

Phillips Carbon Black Limited





PCBL's green field carbon black plant at Mundra, Gujarat is nearing completion. The plant will have a capacity of 90,000 MT.



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Report

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Cover : The recently commissioned 30 MW PCBL co-generation power plant at Durgapur, West Bengal. The chimney is 110 meters tall.

Dr R P Goenka
Chairman Emeritus

Board of Directors

Mr Sanjiv Goenka, Chairman
Mr B M Khaitan
Mr C R Paul
Dr Ram S Tarneja
Mr K S B Sanyal
Mr Paras K Chowdhary
Mr O P Malhotra
Mr Ashok Goyal, Managing Director

Company Secretary

Mr Kaushik Mukherjee

Banks

Bank of Baroda
Allahabad Bank
State Bank of Bikaner & Jaipur
Export Import Bank of India
IDBI Bank Limited
State Bank of India
ICICI Bank Limited
State Bank of Travancore
Syndicate Bank
Citibank, N. A.

Auditors

Price Waterhouse
Chartered Accountants

Solicitors

Khaitan & Co.

Registered Office

31 Netaji Subhas Road
Kolkata 700 001

Phillips Carbon Black Limited

Notice

Notice is hereby given that the Forty-eighth Annual General Meeting of the Members of Phillips Carbon Black Limited will be held at "Madhusudan Mancha", 2 No. Gariahat Road (South), Dhakuria, Kolkata-700068 on Friday, the 24th day of July, 2009 at 10.30 a.m to transact the following business:

1. To receive, consider and adopt the Profit and Loss Account for the year ended 31st March, 2009, the Balance Sheet as at that date, and the Reports of the Directors and Auditors.
2. To appoint a Director in place of Mr. Sanjiv Goenka, who retires by rotation and being eligible, offers himself for re-appointment.
3. To appoint a Director in place of Mr. B. M. Khaitan, who retires by rotation and being eligible, offers himself for re-appointment.
4. To appoint Auditors and to authorise the Board to fix their remuneration.

Registered Office :
31, Netaji Subhas Road
Kolkata-700 001
28th April, 2009

By Order of the Board
Kaushik Mukherjee
Company Secretary

NOTES:

1. **A Member entitled to attend and vote is entitled to appoint a proxy to attend and vote instead of himself and the proxy need not be a Member.**
2. The instrument appointing the proxy should, however, be deposited at the Registered Office of the Company not less than 48 hours before the commencement of the Meeting.
3. The Register of Members of the Company shall remain closed from 15th July, 2009 to 24th July, 2009 (both days inclusive).

4. The Company has transferred all unclaimed or unpaid Dividend declared upto the financial year ended 30th September, 2001 to the Investor Education and Protection Fund (IEPF) of the Central Government pursuant to Section 205A(5) of the Companies Act, 1956.
5. Dividends for the Financial Year ended 30th September, 2002 and thereafter, which remain unclaimed or unpaid for a period of seven years will be transferred to the IEPF under Section 205A(5) of the Act. Members who have not encashed the dividend warrant(s) so far for the financial year ended 30th September, 2002 or any subsequent financial years are requested to submit their claims to the Registered Office of the Company. It may also be noted that once the unclaimed dividend is transferred to IEPF as stated above, no further claim shall be entertained by the Company in respect thereof. The dividend for the financial year ended 30th September, 2002 is due to be transferred to the aforesaid Fund immediately after 3rd May, 2010.
6. Members can avail of the nomination facility, under Section 109A of the Companies Act, 1956 by submitting Form No. 2B of the Companies (Central Government's) General Rules and Forms, 1956 with the Company. Blank forms will be made available on request.
7. Members are requested to notify immediately any change of address:
 - i) To their Depository Participant (DPs) in respect of the electronic shares accounts, and
 - ii) To the Registrars and Share Transfer Agent/ Share Department of the Company in respect of physical shares accounts.

In case the mailing address mentioned on the Attendance Slip is without the PINCODE, Members are requested to kindly inform the PINCODE immediately.
8. Brief Profile of Directors seeking re-appointment at the Annual General Meeting is annexed to this Notice.

