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20th Annual Report 2008 - 09

Kothari Petrochemicals Limited



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KOTHARI PETROCHEMICALS LIMITED

Regd. Office, "Kothari Buildings", No.115, Mahatma Gandhi Salai,
Chennai - 600 034

CORPORATE INFORMATION

Board of Directors	:	B.H.Kothari - Chairman & Managing Director G.Narayanaswamy P.N.Devarajan P.K.Rudra N.Chandramouli P.S.Balasubramaniam
Company Secretary	:	R.Prakash
Statutory Auditors	:	R.Subramanian and Company Chartered Accountants, Chennai - 600 004
Internal Auditors	:	K.R.Sarangapani & Co. Chartered Accountants, Chennai - 600 083
Legal Advisors	:	S.Ramasubramaniam & Associates Advocates, Chennai - 600 004
Registered Office	:	"Kothari Buildings" No.115, Mahatma Gandhi Salai Nungambakkam Chennai - 600 034 Phone Nos.: 044 - 30281595, 30225616 Fax No. : 044 - 28334560
Registrar & Share Transfer Agent	:	M/s.Cameo Corporate Services Limited Subramanian Buildings, 5 th Floor No.1, Club House Road Chennai - 600 002 Phone Nos. 044 - 28460390 to 28460394 Fax No.044 - 28460129 e-mail : investors@cameoindia.com
Listing	:	The National Stock Exchange of India Limited (NSE), Mumbai
Stock Code	:	KOTHARIPET ISIN No.INE720A01015

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NOTICE TO THE MEMBERS



Notice is hereby given that the 20th Annual General Meeting of Kothari Petrochemicals Limited will be held on Friday, September 18, 2009 at 10.15 A.M. at The Music Academy, Mini Hall, Old No.306, New No.168, T.T.K. Road, Chennai - 600 014 to transact the following business:

Ordinary Business

1. To receive, consider and adopt the audited statement of Accounts for the year ended March 31, 2009 and to consider the reports of the Directors and Auditors thereon.
2. To appoint a Director in the place of Mr. N.Chandramouli, who retires by rotation and being eligible offers himself for re-appointment.
3. Appointment of Auditors

To consider and if thought fit to pass with or without modification the following resolution as an Ordinary Resolution:

"Resolved that subject to the provisions of Sections 224 and other applicable provisions, if any, of the Companies Act, 1956, Messrs R. Subramanian and Company, Chartered Accountants, Chennai, the retiring Auditors be and are hereby appointed as Auditors of the Company, to hold Office from the conclusion of this Annual General Meeting until the conclusion of the next Annual General Meeting of the Company on such remuneration as shall be fixed by the Board".

Special Business

4. To consider and if thought fit, to pass with or without modifications the following resolution as an Ordinary Resolution:

"Resolved that Mr.P.K.Rudra, who was appointed by the Board of Directors on 05.12.06, pursuant to the provisions of Section 262 of the Companies Act, 1956 and Article 134 of the Articles of Association of the Company, as a director to fill the casual vacancy caused by the death of Mr.T.Dulip Singh and who, in terms of section 262, was entitled to hold the office until this annual general meeting, be and is hereby appointed as Director of the Company liable to retirement by rotation".

5. To consider and if thought fit, to pass with or without modifications the following resolution as an Ordinary Resolution:

"Resolved that Mr.P.N.Devarajan, who was appointed by the Board of Directors on 24.04.09, pursuant to the provisions of Section 262 of the Companies Act, 1956 and Article 134 of the Articles of Association of the Company, as a director to fill the casual vacancy caused by the resignation of Mr.V.R.Deenadayalu and who, in terms of section 262, was entitled to hold the office until this annual general meeting, be and is hereby appointed as Director of the Company liable to retirement by rotation".

