

Vanavil Dyes and Chemicals Limited

TWENTY-SIXTH ANNUAL REPORT AND ACCOUNTS 2 0 0 2 - 2 0 0 3

DIRECTORS

Mr.K.J. Bharucha (Chairman)
Mr.T.P. Jagannathan (Managing Director)
Dr.G.S. Laddha
Dr.M. Santappa
Mr.R. Ramakrishnan
Dr.G.G. Patkar
Mr.P. Lindner
Mr.R.P. Srivastava (Director-Commercial)

Mr.K. Ramji
General Manager (Finance) & Secretary

AUDITORS

A. F. Ferguson & Co.
Chartered Accountants

BANKERS

Punjab National Bank
Citibank N. A.

REGISTERED OFFICE AND FACTORY

Kudikadu, SIPCOT P.O.,
Cuddalore - 607 005.

SALES OFFICES**Ahmedabad**

H. K. House, 2nd Floor,
Ashram Road,
Ahmedabad - 380 009.

Chennai

Karumuttu Centre, III Floor,
634, Anna Salai, Nandanam,
Chennai - 600 035.

Delhi

23, Rajasthan Udyog Nagar,
G.T. Karnal Road,
Delhi - 110 033.

Kolkata

II Floor, Rawdon Chambers,
11A, Rawdon Street,
Kolkata - 700 017.

Mumbai

Ravindra Annexe,
194, Churchgate Reclamation,
Mumbai - 400 020

Tirupur

S.No.129, College Road,
Postal Colony,
Aravangadu Thottam,
Thottipalayam,
Tirupur - 641 602



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Members are requested to bring their copies of the Annual Report to the General Meeting

NOTICE is hereby given that the **TWENTY-SIXTH ANNUAL GENERAL MEETING** of **VANAVIL DYES AND CHEMICALS LIMITED** will be held at the Registered Office of the Company at Kudikadu, SIPCOT P.O., Cuddalore 607 005 on **18th July, 2003 at 12.00 noon** to transact the following business:

ORDINARY BUSINESS

1. To receive, consider and adopt the Profit and Loss Account for the year ended 31st March, 2003, the Balance Sheet as at that date and to consider the Reports of the Directors and Auditors thereon.
2. To declare a dividend.
3. To appoint a Director in place of Dr.G.S.Laddha who retires by rotation and, being eligible, offers himself for re-appointment.
4. To appoint a Director in place of Mr.R.Ramakrishnan who retires by rotation and, being eligible, offers himself for re-appointment.
5. To appoint Auditors to hold office from the conclusion of the twenty-sixth Annual General Meeting until the conclusion of the twenty-seventh Annual General Meeting of the Company at a remuneration to be decided by the Board of Directors.

SPECIAL BUSINESS

6. To consider and, if thought fit, to pass with or without modification, the following resolution as a Special Resolution:

" RESOLVED that pursuant to Section 163 of the Companies Act, 1956 (hereinafter called "the Act"), the Company hereby approves that the Register of Members, Indices of Members, copies of Annual Returns prepared by the Company under Section 159 of the Act together with copies of Certificates and Documents required to be annexed hereto under Section 161 of the Act or any one or more of them shall, with effect from 1st August, 2003 be kept at the offices of M/s Cameo Corporate Services Limited, the Registrars and Share Transfer Agents of the Company, at "Subramanian Building", V Floor, 1, Club House Road, Chennai 600 002 instead of at the Registered Office of the Company."

"RESOLVED FURTHER that the Registers, Indices, Returns, Books, Certificates and Documents of the Company required to be maintained and kept open for inspection by the Members and/or any person entitled thereto under the Act, be kept open for such inspection, at the place where they are kept, to the extent, in the manner and on payment of the fees, if any, specified in the Act between 11.00 a.m. and 1.00 p.m. on any working day (excluding Saturday) and except when the registers and books are closed under the provisions of the Act and/or the Articles of Association of the Company."

NOTES:

- (a) The relative explanatory statement pursuant to Section 173 of the Companies Act, 1956 in respect of Item No. 6 set out above is hereto annexed.