Brief Profile of Directors seeking re-appointment at the Annual General Meeting**Mr. Sanjiv Goenka**

Date of Birth	29th January, 1961
Qualification	B. Com
Expertise in Specific Functional Areas	Mr. Sanjiv Goenka is Vice Chairman, RPG Enterprises, one of India's top Industrial houses. The Group's core activities include power, tyre, transmission, IT, retail, entertainment, carbon black and technology.
Directorship held in other Companies	RPG Enterprises Ltd., CESC Ltd., Saregama India Ltd., Spencer International Hotels Ltd., Spencer and Company Limited, Graphite India Limited, Spencer's Travel Services Ltd., Harrisons Malayalam Ltd., Noida Power Company Ltd., Eveready Industries India Ltd., Woodlands Medical Centre Ltd.
Committee Membership in other Companies	Member of Audit Committee of CESC Limited, Eveready Industries India Ltd. Chairman of Shareholders/Investors Grievance Committee of CESC Limited and Saregama India Ltd.
Shareholdings in the Company	Mr. Sanjiv Goenka does not hold any Share in the Company.

Mr. Brij Mohan Khaitan

Date of Birth	14th August, 1927
Qualification	Bachelor of Commerce from Calcutta University
Expertise in Specific Functional Areas	Mr. B.M Khaitan is a renowned Industrialist having interest in Tea, Batteries and Engineering. Mr. Khaitan has great contributions to the Tea Industry with which he has been associated for over five decades. He is a Director of number of renowned Companies having diversified business interests.
Directorship held in other Companies	Williamson Magor & Co. Limited, McLeod Russel India Limited, Eveready Industries India Ltd., Jayshree Tea & Industries Limited, CESC Limited, Babcock Borsig Limited.
Committee Membership in other Companies	Member of Audit Committee of CESC Limited.
Shareholdings in the Company	Mr. B. M. Khaitan does not hold any Share in the Company.

Directors' Report, Management Discussion and Analysis

Your Directors hereby present the Forty-eighth Report and Accounts of Phillips Carbon Black Limited for the financial year ended 31st March, 2009.

Financial Highlights

(Rs. in crore)

Year ended	31.03.09	31.03.08
Carbon black	1,147.77	1,018.25
Power	15.51	14.94
Other Income	16.32	6.12
Total Turnover	1,179.60	1,039.31
PBDIT	(48.30)	152.37
Less: Interest	29.36	19.45
PBDT	(77.66)	132.92
Less: Depreciation	19.64	20.14
PBT	(97.30)	112.78
Tax expense/(release)	(32.46)	23.47
PAT	(64.84)	89.31
Surplus brought forward	104.33	35.84
Profit available for Appropriation	39.49	125.15
Proposed Dividend	–	10.10
Tax on proposed dividend	–	1.72
Transfer to General Reserve	–	9.00
Balance carried forward to next year	39.49	104.33

DIVIDEND

In view of the absence of profit during the year under review, your Directors are unable to recommend any dividend for the financial year ended 31st March, 2009.

INDUSTRY STRUCTURE & DEVELOPMENT

FY09 was probably the most challenging year in the history of the Company and was witness to one of the most severe recessions particularly in USA, Europe and Japan. Almost all companies in the auto sector in the aforesaid markets were operating at 60 – 75% of capacity, particularly during second half of FY09. Collapse of one of the largest investment banks in the US triggered widespread risk aversion and credit flow came to a grinding halt, resulting in large scale production cuts, lay-offs and drop in demand for vehicles, tyres and carbon black. Unlike India, the aforesaid markets have significant dependence on demand from the Original Equipment Manufacturer (OEM) segment which is extremely sensitive to interest rates/credit flows. Carbon Black companies were severely hit by cancellation of existing and future orders,

particularly during October to December 2008 which created a panic situation and overseas carbon black manufacturers started dumping carbon black in India. Thus, ripple effect of global financial meltdown started impacting domestic carbon black prices and demand.

Global carbon black demand during second half of FY09 is estimated to be down by 35%. A few global players have shut-down/mothballed unviable capacities aggregating 0.50 million MT. In India, carbon black demand dropped by 25% during second half of FY09 over corresponding period last year. The situation was further aggravated by large-scale imports of carbon black in India.

There was no addition to production capacity for carbon black in domestic industry, however, actual capacity utilization for the industry dropped from 91% in FY08 to 82% in FY09. Your Company also had to take production cut during second half of FY09 as a consequence of production cuts taken by tyre companies, wide spread tendency to de-stock due to liquidity crunch during Q3FY09 and large scale imports. The Company could achieve market share of 38% during FY09 though the sales volumes reduced significantly due to imports and production cuts. Domestic demand however has revived from March 09 onwards.

Anti-dumping investigation against import of carbon black from Thailand, Australia, China, Russia, etc. is in progress and it is expected to be concluded in due course during FY10.

