



REPORTJUNCTION

TWENTY FIFTH  
ANNUAL REPORT  
2000-2001



## KERALA CHEMICALS &amp; PROTEINS LTD.



Board of Directors	: T.K.A. Nair, <i>Chairman</i>
	A. K. Nair, <i>Managing Director</i>
	S. Yasugi
	T. Yamaguchi
	T. Wakasa <i>Technical Director</i>
	E. Takanashi
	Jiji Thomson
	Revi Karuna Karan
	K. Ramakrishnan
Secretary	: P.D. Vincent
Auditors	: Varma and Varma, Ernakulam
Bankers	: State Bank of India Export Import Bank of India Canara Bank State Bank of Travancore South Indian Bank Ltd.
Legal Advisor	: M. Pathrose Mathai, Advocate, Ernakulam.
Connectivity Agent	: Intime Spectrum Registry Pvt. Ltd. 260, Shanti Industrial Estate Sarojini Naidu Road Mulund (W) Mumbai - 400 080
Registered Office	: Post Bag No. 4262, 50/1002, Panampilly Nagar P.O., Kochi - 682 036
Factory	
Ossein Division	: Kathikudam P. O. (Via) Koratty, Trichur District - 680 308
Gelatin Division	: KINFRA Export Promotion Industrial Parks Ltd., P.B. No. 3109, Kusumagiri.P.O., Kakkanad, Kochi - 682 030

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## KERALA CHEMICALS &amp; PROTEINS LTD.

## FINANCIAL HIGHLIGHTS (12 Years)

(Rs.in lacs)

	1989-90	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-2000	2000-01
Total Income	1082.53	1216.95	1757.39	2485.54	2978.75	2820.84	2904.62	4390.99	4755.45	5604.53	6397.79	7397.65
Sales	1026.39	1086.39	1618.88	2290.32	2705.67	2669.70	2424.70	3774.30	4365.03	4963.43	5609.94	6561.04
Exports	917.76	1022.23	1444.25	2002.92	2387.74	2297.54	1842.55	2733.84	3495.91	3640.04	3702.48	4501.28
Pre-tax Profit/(Loss)	220.51	232.17	552.71	635.06	752.07	747.86	1100.37	865.49	853.91	768.38	(370.46)	(170.89)
Profit/(Loss) after tax	203.51	226.17	526.14	587.56	680.03	691.84	874.25	688.49	753.91	677.38	(485.42)	(198.22)
Earnings per share (Rs.)	14.54	16.16	37.58	27.98	32.34	32.38	41.63	32.79	17.95	8.06	0	0
Dividend per share (Rs.)	3.00	3.50	5.00	5.00	5.00	5.00	6.00	4.50	3.00	2.50	0	0
Reserves & Retained Earnings	558.06	735.23	1191.37	1603.93	2178.97	2765.81	3514.06	4098.60	4503.91	7731.52	7246.09	7047.87
Share Capital	140.00	140.00	140.00	210.00	210.00	210.00	210.00	210.00	420.00	840.00	840.00	840.00
Shareholders' Funds	698.06	875.23	1331.37	1813.93	2388.97	2975.81	3724.06	4308.60	4923.91	8571.52	8086.09	7887.87
Return on Equity(%)	29.15	25.84	39.52	32.39	28.47	23.25	23.48	15.98	15.31	7.90	0	0
Book Value/share(Rs.)	49.86	62.52	95.10	86.38	113.76	141.71	177.34	205.17	117.24	102.04	96.26	93.90
Gross Block	430.14	472.71	486.28	882.78	903.94	966.50	1019.50	1235.61	1662.48	10152.12	10515.63	10610.15
Net Block	158.02	178.44	169.80	498.76	450.75	455.22	451.23	575.60	880.81	9159.12	8761.70	8113.24





## KERALA CHEMICALS &amp; PROTEINS LTD.

## NOTICE TO MEMBERS

NOTICE IS HEREBY GIVEN that the 25th Annual General Meeting of Kerala Chemicals & Proteins Limited will be held on Saturday, the 15th September, 2001 at 10.30 A.M. at HOTEL AVENUE REGENT, M.G. Road, Ernakulam, Kochi - 682 016, to transact the following business:

## ORDINARY BUSINESS

1. To receive, consider and adopt the Directors' Report, the Audited Balance Sheet as at 31st March, 2001 and Profit and Loss Account for the year ended on that date and the Auditors' report thereon.
2. To appoint a Director in place of Mr. T. Yamaguchi, who retires by rotation and being eligible, offers himself for re-appointment.
3. To appoint Auditors and to fix their remuneration and in this connection to pass, with or without modification, the following resolution as a Special Resolution.

