

55th

**Annual Report
2005-2006**



SUDARSHAN CHEMICAL INDUSTRIES LIMITED

SUDARSHAN CHEMICAL INDUSTRIES LIMITED

FIFTY FIFTH ANNUAL REPORT 2005-2006

BOARD OF DIRECTORS

Mr. Balkrishna Jagannath Rathi	Executive Chairman
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 Rathi	Vice Chairman & Wholetime Director
Mr. Pradeep Ramwilas Rathi	Managing Director
Mr. Narayandas Jagannath Rathi	Director and Company Secretary

* Ceased to be Director w.e.f. 22/03/2006

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,
Mumbai.

REGISTERED OFFICE

162 Wellesley Road,
Pune 411 001, Maharashtra State (India)

Phone : (020) 26058888
Gram : RANGSUNDAR, PUNE
Fax : (020) 26058222

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SUDARSHAN CHEMICAL INDUSTRIES LIMITED

DIRECTORS' REPORT TO THE SHAREHOLDERS : 2005-2006

Your Directors have pleasure in presenting their 55th Annual Report together with the Audited Statement of Accounts for the year ended on 31st March 2006.

1. FINANCIAL HIGHLIGHTS :

Particulars	2005-2006 (Rupees in million)	2004-2005 (Rupees in million)
Gross Sales and Other Income	4012.73	3751.23
Gross Profit	266.81	333.24
Less: Depreciation	117.56	119.84
Profit before Tax and contingencies written back	149.25	213.40
Less: Provision for Taxation	46.75	65.48
Profit after Tax	102.50	147.92
Add : Surplus in Profit & Loss Account as per last Balance Sheet	114.30	113.60
Net Profit available for appropriation	216.80	261.52
Appropriations		
(1) Interim dividend Nil (previous year @ 30% paid during February, 2005)	-	20.77
(2) Dividend proposed @ 50% (previous year final dividend paid @ 30% during August, 2005)	34.61	20.77
(3) Income Tax on Dividend	4.86	5.68
(4) General Reserve	70.00	100.00
	109.47	147.22
Balance to be carried forward	107.33	114.30

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

Gross Revenue for the year ended 31st March 2006 amounted to Rs. 4013 million as against Rs. 3751 million achieved during the previous year . Profit after tax for the year ended 31st March, 2006 was Rs.103 million as against Rs. 148 million earned during the previous year .

Adverse climatic conditions on account of erratic rainfall in several parts of the country as also poor pest infestation affected the performance of the Agro Chemicals Division which constitutes about half of the total domestic sales . Pigment Division also recorded lesser margins inspite of posting higher sales primarily on account of resistance to price increases .

All these factors put together had an impact on the overall revenues and profitability. Nevertheless to say, the performance of the Company viewed in the background of difficult operating conditions is considered satisfactory.

(B) Exports :

The Pigment export market continues to witness stiff competition from other competitors in the developed countries . During the year , Company registered an export turnover of Rs. 1185 million as against Rs. 1098 million achieved during the previous financial year reflecting a growth of 8%.

The focus will be more on the export of High Performance Pigments and exploring new markets such as Africa , Russia and South America. Setting up an integrated distribution network in these markets will be an equally challenging task. Developing customised products is also high on the agenda .

3. DIVIDEND :

Considering the overall performance of the Company , the Directors are pleased to recommend , subject to approval of the members, dividend of Rs. 5 per share (50%) for

the year ended 31st March 2006 . The total outgo on account of dividend @50%, dividend distribution tax @ 14.03% will be Rs. 39.47 million for the year under review.

4. DIRECTORS :

Mr. B. J. Rath, Director will be the Non Executive Chairman of the Company from 1st July 2006. The Company will continue to have the benefit of his guidance and advice in the capacity of Non Executive Chairman.

The Board expresses its gratitude of the guidance and advice received from Mr. B. J. Rath, Director in the capacity of Wholtime Director of the Company.

During the year under review, the nomination of Mrs. Anupama V. Ranade on Board of the Company was withdrawn by ICICI Bank Limited .The Board of Directors place on record its appreciation of the assistance and guidance given by Mrs. Anupama V. Ranade during her tenure as Director of the Company.