PERFORMANCE

Carbon Black

Your Company, has incurred operating loss (PBDIT) of Rs. 48.30 crore in FY09 vis-à-vis operating profit of Rs. 152.37 crore in the previous year. A few major reasons for this swing in operating profit are – drop in demand, increase in import, drop in sale price and higher finance cost due to sharp depreciation in value of rupee vis-à-vis US\$.

Power

Drop in carbon black production had severe impact on availability of gas for power generation as well. However, with judicious allocation of production among three plants, the Company has been able to marginally improve upon its revenue from sale of power during FY09 to Rs. 15.51 crore from Rs. 14.94 crore in FY08. The Company's initiative to derisk its carbon black business through power has been put through acid test during FY09.

Manufacturing

Production volume during FY09 was 212,154 MT as compared to 250,484 MT during FY08. The green-field project at Mundra was delayed because of global meltdown and it is now scheduled to be commissioned during Q2FY10. This will increase substantially manufacturing capacity of the Company. Overall,

capacity utilization during FY09 was 79% vis-à-vis 93% in previous year. Your Company's plant at Cochin has been awarded ISO/TS 16949 certificate during FY09 for conformance of quality systems according to the requirements of international standards.

Research & Development

Research and Development activities received major thrust during FY09 which resulted into developing various special grades particularly for plastic and paint industries. The quality of these grades are comparable to those offered by other global players in India.

Environment, Health, Safety & Social Responsibility

Your Company progressed further on various initiatives to achieve greater heights in the field of Environment, Health and Safety (EHS). Progressing towards the desired goal, your Company has brought in fresh policies for greener surroundings.

The Company has strictly adhered to the Environment, Health and Safety norms at all its manufacturing locations.

Concerted efforts to incorporate efficient Corporate Social Responsibility continued during FY09, encompassing Pulse Polio Immunization Programme, Free Eye Check-up Camps, Rural Area Development, Free distribution of Medicines at Medical Camps, Aids Awareness Programme and support to a few institutions involved in social service.

Human Resource Development

Human Resources continue to be a focus area for your Company. Several initiatives were taken to facilitate the performance and developmental requirements of all employees. Our efforts in enhancing the effectiveness of the Balanced Business Scorecard remained unabated. This was supported by a newly launched 360 degree appraisal system and online web-based training programme.

The Company's manpower requirement for the expansion in Mundra and existing manufacturing units have been carefully planned and benchmarked with global organizations. Recruitments for the Mundra plant have already commenced.

Industrial relations scenario continues to be healthy.

Internal Control System and Adequacy

Your Company has established adequate internal control systems in all areas of operation by utilizing the services of internal and external auditors and also by its in-house experts and resources. Moreover, the Company continuously upgrades these systems in line with the best available practices. These reports and variance analysis are regularly discussed with members of Management Committee and actions taken. Operations Report is tabled at each Board Meeting, after discussion at the Audit Committee Meeting.

An independent Audit Committee of the Board reviews the adequacy of Internal Control.

Segment wise Performance

The Performance of Carbon Black and Power segment has been covered in this Report earlier.

Opportunities and Threats

Your Company continuously identifies opportunities and threats that exist in the business and is geared up to make the best of the opportunities while facing the threats.

Opportunities

- The growth in domestic economy should translate into higher demand for carbon black, particularly for replacement tyre demand.
- Launch of smaller cars is likely to generate demand for tyres for OEM segment and India may emerge as an auto sector hub for smaller cars which will have favourable impact on carbon black demand.
- The Company can convert lean gases (which are currently flared in one of its plants) to generate electricity and boost profitability.

Threats

- Carbon black / tyre import.
- New entrant.
- Inadequate infrastructure at ports, resulting in detention of vessels and higher freight costs.
- Sharp drop in carbon black demand.

Risks and Concern

The raw material for the Company (carbon black feedstock) is residual oil from distillation of crude and has witnessed volatility in recent past whereas the price of carbon black is generally revised every quarter. Drop in demand for carbon black and increase in import of carbon black have serious implications for the activity level and resultantly the availability of lean gas for power generation is impacted.

The Company is also exposed to risks from fluctuation of Indian Rupee vis-à-vis other currencies, interest rate and regulations relating to environment.

Major Expansion Plans

The 30 MW Co-generation power plant at Durgapur commenced commercial operation from 1st April, 2009. The 30 MW co-generation power plant is the single largest lean gas based power plant in the country.

The green-field project at Mundra, Gujarat is expected to be commissioned during Q2 FY10. Progress on Cochin and Vietnam Projects will catch speed with the recovery of carbon black demand in domestic as well as overseas markets.