"RESOLVED THAT pursuant to the provisions of Sec. 224A and other applicable provisions, if any, of the Companies Act, 1956, M/s. Varma & Varma, Chartered Accountants, Ernakulam, Kochi - 682 016, be and are hereby re-appointed Auditors of the Company to hold office until the conclusion of the next Annual General Meeting on a remuneration that may be fixed in this behalf by the Board of Directors."

Note :

The re-appointment of Auditors is being proposed as a Special Resolution in accordance with Sec. 224A of the Companies Act, 1956, since not less than 25% of the subscribed share capital of the company is held by a State Government Company (KSIDC).

## SPECIAL BUSINESS

4. To consider and, if thought fit, to pass with or without modification, the following resolution as an Ordinary Resolution.
- "RESOLVED THAT Mr. E. Takanashi, be and is hereby appointed as a Director of the Company liable to retire by rotation".

By Order of the Board,

Kochi  
21-05-2001

P.D. VINCENT  
Company Secretary

## NOTES

1. A member entitled to attend and vote is entitled to appoint a proxy to attend and vote on a poll on his behalf and a proxy need not be a member. The proxy forms duly completed, stamped and signed must be deposited at the Registered Office of the Company not less than 48 hours before the meeting.
2. The Register of Members and Share Transfer Books of the company will remain closed for 15 days from 1st to 15th September, 2001 inclusive of both days.
3. Members are requested to notify immediately any change in their addresses to the company, in the case of those holding shares in the physical form and to the respective depository participants, in the case of those holding shares in the electronic/demat form.
4. Members holding shares in the same name or same order of names under different ledger folios are requested to apply to the company for clubbing into one folio.
5. Members are requested to furnish the details of their nomination in the nomination form that can be obtained from the company on request.
6. Members desiring any information as regards the accounts are requested to write to the company so as to reach at the Registered Office at least 5 days before the date of the meeting to enable the management to keep the information ready.
7. Pursuant to Sec. 205 A of the Companies Act, 1956 and the amendment thereto, the amount of dividend unpaid/unclaimed in the dividend account for the year ended 31.3.1996 will be kept in the company's unpaid dividend account with the bankers for a period of seven years and will thereafter be transferred to the Investor Education and Protection Fund. Members who have not encashed their dividend warrants yet, are requested to claim such dividends immediately.
8. The company's shares have been notified for compulsory dematerialisation. Therefore trading of shares through the Stock Exchanges is permitted only on electronic/demat form. Members holding shares in the physical form are requested to consider opening of Demat



## KERALA CHEMICALS &amp; PROTEINS LTD.

Account with an authorised Depository Participant and arrange for dematerialisation of their holdings in the company.

9. Members attending the Annual General Meeting are requested to bring with them the following:

- Members holding shares in dematerialised form, their DP ID and Client ID numbers.
- Members holding shares in physical form, their folio number(s)

## ANNEXURE TO THE NOTICE

Explanatory statement pursuant to Sec. 173(2) of the Companies Act, 1956

Mr. E. Takanashi, nominee of M/s. Mitsubishi Corporation, Japan, who was appointed as a director of the Company on 25.9.1999 in the casual vacancy caused by the resignation of Mr. K. Uchida, holds office upto this Annual General Meeting. Notice has been received from a member alongwith the deposit as required under Sec. 257 of the Companies Act, 1956 proposing the candidature of Mr. E. Takanashi as a Director of the Company. Considering his experience and valuable contribution on the Board, your Directors recommend that he be appointed a Director of the Company liable to retire by rotation.

