Kanoria Chemicals & Industries Limited

ANNUAL REPORT

2018-19

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Registered Office
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Email: info@kanoriachem.com

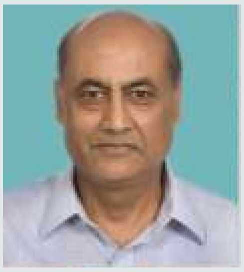
Company Secretary
N.K. Sethia

Group Chief Financial Officer
N. K. Nolkha

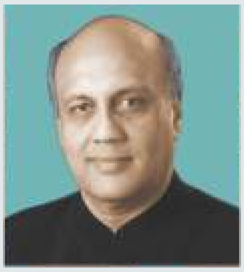
Auditors
J K V S & Co.
Nandlal Jew Road
Kolkata – 700 026

Bankers
DBS Bank Limited
HDFC Bank Limited
Yes Bank Limited

BOARD OF DIRECTORS



Mr. R.V. Kanoria



Mr. Sidharth K. Birla

Mrs. M. Kanoria

Mr. H.K. Khaitan

Mr. Amitav Kothari

Mr. Ravinder Nath

Mr. G. Parthasarathy

Mr. A. Vellayan

Mr. S.V. Kanoria


DM WATER PUMP
TAG NO
CAPACITY
HEAD

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CHAIRMAN'S STATEMENT

There is a new majority government at the Centre. The continuity in leadership will help and we can expect speedier implementation of work already started. Even though the country is faced with economic slowdown, we are confident that the government is fully engaged for finding the right policy measures.

Stimulating investment in the economy, particularly private sector investment is crucial. India has so far banked on a consumption led growth model. It is perhaps time for a two pronged approach of consumption and investment led model. Towards this objective, concerted efforts are required to revisit and realign policies, especially fiscal and taxation policy, to create a supportive environment that promotes investment in the economy.

The rural economy continues to face distress and agriculture performs lower than potential. This eventually also impacts industry. Pending issues in agriculture must be dealt with as quickly as possible keeping in view the large number of people directly dependent on this sector.

Five years back, we embarked on diversification of operations of the Company, both in terms of business and geography. Our initiatives have met with success in automotive electronics segment where the topline growth of our subsidiary APAG Holdings has been almost four times during the period of our engagement. During the year, the company launched a new production facility in Windsor, Canada which is in close proximity to the automotive hub of the Detroit area in the United States and would provide the company better access to the North American market.

Our investment in Ethiopia for the manufacture of Denim continues to be stressed. Some challenges have been addressed but more still remain, such as in marketing and supply chain functions. Towards partial mitigation, we have commenced garmenting but desired outcome is yet to be realized. We are looking for alternative solutions including induction of a strategic partner.

The chemicals business of the Company is cyclical in nature. I am happy to report that our plants in Ankleshwar and Vizag are efficient and despite sluggish conditions in the market and high volatility in the prices of raw materials, the performance this year was better than last year. The plants are ready for moving up the value chain, from commodity chemicals to specialized ones. We have invested in a third plant at Naidupeta in the state of Andhra Pradesh which is at an advanced stage of completion and is expected to commence production in the year 2019.

The consolidated accounts of the Company for the year 2018-19 report losses. This is primarily because of the investments made during the year. Returns are not reflecting immediately and we expect this to happen after a reasonable gestation period.

In the coming year, we expect the global slowdown in the automotive sector to continue. This will have some impact on our operations. There are uncertainties in the strategic direction of the automobile industry, particularly with regard to introduction of electric vehicles.

There is a need to be conscious of the challenges facing our business. We are looking at the future with optimism. With better access to new markets and expanding customer base, we remain confident of a fruitful year ahead.

I would like to acknowledge the hard work put in by our dedicated team in the Company and all its subsidiaries in challenging circumstances.

R. V. Kanoria
Chairman & Managing Director

THE YEAR IN REVIEW

The Indian economy during the year 2018-19 showed signs of a slowdown with depressed market conditions. With a majority government at the Centre, continuing leadership is expected to complete policy initiatives already undertaken and provide the required fillip to growth of industry.

A fundamental requirement to rejuvenate flat industrial output is increasing investment in the economy. Private investment in particular has remained sluggish. A favourable policy environment is necessary to facilitate higher investment. The consumption led growth model needs to be strengthened by a twin focus on investment and consumption.

The agriculture and rural economy has a strong impact on the performance of industry and services sectors. In addition to subsidies, grants and debt waivers, agriculture more importantly requires a big push through concerted action on pending reforms.

The operations of the Company continued to follow the foundations of a constant vigil on costs, good governance, ethical business practices and sustainable policies.

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

The Company delivered improved performance despite volatility in the prices of key raw materials owing to better operational efficiencies.

The Revenue from Operations increased by 32% to Rs. 4,475 million as against Rs. 3,387 million (excluding excise duty applicable till June 2017) in the previous financial year. The EBITDA improved from Rs. 365 million in the previous year to Rs. 399 million in the current financial year. The Profit before tax increased from Rs. 82 million to Rs. 107 million after accounting for loss of exceptional nature on fair value of investment as explained in Note 27 to the Financial Statements. The Profit for the year was at Rs. 77 million and Total Comprehensive Income at Rs. 76 million as against Rs. 56 million and Rs. 32 million respectively in the previous financial year. The Earning per Share improved from Rs. 1.28 in the previous financial year to Rs. 1.75 in the current financial year.

