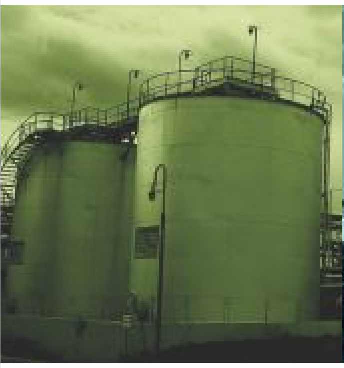
Kanoria Chemicals & Industries Limited



ANNUAL REPORT

2019-20

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Registered Office
'KCI Plaza', 6th Floor, 23-C, Ashutosh Chowdhury Avenue
Kolkata – 700 019
CIN: L24110WB1960PLC024910
Phone: +91-33-40313200
Email: info@kanoriachem.com
Website: www.kanoriachem.com

Corporate Office
Indra Prakash, 21, Barakhamba Road
New Delhi – 110 001
Phone: +91-11-43579200

Company Secretary
N.K. Sethia

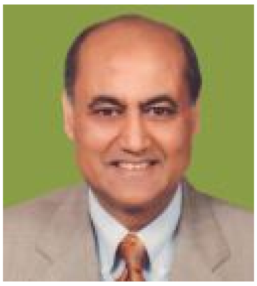
Group Chief Financial Officer
N. K. Nolkha

Auditors
J K V S & CO
5 - A, Nandlal Jew Road
Kolkata - 700 026

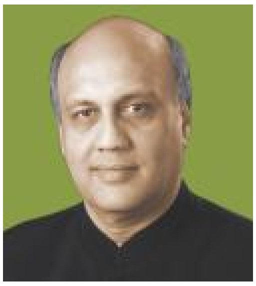
Bankers
DBS Bank Limited
HDFC Bank Limited
Yes Bank Limited

Registrar & Share Transfer Agent
C B Management Services (P) Limited
P-22, Bondel Road, Kolkata – 700 019
Phone: +91-33-40116700
Email: rta@cbmsl.com

BOARD OF DIRECTORS



Mr. R.V. Kanoria
Chairman & Managing Director



Mr. Sidharth K. Birla
Non-executive Independent Director

Mrs. M. Kanoria
Non-executive Non-Independent Director

Mr. H.K.Khaitan
Non-executive Independent Director

Mr. Amitav Kothari
Non-executive Independent Director

Mr. Ravinder Nath
Non-executive Independent Director

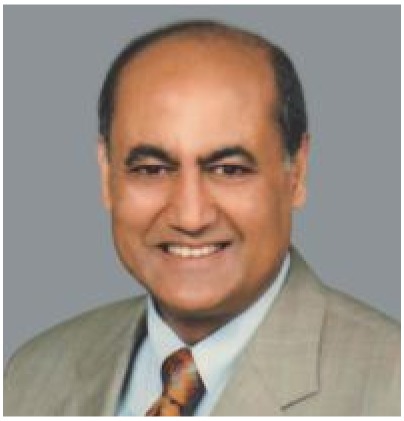
Mr. G. Parthasarathy
Non-executive Independent Director

Mr. A. Vellayan
Non-executive Independent Director

Mr. S.V. Kanoria
Wholetime Director


Safety is as simple as
ABC - Always Be Careful

TABLE OF CONTENTS



CHAIRMAN'S STATEMENT

It has been a very unusual and unprecedented year for the World. The outbreak of the COVID-19 pandemic has caught the entire global population completely unprepared. Economies have been disrupted and the very way of living life and running of businesses is going to be very different from what we have been used to.

Naturally, India has not been left unscathed. The Indian GDP is forecasted to contract significantly for the current financial year that is 2020-21. Widespread dislocation and unemployment will lead to distress and, I fear also likely to impact law and order in as much as poverty and the absence of means to a living might drive desperation.

In this environment, I would have liked to see the Government taking risks beyond its usual concern for fiscal discipline and credit rating and take emboldened steps to make adequate direct transfers of cash to the needy. In fact, making possible the mechanisms for such transfers to happen seamlessly are one of the major successes of this Government. Such a step would have addressed the concerns for immediate demand stimulation instead of which the Government chose to address policy reforms which, though necessary in the long run, are not in my opinion the antidote for the economy at this time. The response of many countries to the economic fallout of the pandemic has been much more realistic and bold.