Dr. N.A. Kalyani, Mr. P.P. Chhabria and Mr. S.N. Inamdar, Directors of the Company , retire by rotation at the ensuing Annual General Meeting and being eligible , offer themselves for reappointment.

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 31st March 2006 , 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 Board is pleased to inform that the Company has complied with the mandatory requirements of the substituted code of corporate governance as detailed in Clause 49 of the Listing Agreement which has become effective from 1st January 2006 .

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 .

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 & INDUSTRIAL RELATIONS :

The present business environment demands continuous value addition and updation of technology on the Human Resources front. Last year, the Company had conducted an Employee Opinion Survey. In response to the feedback, the Company has initiated several measures to strengthen the HR function . Some of the major training initiatives initiated during the year include Six Sigma, Design of Experiments, Lean Manufacturing and Voice of Customer.

The Company has also undertaken a major Human Resources initiative by strengthening the Performance Linked Management system through Balanced Scorecard . As informed earlier the implementation of SAP HR module will provide the base for more HR initiatives in future .

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.

9. FIXED DEPOSITS :

During the year under review, the Company accepted deposits amounting to Rs.5.87 million from the public. The total amount of deposits at the end of 31st March 2006 stood at Rs. 28.37 million.

Out of the deposits amounting to Rs.0.29 million from 23 Depositors, which fell due for repayment but were unclaimed before 31st March 2006, an amount of Rs.0.02 million was subsequently renewed/claimed by the Deposit holders. Balance amount of Rs. 0.27 million from 21 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 authorise the Board of Directors to fix their remuneration.

11. SAFETY AND ENVIRONMENT :

Safety and Environment aspects continue to occupy a pivotal place in the organisational objectives. Towards this end, continuous review of all safety measures are undertaken periodically. It is a matter of pride to inform you that The Safety Award Committee under the Chairmanship of Dr. Kumar Mangalam Birla, Chairman, National Safety Council (NSC) in October 2005 declared Roha factory as the winner of the "Suraksha Puraskar" 2004 for developing and implementing very effective occupational safety & health management systems and procedures and for achieving good performance. This recognition is a testimony to the commitment of the Company to reduce occupational risks in work area besides focusing on increased health and safety.

12. OUTLOOK FOR THE FUTURE :

The future outlook for the domestic pigment industry looks good as there is a good growth in the printing ink, paint and plastic market.

On the Pigment export front, Sudarshan's relationship with its strategic partners Dainippon Ink & Chemicals, Inc., Japan and SUN Chemicals, U.S.A. continues to be very good and there are many opportunities for new businesses. The Middle East markets are also showing good signs of growth where Sudarshan has a strong presence.

The Meteorological Department has forecasted a slightly below average rainfall. Initial reports about the onset of monsoon in the country are, however, not in conformity with the forecast. It is hoped that the monsoon will be widespread and in line with the forecast. The new variety of Bt cotton will affect the sale of insecticides which are required for the control of bollworms on cotton. However the consumption of insecticides for sucking pest and plant nutrients shall increase. The Company is poised for these pesticides in its range. The Company has also diversified its attention to other crop segments like paddy and vegetables. This strategy will increase the overall sales of its agrochemicals.

To rein in adversities, new business models have been formulated. Emphasis is also being given to develop the Speciality Chemical business. Your Company is implementing a strategy to achieve quantum growth in revenues and profitability in the coming years. The plan, among others, includes introduction of new and value added products, re-engineering its existing operations with a focus on using emerging technologies and not the least, reduction in costs. Research and Development activities are also expected to provide the much needed cutting edge technological products, in the field of Pigments, Pesticides and Speciality Chemicals.

