
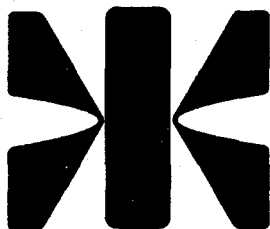




# KERALA CHEMICALS & PROTEINS LIMITED

REPORT  [junction.com](http://reportjunction.com)

THIRTYFIRST  
ANNUAL REPORT  
2003-2007



Board of Directors : P. H. Kurian IAS  
Chairman

A. K. Nair  
Managing Director

G. Suseelan  
Whole-time Director

Norimichi Soga

T. Nishio

K. Inoue

Venu Nallur

K. Ramakrishnan

K. L. Kumar

Secretary : P. D. Vincent

Auditors : Varma and Varma  
Ernakulam

Bankers : State Bank of India  
Canara Bank  
State Bank of Travancore  
UTI Bank Ltd.  
South Indian Bank Ltd.

Legal Advisor : M. Pathrose Mathai  
Advocate, Ernakulam

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Registrar & Share  
Transfer Agents : Cameo Corporate Services Ltd.  
"Subramanian Building"  
1, Club House Road  
Chennai - 600 002  
Tel.: 044-28460390  
Fax: 044-28460129  
E-mail: cameo@cameoindia.com

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

## KERALA CHEMICALS &amp; PROTEINS LTD.

## FINANCIAL HIGHLIGHTS (12 Years)

	1995-96	1996-97	1997-98	1998-99	1999-2000	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
	(Rs. in lacs)											
Total Income	2904.62	4390.99	4755.45	5604.53	6397.79	7397.65	8002.33	7969.16	9224.71	9961.69	9966.19	13766.42
Sales	2424.70	3774.30	4365.03	4963.43	5609.94	6561.04	7161.41	7629.65	8601.25	8841.23	9763.86	13119.55
Exports	1842.55	2733.84	3495.91	3640.04	3702.48	4501.28	4698.63	4684.77	5260.42	5424.82	6236.79	7968.00
Pre-tax Profit/(Loss)	1100.37	865.49	853.91	768.38	(370.46)	(170.89)	367.83	(467.02)	(645.82)	(217.49)	(365.65)	721.83
Profit/(Loss) after tax	874.25	688.49	753.91	677.38	(485.42)	(198.22)	441.45	(311.05)	(645.82)	(239.72)	(379.65)	592.05
Earnings per share (Rs.)	41.63	32.79	17.95	8.06	(5.78)	(2.36)	5.26	(3.70)	(7.69)	(2.85)	(4.52)	7.05
Divided per share (Rs.)	6.00	4.50	3.00	2.50	-	-	-	-	-	-	-	1.00
Reserves &												
Retained Earnings	3514.06	4098.06	4503.91	7731.52	7246.09	7047.87	7373.33	7077.28	6431.46	6191.75	5812.10	6305.88
Share Capital	210.00	210.00	420.00	840.00	840.00	840.00	840.00	840.00	840.00	840.00	840.00	840.00
Shareholders' Funds	3724.06	4308.60	4923.91	8571.52	8086.09	7887.87	8213.33	7917.28	7271.46	7022.83	6630.34	7110.95
Return on Equity (%)	23.48	15.98	15.31	7.90	(6.00)	(2.51)	5.37	(3.93)	(8.88)	(3.41)	(5.73)	8.33
Book Value/Share (Rs.)	177.34	205.17	117.24	102.04	96.26	93.90	97.78	94.25	86.57	83.61	78.93	84.65
Gross Block	1019.50	1235.61	1662.48	10152.12	10515.63	10610.15	10746.77	10882.23	11028.25	11578.84	11718.26	11632.38
Net Block	451.23	575.60	880.81	9159.12	8761.70	8113.24	7531.66	6955.03	6411.08	6325.73	5777.68	5236.47

## NOTICE TO MEMBERS

NOTICE IS HEREBY GIVEN that the 31<sup>st</sup> Annual General Meeting of Kerala Chemicals and Proteins Limited will be held on Saturday, the 16<sup>th</sup> June 2007 at 9.30 AM, at GRAND Hotel, 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 31<sup>st</sup> March 2007 and Profit and Loss Account for the year ended on that date and the Auditors' Report thereon.
2. To declare a dividend.
3. To appoint a Director in place of Mr. K. Ramakrishnan, who retires by rotation and being eligible, offers himself for re-appointment.
4. 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 Section 224A of the Companies Act, 1956, M/s Varma & Varma, Chartered Accountants, be and are hereby re-appointed as Auditors of the Company to hold office until the conclusion of the next Annual General Meeting on a remuneration that may be fixed by the Board of Directors".

