



PRIVI SPECIALITY CHEMICALS LIMITED

(Formerly known as Fairchem Speciality Limited)



ANNUAL REPORT
2019-20





35th Annual Report

Board of Directors:	<p>Mr. Mahesh P. Babani</p> <p>Mr. D.B. Rao</p> <p>Mr. Sumit Maheshwari</p> <p>Mr. Rajesh Budhrani</p> <p>Mr. P. R. Barpande</p> <p>Mr. Anurag Surana</p> <p>Mr. D. T. Khilnani</p> <p>Mrs. Anuradha Thakur</p> <p>Mr. Utkarsh Shah</p> <p>Mr. Nahoosh Jariwala</p> <p>Mr. Hemang Gandhi</p> <p>Mr. Darius Pandole</p> <p>Mr. Viren Joshi</p> <p>Ms. Radhika Pereira</p>	<p>Chairman & Managing Director (Designated as Chairman w.e.f. August 13, 2020)</p> <p>Executive Director (Appointed from August 13, 2020)</p> <p>Nominee Director</p> <p>Non-Executive Independent Director</p> <p>Non-Executive Independent Director</p> <p>Non-Executive Independent Director</p> <p>Non-Executive Independent Director</p> <p>Non-Executive Independent Woman Director</p> <p>Director (up to August 13, 2020)</p> <p>Director (up to August 13, 2020)</p> <p>Director (up to August 13, 2020)</p> <p>Director (up to August 13, 2020)</p> <p>Director (up to August 13, 2020)</p> <p>Director (up to August 13, 2020)</p>
Company Secretary:	<p>Mr. Rajen Jhaveri (up to August 12, 2020)</p> <p>Mr. Ramesh Kathuria (From August 13, 2020)</p>	
Auditors :	M/s. Price Waterhouse & Co Chartered Accountants LLP, Chartered Accountants, AHMEDABAD.	
Bankers :	<p>Kotak Mahindra Bank Limited</p> <p>HDFC BANK</p> <p>Standard Chartered Bank</p> <p>IDFC First Bank Ltd.</p> <p>RBL Bank Limited</p> <p>ICICI Bank Ltd.</p> <p>CITI Bank N.A.</p> <p>Bank of Baroda</p>	
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MANAGEMENT DISCUSSION AND ANALYSIS

Global Economic Outlook:

Year 2020 will go down in the history as the watershed year, when the social, political, financial world changed so drastically, leaving behind scars, indeed wounds, which can continue to afflict mankind for a decade or even more.

In April 2019, the Global economy, which had slowed for three consecutive quarters in 2018, had halted the decline and was in a moderate growth phase. Chinese economy, the main driver of global growth was slowing down due to a combination of regulatory tightening to rein the shadow banking, and the enhanced trade tensions with the United States. The Euro area also lost the momentum. Thus, the developed economies were about to turnaround, and the emerging economies, including India, were witnessing some traction on growth. On the overall, while the global economic growth was slowing down to 3.3% in 2019, from 3.6% in 2018, it was expected to return to 3.6% growth in 2020.

However, as the year progressed, by October 2019, the world economic outlook worsened – largely driven by the trade tensions between the US and China, which led to a slowdown in both the countries. The global growth for 2019 was pegged at 3.0%, down from an estimate of 3.3% in April 2019. The recovery in 2020 was in turn expected to be slower at 3.4%, against earlier estimate of 3.6%.

As 2019 came to an end and 2020 began, a black swan event impacted the world with the onset of, what was later confirmed as a pandemic, caused by COVID 19, which originated in the Wuhan province of China. With no cure in sight, the only option left with government across the world was – “lockdown” which brought the commerce and economies almost to a grinding halt.

