KCI

Kanoria Chemicals & Industries Limited

ANNUAL REPORT 2014-15

Kanoria Chemicals & Industries Limited

COMPANY SECRETARY
N.K. Sethia

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CHIEF FINANCIAL OFFICER
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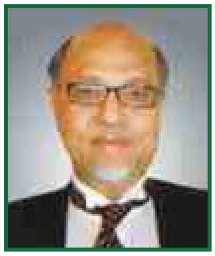
BANKERS
DBS Bank Limited
HDFC Bank Limited
Yes Bank Limited

R V Kanoria
Chairman &
Managing Director

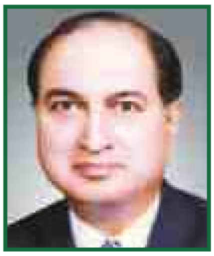
M Kanoria

H K Khaitan

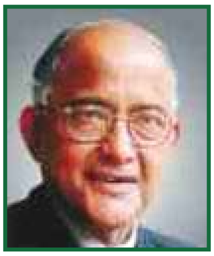
Amitav Kothari



Ravinder Nath



G Parthasarathy



S L Rao

A Vellayan

T D Bahety
Wholetime Director

Board of Directors

Kanoria Chemicals
& Industries Limited

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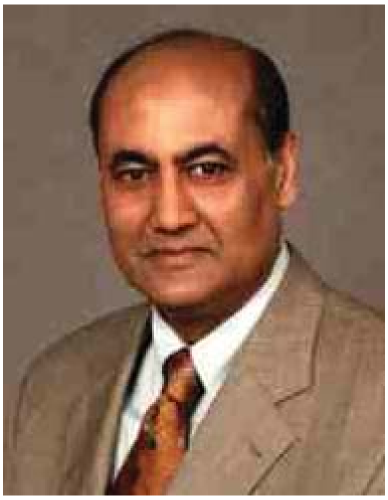

Chairman's Statement

The Indian macroeconomic situation is good. Economic growth has improved and inflation is holding. The balance of payments is more favourable compared to last year and the Rupee continues to be stable. The impact of the announcements of the new government has been positive and sentiments have improved. Revival of stalled projects awaiting environmental clearance has also enhanced business optimism. The government has been fortunate as oil prices have remained depressed, and the concerns of a below normal monsoons have been eased with revised prediction of normal rainfall during the season.

Business looks forward to these translating into rising demand and increasing investments particularly in infrastructure and industry. The mood is expectant and positive in the wake of projections of higher growth and the intent of the government to simplify rules of conducting business.

Global economic growth shows modest revival though the Greek crisis in the Eurozone looks far from over. In Asia, some slack in the Chinese industrial output provides India additional leverage to strengthen its position as an attractive investment destination for manufacturing activity.

Despite the macroeconomic stability and strong fundamentals, business and investment are yet to pick up. The government has taken many steps to improve sentiments of the market. This is reflected in the buoyancy of the stock markets. Amidst these positive sentiments, however, the question remains whether or not things have changed on ground.

The coal block allocation process has been conducted smoothly. Amendment in labour laws in three states could have a cascading nationwide impact in improving opportunities for employment. There is hope that the roadmap of reduced corporate tax announced in the union budget will take place on schedule. These measures on fructification will further improve ground realities of conducting business. We hope that the government will accelerate implementation of these measures.

Contradictory signals obfuscate matters and lead to confusion. While the government has taken cognizance of the issue of tax terrorism, there is a gap between announcements and actual actions. Cost of capital continues to remain high despite macroeconomic improvements and reduction of rates of interest which is not being passed on to borrowers. Stimulation of demand is critical. Sectors such as automobiles, durables, FMCG and real estate stand to receive an impetus if interest rates come down. This would also improve capacity utilization leading to further investment.

Business unfriendly taxes such as MAT and DDT must be reviewed and repealed. This would also go a long way in building investor confidence.

The Land Acquisition Act continues to face debate and divergent viewpoints. It is an important element influencing investment decisions and must receive the government's immediate attention to resolve issues.

Another fundamental issue is the ease of doing business in the country. Apart from deep reforms in economic policy and procedures, the central objective must be to move towards self regulation, less government and more governance and reduction of discretionary powers of the bureaucracy. The majority mandate that the government holds provides it the unique opportunity to initiate pending reforms. While the results of such action could still take time to show results, business patiently waits with considerable expectations and the hope of improving economic performance of the country.

I am pleased to report that it was another profitable year for Kanoria Chemicals & Industries Limited (KCI) though it faced several challenges in a period of low demand, high inflation and interest rates, and generally suppressed economic conditions coupled with expansion plans in new geographies.

During the year, KCI received the ET Bengal Corporate Award, 2015 as the year's fastest growing company in its turnover category.

