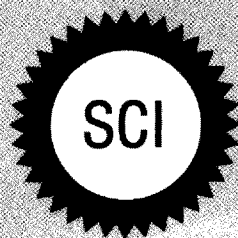
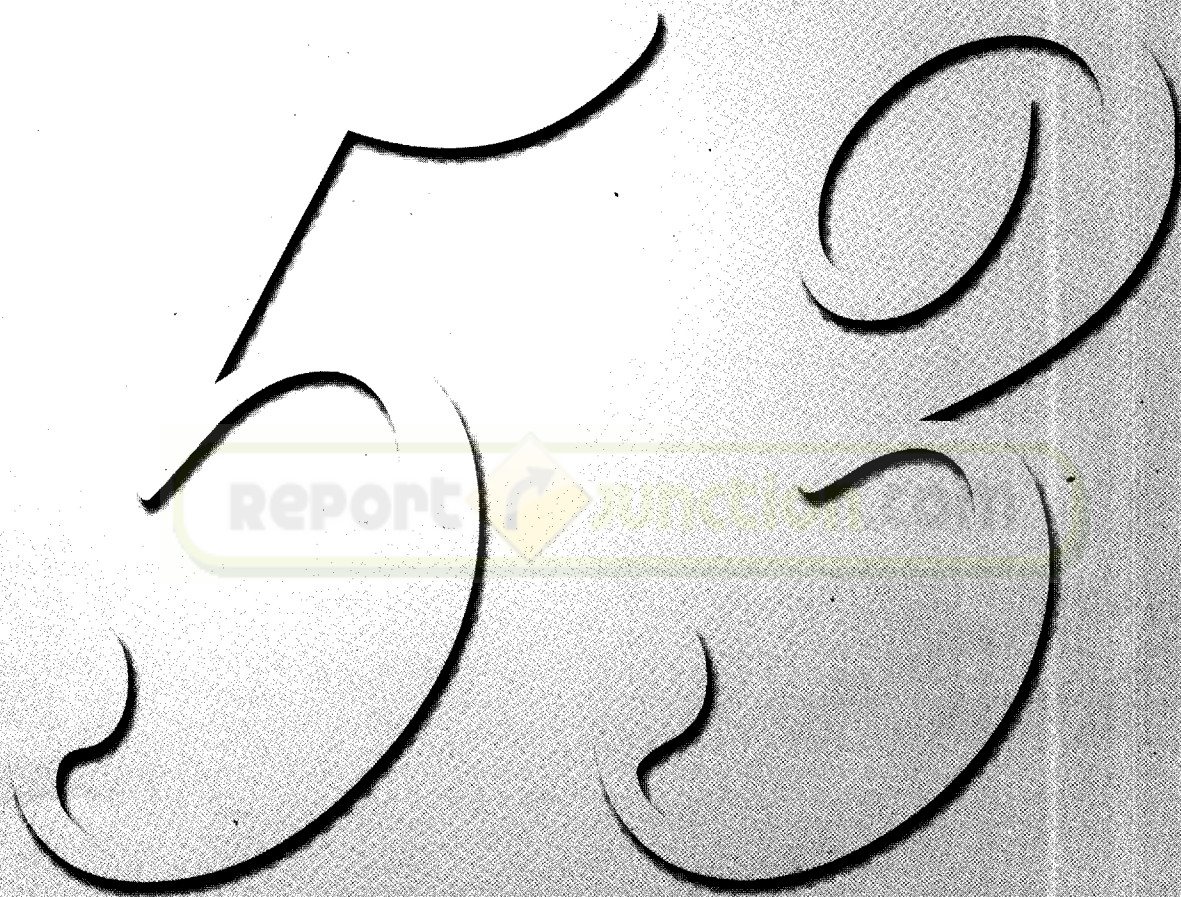


53<sup>rd</sup>

Annual Report  
2003-2004



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# SUDARSHAN CHEMICAL INDUSTRIES LIMITED

## FIFTY THIRD ANNUAL REPORT 2003-2004

### BOARD OF DIRECTORS

Mr. Balkrishna Jagannath Rath

Executive Chairman

Dr. Koji Oe

Alternate Mr. K. Kudo (w.e.f. 24/09/2003)

Mr. T. Tomiyama

Alternate Mr. H. Wakabayashi (w.e.f. 24/09/2003)

