

21st ANNUAL REPORT

2006 - 2007

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Manali Petrochemical Ltd

**BOARD OF DIRECTORS**

Dr. A. C. MUTHIAH	Chairman
ASHWIN C MUTHIAH	Director
Ar Rm ARUN	Director
M.H. AVADHANI	Director
C. V. R. PANIKAR	Director
G. RAGHAVENDRAN	Director
M. SIVAGNANAM	Director
T. WILLINGTON (Nominee of TIDCO)	Director
G. RAMACHANDRAN	Managing Director
K. K. RAJAGOPALAN	Director (Finance)

AUDIT COMMITTEE

M. SIVAGNANAM	Chairman
Ar Rm ARUN	Director
M. H. AVADHANI	Director
C.V.R. PANIKAR	Director
G. RAGHAVENDRAN	Director
T. WILLINGTON (Nominee of TIDCO)	Director

COMPANY SECRETARY

G. S. LAKSHMI NARASIMHAN
(w.e.f. 11th July 2007)

AUDITORS

M/s. Deloitte Haskins & Sells, Chennai

BANKERS

State Bank of India
State Bank of Hyderabad
State Bank of Patiala
Indian Bank
Canara Bank
Punjab National Bank
Corporation Bank
State Bank of Bikaner & Jaipur
Bank of India

REGISTERED OFFICE

SPIC HOUSE
88 Mount Road, Guindy, Chennai - 600 032

PRINCIPAL OFFICE & PLANT I

Ponneri High Road, Manali, Chennai - 600 068.
Phone : 25941025, 25941249, 25941253
Fax : 25941199
Email : it@manalipetro.com

PLANT - II

Sathangadu Village,
Manali, Chennai - 600 068.
Phone : 25941698, 25941402

SECRETARIAL DEPARTMENT

Ponneri High Road, Manali, Chennai - 600 068.
Phone : 25943895 (Direct)
Email : companysecretary@manalipetro.com

DEPOSITORY

National Securities Depository Ltd (NSDL)
Central Depository Services (India) Limited (CDSL)

SHARES LISTED WITH

1. Bombay Stock Exchange Limited
Phiroze Jeejeebhoy Towers,
Dalal Street, Mumbai - 400 001.
2. National Stock Exchange of India Ltd
Exchange Plaza,
Bandra - Kurla Complex,
Bandra (East), Mumbai - 400 051.
3. The Calcutta Stock Exchange Association Ltd
No.7, Lyons Range, Kolkata - 700 001.
(Confirmation of De-listing awaited)

REGISTRARS AND SHARE TRANSFER AGENT

M/s. Cameo Corporate Services Limited
"Subramanian Building"
No.1, Club House Road, Chennai - 600 002.
Phone : 28460390, 28462700 & 28460718
Fax : 28460129
Email : cameosys@satyam.net.in



NOTICE TO SHAREHOLDERS

NOTICE is hereby given that the 21st Annual General Meeting of the Members of Manali Petrochemical Ltd will be held at Raja Annamalai Mandram, Esplanade (Near High Court), Chennai – 600 108, on Saturday, the 1st September 2007 at 10.35 AM to transact the following business :

ORDINARY BUSINESS:

1. To receive, consider and adopt the audited Balance Sheet of the Company as at 31st March 2007 and the Profit and Loss Account for the year ended on that date and the Reports of the Directors and Auditors thereon.
2. To declare a dividend.
3. To appoint a Director in the place of Mr. G. Raghavendran, who retires by rotation and being eligible offers himself for re-election.
4. To appoint a Director in the place of Mr. T. Willington, who retires by rotation and being eligible offers himself for re-election.
5. To consider and if thought fit, to pass, with or without modification, the following resolution as an **ORDINARY RESOLUTION** :

"RESOLVED THAT pursuant to Section 224 of the Companies Act, 1956, M/s. Deloitte Haskins and Sells, Chartered Accountants, Chennai, the retiring Auditors, be and are hereby re-appointed as Statutory 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 a remuneration to be fixed by the Board of Directors of the Company in connection with the Company's Audit."

SPECIAL BUSINESS:

6. To consider and if thought fit, to pass, with or without modification, the following as an **ORDINARY RESOLUTION**:

"RESOLVED THAT Mr. Ashwin C Muthiah, whose period of office shall be liable to determination by retirement of Directors by rotation, be and is hereby appointed a Director of the Company".

