

54th

Annual Report

2004-2005

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SUDARSHAN CHEMICAL INDUSTRIES LIMITED

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SUDARSHAN CHEMICAL INDUSTRIES LIMITED

FIFTY FOURTH ANNUAL REPORT 2004-2005

BOARD OF DIRECTORS

Mr. Balkrishna Jagannath Rath	Executive Chairman
Dr. Koji Oe (Ceased w.e.f. 10/12/2004)	
Alternate Mr. K. Kudo (Ceased w.e.f. 10/12/2004)	
Mr. T. Tomiyama (Ceased w.e.f. 10/12/2004)	
Alternate Mr. H. Wakabayashi (Ceased w.e.f. 10/12/2004)	
Mr. T. Tanaka (Ceased w.e.f. 10/12/2004)	
Alternate Mr. K. Ideta (Ceased w.e.f. 10/12/2004)	
Mr. N. Tsuji (Ceased w.e.f. 10/12/2004)	
Alternate Mr. N. Miyake (Ceased w.e.f. 10/12/2004)	
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	Vice Chairman & Wholtime Director
Mr. Pradeep Ramwilas 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, Maharashtra State (India)
Phone : (020) 26127334
Gram : RANGSUNDAR, PUNE
Fax : (020) 26125900

SUDARSHAN CHEMICAL INDUSTRIES LIMITED

DIRECTORS' REPORT TO THE SHAREHOLDERS : 2004-2005

Your Directors have pleasure in presenting their 54th Annual Report together with the Audited Statement of Accounts for the year ended on 31st March 2005.

1. FINANCIAL HIGHLIGHTS :

Particulars	2004-2005 (Rupees in million)	2003-2004 (Rupees in million)
Gross Sales and Other Income	3751.23	3233.36
Gross Profit	333.24	259.67
Less: Depreciation	119.84	123.80
Profit before Tax and contingencies written back	213.40	135.87
Less: Provision for Taxation	65.48	40.23
Profit after Tax	147.92	95.64
Add : Surplus in Profit & Loss Account as per last Balance Sheet	113.60	111.39
Net Profit available for appropriation	261.52	207.03
Appropriations		
(i) Interim dividend @ 30% paid during February, 2005	20.77	—
(ii) Final dividend proposed @ 30% (Previous year @ 30%)	20.77	20.77
(iii) Income Tax on Interim & Final Dividend	5.68	2.66
(iv) General Reserve	100.00	70.00
	147.22	93.43
Balance to be carried forward	114.30	113.60

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

Monsoon was marginally lower in the year 2004-05. Further, the spiralling oil prices resulted in increased input costs which could not be absorbed entirely in the selling prices of the Company's products. However your Company was able to capitalize the opportunities thrown open by a growing economy. Operational efficiencies improved considerably on account of cumulative efforts of a slew of management initiatives taken in the last few years. This has resulted in good performance for the year 2004 - 2005. Gross Revenue for the year ended 31st March 2005 amounted to Rs. 3751 million as against Rs. 3233 million achieved during the previous year thereby recording a growth of 16 %. Profit after tax has also increased significantly from Rs. 96 million to Rs. 148 million thereby registering a growth of 54%.

the year, Company registered an export turnover of Rs. 1098 million as against Rs. 957 million achieved during the last financial year reflecting an increase of 15 %. The export market continues to witness stiff price competition putting pressure on margins. The focus is to stay cost effective and competitive and at the same time identify new export markets.

The Board of Directors is pleased to inform that the Company has been awarded the "Two Star Export House" status by the Joint Director General of Foreign Trade in recognition of the Company achieving an export turnover of over Rs. 1000 Million in the year under review.

(B) Exports :

The Company's thrust on identifying new markets and developing high value customized products for its customers continues to yield good results. During

3. DIVIDEND :

During the year under review the Company had declared an interim dividend of Rs. 3/- per equity share (30%) aggregating to Rs. 20.77 million. Considering the good performance, the Directors are pleased to recommend, subject to approval of the members, a final dividend of

Rs. 3/- per share (30%) for the year ended 31st March 2005. This will take the total dividend declared for the year under review to Rs. 6/- per share (60%). The total outgo on account of dividend @ 60%, dividend distribution tax @14.03 % will be Rs. 47.22 million for the year under review.