The IMF in its Global Economic outlook published in April 2020, estimated that the global economies will contract by as much as 3.0% in 2020. Assuming that the pandemic will fade in the second half of 2020, and with the resumption of economic activities, the global growth was expected to 5.8% in 2021. The emerging economies were expected to contract, for time in decades, by 1% in 2020, to recover 6.6% in 2021. Exports for the emerging economies was estimated to contract by 8.2% in 2020. In 2021, the exports from emerging economies are expected to surge to 9.1%.

Indian Economy:

As per the latest Bi monthly policy statement of the Reserve Bank of India (RBI) in May 2020, the outlook for the Indian economy remains uncertain and is significantly determined by the duration of the pandemic and to what extent will the social distancing norms remain in place. In Q1 for 2020, except agricultural sector, the activities remained subdued and the same was expected to continue in the Q2. By Q3,

the activities are expected to pick up, however RBI opined that “the downside risk to the domestic growth remains significant”. The Report also states that “upside impulse could be unleashed if the pandemic is contained and social distancing measures are phased out faster”.

Thus, the overall outlook for the Indian economy remains uncertain, and will almost entirely be governed by the containment of the pandemic within India and globally.

Aroma Chemical Business:

Amidst the uncertainty caused by the COVID 19 pandemic, there is also a change in lifestyle necessitating increased hand washing frequencies, better hygiene in general – including cleaning of floors, more frequent washing of cloths, etc. This change in lifestyle will lead to increased demand for sanitizers, soaps, detergents, and floor cleaners.

The increased demand for the above mentioned Fast Moving Consumer Goods (FMCG) products will in turn lead to increased demand for the raw materials for making these products, including the fragrances, and in turn Aroma chemicals.

In the medium term, therefore, your company is expecting a robust growth in the demand for the aroma chemicals – main business of your companies.

In the short term, however, the disruptions caused by the lockdown is resulting in both slackness in demand and more importantly the logistic bottlenecks like movement of goods to and from the port for exports and for domestic use.



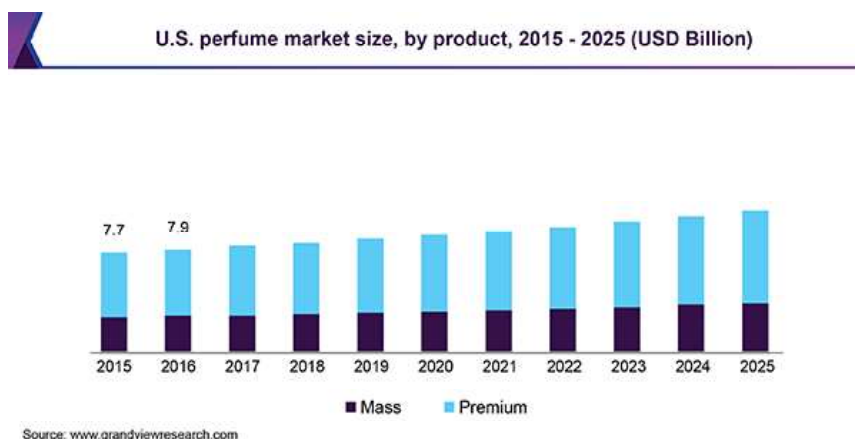
1 GLOBAL FLAVOR AND FRAGRANCE INDUSTRY:

Global Perfume market: (Source: Grand view research)

The global perfume market size was valued at USD 31.4 billion in 2018 and is expected to expand at a CAGR of 3.9% from 2019 to 2025. The market growth is attributed to growing trend of personal grooming, coupled with increasing demand for luxury and exotic fragrances. Moreover, increasing consumer spending on premium and luxury fragrances due to high income level, along with improving living standards, is driving the global market.

In recent years, perfumes have evolved into a significant business in the cosmetics and personal care industry. Perfumes have emerged as an essential product driven by growing trend of personal care, forming a part of pride and confidence.

Product diversification by manufacturers is also expected to expand the customer base. Product innovations based on customer need are further augmenting the sales in the perfume market.



