

51st

Annual Report 2001-2002

SCI

Contents	
Directors' Report	2
Management Discussion and Analysis	7
Report on Corporate Governance	9
Shareholders Information	14
Auditors' Report	17
Balance Sheet	20
Profit and Loss Account	21
Schedules to Balance Sheet	22
Schedules to Profit & Loss Account	26
Notes Forming Part of Accounts	29
Cash Flow Statement	38

SUDARSHAN CHEMICAL INDUSTRIES LIMITED

FIFTY FIRST ANNUAL REPORT 2001-2002

BOARD OF DIRECTORS

Dr. Ramwilas Jagannath Rathi	Executive Chairman
Mr. Takeshi Kumagai	
Alternate - Mr. Jun Sakai	
Dr. Koji Oe	
Alternate - Mr. Tsuguo Tomiyama	
Mr. Takashi Miyashita	
Alternate - Mr. Masayoshi Takahashi	
Mr. Hironobu Asano	
Alternate - Mr. Toshio Tanaka	
Dr. Neelkanth Annappa Kalyani	
Mr. Bansibhai Sunderlal Mehta	
Mr. Pralhad Parsram Chhabria	
Mr. Dara Nadirshaw Damania	
Mr. Shrikrishna Narhar Inamdar	
Mr. Abhay Navalmal Firodia	
Mrs. Anupama Vinay Ranade	Nominee of ICICI Bank Ltd.
Mr. Balkrishna Jagannath Rathi	Vice Chairman
Mr. Kishor Laxminarayan Rathi	Managing Director
Mr. Pradeep Ramwilas Rathi	Managing Director

VICE PRESIDENT & SECRETARY

Mr. Narayandas Jagannath Rathi

BANKERS

Bank of Maharashtra
State Bank of India
Bank of Baroda
Sumitomo Mitsui Banking Corporation
ICICI Bank Ltd.
HDFC Bank Ltd.

AUDITORS

M/s. B. K. Khare & Company
Chartered Accountants, Mumbai

REGISTERED OFFICE

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SUDARSHAN CHEMICAL INDUSTRIES LIMITED

DIRECTORS' REPORT TO THE SHAREHOLDERS : 2001-2002

Your Directors have pleasure in presenting their 51st Annual Report together with the Audited Statement of Accounts for the year ended on 31st March 2002.

1. FINANCIAL HIGHLIGHTS :

Particulars	2001-2002 (Rupees in million)	2000-2001 (Rupees in million)
Gross Sales and Other Income	2750.87	2347.59
Gross Profit	275.08	153.41
Less: Depreciation	140.12	112.40
Profit before Tax and contingencies written back	134.96	41.01
Add : Provision for contingencies written back as no longer required	-	10.86
	134.96	51.87
Less: Provision for Taxation	40.00	5.00
Profit after Tax	94.96	46.87
Add :		
(i) Surplus in Profit & Loss Account as per last Balance Sheet	138.92	102.44
(ii) Transferred from Investment Allowance (utilised) Reserve	-	15.00
(iii) Transferred from Debenture Redemption Reserve	-	77.50
Net Profit available for appropriation	233.88	241.81
Appropriations		
(i) Proposed Dividend @ 35% (Previous year @ 30%)	24.23	20.77
(ii) Income Tax on Dividend	-	2.12
(iii) General Reserve	80.00	80.00
	104.23	102.89
Balance to be carried forward	129.65	138.92

2. THE YEAR IN RETROSPECT :

(A) Sales :

The Indian industry continued to face the recessionary conditions as a result of which demand continued to be sluggish and margins under pressure. The problem was further compounded by domestic and international unfortunate happenings. As a result, against a growth of 5.4% in terms of GDP for the year 2001-2002, the manufacturing sector could notch up a growth of just 3.3%.

However, the inherent strengths of a Company are usually evident during difficult times. As a result of aggressive cost cutting, better product mix and improvement in productivity, the year under review saw a commendable increase in the revenues and profitability of the Company. Gross Revenue for the year ended on 31st March 2002 was Rs. 2751 million as compared to Rs. 2348 million for the

previous year posting an overall growth of 17%. The Net Profit after tax for the year under review has also increased from Rs. 46.87 million to Rs.94.95 million reflecting an increase of 102% over the previous year.

