Fairchem Speciality Limited

ANNUAL REPORT

2017-18

FAIRCHEM

A FAIRFAX COMPANY

FAIRCHEM
A FAIRFAX COMPANY

33rd Annual Report

Board of Directors :	Shri Utkarsh B. Shah	*Chairman*
	Shri Mahesh Babani	*Managing Director*
	Shri Nahoosh J. Jariwala	*Managing Director*
	Shri Harsha Raghavan	*Director (ceased w.e.f. May, 24, 2018)*
	Shri Sumit Maheshwari	*Director*
	Shri D. B Rao	*Director*
	Shri P. R. Barpande	*Director*
	Shri Rajesh Budhrani	*Director*
	Shri Hemang Gandhi	*Director*
	Ms. Radhika Pereira	*Director*
	Shri Darius Pandole	*Director (w.e.f. August 10, 2017)*
	Shri Viren Joshi	*Director (w.e.f. August 10, 2017)*

Chief Financial Officer & Company Secretary	Rajen N. Jhaveri
Bankers	HDFC Bank Limited
Auditors	M/s. Price Waterhouse & Co. Chartered Accountants LLP, Chartered Accountants, AHMEDABAD.
Registered Office	324, Dr. D.N. Road, Fort Mumbai - 400 001.
Corporate Office	1st Floor, 2, Sigma Corporates, B/h. HOF Living, Sindhu Bhavan Road, Off. S. G. Road, Ahmedabad - 380 059. Gujarat, INDIA. Phone : +91-79-29701675
Works	253/P & 312, Village Chekhala, Sanand- Kadi Road, Ta. SANAND, Dist. AHMEDABAD – 382 115. Gujarat, INDIA. Phone No. : +91 9016324095 and +91 2717 294375
E-Mail Ids	cs@fairchem.in and rajen.jhaveri@fairchem.in
Registrar and Share Transfer Agent	Link Intime India Pvt. Ltd. C-101, 247 Park, L.B.S. Marg, Vikhroli (West), Mumbai - 400083.
Websites	www.fairchem.in and www.privi.com

TABLE OF CONTENTS

Contents	Page No.
Vision, Mission & Values	3
Management Discussion and Analysis	4
Directors' Report	9
Secretarial Audit Report	27
Report on Corporate Governance	30
Independent Auditors' Report - Standalone	43
Balance Sheet - Standalone	48
Statement of Profit & Loss - Standalone	49
Statement of Changes in Equity - Standalone	50
Cash Flow Statement - Standalone	51
Notes to the Standalone Financial Statement	53
Independent Auditors' Report - Consolidated	97
Consolidated Balance Sheet	102
Consolidated Statement of Profit & Loss	103
Statement of Changes in Equity - Consolidated	104
Consolidated Cash Flow Statement	105
Notes to the Consolidated Financial Statement	107
Form AOC - 1	159

Our Vision, Mission & Values

VISION

To Be the Leading Renewable Speciality Chemicals Company

MISSION

Capitalize on our core strengths in process research, operational excellence and local & global raw material sourcing capabilities to offer the widest range of Speciality chemicals to our customers at most competitive price, simultaneously ensuring the sustainability of business.

VALUES

- Honesty and integrity are essential in all our relationship and will never be compromised.
- We are result oriented – not political
- We are team players – no egos. A confrontational style is not appropriate. We value loyalty to the organization.
- We are hardworking but not at the expense of our families
- We always look at opportunities but emphasize downside protection and look for ways to minimise loss of capital
- We are entrepreneurial. We encourage calculated risk taking. It is all right to fail but we should learn from our mistakes
- We will never bet the company on any project or acquisition
- We believe in having fun – at work!

