

# 56<sup>th</sup>

Annual Report  
2006-07

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**SUDARSHAN  
CHEMICAL INDUSTRIES LIMITED**

*FIFTY SIXTH  
ANNUAL REPORT 2006-2007*

**BOARD OF DIRECTORS**

Mr. K. L. Rath	Executive Chairman (w.e.f. 19.05.2007)
Dr. N. A. Kalyani	
Mr. B. S. Mehta	
Mr. P. P. Chhabria	
Mr. D. N. Damania	
Mr. S. N. Inamdar	
Mr. A. N. Firodia	
Mr. S. Padmanabhan	
Mr. B. J. Rath (Expired on 07.03.2007)	Chairman
Mr. P. R. Rath	Vice Chairman and Managing Director (w.e.f. 19.05.2007)
Mr. N. J. Rath	Director and Company Secretary

**BANKERS**

Bank of Maharashtra  
State Bank of India  
Bank of Baroda  
ICICI Bank Ltd.  
HDFC Bank Ltd.

**AUDITORS**

B. K. Khare & Company  
Chartered Accountants,  
Mumbai.

**REGISTERED OFFICE**

162 Wellesley Road,  
Pune 411 001, Maharashtra State (India)  
Phone : (020) 26058888  
Fax : (020) 26058222

**FACTORIES**

Pune : 162 Wellesley Road, Pune 411 001.  
Roha : 46 MIDC Estate, Dhatav, Roha 402 116,  
Dist. Raigad.  
Mahad : Plot No. A-19/1+2, MIDC Estate,  
Mahad 402 301, Dist. Raigad.

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**DIRECTORS' REPORT TO THE SHAREHOLDERS : 2006-2007**

Your Directors present their 56<sup>th</sup> Annual Report together with the Audited Statement of Accounts for the year ended 31<sup>st</sup> March 2007.

**1. FINANCIAL HIGHLIGHTS :**

<b>Particulars</b>	<b>2006-2007 (Rupees in million)</b>	<b>2005-2006 (Rupees in million)</b>
Gross Sales and Other Income	<b>3907.34</b>	4012.73
Gross Profit	<b>173.56</b>	266.81
Less : Depreciation	<b>117.30</b>	117.56
Profit before Tax and contingencies written back	<b>56.26</b>	149.25
Less : Provision for Taxation	<b>15.38</b>	46.75
Profit after Tax	<b>40.88</b>	102.50
Add : Surplus in Profit & Loss Account as per last Balance Sheet	<b>107.33</b>	114.30
Net Profit available for appropriation	<b>148.21</b>	216.80
<b>Appropriations</b>		
(1) Dividend proposed @ 25% ( previous year dividend paid @ 50% during August, 2006 )	<b>17.31</b>	34.61
(2) Income Tax on Dividend	<b>2.94</b>	4.86
(3) General Reserve	<b>20.00</b>	70.00
	<b>40.25</b>	109.47
Balance to be carried forward	<b>107.96</b>	107.33

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

Gross Revenue for the year ended 31<sup>st</sup> March 2007 amounted to Rs. 3907 million as against Rs. 4013 million achieved during the previous year. Profit after tax for the year ended 31<sup>st</sup> March, 2007 was Rs. 41 million as against Rs. 103 million earned during the previous year.

The Pigment Division has performed well given the constraints within which it is operating. Overall, Pigment Sales rose in 2006-2007 from Rs.2632 million to Rs. 2946 million registering a growth of 12 % as compared to the previous year. High Performance Pigments and Effect Pigments will be important components for future growth, as new premium range-is introduced at home and overseas.

The performance of the Agro Division was largely dented on account of various factors ranging from adverse climatic conditions, increased usage of BT Cotton seeds which are pest resistant as also due

to extreme competitive conditions prevailing in the domestic market. Apart from affecting sales growth these has had a greater impact on the profitability. Sales of Agro Division during the year amounted to Rs. 877 million as compared to Rs 1301 million in the previous year.

**(B) Exports :**

Revenues from exports for the year ended 31<sup>st</sup> March 2007 amounted to Rs. 1347 million as against Rs. 1185 million for the previous year showing a growth of 14%. About 95% of the exports were accounted by Pigments. This year Agro Division could achieve a small but significant export turnover of Rs. 65 million.

Excellent contribution to the top line has been seen from direct sales of Pigments to the Middle East and the SAARC regions. Sales of Pigments to SUN Chemical and DIC in Europe, NAFTA and Far East regions have also remained strong this year. Initial sales of Pigments from new regions were seen this year, with strong sales expected in Africa and Latin America next year.



