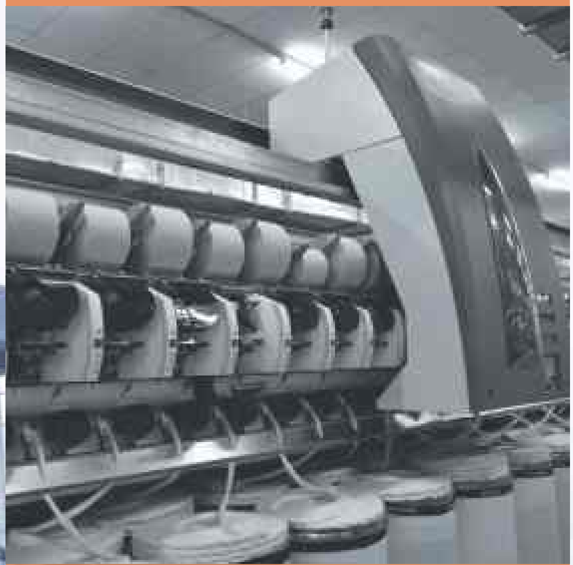

ANNUAL REPORT

2016-17

Kanoria Chemicals & Industries Limited

Registered Office

'Park Plaza'
71, Park Street
Kolkata – 700 016
CIN: L24110WB1960PLC024910
Phone: +91-33-40313200
Fax: +91-33-40313220
Email: info@kanoriachem.com

Company Secretary

N.K. Sethia

Group Chief Financial Officer

N. K. Nolkha

Auditors

Singhi & Co.
161, Sarat Bose Road
Kolkata - 700 026

Bankers

DBS Bank Limited
HDFC Bank Limited
Yes Bank Limited


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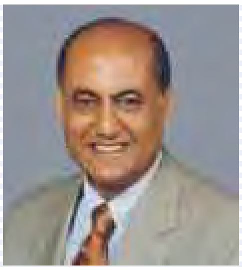
BOARD OF DIRECTORS


Mr. R.V. Kanoria


Mrs. M. Kanoria


Mr. H.K. Khaitan


Mr. Amitav Kothari


Mr. Ravinder Nath


Mr. G. Parthasarathy


Prof. S.L. Rao


Mr. A. Vellayan


Mr. S.V. Kanoria

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CHAIRMAN'S STATEMENT

There is a new found confidence in India and the country's macroeconomic indicators are strong. The perceptions amongst the overseas investing community remain positive and strong. Foreign direct investment is flowing in. The Government is making serious attempts towards ease of doing business and inter-state competition amongst the states is helping this process.

Private investment, however, continues to remain sluggish. It seems that the impact of the unparalleled move of demonetisation of high currency notes is yet to completely wear off. The implementation of GST augurs well for the future, both in terms of simplifying tax regime as well as improving compliance. The short term impact, however, of both the demonetisation as well as the GST is likely to delay the revival in private investments. Inflation seems to be well under control and expected easing of monetary policy and fall in interest rates will further stimulate growth.

After the divestment of our Chlor Alkali business, the Company had diversified into electronic automotive components, textiles and renewable energy. The electronic automotive components business, headquartered in Switzerland, has shown continuous growth. During the year, there was remarkable turnaround in profitability and going forward, the business shows promise with a full order book for the next three years. The Company's strategy is to realign its focus on development of products, concentrating primarily on concept lighting. It is also embarking on its second phase expansion project at its production facilities in the Czech Republic.

The textiles business in Africa is suffering from the pangs of gestation. Production and quality have improved substantially, however in the absence of a yet to develop upstream garmenting industry, margins are under severe pressure and losses continue. Fresh investment in garmenting industry is happening in Ethiopia, however, it will take time for this effect to be felt.

With regard to our chemical business, technological upgradation of the production facilities at Ankleshwar is on the way and a single-stream Formaldehyde Plant replacing older plants will be commissioned by September this year. The focus at our Vishakhapatnam facilities is on value added products including phenolic resins. The Company is also looking at a third manufacturing location to cater to the demand of its existing customers who are expanding their capacities in that location.

In the renewable energy segment, Government policy on Renewable Purchase Obligation Scheme continues to be weakly implemented and there is inadequate enforcement of obligation to purchase Renewable Energy Certificates (RECs). Further, the prices of RECs were unilaterally reduced without commensurate adjustment in the number of RECs. This is being collectively contested through the Green Energy Association and the Indian Wind Power Association, the two concerned trade bodies in India and the matter is in the Supreme Court of India.