There is no limit to the amount of good you can do
if you don't care who gets the credit
– Ronald Reagan

MANAGEMENT DISCUSSION AND ANALYSIS

Global Economic Outlook

As per the latest World Economic Outlook published by the International Monetary Fund (IMF) in April, 2018, the world economic growth strengthened in 2017 to 3.8%, up from 3.2% in 2016 and expected to continue to strengthen to 3.9% in 2018 and 2019. Even more importantly, the world trade in volume in goods and services has significantly jumped from 2.3% in 2016 to 4.9% in 2017 and expected to further strengthen to 5.1% in 2019. The global trade is now outpacing the global economy after a few years.

The acceleration in the economic growth is led by the strong growth in the Advanced economies, particularly the US and the Euro area. The growth across the advanced economies increased from 1.7% in 2016 to 2.3% in 2017 and expected to further increase to 2.5% in 2018, mainly led by the US. By 2019, however, the growth rates for the Advanced economies are expected to taper to 2.2%, again substantially influenced by the ensuing monetary policy tightening by the Fed.

The Emerging market and developing economies (EME) are expected to maintain and strengthen the growth momentum. EME segment growth improved from 4.4% in 2016 to 4.8% in 2017 and expected to further strengthen to 4.9% and 5.1% in 2018 and 2019 respectively. While Indian economy did witness a slowdown in the wake of demonetization and implementation of GST – from 7.1% in 2016 to 6.7% in 2017, the growth is expected to pick up to 7.4% in 2018 and further accelerate to 7.8% in 2019, as per the IMF.

Resurgent investments in the advanced economies and an end to the investment decline in some of the commodity-exporting emerging market and developing economies are the important drivers for the acceleration in growth.

Medium term Global Economic Forecast:

While the Advanced economies played a key role in resurgence of global growth between 2016 and 2018, by 2019 the emerging economies will help in maintaining the growth momentum. Global growth is forecast to remain at 3.9% in 2019, although the advance economies are expected to slow down to 2.2% in 2019, from 2.5% in 2018. The surge in EME segment from 4.9% in 2018 to 5.1% in 2019, will balance the deceleration in Advanced economies and maintain the global growth rate.

Amongst the Advanced economies, both the US and the Euro area are forecast to slow down. The US Fed has indicated that it is in favor of tightening in monetary policy with possible 3 times revision in the interest rates. This is expected to slow down growth in the US, as Fed focusses on reigning the inflationary forces. In the EU area, the growth which was driven by closing of the output gaps driven by cyclical recovery in demand, is expected to taper down. Further, with aging population, a slowdown is expected in the overall supply of labor force and with limited productivity improvements, the slowdown is imminent.

Rising Commodity Prices:

From October 2017, there has been significant upswing in commodity prices. Crude oil prices increased to about $ 70 per barrel, a highest level in the past 30 months. Similarly, the metal prices have increased by about 8.3% between August 2017 to February 2018 and continued to remain bullish. While on one hand the upsurge in commodity prices have helped in reviving in commodity exporting countries, on the other hand, however, for oil importing countries like India, this will pose challenges on current account deficit. Economies of Russia, Brazil, which registered negative growth in 2016, have grown by 1.5% and 1.0% respectively in 2017 and are expected to maintain the tempo going forward into 2018 and 2019.

Indian Economy:

Economic activity in India picked up in the second half of fiscal 2017-18, after languishing for 5 consecutive quarters. The slowdown which was inflicted by the demonetization and the teething troubles in the implementation of the Goods and Services Tax (GST) is now behind us. As per the RBI, the growth is strengthening due to several factors like expected record food grain production, depleting finished goods inventory- which was reduced in the wake of five quarters of slowdown, restart of the CAPEX cycle in India. As per the RBI, the GDP growth is expected to improve to 7.4% in Fiscal 2018-19 from a relatively low of 6.6% in Fiscal 2017-18.