By Order of the Board
for **Kothari Petrochemicals Limited**

Place : Chennai
Date : July 24, 2009

R.Prakash
Company Secretary

Notes:

1. **A MEMBER ENTITLED TO ATTEND AND VOTE IS ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE INSTEAD OF HIMSELF AND THE PROXY NEED NOT BE A MEMBER OF THE COMPANY. THE PROXY SHALL NOT BE ENTITLED TO VOTE EXCEPT ON A POLL. PROXIES SHOULD BE LODGED AT THE REGISTERED OFFICE OF THE COMPANY AT ANY TIME NOT LESS THAN 48 HOURS BEFORE THE TIME FIXED FOR THE MEETING.**
2. A member or proxy should fill the enclosed attendance slip and deposit the same at the entrance of the meeting hall.
3. All correspondence concerning change of address, transfer of shares etc. may be made to the Registrars and Transfer Agents, M/s. Cameo Corporate Services Limited.
4. Share Transfer books and Register of Members will remain closed from Thursday, 10.09.2009 to Friday, 18.09.2009 (both days inclusive)
5. Shareholders are requested to bring copies of their Annual Reports, as no additional copies will be provided.

EXPLANATORY STATEMENT PURSUANT TO SECTION 173 OF THE COMPANIES ACT, 1956**Item No.4**

Mr.P.K.Rudra was appointed as a Director of the Company on 05 December 2006 in the casual vacancy caused by death of Mr.T.Dulip Singh and holds office as Director upto this Annual General Meeting.

Mr.P.K.Rudra is a Post Graduate in Engineering and MBA, and has more than 40 years experience in Engineering and General Management. He was Managing Director of Bengal Chemicals, Essar Projects and Chairman and Managing Director of Lubrizol India Ltd., and Engineers India Ltd. After retiring from full time service, he was Chairman of Consultancy Development Centre, Govt. of India and Chairman of Triune Projects. He is currently the Resident Director - India of Wood Group Engineering of UK.

The Company has received Notice along with requisite deposit of Rs.500 from a member under Section 257 of the Companies Act, 1956 proposing the candidature of Mr.P.K.Rudra as a Director of the Company.

The Board of Directors considers that in view of the background and experience of Mr.P.K.Rudra, it would be in the interest of the Company to appoint him as a Director of the Company, hence, the Board recommends the resolution for approval of the members.

Mr.P.K.Rudra is interested or concerned in the proposed Resolution. None of the other Directors is interested or concerned in the proposed Resolution.

Item No.5

Mr.P.N.Devarajan was appointed as a Director of the Company on 24 April 2009 in the casual vacancy caused by the resignation of Mr.V.R.Deenadayalu and holds office as Director upto this Annual General Meeting.

Mr.P.N.Devarajan has experience of more than 3 decades in Chemical Industry. He has held senior positions in many organizations such as M/s. Merck Sharp & Dhome, Chemplast, Shriram Chemicals & Fertilizers Limited, Essar Group etc. He has also served as Chairman & Managing Director of Hindustan Organic Chemicals Limited and IDPL. He held positions of Director Central Board, RBI, Member-Chemicals and Export Promotion Council, Mumbai, Member - Indo US Trade Business Council. He is presently a Professional Consultant for many leading Public Sector Organizations.

The Company has received Notice along with requisite deposit of Rs.500 from a member under Section 257 of the Companies Act, 1956 proposing the candidature of Mr.P.N.Devarajan as a Director of the Company.

The Board of Directors considers that in view of the background and experience of Mr.P.N.Devarajan, it would be in the interest of the Company to appoint him as a Director of the Company, hence, the Board recommends the resolution for approval of the members.

Mr.P.N.Devarajan is interested or concerned in the proposed Resolution. None of the other Directors is interested or concerned in the proposed Resolution.