7. To consider and if thought fit, to pass, with or without modification, the following resolution as a **SPECIAL RESOLUTION**:

"RESOLVED THAT pursuant to Sections 198, 309, 310 and other applicable provisions, if any, and Schedule XIII of the Companies Act, 1956, the Company hereby accords its consent and approval for payment of revised remuneration of Rs.90,000/- per month, Performance Linked Pay of Rs.10.00 lakhs per annum, Allowances and Perquisites not exceeding Rs.16.20 lakhs per annum to Mr. G. Ramachandran, Managing Director of the Company, with effect from 1st Jan. 2007 until expiry of his tenure of employment, as have been set out in the Explanatory Statement to the Notice convening this Annual General Meeting.

Minimum Remuneration

In the event of loss, absence or inadequacy of profits, the remuneration aforesaid shall be the minimum remuneration. Any excess over the limits prescribed under the Companies Act, 1956 shall become payable with the approval of the Central Government, if so required."

8. To consider and if thought fit, to pass, with or without modification, the following resolution as a **SPECIAL RESOLUTION**:

"RESOLVED THAT pursuant to the provisions of Section 198, 309, 310 and other applicable provisions, if any and Schedule XIII of the Companies Act, 1956, the Company hereby approves the payment of revised remuneration to Mr. K K Rajagopalan, Director (Finance) for the period from 1st Aug. 2006 to 31st Dec. 2006 of (i) Salary : Rs.55,000/- per month, (ii) Commission : One Percent commission on net profits of the Company or special allowance not exceeding the total annual salary (iii) Perquisites shall be allowed in addition to both salary and commission or special allowance. However, it shall be restricted to an amount equal to the annual salary and other payments & provisions will remain unaltered. The Company also approves payment of revised remuneration of Rs.80,000/- per month, Performance Linked Pay of Rs.8.00 lakhs per annum, allowances and perquisites not exceeding Rs.14.40 lakhs per annum to Mr. K. K. Rajagopalan, Director (Finance) of the Company, with effect from 1st Jan. 2007 until expiry of his tenure of employment, as have been set out in the Explanatory Statement to the Notice convening this Annual General Meeting.

Minimum Remuneration

In the event of loss, absence or inadequacy of profits, the remuneration aforesaid shall be the minimum remuneration. Any excess over the limits prescribed under the Companies Act, 1956 shall become payable with the approval of the Central Government, wherever so required."

NOTES:

1. **A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and on a poll to vote instead of himself and a proxy need not be a member of the Company.**
2. The proxies in order to be valid must be received by the Company at its Registered Office / Principal Office of the Company not less than 48 hours before the commencement of meeting.
3. Members / Proxies should bring the attendance slip sent herewith, duly filled in and signed and hand over the same at the entrance of the hall for attending the meeting and members who hold shares in the dematerialised form, are requested to indicate without



fail their DP ID and Client ID numbers in the attendance slips. Members are requested to bring their copies of the Annual Report with them.

4. The Register of Members and the Share Transfer Books of the Company will remain closed from 17.08.2007 to 01.09.2007 (both days inclusive).

5. Members are requested to furnish the details of their nomination (if not already sent) in the necessary Form to the Registered office of the Company.
6. Relevant explanatory statement of material facts pursuant to Section 173(2) of the Companies Act, 1956 in respect of item nos.6 to 8 of the notice is annexed hereto.

Date : 27.04.2007

Registered Office:
SPIC HOUSE
88 Mount Road
Guindy,
Chennai - 600 032.

By Order of the Board
For **MANALI PETROCHEMICAL LTD.,**

G RAMACHANDRAN
MANAGING DIRECTOR

ANNEXURE TO NOTICE

EXPLANATORY STATEMENT FOR ITEM NOS.6 to 8 (Pursuant to Section 173(2) of the Companies Act, 1956)

Item No.6

Mr. Ashwin C Muthiah was appointed an additional Director of the Company by the Board of Directors at the meeting held on 27th Apr. 2007 in terms of Section 260 of the Companies Act, 1956 read with Article 97 of the Articles of Association of the Company. Mr. Ashwin C Muthiah holds office upto the date of this Annual General Meeting. The Company has received a notice in writing from a member under Section 257 of the Companies Act, 1956, along with a deposit of Rs.500/- as required under that Section, signifying his intention to propose the appointment of Mr. Ashwin C Muthiah as a Director of the Company, liable to retirement by rotation.