While India will re-emerge as the Fastest growing medium sized economy in the world, there are following events – some of which helps your company and some could pose some challenges:

a) **International Crude Oil Prices:** As per the RBI, the baseline scenario for oil assumes that the average price for crude Oil (Indian basket) for 2018-19 will be around $ 68 per barrel. However, if the oil price inflation continues and if the price increases to about $78 per barrel (Indian Basket), then it could increase

inflation by about 30 basis points and could weaken the growth by 10 basis points. The increase in crude Oil prices also leads to increase in the raw material prices of petroleum based products like Citral, Phenols, etc.

b) **Global Growth:** As the advanced economies and the EME continue to grow in 2018, it will have beneficial impact on the Indian economy. A 50-basis point increase in global growth, provides 20 basis point increase in the domestic growth. The US government has recently been showing signs of protectionism, which could dent the global growth and in turn the domestic economy.

c) **Exchange Rate:** With the US Fed having indicated that it is in favor of increasing the target interest rates in the US, and with increased Current account deficit, Indian rupee could be under pressure and could depreciate. For exporting companies, including your company, this is beneficial as the depreciation of the Indian rupee against the dollar helps in improving the revenues as well as net income.

Global Aroma Chemicals Market Overview:

Global Flavours & Fragrance (F&F) Industry is expected to reach USD 28 billion by 2022 (Source: Leffingwell report). Post 2000, Aroma Chemicals has been the fastest growing segment within F&F industry at CAGR of ~ 6.21% as compared to F&F growth of ~ 5%.

The aroma chemicals market was valued at US$ 4.09 billion in 2016 and is projected to reach US$ 6.6 billion by 2024, exhibiting a CAGR of 6.21% during this period, according to Market Report published by Transparency Market Insights.

Growing personal disposable income in emerging economies such as India, China and ASEAN countries coupled with increasing demand for cosmetics and homecare products resulted in the growth of aroma chemicals market.

Among the application of aroma chemicals, the cosmetic and toiletries segment held the highest market share in 2016 and is expected to show the same trend over the forecast years.

Europe accounted for the largest market share in terms of revenue and volume in the global aroma chemicals market in 2016-2017. The region is expected to retain its dominance throughout the forecast period, due to growing use of cosmetic and personal care products in European economies. In terms of revenue, Europe had a market share of 33.47% in 2016. (Source: - Coherent Market report).

Europe is followed by North America and Asia Pacific in the market of aroma chemicals. The North American market growth is expected at a CAGR of 5.80% with Asia Pacific market with a CAGR of 7.15%. (Source: - Coherent Market report). Asia Pacific is the fastest growing market and is expected to retain its dominance during the forecast period.

Growing population coupled with the increasing disposable income in economies such as India and China has fuelled the growth of cosmetics, personal care, and home care products, in turn increasing the demand for fragrances thus leading to increased demand of aroma chemicals. Moreover, the growing retail sector in emerging economies of the region has made the availability easier of products, such as cosmetics, fragrance, soap and detergents, which is further surging the market growth.

In terms of geographical regions, Asia Pacific is expected to be the major revenue contributor to the market in future. Rapid increase in population, rapid urbanization, women empowerment, increasing investments and the rise in demand for better lifestyles are few factors that will drive market growth.

Presence of some of the major aroma chemical producers in Asia Pacific countries and the rising demand for aroma chemicals in these countries will also aid in the growth of the fragrance market in this region.

Regulations

Regulations are forcing companies to follow compliance, which could affect the market's growth trajectory.

For instance, waste water discharge during the production of various synthetic aroma chemicals consists of many effluents, which need to meet applicable regulations for such discharge. As regulations are getting stringent and are imposing various restrictions on the emissions, like waste water, air emissions etc., producers are required to comply with the norms.

Growth drivers

As per market information, use of aroma chemicals so far was limited to the personal and household care sector. Market expansion and penetration of new generation lifestyle products like body deodorants has provided new market opportunities.

Demand for aroma chemicals is expected to rise especially in emerging economies such as India, China, Brazil and Africa. Rising income is expected to drive increasing willingness among young consumers to spend on personal care products.

