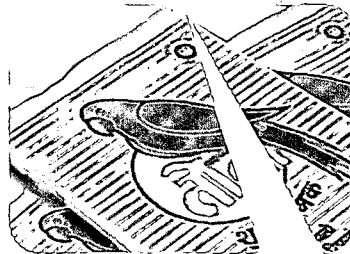
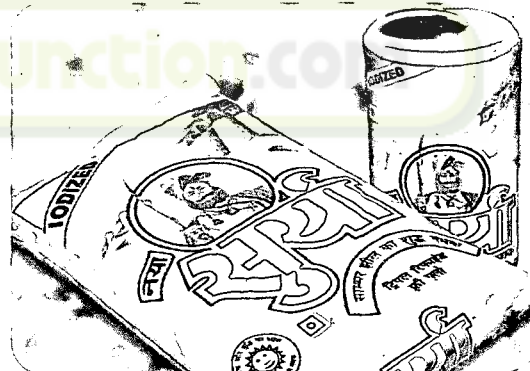


# Good for life!

"Of all smells, bread; of all tastes, salt."



## Forward-looking statement

In this Annual Report we have disclosed forward-looking information to enable investors to comprehend our prospects and take informed investment decisions. This report and other statements - written and oral - that we periodically make contain forward-looking statements that set out anticipated results based on the management's plans and assumptions. We have tried wherever possible to identify such statements by using words such as 'anticipate', 'estimate', 'expects', 'projects', 'intends', 'plans', 'believes', and words of similar substance in connection with any discussion of future performance.

We cannot guarantee that these forward-looking statements will be realized, although we believe we have been prudent in assumptions. The achievement of results is subject to risks, uncertainties and even inaccurate assumptions. Should known or unknown risks or uncertainties materialize, or should underlying assumptions prove inaccurate, actual results could vary materially from those anticipated, estimated or projected.

We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise.

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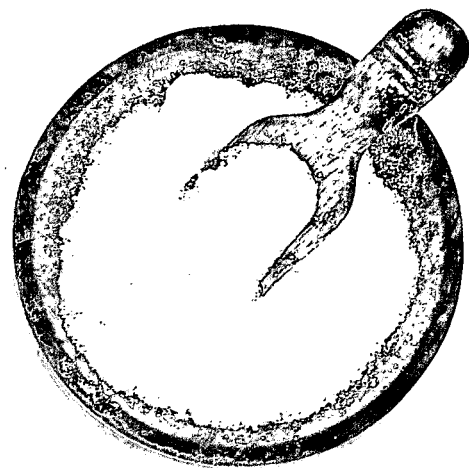
Corporate identity 2 ■ Q&A session with the Managing Director 4 ■ Our strengths 6 ■ Management's discussion and analysis 8 ■ Our growth drivers 14 ■ Financial review 16 ■ De-risking the Company 20 ■ How we enhanced shareholder value in 2006-07 23 ■ Directors' Report 24 ■ Report on Corporate Governance 26 ■ Auditors' report 35 ■ Financial statements 38 ■ Corporate information 51

Food and grocery account for 76% of the consumer expenditure of the average Indian.

The composition of this spending varies from region to region, pocket to pocket, community to community and taste to taste.

Except for one item, which figures invariably and consistently on all shopping lists.

Salt.

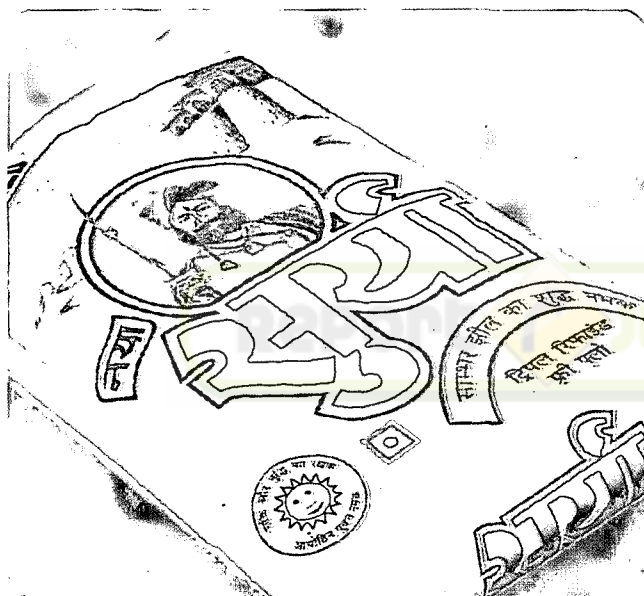


Saboo Sodium Chloro Ltd. is an FMCG company with a specialisation in salt.