The Board commends the election of Mr. Ashwin C Muthiah, as Director of the Company for the approval of Members.

Memorandum of Interest:

None of the Directors except Mr. Ashwin C Muthiah, Dr. A. C. Muthiah and Mr. Ar Rm Arun are interested in the resolution.

Item No.7

The Board of Directors taking into account the trend in the industry and considering qualification, experience, past performance and past remuneration of Mr. G Ramachandran, Managing Director, at its Meeting held on 24th Jan. 2007 approved payment of revised remuneration to him with effect from 1st Jan. 2007 until expiry of his tenure of employment, subject to approval of shareholders.

- (1) Salary of Rs.90,000/- per month.
- (2) Performance Linked Pay of Rs.10.00 lakhs per annum.
- (3) Allowance & Perquisites shall be allowed in addition to both salary and performance linked pay. However, it shall be restricted to an amount equal to Rs.16.20 lakhs per annum.

For the purpose of calculating the above ceiling, perquisites will be evaluated as per Income Tax Rules, wherever applicable. In the absence of any such rule, perquisites shall be evaluated at actual cost.

Allowances and Perquisites shall also include:

(a) Provident Fund

Contribution to Provident Fund will be 12% of the salary.

(b) Superannuation Fund

Contribution to Superannuation Fund will be 15% of the salary.

(c) Gratuity

Gratuity payable shall not exceed one-half month's salary for each completed year of service.

However, the Board of Directors will have the liberty to re-fix individual ceilings under each of the above heads or to allow any other perquisites so as not to exceed the limit of Rs.16.20 lakhs per annum.

Other Payments and Provisions, which shall not be included in the computation of the ceiling on remuneration for the above revision in pay are :

(i) Encashment of Leave

As per Rules of the Company.

(ii) Car

Provision of Company's car with driver for business and personal use.

(iii) Telephone

Provision of telephone at residence.

(iv) Reimbursement of Expenses

a) Entertainment Expenses

Reimbursement of entertainment expenses actually incurred for the business of the Company subject to a reasonable ceiling as may be fixed from time to time by the Board.

b) Travelling Expenses

Reimbursement of travelling expenses actually incurred for the business of the Company subject to a reasonable ceiling as may be fixed from time to time by the Board.



In the event of loss, absence or inadequacy of profits, in any financial year during the currency of tenure of Mr. G Ramachandran, Managing Director, the remuneration aforesaid shall be the minimum remuneration payable to him.

However, any excess over the limits on minimum remuneration prescribed under the Companies Act, 1956, read with Schedule XIII to the Companies Act, 1956, shall be payable to Mr. G Ramachandran with the approval of the Government of India, if so required.

The Board commends the resolution for the approval of Members.

Memorandum of Interest:

Mr. G Ramachandran, Managing Director is interested in the resolution to the extent of remuneration payable to him. None of the other Directors of the Company is interested in the above resolution.

Item No.8

The Board of Directors taking into account the prevalent levels of remuneration in the industry and the academic background, qualification, experience and contribution of Mr. K K Rajagopalan, Director (Finance), at its Meeting held on 19th Aug. 2006 approved payment of revised remuneration to him with effect from 1st Aug. 2006 to 31st Dec. 2006, subject to approval of shareholders (1) Salary : Rs.55,000/- per month, (2) Commission: One Percent commission on net profits of the Company or special allowance not exceeding the total annual salary, (3) Perquisites : Perquisites shall be allowed in addition to both salary and commission or special allowance. However, it shall be restricted to an amount equal to the annual salary. (4) Other payments and Provisions will remain unaltered as already approved by the General Body earlier during its 19th Annual General Meeting.

Further, with effect from 1st Jan. 2007 until expiry of his tenure of employment, as approved by the Board of Directors at its Meeting held on 24th Jan. 2007, he would be paid remuneration as given below:

- (1) Salary of Rs.80,000/- per month.
- (2) Performance Linked Pay of Rs.8.00 lakhs per annum.
- (3) Allowance & Perquisites shall be allowed in addition to both salary and performance linked pay. However, it shall be restricted to an amount equal to Rs.14.40 lakhs per annum.