Mr. T. Tanaka (w.e.f. 24/09/2003)

Alternate Mr. K. Ideta (w.e.f. 24/09/2003)

Mr. N. Tsuji (w.e.f. 24/09/2003)

Alternate Mr. N. Miyake (w.e.f. 24/09/2003)

Dr. Neelkanth Annappa Kalyani

Mr. Bansibhai Sunderlal Mehta

Mr. Pralhad Parsram Chhabria

Mr. Dara Nadirshaw Damania

Mr. Shrikrishna Narhar Inamdar

Mr. Abhay Navalmal Firodia

Mr. Subramanian Padmanabhan

Mrs. Anupama Vinay Ranade

Nominee of ICICI Bank Ltd.

Mr. Kishor Laxminarayan Rath

Managing Director

Mr. Pradeep Ramvilas Rath

Managing Director

Mr. Narayandas Jagannath Rath

Director and Company Secretary

### BANKERS

Bank of Maharashtra

State Bank of India

Bank of Baroda

ICICI Bank Ltd.

HDFC Bank Ltd.

### AUDITORS

M/s. B. K. Khare & Company

Chartered Accountants

### REGISTERED OFFICE

162 Wellesley Road,

Pune 411 001 (India)

Phone : (020) 26127334

Gram : RANGSUNDAR, PUNE

Fax : (020) 26125900

**DIRECTORS' REPORT TO THE SHAREHOLDERS : 2003-2004**

Your Directors have pleasure in presenting their 53<sup>rd</sup> Annual Report together with the Audited Statement of Accounts for the year ended on 31<sup>st</sup> March 2004.

**1. FINANCIAL HIGHLIGHTS :**

<b>Particulars</b>	<b>2003-2004 (Rupees in million)</b>	<b>2002-2003 (Rupees in million)</b>
Gross Sales and Other Income	<b>3233.36</b>	2789.86
Gross Profit	<b>259.67</b>	258.29
Less: Depreciation	<b>123.80</b>	161.50
Profit before Tax and contingencies written back	<b>135.87</b>	96.79
Less: Provision for Taxation	<b>40.23</b>	31.63
Profit after Tax	<b>95.64</b>	65.16
Add : Surplus in Profit & Loss Account as per last Balance Sheet	<b>111.39</b>	129.65
Net Profit available for appropriation	<b>207.03</b>	194.81
Appropriations		
(i) Proposed Dividend @ 30% (Previous year @ 30%)	<b>20.77</b>	20.77
(ii) Income Tax on Dividend	<b>2.66</b>	2.66
(iii) General Reserve	<b>70.00</b>	60.00
	<b>93.43</b>	83.43
Balance to be carried forward	<b>113.60</b>	111.38

**2. THE YEAR IN RETROSPECT :****(A) Sales :**

The Indian Economy performed well during 2003-04. Your Company's performance for the year 2003-04 has also been good considering the challenging and highly competitive business environment in which it operates. Gross Revenue for the year ended on 31<sup>st</sup> March 2004 amounted to Rs. 3233 million as against Rs. 2790 million for the previous year recording a growth of 16 % over the previous year. Profit after tax has also increased from Rs. 65 million to Rs. 96 million registering a growth of 47 %. The increase in sales and profitability can be primarily attributable to the implementation of several management initiatives and to the Company's unflinching commitment to quality and customer satisfaction.

**(B) Exports :**

In spite of the uncertainties prevailing in the international market the Company was able to achieve growth in exports compared to the previous year. Exports for the year amounted to Rs. 957

million as against Rs. 867 million reflecting an increase of 10 %. The Company is continuing with the policy of identifying newer products and at the same time making all out efforts to further consolidate its position in the existing export markets.

**3. DIVIDEND :**

The Directors are pleased to recommend, subject to approval of members, a dividend @ 30% for the year ended on 31<sup>st</sup> March 2004. The total amount of dividend outgo (inclusive of dividend distribution tax @12.81 %) will be Rs. 23.43 million.

**4. DIRECTORS :**

Mr. Bansi S. Mehta, Director is due to retire by rotation at the ensuing Annual General Meeting and being eligible, offers himself for reappointment.

