



**Kothari Petrochemicals
Limited**

25th Annual Report
2013 - 14

CORPORATE INFORMATION

Board of Directors	:	B.H.Kothari - Chairman & Managing Director P.N.Devarajan Pranab Kumar Rudra Dr. R.K. Raghavan (w.e.f 27.05.2014) Mrs.Nina Bhadrashyam Kothari (w.e.f 27.05.2014)
Company Secretary	:	S.Sundaramurthy
Cheif Financial Officer	:	Jayalakshmi Ramaswamy
Statutory Auditors'	:	R.Subramanian and Company Chartered Accountants No.6, Krishnaswamy Avenue Luz, Mylapore, Chennai - 600 004
Internal Auditors	:	K.R.Sarangapani & Co. Chartered Accountants, No. 28/1, Anjuham Nagar, 1 st Street, Jafferkhanpet, Chennai - 600 083
Cost Auditors	:	P.Rajulyer, M.Pandurangan & Associates No. 492, Periyar EVR Salai Aminjikarai, Chennai - 600 029
Legal Advisors	:	S.Ramasubramaniam and Associates Advocates, No.6/1, Bishop Wallers Avenue (West) Mylapore, Chennai - 600 004
Registered Office	:	"Kothari Buildings" 115, Mahatma Gandhi Salai Nungambakkam, Chennai - 600 034 Phone No.044 -30225616 / 30225507 / Fax No.044 -28334560 Email: secdept@hckgroup.com Website: www.kotharipetrochemicals.com
Registrar & Share Transfer Agent	:	Cameo Corporate Services Limited Subramanian Building, 5th Floor No.1, Club House Road Chennai - 600 002 Phone No. 044 - 28460390 to 28460394 Fax No.044 - 28460129 e-mail: investor@cameoindia.com
Listing	:	The National Stock Exchange of India Limited (NSE), Mumbai
Stock Code	:	KOTHARIPET
ISIN No.	:	INE720A01015
CIN No.	:	L11101TN1989PLC017347

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Financial Highlights

₹. in Lacs

Particulars	2009-10	2010-11	2011-12	2012-13	2013-14
PROFITABILITY ITEMS					
Gross Income	12,179.91	16,099.34	17,565.58	26,152.05	37,055.05
Gross Profit (PBDIT)	921.24	1,219.38	945.20	1,117.29	1,519.77
Profit After Tax	374.96	707.11	428.79	520.56	790.64
BALANCE SHEET ITEMS					
Net Fixed Assets	2,739.29	3,470.85	5,999.13	4,844.38	5,278.18
Investments	511.35	509.93	109.50	317.85	1,093.23
Net Current Assets	2,529.65	2,666.32	863.13	1,592.58	848.33
Total Capital Employed	5,780.29	6,237.28	7,094.42	6,457.75	6,603.93
Shareholder's Funds	5,606.60	5,971.75	6,058.58	6,062.78	6,164.95
RATIOS					
Book Value Per Share (₹)	9.53	10.15	10.30	10.30	10.40
EPS (₹)	0.64	1.20	0.73	0.88	1.34
Return on Investment	6.33%	11.84%	7.08%	8.59%	12.82%
Current Ratio	3.27	2.50	1.40	1.50	1.19

DIRECTORS' REPORT

To the Members,

The Directors present the 25th Annual Report of the Company together with the Audited Accounts for the year ended March 31, 2014.

- Highlights of the Company's Financial Performance for the year are summarized below.

(₹. in Lakhs)

Particulars	2013 - 2014	2012 - 2013
PBIDT	1,519.77	1,117.29
Interest	124.71	129.84
Profit after Interest before Depreciation and Tax	1,395.06	987.45
Depreciation	199.21	249.21
Tax Expenses	405.21	217.68
Profit After Depreciation and Tax	790.64	520.56
Profit brought forward from previous year	143.70	139.50
Profit available for appropriation	934.34	660.06
Proposed Dividend	588.46	441.35
Dividend Tax on Proposed Dividend	100.01	75.01
Balance Carried to Balance Sheet	245.87	143.70

2. Performance for the financial year 2013-14

The Company's total revenue is Rs.33,978.46 Lakhs for the year ended March 31, 2014 as against Rs.23,975.44 Lakhs for the previous year 2012-13. The increase in revenue was due to higher sales volume and higher selling price.