Due to good monsoon, this year has been good one for Pesticides and could record a sale of Rs.903 million as compared to Rs.653 million in the previous year registering a growth of 38%.

(B) Exports :

In the background of mounting competition in the international market and especially in the aftermath of the post September 11 situation, increasing export turnover has been an uphill task. However, thanks to the spadework your company has done

SUDARSHAN CHEMICAL INDUSTRIES LIMITED

in the past, your Company's export strategy is paying good results.

Revenues from Exports for the year ended on 31st March 2002 amounted to Rs. 723 million as against Rs. 589 million for the previous year recording a growth of 23%.

3. DIVIDEND :

Your Directors are pleased to recommend Annual Dividend at 35%. This entails an outflow of Rs.24.23 million.

4. DIRECTORS :

Mr. T. Kumagai nominee of Dainippon Ink and Chemicals Inc. Japan retires by rotation and being eligible offers himself for reappointment.

Dr. Koji Oe who was appointed in the previous year as Director in the casual vacancy caused by the withdrawal of nomination of Mr. Y. Kawamura holds office upto the date of the ensuing Annual General Meeting. Dr. Koji Oe is nominee director of Dainippon Ink and Chemicals Inc., Japan, equity partners of the Company. His long standing experience and knowledge of the Pigment Industry is of great value to the Company.

Mr. Abhay N. Firodia, noted industrialist was appointed during the year as Director in the casual vacancy caused by the resignation of Mr. V.G. Rajadhyaksha. Mr. Abhay N. Firodia holds office upto the date of the ensuing Annual General Meeting. Mr. Abhay N. Firodia is Chairman and Managing Director of Bajaj Tempo Limited. His varied experience and knowledge is of immense benefit to the Company.

Notices have been received from a member proposing the candidature of Dr. Koji Oe and Mr. Abhay N. Firodia for the office of Director.

The Board of Directors, therefore, recommend their appointment as Directors of the Company.

5. DIRECTORS' RESPONSIBILITY STATEMENT :

In accordance with the requirement under section 217 (2AA) of the Companies Act, 1956 with respect to the Directors' Responsibility Statement, it is hereby confirmed :

- (i) that in the preparation of accounts for the financial year ended on 31st March 2002, the applicable accounting standards have been followed along with proper explanation relating to material departures;
- (ii) that the Directors have selected such accounting policies and applied them consistently and made judgements 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 the Profit and Loss Account of the Company for the year under review ;

- (iii) that the directors have taken proper and sufficient care 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) that the directors have prepared the annual accounts for the year under review on a going concern basis.

6. CORPORATE GOVERNANCE :

The Company has taken adequate steps to ensure that the mandatory requirements of the code of corporate governance are complied with.

A separate statement on Management Discussion and Analysis & report on Corporate Governance is produced as a part of the Annual Report along with the certificate of the Statutory Auditors, Messrs. B.K. Khare & Co., Chartered Accountants, Mumbai as stipulated in clause 49 of the listing agreement.

7. COMPANIES (DISCLOSURE OF PARTICULARS IN THE REPORT OF THE BOARD OF DIRECTORS) RULES, 1988 :

Information in accordance with Section 217(1) of the Companies Act, 1956 read with the Companies (Disclosure of Particulars in the Report of the Board of Directors) Rules, 1988 is given in the annexure and forms part of this report.

8. HUMAN RESOURCE DEVELOPMENT :

The Company attaches great importance to improving the quality of its people. During the year under review, your company continued to improve the effectiveness of its people through continuous training and other processes. Need based programmes were designed with emphasis on practical and conceptual training. Importance is also being placed on the training of middle level managers to facilitate the grooming of future managers of the Company.

The Company has also modified the Performance Review Management System to integrate it with corporate objectives. Each individual objectives are derived from major corporate objectives like profit targets, market share and strategic goals. All employees hence feel responsible and develop a sense of togetherness. This exercise will also facilitate identification of people with good potential so that they could be awarded challenging assignments and increased job responsibility.

