



**ORGANIC
COATINGS LIMITED**

(AN ISO 9001 COMPANY)

**42nd ANNUAL REPORT
2006 - 2007**

42nd ANNUAL REPORT**BOARD OF DIRECTORS**

| | |
|-------------------------------------|------------------------------|
| MR. R. K. SHAH | Chairman & Managing Director |
| MR. ABHAY R. SHAH | Joint Managing Director |
| MR. AJAY R. SHAH | Whole Time Director |
| MR. MANOJ V. MEHTA | Whole Time Director |
| JUSTICE S. C. PRATAP (RETD.) | Director |
| MR. V. B. TRIVEDI | Director |
| MR. A. S. MEHENDALE | Director |
| MR. VILAS K. SHAH | Director |
| MR. SUDHIR R. SHAH | Company Secretary |

REGISTERED OFFICE

Akal Co-op. Hsg. Scy. Ltd.,
Bldg. No. A/2, Flat No. 1,
Bamanpuri Village, J.B.Nagar,
Andheri (East), Mumbai – 400 059.

Email for investors' grievances :

organic-coatings@organic-coatings.com

FACTORY

S. V. Road
Ghodbunder Village,
Post : Mira Road,
Dist Thane – 401 104.

BANKERS

Bank of Maharashtra
S. P. Road Branch,
Mumbai – 400 004.

LEGAL ADVISORS

Manilal Kher Ambalal & Co.

Soman Uday & Co.

Chartered Accountants

REGISTRAR & TRANSFER AGENT

Intime Spectrum Registry Ltd.,
C/13, Pannalal Silk Mills Compound,
L.B.S.Marg, Bhandup (West),
Mumbai – 400 078.
Tel : 2596 3838 Fax : 2594 6969

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**42nd Annual General Meeting will be held on Friday,
the 28th September, 2007 at 4.30 p.m. at Vishal Hall,
Vishal Shopping Centre, Andheri-Kurla Road,
Near Andheri Railway Station, Andheri (East),
Mumbai – 400 069.**

ORGANIC COATINGS LIMITED

NOTICE

Notice is hereby given that the 42nd Annual General Meeting of Organic Coatings Limited will be held at Vishal Hall, Vishal Shopping Centre, Andheri-Kurla Road, Near Andheri Station, Andheri (East), Mumbai - 400 069 on Friday, the 28th September, 2007 at 4.30 p.m. to transact the following business:

Ordinary Business :

1. To receive, consider and adopt the Audited Balance Sheet as at 31st March, 2007 and the Profit & Loss Account of the Company for the year ended on that date and the Reports of Board of Directors and Auditors thereon.
2. To appoint a Director in place of Mr. Manoj V. Mehta, who retires by rotation and being eligible, offers himself for re-appointment.
3. To appoint a Director in place of Justice S.C.Pratap who retires by rotation and being eligible, offers himself for re-appointment.
4. To appoint a Director in place of Mr. Abhay R. Shah, who retires by rotation and being eligible, offers himself for re-appointment.
5. To appoint auditors and fix their remuneration.

By Order of the Board of Directors

Sudhir R. Shah
Company Secretary

Date : 23rd June, 2007

Registered Office

Flat No. 1, Bldg. No. A/2,
Akal Co-op. Hsg. Scy. Ltd.,
J. B. Nagar, Andheri (East),
Mumbai - 400 059.

NOTES :

1. A MEMBER ENTITLED TO ATTEND AND VOTE AT THE MEETING IS ENTITLED TO APPOINT A PROXY TO ATTEND AND ON A POLL ONLY TO VOTE INSTEAD OF HIM. SUCH PROXY NEED NOT BE MEMBER OF THE COMPANY.
2. PROXIES IN ORDER TO BE EFFECTIVE MUST BE RECEIVED BY THE COMPANY NOT LESS THAN 48 HOURS BEFORE THE MEETING.
3. Shareholders are requested to bring their copy of Annual Report to the Meeting.
4. Members/Proxies should fill the Attendance Slip for attending the meeting.
5. In case of Joint holders attending the meeting, only such joint holder who is higher in the order of names will be entitled to vote.
6. Members who hold shares in dematerialized form are requested to write their client ID and DP ID numbers and those who hold shares in physical form are requested to write their Folio Number in the attendance slip for attending the meeting.
7. The Register of Members and the Share Transfer Books of the Company will be closed from 21/09/07 to 28/09/07 both days inclusive, for the purpose of the Annual General Meeting.
8. The details pertaining to the directors, seeking re-appointment, required to be provided pursuant to Clause 49 of the Listing Agreement, are furnished in the statement on Corporate Governance published elsewhere in this report.