A manufacturer of edible and industrial salt.

The second largest manufacturer of refined salt in India after Tata Salt. Enjoying an attractive pan-Indian recall through its popular Surya, Tota, Saboo, Hero and Tiger brands.

And a prominent manufacturer of industrial salt with respect-enhancing multinational clients.



### Positioning

Incorporated in 1993, a part of the Saboo Group of Industries.

Comprises 100,000 TPA of salt manufacturing capacity (3,50,000 TPA proposed by 2008).

Manufacturer of emery stones, flour mills, abrasives, grinding machines and agricultural equipment.

Producer of flour and mineral water.

Publicly held company; shares listed on the Bombay Stock Exchange.

“With all thine offerings thou shalt offer salt.”

Moses, Leviticus

### Performance

Sales declined to Rs.1,130.52 lacs in 2006-07 from Rs. 1,259 lacs in 2005-06.

EBIDTA declined by 4.21% from Rs. 112.03 lacs in 2005-06 to Rs. 107.31 lacs in 2006-07.

EBIDTA margin surged 111 basis points from 8.30% in 2005-06 to 9.41% in 2006-07.

Profit after tax strengthened by 83.37% in 2006-07 from Rs. 48.30 lacs in 2005-06 to Rs. 88.58 lacs in 2006-07.

Net profit margin strengthened from 3.58% in 2005-06 to 7.77% in 2006-07.

Gross block enhanced by 3.58% from Rs.1,463.83 lacs in 2005-06 to Rs. 1,516.30 lacs in 2006-07.

Cash profit grew by 35.45% from Rs. 106.33 lacs in 2005-06 to Rs. 144.03 lacs in 2006-07.

### Presence

Corporate office in Nawa and Jaipur (Rajasthan)

Manufacturing facilities in Govindi village, Nawacity tehsil, Nagour district, Rajasthan.

Distribution network comprising more than 450 pan-Indian distributors.

Exports to Bangladesh, UAE, Africa, Mauritius, Kuwait and China.

### Production

:: Equipped with state-of-the-art technology to produce all salt grades – refined iodized salt and table salt for edible consumption, industrial salt for use in the textile, caustic soda, chlorine and for oil drilling sectors.

### Products

Edible salt. **Users:** Food consumers.

Low-hardness (triple refined) salt. **Users:** substitute for global salt and the textile/dyeing industries.

Superfine salt. **Users:** Detergent industry.

Industrial loose salt. **Users:** Caustic soda and chlorine industry, paper industry, soda ash industry, aluminium and other heavy industries.

### Post balance sheet developments

EBIDTA increased by 44.10% from Rs. 75.50 lacs in Q1 ended June 30, 2006 to Rs. 108.60 lacs in Q1 ended June 30, 2007.

EBDITA margin increased from 24.04% in Q1 ended June 30, 2006 to 34.25% in Q1 ended June 30, 2007.

Profit after tax strengthened by 36.20% from Rs. 61.60 lacs in Q1 ended June 30, 2006 to Rs. 83.90 lacs in Q1 ended June 30, 2007.

Net sales strengthened by 1.05% from Rs. 313.30 lacs in Q1 ended June 30, 2006 to Rs. 316.60 lacs in Q1 ended June 30, 2007.

:: 6,11,990 warrants have been issued (Rs. 10 per warrant) to strategic investors, convertible into equivalent number of equity shares (Rs. 10 per share) in a period of 18 months from the date of issue.





## “We manufacture magnesium-free salt that’s friendly to the heart and good for life”

Girdhar Saboo, *Managing Director*, reviews the Company’s performance in 2006-07 and scripts the road ahead.

### What was the rationale for the Group’s extension to the manufacture of salt?

Our extension from the pioneering manufacture of agricultural equipment to the production of salt for dietary and industrial consumption was a calculated step for some good reasons.

Consider this: India – the world’s second largest population – is the third largest salt producing country but its per capita consumption (12 kg today) is way below the global average. Before entering the business, we foresaw growth in salt consumption coming from two areas:

- A rise in general prosperity, a migration from those at the bottom of India’s consumption pyramid towards the middle-class, a restaurant boom and growth in retail formats.
- With the steady growth of various downstream industries we foresaw a growing use of salt as a raw material.

