Kanoria Chemicals & Industries Limited

ANNUAL REPORT 2012-13

KCI

Kanoria Chemicals
& Industries Limited

COMPANY SECRETARY

N.K. Sethia

AUDITORS

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

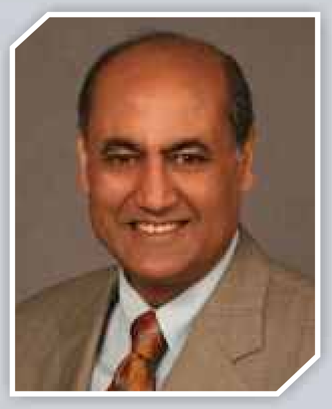
BANKERS

DBS Bank Limited
HDFC Bank Limited
Yes Bank Limited

REGISTERED OFFICE

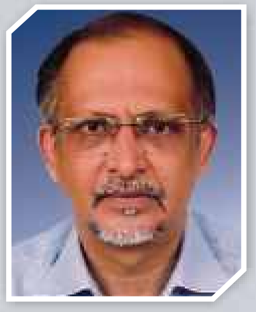
'Park Plaza'
71, Park Street
Kolkata - 700 016

Alco Chemicals Division, Vishakhapatnam



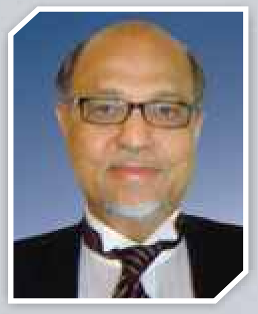
R V Kanoria

BOARD OF DIRECTORS



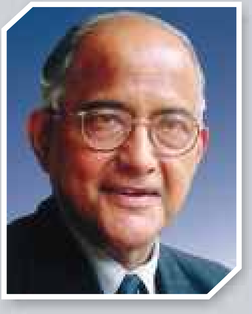
H K Khaitan

Amitav Kothari



Ravinder Nath

G Parthasarathy

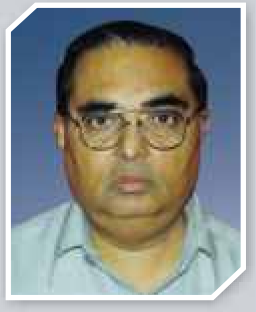


S L Rao

B D Sureka

A Vellayan

J P Sonthalia



T D Bahety

View from the Tank Farm, Vishakhapatnam

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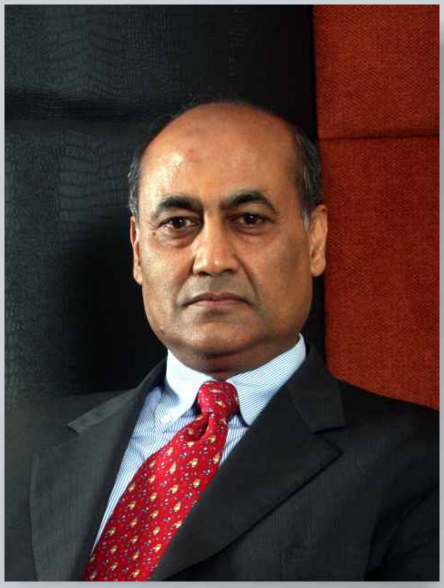

The year 2012-13 remained challenging for Indian industry. There was persisting concern with high fiscal and current account deficits, lower than potential economic growth and high inflation. One of the only differences from the crisis the country faced in 1991 was the foreign exchange reserves. Back then, India's foreign exchange reserves had fallen to a level that was enough to finance just three weeks of imports, whereas currently the country's reserves are adequate to cover about seven months of imports.

The situation is alarming enough and it is imperative for the government to strike a trade off between economic growth and inflation. In my view, a tight monetary policy to control inflation cannot be sustained over time as much of it is driven by supply side constraints. The 12th Five Year plan seeks to address these constraints and one looks forward to effective implementation and thus finding a lasting solution. If not, then the economy could land up in further trouble over the medium term.

One of the key manifestations of prolonged economic slowdown is the erosion in investor confidence. Widespread economic reforms of the 1990s had helped in developing confidence in a process that generated capital, raised standards of living, created employment and offered more choice of affordable and quality products to Indian citizens.

The mood, however, has changed and investors are currently undecided and sitting on the fence. The economy desperately needs confidence boosters and economic reforms need re-emphasis, particularly in view of several decisions pending with the government and also the stalling of parliamentary proceedings. Apart from providing timely policy thrusts, the role of the government is critical in creating employment opportunities for millions of youth in our country whose aspirations have to be met. It is ironical that between 2005 and 2009, despite growth, employment has remained static. The path of economic growth has also to be inclusive; otherwise we expose ourselves to the risk of social tension.

The need of the hour is strong governance. Policies and legislation need to be carried out with conviction rather than compromise. I fear that currently decisions are being guided by emotions and public pressure and not entirely by rational thought. Parochial policies are unlikely to benefit the nation that is grappling with large scale discontent.

Industry feels pressured in the prevailing economic conditions. Most countries welcome investors and help them in case of difficulties. The government has to be proactive and not responsive to the problems being faced by industry. Industry in our country too needs to be felt welcome. It appears that we wait inordinately for problems to become more complex and debilitating before looking for solutions. Economic policies once laid down should be able to achieve the desired objectives rather that requiring interventions every now and then. I believe that in guiding industry, the role of the state must reduce. Transparent regulation and prevention of frauds must be a priority. This is the only way to cull over deep rooted corruption and misuse of authority.