Members will be pleased to note that your Company has been selected for an award in recognition of excellent performance in exports of Pigments by a large scale unit for 2006-2007 by the Dyestuff Manufacturers Association of India. This indeed is a great recognition for your Company.

The Company has evolved a strategy to enter into a strategic tie up with overseas companies for exporting its Products. The objective being to establish a firm presence as a niche player in the export market aimed at achieving good growth in volumes and profitability.

### 3. DIVIDEND :

Considering the overall performance of the Company, the Directors recommend, subject to approval of the members, dividend of Rs.2.50 per share ( 25% ) for the year ended 31<sup>st</sup> March 2007. The total outgo on account of dividend @ 25%, dividend distribution tax @ 17% will be Rs.20.25 million for the year under review.

### 4. DIRECTORS :

Your Directors express their profound grief on the sad demise of Mr. B.J. Rath, then Chairman of the Company, on 7<sup>th</sup> March 2007. Mr.B.J.Rathi's association with the Company dates back to the year 1956. He had served the Company with deep commitment, enthusiasm and dedication.

The Board expresses its appreciation and gratitude to the support, guidance and ready advice given by Mr. B.J. Rath during his association with the Company.

Mr.K.L.Rathi, Vice Chairman and Wholtime Director has been appointed as Chairman and designated as Executive Chairman. Mr.P.R.Rathi, Managing Director has been appointed as Vice Chairman and designated as Vice Chairman and Managing Director. Both appointments are w.e.f. 19<sup>th</sup> May, 2007.

Mr.B.S.Mehta, Mr.D.N. Damania and Mr.S. Padmanabhan, 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 31<sup>st</sup> March 2007, 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. SUBSIDIARY COMPANY :

During the year under review, the Company acquired 100% equity shares of Prescient Color Limited thereby making it an Wholly Owned Subsidiary of the Company. Prescient Color Limited proposes to manufacture master batches for Plastics. The commercial production of the Subsidiary Company is expected to commence in early 2008.

Pursuant to section 212 of the Companies Act, 1956, the Audited Accounts together with the Auditors' and Directors' report of Prescient Color Limited, the wholly owned subsidiary of the Company is annexed herewith. Further, in accordance with the Accounting Standard AS-21, the Consolidated Financial Statements of the Company and its subsidiary is also annexed herewith and form part of the Annual Report.

### 7. CORPORATE GOVERNANCE :

The Company has complied with the mandatory requirements of the substituted code of corporate governance as detailed in Clause 49 of the Listing Agreement.

A separate statement on Management Discussion and

**SUDARSHAN CHEMICAL INDUSTRIES LIMITED**

Analysis and Corporate Governance is enclosed as a part of the Annual Report along with the certificate of the Statutory Auditors, B.K. Khare & Co., Chartered Accountants, Mumbai confirming compliance of the code of Corporate Governance.

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

Information in accordance with Section 217 (1) (e) 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 :**

The Company is venturing into new business initiatives with higher scales and complexities. The key to success lies in the highest degree of competence, dedication and sense of ownership shown by its people across all divisions. However, as we explore new business initiatives and aim for higher thresholds of growth, the need to ramp up our human resource capabilities has become a necessity.

The company recognizes the challenges it faces and has been making focused efforts to enhance its human resource capabilities at its Corporate Office, manufacturing sites and as well as at its branches. As a result, HR initiatives launched in the previous year continued in the year under review with special emphasis on Performance Management System in the backdrop of Balanced Scorecard concept, Training on Six Sigma, Design of Experiments, Voice of customers and Lean manufacturing. All these initiatives continue to provide the much needed impetus for Human resource excellence.

## **10. INDUSTRIAL RELATIONS :**

During the year, part of Pigment production at Pune was shifted to Roha in order to achieve cost benefits. As a result workers of Pune plant were offered Voluntary Retirement Scheme ( VRS ).

Industrial Relations continue to be cordial at all the three manufacturing sites.

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

## **11. FIXED DEPOSITS :**

During the year under review, the Company accepted deposits amounting to Rs. 1.10 million from the public. The total amount of deposits at the end of 31<sup>st</sup> March 2007 stood at Rs.30.48 million.

Out of the deposits amounting to Rs.0.49 million from 19 Depositors, which fell due for repayment but were unclaimed before 31<sup>st</sup> March 2007, an amount of Rs.0.08 million was subsequently renewed/claimed by the Deposit holders. Balance amount of Rs.0.41 million from 14 Deposit holders remains unclaimed.