Key players are also focusing on introducing natural fragrances in the premium category, primarily due to rising concerns over allergies and toxins in synthetic ingredients. Approximately 75% of millennial women prefer buying natural products, wherein more than 45% of them prefer natural based healthy perfumes. For instance, LUXE brand has been positioning itself as a natural fragrance brand and is focusing on collaborating with celebrity personalities for product endorsement.

Moreover, innovative promotional activities are driving the market. Manufacturers are investing in advertisements in an effort to influence the purchase decisions. Growing influence and impact of social media and celebrity endorsements is one of the trending advertisement strategies implemented by the players. Companies are heavily investing in their advertisements and promotions to attract consumers on digital platform.

These factors have been aiding the companies to understand their product performance and develop products to meet the customer needs, thereby contributing to the growth of the global market.

Product Insights

Premium perfumes accounted for the largest share of more than 65.0% in 2018. The growth has surpassed that of mass fragrance products in the last few years owing to greater emphasis on quality, personalization, and exclusivity. Premium perfumes are expected to expand at the fastest CAGR of 3.9% from 2019 to 2025 owing to growing preference for unique, hand crafted, and exotic fragrances.

Manufacturers are also focusing on widening their offerings to include the high end products. For instance, Coty has slimmed down its product portfolio of low priced labels after the acquisition of some Procter & Gamble Co.'s beauty brands. Since then, it has been focusing on the luxury lines, which include Gucci Bloom and Tiffany & Co., targeting the millennials.

Decline in the mass perfume products is majorly attributed to increasing preference for premium fragrances among consumers. This has been driving the manufacturers to shift their focus towards premium products, thereby contributing to the growth of the global market.



End User Insights

Women accounted for the largest share of 60.1% in 2018. It is observed that women in

U.S. purchase a new perfume as often as once a month, in comparison to men who buy it on an average of 1 2 times per year, mainly for the purpose of replenishment. As per a survey, around 41% of the females in U.S. use perfumes everyday as compared to men.

In U.K., women pay more for fragrances than men, wherein female perfumes cost an average of about 6p more per ml as compared to male fragrances of the same brands. Perfume sales are expected to rise up among women irrespective of its high price points, as they consider it to be an essential part of personal care.

Distribution Channel Insights



The offline channel accounted for more than 70.0% share in 2018. Consumers prefer this channel to purchase their products due to availability of a wide range of options as well as facility of scanning the product details before any purchase. The offline segment is mainly driven by the sales from specialty stores that offer premium products. The layout of the supermarket and promotional campaigns by leading brands have also increased the sales volume in the supermarket and hypermarket segment. Growth of the organized retail sectors has been driving the market by providing ample space and visibility for the existing brands to offer their products.

The online platform is expected to witness the fastest growth during the next few years. Evolution of online retail channels such as Flaconi, Amazon, and Parfumdreams has turned out to be a new and convenient way of distributing perfumes, despite consumers not being able to test the fragrance before purchase. Various modes of advertisements and promotions in the market are very prominent, thereby driving the consumers to prefer online channels.

Regional Insights

Europe, followed by North America, accounted for the largest share in 2018. The U.S. and Europe market remain the industry trendsetters. Major countries contributing to the growth of the Europe market include Germany, France, and U.K., wherein Germany accounted for 16.3% in 2018. In 2017, Coty was positioned as the leading player in the fragrance market in Germany. The market growth was attributed to the strong sales of the premium products through brands such as Jil Sander and Calvin Klein, along with new product launches from other brands such as Hugo Boss.

France accounted for 25.9% share in the regional market in 2018. France serves as the home of numerous leading perfumes brands such as Christian Dior, Chanel, and Guerlain. The country has been driving the Europe market with the highest production and export values. In 2017, France had exported about USD 4.8 billion worth fragrance products to the global market, thereby representing more than 25.0% of the world's total perfume exports in the same year.