Except Mr. E. Takanashi, no other director is concerned or interested in this resolution.

**DETAILS OF DIRECTORS SEEKING APPOINTMENT/RE-APPOINTMENT IN THE FORTHCOMING ANNUAL GENERAL MEETING**

(in pursuance of clause 49 of the listing agreement with stock exchanges)

Name	Mr. T. Yamaguchi	Mr. E. Takanashi
Age	63	51
Nationality	Japanese	Japanese
Qualification	Graduate of Business Faculty from Osaka City University	Graduate in Biochemistry from Tokyo University
Expertise	He has been with Nitta Gelatin Inc. for the past 40 years and is presently a member of the Board of Directors and Managing Director of Nitta Gelatin Inc., Japan.	He has been with Mitsubishi Corporation for the past 26 years and is presently the Asst. General Manager of Mitsubishi Corporation, Cochin Office. He possesses specialised skill in marketing Gelatin and other allied products.
Other Directorships (excluding foreign Companies)	—	Bamni Proteins Ltd.



## KERALA CHEMICALS &amp; PROTEINS LTD.

**DIRECTORS' REPORT**

To the Shareholders,

Your Directors present their 25th Annual Report and Audited Accounts of the Company for the year ended 31st March 2001.

**FINANCIAL HIGHLIGHTS**

	2000-01	(Rs. in lacs) 1999-2000
Profit before depreciation and tax	575.87	400.14
Depreciation	746.76	770.60
Profit/(Loss) before tax	(170.89)	(370.46)
Provision for Income tax For Prior Years	27.33	114.96
Profit/(Loss) after tax	(198.22)	(485.42)
Balance Profit/(Loss) brought forward	(162.90)	322.52
Balance Profit/(Loss) carried to Balance Sheet	(361.12)	(162.90)

**REVIEW OF OPERATIONS**

The Gelatin Industry continued to be under pressure during the year under review. Adding to the earlier woes, the madcow disease in Europe also adversely affected Gelatin off-take from Japan and consequent reduction in Ossein off-take from India. However, the clearance given by the European Union for import with restrictions is expected to show some signs of recovery. The Dicalcium Phosphate market was also adversely affected and the selling price per MT came down from Rs.17,557/- to Rs.14,458/- during the year. Your company would have made profit during the year if the selling price of Dicalcium Phosphate was the same as that of previous year. The prices of raw materials particularly of hydrochloric acid, increased sharply owing to lower production of caustic soda, but decreased during March 2001 as production of caustic soda went up. As a result of the labour problem in Ossein Division, the Company was forced to lockout the factory for 11 days which also adversely affected the profitability of the Company.

With the active support from the collaborators, your Company could improve the yield of Gelatin division appreciably. The consumption of Furnace oil, one of the main inputs and power also came down drastically, which to a great extent helped your Company to minimise the loss. Your Company sold 704 MT of Gelatin in the export market and 391 MT in domestic market as against 308 MT and 111 MT during last year. During the year, your Company received orders from Jordan, Egypt, Dubai and Sri Lanka for Gelatin. Efforts are being continued to increase direct exports with the active help of M/s. Mitsubishi Corporation. The financial results of the year's operations vis-a-vis that of the previous year are given at the beginning of the report. Because of the increase in Gelatin sales, the average turnover increased by 17%. Your Company is making all out efforts to reduce the production cost and minimise losses through better working capital management, tighter control of capital/revenue expenditure and increase in yield in both the units. Our principals M/s. Nitta Gelatin Inc., has formed a separate team to help us in our efforts to reduce the cost and increase the yield which benefited the Company substantially.

**BAMNI PROTEINS LTD**

Production and sales at Bamni Proteins were low due to recession in the Gelatin Industry, resulting in the poor off-take of Ossein. Modernisation and upgradation needed to bring the production processes in line with the standards of KCPL is complete and our collaborators are lifting some quantity from Bamni Proteins also.