For the purpose of calculating the above ceiling, perquisites will be evaluated as per Income Tax Rules, wherever applicable. In the absence of any such rule, perquisites shall be evaluated at actual cost.

Allowances and Perquisites shall also include:

(a) Provident Fund

Contribution to Provident Fund will be 12% of the salary.

(b) Superannuation Fund

Contribution to Superannuation Fund will be 15% of the salary.

(c) Gratuity

Gratuity payable shall not exceed one-half month's salary for each completed year of service.

However, the Board of Directors will have the liberty to re-fix individual ceilings under each of the above heads or to allow any other perquisites so as not to exceed the limit of Rs.14.40 lakhs per annum.

Other Payments and Provisions, which shall not be included in the computation of the ceiling on remuneration for the above revision in pay are :

a) Encashment of Leave

As per Rules of the Company.

b) Car

Provision of Company's car with driver for business and personal use.

c) Telephone

Provision of telephone at residence.

d) Reimbursement of Expenses

i) Entertainment Expenses

Reimbursement of entertainment expenses actually incurred for the business of the Company subject to a reasonable ceiling as may be fixed from time to time by the Board.

ii) Travelling Expenses

Reimbursement of travelling expenses actually incurred for the business of the Company subject to a reasonable ceiling as may be fixed from time to time by the Board.

In the event of loss, absence or inadequacy of profits, in any financial year during the currency of tenure of Mr. K K Rajagopalan, Director (Finance), the remuneration aforesaid shall be the minimum remuneration payable to him.

However, any excess over the limits on minimum remuneration prescribed under the Companies Act, 1956, read with Schedule XIII to the Companies Act, 1956, shall be payable to Mr. K K Rajagopalan with the approval of the Government of India, if so required.

The Board commends the resolution for the approval of Members.

Memorandum of Interest:

Mr. K K Rajagopalan, Director (Finance) is interested in the resolution to the extent of remuneration payable to him. None of the other Directors of the Company is interested in the above resolution.

By Order of the Board
For **MANALI PETROCHEMICAL LTD.,**

G RAMACHANDRAN
MANAGING DIRECTOR

Date : 27.04.2007

Registered Office:
SPIC HOUSE
88 Mount Road
Guindy,
Chennai - 600 032.



**Brief Resume of the Directors seeking election / re-appointment
in the 21st Annual General Meeting**

1. **Mr. Ashwin C Muthiah** was appointed Additional Director on 27.04.2007. Mr. Ashwin C Muthiah holds a Master's Degree in Business Administration. Mr. Ashwin C Muthiah is the Chairman in the following companies, namely SICAL Distriparks Limited, Chennai. SICAL Yamatake Limited, Chennai, SPIC Jel Engineering Construction Ltd., Chennai, SDB CISCO India Ltd., Chennai & SICAL Iron Ore Terminals Limited, Chennai. Mr. Ashwin C Muthiah is the Vice-Chairman in Southern Petrochemical Industries Corporation Limited (SPIC), PSA SICAL Terminals Ltd., Tuticorin, SICAL Logistics Ltd., Chennai and Technip India Limited, Chennai. Mr. Ashwin C Muthiah also holds Directorships in the following companies, namely, Chennai International Terminal Private Ltd., Chennai, Indo-Jordan Chemicals Company Ltd., Jordan, Mitsuba Sical India Limited, Chennai, Tamilnadu Petroproducts Limited, Chennai & Totalcomm Infra Services Private Limited, Chennai. Mr. Ashwin C Muthiah is also a Director of ACM Educational Foundation, Chennai, ACM Medical Foundation, Chennai & MAC Spin Foundation, Chennai (incorporated under Section 25 of the Companies Act, 1956).

Mr. Ashwin C Muthiah does not hold any equity shares of the Company.

2. **Mr. G Raghavendran** was appointed as a Director on the Board effective 26.10.1992. He was formerly

Managing Director of the Company. He is a Chemical Engineer with more than 50 years of industrial experience. He has a long and varied experience in petroleum and petrochemical industries. He served as General Manager in Chennai Petroleum Corporation Limited, a public sector undertaking, prior to becoming the Chief Executive of MPL.