SUDARSHAN CHEMICAL INDUSTRIES LIMITED

There are no employees drawing remuneration of Rs.0.2 million per month or Rs. 2.4 million per annum. Hence, particulars of employees pursuant to Section 217 (2A) of the Companies Act, 1956 is not annexed.

9. FIXED DEPOSITS :

During the year under review, the Company accepted deposits amounting to Rs. 19.77 million from the public. The total amount of deposits at the end of March 2002 stood at Rs. 87.20 million.

Out of the deposits amounting to Rs 0.79 million from 89 Depositors, which fell due for repayment but were unclaimed before 31st March 2002, an amount of Rs.0.28 million was subsequently renewed/claimed by the Depositholders. Balance amount of Rs. 0.51 million from 64 Depositholders remains unclaimed.

10. AUDITORS :

M/s. B.K. Khare & Co., Statutory Auditors of the Company are due to retire at the ensuing Annual General Meeting. Members are requested to consider reappointing them and to fix their remuneration.

11. QUALITY, SAFETY & ENVIRONMENT :

The Board is pleased to inform that the Pesticides Division of the Company has received the prestigious ISO 9001 certification from Bureau Veritas Quality International (BVQI). With this recognition, the Company has achieved the distinction of being a truly integrated and totally quality conscious Company. The Board owes this recognition to the dedicated efforts of the employees of the Company and the continuous focus in setting high standards of customer satisfaction. The Company has also initiated a series of measures to rejuvenate the quality system, to bring new life into it, with a view to meeting the needs of changing times.

Safety and environment aspects continue to occupy the pride of place in the organisational objectives. Towards this end, continuous review of all safety measures are undertaken periodically with a view to provide a safe and healthy environment. As informed to members earlier, the activities at Pune plant are being spruced up to meet the standards of ISO 14000, as a prelude to certification audit.

12. OUTLOOK FOR THE FUTURE :

Your Company has drawn up a strategic plan to achieve a sizeable growth in its turnover in the coming years. The plan among others includes introduction of new and value added products which are tailor made to meet customers requirements, re-engineering its existing operations with a clear focus on using emerging technologies and not the least, tightening of operating costs. As a direct off shoot, the immediate focus will be on increased Research and Development activities, which is expected to provide the much needed breakthrough technological products, in the field of Pigments and also Pesticides.

A normal monsoon is forecasted this year in line with last year and is expected to boost Pesticides sales. At the same time, weather experts also caution about the impact of the El Nino this year which characterizes excessive rains coupled with drought in some areas. It is hoped that the monsoon will be normal and widespread in line with the forecast.

Barring unforeseen circumstances, it is expected that the Company will register higher growth rate in terms of revenues and profitability.

13. APPRECIATION :

Your Directors acknowledge with thanks the valuable technical assistance and guidance of our Joint Venture partners Dainippon Ink & Chemicals Inc., Japan in the working of the Company. Your Directors also record their appreciation of the commitment and support of Employees at all levels and not the least the support of Agents, Distributors and Dealers of the Company.

Your Directors also acknowledge with thanks the co-operation and the assistance given by Bank of Maharashtra, State Bank of India, Bank of Baroda, ICICI Bank Ltd., HDFC Bank Ltd., EXIM Bank, Sumitomo Mitsui Banking Corporation, Mizuho Corporate Bank Ltd. and BNP Paribas.

For and on behalf of the Board of Directors
For SUDARSHAN CHEMICAL INDUSTRIES LTD.

Pune, 24th June 2002

DR. R. J. RATHI
CHAIRMAN

ANNEXURE TO DIRECTORS' REPORT : 2001-2002**FORM A — DISCLOSURE OF PARTICULARS WITH RESPECT TO CONSERVATION OF ENERGY****A. Power and Fuel Consumption :**