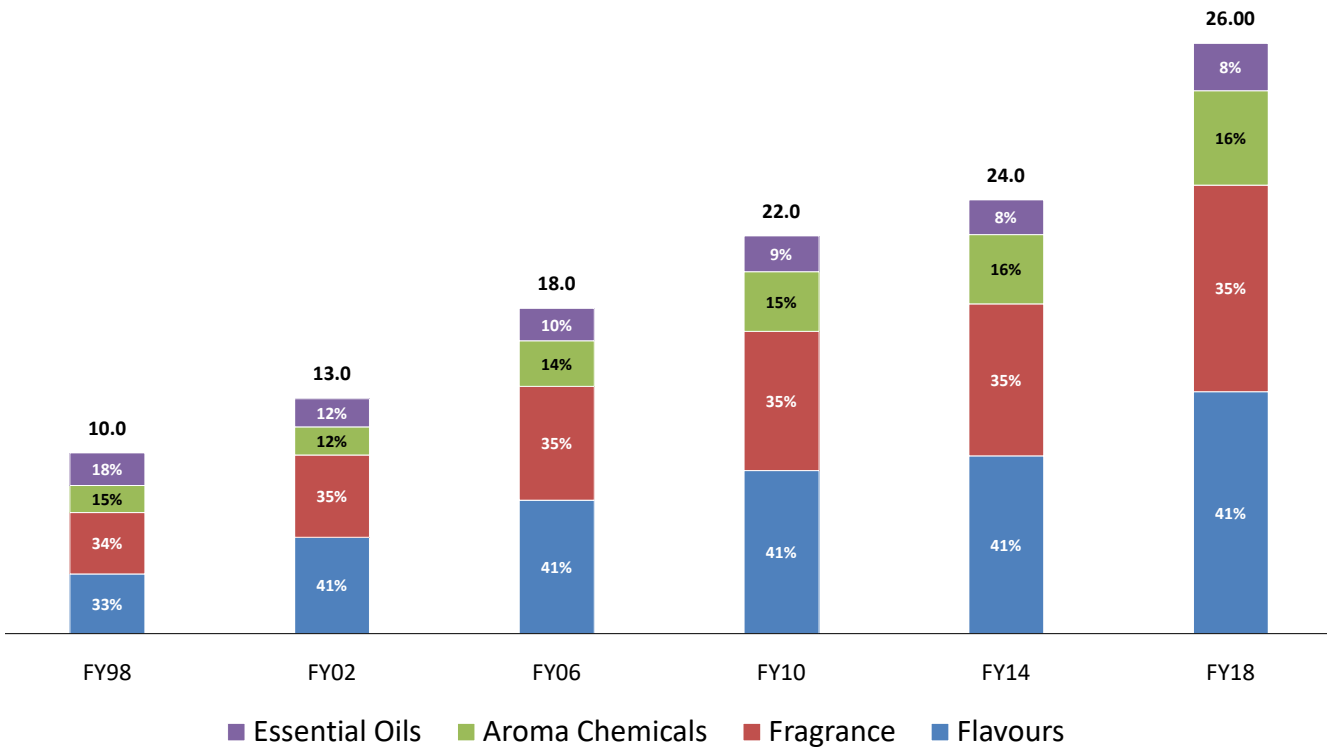
Shifting consumer preferences would create lucrative prospects for aroma chemicals market. Increasing market penetration and investment towards product development will help the aroma chemicals market to register strong growth in the forthcoming years.

With companies focusing on product diversification, consumers will have wider options to choose from. Spurred by these factors, the global aroma chemicals market will continue treading along a positive trajectory.

GLOBAL FLAVOUR AND FRAGRANCE INDUSTRY:

Based on the research by Leffingwell & Associates, the global F & F market was $24.25 billion in 2016. 75% of this market share is held by the top 11 Fragrance and Flavour houses.