Mr. T. Tanaka and Mr. N. Tsuji, nominee Directors of Dainippon Ink and Chemicals Inc., Japan who were appointed in casual vacancy, hold office until the date of the ensuing annual general meeting. Notices have been



received from a member proposing the candidature of Mr. T. Tanaka and Mr. N. Tsuji for the office of Director.

The Board of Directors, 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 that :

- (i) in the preparation of accounts for the financial year ended on 31<sup>st</sup> March 2004, the applicable accounting standards have been followed along with proper explanation relating to material departures;
- (ii) 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 of the Company for the year under review;
- (iii) 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) the directors have prepared the annual accounts for the year under review on a going concern basis.

## 6. CORPORATE GOVERNANCE :

The Company has complied with the mandatory requirements of the code of corporate governance as detailed in clause 49 of the listing agreement.

A separate statement on Management Discussion and Analysis and Corporate Governance is enclosed as a part of the Annual Report along with the certificate of the Statutory Auditors, Messrs. B.K. Khare & Co., Chartered Accountants, Mumbai confirming compliance of the code of corporate governance 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 (HRD) & INDUSTRIAL RELATIONS :

Development of Human Resources has always been high on the Agenda of the Company given the complexity of the present business environment. Continuous improvements are effected in the skills and knowledge of employees through various training programs and new management concepts to equip employees with requisite skills and knowledge so as to face the challenges both present and future. During the year the Company restructured from a functional organisation to a divisional structure. This has resulted in better accountability and performance management.

The Board records its appreciation of the commitment and support of employees at all levels. As on 31<sup>st</sup> March 2004, the total number of employees of your Company was about 1344.

Particulars of employees pursuant to Section 217 (2A) of the Companies Act, 1956 are annexed.

## 9. FIXED DEPOSITS :

During the year under review, the Company accepted deposits amounting to Rs. 9.7 million from the public. The total amount of deposits at the end of March 2004 stood at Rs. 57.44 million.

Out of the deposits amounting to Rs. 0.90 million from 66 Depositors, which fell due for repayment but were unclaimed before 31<sup>st</sup> March 2004, an amount of Rs.0.47 million was subsequently renewed/claimed by the Deposit holders. Balance amount of Rs. 0.43 million from 31 Deposit holders 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 :

Quality Circle activities continue to form the mainstream of quality activities at all the plants of the Company. Jupiter Quality Circle of Roha has received "Best of the Best" award from the Quality Circle Forum of India, Maharashtra Chapter. Sheetal Quality Circle of Roha has also received the 1<sup>st</sup> Prize in Support Services from the Quality Circle Forum of India, Maharashtra Chapter. Jupiter and Sheetal Quality Circles have also received trophies for excellent presentation in the National Convention of Quality Circle held at Madurai.

During the year the management has introduced the concept of "Six Sigma" and "5S" in the organization. This along with host of other quality initiatives are

**SUDARSHAN CHEMICAL INDUSTRIES LIMITED**

expected to further strengthen the performance of the Company.

Safety education is being imparted to employees at all our locations. Safety and environmental audits are carried out on a regular basis in relation to all critical aspects of operations. Pune and Mahad factories are ISO 14001 certified and Roha factory is gearing up its activities to comply with ISO 14001 standards.

**12. OUTLOOK FOR THE FUTURE :**

The beginning of the current financial year points towards a positive growth for the industry in general. India being an agrarian economy much depends upon a normal monsoon. The forecast of a normal monsoon by the Meteorological department has kindled hopes of a good year for the Company.

Your Company has drawn up a strategic plan to achieve sizeable growth in turnover keeping in mind the opportunities as well as the constraints it has to confront, both domestic and international. Greater thrust is laid on R&D activities so as to improve the quality and reduce the cost of finished products. R&D dept. is poised to introduce value added products which are tailor made to meet specific requirements of customers. Introduction

of newer Pigments and Pesticides is also planned. The Company also undertakes on a continuous basis initiatives to improve the productivity of employees at all levels.

With implementation of above measures the Company expects better result in the current financial year.

**13. APPRECIATION :**

Your Directors acknowledge with thanks the co-operation of the equity partners Dainippon Ink & Chemicals Inc., Japan in the working of the Company. Your Directors also place on record their gratitude to Bank of Maharashtra, State Bank of India, Bank of Baroda, ICICI Bank Limited, HDFC Bank Ltd. and EXIM Bank for their co-operation and assistance. Directors are also grateful to the employees, shareholders, customers, suppliers and business associates of the Company for their continued co-operation and support.