The Directors' Report, Balance Sheet and Profit & Loss Account of Bamni Proteins showing a loss of Rs. 163.69 lacs for the year 2000-01 are attached as required under Section 212 of the Companies Act, 1956. Under - utilisation of capacity, accumulation of Ossein stock and interest paid on term loan and working capital have been cited as reasons for the loss made by the company.

**AUDITORS' REPORT**

The Company has an internal audit department supported by internal control procedures. Action is being initiated to strengthen the internal audit.



## KERALA CHEMICALS &amp; PROTEINS LTD.

Observations under items 8 and 9 of the Annexure to the report are self explanatory.

### CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION, FOREIGN EXCHANGE EARNINGS AND OUTGO

The information as required under 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 annexed.

### PARTICULARS OF EMPLOYEES

None of the employees of the Company is coming under the purview of Section 217(2A) of the Companies Act, 1956. Details of managerial remuneration under Section 198 of the Act, are furnished under Note No. B.2 of Schedule 20 forming part of the Accounts.

### 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, the applicable Accounting Standards have been followed alongwith proper explanation relating to material departures.
- ii. That the Directors have selected such accounting policies and applied them consistently and made judgements and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company as at 31st March, 2001 and of the loss of the Company for the year ended 31st March, 2001.
- iii. That the Directors have taken proper and sufficient care for the maintenance of adequate accounting records for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities.
- iv. That the Directors have prepared the annual accounts on a going concern basis.

### MANAGEMENT DISCUSSION AND ANALYSIS REPORT

Report on Management Discussion and Analysis is annexed.

### CORPORATE GOVERNANCE

A report on Corporate Governance is Annexed.

### DIRECTORS

M/s. Kerala State Industrial Development Corporation Ltd., nominated Mr. Jiji Thomson, IAS in place of Mr. Harjinder Singh, IAS. Except for this, there was no change in the Board of Directors.

Your Directors place on record their appreciation of the valuable services rendered by Mr. Harjinder Singh, IAS during his tenure on the Board.

Under the provisions of the Articles of Association of the Company and the Companies Act, 1956, Mr. T.Yamaguchi retires by rotation and is eligible for re-election. Mr. E. Takanashi appointed to the Board, in the casual vacancy caused by the resignation of Mr. K.Uchida, also retires at the ensuing Annual General Meeting. The company has received notice from a member under Sec.257 of the Companies Act, 1956, proposing Mr. E.Takanashi as a Director of the Company and necessary resolution in this behalf has been proposed for consideration of members.

### AUDITORS

M/s.Varma & Varma, the retiring auditors are eligible for re-appointment and a Special Resolution is being proposed for their re-appointment.

### ACKNOWLEDGEMENT

Your Directors place on record their gratitude to the State and Central Governments, The Kerala State Industrial Development Corporation Limited, Nitta Gelatin Inc., Mitsubishi Corporation, the Company's Bankers, Customers, Suppliers and Shareholders for their continued co-operation and support. They also acknowledge and appreciate the valuable contributions of the executives and employees of the Company at all levels.

For and on behalf of the Board,

Kochi,  
21st May 2001

T.K.A. NAIR  
Chairman.





## KERALA CHEMICALS &amp; PROTEINS LTD.

## ANNEXURE TO THE DIRECTORS' REPORT

## (A) CONSERVATION OF ENERGY

(a) During the year energy conservation measures were continued. The energy audit was conducted by M/s Central Power Research Institute, Trivandrum and suggestions/recommendations made by them are being implemented.

(b) Additional investment and proposals, if any, being implemented for reduction of consumption of energy.

Vapour Compressor : Rs. 2 lacs

Heat Exchanger : Rs. 4 lacs

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

The above measures will result in energy savings in future and consequently reduce cost of production.

(d) Total energy consumption and energy consumption per unit of production.

As per Form 'A' attached.

## (B) TECHNOLOGY ABSORPTION

The technology for Ossein, Dicalcium Phosphate, Compound Glue and Limed Ossein obtained from the foreign collaborators has been fully absorbed and improved upon. The Collaborators have now given technology for manufacture of Gelatin. The company is making continuous efforts towards technology absorption, adaptation and innovation in respect of Gelatin.

