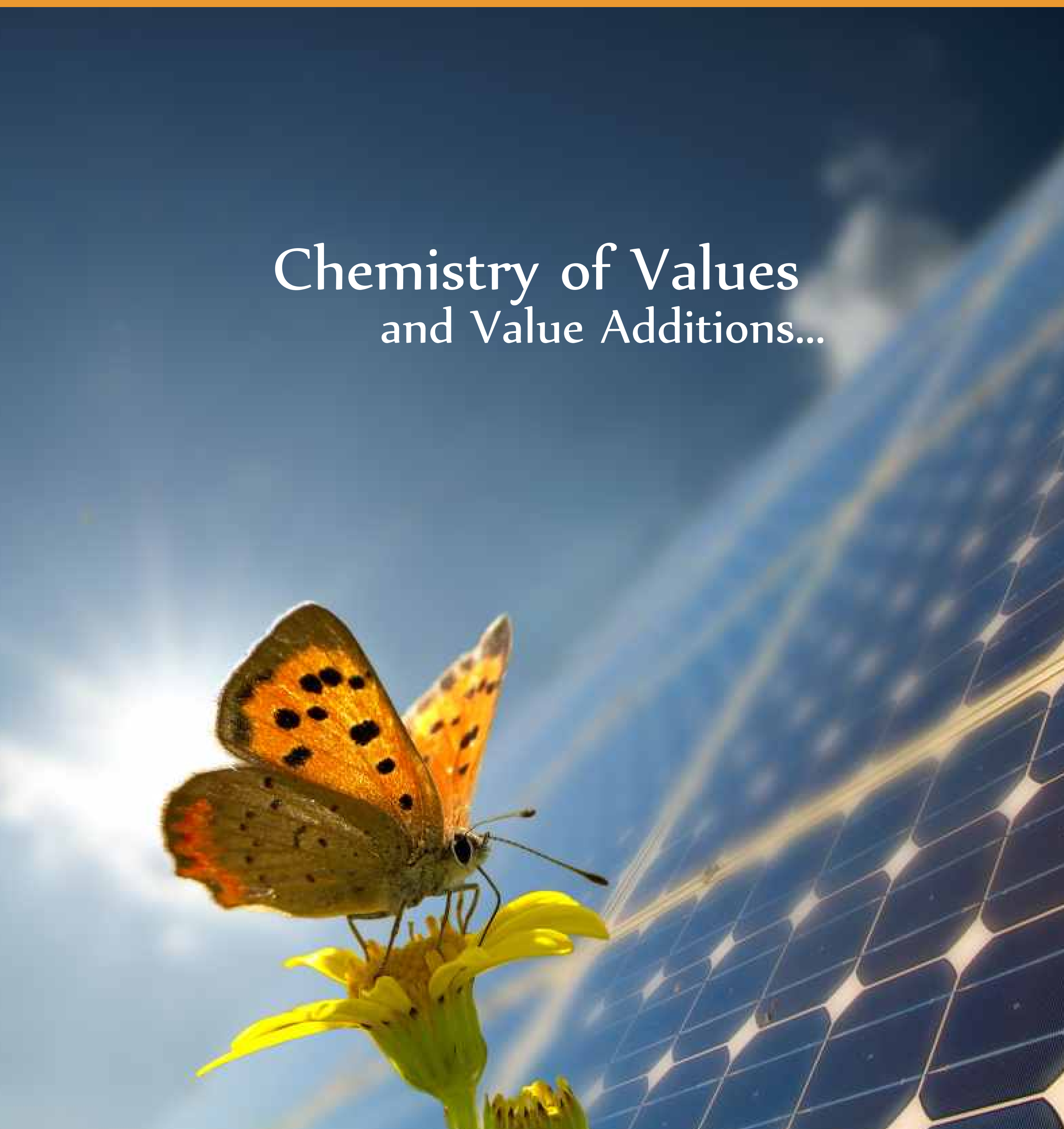
Kanoria Chemicals
&Industries Limited

ANNUAL REPORT
2011-12

Chemistry of Values
and Value Additions...