Notwithstanding the Government's tentative response to the economy, the early lockdown postponed the proliferation of the pandemic in India giving the State Governments the opportunity to scale up healthcare to combat the increase in positive cases of COVID-19. The result is that mortality rate in the country has been contained. There is much hope that antidotes to the virus and the availability of a prophylactic vaccine will soon be available. Even so the sheer magnitude of demand and the constraints on capacity to produce will mean that it shall be quite a while before the global population gets insulated from the dangers of contracting this disease.

As a Company, capital investment not only in the Alco chemical business in India but also in its overseas subsidiaries are proving to be inopportune as we are today suddenly faced with major disruptions in demand and inadequate capacity utilization. Uncertainty is the only certainty today and as we battle with the impact of this pandemic, I can at least say that as I write this statement, green shoots are visible.

Clear focus on value addition, product development and cost-efficient production are helping the Alco chemical business of the Company in tiding over the present crisis. All the plants at Ankleshwar, Vizag and Naidupet (commissioned in October 2019) are conscious of maintaining the highest levels of efficiency with a keen eye on cost optimization.

The automotive industry has been undergoing structural changes which have impacted the electronic components manufacturing activities of APAG Holding AG, the Company's subsidiary in Switzerland that conducts its business through APAGCoSyst Electronic Control Systems. Despite the pandemic, there are signs of recovery and strategic initiatives to reorient the business together with major steps on cost reduction, are proving to be very successful.

The denim business of the Company through its subsidiary Kanoria Africa Textiles Plc. is also now stabilized and reached a point where financial drain has been arrested. Bottlenecks in production have been corrected with balancing equipment and the foray into garmenting is significantly contributing to both the top line and bottom line.

After a year of sub-optimal profitability, we are now faced with a year of total unpredictability. Our endeavor to maintain the highest levels of efficiency, cost optimization, product development, strategic reorientation and adherence to values should hold us in good stead and face these unprecedented challenges. I am cautiously optimistic.

R. V. Kanoria
Chairman & Managing Director

THE YEAR IN REVIEW

Year 2019-20 ended in an unprecedented manner. The outbreak of the Corona Virus (COVID-19) pandemic has impacted human lives and economies the world over, posing unknown challenges. The changes forced on people and businesses by the pandemic are likely endure and established ways of doing business will give way to entirely new ways of working. We in KCI are striving to manage the immediate challenges of re-establishing normalcy in business operations. Constant vigil on costs, good governance, ethical business practices and sustainable policies have helped us in doing so. We are assessing the long-term implications and opportunities emerging from this challenging situation. The Company's assessments and prospects outlined hereunder are to be read in the context of the evolving and ever-changing situation.

MANAGEMENT DISCUSSION & ANALYSIS

Financial Performance with respect to Operational Performance

The performance of the Company during the year under review remained under pressure on account of volatility in the key raw material prices, dumping of certain finished goods produced by the Company and finally outbreak of the pandemic and consequent lockdown of economic activities in the country.

The Revenue from Operations decreased by 20% from Rs. 4,475 million in the previous year to Rs. 3,597 million in the current financial year. EBITDA decreased from Rs. 409 million to Rs. 269 million in the year under review. Consequently, the Company incurred a Net Loss of Rs. 8 million during the current financial year.

Plant at Ankleshwar, Gujarat

APAG CoSyst Group engaged in Electronic Automotive segment under APAG Holding AG, the Switzerland based subsidiary of the Company, continued to maintain its market as a result of strategic initiatives taken in its various group companies. The Revenue from this segment remained largely in sync with the previous year at Rs. 5,160 million as against Rs. 5,220 million in the previous financial year. APAG CoSyst Group incurred a net loss of Rs. 220 million during the year as against a loss of Rs. 47 million in the previous financial year. A large part of the loss relates to higher incidence of non cash depreciation and amortisation due to expansion in its existing setup and commissioning of a new plant in Canada during the year under review.

Kanoria Africa Textiles plc (KAT), another foreign subsidiary of the Company based in Ethiopia improved its performance and efficiency. The Revenue from this segment increased by 26% from Rs. 1,023 million in the previous year to Rs. 1,290 million in the current financial year. KAT incurred a loss of Rs. 87 million during the year as against loss of Rs. 234 million in the previous financial year.