## RESEARCH &amp; DEVELOPMENT

The in-house R&D efforts towards improvement of product quality, effluent discharge systems and value addition to effluent sludge have been generally successful. Other areas of waste utilisation, improvement of quality of compound glue etc. are also continued as in-house activities. The benefits from these activities will manifest in due course through cost reduction, product improvement and miscellaneous revenue.

## EXPENDITURE ON R&amp;D

	(Rs. in lacs)	
	Current Yr.	Previous Yr.
a. Capital	2.18	6.42
b. Development Expenses	1.85	1.58
c. Recurring Expenses	2.50	1.63
Total	6.53	9.63
Percentage to turnover	0.10%	0.17%

## (C) FOREIGN EXCHANGE EARNINGS AND OUTGO

	(Rs. in lacs)	
	Current Yr.	Previous Yr.
a. Earnings	4471.05	3631.47
b. Outgo	211.31	259.76

## FORM - A

## FORM FOR DISCLOSURE OF PARTICULARS WITH RESPECT TO CONSERVATION OF ENERGY

## A. POWER AND FUEL CONSUMPTION

	Current Yr. 2000-01	Previous Yr. 1999-2000
1. Electricity		
(a) Purchased		
Units		
(KWH in lacs)	131.20	92.39
Total Amount		
(Rs. in lacs)	351.25	250.02
Rate/Unit (Rs.)	2.68	2.71
(b) Own Generation		
(i) Through Diesel Generator Unit		
(KWH in lacs)	20.58	36.84
Unit per litre of Diesel Oil	3.15	3.33
Cost/Unit (Rs.)	5.43	3.93
(ii) Through Steam Turbine/* Generator		
Unit(KWH in lacs)	1.03	25.24
2. Coal	Nil	Nil
3. Furnace Oil		
Quantity (in KL.)	6224	8702
Total Amount		
(Rs. in lacs)	760.69	868.57
Average rate		
(Rs. per KL.)	12221.53	9981.30
4. Others/Internal generation	Nil	Nil

## B. CONSUMPTION PER UNIT OF PRODUCTION.

## Product - Ossein

1. Electricity (KWH) per MT	1425.00	1495.00
2. LSHS/Furnace Oil (KL.) per MT	0.24	0.25



**Product - Gelatin**

1. Electricity (KWH) per MT	6731.78	8885.40
2. LSHS/Furnace oil (KL) per MT	4.07	7.50

\*We have not assigned any cost for production of power using Turbine Generator Set because its steam is primarily meant for the process.

**MANAGEMENT DISCUSSION AND ANALYSIS REPORT****The Structure and Developments in the Gelatin/Ossein Industry**

The total installed capacity of Gelatin in India is estimated to be 13200 tpa. The estimated demand of Gelatin in the domestic market is 4600 tpa. The export of Gelatin from India is estimated to be 2700 tpa. Therefore the total demand works out to only 7300 MT. However, with the ban on European Gelatin by many countries, due to Madcow disease, export from India is likely to improve in the near future.

**Opportunities and Threats****Opportunities**

KCPL with its highly automated plant and product conforming to high quality standards is poised to take advantage of the requirement of high quality product in the international market. The Company has the full backing of Nitta Gelatin Inc., Japan, the leading international manufactures of Gelatin. Mitsubishi Corporation, a global giant has an equity stake in the Company and is also participating in the management. The Company has already got ISO 9002 Certification for its Ossein Division. For Gelatin Division the Company is in the process of implementing Hazard Analysis Critical Control Point (HACCP) and ISO 9001:2000 and has also submitted the dossier for certification of suitability to the European Directorate for the Quality of Medicines (EDQM). These certifications are likely to improve the export market potential of our product.

**Threats**

The outbreak of many animal borne diseases has prompted many users of animal derived products to look for alternatives. The development of capsules using HPMC, Fish Gelatin etc. are pointers in this direction. At present the prices of these alternatives are not viable to the users and therefore do not pose any immediate threats.

**Outlook**

The Gelatin Industry continues to be under pressure. Adding to the earlier woes, the madcow disease in Europe also adversely affected the Gelatin off-take from Japan and consequent reduction in Ossein off take from India. However the clearance given by the European Union for import with restriction is expected to show some signs of recovery.