In the coming year, chemicals and automotive electronics businesses should continue to perform well, while the textiles business will continue to be under pressure. We are however, confident that the Company is in a strong position to leverage the positive sentiments in the Indian economy and its stable macroeconomic environment.

R. V Kanoria
Chairman & Managing Director

THE YEAR IN REVIEW

The year 2016-17 witnessed relatively flat economic growth and a weak impetus in industrial production. There was, however, a newfound confidence in corporate India as a result of government initiatives for improving the ease of doing business.

A significant reform that unfolded during the year was the rolling out of the Goods & Services Tax (GST). Indian business is adapting to this change. Once the initial hiccups are ironed out, a nationwide GST is not only expected to provide a homogenous Indian market, but also result in efficiencies in tax administration that should boost economic growth.

The other disruptive and bold action of the government during the year was the demonetisation of high denomination currency notes. The effects of this are yet to settle down and the extent of impact of this action on the economy has been difficult to measure. Private investment, which has remained sluggish, is expected to improve with better capacity utilization, the maturing of GST, restoration of cash in the system after demonetisation, and, in particular, expected fall in interest rates, now that inflation is under control.

The Company continued to build its strengths on 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

During the year under review, Revenue from Operations decreased marginally from Rs. 3,298 million to Rs. 3,274 million. The Profit before tax and exceptional items, however, grew by 23% from Rs. 223 million in the previous year to Rs. 275 million in the current financial year. The Company following conservative principles of accounting booked a loss of Rs. 184 million towards write down in the values of Solar Power RECs on the basis of notification issued by the Central Electricity Regulatory Commission reducing the floor price of RECs and the same has been shown as Exceptional Item in the Statement of Profit & Loss. After accounting for MAT Credit entitlement pertaining to earlier years, the Profit for the year grew by 10% from Rs. 170 million in the previous year to Rs. 187 million in the current year. The Total Comprehensive Income grew by 26% to Rs. 189 million as against Rs. 149 million in the previous year. The Earnings per Share for the year was Rs. 4.28.

At Consolidated level, Revenue of APAG Holding AG (APAG), the Switzerland based subsidiary of the Company engaged in Electronic Automotive increased by 35% from Rs. 2,682 million to Rs. 3,615 million. Kanoria Africa Textiles plc (KAT), the other major subsidiary of the Company also started commercial production during the year and had Revenue from Operations of Rs. 449 million. The total Consolidated Revenue from Operations grew by 23% to Rs. 7,337 million as against Rs. 5,979 million in the previous year. The Segment Result of APAG improved significantly from a loss of Rs. 213 million in the previous year to a Profit of Rs. 19 million in the current year. KAT incurred a loss of Rs. 276 million in its first year of operation and as a result the Company incurred a Consolidated Total Comprehensive Loss of Rs. 233 million (of this Rs. 144 million attributable to the Shareholders of the Company) as against Rs. 91 million (attributable to the Shareholders of the Company) in the previous year.

Alco Chemicals Segment

Industry structure and development

The 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, a world class Formaldehyde manufacturing technology with lower operational cost and higher product purity compared to competitors. The Company is the only Indian manufacturer operating on this technology.

The Pentaerythritol and Hexamine manufacturing technologies have been developed in-house by the Company. Over many years, these have been (and continue to be) refined to compete globally on cost and quality.

For Phenolic Resins, the Company has entered into manufacturing and technology collaborations with Hexion Inc. - the global leader in thermoset resins, and ASK Chemicals – a global player in foundry solutions and resins. These collaborations have happened as a result of the Company's state-of-the-art resin production plant, and are enabling it to add specialized, high-value products to the manufacturing portfolio.

Opportunities

- Currently, the Company is only able to service Formaldehyde consumers in the West (from the Ankleshwar plant) and East (from the Vizag plant) of India. This is due to the high cost of transporting Formaldehyde, making it unviable beyond a radius of about 800km. The Company has an opportunity to supply to consumers in the South and North, by setting up new plants. Large new manufacturing capacities for wood products (big consumers of Formaldehyde), are scheduled to be operational in the next three years, in the South and North. This will substantially increase demand.
- Phenolic resins are used in a wide variety of applications, such as foundries, refractories, abrasives, adhesives, grinding tools, composites and more. There is great potential for developing high value resins through continuous research.
- Technology upgradation to increase production and reduce costs.