The Consolidated Revenue from Operations decreased by 6% to Rs. 10,047 million as against Rs. 10,717 million in the previous financial year. The Group's EBITDA decreased from Rs. 759 million to Rs. 500 million in the year under review. Consequently, the Group incurred a Net Loss of Rs. 315 million during the current financial year.

Key Financial Ratios

	2019-20	2018-19
Debtors Turnover	5.77	7.09
Inventory Turnover	6.56	15.81
Interest Coverage Ratio	2.80	8.36
Current Ratio	1.13	1.33
Debt Equity Ratio	0.11	0.10
Operating Profit Margin (%)	1.94%	5.94%
Net Profit Margin (%)	-0.21%	1.86%
Return on Net Worth	-0.13%	1.39%

While almost all the ratios had an adverse impact due to outbreak of COVID-19 and consequent lockdown of economic activities, certain specific reasons for major variances are given below:

1. Inventory Turnover was adversely affected due to a significant amount of raw material and finished goods inventory remaining in transit or in the plants during lockdown.
2. Interest Coverage Ratio was lower primarily on account of new borrowings for setting up a new plant at Naidupet as well as meeting the requirement of the company's subsidiaries. Reduction in EBITDA.
3. Operating Profit and consequently Net Profit margins were adversely impacted due to volatility in the key raw material prices and dumping by way of imports of certain finished products of the Company. Net Profit Margin was further affected due to higher incidence of finance cost and depreciation.
4. The Return on Net Worth was negative due to Net Loss incurred by the Company.

Alco Chemicals Segment

Industry structure and development

The Alco Chemicals Division of the Company produces Formaldehyde, 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 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 collaborative agreements 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's new Formaldehyde plant at Naidupet in the state of Andhra Pradesh has started operations from October 2019 and is under stabilisation. This has enabled the Company to cater to markets in Southern India where new manufacturing capacities of end user industries are coming up. Due to the high cost of transportation, the Company was earlier, able to service Formaldehyde customers, only in the Western region (from its Ankleshwar plant) and Eastern region (from its 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 which the Company is focussing on. Considering the success achieved till now, the Company is considering expanding capacity.
- Technology infusion and implementation of business excellence initiatives to further increase production and reduce costs. The Company has established an "Improvement Cell" to continuously work on improvement initiatives.
- The Company has also formed a new "Product Development Cell" which has started work on developing new value-added products.
- The Company's Ankleshwar unit has received permission from the Indian Chemical Council (ICC) to use Responsible Care Logo ("RC Logo") from March 2020. We now stand one among the prestigious 64 Chemical companies across India which has been awarded with this recognition. RC Logo is an initiative voluntarily undertaken by chemical companies worldwide to address public concerns about manufacturing, distribution and use of chemicals, all having common theme of making progress towards vision of no accidents, injuries or harm to environment.

Threats

- Inordinate fluctuations in Methanol and Phenol prices could affect margins.
- Cheaper imports of Pentaerythritol or Hexamine could reduce margins.
- The uncertainty of the evolution of the pandemic and its consequent impact on our operations and on the demand for our products.

Performance

- The operations of the Alco Chemicals Division remained stable during the year. Production and sales volume of products of the Division were similar to the previous year despite significant economic slowdown in the year and countrywide lockdown due to COVID-19 towards the end of the year.

Outlook

- This countrywide lockdown for prolonged period due to outbreak of COVID-19 has impacted the economy very severely. Operations at our plants were under suspension from 24th March 2020 to mid-May 2020 due to lockdown. Considering the outlook for demand and availability of workforce, we are operating the plants at lower capacities. With the frequent changing scenario of COVID-19, it is difficult to assess the future impact of the pandemic on business operations. We are reasonably confident of our ability to tide over crisis.
- The Government's focus on infrastructure and affordable housing should result in increasing overall demand for Formaldehyde, Pentaerythritol, Hexamine and Phenolic resins.
- The estimates for production and revenues for the current year are lower over the previous year primarily due to impact of COVID -19.

Plant at Vishakhapatnam, Andhra Pradesh