Your Company's manufacturing plant continues to adhere to all the safety norms and conducts periodic safety reviews & technical audits to update / upgrade the norms to suit the latest requirements. This has resulted in achieving an "ACCIDENT FREE" operation throughout the year 2013-14. All the employees are periodically being given training in their respective areas of operation which are frequently reviewed by the senior officials to identify any gaps to take appropriate action to improve the efficiency.

Your company continues to take efforts to improve the quality of the product based on the feedback received from various customer segments which enables penetration into new market segments overseas.

In recognition of its commitment to quality and environment, your company has won the following awards:

- ❖ Quality Management System (ISO 9001:2008)
- ❖ Environmental Management System (ISO 14001: 2004)

by the reputed agency M/s.Det Naorske Veritas, Germany

3. Subsidiary Companies

Your Company incorporated a subsidiary company called "Kothari Petrochemicals Pte. Ltd., Singapore" and a step-down subsidiary Company called "Kothari Petrochemicals HK Ltd., Hong Kong" during the year 2013-14. The objective for incorporation of these foreign subsidiaries was to increase the sales and expanding the company's market presence in the South East Asia / Asia Pacific region and also to serve the existing overseas customers in a much better way in terms of Full On Time delivery (F O T) by better coordination with logistics agencies.

Apart from this, the focus is also on bringing additional business from the potential market in the region to strengthen your company's presence in South East Asian / Asia Pacific market as well as in other regions of the world. The subsidiary companies are now well accepted by the market and lots of enquiries are being received which would help to enlarge the market share in South East Asia region.

Pursuant to Ministry of Corporate Affairs (MCA) General Circular No.2/2011 dated 8th February, 2011 the accounts of the subsidiary company need not be attached along with the accounts of the holding company as required by Section 212 of the Companies Act, 1956 upon fulfilling certain conditions stipulated in the said circular. Therefore, Annual Accounts of the wholly owned Subsidiary and step down Subsidiary namely M/s.Kothari Petrochemicals Pte.Ltd (Singapore) & Kothari Petrochemicals

HK Ltd. (Hong Kong) respectively for the year ended 31st March 2014 are not attached herewith.

The Annual Accounts of the above subsidiaries are kept at the registered office for inspection of members during working hours and the same are also available on the website of Kothari Petrochemicals Limited.

4. **Dividend**

The Directors recommend a dividend at the rate (@10%) of Re.1/- per equity Share of Rs.10/- each for the financial year ended March 31, 2014 (last year Re.0.75 paise). If approved by the Members at the ensuing Annual General Meeting to be held on 02nd September, 2014, it will be paid on or before 01st October, 2014 to those Members whose names appear in the Company's Register of Members and to those persons whose names appear as Beneficial Owners (as per the details to be furnished by the Depositories in respect of the shares held in dematerialized form) as at the close of business hours on 26.08.2014.

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

During the year no employee has drawn salary in excess of the amount prescribed under Section 217 (2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975 as amended.

Information in accordance with 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'

6. **Public Deposits**

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

7. **Directors**

Mr.B.H.Kothari, Director, is retiring by rotation at the ensuing Annual General Meeting and being eligible offers himself for re-appointment

In accordance with Section 149 and other applicable provisions of the Companies Act, 2013, your Directors Mr.P.N.Devarajan and Mr.Pranab Kumar Rudra are seeking appointment as Independent Director for a term of five consecutive years upto 31

March, 2019. Details of the proposal for the appointment of Mr.P.N.Devarajan and Mr.Pranab Kumar Rudra are mentioned in the Explanatory Statement under Section 102 of the Companies Act, 2013 of the Notice of the 25th Annual General Meeting.

Mr.P.S.Balasubramanaim resigned from the Board with effect from 05.11.2013 and Mr.G.Narayanaswamy resigned from the Board with effect from 28.05.2014. The Board of Directors places on record its appreciation for the valuable services rendered by them.

The Board of Directors at its meeting held on May 27, 2014 appointed Mrs.Nina Bhadrashyam Kothari (Women Director & Non-Executive and Non-Independent) and Dr.R.K.Raghavan (Non-Executive & Independent) as Additional Directors of the Company to hold office up to the date of the forthcoming Annual General Meeting of the Company and they are eligible for appointment as Director by the members.

