Kanoria Chemicals & Industries Limited

ANNUAL REPORT

2017-18

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Registered Office

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Company Secretary

N.K. Sethia

Group Chief Financial Officer

N. K. Nolkha

Auditors

Jitendra K. Agarwal & Associates
5 A, Nandalal Jew 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

Mr. Sidharth K. Birla

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


R&D
CENTER

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CHAIRMAN'S STATEMENT

The global economy is picking up with significant improvement in global trade and investment recovery in advanced economies.

The Indian economy continues to improve its growth trajectory. This is reflected in improvement in trade and strengthening private investment. Inflation has been under check and the new fiscal environment promises good dividends.

We, however, have to remain cautious about the rise in oil prices which creates a negative pressure on the balance of payments and could lead to pressure on the value of the Rupee.

The majority government at the Centre is in its fourth year. During this time it has taken significant steps including rationalization of taxation. It has also effectively tackled the long pending issue of nonperforming assets in the banking sector. The introduction of Goods & Services Tax (GST) and the Insolvency & Bankruptcy Code (IBC) will have far reaching positive impact. Both the GST and IBC are, however, in a nascent stage and the government has to be sensitive to make sure that required modifications and corrections are done timely and effectively.

During the year under review, the performance of the Company remained under pressure. The future, however, is looking much brighter. The chemicals business suffered from fluctuating commodity prices, particularly in inputs required for the products of the Company.

It is heartening to note that both plants of the Company in Ankleshwar, Gujarat and Vizag, Andhra Pradesh continue to run efficiently. As a result, we have been able to withstand pressures in the market. The Company is now looking to add a third location for a new plant in Andhra Pradesh.

The performance of our automobile electronics business in Europe has been exceedingly good and strategic initiatives have proved to be rewarding. In a span of five years the turnover of this business has increased by over 250%. The bottom line is also showing commensurate growth. In order to expand the business, another plant is being set up in Windsor, Canada to cater to the North American market. The entire automobile electronics business is carried out by APAG Holdings under APAG Elektronik AG.

The Denim plant in Ethiopia is now showing signs of turning the corner. The most difficult issues of labour turnover and inconsistent quality have been largely overcome.

In order to align the product mix to current market requirements, some fresh investments are being made to add a ring spinning section. The Company is also getting into integrated manufacturing by adding garmenting in a small way. The losses of last year are much lower than previous years and further improvement is expected next year.

Moving forward, I am optimistic on the future course of economic developments and combined with our initiatives I also remain confident about the Company's performance in the coming year.

I am grateful to the dedicated team in the Company and all its subsidiaries who have untiringly worked in challenging circumstances to bring back the Company into a profit on a consolidated basis.

R. V Kanoria
Chairman & Managing Director

THE YEAR IN REVIEW

During the year 2017-18, the Indian economy witnessed improvement in its growth trajectory. After a brief slowdown in the first quarter, GDP growth is back on track and India continues to be one of the fastest growing economies in the world.

While inflation has been under check and private investment on the upswing, there is still some cause of concern on rising oil prices and the pressure it could create on the balance of payments and, in turn, on the value of the Rupee.

Significant policy measures were taken during the year towards rationalization of taxation. Introduction of the Goods & Services Tax (GST) is expected to have considerable positive impact on businesses and the economy. At the same time, addressing the persistent problem of nonperforming assets in the banking sector through the introduction of the Insolvency & Bankruptcy Code (IBC) should further strengthen the economy.

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

The performance of the Kanoria Chemicals Group (consolidated), during the year under review, has shown significant improvement due to better efficiencies and strategic initiatives.

The financial performance of the Company, however, remained under pressure due to volatility in the prices of key raw materials. The impact of this to some extent was mitigated by improved production efficiency in Alco Chemicals segment. The Revenue from Operations, excluding excise duty applicable till June 2017, increased by 15% from Rs. 2,957 million in the previous year to Rs. 3,387 million in the current financial year. The Profit before tax decreased from Rs. 91 million to Rs. 82 million. The Profit for the year was at Rs. 56 million and Earning per Share was at Rs. 1.28 as compared to Rs. 4.28 in the previous financial year.

APAG CoSyst Group engaged in Electronic Automotive segment under APAG Holding AG, the Switzerland based wholly owned subsidiary of the Company, continued to yield rich dividend from strategic initiatives taken in its various group companies. The Revenue from this segment increased by 15% from Rs. 3,615 million in the previous year to Rs. 4,152 million in the current financial year. APAG CoSyst Group earned a profit of Rs. 165 million during the year as against a loss of Rs. 25 million in the previous financial year.

Kanoria Africa Textiles plc (KAT), another foreign subsidiary of the Company based in Ethiopia has also demonstrated improved performance and efficiency notably at production and quality levels in its second year of operations. Revenue from this segment increased by 84% from Rs. 449 million in the previous year to Rs. 828 million in the current financial year. KAT incurred a loss of Rs. 116 million during the year as against loss of Rs. 418 million in the previous financial year.

The Consolidated Revenue from Operations, excluding excise duty applicable till June 2017, grew by 19% to Rs. 8,368 million as against Rs. 7,020 million in the previous financial year. The consolidated profit for the year was at Rs. 116 million as against a loss of Rs. 237 million in the previous year. The total comprehensive income at consolidated level attributable to the Shareholders of the Company was at Rs. 117 million as against loss of Rs. 144 million in the previous year.

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 choice of technology for the Formaldehyde plants uses the FORMOX process, which ensures lower operational cost and higher

Solar Panels, Jodhpur

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 Company's state-of-the-art resin production plant 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

- Being a high volume 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. The Company proposes to add a new plant in Andhra Pradesh. With large new manufacturing capacities for wood products (big consumers of Formaldehyde) scheduled to be operational in the South, the Company would be poised well to cater to this increase in 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 infusion to increase production and reduce costs.

Threats

- Inordinate fluctuations in Methanol and Phenol prices could affect margins, and possibly increase 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 improved over 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.
- The Medium-density Fibreboard (MDF) industry, a big consumer of Formaldehyde, is growing, thus augmenting demand for Formaldehyde in the Indian market.

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.

Opportunities

- With the Government's ambitious targets for renewable energy generation, about 230 acres of unused land owned by the Company near an operational solar energy generation plant is a valuable asset.

Threats

- Lack of enforcement of the Renewable Purchase Obligation scheme.
- Downward revision of prices of Renewable Energy Certificates will lower revenues.