Mr. G Raghavendran holds 3825 equity shares of the Company.

3. **Mr. T Willington** was appointed as a Director on the Board effective 19.6.2001. He is a Director (Projects) of Tamilnadu Industrial Development Corporation Limited (TIDCO), Chennai, and represents TIDCO on the Board of the Company. He is a Mechanical Engineer with more than 35 years of experience. He has a varied and vast experience and represents a number of joint venture / associate venture companies promoted by TIDCO. He is the Chairman of Nova Roofings & Pipes Ltd., and Director of Tamilnadu Magnesite Ltd., Nagarjuna Oil Corporation Ltd., Tamilnadu Industrial Explosives Ltd., DCM Hyundai Ltd., Ennore SEZ Company Limited, Amtek Auto Castings Ltd., Mepco Industries Ltd., Tamilnadu Telecommunications Ltd., Rambal Ltd., Tamilnadu Industrial Park (Rubber) Ltd., and Jayamkondam Lignite Power Corporation Ltd.

Mr. T. Willington does not hold any equity shares of the Company.

DECLARATION

To

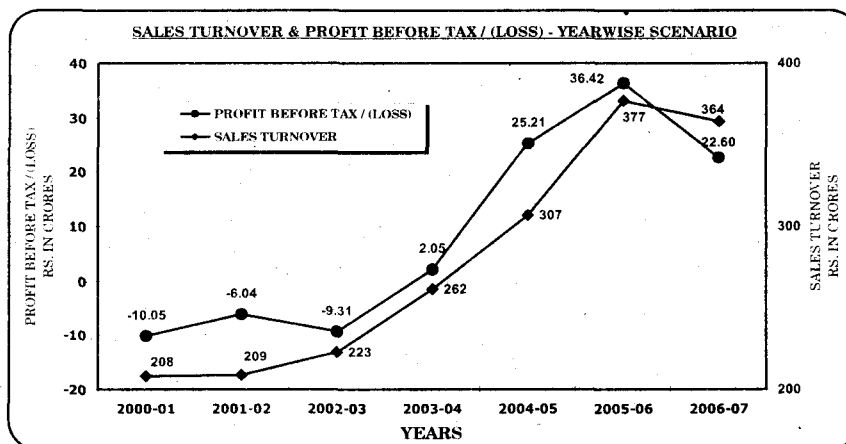
The Members of the Manali Petrochemical Ltd.

This is to declare that the Code of Conduct envisaged by the Company for Members of the Board and Senior Management Personnel have been complied with by all the members of the Board and Senior Management Personnel of the Company respectively.

Place : Chennai

Date : 27th April, 2007.

G. RAMACHANDRAN
MANAGING DIRECTOR





REPORT OF THE DIRECTORS AND MANAGEMENT DISCUSSION & ANALYSIS.

To

The Shareholders

The Directors present their 21st Annual Report on the business and operations of your company and the Audited Statement of Accounts for the year ended 31st March 2007.

FINANCIAL RESULTS

(Rs in Crores)

DESCRIPTION	2006-07	2005-06
Profit Before Interest and Depreciation	31.61	46.65
Interest	(1.31)	(0.05)
Depreciation	10.32	10.28
Profit Before Tax	22.60	36.42
Provision for Taxation	7.61	2.38
Profit After Tax	14.99	34.04
Cash Profit	30.76	44.14

During the year, your company achieved a profit before tax of Rs.22.60 crores and a profit after tax of Rs.14.99 crores. Deferred tax liability of Rs.7.41 crores has been provided for the year. The turnover and profits are lower than last year, despite 2.5 to 3% increase in quantum of production and sales of products, due to increased cost of raw materials and falling selling prices of products in both Indian and International markets. The trend of the profits and sales turnover for the past few years are summarized in the graph in Page No : 4.

OPERATIONAL HIGHLIGHTS

In this year also your Company maintained the trend of higher production and sales and achieved a record utilisation of more than 100% of all the process plants. The accomplishments in lowering the cost of production through reduction of specific consumption of power and fuel oil consumed are as per the graph in Page No : 8.

The decrease in sales turnover was due to lower sales prices that prevailed during the year and also reduction in systems turnover partly due to non-availability of particular grade of Isocyanates and competition from MNCs, who supply both Isocyanates and System Polyols as a package.