Flavours and Fragrance Industry (Sectoral Overview)



(Value in USD Billion)

Source : Leffingwell & Associates & other Industry Research.

Fragrances and Flavours Industry in India – Opportunities and Challenges

Opportunity:

- India with a population of 1.35 billion is a young country with almost 65 % population below the age of 35 years.
- India is bracing changes very fast in almost every socio-economic arena. By the year 2020, the average age of an Indian is projected to be 29 years.
- Supported by favourable government policies for industry and a demand by a young consuming class with growing disposable incomes, India offers significant opportunities in the flavour and fragrance sector.
- Women empowerment and financial independence.

Challenges:

- Volatility in foreign exchange.
- Pricing and availability of raw materials.
- Socio-geographic issues.
- Research and development.
- Taxation (GST) etc.

Current and Future Business Scenario

Soaps and Fabric wash together continue to dominate with more than 50% market share, whereas deodorants continue with its robust growth at 33 to 35%. Indian fragrance industry has a promising future with the Indian FMCG market expecting consistent growth for next 5 years and with the rise in disposable income, women empowerment, per capita consumption of various personal care products is expected to grow significantly.

Industry Outlook to 2020 – Driven by Demand of Personal Grooming Products and Growth of Food Additives Market

Flavor and fragrance market in India has been dominated by the fragrance market with a majority share in the overall revenues. The market has majorly been dominated by the organized players.

Many international players have set up their manufacturing facilities across India. This is projected to earmark a growth in demand for different fragrances by the personal care, home and food industries.

Fragrance market in India has flourished in the past 6 to 8 years from FY'2012 to FY'2018 on the grounds of new formulations as well as active supply chain management.

The market has been dominated by the global manufacturers lured by the bright growth prospects of food, home and personal care industries in India. The surfacing of global players into the market has provided buoyancy to the supply chain of fragrance industry in India. The supply chain analysis of fragrance market represents the intermediate layers between manufacturers, distributors, importers and finally to the end consumers.

Technology initiatives

Your Company continues to be engaged in research and development in respect of technology & process improvement.

Your Company has further increased capacities of key products as well as installed new capacities for certain niche specialty aroma chemicals to stay ahead of competition.

Your Company is now a leading producer globally in two of its flagship products- Dihydromyrcenol and Amber Fleur, which are important ingredients in the manufacture of Fragrances.

This will help the Company to increase its market share not only for its key products but also for the new products as its key customers would prefer to buy a basket of products from one stop shop.

Your company continues to be the largest single Crude Sulphate Turpentine (CST) processing site in Asia, which is invariably the reason for survival and growth under the current volatile situation in respect of raw materials. CST also allows us to be self-sufficient on Key Raw Materials.

Your company has been investing and will continue to invest in forward looking technologies (like biotechnology) for future from the point of view of expanding into other industry segments.

Registration, Evaluation, Authorization and Restriction of Chemicals (REACH):

Your Company has registered 6 products and will be registering 9 more products under REACH. Your Company has already pre- registered all the products. This would provide an advantage to the Company over its competitors for sale in Europe.

Outlook

Your Company has achieved a growth of over 29.26%* in value over the previous year.

Your Company has achieved a growth of over 23.24%* in volume over the previous year.

* The previous year's numbers have been calculated for the entire 12 month period for 2016-17.

With existence of our 100% Subsidiary in US, our market share continues to keep growing year on year. Your Company intends to penetrate North and South American markets further by: -

1. Utilizing on the base created so far by our subsidiary.
2. Establishing an office in South American region.

Your Company is moving ahead on the path of expanding its global presence by way of setting up own office in Netherlands, which is a valuable step forward from strategic point of view for future growth.

Your Company continues to see its growth coming from key accounts in emerging and developing countries and its ability to provide a range of products.

Your Company has made inroads into the developing markets (Nigeria, Egypt, UAE, Pakistan, South Africa) by seeking more and more customers, case in study Reckitt Benckiser, the same helps Privi to propel the growth path further.