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

B. J. RATHI  
EXECUTIVE CHAIRMAN

Pune, 30<sup>th</sup> June 2004

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**ANNEXURE TO DIRECTORS' REPORT : 2003-2004****FORM A — DISCLOSURE OF PARTICULARS WITH RESPECT TO CONSERVATION OF ENERGY****A. Power and Fuel Consumption :**

Particulars	2003-2004	2002-2003
<b>1. Electricity</b>		
(a) Purchased		
Units ('000 KWH)	<b>27781</b>	26725
Total Amount (Rs. in million)	<b>101.40</b>	102.21
Rate per unit (Rs.)	<b>3.65</b>	3.84
(b) Own Generation		
Units ('000 KWH)	<b>206</b>	313
Units per litre of diesel oil	<b>3.27</b>	3.19
Cost per unit (Rs.)	<b>6.90</b>	6.44
<b>2. (a) Furnace Oil</b>		
Quantity (K.Litres)	<b>8257</b>	9506
Total Amount (Rs. in million)	<b>85.89</b>	95.24
Average Rate (Rs./K.L.)	<b>10402</b>	10019
(b) LDO/HSD		
Quantity (K. Litres)	<b>265</b>	357
Total Amount (Rs.in million)	<b>5.06</b>	5.42
Average Rate (Rs./K.L.)	<b>19090</b>	15203
(c) Briquette		
Quantity (Tonnes)	<b>4701</b>	—
Total amount (Rs.in million)	<b>15</b>	—
Average Rate (Rs./Ton)	<b>3211</b>	—

**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 :**

- (a) Existing Pigments - Improvement in the quality and modifications to meet the customer's changing requirements.

- (b) New grades of Pigments - Development and market introduction.
- (c) Speciality Inorganic Pigments - Development and introduction of newer grades especially for export.
- (d) Pesticides - Newer formulations and pilot plant trials of newer technical Pesticides and Intermediates.
- (e) Speciality Chemicals - Development of speciality chemicals and Pilot Plant trials.
- (f) Cost Reduction by Process improvement and energy saving work.
- (g) Pollution Reduction - Specific projects to reduce liquid, solid and gaseous waste.

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

- (a) Improvement in productivity and product quality.
- (b) Export promotion and Import substitution.
- (c) Improvement in safety, environment protection and energy saving.
- (d) Cost reduction.
- (e) Introduction of 25 new products.

**3. Future plan of action :**

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

R & D will be concentrated on meeting changing customer requirement in existing pigments range and introduction of newer products in Pigments and agro chemicals.

**4. Expenditure on R & D for 2003-2004 :**

- (a) Capital : Rs. 7.50 million
- (b) Recurring : Rs. 27.62 million
- (c) Total : Rs. 35.12 million
- (d) Total R & D expenditure as a percentage of Total Turnover : 1.11%.

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

**SUDARSHAN CHEMICAL INDUSTRIES LIMITED**

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

**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. 936.23 million
- (b) Total Foreign Exchange Used : Rs. 358.23 million
- (c) Net Foreign Exchange Earned : Rs. 578.00 million

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

Pune, 30<sup>th</sup> June 2004

B.J.RATHI  
EXECUTIVE CHAIRMAN

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## 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 with manufacturing facilities at Pune, Roha and Mahad, Dist. Raigad. The Company has Dainippon Ink & Chemicals, Inc., Japan (DIC) as a partner since 1989. DIC is the world's largest ink, pigment and resin manufacturer.

The Company was the first chemical company in India to be awarded the ISO 9001 Certificate in 1991. Its Pune and Mahad plants have also been awarded the ISO 14001 Certificate. The Company has well established R&D laboratories approved by CSIR for pigments and pesticides. It has a wide distribution net work with stock points at more than 20 places in the country.

All the manufacturing plants and offices in the country are well connected and integrated with the help of Enterprise Resource Planning system (ERP).

### Financial review - 2003-2004

The Total Revenue for the year ended 31<sup>st</sup> March 2004 amounted to Rs. 3233 million as against Rs. 2790 million for the previous year. The Net Profit after tax for the year ended 31<sup>st</sup> March 2004 amounted to Rs. 96 million as compared to Rs. 65 million for the previous year registering a growth of 47%.