Controlling fiscal deficit is a crucial need and the current state of government finances leaves little room for manoeuvrability. Not only is there a case of limiting non-merit subsidies in the economy to a bare minimum, there is an equally important need to ensure efficient disbursal of merit subsidies. The Direct Cash Transfer scheme is a laudable initiative. Equally encouraging is the calibrated dismantling of the administered prices in petroleum products.

Coalition politics is expected to be more of a rule than an exception and is here to stay. In the absence of electoral reforms, regional political parties attain national status, as such there is bound to be further fragmentation. True political consensus has eluded us so far and it is imperative that political parties work together and move above narrow partisan ideologies. They must work collectively for the nation's growth. We need to shift to issue based politics rather than continue with party based politics.

The year 2014 being an election year, I hope that the government would shun taking populist policy measures. I look to the future with optimism and believe that no matter which government comes to power; its success would depend on higher economic growth and unflinching ability to take bold decisions in favour of the well being of the country as a whole.

As I had reported last year, KCI has been embarking on diversification projects following the Company's divestment of its Chlor-Alkali business in the year 2011. The focus is on knowledge based and environment friendly high growth areas, as well as towards expanding the Company's international footprint.

During the year, the Company successfully commissioned a 5 MW Solar Power Plant in Jodhpur district in the state of Rajasthan. The first phase of the project was completed in June 2012 by commencing generation of 2.5 MW. The second phase consisting of the balance 2.5 MW was completed in February 2013. This has enabled the Company to acquire knowledge and experience in this sector and has paved the way for future expansions in renewable energy projects.

As a forward integration project, KCI set up an automated Resin Plant in its manufacturing facility at Vishakhapatnam in the state of Andhra Pradesh. With an output capacity of 3,000 MT per annum, the plant would provide an important avenue of value addition to the existing product line.

As I had mentioned last year, KCI was in the process of setting up a Greenfield textiles manufacturing project in Africa. During the year, a wholly owned subsidiary of the Company, Kanoria Africa Textiles plc was incorporated in Ethiopia for manufacturing Denim. The land for the project has been allotted about 44 kilometres away from the capital Addis Ababa. Preliminary work is under way and the plant is expected to be commissioned by the later part of 2014. When completed, it will produce 12 million metres of Denim per annum.

The Company's other international subsidiary, APAG Elektronik, which was acquired in May 2012 continued to perform well. During the year, APAG witnessed robust growth in new business in the automotive industry. To cater to the enhanced business, it significantly increased the size of its development team. At a time of suppressed economic conditions in Europe, such increase in business in my mind speaks highly about APAG's inherent strength and capability. It is also in the process of increasing its manufacturing capacity located in the Czech Republic by way of modernizing the current production line, as well as building a new Greenfield plant nearby that is expected to be ready by the third quarter of 2014.

Despite the slow economic growth during the last year, we are optimistic in looking ahead with a diversified portfolio. This optimism emanates from our understanding of the Indian market, a constant vigil on costs, choice of technology and our belief in sustainable growth. I am confident that we will not only maintain our record of profitable business of over five decades, but our new business avenues and enhanced international linkages will enable us to perform even better.

R V Kanoria
Chairman & Managing Director

THE YEAR IN REVIEW

The slowdown in the economy continued to impact industry throughout 2012-13. The industrial production in the country grew at a moderate rate of 1.1% at the back of compressed investment and dip in confidence levels.

Sluggish economic conditions notwithstanding, KCI was able to maintain profitability and returns to shareholders with its steady vigil on costs and a well placed diversification plan.

As a forward integration project, the Company commissioned an automated Phenol Formaldehyde resin plant at Vishakhapatnam, with a capacity of 3,000 MT per annum.

The diversification initiatives of the Company are described in the subsequent section titled 'New Frontiers'.

R&D Centre, Ankleshwar

MANAGEMENT DISCUSSION & ANALYSIS

Financial Performance with respect to Operational Performance

During the year under review, the Revenue from Operations was at ₹ 2,426 million as compared to ₹ 2,905 million in the previous year. The Profit before exceptional and extraordinary items and Tax was at ₹ 75 million as against ₹ 135 million in the previous year. The Net Profit for the year was ₹ 48 million.

On a consolidated basis, the Revenue from Operations was at ₹ 3,714 million as compared to ₹ 2,906 million in the previous year. The Profit before exceptional and extraordinary items and Tax was at ₹ 116 million as against ₹ 136 million in the previous year. The Net Profit for the year was ₹ 79 million.

Alco Chemicals Segment

Industry structure and development

The Alco Chemicals Division located at Ankleshwar, Gujarat is engaged in the production of ethanol from molasses and Formaldehyde from methanol, which is further synthesized into several products for industrial applications. These products include Pentaerythritol, Sodium Formate, Acetaldehyde, Hexamine and others. KCI's other Alco Chemicals Division at Vishakhapatnam increases the Company's production capacity of Formaldehyde and Hexamine.

Opportunities

- The Alco Chemicals Divisions of the Company have highly integrated manufacturing process. This, along with a continuous vigil on costs, ensures a low cost structure and makes the products of the Divisions competitive in both domestic and international markets. The environment management initiatives of the Company including pioneering efforts in treatment and recycling of distillery effluent helps the Division to maintain sustainable growth. The Company's Vishakhapatnam plant provides an important sea link from the Vishakhapatnam and Gangavaram ports located close to the manufacturing facility.
- Market leadership in several products provides the Company a competitive advantage in the market.
- The Divisions are located in close proximity to sources of raw materials as well as markets for finished products, thus positioning the Company