ANNEXURE TO THE NOTICE DATED 24 JULY, 2009

DETAILS OF DIRECTORS SEEKING APPOINTMENT / RE-APPOINTMENT AT THE FORTHCOMING
 ANNUAL GENERAL MEETING
 (PURSUANT TO CLAUSE 49 OF THE LISTING AGREEMENT)

Particulars	Item No.2	Item No.4	Item No.5
Name of the Director	Mr.N.Chandramouli	Mr.P.K.Rudra	Mr.P.N.Devarajan
Date of Birth	February 06, 1943	October 29, 1936	February 15, 1935
Date of Appointment	September 26, 2003	December 05, 2006	April 24, 2009
Qualification	B.E. (Chemical Engineering)	Post Graduate in Engineering & Master of Business Administration	B.Sc.,M. Tech. (Chemical Plant Design), IIT, Kharagpur
Experience in specific functional areas	Mr.N.Chandramouli has over 40 years of experience at various levels in both public sector under takings (NLC/IPCL/CPCL) and private sector (Parry and Kothari's) experienced in implementation of various chemical projects and senior management positions.	Mr.P.K.Rudra has more than 40 years experience in Engineering and General Management. He was Managing Director of Bengal Chemicals, Essar Projects and Chairman and Managing Director of Lubrizol India Ltd., and Engineers India Ltd. After retiring from full time service, he was Chairman of Consultancy Development Centre, Govt. of India and Chairman of Triune Projects. He is currently the Resident Director - India of Wood Group Engineering of UK.	Mr.P.N.Devarajan has held senior positions in many organizations such as M/s. Merck Sharp & Dhome, Chemplast, Shriram Chemicals & Fertilizers Limited, Essar Group etc. He has also served as Chairman & Managing Director of Hindustan Organic Chemicals Limited and IDPL. He held positions of Director Central Board, RBI, Member-Chemicals and Export Promotion Council, Mumbai, Member - Indo US Trade Business Council. He is presently a Professional Consultant for many leading Public Sector Organizations.
List of other Companies in which Directorship held	1. Kothari Sugars and Chemicals Ltd. 2. Kothari Biotech Ltd.	Wood Group Engineering India Pvt. Ltd.	1. SGT India Ltd. 2. Tropical Technologies Private Ltd.
Chairman/ Member of the Committee of the Board of Director of the Company	1. Audit Committee - Member 2. Share Transfer cum Shareholders Grievances Committee - Member	Audit Committee - Member	Audit Committee - Member
Chairman/ Member of the Committee of the other companies in which he is a Director	Kothari Sugars and Chemicals Limited - Remuneration Committee - Member	Nil	Nil

To the Members

The Directors submit the Annual Report of the Company together with the audited statement of accounts for the year ended March 31, 2009.

1. Financial Performance

(Rs. in Lakhs)

Particulars	2008-2009	2007-2008
PBIDT	409.67	907.92
Interest	11.94	--
Profit after Interest	397.73	907.92
Depreciation & Goodwill	276.60	222.93
Profit after Depreciation & Goodwill	121.13	684.99
Fringe Benefit Tax & Provision for Taxation	18.48	66.23
Profit After Tax	102.65	618.76

2. Performance for the financial year 2008-09

The Company has achieved a turnover of Rs.13,984.79 Lakhs for the year ended March 31, 2009 as against Rs.10,080.26 Lakhs for the previous year.

The plant adheres to excellent safety norms and conducts periodical safety & technical audits, training programme on chemical and safety exercises. The entire plant area is covered with green belt and additional efforts for improving the same will continue in the coming years. The plant adopts zero effluent & waste minimization concepts.

Today, our Plant has been operating with both Quality Management System (ISO 9001:2000) and Environmental Management System (ISO 14001: 2004) after a recertification audit was conducted by M/s.Det Naorske Veritas, Germany.

3. Dividend

The Directors do not recommend a dividend for this year, in view of the carried forward accumulated losses.

4. Disclosure under Section 217(2A) and 217(1)(e) of the Companies Act, 1956

As required under the provision of sub-section (2A) of Section 217 of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975 as amended, particulars of employees are required to be set out in the annexure to the Directors' Report. However, as per provision of Section 219(1)(b)(iv) of the Companies Act, 1956, the report and the accounts are being sent to all the shareholders excluding the aforesaid information. Any shareholder desirous of obtaining the same may write to the Company Secretary.