Note:

The re-appointment of auditors is being proposed as a special resolution in accordance with Section 224A of the Companies Act, 1956.

## SPECIAL BUSINESS

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

By Order of the Board,

Thiruvananthapuram  
04-05-2007

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 the 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 forty-eight hours before the meeting.
2. The Register of Members and Share Transfer books of the company will remain closed for 10 days from 07.06.2007 to 16.06.2007 inclusive of both days.
3. The dividend, if declared at the meeting will be paid on or after 20.6.2007 to those shareholders whose names appear on the Register of Members as on 16.06.2007.
4. Members holding shares in the same name or same order under different ledger folios are requested to apply for clubbing into one folio.
5. Members are requested to notify the Registrar and Share Transfer Agents immediately of their Bank Account Number and name of the Bank and Branch in the case of physical holdings and to their respective Depository Participant in the case of demated shares, so that the Dividend Warrants can be drawn indicating Account Number therein, in order to avoid possible fraud.
6. The Company has appointed M/s Cameo Corporate Services Limited, "Subramanian Building", 1, Club House Road, Chennai-600 002, as the Registrar and Share Transfer Agents of the Company w.e.f 1<sup>st</sup> April 2003 to deal with the physical as well as electronic share registry.
7. Members are requested to notify immediately any change in their addresses to the Registrar and Share Transfer Agents at their address as given above in the case of physical holdings and to their respective Depository Participant in case of demated shares.



## KERALA CHEMICALS &amp; PROTEINS LTD.

8. Members are requested to furnish details of their nominee in the nomination form that can be obtained from the company on request.
9. Members desiring any information as regards the accounts, are requested to write to the company so as to reach the Registered Office at least 5 days before the date of meeting to enable the management to keep the information ready.
10. Members are requested to note that trading of company's shares through Stock Exchanges are permitted only in electronic/demat form. Those members who have not yet converted their holdings into the electronic form may please consider opening an account with an authorised Depository Participant and arrange for dematerialisation.
11. Members attending the Annual General Meeting are requested to bring with them:
  - i) copy of the annual report received by post.
  - ii) members holding shares in dematerialised form, their DP Id & Client Id Nos.

iii) members holding shares in physical form, their folio no(s).

## ANNEXURE TO THE NOTICE

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

Item No. 5

Mr. T. Nishio of M/s Nitta Gelatin Inc., who was appointed as a Director of the Company in the casual vacancy caused by the resignation of Mr. T. Yamaguchi, will retire at this Annual General Meeting. A notice has been received from a member alongwith a deposit of Rs. 500/- as required under section 257 of the Companies Act, 1956 proposing the candidature of Mr. T. Nishio as a Director of the Company.. Considering his experience, expertise and valuable contribution on the Board, your Directors recommend that he be appointed as a Director of the Company liable to retire by rotation.

Except Mr. T. Nishio, 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 the Stock Exchanges)

Name	T. Nishio	K. Ramakrishnan
Age (Years)	54	71
Nationality	Japanese	Indian
Qualification	Majored in Agricultural Chemistry at Osaka Prefecture University	M.Sc., CAIIB
Expertise	31 years experience in gelatin industry. Presently Executive Officer, Nitta Gelatin Inc., Director, Hikone Gelatin Inc.	Former Managing Director of State Bank of Travancore and former Dy. Managing Director of State Bank of India. Vast experience in Finance and Banking.
Other Directorships excluding Foreign Companies	Bamni Proteins Ltd.	Nil

## DIRECTORS' REPORT

To the Shareholders,

Your Directors present their 31<sup>st</sup> Annual Report and the Audited Accounts of your Company for the year ended 31<sup>st</sup> March, 2007.

### FINANCIAL HIGHLIGHTS

	(Rs. in lakhs)	
	2006-07	2005-06
Profit before depreciation and Income Tax	1379.05	331.37
Less: Depreciation	657.22	697.01
Profit/(Loss) before tax	721.83	(365.64)
Provision for FBT	10.89	14.00
Provision for Tax under MAT (current year)	80.99	-
Provision for Tax of earlier years	37.89	-
Profit/(Loss) after Tax	592.06	(379.64)
Balance profit available for appropriation	592.06	-
Proposed Dividend	84.00	-
Dividend Tax	14.28	-
Balance of loss brought forward from previous year	(1495.90)	(1116.26)
Balance Profit/(Loss) carried to Balance Sheet	(1002.12)	(1495.90)

### DIVIDEND

Your Directors have pleasure in recommending a dividend of Rs.1.00 per share on 8400000 fully paid up equity shares of Rs.10/- each of the Company for the year ended 31.03.2007.