	2001-2002	2000-2001
1. Electricity		
(a) Purchased		
Units ('000 KWH)	28574	25822
Total Amount (Rs. in million)	113.44	105.11
Rate per unit (Rs.)	3.97	4.07
(b) Own Generation		
Units ('000 KWH)	204	252
Units per litre of diesel oil	3.17	3.04
Cost per unit (Rs.)	6.29	5.52
2. (a) Furnace Oil		
Quantity (K.Litres)	9184	9090
Total Amount (Rs. in million)	81.18	86.71
Average Rate (Rs./K.L.)	8840	9539
(b) LDO/HSD		
Quantity (K. Litres)	344	448
Total Amount (Rs.in million)	4.81	6.36
Average Rate (Rs./K.L.)	13974	14197

B. Consumption per unit of Production :

The Company's products comprise a wide range of diverse pigments, pesticides and intermediates. The product mix varies each year and the production process involves several operations in different plants. It is therefore not feasible to apportion the cost and consumption per unit of production.

FORM B — DISCLOSURE OF PARTICULARS WITH RESPECT TO TECHNOLOGY ABSORPTION**A. RESEARCH & DEVELOPMENT (R & D) :****1. Specific areas in which R & D has been carried out by the Company are :**

- Existing Pigments - Improvement in the quality and modifications to meet the customer's changing requirements.
- New grade of Pigments - Development and market introduction.

- Speciality Inorganic Pigments - Development and introduction of newer grades especially for export.
- Pesticides - Newer formulations and pilot plant trials of newer technical Pesticides and Intermediates.
- Speciality Chemicals - Development of speciality chemicals and Pilot Plant trials.
- Cost Reduction by Process improvement and energy saving work.
- Pollution Reduction - Specific projects to reduce pollution.

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

- Improvement in productivity and product quality.
- Export promotion and Import substitution.
- Improvement in safety, environment protection and energy saving.
- Cost reduction.
- Introduction of 28 new products.

3. Future plan of action :

Continued stress and efforts in R & D to achieve improvement in productivity, efficiency, quality and reduction in energy and pollution.

R & D will be concentrated on Export market requirement in speciality chemicals and inorganic Pigments.

4. Expenditure on R & D for 2001-2002 :

- Capital : Rs. 8.86 million
- Recurring : Rs. 26.22 million
- Total : Rs. 35.08 million
- Total R & D expenditure as a percentage of Total Turnover : 1.28%.

B. TECHNOLOGY ABSORPTION, ADAPTATION AND INNOVATION**1. Efforts, in brief, made towards technology absorption, adaptation and innovation:**

The technology absorbed from the collaborators and other available sources has been absorbed and effected after making modifications wherever necessary.

SUDARSHAN CHEMICAL INDUSTRIES LIMITED**2. Benefits derived as a result of above efforts :**

Benefits derived include improved quality, development of new products, import substitution and cost reduction.

3. Information concerning imported technology :

Technology imported	Year of Import	Status of absorption
For Organic Pigments and Intermediates from M/s. Dainippon Ink & Chemicals Inc., Japan.	1990-91	Absorption on a continuous basis.

4. Foreign Exchange Earnings & Outgo:

- (a) Total Foreign Exchange Earned : Rs. 729.70 million
- (b) Total Foreign Exchange Used : Rs. 158.43 million
- (c) Net Foreign Exchange Earned : Rs. 571.27 million

For and on behalf of the Board of Directors
For SUDARSHAN CHEMICAL INDUSTRIES LIMITED

Pune, 24th June 2002

DR.R.J.RATHI
CHAIRMAN



MANAGEMENT DISCUSSION AND ANALYSIS

Business of the Company - an overview :

The Company is mainly engaged in the manufacture of a wide range of Pigments and Pesticides and has its manufacturing facilities at Pune, Roha and Mahad. Roha and Mahad are in Raigad District. In 1989 the Company entered into equity partnership with Dainippon Ink & Chemicals Inc., Japan (DIC), who are one of the world leaders in the field of Organic Pigments. DIC also continues to give technical know-how for the manufacture of Organic Pigments.

The Company introduced its Total Quality Management (TQM) as early as in 1986 and it has implemented TQM in all the spheres of the business. The Company obtained ISO 9001 Certification in February 1993. Ours was the first chemical company in the country to get ISO certification. The ISO practices have been implemented in all the three plants and the procedures have been streamlined as per ISO. Mahad plant of the Company has received ISO 14000 certification in the last year. Thereafter the Company has implemented SAP R3 (ERP) and My SAP.Com

The Company has a large Research & Development Department employing approximately 80 technical persons in R & D. The R & D facilities have been recognized by the Department of Science & Technology, Government of India.