Information in accordance with the provisions of Section 217(1)(e) of the Companies Act, 1956 read with the Companies (Disclosure of particulars in the report of Board of Directors) Rules, 1988 is furnished in 'Annexure I'

5. Public Deposit

The Company has not accepted any Public Deposit during the year and there was no outstanding deposit anytime during the year.

6. Directors

Mr. N.Chandramouli retires by rotation and being eligible offers himself for re-appointment.

DIRECTORS' REPORT

Mr.P.K.Rudra and Mr.P.N.Devarajan joined the Board in the Casual Vacancy caused by the death of Mr.T.Dulip Singh on December 05, 2006 and by the resignation of Mr.V.R.Deenadayalu on April 24, 2009 respectively and they will hold office till the ensuing Annual General Meeting. The Company had duly received Notices from Members proposing the appointment of Mr.P.K.Rudra and Mr.P.N.Devarajan as Directors of the Company.

7. Directors' Responsibility Statement

Pursuant to the requirement of Section 217(2AA) of the Companies Act, 1956, the Directors hereby confirm:

- i. that in the preparation of the annual accounts, the applicable accounting standards had been followed and there are no material departures;
- ii. that the directors had selected such accounting policies and applied them consistently and made judgment and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the company at the end of the financial year and of the profit or loss of the company for that period;
- iii. that the directors had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of Companies Act, 1956 for safeguarding the assets of the company and for preventing and detecting fraud and other irregularities; and
- iv. that the directors had prepared the annual accounts on a going concern basis.

MANAGEMENT DISCUSSION AND ANALYSIS

Kothari Petrochemicals Limited (KPL) is the largest manufacturer of premium quality speciality chemical Poly Iso Butene (PIB) in India and operates at capacity of 22,000 MT per annum. KPL enjoys a good market reputation in India and in international markets with a rapidly growing brand KVIS. KVIS grades of PIB are synonymous with high quality, dependable customer service, responsive marketing network and an unflinching commitment to the environment.

Industry Structure and Development

KPL is a part of India's petrochemical industry. KPL utilizes Liquefied Petroleum Gas (LPG) as its primary raw material, and produces PIB, which is mainly used in downstream petrochemical applications. KPL's PIB product line comprises of several molecular weight grades, each of which can be applied to a wide range of uses in chemical, rubber, plastics, paper, petroleum and lube oil industries.

Outlook

PIB is mainly consumed in lubricants and additives, which cater to the automotive industry. Due to worldwide recessionary trends since September / October 2008, automotive industry witnessed a downturn from 3rd quarter. This, to some extent affected the consumption and demand for PIB from the automobile sector during the last 2 quarters. Hence Q3 and Q4 witnessed inventory winding up by most customers, leading to significantly reduced demand and off-take. However, in most sectors, the inventory unwinding was over by March 2009.

Opportunities

While automobile and construction industries have witnessed certain amount of de-growth due to recession, PIB's applications have been spreading into several other segments, lending stability and growth for the product demand. This is particularly true for higher molecular weight grades. PIB's usage in Adhesives, Sealants, Caulks and / Glazing compounds, as Cling additives and in Paper treatments for moisture-proofing laminated and carbon papers has been strong in South / Far East Asia, Europe and the Middle East. To meet this demand KPL has continuously been on the path to improve the product quality by introducing advanced quality improvement processes.

As a customer-oriented strategy, KPL has a customer / market specific inventory approach which lends enormous supply security to its customers. Supply Security, International Quality and Impeccable Service have become the core competitive strengths of KPL.

Threats

Due to lower demand profile in developed markets such as USA, PIB manufacturers like INFINEUM who captively use their entire production, are now placing part of their PIB volumes in the merchant market. This has a domino effect on the market size available for other merchant producers of PIB.