## **12. AUDITORS :**

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.

## **13. SAFETY AND ENVIRONMENT :**

Safety and environmental aspects continue to occupy a pivotal place in the organisational objectives. Towards this, continuous reviews of all safety measures are undertaken regularly. Throughout the year many potentially unsafe conditions and acts were identified and their root causes were eliminated. Mock drills were conducted to keep Company personnel on constant preparedness for any eventuality. About 2200 people including contractors were trained during the year. As a result, the Company achieved zero reportable accidents at all 3 manufacturing sites.

Members will be pleased to note that Roha Plant has received from the National Safety Council " Suraksha Puraskar" for the year 2005-2006. It is also a matter of great pride to inform you that for the third successive year, Dyestuff Manufacturers Association of India (DMAI) conferred on the Company "First award in recognition of Excellent performance in pollution control by a large scale unit" for developing and implementing very effective & responsible Environment Management System (EMS) and for achieving commendable performance. Roha factory was also successful in obtaining OHSAS 18001 certification from BVQI. These recognitions are a testimony to the commitment of the Company to be a responsible corporate entity. The future vision will be towards achieving World Class Manufacturing status, where Safety, Health and Environment ( SHE ) will be playing a very big role.

**14. OUTLOOK FOR THE FUTURE :**

The future outlook for the domestic Pigment Industry looks good as there is a continuing growth in the printing ink, paint, plastic and textiles market as established multi-nationals locate manufacturing plants in India to take care of the emerging opportunities of growth.

Export of Pigments also continues to be promising . Sudarshan's relationship with its strategic partners Dainippon Ink & Chemicals, Inc., Japan and SUN Chemicals, U.S.A. continues to be very good . Sudarshan and DIC have affirmed to work together in the developed markets to maximise the opportunities open as partners.

As environmental drivers increase the world demand for High Performance Pigments, the Company sees an opportunity to differentiate from most local competitors by offering an extended range of quality High Performance Pigments that command premium prices. Consequently, the Company sees less demand for the traditional heavy-metal based colorants, and are evolving capabilities to meet this trend. Sale of Effect Pigments also continue to hold promise and will be a key component in the overall growth.

The functioning & performance of the Agro Division continues to be affected by several adverse factors including in particular severe competition & changing market scenario. The Board has appointed a committee to explore ways & means to arrest losses in the Agro Division & to examine other related issues. The committee is expected to submit their report with recommendations soon.

The Company has also implemented Six Sigma, Lean Sigma and host of other management tools aimed at cost reduction, productivity improvement and increasing overall efficiencies. This it is expected will contribute to the bottom line and lead to operational excellence.

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

**15. 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 25, 2007

K. L. RATHI  
EXECUTIVE CHAIRMAN

## SUDARSHAN CHEMICAL INDUSTRIES LIMITED

## ANNEXURE TO DIRECTORS' REPORT : 2006-2007

## FORM A — DISCLOSURE OF PARTICULARS WITH RESPECT TO CONSERVATION OF ENERGY

## A. Power and Fuel Consumption :

Particulars	2006-2007	2005-2006
1. Electricity		
(a) Purchased		
Units ('000 KWH)	29091	29433
Total Amount (Rs. in million)	125.28	105.10
Rate per unit (Rs.)	4.31	3.57
(b) Own Generation		
Units ('000 KWH)	268	418
Units per litre of diesel oil	3.32	3.28
Cost per unit (Rs.)	11.37	10.88
2. (a) Furnace Oil		
Quantity (Tonnes)	2971	5791
Total Amount (Rs. in million)	51.20	85.73
Average Rate (Rs./Ton)	17230	14805
(b) LDO/HSD		
Quantity (K. Litres)	208	302
Total Amount (Rs.in million)	6.85	9.45
Average Rate (Rs./K.L.)	32957	31305
(c) Agro Waste Based Fuel		
Quantity (Tonnes)	492	11495
Total amount (Rs.in million)	1.54	33.03
Average Rate (Rs./Ton)	3138	2873
(d) Coal		
Quantity (Tonnes)	15189	42.66
Total Amount (Rs. in million)	46.02	0.14
Average Rate (Rs./Ton)	3030	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

## RESEARCH &amp; DEVELOPMENT (R &amp; D) :

## 1. Specific areas in which R &amp; 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.
- High Performance Pigments – Development and plant trials.
- 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.
- Specialty 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 &amp; D :

- Improvement in productivity and product quality.
- Capacity increase in existing plants for exports.
- Improvement in safety, environment protection and energy saving.
- Cost reduction.
- Introduction of 32 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 2006-2007 :**

(a) Capital	:	Rs. 2.45 million
(b) Recurring	:	Rs. 37.93 million
(c) Total	:	Rs. 40.38 million
(d) Total R & D expenditure as a percentage of Total Turnover	:	1.02 %.