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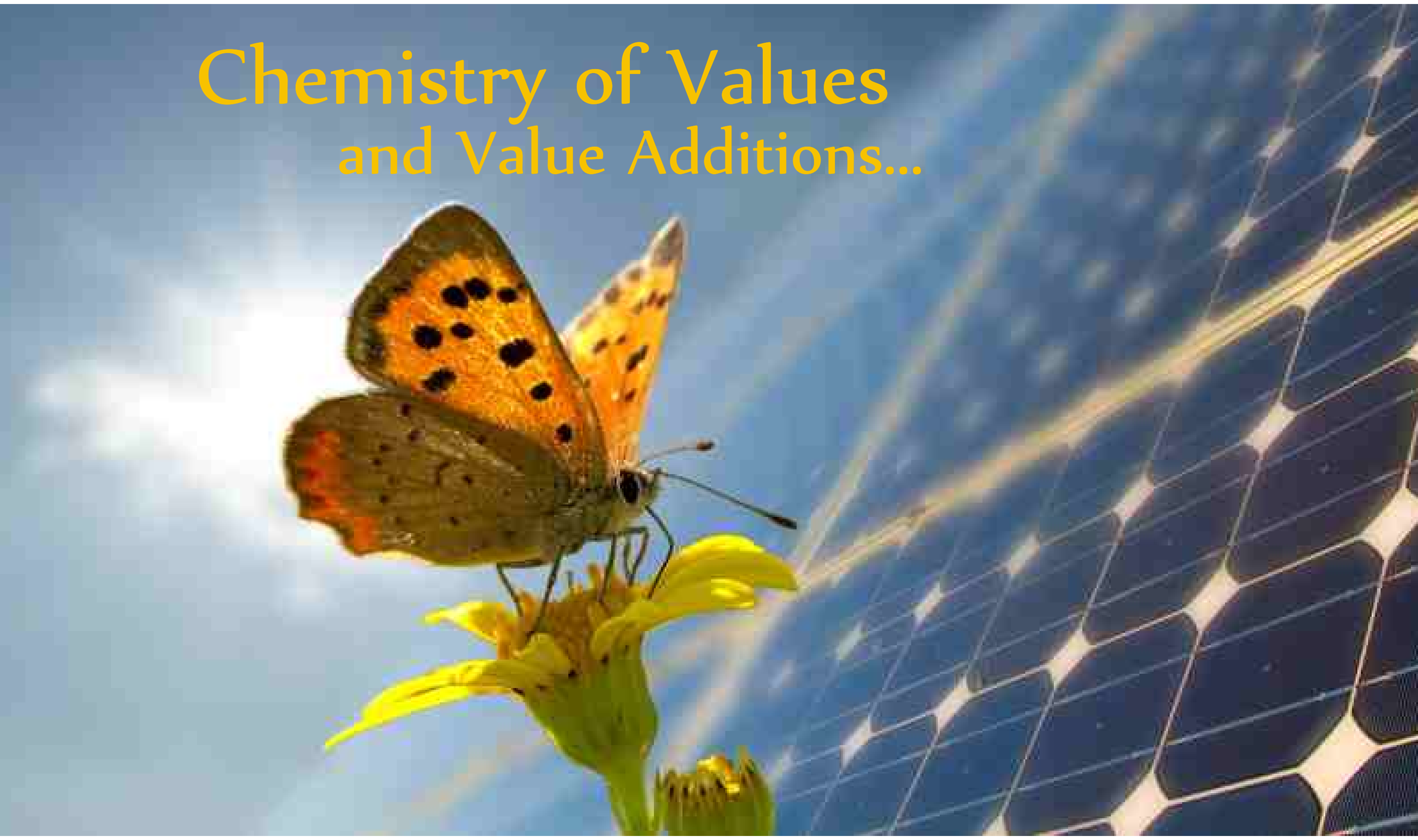

COMPANY SECRETARY

N.K. Sethia

AUDITORS

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

BANKERS

DBS Bank Limited
HDFC Bank Limited
UCO Bank
Yes Bank Limited

REGISTERED OFFICE

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

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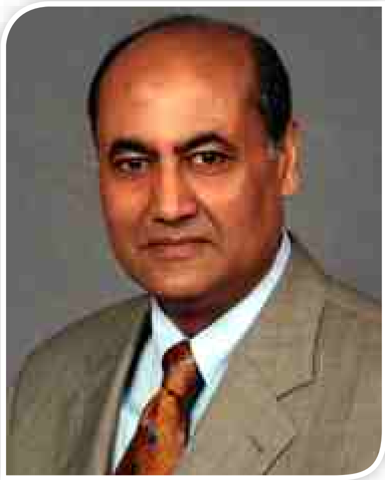