4. NEW RELATIONSHIP WITH DAINIPPON INK AND CHEMICALS INC, JAPAN :

Members are aware that Dainippon Ink and Chemicals Inc. (DIC) Japan have for global and strategic reasons entered into an Agreement terminating the Collaboration agreement with the Company and the Shareholders Agreement with Rath Group (Promoters). Consequentially, DIC has divested 14,51,700 equity shares of Rs. 10/- each aggregating 20.97% of the paid up equity capital of the Company in favour of Rath Group and will continue to hold 5,57,989 equity shares aggregating 8.06% of the paid up capital. Consequent to the Agreement, DIC has withdrawn their nominees on the Board of Directors of the Company.

The Company appreciates the harmonious relationship it has enjoyed with DIC in the past and is confident that the same spirit of co-operation will continue in the future also.

DIC will continue to import the pigments manufactured by the Company and also entrust the Company with Toll Manufacture of certain pigments as well as R & D work to develop specific pigments.

5. DIRECTORS :

The Board of Directors places on record their appreciation of the guidance and advice received from Dr.Koji Oe, Mr.T.Tomiyama, Mr.T.Tanaka, Mr.N.Tsuji, Mr.K.Kudo, Mr.H.Wakabayashi, Mr.K.Ideta and Mr.N.Miyake nominees of DIC, during their association with the Company.

Mr. A.N.Firodia, Director, retires by rotation at the ensuing Annual General Meeting and being eligible, offers himself for reappointment.

6. 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 31st March 2005, 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.

7. CORPORATE GOVERNANCE :

The Company is committed to creating value for all its stakeholders. Further, 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, M/s. B.K. Khare & Co., Chartered Accountants, Mumbai confirming compliance of the code of Corporate Governance as stipulated in Clause 49 of the Listing Agreement.

8. 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.

9. HUMAN RESOURCE DEVELOPMENT & INDUSTRIAL RELATIONS :

The present business environment necessitates the need for setting up a learning organization to keep pace with the changing times and challenges posed by integration of the Indian economy with the global economy. Continuous changes are effected through various training programs mainly with the aim of achieving value addition and updation of technology.

The Company has also undertaken a major human resources initiative by strengthening the Performance Management system. The implementation of SAP HR module will also provide a platform to launch more initiatives in future.

SUDARSHAN CHEMICAL INDUSTRIES LIMITED

Industrial relations continue to remain cordial at all the three plants of the Company. The Board records its appreciation of the commitment and support of employees at all levels.

Details of employees drawing remuneration of Rs. 0.2 million per month or Rs. 2.4 million per annum are given in the annexure and they form a part of this report.

10. FIXED DEPOSITS :

During the year under review, the Company accepted deposits amounting to Rs. 4.35 million from the public. The total amount of deposits at the end of March 2005 stood at Rs. 34.54 million.

Out of the deposits amounting to Rs. 0.61 million from 47 Depositors, which fell due for repayment but were unclaimed before 31st March 2005, an amount of Rs. 0.24 million was subsequently renewed/claimed by the Deposit holders. Balance amount of Rs. 0.37 million from 30 Deposit holders remains unclaimed.

11. 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 authorise the Board of Directors to fix their remuneration.

12. SAFETY, ENVIRONMENT AND QUALITY :

The Company accords top priority to Safety, Health and Pollution control. Safety education is being imparted to employees at all locations of the Company. Safety and environmental audits are also carried out on a regular basis in relation to all critical aspects of operations.

It is a matter of pride to inform you that all the three factories of the Company are certified ISO 14001 by BVQI which is primarily an environment management system. However, not resting on these laurels, the Company has made its Mahad Factory OHSAS 18001 compliant. This recognition granted by BVQI is a testimony to the emphasis laid by the Company to reduce occupational risks in work area besides focussing on increased health and safety.

Members will be pleased to know that the Dyestuff Management Association of India has bestowed the Company with an award in recognition of excellent

performance in pollution control by large scale unit for the year 2004-2005.

During the year the management made major strides in the implementation of "Six Sigma" and "5S" in the organization. This along with a host of other quality initiatives are expected to further strengthen the performance of the Company.