### PERFORMANCE

Sales increased by 34.4% over previous year to Rs.13123 lakhs as a result of increased demand of Ossein from collaborators and also better sales realisation of DCP. The production at Ossein Division increased by 48% and at Bamni Proteins Ltd. (BPL), the subsidiary Company, by 25.29%. This year the Company changed its drying operations from Furnace Oil to Firewood except in critical areas resulting in substantial savings. The profit before tax is Rs.721.83 lakhs as against a loss of Rs. 365.64 lakhs during the previous year. Even though your company has brought forward lossess, the company has to pay an amount of Rs.80.99 lakhs Minimum Alternate Tax (MAT) which can be set off in future tax liability. The achievement of 2006-07 can be attributed to the strength of our brand and strong, enduring customer relationships, backed by

the commitment of collaborators M/s. Nitta Gelatin Inc., Japan. The approvals received from two international regulatory agencies - United States Food and Drug Administration (USFDA) from USA and European Directorate for the Quality of Medicines (EDQM) from Europe helped your company to increase its exports to USA and Europe and also to Indian customers who are exporting their products to USA and Europe.

Your company is making all out efforts to further improve the performance by increasing the yield and reducing production cost. To identify possible areas of cost reduction and to monitor improvement activities closely, groups of employees have been constituted for each area of operation.

Your Company sold 1812 MT of Gelatin in the export markets such as Japan, Iran, USA, Canada, Turkey, Thailand, Netherlands, Singapore etc. and 847 MT in the domestic market. Altogether, the turnover increased by 34.4% registering revenue growth by 38.13% over 2005-06. The continued patronage of our valued customers demonstrates their confidence in our brand. The increased turnover gives credence to your company's ability to keep growing in most competitive gelatin market as we continuously update and respond to the changes in consumers preference. Your company is implementing a project for increasing the production of gelatin by 10% by adding certain balancing equipments and improving efficiency. An amount of Rs.580 lakhs is estimated for this project and the company expects to complete the expansion by June 2007.

### BAMNI PROTEINS LTD.

The annual production during the year was 25.29% higher than the previous year. The Company also recorded a net profit of Rs.4.89 lakhs as against a loss of Rs.42.66 lakhs during previous year. The increase in furnace oil cost, cost of coal and also power cost substantially reduced the profit margin of Bamni Proteins Ltd.

The Directors' Report, Balance Sheet and Profit & Loss Account of Bamni Proteins Ltd. for the year 2006-07 are attached as required under Section 212 of the Companies Act, 1956.

Bamni Proteins Ltd. which became a Sick Industrial company as per the provisions of Sick Industrial Companies (Special Provisions) Act 1985 during 2005-06 has come out of the purview of BIFR.

### AUDITORS' REPORT

Note No.B9 & B12 (b) (i) (b) of Schedule No. 22 to the accounts referred to in the Auditors' Report are self explanatory and no further comments are called for.

### COLLABORATORS

Yours Collaborators continue to provide their whole-hearted support to your Company.

M/s. Nitta Gelatin Inc., the technical and financial Collaborators, purchased 2,92,000 Equity Shares from M/s. Mitsubishi Corporation, during the year thus making their total share participation to 46.43%. There is, however, no change in the total holding of the Foreign Collaborators.

### **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.

### **HUMAN RESOURCE**

The relationship with employees was cordial during the year except for a few days during April and May 2006. However, your company has not lost any production.

### **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. B2 of Schedule 22 forming part of the Accounts.

### **RESPONSIBILITY STATEMENT OF DIRECTORS**

Directors responsibility statement on the Annual Accounts of the Company for the year ended 31.3.2007, pursuant to the provisions of Section 217(2AA) of the Companies Act, 1956.

Your Directors confirm:

- i) That in the preparation of the annual accounts, the applicable Accounting Standards have been followed along with proper explanation relating to material departures.
- ii) That they 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 31<sup>st</sup> March 2007 and of the profit or loss of the Company for the year ended 31<sup>st</sup> March 2007.
- iii) That they have taken proper and sufficient care for the maintenance of adequate accounting records in safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities.
- iv) That they have got prepared the annual accounts on a going concern basis.

### **MANAGEMENT DISCUSSION AND ANALYSIS REPORT**

Report on Management Discussion and Analysis is annexed.