### How did the Company respond to this market demand?

Saboo Sodium Chloro Limited undertook several organic and inorganic initiatives that positioned it as a preferred and well accepted salt brand in the country and abroad. The result is that the Company manufactures edible salt, which is marketed through five brands – flagship being Surya followed by Tota, Saboo, Hero and Tiger – today. We also manufacture triple-refined, free-flow industrial salt and low-hardness salt, which is a substitute for global salt used in the dyeing and textile industries.

### How did the Company perform in 2006-07?

It was a mixed year – not the best of years as our sales de-grew 10.26% but an important year as we succeeded in evolving our business model to a point where profits and margins strengthened.

**This is reflected in our financials:** We registered a 83.37% rise in our post-tax profit from Rs. 48.30 lacs to Rs. 88.58 lacs, our net margin jumped from 3.58% to 7.77% in 2006-07 and total costs (excluding interest and depreciation) as a proportion of our total income dipped from 91.70% to 90.59%. So I would state that our profitability strengthened and as soon as we scale our performance – the effect will be visible 2007-08 onwards – we will report an attractive volume-value play.

**This has already translated into reality:** during the first quarter of the current financial year, we reported our highest quarter wise revenue of Rs. 316.60 lacs, highest EBIDTA margin of around 34% and the highest EBIDTA of Rs. 107.30 lacs in any quarter.

### From where does the Company derive its competitive edge?

Consider this: 95% of salt is

manufactured from magnesium-rich seawater, leading to heart disease and hypertension. It has now been established that salt derived from non-seawater sources is healthier not only because of the absence in magnesium but its insulation from sewage and pollutants.

At Saboo Sodium, we are attractively placed in this regard. We manufacture zero-magnesium salt, which is extracted from the bed of the Sambhar Lake in Rajasthan. Besides, our manufacturing process reconciles the best global hygiene practices. The result is a magnesium-free product with 99.5% purity – the best sea salt has 98% purity – which is good for life.

### How does the Company expect to reinforce its position in a competitive market place?

We aim to be the preferred supplier in the edible and industrial salt segments through a combination of the right quality, capacity and delivery capabilities. Over the last year, we build a road map to reinforce this reality: we plan to invest Rs. 20 cr (in the next 12-14 months) to raise our capacity from 1,00,000 TPA to 3,50,000 TPA by 2008. Going ahead, we plan to acquire companies and invest in new dryers to accelerate our growth. Besides, we expect to widen our product range from table and granular salts to flavoured varieties like

garlic and onion salts, which will drive growth.

### What is your big message for stakeholders?

Saboo Sodium is at the right place at the right time. The Indian salt industry is set to grow attractively on account of a booming economic and industrial growth. Going forward, we expect to enhance our shareholder value through increased production, stronger brands, wider product basket and value-addition, translating into higher topline, bottomline and realisations. We expect to report a topline of Rs. 25 cr in 2007-08, leading to attractive value in the hands of those who own shares in our Company.

## Salt, magnesium, health and Saboo Sodium



The persistent consumption of magnesium supplements and medicines can cause muscle weakness and lethargy leading to joint pains. Dietary magnesium does not pose a health risk, though a high dose of magnesium supplements, which may be added to laxatives, can aggravate the adverse effects of diarrhoea.

Magnesium toxicity is often associated with kidney failure, when the kidney loses the ability to remove excess magnesium. Large doses of laxatives have also been associated with magnesium toxicity even with normal kidney function. The elderly are at a risk of magnesium toxicity because normal kidney function declines with

age and are more likely to take magnesium-containing laxatives and antacids.

Signs of excess magnesium can be similar to magnesium deficiency and include mental status changes, nausea, diarrhoea, appetite loss, muscle weakness, difficult breathing, extremely low blood pressure and irregular heartbeat (Source: *Magnesium Facts - From The National Institutes of Health*).

Since the Surya brand of Saboo Sodium is saltier than other brands, it is consumed in a smaller quantity, containing the possibility of related ailments and disorders.

# Our strengths

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## Proximity

of the manufacturing facility to the salt-rich Sambhar Lake, resulting in cost-effective logistics.

## Closeness

to India's major salt markets (Rajasthan, Delhi, Uttar Pradesh, Punjab, Himachal Pradesh, Jammu & Kashmir, Bihar, Jharkhand and West Bengal), resulting in a third of the transportation costs (compared with deliveries from Gujarat).

## Presence

in the retail and institutional segments, the former accounting for 90% of sales.





"Salt is born of the  
purest of parents: the  
sun and the sea."

Pythagoras (580 BC - 500 BC)

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## Brand

strength resulting  
in higher  
realizations.