2 Market scenarios in India (source – Research and markets)

Fragrances are the unique combinations of natural and synthetic substances that are added in different products to give them distinctive scents. Perfumers keep on working on new fragrances using various fragrance ingredients and combine them in a unique way to produce fragrance products which can be used for different purposes.



Fragrances industry majorly includes two categories viz. deodorant and perfumes which are then categorized into several sub forms. Deodorants in India are available in aerosol/spray form as well as in roll ons and sticks whereas perfumes are available in the form of eau de toilette, eau de cologne, eau fraiche and eau de parfum. The fragrance industry is set to witness an increase in the demand for high end sophisticated fragrances as consumers are altering their lifestyle and adapting the luxurious fragrances in their daily personal grooming regime.

India fragrance market is dominated by deodorants whereas perfumes are also picking up pace with the onset of lifestyle changes. Deodorants kill the bacteria that causes odour when there is perspiration. As it is a more natural process to allow bodies to sweat, it makes more sense for consumers to use deodorants. Aluminium free underarm deodorants play a vital role in keeping the body clean and fresh. For the present generation, it is impossible to imagine life without deodorants. Different types of deodorants are available in the Indian market today with a number of brands and this has given a plethora of choices to consumers. India deodorant market is expected to grow with a CAGR of more than 15% over next five years out of which the aerosol/spray form of deodorant is expected to continue its dominance over 2017-2022.

According to "India Fragrance Market Outlook, 2022", the demand for fragrance products has been driven by rising disposable income, the importance of personal grooming, emergence of working women in India and the hot, humid and tropical climate conditions of India. Rising demand for perfumes from working professionals is one of the major growth drivers for perfume industry as professionals want to smell good every day from the moment they enter into the office till their exit. The mindset that men and women feel confident by using fragrance products has been one of the key points for the companies to look into this segment and tap the market as much as possible.

3 Aroma Chemicals:

Selbyville, Delaware, March 27, 2020 (GLOBE NEWSWIRE) As per the report published by Global Market Insights Inc., the overall aroma chemicals market was estimated at \$5.10 billion in 2019 and is expected to hit **\$7.5 billion** by 2026, registering a **CAGR of 6%** from 2020 to 2026.

As per industry analysis, aroma chemicals are natural as well as synthetic aromas that have been used for manufacturing various products which includes household, fine fragrances, soaps & detergents, food & beverages, and cosmetics & toiletries. Among these, the cosmetics & toiletries segment accounted for nearly 21.0% of the market share back in 2019. Factors like emerging personal grooming trends are expected to further lead the demand for cosmetics and impel the aroma chemicals market.

Aroma chemicals are also used for imparting attractive aromas to several consumer products, which includes perfumes, detergents, and toiletries. The increasing number of working women across the world has led to a growing demand for personal care products. Furthermore, rising preference for natural fragrances owing to negative effects of synthetic chemicals will positively contribute on aroma chemicals industry expansion as well.

Key reasons for aroma chemicals market growth:

1. Growing demand for soaps and detergents owing to rapidly rising personal hygiene trends throughout the globe. The COVID 19 pandemic is resulting in increased frequency and higher standards of hygiene – in turn leading to higher demand for aroma chemicals.
2. Rising adoption of synthetic aroma chemicals across the cosmetics industry.

2026 forecasts anticipate the 'soaps and detergents' application segment showing appreciative growth:

The soaps and detergents segment will witness substantial gains of over 6% through 2026. The product is extensively used for manufacturing soaps and detergents due to its fine aroma. The market of liquid soaps was valued at over \$15 billion back in 2018. Rising personal hygiene trends and the subsequent growth in demand for good smelling soaps will positively impact aroma chemicals market share.

North America aroma chemicals industry to witness appreciative growth:

North America is anticipated to foresee gains of over 5.5% through 2026. The United States FDA has designated these compounds as safe prior to its use by people. This recognition allows aroma chemicals to be utilized for manufacturing snacks, carbonated drinks, and candies, providing prominent revenue streams to the aroma chemicals market. Moreover, an increasing number of restaurants across the region have further impelled the consumption of junk food, which is further stimulating product demand.