R V Kanoria

Board of Directors

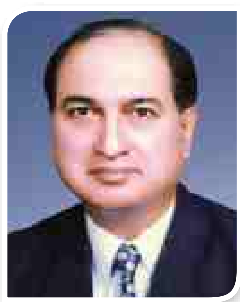

Ravinder Nath

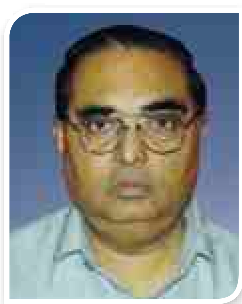

Amitav Kothari


H K Khaitan


B D Sureka


S L Rao


G Parthasarathy


T D Bahety


J P Sonthalia


A Vellayan


KCI
Kanoria Chemicals
& Industries Limited

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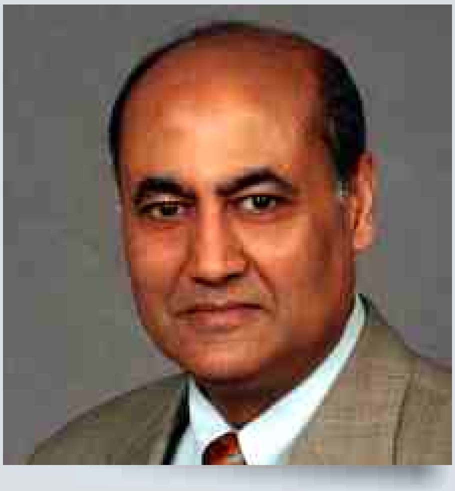
Chairman's Statement



The year 2011-12 was a difficult one for businesses in India with a downturn in economic growth. High inflation and a consequent tight monetary policy impacted investments. The high fiscal deficit and increased government spending on welfare crowded out private borrowing. It is imperative for India to bring investment back so that the already acute supply side problems are not accentuated in the future.

The recovery in the global economy is slow and emerging economies of Brazil, India and China are all facing a slowdown. The Eurozone crisis continues and is throwing up new challenges. Although the World Bank believes that the contagion effect of the slowdown in developing countries in the current year would not be the determining factor for economic performance, concerns remain on the adverse impact of developments in Europe on the rest of the world. It is, however, evident that country specific productivity and sectoral factors would be the key drivers of economic growth.

While the prospects of a growth revival in the Indian economy appear positive, there are several challenges that need to be addressed quickly. The most important among these is the imperative of all political parties to come together on matters of economic policy and future course of reforms. The atmosphere of ennui has to be swiftly removed through measures that boost the confidence of industry. I am sure that the government is capable of rising to the occasion despite its coalition nature as was demonstrated during the balance of payment crisis in 1991, then in 1998 during the Asian currency crisis, and then again during the global economic recession in 2008.

The reforms need to get back on track and some big ticket policy announcements can revitalize the economy. The power of the Goods & Service Tax (GST), for instance, has not been fully recognized by everyone. Lack of passage of this bill has belied the expectation of industry, especially when the implementation would clearly have a two-pronged benefit of higher revenues and better tax administration that can bolster the confidence of industry. In my opinion, implementation of GST can add 2% to GDP growth and also improve tax compliance.

Providing impetus to promote investments in the economy is crucial for revival of economic growth. Growth of gross fixed capital formation has declined significantly since 2008 from about 15% to the current 5.6% in 2011 12. This trend needs to be reversed with measures such as providing accelerated depreciation, re-introducing investment allowance and scrapping the Minimum Alternate Tax for infrastructure projects. I believe that these measures can boost investments in the economy without significantly affecting government finances.

The persistent high inflation is largely on account of supply side factors and attempts to control it through tight monetary measures have only compounded the problem. For improving supply, interest rates have to go down which would prompt increase in investment and, therefore, enhance supply of goods and services.

A common thread for both domestic and foreign investment to remain attractive and competitive is the access to physical infrastructure. Electricity generation, for instance, has remained lower than the current demand, leave alone future requirement of new industrial projects. It is inadequate even in terms of growing at the same rate as the economy. Shortfalls in this area have not only adversely impacted manufacturing growth, but have also resulted in fiscal drain. State control on inputs to the power sector, be it coal, oil or natural gas, propped up with inefficient subsidies needs immediate correction.

This presents a strong case for privatization of the coal sector, as well as removal of petroleum subsidies, even if it requires a one-time correction in fuel prices. I believe it is a better option to brace for this correction rather than allow state controlled oil and coal companies to perpetually incur losses and be supported by the exchequer.

It is an extremely busy year with a tremendous learning opportunity for me as the President of the Federation of Indian Chambers of Commerce and Industry (FICCI). I am deeply satisfied with the experience and feel that we have been able to raise important economic issues and our suggestions have impacted government policy. Doing so in an environment of economic slowdown is a challenge.