Your company has started to sell value added products from backward integrated feedstocks, thus contributing to enhance the revenues.

Your company continues to establish strategic long-term business relations with global leading companies in F&F industry, like Givaudan, Firmenich, IFF and with well-known global leading FMCG producers, like P&G, Henkel, Colgate and the latest acquisition of Reckitt Benckiser as a customer that has the potential to contribute to an approximate topline revenue of USD 40 million going forward.

OLEO CHEMICALS AND NUTRACEUTICALS :

The Industry Structure And Developments:

OELO CHEMICALS : Oleo Chemicals are preferred since they are produced from biological fats or oils i.e. natural sources . The demand for biodegradable chemicals is supporting oleo chemicals market. Fatty Acids, methyl esters and fatty alcohols are major oleo chemicals manufactured in India. The Company is mainly in the business of Fatty Acids which is one of the largest segments in Oleo Chemicals. Dimer Acid, Linoleic Acid / Soya Fatty Acid, other Distilled Fatty Acids are the main products of the Company. Responding to the demand pull of Dimer Acid, the Company had increased its dimerizing capacity which was in place before the commencement of financial year 2017-18. The Company achieved volume growth of about 35 % in sale of Dimer Acid. Dimer Acid is used for making two kinds of polyamides i.e. Non-reactive and reactive. Non-reactive polyamides are used by manufacturers of printing inks, adhesives, paper coatings etc..Rising solvent demand from industries such as printing inks, adhesives and paper coatings may drive global dimer acid market size for non-reactive polyamide resins. The demand for Reactive polyamide resins application will be driven by increasing surface coatings & adhesives demand in marine and construction.

NUTRACEUTICALS :

The word Nutraceutical is derived from two words viz. `Nutrition' and `Pharmaceutical'. When used in food, it provides health and nutrition benefits in addition to basic nutrition value present in food items. The consumers are now more health conscious and better informed about such nutritional products. The Company is mainly in the business of (natural) Tocopherols and Sterols – intermediate nutraceuticals and they are exclusively exported. Tocopherols have anti-oxidant properties. Tocopherols, after they are further concentrated by customers, are then used in (a) Pet Food, (b) food as it prevents rancidity. Tocopherols when converted into Natural Vitamin E finds the application in Pharmaceutical, cosmetic etc.. Sterols after they are further concentrated, finds its use in making of Cortico Steroids and as food additive.

Strengths, Opportunities and Threat :

The major strength in Oleo Chemical business is Company's ability to process by-products having no technical specifications and make higher grade fatty acids and nutraceuticals intermediate finished products meeting stringent quality standards. The Company enjoys leadership position in its area of business. Another advantage in favour of the Company is its strong customer and supplier relationship of more than 15 years.

Ideally, there is a place for one company in this business of Oleo Chemicals and Nutraceuticals in India due to limited availability of one of the raw materials within India. The import of the said raw material is not a very viable proposition at current prices of raw material as well as prime finished product obtained therefrom.

HUMAN RESOURCE MANAGEMENT :

Out of all the resources, human capital is of immense importance which may decide overall growth of Oleo Chemicals business. Human capital has the inherent capacity of delivering more than 100 % unlike other resources. During the year, the Company went for additional welfare measures to secure the employees of the Company. During the year, the industrial relations very cordial. As at March 31, 2018, the Company had 185 employees on the payroll of the Company.

OUTLOOK :

The outlook of Oleo Chemicals business appears to be promising. The Company is continuously working on process optimization and strives to explore the ways to beat the inflation and thereby maintain / reduce per unit processing cost. This is one area where the Company benefits without any corresponding loss to either its customer or supplier of raw material and so this benefit is permanent.