8. **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.

9. Management Discussion and Analysis

With the support of good demand in domestic market and continued support from overseas customers, Kothari Petrochemicals Limited (KPL) continues to retain its status as the "Largest Poly Iso Butene (PIB) manufacturer in India" with an annual installed capacity of 22,000 tons.

Industry Structure & Development:

KPL produces high quality PIB of various grades using Iso Butylen rich LPG which is sourced from Refineries / Petrochemical complex. Due to various reasons, one of the raw material suppliers had severe set back in meeting our requirements and hence the company was forced to go for other alternate sources which are relatively costlier than the existing suppliers. But the company was able to pass on the cost to the business and also able to achieve the record production since its inception. The Company continues its efforts to explore other sources for raw material supply within the country as well as overseas.

Outlook:

The newly developed market such as Plastic Master Batch etc. are showing an encouraging growth of demand for our products and your company is continuing to develop the new market. Despite constraints in getting raw materials, your company has produced 19,661 MT of PIB and sold 19,825 MT which are an all time high in terms of volume as well as price.

Your company has revamped some of the facilities in the plant to improve the productivity and reduce the cost of production and has also installed new Boiler with low cost fuel to cut down the cost of utilities.

Opportunities:

With the advantage of sourcing raw materials from various sources, your company is able to position itself for better capacity utilization of its plant as well optimized cost of raw material.

In addition to the efforts being taken to improve the productivity by way of upgrading the existing manufacturing facilities and carrying out de-bottlenecking with significant

investment, your Company has installed a new Steam boiler and Thermic fluid system with paddy husk as fuel. This is mainly to bring down the utility cost to a great extent which will enable your company to be more competitive in the market.

Your company is in discussions with other neighbouring industries to supply the return stream of raw material with value addition to improve the profitability of your company. Also, your company is in the process of exploring the technical feasibility for power generation at a competitive cost using the existing facilities in the plant.

Threats:

The value addition for Raffinate which is being used as raw material by your company is growing year after year which will lead to scarcity of this product from the Petrochemical complexes or Refineries. This is a major concern for your company to achieve the estimated production target and thus meet the market demand.

This fluid situation in the availability of raw material in India has triggered a panic situation among the domestic customer including some PSU Cos. who have started to import PIB on a trial basis and this is really a threat for your company at this juncture.

While trying to source raw material from far away locations, the logistics cost will go up steeply which in turn will reflect on the CoP of the product.

Risks & Concerns:

The trend of Indian currency appreciation against USD also encourages the importers and has a negative impact on your company's export sales realization. KPL takes forward foreign exchange cover to hedge against forex fluctuations.

Of late the major refineries use low priced crude, which will have more impurities like Sulphur, to suit their economics and your company is affected due to the poor quality of the raw material supply from such refineries and are therefore forced to invest on new facilities to handle such raw material contaminated with impurities. These investments increase the direct cost and have no payback.

The imports volumes are steadily growing month after month which only shows that the reliability on domestic PIB manufacturers is diminishing due to raw material scarcity in India.

The power supply from the Government feeder is not of good quality though your company is having a dedicated underground cable line. This is resulting in many power failure and dips which also affects the productivity.

Internal Control Systems and their adequacy:

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

Internal Audit and Inspection:

KPL is having a comprehensive system of internal inspection and audit as a check on internal control and management systems. The reports of auditor / inspector are being reviewed periodically for further improvement. Cost of Production (COP) sheet, Standard Operation Procedure (SOP), Activity Based Costing (ABC), Safety / Technical Audit are a few such systems in practice.

Compliance: The Company has a strict compliance protocol and submission of various returns and data information as required by the statutory authorities is a priority.

Human Resources / Industrial Relations

During the year, the industrial relations have remained cordial and conducive. Employees at all levels demonstrated high degree of commitment for achieving the company goals. Human Resources strived to create an environment that allows all employees to contribute to their fullest potential and remained committed to working proactively in identifying and responding to its changing needs.