**Leading market players:**

The key market players analysed in the aroma chemicals market report include Solvay and Takasago International Corporation, International Flavours & Fragrances Inc., Kao Corporation, MANE, Symrise, Robertet, BASF SE, S H Kelkar and Company, and your Company.

Regulations

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

For instance, wastewater 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 wastewater, 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 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 trading along a positive trajectory.

Building barriers to entry:

Aroma chemicals are used based on their olfactive properties, apart from the chemical assay and physical properties. Your Company has been in the business of supplying Aroma chemicals to global companies for about two decades and therefore has

considerable in house expertise and knowledge of the olfactive requirements of various customers.

Further, as your Company has a backward integrated to use waste generated from pulp mills CST, it has significant visibility of pricing of raw materials.

These factors provide distinct competitive advantages to your Company, against a new entrant or existing aroma chemical manufacturers.

Business Risks and mitigation of risks:

- Volatility in foreign exchange:

With the global trade uncertainties caused by protectionist policies of the developed world, accentuated further by the economic crises emanating from the COVID 19 pandemic, exchange rates have been very volatile, including the exchange rate between the Indian Rupee and the U S Dollar.

While your Company depending on over 70% of the raw materials by imports, it also exports over 70% of the finished goods. Thus, your Company has a natural hedge against the depreciation of Indian Rupee against the US dollar, after accounting for some of the borrowings which are denominated in dollars.

- Pricing and availability of raw materials:

The rate of key raw materials also varies considerably during the year, and the recent uncertainties add to further risks.

Your Company as a strategy enters into a half yearly or annual contracts for raw materials and finished products to mitigate the risks.



- Apart from the above, there is the systemic Socio geographic and resultant economic risks.

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

Your Company continues to be a leading producer globally in three flagship products – Dihydromyrcenol, Amber Fleur, and Pine Oil. All these products are made in the fully integrated manufacturing facilities of the Company – starting from the CST to the finished products. Above mentioned chemicals are important ingredients in the manufacture of Fragrances.

Your company continues to be the largest single 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.

In addition to the above large volume flagship products, your Company also makes a number of specialty aroma chemicals – some of which are made from the side streams generated during manufacturing.

Thus, apart from consolidating the market share in the large volume products, your Company is also working on increasing Customer share by supplying other Aroma chemicals.

Technology initiatives:

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.

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

REACH Status of Your Company :

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

EU/EEA REACH:

Requirements: To place any product in European Economic Area in qty e" 1 MTPA, the product is required to be registered within REACH Regulation (EC Regulation 1907/2006).

Our Status: So far, we have registered total 23 products of ours under EU REACH Regulation, through our Sweden based Only Representative

Key Post Registration Obligations: After European Chemical Agency (ECHA) evaluates Registration dossier, additional animal or product test data to be provided or corrections to made if ECHA finds any information missing or incorrect. For Example: ECHA requires us to submit Extended One Generation Reproductive Toxicity study for our already registered Dihydromyrcenol and Pine Oil

Korea REACH:

Requirements: To place any product in Korea in qty e" 1 MTPA, the product is required to be pre registered within Korean REACH Regulation (ARECs). The product needs to be registered by Dec 2021, Dec 2024, Dec 2027 or Dec 2030 depending on the annual Tonnages or Hazard properties.

Our Status: So far, we have pre registered total 9 products under Korea REACH, through our Korean based Only Representative

Turkey REACH:

Requirements: To place any product in Turkey in qty e" 1 MTPA after Calendar Year 2020, the product is required to be pre registered under Turkey REACH Regulation (KKDIK regulation) by Dec 2020. The product is required to be registered by Dec 2023.

Our Status: So far, we have shortlisted total 19 products for Pre registration. We are planning to pre register the products by Oct 2020.