During the year, the Company commissioned the 5,600 TPA Hexamine plant at our integrated chemical complex at Vizag. The capacity at our Ankleshwar plant was also expanded by 2,000 TPA during the year. This takes up our combined capacity at both locations to 11,600 TPA, and firmly establishes the Company's leadership in this segment.

A year after divestment of our Chloro Chemicals Division at Renukoot, the Company has been exploring diversification in knowledge based and environment friendly high growth areas. The sectors of focus in this diversification are renewable energy, automotive components and textiles, as well as towards expanding the Company's international footprint.

KCI strengthened its portfolio in renewable energy, an area which we have nurtured over the years. The Company's maiden foray into solar power by way of a 5 MW grid-interactive project in Phalodi, in the Jodhpur district of Rajasthan began trial runs in the month of June 2012. Although this does not strictly pertain to the year under report, I believe that these initiatives would determine the character of the Company in the coming years and therefore constitute an important milestone for the Company.

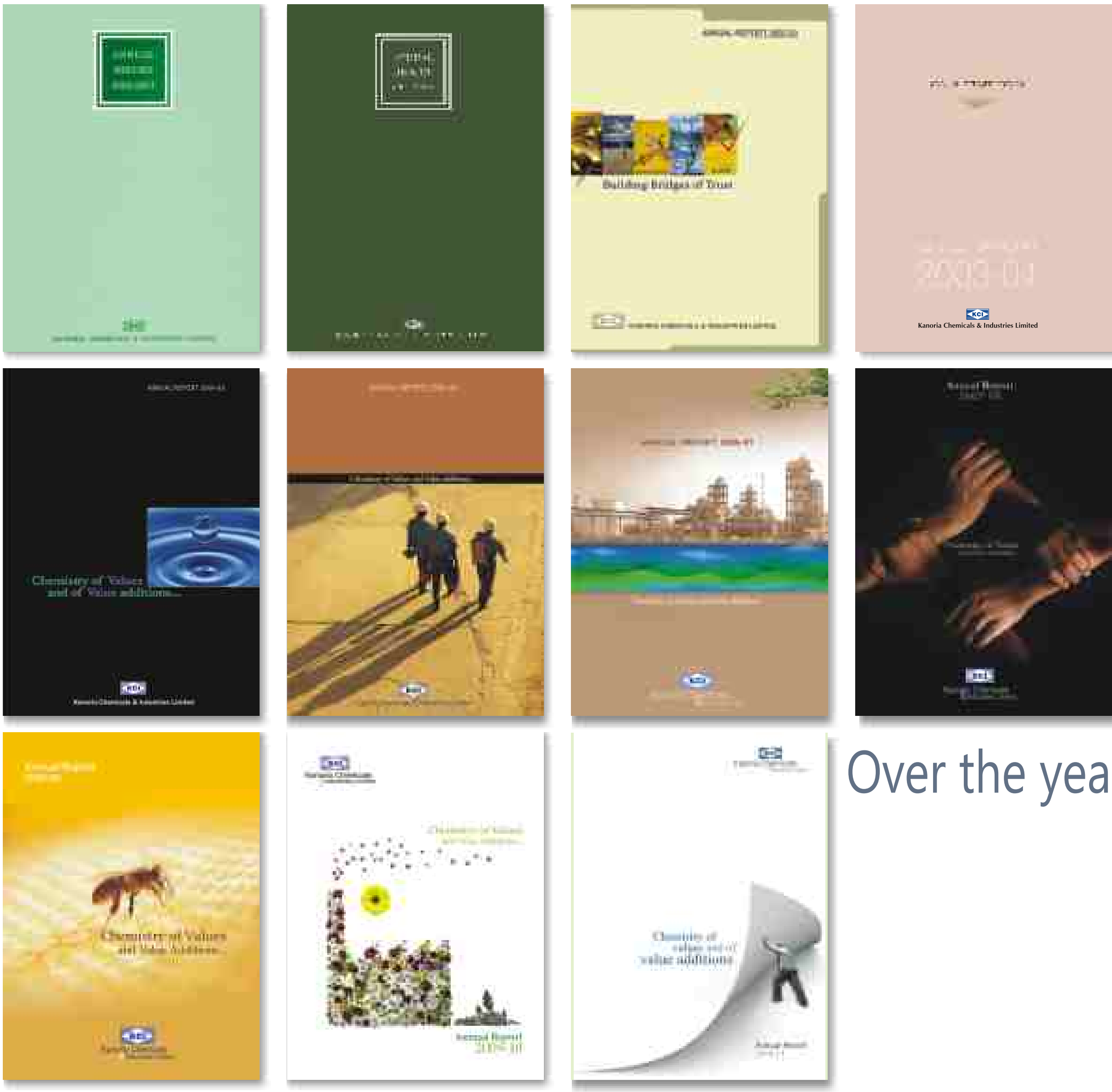
The other important diversification initiative of the Company was the acquisition of the APAG Group based in Zurich, Switzerland. APAG is known for its capability in product designing and engineering, and manufactures electronic and mechatronic modules and control devices at its facility located in the Czech Republic. It is a reliable partner to the high end automotive segment in Europe. With fast increasing demand in the high end automotive segment both in India and the rest of the world, the knowledge base of APAG can be leveraged for future expansion in various geographical segments. We are excited, as it is KCI's first global foray in manufacturing, apart from being the first move towards diversification away from commodity chemicals into knowledge based high value addition sectors.