After divesting our Chlor-Alkali business at Renukoot in Uttar Pradesh in the year 2011, the Company charted out a plan to invest in higher value added products and high technology areas. The expansion in phenolic resin manufacturing was one such step that we undertook two years ago. We plan to continue to strengthen this approach and move away from just being a manufacturer of quality commodity chemicals to expand our portfolio to include niche high value products. Our resin plant is being expanded in a phased manner in consonance with this philosophy.

The Company's solar power generation facility near Jodhpur in the state of Rajasthan continued to operate satisfactorily. Our plant has one of the highest performance ratios in the country. The renewable energy sector, however, continues to face policy and procedural difficulties. The Renewable Purchase Obligation, in particular, would need to be enforced to make projects in this sector viable.

The Company's wholly owned subsidiary APAG Holding AG (APAG), Switzerland was able to strengthen its position as a leading designer and manufacturer of automotive and industrial electronic and mechatronic modules and components. Last year I had reported about its expansion plan and constructions of a new facility at Pardubice, Czech Republic. The high technology facility was completed in record time and is operational. During the year, APAG also acquired CoSyst Control Systems GmbH based in Nuremberg, Germany. CoSyst which is engaged in development of specific automotive electronic products is a strategic fit for APAG's expanding operations. With this acquisition, APAG will have a wider European base spread over Switzerland, the Czech Republic and Germany.

The other subsidiary of the Company, Kanoria Africa Textiles plc is now almost ready to commission its Greenfield project in Ethiopia for the manufacture of Denim fabric. The process of setting up the project has been challenging in an unknown environment and has been a huge learning experience for us. We witnessed delays on account of the complexities in the business environment and our own lack of experience in overseas projects. We are now better acclimatized with the business environment of Ethiopia and our learning will help us to make the foundations of our business stronger.

The Company's diversification plans are progressing well and coupled with our management philosophy of ethical business practices, sustainable policies and good governance, we are positioned well to a promise of profitable future.

R V Kanoria
Chairman & Managing Director

The Year in Review

The economy did not pick up as expected during 2014-15. The macroeconomic situation, however, remained positive with higher economic growth and inflation remaining under control. Expectations are high that government policies and announcements would translate to on ground activities which could provide a deep impetus to industrial revival and economic growth.

The Company's ingrained vigil on costs, coupled with its good governance, ethical business practices and sustainable policies provided it the strength to meet the challenges and complete a profitable year of business.

In February 2015, KCI received the ET Bengal Corporate Award for being the fastest growing company in its turnover category during the year.

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

MANAGEMENT DISCUSSION & ANALYSIS

FINANCIAL PERFORMANCE WITH RESPECT TO OPERATIONAL PERFORMANCE

During the year under review, the Revenue from Operations was at Rs. 3,107 million as compared to Rs. 3,398 million in the previous year. The Profit before exceptional and extraordinary items and Tax was at Rs. 169 million as against Rs. 346 million in the previous year. The Net Profit for the year was Rs. 153 million as against Rs. 273 million in the previous year.

The Shareholder's funds increased to Rs. 4,897 million as against Rs. 4,823 in the previous year and the Long Term Borrowings decreased from Rs. 504 million in the previous year to Rs. 288 million during the year under review.

On a consolidated basis, the Revenue from Operations was at Rs. 5,309 million as compared to Rs. 5,414 million in the previous year and the Net Profit for the year was Rs. 123 million as against Rs. 337 million in the previous year.

ALCO CHEMICALS SEGMENT

Industry structure and development

The Alco Chemicals Division comprises two manufacturing facilities - one at Ankleshwar in the state of Gujarat, and the other in Visakhapatnam in the state of Andhra Pradesh. The Ankleshwar facility manufactures Formaldehyde and other value added products, including Pentaerythritol, Sodium Formate, Acetaldehyde and Hexamine. The Vizag facility manufactures Formaldehyde, Hexamine and Phenolic Resins.

Opportunities

- Growth in value added products, such as straight and modified Phenolic resins.
- Shift from natural gas to solid fuel for steam generation, thereby reducing production costs.
- Upgrade technology to increase production and reduce costs.
- Offer value added services such as contract research and manufacturing.

Threats

- Slow growth of the manufacturing and construction sectors (the main consumers) could affect demand.
- Cheaper imports and dumping of Pentaerythritol and Hexamine could squeeze margins.

Performance

The operations of the Alco Chemicals Division remained stable during the year. There was an increase in sale of Pentaerythritol. The capacity utilization of the Vizag plant continued to grow year-on-year.

Outlook

- Growth impetus in the manufacturing sector expected to improve demand for Alco Chemicals in the country.
- Continuous improvement in technology should result in stable operations.
- Stability of rupee and pricing of Methanol will prevent volatility.
- No significant improvement in margins.