DIVIDEND

Your Directors have great pleasure in recommending a dividend of Rs.0.50 (10 percent) for every equity share of Rs.5/- each fully paid-up, for the year 2006-07, aggregating to Rs.8.60 crores.

MARKET SCENARIO

The sale of flexible slab stock polyol encountered difficulties due to restricted availability and higher price of Toluene Di Isocyanate (TDI) due to shutdown of a couple of TDI plants abroad. However, your company could maintain the sale of polyol, as the indigenous supplier of TDI, but for a brief shutdown, maintained their supplies regularly. The price of MDI was more or less stable.

The flexible moulded market switched to MDI based systems due to high TDI prices. Your company had also identified suitable MDI towards the end of the financial year and the system was introduced successfully. TDI / MDI blend systems have been withdrawn from the market due to steep increase in price of TDI. Due to pioneering efforts at our R&D centre, your company is in a position to offer TDI / MDI / TM systems as per the preferences of the market.

Your company has improved the sale of rigid polyol and is expected to do well with the star rating for refrigerators and airconditioners that has been introduced in the country.

FUTURE OUTLOOK AND NEW PRODUCTS

With increased usage of Polyurethanes in India, the market is expanding continuously. Your Company is confident of maintaining its operational performance and can now look to position itself in niche areas to optimise its performance.

OPPORTUNITIES AND THREATS

Custom duties have further been lowered by 5% to reach ASEAN levels of 7.5%. Your company is confident of overcoming the challenges posed to Indian industries and particularly to MPL to adapt to these conditions with the medium capacity plants to counter the very large plants now operating / being built in the ASEAN area. Positive performance indicators and growing markets definitely open up vast opportunities to your Company to expand and also target speciality niche markets. Newer system houses by MNC's, preferences of MNC Original Equipment Manufacturers for products of units operating with them elsewhere, as well as soft pricing towards Indian markets, constitute threats faced by your company.

RISKS AND CONCERNS

While Chennai Petroleum Corporation Ltd., (CPCL) being a single supplier of Propylene is a risk, their possible plans to develop Propylene based chemicals, in future, is a cause for concern. The development of the chemical terminal at the Ennore Port early would be a positive step.

The levy of Central Sales Tax of 3% on inter-state sales is a big cost, which has to be taken into account while pricing our products. Thus, relatively, this further lowers the net effective customs duty. Similarly, growing transportation cost and lack of cheap and faster transportation of goods from Chennai to markets in North and West are also a big concern. Importation of products through ports in the East & West Coast of India and absence of sales tax levy on those imports force us to reduce the selling prices to that extent to be in line with already soft landed cost of products into India. Earlier implementation of measures to address these issues are urgently needed.

ENVIRONMENT AND SAFETY

Your company was re-certified during June 2005 for both ISO-9001 and ISO-14001. Periodic biannual Surveillance Audits are also being conducted. The last Surveillance Audit was done on 25th Aug. 2006 and 26th Feb. 2007 and the next audit is due by end of August 2007.

CONSERVATION OF ENERGY

As required under Sec.217(1)(e) of the Companies Act, 1956 read with Rule-2 of the Companies (Disclosure of particulars in the Report of Board of Directors) Rules, 1988, information on conservation of energy, technology absorption, foreign exchange earnings and outgo, are as per Annexure forming part of this report.

FIXED DEPOSITS

Your company has not accepted any deposits from the public during the year under report.

INDUSTRIAL RELATIONS

The year saw a large turnover of employees migrating to lucrative jobs offered by the booming middle-east market and the large refinery projects coming up in Western India.



Required number of skilled manpower were recruited under our EMS / ESS Training schemes and after required training, they were inducted into permanent service of the company. Your company has programmes of systematic training and retraining and deploy skilled manpower in the core areas of operation. For non-critical areas, as is already being done, services of the machinery suppliers themselves are utilized. As of 31/03/2007, your company had 344 number of employees on its roll including the fresh engineers and technicians recruited recently.

PARTICULARS OF EMPLOYEES

Statement giving particulars of employees as required by Section 217(2A) of the Companies Act, 1956 read with The Companies (Particulars of Employees) Rules 1975, as amended, is not required to be annexed to this Report, as no employee is coming under the purview of the Section of the Companies Act, 1956 during the period under review.