Further global majors like Texas Petro Chem USA, Daelim, Korea and Poly Butanos, Brazil are on the verge of completing their capacity expansions. These expanded capacities are expected to hit the market over the next 3 - 6 months, exerting greater pressure on other players by exacerbating the excess supply situation.

Risks and Concerns

As KPL increases its exports, the company will become more exposed to potential volatility in foreign exchange. To mitigate this risk, KPL has established a Treasury function to actively manage potential transaction cost risks arising from foreign exchange.

To mitigate the financial risks in global business, KPL as a strategy has covered its exports under a comprehensive ECGC policy. In addition, stringent credit terms are adopted wherever feasible to minimise the credit risks. Considerable amount of due diligence is carried out before accepting customers on open credit terms.

KPL also takes forward foreign exchange cover to hedge against forex fluctuations.

KPL procures raw materials from multiple sources to ensure adequate supplies for sustaining production and to mitigate purchase concentration risk. To lower the risk of potential price increases, KPL seeks to establish long-term contracts with these suppliers. KPL also continues to look for additional sources of materials.

8. Internal Control Systems and their adequacy

The Company has appointed an independent firm of Chartered Accountants as Internal Auditors.

Internal Audit and Inspection: The Company has a comprehensive system of internal inspection and audit to serve as a check on internal control management systems. The Scope and coverage of the audit is reviewed from time to time to make it more focused and effective by using the tools such as Cost of Production (COP) sheet, Activity Based Costing (ABC) analysis on monthly basis and we are on the way in implementing the ERP system.

Compliance: The Company has commitment of compliance with the internal audit towards the submissions of various returns and data information as required by the statutory authorities. The Company has an internal audit department, which verifies and administers suitable internal control system.

Vigilance: The Audit Committee reviews the report of Internal Audit and expresses the ways and means to overcome the lapses pointed out in the report.

Corporate Governance: The Statutory Auditor of the Company have given a certificate to the Board as contemplated under Clause 49 of the Listing Agreement.

9. Human Resources / Industrial Relations

Human resources is the most significant part of an organisation. As a continuous process, we have been initiating a lot of organisational developmental measures, reaching employees at all levels. The organisational development measures include implementation of 5 S, kaizen, and also bringing the entire business process under ISO standards and a few processes at six sigma standards. Besides building effective teams through

DIRECTORS' REPORT

OD measures, the individual employees are being trained for higher effectiveness in the current assignment to ensure career growth. The internal talents are given due importance for taking up higher assignments in the organisation, and infusion of fresh talents is carried out at all levels. During the financial year, 1 out of the 2 senior management positions and 7 out of 15 middle level positions were filled-up through internal promotions.

The company facilitates practical trainings in inter personal skills, team work, personal & professional growth skills by engaging external agencies, periodically.

The wage settlement in respect of KPL factory was concluded during the year for a period of 4 years from Jan 2008 to Jan 2012. Total number of employees as on 31st of March 2009 is at 92 in respect of chemical operations. Industrial relations aspects are very cordial, conducive and mutually productive.

10. Corporate Governance

We believe that Corporate Governance is the crux of Shareholder value creation. Our governance practices along with the Auditor's Certificate on its compliance are attached hereto as an Annexure to this report.

11. Re-appointment of Auditors

The Auditors, M/s.R.Subramanian and Company, Chartered Accountants, Chennai, retire at the Annual General Meeting and have confirmed their eligibility to accept Office, if re-appointed.

12. Acknowledgement

The Board acknowledges the co-operation and support extended by the Employees, consultants, suppliers, customers and all its business associates.

The Directors place on record their appreciation for the continued support and co-operation they have received from Financial Institutions, Banks, Central and State Governments.



On behalf of the Board
for **Kothari Petrochemicals Limited**

Place : Chennai
Date : July 24, 2009

B.H. Kothari
Chairman and Managing Director