadily expanded capacities in its existing plants, as well as developed new products, strategically integrated with its core businesses. Please see boxes showing important milestones that the Company has achieved over the years.

A common thread in KCI's development strategy has remained in its focus on integrated processes and choice of technology that have ensured cost efficiency and

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 the 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.

CONSOLIDATION

First Decade 1965-1974

1965	Caustic Chlorine plant commissioned at Renukoot in the state of Uttar Pradesh with a capacity of 16,500 TPA of Caustic Soda
1972	Expansion in capacity of Caustic Chlorine plant to 21,000 TPA
	Added Stable Bleaching Powder (SBP) plant with a capacity of 5,000 TPA
	Started producing own Salt
1973	Further expansion in capacity of Caustic Chlorine plant to 33,000 TPA

Second Decade 1975-1984

1977	Expansion in capacity of SBP to 10,000 TPA
1980	Further expansion of SBP plant to 15,000 TPA
1983	Commissioned another chemical complex in Ankleshwar in the state of Gujarat, with initial capacity of 1,200 TPA of Pentaerythritol and 660 TPA of Sodium Formate

Third Decade 1985-1994

1987	Commissioned Formaldehyde plant with a capacity of 16,500 TPA
1988	Expansion in capacity of Pentaerythritol to 3,000 TPA and consequently Sodium Formate plant to 1,650 TPA.
	Commenced production of Acetaldehyde with a capacity of 1,400 TPA
1991	Expansion in capacity of Acetaldehyde plant to 2,500 TPA
1992	Commissioned Hexamine plant with a capacity of 1,500 TPA
1993	Expansion of Formaldehyde plant to 33,000 TPA
1994	Started producing Industrial Alcohol (15 million litres per annum)

Fourth Decade 1995-2004

1997	Commissioned Aluminium Chloride plant with a capacity of 6,875 TPA
	Expansion of Pentaerythritol plant to 5,000 TPA
	Expansion of Hexamine plant to 4,000 TPA
1998	Commissioned 25 MW coal based power plant at Renukoot
	Expansion in capacity of Acetaldehyde plant to 9,000 TPA
	Commissioned Acetic Acid plant with a capacity of 6,000 TPA
	Commissioned Ethyl Acetate plant with a capacity of 3,300 TPA
1999	Expansion in capacity of Distillery to 225 million litres per annum
	Commissioned 2 MW Bio-gas plant at Ankleshwar
2000	Started producing Hydrogen for commercial purposes
2002	Expansion of Pentaerythritol plant to 6,000 TPA
	Expansion of Formaldehyde plant to 50,000 TPA
	Expansion of Acetaldehyde plant to 10,000 TPA
2004	Expansion of Formaldehyde plant to 75,000 TPA
	Expansion of Aluminium Chloride plant

Fifth Decade 2005 and on...

2005	Commissioned second 25 MW coal based power plant at Renukoot
2006	Expansion in Caustic Soda manufacturing capacity to 90,000 TPA
2008	Expansion in Caustic Soda manufacturing capacity to 128,000 TPA
	Commissioned 15,000 TPA Stable Bleaching Powder plant taking capacity to 30,000 TPA
2009	Commissioned 10,500 TPA Chlorinated Paraffin plant
	Entered into a JV for flavours and fragrance business
2010	Expected commissioning of Greenfield Project in Vishakhapatnam in the state of Andhra Pradesh for manufacturing Formaldehyde and Hexamine