- (b) **A MEMBER ENTITLED TO ATTEND AND VOTE AT THE MEETING IS ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE INSTEAD OF HIMSELF AND SUCH PROXY NEED NOT BE A MEMBER OF THE COMPANY.**

- (c) The Register of Members and the Share Transfer Books of the Company will remain closed from 4th July, 2003 to 18th July, 2003 (both days inclusive).

- (d) The dividend on shares as recommended by the Board of Directors, if declared at the meeting, will be payable on or after 23rd July, 2003 to those members whose names appear

- (i) as members in the Register of Members after giving effect to all valid share transfers in physical form lodged with the Company / the Registrars & Share Transfer Agents M/s.Cameo Corporate Services Limited on or before 3rd July, 2003 and

- (ii) as Beneficial Owners as at the end of the business on 3rd July, 2003, as per the list to be furnished by National Securities Depository Limited and Central Depository Services (India) Limited in respect of the shares held in electronic form.

Members are requested to notify immediately any change in their address to the Company/to the Registrars & Share Transfer Agents M/s.Cameo Corporate Services Limited, Chennai.

- (e) In accordance with the provisions of Section 205A of the Companies Act, 1956, the Company has, from time to time, transferred the unclaimed dividends relating to the years upto and including 1995-96 to the General Revenue Account of the Central Government. Members who have a valid claim to any amount being dividend unclaimed by them, pertaining to the period upto and including 1995-96, may claim the same from the Registrar of Companies, Chennai, in the prescribed manner.

In terms of Section 205A (5) of the Companies Act, 1956, dividends remaining unpaid or unclaimed for a period of seven years from the date of transfer to the unpaid/unclaimed dividend account of the Company shall be transferred by the Company to the Investors Education and Protection Fund established by the Central Government pursuant to sub-section (1) of Section 205C of the Companies Act, 1956. Members are requested to seek early settlement of claim for payment of unpaid dividend from the Company. Members may please note that no claim of the transferred unclaimed/unpaid dividend shall lie against the Fund or the Company upon transfer of the amounts to the Fund.

By Order of the Board of Directors,

Chennai,

14th May, 2003.

K. RAMJI

General Manager (Finance) & Secretary

As required by Section 173 of the Companies Act, 1956, the following statements set out the material facts relating to Item No. 6 of the accompanying Notice dated 14th May, 2003.

Item No. 6

In compliance with the requirement of circular No. D/CC/FITTC/CIR-15/2002 dated 27th December, 2002 from the Securities and Exchange Board of India, the Company has appointed M/s. Cameo Corporate Services Limited, Chennai as the Registrars and Share Transfer Agents to the Company with effect from 31st March, 2003 to handle the share related work for both physical and dematerialised shares of the Company.

It is proposed to keep the indices of members, register of members, copies of annual returns together with the copies of certificates and documents required to be annexed thereto at the office of M/s. Cameo Corporate Services Limited, Subramanian Building, V Floor, 1, Club House Road, Chennai-600 002 with effect from 1st August, 2003.

Pursuant to the proviso to Section 163 of the Companies Act, 1956 it is necessary to have the approval of the members of the Company by way of a special resolution for this purpose. The special resolution is commended for approval of the members.

The special resolution also specifies the time of inspection of the books and documents of the Company by its members and others.

None of the Directors of the Company is in any way concerned or interested in the said special resolution.

By Order of the Board of Directors,

Chennai,
14th May, 2003.

K. RAMJI
General Manager (Finance) & Secretary



The Directors have pleasure in presenting herewith their Twenty-Sixth Annual Report and the Audited Statement of Accounts of the Company for the year ended 31st March, 2003.