Preferential issue

Pursuant to SEBI Guidelines and necessary approval of the members, 30,00,000 convertible warrants of Rs.149/- each which were allotted during March, 2007, were converted into 30,00,000 Equity Shares of Rs. 10/- each fully paid up on 15th September, 2008.

Wholly Owned Subsidiary

The first accounting period of Phillips Carbon Black Cyprus Holdings Limited, a wholly owned subsidiary of the Company will be ending on 30th September, 2009. Accordingly, attachment of the balance sheet and other particulars of the subsidiary in terms of Section 212 of the Companies Act, 1956 are not applicable for the financial year ended 31st March, 2009.

FUTURE OUTLOOK**Carbon Black**

The market uncertainty in the recent past has restricted visibility for future demand to a large extent. Based on recent flow of orders from domestic customers, it appears that demand for carbon black in the domestic market has revived. However, entry of a new player in domestic market and increase in imports of carbon black may affect demand supply equation adversely. As regards export market, the bottoming process may continue for some more time. The Company has increased its efforts to add new customers/geographies to its export segment to partially mitigate the impact of prolonged slow down in some of the key markets.

Power

Profit from power segment remained intact despite an extremely challenging year and has increased your Company's resolve to pursue maximization of power generation. Commencement of commercial operation of 30 MW co-generation power plant at Durgapur with effect from 1st April, 2009 will significantly boost the bottomline of the Company. Total installed capacity increased to 44.50 MW in April 2009 and is expected to increase to 60.50 MW later during FY10 with the commissioning of 16 MW CPP at Mundra. The prevailing gap between demand and supply of electricity is expected to continue providing opportunities to your Company to increase share of profit from this segment. Saleable power will increase couple of folds during FY10.

Conservation Of Energy, Technology Absorption, Foreign Exchange Earnings and Outgo

A statement giving details of conservation of energy, technology absorption, foreign exchange earnings and outgo, as required under Section 217(1)(e) of the Companies Act, 1956 read with Companies (Disclosure of Particulars in the Report of the Board of Directors) Rules, 1988 is annexed. This forms an integral part of this Report.

Public Deposits

The Company does not have any Fixed Deposit Scheme and have repaid all Fixed Deposits that matured and were claimed by depositors under the earlier Fixed Deposit Schemes. Matured unclaimed deposits as on 31st March, 2009 is Rs. 6,50,000/-. Apart from matured unclaimed deposits, no amount is outstanding as on 31st March, 2009. Reminders have been sent to all depositors who have not claimed repayment of their matured deposits.

Particulars of Employees

In terms of the provision of section 217(2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975, as amended, the Particulars of Employees, though forming part of this Report is not being mailed to members pursuant to the provision of Section 219(1)(b)(iv) of the Companies Act, 1956. The said statement is available for inspection at the Registered Office of the Company during working hours for a period of twenty-one days before the date of AGM. Any member interested in obtaining a copy of the said statement may write to the Company Secretary at the Registered Office.

Corporate Governance

Under Clause 49 of the Listing Agreement with the Stock Exchanges, a section on Corporate Governance together with a certificate from the Company's Auditors confirming compliance is set out in the Annexure forming part of this Annual Report.

Directors' Responsibility Statement

Pursuant to Section 217(2AA) of the Companies Act, 1956, the Directors to the best of their knowledge and belief confirm that:

- i) in the preparation of the annual accounts, the applicable accounting standards have been followed, and that there are no material departures;
- ii) appropriate accounting policies have been selected and applied consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of financial year and of profit or loss of the Company for the period;
- iii) proper and sufficient care has been taken for the maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
- iv) the annual accounts have been prepared on a going concern basis.

Auditors

The Auditors, Messrs Price Waterhouse, retire at the ensuing Annual General Meeting and are eligible for re-appointment.

Phillips Carbon Black Limited

Cost Audit

The Central Government had directed an audit of the cost accounts maintained by the Company in respect of carbon black. The Central Government has approved the appointment of Messrs Shome & Banerjee, Cost Accountants, for conducting the cost audit for the financial year ended 31st March, 2009.

Messrs Shome & Banerjee, Cost Accountants, have given their consent for conducting the audit of the cost accounts for the financial year ending 31st March, 2010, if appointed.

Directors

Mr. Sanjiv Goenka and Mr. B. M. khaitan retire by rotation and being eligible offer themselves for reappointment.