42nd ANNUAL REPORT**DIRECTORS' REPORT**

TO THE MEMBERS,

Your directors have pleasure in presenting their annual report together with audited statement of accounts of the Company for the year ended 31st March, 2007.

1) Financial Results

(Rs. in Lacs)

| <u>2006-07</u> | | <u>2005-06</u> |
|--|---------|----------------|
| Profit before Depreciation and Tax | 35.70 | 174.93 |
| Depreciation | 61.03 | 50.51 |
| | ----- | ----- |
| Profit (Loss) for the year | (25.33) | 124.42 |
| Less : Prior year's Income Tax Adjustment | 2.93 | — |
| Less : Provision for Taxation | | |
| Current | — | 21.08 |
| Deferred | 6.08 | 13.88 |
| Fringe Benefit Tax | 5.86 | 6.65 |
| Add : Depreciation of earlier years written back | — | 25.65 |
| | ----- | ----- |
| Profit/(Loss) after tax | (40.20) | 108.46 |
| Previous Year's balance b/f | 94.20 | 34.29 |
| Less: Transfer to General Reserve | — | 48.55 |
| | ----- | ----- |
| Balance carried forward | 54.00 | 94.20 |

2) Dividend

In view of the loss for the current year, the Directors are unable to recommend any dividend for the year under report.

3) Operations

During the year under report, the Company achieved a gross turnover of Rs. 3771.55 Lacs as compared to Rs. 3303.49 Lacs in the previous year registering an increase of over 14%. The operating profit before depreciation and taxation for the year under review was Rs. 35.70 Lacs as against Rs. 174.93 Lacs in the previous year. The reduction in profit before depreciation and taxation for the current year was due to overall increase in prices of raw material including price of oil with no corresponding increase in price of company's finished products due to fierce competition in the market.

4) Directors' Responsibility Statement

Pursuant to Section 217(2AA) of the Companies Act, 1956 as amended, the directors confirm that :

- i) in the preparation of the annual accounts, for the year ended 31st March 2007, the applicable accounting standards have been followed;
- ii) appropriate accounting policies have been selected and applied consistently and judgements and estimates made 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 ended 31st March 2007 and of the loss for the year ended on that date;
- iii) proper and sufficient care has been taken 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) the annual accounts for year ended 31st March 2007, have been prepared on a going concern basis.

The above statements have been noted by the Audit Committee at its meeting held on 23rd June, 2007.

ORGANIC COATINGS LIMITED

5) Directors

Mr. Manoj V. Mehta, Justice S. C. Pratap and Mr. Abhay R. Shah retire by rotation and being eligible offer themselves for re-appointment at the ensuing annual general meeting.

A brief resume of the director(s) retiring by rotation at the ensuing annual general meeting, nature of their experience in the specific functional areas, names of companies in which they hold directorship and/or Membership/Chairmanship of Committees of the board as stipulated under Clause 49 of the Listing Agreement with the Stock Exchange are given in the section of corporate governance, elsewhere in the annual report.

6) Corporate Governance Report and Management Discussion and Analysis Statement

The report on Corporate Governance including Management Discussion and Analysis as stipulated under Clause 49 of the Listing Agreement with Stock Exchange, forms part of the Annual Report is annexed.

A certificate of the auditors of the Company, Soman Uday & Co., Chartered Accountants, confirming compliance of the conditions of corporate governance as stipulated in Clause 49 is annexed.

7) Fixed Deposits

The Company has not accepted any deposits from the public during the year.

8) Industrial Relations

The Company is happy to have extremely cordial industrial relations with the workers and the staff.

9) Conservation of energy, technology absorption, foreign exchange earnings and outgo

Information as required under Section 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 relating to Conservation of Energy, Technology Absorption, Foreign Exchange Earnings and Outgo is given in Annexure 'A' forming part of this report.

10) Particulars of Employees

The Company does not have any employee whose particulars are required to be disclosed under Section 217 (2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975.

11) Auditors

M/s. Soman Uday & Co, Chartered Accountants retire as Auditors at the forthcoming annual general meeting and being eligible offer themselves for re-appointment. The members are requested to consider reappointing them as Auditors and to fix their remuneration.

12) Acknowledgements

Your directors would like to express their sincere appreciation of the co-operation and assistance received from shareholders, bankers, regulatory bodies and other business constituents during the year under review.

Your directors also wish to place on record their deep sense of appreciation for the commitment displayed by all executives, officers, staff and workers.