The Company has extensive sales and distribution network not only all over the country but also in many foreign countries.

Financial Review - 2001-2002 :

Please see Directors' Report.

Segment - Pigments :

The sales and other related income of the Pigment Segment was about Rs. 1834 million in the year 2001-2002, out of which about Rs.721 million was from exports.

The Company is one of the largest producers of Pigments in India. The Pigment Division manufactures a wide range of Pigments. The Company exports to USA, Canada, UK, France, Germany, Italy, Scandinavia, Japan, Taiwan, Hong Kong, Singapore, Australia, New Zealand and also to some of the Middle East countries. The exports are more than 25% of the turnover of the Company.

The Company has six Regional Offices in India and about 40 Selling Agents. It has also an overseas distribution network consisting of 37 agents.

Out of the total sales of Rs. 2698 million for the year ended 31st March 2002, Pigments accounted for Rs. 1795 million. The Operating Profit from Pigments stood at Rs. 286 million out of the total Operating Profit of Rs. 371 million.

Outlook :

The Pigment Sector is facing competition from both organized and small-scale sector in the country. Presently the industry is witnessing over-capacities. The Chinese competition is also a big threat. The per capita consumption of Paint, Printing Ink and Plastic industries, which use pigments, is low as compared to the consumption in the developed countries. As the standard of living continues to increase and the population is increasing at the rate of about 20 million people every year, the demand for the Paint, Printing Ink and Plastics will also increase. Thus the Pigment consumption is also expected to increase.

SUDARSHAN CHEMICAL INDUSTRIES LIMITED

The Company is concentrating on specialized niche market and developing many special Pigments for the Paint, Printing Ink, Plastic and Cosmetic industries.

Segment - Pesticides :

The sales of the Pesticides Segment was about Rs. 903 million in the year 2001-2002.

The Company started the Pesticides business as a diversification programme in 1982, which was dominated by multinationals in those days. The Company undertook the Pesticides manufacture with indigenous technology. It has a very good Research & Development Laboratory. It has added number of new molecules, which has increased the growth of this segment. The Company has some more new molecules in the pipeline, which will be produced in the future.

The Company has a wide distribution network all over the country. The Company has 19 depots, over 1,000 distributors and more than 30,000 retailers spread across the country to make the products available to farmers.

The Operating Profit from Pesticides stood at Rs. 85 million out of the total Operating Profit of Rs. 371 million.

Outlook :

The Pesticide Industry has also many players from the Organized Sector (and some of them are multinationals) as well as numerous small-scale formulators in the country. The use of pesticides in agricultural sector is increasing every year due to the education of the farmers by the pesticide industry. However, the pesticides business depends mainly on the monsoon. Last year we had good monsoon and we expect normal monsoon this year also. Barring unforeseen reasons, the Pesticide Segment is also expected to improve this year.

Internal Control Systems :

The Company has adequate internal control systems and procedures with regard to purchase of stores, raw materials including components, plant and machinery, equipment and other assets and for sale of goods. The Company has clearly defined roles and responsibilities for all managerial positions and all operating parameters are monitored and controlled. The system ensures that all the transactions are authorized, recorded and reported correctly.

The Company has an internal audit system commensurate with size and nature of its business. The Company has engaged two firms of Chartered Accountants, one firm for its internal audit function at Pune, Roha and Mahad and the other firm for all its branches. Reports of Internal Auditors are reviewed in the meetings of the Audit Committee of the Board. The Audit Committee also reviews adequacy of internal controls, procedures and risk management policies adopted by the Company. Compliance with laws and regulations is also ensured and confirmed and is also checked by the internal auditors of the Company and is reported to the Board.

Human Resources and Industrial Relations :

Please see Directors' Report.

Industrial relations continued to be harmonious throughout the year. The Company employed 1378 persons as on 31st March 2002, out of which 628 are diploma holders, graduates and postgraduates and 8 employees are Ph.Ds.