Forward-Looking Statement

This Report contains forward looking statements that involve risks and uncertainties. Actual results, performance or achievements could differ materially from those expressed or implied in such forward-looking statements. Significant factors

that could make a difference to the Company's operations include domestic and international economic conditions affecting demand-supply and price conditions, foreign exchange fluctuations, changes in government regulations, tax regimes and other statutes.

Acknowledgement

Your Directors record their grateful appreciation for the encouragement, assistance and co-operation received from shareholders, Government authorities, financial institutions, banks and customers. They thank them for the trust reposed in the Management and wish to thank all employees for their commitment and achievements.

For and on behalf of the Board

Kolkata
28th April, 2009

Sanjiv Goenka
Chairman



Annexures to Directors' Report

Statement in accordance with Section 217(1)(e) of the Companies Act, 1956 read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 and forming part of the Directors' Report for the year ended 31st March, 2009.

1.A. Conservation of Energy**(a) Energy conservation measures taken:**

The process of manufacture of Carbon Black results in generation of lean gases which have both sensible heat and low calorific value.

Instead of wasting the energy, PCBL has installed extremely specialised and state of the art 12 MW Co-generation Power Plant (CPP) at Baroda and 30 MW Co-generation Power Plant at Durgapur.

The 30 MW Co-generation Power Plant at Durgapur has started commercial operation from 1st April, 2009.

The entire lean gas is used to generate power for meeting the entire internal process requirements for production of Carbon Black as well as to sell the surplus to the Grid.

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

Experience gathered from Baroda CPP and 30 MW Co-generation Power Plant at Durgapur is being extended to Kochi where a proposal to set up initially a 10 MWPP is being considered.

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

- Power (KWH) consumed per MT of Carbon Black reduced from 319 to 307.

(d) Total energy consumption and energy consumption per unit of production as per Form-A of the Annexure to the Rules in respect of Industries specified in the Schedule thereto:**Form – A****Form for disclosure of particulars with respect to Conservation of Energy**

	Current Year	Previous Year
A. Power and Fuel consumption :		
1. Electricity		
(a) Purchased units (KWH)	7160208	8130242
Total amount (Rs. in lakhs)	408.52	505.47
Rate per unit (Rs.)	5.7	6.22
(b) Own generation		
(i) Through diesel generators units (KWH)	86245	88450
Units per ltr. of diesel oil (KWH)	1.63	1.31
Cost per unit (Rs.)	21.48	25.23
(ii) Through steam/turbine generators units (KWH)	—	—
Units per ltr. of fuel/gas oil (KWH)	—	—
Cost per unit (Rs.)	—	—
(iii) Through co-gen power plants (lean-gas burning) units (KWH)	57721576	71607201
Units per ltr. of fuel oil (KWH)	607.58	339.57
Cost per unit (Rs.)	0.12	0.16

	Current Year	Previous Year
2. Coal (specify quality and where used)		
Quantity (tonnes)	—	—
Total Cost (Rs. in lakhs)	—	—
Average rate (Rs.)	—	—
3. Furnace Oil		
Quantity (K. ltr.)	—	—
Total Cost (Rs. in lakhs)	—	—
Average rate (Rs.)	—	—
4. Others/internal generation [process steam Quantity (MT)]	94192.63	97358
Total Cost (Rs. in lakhs)	13	17.02
Average rate (Rs.)	13.8	17.48
5. Consumption per unit of production : CARBON BLACK		
(i) Electricity (KWH/MT)	307	319
(ii) Furnace Oil (Ltr./MT)	—	—
(iii) Coal	—	—
(iv) Others – process steam (MT/MT)	0.44	0.39

B. Technology Absorption :

(a) Efforts made in technology absorption as per Form – B of the Annexure.

Form – B**Form for disclosure of particulars, with respect to absorption :****Research & Development (R&D) :****1. Specific areas in which R&D carried out by the Company :**

- PCBL has successfully developed new grades such as P1201, P842, PC501 and N134 for international and domestic markets.
- Improvement of product characteristics to meet more stringent customer specifications.
- Continuous recasting of Standard Operating Procedures.

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

- Improved sales in domestic and export market.
- Higher price realisation in markets.

3. Future Plan of Action :

- Development of specialised grades for specific applications in conjunction with customers.
- Improved Reactor design for higher yield.

4. Expenditure on R&D :

	(Rs. in Lakhs)	
	Current Year	Previous Year
(a) Capital	—	—
(b) Recurring	299.58	309.15
(c) Total	299.58	309.15
(d) Total R&D Expenditure as a percentage of total expenditure	0.23	0.33