Human Resource Organization Development and Training (OD & Training) section was committed to excellence through the development, delivery, and administration of learning opportunities for staff. During 2013-14, the following training was imparted to the employees (1) Safety awareness, (2) Monitor

Operation, (3) Fire Fighting, (4) Emergency Response Plan, (5) Communication Skills and (6) Leadership Skills.

The Human Resources Department created an Internal Complaint Committee for the prevention and redressal of any sexual harassment of women at work place as per the requirement of Sexual harassment of Women at Workplace (Prevention, Prohibition & Redressal) Act 2013.

The company focused on career development of employees and manpower requirement was filled in by giving priority to internal sources – through promotions / horizontal transfers. This year our recruitment and retention strategies continued to focus on diversity. To enhance culture we have been providing feedback and programs to develop an environment that fully engages and cultivates all the employees. Key performance indicators implemented in the year 2011-12 are being put to effective use to evaluate the performance of employees. Total number of employees as on 31st march 2014 was 125.

Cautionary Statement

Statements in this Report, particularly those which relate to Management Discussion and Analysis as describing the Company's objectives, projections, estimates and expectations may constitute 'forward looking statements' within the meaning of applicable laws and regulations. Actual results might differ materially from those either expressed or implied in the statement depending on the circumstances.

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 Statutory Auditors

M/s.R.Subramanian and Company, Chartered Accountants, Chennai, the retiring Auditors, are eligible for re-appointment.

12. Cost Auditor

Pursuant to section 233B of the Companies Act, 1956 and the MCA General Circular No.15/2011 dated 11th April 2011 and subject to the approval of Central Government, the Audit Committee has recommended and the Board of Directors appointed M/s.P.Rajulyer, M.Pandurangan & Associates, Practising Cost Accountants, as Cost Auditor of the Company for the year 2014 - 2015.

Filing of Cost Audit Report	2013 - 2014	2012 - 2013
Due Date	27.09.2014	27.09.2013
Actual Date	(Target) 25.09.2014	23.09.2013
Cost Auditor Details	M/s.P.Rajulyer, M.Pandurangan & Associates, M.No.27969, Chennai	M/s.P.Rajulyer, M.Pandurangan & Associates, M.No.27969, Chennai
Audit Qualification in Report	-	Nil

13. 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 : May 27, 2014

B.H. Kothari
Chairman and Managing Director

FORM A

Form for disclosure of particulars with respect to conservation of energy

MANALI PLANT

A. POWER AND FUEL CONSUMPTION

Particulars	2013-14	2012-13
1. Electricity		
(a) Purchased		
Unit (Kwh)	76,12,585	69,86,670
Total Amount (Rs.)	5,43,55,831	5,35,89,781
Rate/unit (Rs.)	7.14	7.67
(b) Own generation		
(i) Through diesel generator		
Units	7,23,070	4,16,878
Unit per-litre of diesel oil	2.89	2.86
Cost/Units	19.50	15.53
(ii) Through steam turbine/generator		
Units	--	--
Units per-litre of fuel oil/gas	--	--
Cost/units	--	--
2. Coal (specify quality and where used)		
Quantity (k.litres)	--	--
Total cost	--	--
Average rate	--	--
3. Furnace oil		
Quantity (MT)	3042.58	3077.04
Total amount (Rs.)	12,68,59,788	12,31,82,009
Average rate (Rs. / MT)	41,694.81	40,032.63
4. Others/internal generation (please give details)		
Quantity	--	--
Total cost	--	--
Rate/unit	--	--
5. Consumption per unit of production		
	Standard (if any)	
Products (with details) in MT	--	19,661.00
Electricity (Unit per MT)	449	424.00
Furnace Oil (MT of FO per MT)	0.19	0.17
Coal (specify quality)	--	--
Others (specify)	--	--

B. TECHNOLOGY ABSORPTION

FORM B

(Form for disclosure of Particulars with respect to Technology Absorption)

Research and Development (R & D)	:	Nil
Expenditure on R & D	:	Nil
Technology absorption, adoption and innovation	:	Nil

C. FOREIGN EXCHANGE EARNINGS AND OUTGO

Total Foreign Exchange earnings and outgo

₹. in Lakhs

S.No.	Particulars	2013-14	2012-13
(i)	Total Foreign Exchange earned	6,402.76	3,850.52
(ii)	Total Foreign Exchange outflow	719.66	126.35