13. OUTLOOK FOR THE FUTURE :

Excess pigment capacities have always been a cause for concern since it puts pressure on margins. The challenge is to push volumes so that greater operational efficiencies can be achieved. The new Patent regime offers opportunities as well as challenges for the Agro Chemicals sector. Efforts are concentrated in developing new molecules in place of ageing molecules which have outlived their utility. The Company has also identified Speciality Chemicals as an area which offers lot of opportunities for growth.

The focus of the Company is introduction of cost effective and competitive products besides value added products to suit specific requirements. Research and Development activities are fully geared up to meet the challenges and are expected to provide the much needed breakthrough technological products. This along with other planned measures should help the Company post better top line and bottom line growth in the current year.

14. APPRECIATION :

Your Directors acknowledge with thanks the co-operation of 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 Limited, EXIM Bank, Mizuho Corporate Bank Limited and BNP Paribas for their co-operation and assistance. Your Directors are also grateful to the shareholders, customers, employees, 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.

Pune, 25th June 2005

B. J. RATHI
EXECUTIVE CHAIRMAN

ANNEXURE TO DIRECTORS' REPORT : 2004-2005**FORM A — DISCLOSURE OF PARTICULARS WITH RESPECT TO CONSERVATION OF ENERGY****A. Power and Fuel Consumption :**

Particulars	2004-2005	2003-2004
1. Electricity		
(a) Purchased		
Units ('000 KWH)	30982	27781
Total Amount (Rs. in million)	107.50	101.40
Rate per unit (Rs.)	3.47	3.65
(b) Own Generation		
Units ('000 KWH)	262	206
Units per litre of diesel oil	3.28	3.27
Cost per unit (Rs.)	8.12	6.90
2. (a) Furnace Oil		
Quantity (K.Litres)	5998	8257
Total Amount (Rs. in million)	65.77	85.89
Average Rate (Rs./K.L.)	10965	10402
(b) LDO/HSD		
Quantity (K. Litres)	248	265
Total Amount (Rs.in million)	5.94	5.06
Average Rate (Rs./K.L.)	23919	19090
(c) Briquette		
Quantity (Tonnes)	12208	6446
Total amount (Rs.in million)	31	15
Average Rate (Rs./Ton)	2529	2342

B. Consumption per unit of Production :

The Company's products comprise of 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 grades 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 liquid, solid and gaseous waste.

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

- Improvement in productivity and product quality.
- Capacity increase in existing plants exports.
- Improvement in safety, environment protection and energy saving.
- Cost reduction.
- Introduction of 30 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 meeting changing customer requirement in existing pigments range and introduction of newer products in Pigments, Agro chemicals and Speciality Chemicals.

4. Expenditure on R & D for 2004-2005 :

- Capital : Rs. 2.29 million
- Recurring : Rs. 33.18 million
- Total : Rs. 35.47 million
- Total R & D expenditure as a percentage of Total Turnover : 0.92%.

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 implemented 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, cost reduction and increase in exports.

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. 978.70 million
- (b) Total Foreign Exchange Used : Rs. 490.43 million
- (c) Net Foreign Exchange Earned : Rs. 488.27 million

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

Pune, 25th June 2005

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 manufacturing and processing of a wide range of Organic and Inorganic Pigments, Pearl Pigments, Intermediates, Pesticides, Agro Chemicals and other products with manufacturing facilities at Pune, Roha and Mahad, Dist. Raigad, Maharashtra.

The Company was the first chemical Company in India to be awarded the ISO 9001 Certificate in the year 1991. Its Pune, Roha and Mahad plants have also been awarded the ISO 14001 Certificate. The Mahad plant has been recently certified OHSAS 18001 by BVQI for implementing systems aimed at reducing occupational risks in work area besides focussing on health and safety. The Company has well established R & D laboratories approved by CSIR for pigments and pesticides. It has a wide distribution net work in India as well as abroad with stock points at more than 20 places in the country.

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

Financial review - 2004-2005

The Total Revenue for the year ended 31st March, 2005 amounted to Rs. 3751 million as against Rs. 3233 million for the previous year showing a growth of 16%. The Net Profit after tax for the year ended 31st March, 2005 amounted to Rs 148 million as compared to Rs. 96 million for the previous year registering an impressive growth of 54%.