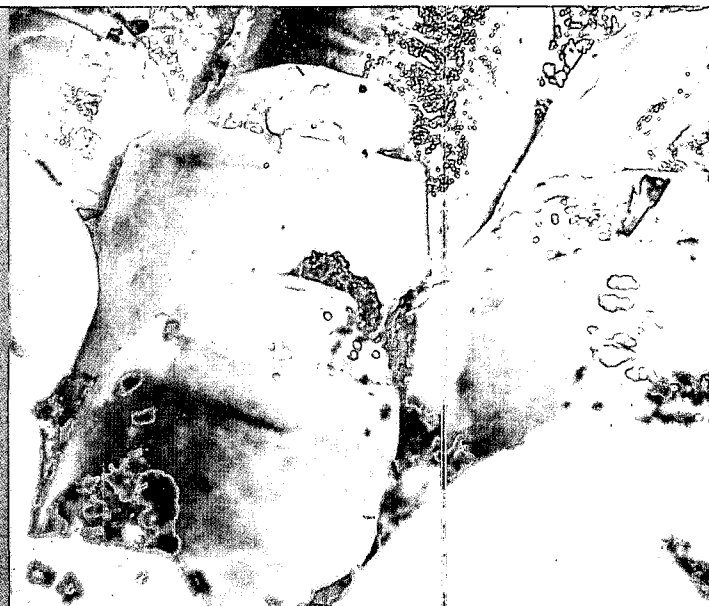
## FMCG clientele

comprising FMCG  
giants like  
GlaxoSmithKline,  
Dabur, Britannia, Agro  
Tech Foods, Surya  
Foods Agro Ltd. and  
others.

## Distribution

network across  
Rajasthan, Delhi, Uttar  
Pradesh, Punjab,  
Himachal Pradesh,  
Jammu & Kashmir,  
Bihar, Jharkhand and  
West Bengal (proposed  
entry in Gujarat and  
Maharashtra). Export of  
salt to Kuwait, UAE,  
Mauritius, Bangladesh,  
China and African  
countries.

# Management's discussion and analysis



## Product overview

Salt is an essential mineral for man's survival. Salt (NaCl) is the chief source of sodium and chlorine, which regulate the water balance in the human body, playing a central role in the transmission of an electrical impulse through the nerves and maintaining muscle tone. Salt for human consumption is generally available in the unrefined (such as sea salt), refined (table salt) and iodized forms.

Salt is the chief source of iodine in the human body, a deficiency in which could lead to brain damage, stunted growth, goitre, speech / hearing impediments and depleted energy in children. Iodine deficiency disorders (IDD) during pregnancy could lead to miscarriage and stillbirth.

India's Salt Commissioner's office is the watchdog for the distribution and quality control of iodized salt under the National Iodine Deficiency Disorders Control Programme (NIDDCP). The Salt Department has given the go ahead to more than 878 iodisation units with an annual installed capacity of 112 lacs

tonnes.

In a policy decision in 1983, the government made it mandatory to iodise salt for human consumption under the Universal Salt Iodisation Programme. This made it imperative for the entire population to receive edible salt with at least 15 ppm iodine. The private sector, accounting for nearly 97.5% of the total national salt production, was encouraged to produce iodized salt. In 1998, a blanket ban was imposed on the sale of non-iodized salt for human consumption, which was relaxed in 2000 following political pressure.

Following the inclusion of goitre elimination in the Prime Minister's 20-point National Development Programme, the production of iodized salt rose from 0.3 MT in 1983 to 4.7 MT in 2000. The ban was re-imposed in 2005 in consonance with the Tenth Five-Year Plan, which aimed to reduce the prevalence of IDD to less than 10% by 2010.

As a result, the production of iodized salt peaked at 48.8 lac tonnes in

2005; around 85% of the Indian population today consumes iodized salt. It will be relevant to indicate that the cost of iodisation is less than 1% of the purchase price of the end product, estimated at 10 paise per person per year (source: *Indian Coalition for the Control of Iodine Deficiency Disorders*). Around 70% of the total production of salt is sold loose.

## Applications

Salt is principally used as a food additive in less developed countries and as an industrial input in highly industrialized nations. The four leading end-uses of the mineral comprise:

□ **Human consumption:** The consumption of dietary salt is expected to be highest in Asia and Africa in line with population growth. The global edible use of salt is expected to touch 48 MT a year by 2012.

□ **Chlorine and caustic soda:** The chloralkali industry co-produces chlorine and caustic soda from the electrolysis of salt. Over 50 MT of salt was used for making chlorine and