The Company is setting up a Greenfield textiles manufacturing project in Ethiopia. Future economic growth would be driven by Africa and the Company intends to create a foothold for future expansions.

KCI has undoubtedly embarked on the next phase of its journey. We are confident that the diversification of our product range and geographical spread would stand the Company in good stead in the coming years. We believe that our five decades of experience in running successful businesses with a continuous vigil on costs, choice of technologies and deep commitment to sustainable development have fortified us to look to the future with optimism.

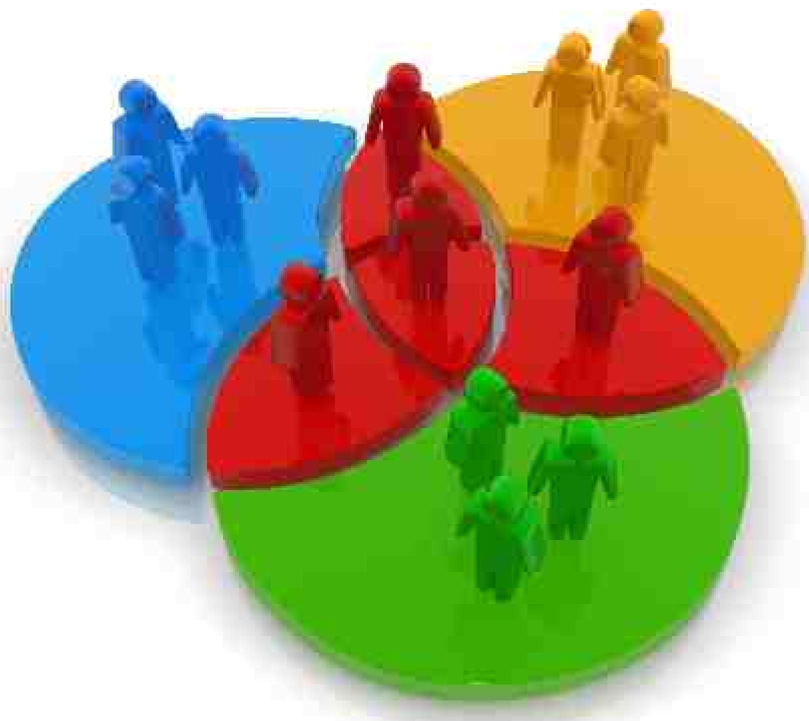
R V Kanoria
Chairman & Managing Director

Kanoria Chemicals & Industries Limited



Over the years ...

Sustaining Growth



Striving for excellence and ensuring sustainable development at Kanoria Chemicals & Industries Limited (KCI) is a continuous process. The process includes consolidating the strengths that the Company has developed over the years, as well as leveraging external opportunities.

The unblemished record of growth and profitability of the Company is attributable to the KCI's policies on sustainability and transparency. The Vision Statement and the Corporate Responsibility Policy of the Company emphasizes adherence to best practices in corporate governance and environment management. KCI's practices in this area have been recognized by way of several awards including the coveted TERI Award for Corporate Excellence in Environment Management.

KCI has invested carefully in the best available technology. Along with efforts towards sustainable development, this has defined the framework of the Company's growth strategy. Based on these tenets, the Company over the years has developed a competitive edge in terms of low manufacturing costs, product quality and good manufacturing practices. KCI currently has market leadership in India in three of the products it manufactures, namely Pentaerythritol, Hexamine and Formaldehyde.

Innovation for sustainable development is an area of thrust for the Company. Management of waste in the chemicals industry is critical and KCI has demonstrated its commitment not only through statutory compliance but also proactive waste management initiatives. One such initiative is the Company's 'Waste to Wealth' programme run at its Alco Chemicals Division at Ankleshwar in Gujarat. The programme is based on the treatment of distillery effluent in a three pronged approach.