**Internal control system**

KCPL has evolved a system of internal controls to ensure that the assets are safeguarded, transactions are authorised, recorded and correctly reported. The internal control system is supported by management reviews. Planned periodic reviews are carried out for identification of control deficiencies, bridging gaps with best practices and formulation of time bound action plans to minimise risks. The Board believes that appropriate procedures and controls are operating and monitoring of procedures are in place.

**Product-Wise Performance**

The Ossein Division of the Company has produced 5120 MT of Ossein and 10598 MT of Dicalcium Phosphate and the Gelatin Division produced 1063 MT of Gelatin during the year 2000-01. During the year, the Company exported 4469 MT of Ossein, 1505 MT of Dicalcium Phosphate and 704.12 MT of Gelatin and realised Rs.3000 lacs, Rs.201 lacs and Rs.1299 lacs respectively. Domestic realisation of Dicalcium Phosphate and Gelatin are Rs. 1449 lacs and Rs.603 lacs respectively.

**Industrial Relations**

During the pendency of the negotiations for long term settlement, there were some labour problems in the Ossein Division during April to June and in October and November. The Company was forced to declare a lockout for 11 days during October-November 2000. However, a settlement was reached and the long term agreement, for the next 3 years was signed. On account of these developments, production and yield during the year were adversely affected. However, the Company expects that industrial relations will be conducive for efficient operations in future. The Company has on its rolls 317 employees as on 31.03.2001.



## KERALA CHEMICALS &amp; PROTEINS LTD.

## CORPORATE GOVERNANCE

## (a) Company's Philosophy

The Company has always been committed to the principles of good corporate governance which interalia includes protection of shareholders rights, enhancement of shareholder value, equitable treatment of all stakeholders such as suppliers, customers and employees and to report financial information adequately and transparently. A continuous process of delegation of powers with commensurate accountability coupled with trust, faith and transparency has been embedded in the day to day functioning.

The Company is in the process of developing proper awareness of corporate governance throughout its rank and file. The Company endeavours to enhance shareholder value in a fair and transparent manner on a sustainable basis and has already started adopting the guidelines recommended by the Securities and Exchange Board of India (SEBI) on Corporate Governance. The Company publishes from time to time all the relevant information as prescribed by SEBI and Stock Exchanges.

## (b) Board of Directors

Composition

The Board of Directors comprises a combination of executive and non-executive Directors who are eminent professionals in their respective fields with wide range of skills and experience. They are drawn from amongst persons with proven experience in business/finance/public enterprises.

The composition and attendance at the Board Meetings and Annual General Meetings during the year and directorships in other Public Limited Companies were as under:

	Executive/ Non-executive	No. of Board Meetings Attended	Last AGM Attendance Yes or No	Business relationship with KCPL, if any	Directorships in other Indian Public Limited Companies as on 31-03-2001
1. Mr.T.K.A.Nair Nominee of Kerala State Industrial Development Corporation Ltd. (Appointed as Chairman w.e.f. 17.02.1999)	Non-executive	5	Yes	Nil	3
2. Mr. A.K.Nair (Appointed as Managing Director w.e.f.01.04.1998)	Executive	6	Yes	Chairman Bamni Proteins Ltd.	5
3. Mr. T.Wakasa (Appointed as Wholetime Technical Director w.e.f. 01.05.2000)	Executive	5	Yes	Director Bamni Proteins Ltd	1
4. Mr. S. Yasugi Nominee of Nitta Gelatin Inc. (Appointed w.e.f. 25.09.1999)	Non Executive	Nil	No	President Nitta Gelatin Inc.	-
5. Mr. T.Yamaguchi Nominee of Nitta Gelatin Inc. (Appointed w.e.f.02.09.1998)	Non-Executive	1	Yes	Director Nitta Gelatin Inc.	-
6. Mr. E.Takanashi Nominee of Mitsubishi Coporation (Appointed w.e.f. 25.09.1999)	Non-executive	6	Yes	Director Bamni Proteins Ltd.	1