APAG CoSyst Group engaged in Electronic Automotive segment under APAG Holding AG, the Switzerland based subsidiary of the Company, continued to deliver improved revenue which increased by 26% at Rs. 5,237 million as against Rs. 4,152 million in the previous year. The EBITDA however declined from Rs. 332 million to Rs. 246 million primarily on account of higher material costs caused by unprecedented shortage in the availability of electronic components, a key raw material of the company, as also on account of non capital costs incurred in setting up a Greenfield production facility in Canada. APAG CoSyst Group incurred a net loss of Rs. 47 million after accounting for exceptional cost of Rs. 26 million incurred towards issue of new equity shares to an investor at almost 100 times the face value.

Kanoria Africa Textiles plc (KAT), another foreign subsidiary of the Company based in Ethiopia continued to demonstrate improved performance and efficiency. The Revenue from this segment increased by 24% from Rs. 828 million in the previous year to Rs. 1,023 million in the current financial year. The EBITDA improved from Rs. 142 million in the previous year to Rs. 164 million in the current financial year. The increased incidence of Depreciation on new capital expenditure and Finance cost on account of higher borrowings to meet its requirement towards capital expenditure and working capital as also on account of higher rates, however, led to a loss of Rs. 234 million as against a loss of Rs. 116 million incurred during the previous financial year.

The Consolidated Revenue from Operations increased by 28% to Rs. 10,735 million as against Rs. 8,368 million (excluding excise duty applicable till June 2017) in the previous financial year. The consolidated EBITDA for the year was Rs. 759 million as against Rs. 800 million in the previous financial year. The consolidated loss after accounting for exceptional costs of Rs. 54 million for the year was at Rs. 195 million and total comprehensive loss for the year was Rs. 197 million. The total comprehensive loss at consolidated level attributable to the Shareholders of the Company was at Rs. 151 million.

Plant at Naidupeta, Andhra Pradesh

Vizag-Resin Plant

Key Financial Ratios

	2018-19	2017-18
Debtors Turnover	7.09	6.30
Inventory Turnover[1]	15.81	7.95
Interest Coverage Ratio	8.15	8.55
Current Ratio	1.31	1.36
Debt Equity Ratio[2]	0.08	0.03
Operating Profit Margin (%)[3]	5.95%	3.80%
Net Profit Margin (%)	1.66%	1.51%
Return on Net Worth[4]	1.26%	0.92%

[1] Inventory turnover was better because of improved inventory management.

[2] Debt Equity ratio increased primarily on account of new loans taken for setting up a chemical plant in India as also to fund international operations.

[3] Operating profit Margin improved primarily on account of better operational efficiencies.

[4] Return on Net Worth improved primarily on account of better profit.

Alco Chemicals Segment

Industry structure and development

The Alco Chemicals Division of the Company produces Formaldehyde and other value added products, including Pentaerythritol, Hexamine, Sodium Formate, Acetaldehyde and Phenolic Resins.

The Company's Formaldehyde plants use the FORMOX process, which ensures lower operational cost and higher product purity. The Company is one of the only Indian manufacturers operating on this technology. The Pentaerythritol and Hexamine manufacturing technologies have been developed in-house by the Company and has been refined over the years to compete globally on cost and quality.

The state-of-the-art resin production plant of the Company has a collaborative agreement with Hexion Inc. - the global leader in thermoset resins, and ASK Chemicals – a global player in foundry solutions and resins. These collaborations enable the Company to add specialized, high-value products to its manufacturing portfolio.

Opportunities

- The Company is setting up a new Formaldehyde plant at Naidupeta in the state of Andhra Pradesh, which is expected to be operational during 2019-20. This would enable the Company to cater to markets in South India where new manufacturing capacities for wood products is coming up. Considering the high volume nature of the product and high cost of transportation, the Company is currently only able to service Formaldehyde consumers in the West (from the Ankleshwar plant) and East (from the Vizag plant) of India.
- Phenolic resins are used in a wide variety of applications. There is great potential for developing high value resins through continuous research. Considering the positive guidance from the market, the Company is considering to expand capacity.
- Technology infusion and implementation of business excellence initiatives to increase production and reduce costs.

Threats

- Inordinate fluctuations in Methanol and Phenol prices could affect margins, and possibly have a negative overall impact on profitability due to inventory carrying risk.
- Cheaper imports of Pentaerythritol or Hexamine could reduce margins.

Performance

- The operations of the Alco Chemicals Division remained stable during the year. Production and sale of products of the Division were higher compared to the previous year.

Outlook

- Higher growth in the manufacturing sector expected to improve demand for Alco Chemicals in the country.
- The Government's focus on infrastructure and affordable housing should result in increasing overall demand for Formaldehyde, Pentaerythritol, Hexamine and Phenolic resins.
- While the production and revenues are expected to be higher, improvement in margins is unlikely.

Solar power segment

Industry structure and development

The Company's Solar Power Division located at Village Bap in Jodhpur District in the state of Rajasthan is engaged in the generation of power from solar energy using Photo Voltaic (PV) technology. The project was set up under the Renewable Energy Certificate (REC) scheme.

Solar Panels, Bap-Rajasthan