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 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 LIMITED

Pune, June 30, 2006

B. J. RATHI
EXECUTIVE CHAIRMAN

ANNEXURE TO DIRECTORS' REPORT : 2005-2006**FORM A — DISCLOSURE OF PARTICULARS WITH RESPECT TO CONSERVATION OF ENERGY****A. Power and Fuel Consumption :**

Particulars	2005-2006	2004-2005
1. Electricity		
(a) Purchased		
Units ('000 KWH)	29433	30982
Total Amount (Rs. in million)	105.10	107.50
Rate per unit (Rs.)	3.57	3.47
(b) Own Generation		
Units ('000 KWH)	418	262
Units per litre of diesel oil	3.28	3.28
Cost per unit (Rs.)	10.88	8.12
2. (a) Furnace Oil		
Quantity (Tonnes)	5791	5758
Total Amount (Rs. in million)	85.73	65.77
Average Rate (Rs./Ton)	14805	11422
(b) LDO/HSD		
Quantity (K. Litres)	302	248
Total Amount (Rs.in million)	9.45	5.94
Average Rate (Rs./K.L.)	31305	23919
(c) Agro Waste Based Fuel		
Quantity (Tonnes)	11495	12208
Total amount (Rs.in million)	33.03	30.87
Average Rate (Rs./Ton)	2873	2529
(d) Coal		
Quantity (Tonnes)	42.66	—
Total Amount (Rs. in million)	0.14	—
Average Rate (Rs./Ton)	3213	—

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) High Performance Pigments – Development Work.
- (d) Speciality Inorganic Pigments – Development and introduction of newer grades especially for export.
- (e) Pesticides – Newer formulations and pilot plant trials of newer technical Pesticides and Intermediates.
- (f) Specialty Chemicals – Development of speciality chemicals and Pilot Plant trials.
- (g) Cost Reduction by Process improvement and energy saving work.
- (h) 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) Capacity increase in existing plants for exports.
- (c) Improvement in safety, environment protection and energy saving.
- (d) Cost reduction.
- (e) Introduction of 35 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 requirements in existing pigments range and introduction of newer products in Pigments, Agro Chemicals and Speciality Chemicals .

4. Expenditure on R & D for 2005-2006 :

- (a) Capital : Rs. 6.0 million
- (b) Recurring : Rs. 39.9 million
- (c) Total : Rs. 45.9 million
- (d) Total R & D expenditure as a percentage of Total Turnover : 1.16 %.

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

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

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. 1244.39 million

(b) Total Foreign Exchange Used : Rs. 617.70 million

(c) Net Foreign Exchange Earned : Rs. 626.69 million

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

Pune, June 30, 2006

B.J.RATHI
EXECUTIVE CHAIRMAN



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, 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 certified as OHSAS 18001 by BVQI for implementing systems aimed at reducing occupational risks in work areas besides focusing on health and safety. The Company has well established R & D laboratories recognised by Department of Scientific & Industrial Research (DSIR). 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 - 2005-2006

The Total Revenue for the year ended 31st March, 2006 amounted to Rs. 4013 million as against Rs.3751 million for the previous year. The Net Profit after tax for the year ended 31st March, 2006 amounted to Rs. 103 million against Rs.148 million for the previous year.

The Company has an internal audit system and procedures commensurate with the size and nature of its business.

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.

There is an excess of pigment capacity worldwide. This results in intense price competition especially in the commodity segments.

2. Opportunities and Threats

Pigment manufacturers in the developed countries, owing to high manufacturing costs and stringent environment control regulations are shifting their manufacturing bases to developing countries. India has been one of the beneficiaries with the overseas companies setting up their manufacturing bases in India or tying up with domestic companies. This provides an opportunity to Indian manufacturers.

The Indian manufacturers, however, face major threat from Chinese manufacturers who price their products aggressively, mainly with the aim of warding off competition. The unorganised sector also poses a major threat as they are able to manufacture Pigments with lesser overheads as compared to established players.

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 increase in metal steel prices. These metals are used in the manufacture of Inorganic pigments and has resulted in substantial increase in raw material costs. This has affected margins considerably, as the increase in the raw material costs could not be totally passed on to the consumers.

3. Performance

The sales and other related income of the Pigment segment was about Rs. 2645 million in the year 2005-06 out of which about Rs. 1185 million was from exports. This when compared with the last year reflects an increase of 17% in domestic sales and 8% 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 focused 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.

5. Risks and concerns

Globally there is surplus capacity available. As a result, margins are under pressure on account of intense competition. The unorganised sector also poses a major threat on the domestic sales of pigments as they are able to sell at lower prices as compared to the organised sector.