INTERNAL CONTROL SYSTEMS AND THEIR ADEQUACY :

There are adequate internal control systems for financial reporting. Internal audit has been done by a firm of Chartered Accountants. During the F.Y. 2017-18, the Company had focused on strengthening its systems under the guidance of an experienced professional.

DIRECTORS' REPORT

To,

The Members,

Your Directors are indeed pleased to present the Thirty third Annual Report and Audited Standalone and Consolidated financial statements of the Company for the financial year ended March 31, 2018.

FINANCIAL RESULTS : (Rupees in Lakhs)

		Standalone for the Year ended on			Consolidated for the year ended on	
		31-03-2018		31-03-2017	**31-03-2018**	31-03-2017*
(1)	Income (Net of Excise duty)		**23,632.90**	18,543.06	**102,430.08**	51,729.85
(2)	Profit before Interest, Depreciation & Taxation		**3,652.47**	2,375.83	**14,620.50**	7,935.97
	Less : Interest		**575.57**	469.31	**2,393.99**	1,697.57
(3)	Profit before Depreciation and Taxation		**3,076.90**	1,906.52	**12,226.51**	6,238.40
	Less : Depreciation		**494.91**	422.09	**4,330.90**	2,682.54
(4)	**Profit before Tax for the year**		**2,581.99**	1,484.43	**7,895.61**	3,555.86
	Less : Provision for Taxation :					
	(a) Current Tax	**573.23**		353.11	**1,907.04**	877.22
	(b) Deferred Tax	**69.07**		218.43	**654.81**	(40.83)
	(c) Short Provision of earlier years (Net)	**-**	**-**	7.06	**-**	7.06
	Sub-total		**642.30**	578.60	**2,561.85**	843.45
(5)	**Profit after Tax for the year**		**1,939.69**	905.83	**5,333.76**	2,712.41
	Add: Other Comprehensive Income–OCI (Net)		**(0.58)**	(34.91)	**(3.86)**	(55.45)
(6)	**Net profit after Tax for the year**		**1,939.11**	870.92	**5,329.90**	2,656.96
	Add : Balance B/f from previous year's a/c.		**3,290.17**	5,061.18	**4,931.47**	5,061.18
	Sub-total		**5,229.28**	5,932.10	**10,261.37**	7,718.14
(7)	Less : Appropriations :					
	(a) Transferred to General Reserve	**-**	**-**	-	**-**	-
	(b) Dividend Paid (including Dividend Distribution Tax)	**-**	**401.77**	415.05	**452.66**	415.05
	(c) Reserves acquired pursuant to demerger	**-**	**-**	-	**-**	144.74
	Sub-total		**401.77**	415.05	**452.66**	559.79
	Less : (a) Utilised for issue of Equity Shares in pursuance of Scheme of arrangement	**-**	**-**	963.44	**-**	963.44
	(b) Utilised for issue of Compulsorily convertible preference shares in pursuance of Scheme of Arrangement	**-**	**-**	1,263.44	**-**	1,263.44
	Sub-total	**-**	**-**	2,226.88	**-**	2,226.88
(8)	Balance C/f to next year's account	**-**	**4,827.51**	3,290.17	**9,808.71**	4,931.47

* Comprises of full year's financials of holding company & 8 months for subsidiary company.

OPERATIONS AND THE STATE OF COMPANY'S AFFAIRS:

(A) Operations:

During the year under review, the consolidated revenue from operations and other income crossed a milestone of Rs. 1,000 crores and were Rs. 102,430.08 lakhs. The Company achieved consolidated profit before tax of Rs. 7,895.61 lakhs and profit after tax of Rs. 5,333.76 lakhs. The EPS on Consolidated financial statements for the year ended March 31, 2018 was Rs. 13.65 on diluted basis.

The following material event happened between March 31, 2018 and the date of this report affecting the financial position of POIL, subsidiary.

On April 26, 2018, a major fire broke out at Privi Organics India Limited's (POIL) Unit 2 Plant located at MIDC, Mahad,