**5. Foreign Exchange Earnings & Outgo:**

(a) Total Foreign Exchange Earned	:	Rs. 1344.00 million
(b) Total Foreign Exchange Used	:	Rs. 682.43 million
(c) Net Foreign Exchange Earned	:	Rs. 661.57 million

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

Pune, June 25, 2007

K. L. 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, Effect 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. Our Roha and Mahad plants have been certified for OHSAS 18000. 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). Also our Labs are ISO 17025:2001 certified by National Accreditation Board for Testing and Calibration Laboratories (NABL), Government of India. Company 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 - 2006-2007

The Total Revenue for the year ended 31<sup>st</sup> March, 2007 amounted to Rs. 3907 million as against Rs. 4013 million for the previous year. The Net Profit after tax for the year ended 31<sup>st</sup> March, 2007 amounted to Rs. 41 million against Rs. 102 million for the previous year.

Pigment Division has posted a growth in sales to the extent of 12% as compared to the previous year. Profitability of the division was also higher as compared to the previous year.

The performance of Agro Chemicals Division was affected on account of adverse climatic and market conditions. Sales during the year under review declined by about 33% as compared to 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 Effect 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 global manufacturers who price their products aggressively, mainly with the aim of warding off competition. The unorganized sector also poses a major threat as they are able to manufacture Pigments with lesser overheads as compared to established players.

The year under review has seen an increase in steel and lead prices. These metals are used in the manufacture of Inorganic pigments and effect pigments and has resulted in substantial increase in raw material costs. This has affected margins, as the increase in the raw material costs could not be totally passed on to the consumers.

### 3. Performance

The Pigment Division increased its sales revenue in the 2006 - 07 to Rs. 2946 million from Rs. 2632 million in 2005-06, thereby showing an increase of 12%. Sales from exports for the year under review amounted to Rs. 1282 million as against Rs. 1183 million achieved during the previous year showing a marginal growth of 8%. Reduced fixed costs and increase in high margin domestic sales contributed to increased profitability in the year under review.

Domestic sales were buoyant, reflecting increased demand in all regions, and have gone up by 15%. Sales to SUN chemical and DIC Europe, NAFTA and Far East regions have remained strong this year. Exports to the Middle East, SAARC regions also performed well. Initial sales from new regions were seen this year, with strong sales expected in Africa and Latin America next year.

### 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. Many new effect Pigments are also being launched for cosmetic and coating 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 unorganized 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 organized sector.

The new European Regulation ( REACH ) also poses challenges to the Company as compliance entails additional regulatory costs. However, the Company has initiated pre-registration formalities which is a pre-requisite for exports to countries in Europe.

The rupee has appreciated considerably in the last few months. As a result the net realization from exports has reduced. This might put the margins under pressure though the Company is trying to increase the prices.

## Segment II - Pesticides

### 1. Industry Developments

The year under review witnessed adverse climatic conditions coupled with a sharp increase in the area planted with Bt cotton. The prices of Bt cotton seeds reduced by about half. Consequently, sale of insecticides in cotton area, which consumes more than 50% of insecticides, was adversely affected.

The products manufactured by the Company also witnessed competition from cheaper imports of pesticides from China. Consequently, the prices as well as volumes of locally manufactured pesticides were adversely affected.

### 2. Opportunitites and Threats

For the first time, exports crossed a figure of Rs. 6 Crores. The Company has exported to Far East countries such as Taiwan, Malaysia, Singapore and also to the Middle East. Some exports have also been effected to Latin America. The number of pesticides imported from China is increasing.

### 3. Performance

Sales have declined to a level of Rs. 877 million from a level of Rs. 1301 million – a decline of Rs. 424 million. This is mainly due to contraction in the sales of formulations and simultaneous reduction in the sales of technical and bulk formulations. However, the Company expects to improve performance as a result of increased exports as well as of technical and bulk sales this year. As far as formulation sales are concerned, the focus will be on consolidation of brand sales and increased focus on the most profitable products.