DIRECTORS

Mr. Ashwin C Muthiah was appointed as an Additional Director in the Board Meeting held on 27th Apr. 2007 and Mr. Ashwin C Muthiah would retire at this Annual General Meeting. A notice from a member was received under Section 257 of the Companies Act, 1956, signifying his intention to propose the appointment of Mr. Ashwin C Muthiah as a Director of your Company.

In terms of Section 256 of the Companies Act, 1956 and Article 103 of the Articles of Association of the company, Directors, Mr. G Raghavendran and Mr. T Willington, are retiring by rotation at this Annual General Meeting, and being eligible, offer themselves for re-appointment.

DIRECTORS' RESPONSIBILITY STATEMENT

Pursuant to the requirement under Section 217(2AA) of the Companies Act, 1956 with respect to Directors' Responsibility Statement, it is hereby confirmed :

- (i) That in the preparation of the annual accounts for the financial year ended 31st Mar. 2007, the applicable accounting standards had been followed along with proper explanation relating to material departures;
- (ii) That the Directors had selected such accounting policies and applied them consistently and made judgements and estimates that were 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 of the Company for the year under review.
- (iii) That the Directors had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
- (iv) That the Directors had prepared the accounts for the financial year ended 31st Mar. 2007 on a 'going concern' basis.

CORPORATE GOVERNANCE

Your Company has complied with the requirements regarding Corporate Governance as required under Revised Clause 49

of the Listing Agreement entered into with the Stock Exchanges, where the Company's shares are listed. A Report on the Corporate Governance in this regard is made a part of this Annual Report and a Certificate from the Auditors of your Company regarding compliance of the conditions of the Corporate Governance is attached to this report.

COMPULSORY DEMAT

As announced by SEBI vide its Circular Ref. No.SMDRP / POLICY / CIR-9 / 2000, dt. 16.2.2000, the shares of the Company are traded compulsorily in dematerialised form by all investors with effect from 8.5.2000. 48.48% of shares of your company have been dematted compared to 46.41% last year.

LISTING OF EQUITY SHARES

Your Company's equity shares continued to be listed on Bombay Stock Exchange Limited and National Stock Exchange Ltd., Mumbai, during the year under report.

Your Company has initiated necessary action to delist its equity shares from the Calcutta Stock Exchange Association Ltd., pursuant to the resolution passed at the Annual General Meeting held on 25.9.2004.

RESTRUCTURING OF SHARE CAPITAL

During the year, your Company restructured the fully paid equity capital by consolidating 2 shares of the face value of Rs.7.50 each into 3 equity shares of the face value of Rs.5/- each.

COST AUDIT

The Government of India has ordered the Company to conduct audit of cost accounts in respect of 'Chemicals' manufactured by the company and accorded approval for appointment of M/s. S Gopalan & Associates, Cost Accountants, appointed by the Company in this regard pursuant to Section 233B of the Companies Act, 1956, to conduct cost audit for the year 2006-2007.

AUDITORS

Your Company's statutory Auditors M/s. Deloitte Haskins & Sells, Chartered Accountants, Chennai, retire at the conclusion of this Annual General meeting and are eligible for re-appointment.

ADEQUACY OF INTERNAL CONTROLS

Your company has installed adequate internal control systems in combination with delegation of powers. The control system is also supported by internal audits and Management reviews with documented policies and procedures.

ACKNOWLEDGEMENT

The Directors express their grateful thanks for the assistance, co-operation and support extended to the Company by the Government of India, the Government of Tamilnadu, TIDCO, SPIC, the Promoter, UTI and other Financial Institutions and the Consortium of Banks. The Directors wish to thank particularly the shareholders for their continued support. The Directors also place on record their appreciation of the consistent good work put in by all cadres of employees.

For and on behalf of the Board

Dr. A.C. MUTHIAH
CHAIRMAN

Place : Chennai - 600 032

Date : 27th April, 2007.



ANNEXURE TO DIRECTORS' REPORT

Conservation of Energy, Technology absorption and Foreign Exchange Earnings and Outgo as required under Companies (Disclosure of particulars in the report of Board of Directors) Rules, 1988 for the year ended 31st March 2007.