On behalf of the Board of Directors

R. K. Shah
Chairman & Managing Director

Place : Mumbai

Date : 23rd June, 2007

42nd ANNUAL REPORT**ANNEXURE A
FORM 'A'**

Additional information given in terms of Notification 1029 of 31.12.1988 issued by the Department of Company Affairs

DISCLOSURE OF PARTICULARS WITH RESPECT TO CONSERVATION OF ENERGY:

| | Year ended 31 st March, 2007 | Year ended 31 st March, 2006 |
|--|--|--|
| A. Power and Fuel Consumption | | |
| 1 Electricity | | |
| (a) Purchased Unit | 10,44,900 | 9,29,088 |
| Total Amount (Rs.) | 64,48,478 | 58,16,189 |
| Rate / Unit (Rs.) | 6.17 | 6.26 |
| (b) Own Generated Units | 925 | 844 |
| Total Amount (Rs.) | 24,648 | 19,629 |
| Rate / Unit (Rs.) | 26.65 | 23.26 |
| 2 Coal | Not Applicable | Not Applicable |
| 3 Furnace Oil + Light Diesel Oil | Not Applicable | Not Applicable |
| 4 Others / Internal Generation | Not Applicable | Not Applicable |
| 5 Consumption per unit of Production (Rs.) | 2.88 | 2.84 |

Since the Company manufactures several inks and having regard to the records and other books maintained by the Company, it is impracticable to apportion the utilities.

FORM 'B'**DISCLOSURE OF PARTICULARS WITH RESPECT TO RESEARCH,
DEVELOPMENT (R&D) AND ABSORPTION OF TECHNOLOGY**

1. Specific areas in which R&D carried out by the Company :
 - 1) Mineral oil free (non-VOC) 100% vegetable oil based sheetfed four colour process inks.
 - 2) Coldset web process inks suitable for fluctuating climatic condition.
 - 3) UV radiation curable inks and coatings for wide applications
 - 4) High gloss water-based coatings.
 - 5) Water-based gold inks for narrow web on high speed machine.
2. Benefits derived as a result of the above R&D :
 - 1) Development of eco-friendly inks (VOC free) has led to new business opportunities in the country as well as abroad.
 - 2) Continual upgradation in UV and water based products has resulted in designing more competitive formulations for different applications.

ORGANIC COATINGS LIMITED

3. Future plan of action :

- i) R&D is continuously working on the development of new products as per market requirement and also improving the existing products to attain objectives of cost reduction, energy conservation, value addition and environmental improvement.

4. Expenditure on R&D :

| | |
|--|--------------|
| (i) Capital | Rs. 6,65,665 |
| (ii) Recurring | Rs. 41,726 |
| (iii) Total | Rs. 7,07,391 |
| (iv) Total R&D expenditure as a percentage of total turnover | 0.19 |

5. Technology absorption, adaptation and innovation:

- i) Efforts in brief, made towards Technology absorption, adaption and innovation :
 - a) Several process modifications have been carried out for efficiency improvements by installing state of the art machines with higher capacity thus yielding better quality inks.
 - b) Started twelve computerized color matching centres in various parts of the country and abroad.
- ii) Benefits derived as a result of the above efforts eg. development, import substitution etc.
 - a) Continual product upgradation with cost effectiveness has helped us in getting export orders in bulk.
 - b) The product improvement has resulted in import substitution thereby saving substantial foreign exchange.

C. Foreign Exchange earned & used :

The company has earned Rs. 154.95 Lacs in Foreign Exchange & used Rs. 569.73 Lacs of Foreign Exchange.

MANAGEMENT DISCUSSION AND ANALYSIS

Pursuant to Clause 49 of the Listing Agreement, a Report on Management Discussion and Analysis is given below:

Industry Structure and Development and Challenges:

The Indian economy is poised for a major growth. It expanded by an impressive 9.2% during 2006-07. With all sectors of economy, including the manufacturing sector, recording robust growth rates, the Government is now targeting a sustained 9% for future growth. For the first time the consensus is that India can be a manufacturing hub for global companies. The trajectory of the manufacturing sector is being viewed at par with the services sector for high growth.

OCL is a 42 year old ink manufacturer, well known for its high-end quality ink products. This company was the first one to introduce locally manufactured water based coatings and UV coatings and inks in early to mid 1990s in the Indian market. Presently the company is exporting these products to neighbouring and African countries to earn valuable foreign exchange.

With this background the Company has entered the fast evolving "Ink Jet Ink" market to substitute the imported products currently in use, having equally good working properties, economics and naturally with better servicing capabilities. This will result in the development of indigenous product of our country as well as save valuable foreign exchange which is spent in importing these inks. With a thriving computer industry, the requirement of ink jet inks have grown tremendously in the past few years in our country.