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

The year under review witnessed erratic rainfall and extremely low infestation of cotton bollworms. This resulted in a significant reduction in sales of most insecticides used for controlling this pest.

Most companies responded by dropping prices. Both factors – drop in demand and reduction in prices are estimated to have resulted in the contraction of the industry to about Rs.3,600 crores in the year 2005-06 compared to previous years sales of about Rs.4,000 crores.

2. Opportunities and Threats

There was a further pressure on the sales of the products due to the expansion in the areas under genetically modified crops such as Bt cotton. This has resulted in the change in the pest complex appearing on the cotton crop. Multi-national corporations have benefited through the introduction of new molecules from their large pool of new products. Imports from China constitute another threat to top line as well as the margins.

However, the onset of new pests on cotton due to Bt cotton and the shift to alternate crops like rice and vegetables provide growth opportunities for our products. The new products being introduced by Sudarshan such as Triazole Fungicides and a range of neo nicotinoid insecticides will tend to augment our sales in the near future.

3. Performance

The Agro Chemicals Division could not be completely insulated from the adverse situation. However the decline was arrested to 4% (from Rs.1,359 Million last year to Rs.1,301 Million) from the peak level. However, the introduction of new products and consolidation of brand strengths in this year would enable us to exploit the emerging opportunities in a much better manner.

4. Outlook

The company continues to invest in R&D and Market Development Activities. Our focus on one hand is to become more competitive and efficient while striving to provide a range of high quality products and services to the farming community.

We expect that the new products introduced recently such as Imidacloprid (Tez), Acetamiprid (Bismark) and Tricyclazole (Peril) would help us perform better.

5. Risks & Concerns

The tendency of most companies in the industry is to react to adverse circumstances by dropping prices and over extending the credit which tends to increase short term risks. The pressure on margins due to influx of Chinese products is a cause for greater concern. Another area of concern as mentioned above is the changes in the agro climatic conditions, which calls for far closer monitoring of pest infestation.

Human Resource Development

For details please refer Directors Report. As on 31st March 2006 a total of 1361 persons were employed by the Company.

CORPORATE GOVERNANCE

I. Company's Philosophy on Code of Governance :

The Company's Philosophy on Corporate Governance envisages attainment of transparency and accountability in all spheres including its dealings with employees, shareholders, customers, vendors, lenders and others.

The Company believes that the system and the actions lead to enhance the performance and increase stakeholder's value.

II. Board of Directors :

II.1 Composition :

The Board of Directors comprises of 11 Directors as detailed below :-

Sr.No.	Category of Directors	Name of the Director
1.	<ul style="list-style-type: none"> Promoters – Executive (Nominees of Rath Group) 	i. Mr. B. J. Rath (Executive Chairman) ii. Mr. K. L. Rath (Vice Chairman & Wholtime Director) iii. Mr. P. R. Rath (Managing Director) iv. Mr. N.J. Rath (Director & Company Secretary)
2.	<ul style="list-style-type: none"> Non- Promoter – Non- Executive (Independent) 	i. Dr. N. A. Kalyani ii. Mr. B. S. Mehta iii. Mr. S. N. Inamdar iv. Mr. P. P. Chhabria v. Mr. D. N. Damania vi. Mr. A. N. Firodia vii. Mr. S. Padmanabhan viii. Mrs. Anupama Ranade (Nominee Director of ICICI Bank Ltd.- Lending Institution) - ceased w.e.f. 22nd March, 2006

Notes:

- None of the Non-Promoter-Non-Executive Directors of the Company had any material pecuniary relationship or transactions with the Company, its Promoters, its Management during the Financial Year 2005-2006 which in the judgement of the Board may affect independence of judgement of the Directors.
- The Directors mentioned at Serial No.2 above fall within the expression of "Independent Director" as mentioned in I (A) (iii) of Clause 49 of the Listing Agreement.

II.2 Meetings and Attendance:

Five Board Meetings were held during the Financial Year 2005-2006 on the following dates:

1. 9 th May 2005	2. 25 th June 2005	3. 30 th July 2005
4. 29 th October 2005	5. 27 th January 2006	