### **CORPORATE GOVERNANCE**

Report on Corporate Governance alongwith Certificate of Compliance from the Auditors is annexed.

### **ADDITIONAL DISCLOSURES**

Keeping in view the requirements of the Listing Agreements and the Accounting Standards of the Institute of Chartered Accountants of India, your Company has made additional disclosures in respect of Consolidated Financial Statements, Related Party Transactions and Segmental Reporting.

### **DIRECTORS**

Consequent to the conclusion of the term of appointment Mr. N. Muraki, Joint Managing Director, returned to his parent company in Japan. As per collaboration agreement M/s. Nitta Gelatin Inc., Japan, has the right to nominate the Technical Director and are yet to nominate. The Directors place on record their appreciation of the services rendered by Mr.N. Muraki.

Under the provisions of the Articles of Association of the Company and the Companies Act, 1956, Mr. T. Nishio and Mr. K. Ramakrishnan retire by rotation and are eligible for re-election. Necessary resolutions in this behalf have been proposed for consideration of the members.

The information on the particulars of Directors seeking re-appointment as required under Clause 49 of the Listing Agreement executed with Stock Exchange has been furnished under Corporate Governance report.

### **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**

The Board wishes to place on record its sincere appreciation of the efforts put in by the Company's workers, staff and executives for achieving excellent results under difficult conditions.

The Board also wishes to thank State and Central Governments, Kerala State Industrial Development Corporation Limited, Nitta Gelatin Inc., the collaborators of your Company, the Company's Bankers, Customers, Suppliers and Shareholders for their continued co-operation and support.

For and on behalf of the Board,

Thiruvananthapuram  
4th May 2007

P. H. KURIAN  
Chairman

## ANNEXURE TO THE DIRECTORS' REPORT

**(A) CONSERVATION OF ENERGY**

- (a) During the year energy conservation measures were continued.
- (b) Additional investments and proposals, if any, being implemented for reduction of consumption of energy.

Rs. in lakhs

Conversion of boilers from Furnace Oil fired to wood fired	43.35
Solar water heater	0.41
DCP Filtration Blower	1.18

**Proposal**

1. Conversion of furnace oil fired HTV to wood fired HTV
  2. Power capacitors
  3. Energy saver for lighting
- (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 savings in energy.
- (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, Limed Ossein and Gelatin obtained from the foreign collaborators has been fully absorbed and improved upon. The Collaborators have now given technology for manufacture of Photographic Gelatin. With the active support of the Collaborators the consumption of utilities like Furnace Oil, and power were reduced. The company is making continuous efforts towards technology absorption, adaptation and innovation in respect of Gelatin.

**RESEARCH & DEVELOPMENT**

The in-house R&D efforts towards improvement of product quality, effluent discharge systems and value addition to

effluent sludge have been continued. The Company proposes to undertake the following studies during the year.

1. ETP Sludge - Started conversion of effluent sludge to compost which is commercially marketed. The quality has been found satisfactory and the product has been registered with Agriculture Department, Government of Kerala.
2. Degreasing of slaughtered bones by standardising the degreasing time and temperature to get crushed bone with optimum grease and Ossein with optimum Accelerated Liming Loss.
3. Utilisation of secondary proteins from gelatin plant as seed fortification agent is being studied in collaboration with Centre for Plant Breeding and Genetics, Tamil Nadu Agricultural University.
4. Based on the requirement of Customers, the Company is studying the possibilities of manufacturing fortified DCP. The company is also studying possibilities of generation of bio gas from sludge.

The benefits from these activities will manifest in due course through cost reduction, product improvement and miscellaneous revenue.

**Expenditure on R&D**

	(Rs.in lakhs)	
	Current Year	Previous Year
a. Capital	3.93	3.05
b. Development Expenses	6.79	1.77
c. Recurring Expenses	13.28	16.46
Percentage to turnover	0.18	0.22

**(C) FOREIGN EXCHANGE EARNINGS AND OUTGO**

	(Rs. in lakhs)	
	Current Year	Previous Year
a. Earnings	7955.77	6236.79
b. Outgo	173.36	249.91