OCL as a reputed ink manufacturing company, is better placed to develop, manufacture and service this evolving market.

To achieve this goal OCL will have to invest in R&D, Pilot plant, including machinery to mill the pigments to sub-micron sizes and then filter them.

Resources:

During the year the Company's working capital facilities with Bank of Maharashtra were increased from Rs. 895 Lacs to Rs. 1155 Lacs and also availed Term Loan of Rs. 55 Lacs from the said Bank for purchase of Buhler K-60.

42nd ANNUAL REPORT**Opportunities & Threats:**

With GDP growth forecast of 9% over the next few years, the demand for the Company's products is expected to grow. However the competition also will increase due to cheap imported materials. The Company has also installed one more Buhler K-60 in December 2006.

Entry of multinational companies in the field of ink manufacturing in India has increased the competition in the industry thereby posing normal business threat to the company.

Segmentwise or productwise performance:

The Company has one segment and one product, hence furnishing of the information for segmentwise or productwise performance is not applicable.

Outlook, Risks and Concerns:

In the medium term the growth prospects of your company are positive.

OCL is exposed to certain risks that are particular to its businesses and the environment within which it operates, including interest rate volatility, economic cycle, market risks and credit risks. OCL manages these risks by maintaining conservative financial profile and by following prudent business and risk management practices.

Internal control systems and their adequacy:

The Company has carried out an internal audit covering all key areas and has in place adequate internal controls.

Financial performance:

Organic Coatings Ltd's (OCL's) gross turnover for the financial year ended 31st March, 2007 increased to Rs. 3771.55 Lacs from Rs. 3303.49 Lacs in the previous year, registering a growth of over 14%.

The operating profit (PBDIT) of the Company reduced to Rs. 115.85 Lacs during the year from Rs. 234.42 Lacs in the previous year. The reduction in PBDIT for the current year was due to overall increase in prices of raw material including price of oil with no corresponding increase in price of company's finished products due to fierce competition in the market.

Interest expenses for the year increased Rs. 80.15 Lacs from Rs. 59.49 Lacs in the previous year.

Depreciation was at Rs. 61.03 Lacs as against Rs. 50.51 Lacs in the previous year.

Provision for taxation during the year was Rs. 14.87 Lacs (including provision for taxation of previous year, deferred tax and fringe benefit tax) as against Rs. 41.61 Lacs in the previous year.

Net loss for the year was Rs. 40.20 Lacs as against net profit of Rs. 108.47 Lacs in the previous year. The net loss includes the sales tax demand of earlier years amounting to Rs. 21.31 Lacs raised during the year.

The Company's net worth as on 31st March, 2007 stood at Rs. 1416.60 Lacs against Rs. 1478.13 Lacs in the last year.

Material developments in human resources/internal relations front including number of people employed:

There are no significant developments to report on human resources development. The employee strength of the Company as on 31st March, 2007 was 110. The Company enjoys harmonious relationship with its employees and workmen.

Cautionary note:

Certain statements in above report may be forward looking and are stated as required by the legislations in force. The actual results may be affected by many factors that may be different from what directors/management envisage in terms of future performance and outlook.

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REPORT ON CORPORATE GOVERNANCE

Pursuant to Clause 49 of the Listing Agreement, a Report on Corporate Governance is given below:

A. MANDATORY REQUIREMENTS

1) Company's Philosophy

Your Company believes that the Corporate Governance is a powerful medium to serve the long term interest of all stakeholders. Corporate Governance strengthens investors' trust and ensures a long term partnerships, which helps your Company in fulfilling its quests for achieving significant growth and profits. A sound Governance process consists of a combination of business practices, which results in enhanced shareholder value and enable the Company to fulfill its commitment to customers, employees, lenders and society in general. Your Company further believes that such practices are founded upon the core values of transparency, empowerment, accountability and independent monitoring.