The Company has posted good result owing to a strong network of agents, distributors, continuous thrust on quality and service and also due to industrial recovery and a favourable monsoon.

### Segment I - Pigments

The Pigment Industry is fragmented with many manufacturers in the organized as well as unorganized sector. Presently, there is an over capacity, which has put pressure on prices and margins. In the domestic market, besides the local competition, there is also a threat of cheaper products imported from China.

The Company is one of the largest manufacturers of Pigments in India. The Pigment Division manufactures a wide range of Organic, Inorganic and Speciality Pigments catering to the domestic and export markets. The Company's Pigments are exported to most of the discerning markets in Europe, Americas and Asia. The manufacturing activity is carried out at Pune, Roha and Mahad factories.

The sales and other related income of the Pigment segment was about Rs. 2076 million in the year 2003 - 04 out of which about Rs. 946 million was from exports. The operating profit from Pigments stood at Rs. 265 million out of the total operating profit of Rs. 356 million.

### Opportunities and Developments

Pigment manufacturing is becoming more and more uncompetitive in developed countries like USA and Europe and hence capacities are being shifted to developing countries. As a result multinational companies are outsourcing supplies from developing countries like India and China. Hence this is an opportunity for the Indian manufacturers.

### Outlook

The company has been closely working with its partners Dainippon Ink and Chemicals Inc., Japan for exports of its pigments to the US and European markets. Several value added products are also being added keeping in mind specific requirements of customers.

The Company's R&D center is also developing several new products including in the field of high performance pigments area, to cater to some niche markets. The Company has also developed some speciality pigments over the years, which, have been received favourably in the domestic market. These products have been launched in the overseas markets.

Barring unforeseen reasons, the Company expects better result during the year 2004-2005.

## **Risks & Concerns**

As the exports increase, the fluctuating rupee can pose a risk. Further, imports from China and competition from the small scale industry may affect sales and profits.

## **Segment II - Pesticides**

The performance of the agro chemicals industry largely depends on the performance of the agriculture sector. The Industry has several players including multinationals and the level of competition is high. The last few years have witnessed consolidations in the form of mergers and amalgamations. R&D has become a key area as more and more companies go in for registration of newer molecules in the domestic and the international markets.

Consumption of agro chemicals in the country is very low by international standards and points to the growth potential. However domestic consumption greatly depends on a favourable monsoon.

The Agri - business performed well in 2003 - 2004 owing to reasonably good monsoon as well as sustained brand promotion activities carried out at the grassroots level. This has resulted in greater acceptance of our Products and higher brand recall. The introduction of Imidacloprid, ( brand name Tez ) has generated good sales and has assumed leadership position in a short time.

The sales of Pesticides segment was about Rs.1111 million in the year 2003 - 04. The operating profit from Pesticides stood at Rs. 91 million out of the total operating profit of Rs. 356 million.

Pesticides sales are seasonal and therefore there is need to maintain higher inventory levels, entailing higher working capital needs, consequently affecting margins.

## **Outlook**

The Company has in its range a basket of about 7 technical grade pesticides and over 25 formulations for different applications and is well positioned to take advantage of the growing opportunities ahead. A favourable monsoon this year is likely to give a boost to Pesticides sales.

This year is likely to see introduction of new products through our own R&D as well as belonging to other companies. The Company has also received registration of newer formulations/technical grades which it plans to manufacture. It is expected that strong brand presence of our products including older generation products should generate good revenue for the Company.

## **Risks and concerns**

Genetically modified crops like cotton could lead to reduced consumption of pesticides more so because cotton consumes a major portion of Pesticides in India. However the impact is likely to be borne by older generics, which will be more than offset by the newer products.

Even though farmers have become increasingly brand conscious, the entry of low priced imported pesticides products from China is a matter of concern.

## **Internal Control Systems**

The Company has adequate internal control procedures commensurate with its size and nature of business. The Company's internal auditors carry out extensive audits throughout the year. The prime objective of such audits is to test the adequacy and effectiveness of all internal control systems. Pre-audit /post audit checks and reviews are carried out to ensure follow -up and compliance on the observations made.

The Audit Committee also reviews adequacy of internal controls, procedures and risk management practices 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. The committee also recommends improvement and extension of the scope of the internal audit, if necessary.