## FORM 'A'

FORM FOR DISCLOSURE OF PARTICULARS WITH RESPECT  
TO CONSERVATION OF ENERGY

	Current Year 2006-07	Previous Year 2005-06
<b>A. POWER &amp; FUEL CONSUMPTION:</b>		
1. Electricity		
(a) Purchased		
Units (KWH in lakhs)	190.26	170.92
Total amount (Rs.in lakhs)	699.32	633.35
Rate/Unit (Rs.)	3.68	3.71
(b) Own generation		
(i) Through Diesel Generator Unit		
(KWH in lakhs)	2.30	1.05
Unit per litre of diesel oil	2.59	2.29
Cost/Unit (Rs.)	12.79	12.77
2. Furnace Oil		
Quantity (in KL.)	5415	5993
Total amount (Rs.in lakhs)	888.39	845.78
Average rate (Rs. per KL.)	16407.54	14112.00
3. Firewood		
Quantity (in MT)	7510	Nil
Total amount (Rs.in lakhs)	125.80	Nil
Average rate (Rs. per MT)	1675.15	Nil
<b>B. CONSUMPTION PER UNIT OF PRODUCTION:</b>		
<b>Product - Ossein</b>		
1. Electricity (KWH) per MT	1387.55	1627.00
2. Furnace Oil (KL) per MT	0.073	0.215
3. Firewood (MT) per MT	0.582	Nil
<b>Product - Gelatin</b>		
1. Electricity (KWH) per MT	3359.95	3609.62
2. Furnace Oil (KL) per MT	1.54	1.936
3. Firewood (MT) per MT	2.04	Nil

## MANAGEMENT DISCUSSION AND ANALYSIS REPORT

### THE STRUCTURE AND DEVELOPMENTS IN THE GELATIN/OSSEIN INDUSTRY

Kerala Chemicals and Proteins Limited (KCPL) has been producing Gelatin, Ossein and Dicalcium Phosphate. Ossein is sold to M/s. Nitta Gelatin Inc. (NGI), the collaborators. Gelatin caters to the demand of photo, food and pharmaceutical industry, both in the domestic and international markets.

### SEGMENT-WISE PERFORMANCE

#### Exports

The demand for KCPL's pharmaceutical and photographic Grades of Gelatin remained firm during last year.

With improved market conditions in Japan, NGI supported the company by substantially increasing the offtake of Ossein. NGI has confirmed that they will maintain this level of Ossein purchase in the year 2007-08 also.

#### Domestic

The company's customers for gelatin in India continue to use the company's product mainly for their export production. With the growing export of Indian pharmaceutical products, the company could increase the total sales in the domestic market.

The last year was one of the best years for the Indian Poultry Industry and this in turn increased the demand for DCP and resulted in better realisation.

#### Opportunities

The company is in the process of establishing business in new overseas markets on the strength of the product quality and regulatory compliance. The company is also exploring the possibilities of offering value added products to new markets and new customers.

#### Threats

The substantial increase in the production of pork skin gelatin coupled with the increase in production of low cost bovine hide gelatin has adversely affected the world wide bone gelatin market. With the advent of cheaper digital photographic equipments, conventional film based photography is on the decline. Alternatives such as HPMC (Hydroxy Propyl Methyl Cellulose) and starch derivatives still pose a threat to gelatin.

#### Outlook

The company's focus on pharmaceutical grade gelatin is giving good results. The demand for the company's product in this market segment is good and the

company expects to further increase the sales in this segment. Even though conventional photography is on the decline, the company will be able to maintain sizeable sales volumes in this segment.

Ossein exports are expected to remain stable for the next few years.

With Indian Poultry Industry on a growing path, the company expects the demand for DCP to be steady in the current year.

#### Internal control system

KCPL has evolved a system of internal controls to ensure that 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 risk. To further strengthen internal control, a firm of Chartered Accountants has been appointed to do internal audit whose scope of work and work programme is reviewed by the Audit Committee at the beginning of each year. The findings of the Internal Auditors are discussed with the Audit Committee and adequate mitigatory steps are taken to plug weaknesses pointed out. The Board is of the view that appropriate procedures and controls are operating and monitoring procedures are in place.

In line with the requirement of Clause 49 of the Listing Agreement, the company has put in place a Risk Management Framework and the findings/recommendations are discussed with the Board of Directors/Audit Committee. Risk Management as a formal concept is an integral part of the business process and the recommendations are being implemented.

#### Financial Performance

Turnover increased by 34.4% to Rs. 131.19 crores during the year ended 31<sup>st</sup> March 2007 as compared to Rs.97.63 crores during the previous year.

The Gross profit (earnings before interest, depreciation, taxes and write back) for the current year was Rs.17.26 crores as against Rs. 6.24 crores in the previous year. The operating profit (including other income) was Rs.12.49 crores as against Rs.3.17 crores in the previous year.

The interest expenses and depreciation for the current year was Rs.3.47 crores and Rs.6.57 crores as against Rs.2.92 crores and Rs.6.97 crores of the previous year.