2) Board of Directors

Composition, attendance at the Board Meetings and the last Annual General Meeting.

| Name of Director | Category of Directorship | No. of Board Meetings attended | Attendance at last AGM held on 23-09-2006 | No. of other Companies in which Director | No. of Committees (other than Organic Coatings Limited) in which member |
|-----------------------|------------------------------|--------------------------------|---|--|---|
| Mr. R. K. Shah | Promoter -Executive Chairman | 5 | Yes | NIL | NIL |
| Justice S. C. Pratap | Independent *NED | 5 | Yes | NIL | NIL |
| Mr. A. S. Mehendale | Independent *NED | 5 | Yes | 1 | NIL |
| Mr. Vikram B. Trivedi | Independent *NED | 5 | Yes | 2 | NIL |
| Mr. Abhay R. Shah | +ED | 5 | Yes | NIL | NIL |
| Mr. Manoj V. Mehta | +ED | 5 | Yes | NIL | NIL |
| Mr. Ajay R. Shah | +ED | 5 | Yes | NIL | NIL |
| Mr. Vilas K. Shah | Independent *NED | 5 | Yes | 2 | 1 |

+ ED = Executive Director

* NED = Non Executive Director

Board's Functioning & Procedure

The Company holds a minimum of four Board Meetings in a year, one each per quarter. Additional Board Meetings are convened as and when necessary to address the specific needs of the Company. The Board also approves urgent matters by passing resolutions by circulations. The Meetings of the Board are held at the Company's registered office or its factory at Ghodbunder Village or at a hall in South Mumbai depending on the circumstances.

Agenda papers are circulated to the directors in advance and all material information is incorporated in the Agenda papers for facilitating meaningful and focussed discussions at the Meeting. Where it is not practicable to attach any document to the Agenda, the same are placed on the table at the meeting. In special and exceptional circumstances, additional or supplementary items on Agenda are permitted.

The information as required under Annexure I to Clause 49 of the Listing Agreement is made available to the Board in every meeting.

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Meetings of the Board of Directors

During the year 2006–2007, 5 Board Meetings were held on 20/04/06, 24/06/06, 29/07/06, 30/10/06, and 30/01/07.

Information on Directors re-appointment

A brief resume of the directors re-appointed at the Annual General Meeting is furnished hereunder:

- (I) **Mr. Manoj V. Mehta** has passed HSC. He joined the board on 01-10-1994 and was last re-appointed as whole-time director of the Company for five years effective 1st October, 2004. He is in charge of production function of the Company. He holds 81,500 Equity Shares of the Company. He is not a director of any other company
- (II) **Justice S.C.Pratap** is a graduate in Arts and Law. He joined as an independent director of the Company in the year 1995 and continues on the board. He retired as the Chief Justice of Andhra Pradesh High Court. He does not hold any equity shares of the Company. He is not a director of any other company
- (III) **Mr. Abhay R. Shah** is a graduate in Science. He joined the Board on 1st October, 1994 and was last re-appointed as Joint Managing Director of the Company for five years effective 1st October, 2004. He looks after marketing and production planning. He is son of Mr. R. K. Shah and also brother of Mr. Ajay R Shah. He holds 2,50,250 Equity Shares of the Company. He is not a director of any other company

2) Audit Committee

Mr. Vilas K. Shah Independent director was appointed as member of Audit Committee by the board of directors at the meeting held on 30/10/2006. The Company continued to derive immense benefit from the deliberations of the Audit Committee comprising of Mr. A.S.Mehendale, Justice S.C.Pratap, Mr. Vikram Trivedi and Mr. Vilas K. Shah all being Independent Directors. Mr. A.S.Mehendale who has financial and accounting knowledge, is the Chairman of the Audit Committee.

Terms of Reference

The role and terms of reference of this Committee are wide enough to cover the matters specified for the Audit Committee under Clause 49 of the listing agreement as well as in Section 292 A of the Companies Act, 1956 and are as follows.

- a) Oversight of the Company's financial reporting process and the disclosure of its financial information to ensure that the financial statements are correct, sufficient and credible;
- b) To review with Management the financial statements at the end of a quarter, half year and the annual financial statements before submission to the Board for approval, focusing particularly on:
 - (i) matters required to be included in the Director's Responsibility Statement which form part of the Board's report in terms of clause (2AA) of Section 217 of the Companies Act, 1956;
 - (ii) changes, if any, in accounting policies and practices and reasons for the same;
 - (iii) major accounting entries involving estimates based on the exercise of judgement by management;
 - (iv) significant adjustments made in the financial statements arising out of audit findings;
 - (v) compliance with listing and other legal requirements relating to financial statements;
 - (vi) disclosure of any related party transactions; and
 - (vii) qualifications in the draft audit report
- c) to consider the appointment or re-appointment of the statutory auditors, the audit fee, any questions of resignation or dismissal and payment to statutory auditors for any other services rendered by them;
- d) to discuss with the statutory auditors before the audit commences, about the nature and scope of the audit as well as post-audit discussion to ascertain any area of concern (in absence of management, wherever necessary);
- e) reviewing with management, performance of statutory and internal auditors, adequacy of the internal control systems and discuss the same periodically with the statutory auditors, prior to the Board making its statement thereon;