A) CONSERVATION OF ENERGY

- a) Energy conservation measures taken :-
 - Conversion of the steam vacuum ejector systems to vacuum pumps at Plant-II have been completed.
 - Complete reuse of glycol bearing condensate at Plant-II.
- b) Additional investment and proposals, if any, being implemented for reduction of consumption of energy :-
 - Implement a heat recovery system for polyol reactor of Plant-II.
 - Implement an in-house technology for removal of catalyst from polyol at Plant-I.

- c) Impact of the measures at (a) & (b) above for reduction of energy consumption and consequent impact on the cost of production of goods :-

- Impact of water and energy conservation measures at (a) for reduction of energy and water consumption and consequent impact on the cost of production of goods to be in the order of Rs.16 Lakhs per annum.
- The savings envisaged by implementing the energy conservation measures as at (b) for reduction of energy and consequent impact on the cost of production of goods to be in the order of Rs.30 Lakhs per annum.

FORM - A (See Rule-2)

	Year Ended 31.03.2007	Year Ended 31.03.2006
(A) Power and Fuel Consumption		
1. ELECTRICITY		
a) Purchased		
Units	26014880	27087110
Amount (Rs) (i.e.cost paid to TNEB)	11,21,59,014	11,59,69,726
Rate per Unit (Rs.)	4.31	4.28
b) Own Generation		
1. Through Diesel Generator (Units)	54178	115157
Unit per litre of Diesel	3.21	3.25
Cost per Unit (Rs.)	9.86	8.69
2. Through Steam Turbine	Nil	Nil
2. Coal	Nil	Nil
3. Furnace Oil (Qty in KL)	12876	13109
Amount (Rs.)	20,94,06,371	18,78,48,600
Average Rate (Rs./KL)	16,263	14,329
4. Others / Internal Generation	Nil	Nil
(B) Consumption per unit of production with standards (if any)		
Products (In MT)	41,420	40,667
Electricity in Units	629	669
Furnace Oil in KL	0.310	0.322
Coal	Nil	Nil
Others	Nil	Nil

FORM-B (See Rule-2)

B. TECHNOLOGY ABSORPTION

1. Research and Development (R&D)

1. Specific areas in which R&D carried out by the company :

- Indigenization of currently imported expensive PU additives.
- Specialty glycols for oil fields.
- Reformulation of the products to work with MDI.

2. Benefits derived as a result of above R&D :

- Import substitution.
- Reduction in operation costs.
- Effective utilization of by-products.
- Improved sales.
- Waste minimization.



3. Future Plan of Action :

- Develop the prepolymer based PU systems for cold cure and rigid applications.
- Continue to focus on Glycols for oil fields.
- Further improvement of the PU system for soft and low resilient applications.

4. Expenditure on R & D :

- Capital : Rs.53.76 lakhs
- Recurring : Rs.53.55 lakhs
- Total : Rs.107.31 lakhs
- Total R&D expenditure as a percentage of total turnover – 0.29%.

II. Technology Absorption, Adaptation and Innovation :

- Efforts, in brief, made towards technology absorption, adaptation and innovation :

Technology has already been fully absorbed.

- Benefit derived as a result of the above efforts e.g. product improvement, cost reduction, product development, import substitution etc.:

Indigenous chemicals have been substituted thus reducing the cost of production.

- In case of imported technology (imported during the last five years reckoned from the beginning of the financial year) the following information may be furnished:-

- Technology imported :

Design and drawing have been imported for fabrication of equipment and the process know-how has been successfully absorbed.

PO / PG

: Process know-how from M/s ATOCHEM of France (For Plant-I)

Process know-how from M/s MONTEDIPE of Italy (For Plant-II)

POLYOLS

: Process know-how from M/s ARCO of USA (For Plant-I)

Process know-how from M/s PRESSINDUSTRIA of Switzerland (For Plant-II)

- Year of Import

: 1988 & 1989

- Has technology been fully absorbed

: yes.

- if not fully absorbed, areas where this has not taken place, reasons therefor and further plans of action

: does not apply

C. FOREIGN EXCHANGE EARNINGS AND OUTGO:

- Efforts: Further possibilities of exporting the products are being explored.

(Rs. in lakhs)

- Foreign Exchange Earnings – exports sales (FOB) - 109.01
 - Foreign Exchange outgo (on cash basis) - 5452.62