During the year under review, the raw material costs have increased substantially due to increase in oil prices. Despite this, the overall profits have increased because of increase in operational efficiencies and sales quantities in both the segments.

Segment I - Pigments

1. Industry Structure and Developments

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 domestic and export markets. The Company's Pigments are exported to most of the discerning markets in Europe, America and Asia. The manufacturing activity is carried out at Pune, Roha and Mahad factories.

The world Pigment market stands at US\$ 4 Billion. The Indian market for organic pigments stands at US \$ 60 million i.e. Rs. 300 crores. There is an excess of pigment capacity worldwide of about 25%. This results in intense price competition especially in the commodity segments.

2. Opportunities and Threats

American, European and Japanese manufacturers of pigments are finding their manufacturing costs to be higher compared to the costs in China and India. Hence there is a gradual shift of capacities to China and India and this provides an opportunity to Indian manufacturers, provided they can be competitive with China.

The Indian manufacturers face major threat from Chinese manufacturers who in case of certain pigments have larger scale plants and while pricing their products they take into account mainly the variable costs.

The surge in oil prices as a consequence of increased global demand has resulted in increase in the prices of petro chemical based raw materials. The year under review has also seen substantial increase in steel prices. There are many metals such as Molybdenum and Selenium which go into the manufacture of Steel Alloys and consequently have shown steep increase in prices and their availability. These metals are used in the manufacture of Inorganic pigments and has resulted in substantial increase in raw material costs. Due to extreme competitive conditions, only a partial rise in the raw material costs could be passed on to the consumers.

SUDARSHAN CHEMICAL INDUSTRIES LIMITED**3. Performance**

The sales and other related income of the Pigment segment was about Rs. 2346 million in the year 2004-05 out of which about Rs.1098 million was from exports. This when compared with the last year shows an increase of 11% in domestic sales and 16% in export sales.

4. Outlook

As a strategic supplier to DIC, Japan and Sun Chemicals, USA there are many opportunities which are being studied. Extensive cost reduction programs have been undertaken with the help of techniques such as Six Sigma. Research & Development is focussed more on producing high performance pigments and pigments required for niche markets. As a consequence of all these actions, the Company expects better results during the current year.

Segment II - Pesticides**1. Industry Structure and Developments**

The industry is highly competitive with representation of many large multinational corporations (MNCs) as well as Indian Companies. Besides, the presence of a large number of formulators provides a further edge to the competition. The year under review witnessed a marginally low rainfall though there was no impact on the sales.

2. Opportunities and Threats

Due to the introduction of new products and technologies such as Bt cotton, there is a severe pressure on generic pesticides which are manufactured by Indian Companies. The introduction of new molecules by multinationals served to fragment the market for generics even further. The imports from China in a fairly substantial quantities served to depress the finished product prices even for newly off patent molecules.

The pressure on margins was further accentuated by a rise in cost of inputs because of spiralling crude oil prices.

3. Performance

The Pesticides Division performed well despite these setbacks due to increased brand promotion activities and the resultant rise in demand for most of our key products including Triazophos (Sutathion), Imidacloprid (Tez) and Alphamethrin (Axis). The introduction of new products such as Bismark (Acetamiprid) helped sustain the growth. The sales and other related income of the segment was about Rs.1359 million in the year 2004-05 as compared to Rs. 1111 million for the previous year. This when compared with the last year shows an increase of 22%.

4. Outlook

The Company has increased its range of product offerings and services to the farming community. The excellent product quality backed by sustained brand and product promotion over many years in the field have resulted in an appreciable rise in demand for our products.

The company continues to invest in R&D and market development activities, which would see a further increase in the range of products offered. Simultaneously, attention is being given to retain our product leadership in various segments.

The poor rains forecast in June and July 2005 could have an adverse impact on the sowing of key crops in the rainfall dependant areas. However, due to the reasons mentioned viz. new products and product promotion, our sales should continue to grow.

Human Resource Development

For details please refer Directors Report. As on 31st March 2005 a total of 1344 persons were employed by the Company.