FINANCIAL RESULTS

2. The financial results of the Company are summarised below:

	2002-2003 Rupees lakhs	Previous Year Rupees lakhs
The pre-tax profit for the year, after providing Rs.325.78 lakhs (previous year – Rs.306.01 lakhs) for Depreciation amounts to	304.95	159.57
After deducting provision for taxation		
Current Year Tax	16.00	21.09
Deferred Tax	60.94	3.91
and adding		
balance brought forward from the previous year	261.66	250.72
the amount available for disposal is	489.67	385.29
The Directors have made the following appropriations therefrom :		
(a) General Reserve	50.00	25.00
(b) Proposed Dividend	123.29	98.63
(c) Tax on Dividend	15.80	—
	189.09	123.63
leaving a balance to be carried forward of	300.58	261.66
	489.67	385.29

DIVIDEND

3. The Directors recommend a dividend of Rs.2.50 per equity share (25%) for the year ended 31st March, 2003 (previous year Rs.2/- per share).

ACCOUNTS AND FINANCE

Working Capital

4. The Company continued to manage its working capital requirement within the sanctioned limits.

Term Loans

5. The Company has repaid a sum of Rs.400 lakhs during the year under review to Hongkong & Shanghai Banking Corporation Ltd. (HSBC) towards the term loan of Rs.800 lakhs obtained in May 2000.

OPERATIONS

Sales

6. The Company registered a total turnover of Rs.5304 lakhs (inclusive of excise duty) during the year as compared to Rs.4418 lakhs during the previous year. The export sales during the period amounted to Rs.3034 lakhs (previous year Rs. 2422 lakhs), higher by Rs.612 lakhs due to increase in export of Phthalocyanine Blue Pigments and Intermediates.

Production

7. Your Company produced 1629 tonnes of organic pigments and intermediates, marginally higher when compared to 1618 tonnes produced during the year 2001-02.

Foreign Exchange Earnings and Outgo

8. The foreign exchange earnings of the Company during the year amounted to Rs.3034 lakhs (previous year - Rs.2422 lakhs). With imports accounting for Rs.564 lakhs (previous year - Rs.595 lakhs), and after deducting outflows on other accounts, the net foreign exchange earnings of your Company during the year amounted to Rs.2450 lakhs (previous year - Rs.1807 lakhs).

Profitability

9. During the year there was an increase in sale of manufactured products (both in terms of volume and value) in local and export markets resulting in higher profitability.

Capital Expenditure/Projects

10. Modernisation and upgradation of environmental protection facilities, viz., Waste Water Treatment Plant and Incinerator taken up during the previous year were successfully completed and became operational during the year. The total capital expenditure during the year under review amounted to Rs.179 lakhs.

Safety and Ecology

11. Your Company continues to train and educate all its employees in the process of upgrading the safety and health standards throughout its operation.

12. Several guidelines on environment, safety and health administration (ESHA) as recommended by Clariant International Limited have been adopted by your Company. Your Company is actively pursuing Continuous Improvement Process (CIP) techniques for its manufacturing operations. This is an ongoing programme at all levels for improving the processes. This has resulted in improved house-keeping and work practices leading to cost effective operations. Your Company is also in the process of developing Environment Management System (EMS) for its manufacturing activities.

Quality Assurance and Systems

13. Your Company has upgraded its quality management system to the ISO 9001-2000 standards and has been re-certified under the new standards.

Depositories

14. As reported in the previous year, the equity shares of your Company have been included in the compulsory dematerialisation list of the Stock Exchange. Investors/ shareholders are requested to make use of the facility provided by the Company for dematerialisation of shares for which arrangements have been made with M/s. Cameo Corporate Services Ltd., Chennai.

Responsibility Statement

15. To the best of their knowledge and belief and according to the confirmation and explanations obtained by them, your Directors make the following statement in terms of Section 217 (2AA) of the Companies Act, 1956.

- i) that in the preparation of the annual accounts for the year ended 31st March, 2003, the applicable accounting standards have been followed alongwith proper explanations in case of material departures;
- ii) that such accounting policies as mentioned in Note 1 of Schedule 19 to the Annual Accounts have been applied consistently and judgements and estimates that are reasonable and prudent made so as to give a true and fair view of the state of affairs of the Company at the end of the financial year ended 31st March, 2003 and of the profit of the Company for that period;
- iii) that proper and sufficient care has been taken 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 frauds and other irregularities ;

- iv) that the annual accounts for the year ended 31st March, 2003 have been prepared on a going concern basis.

Management's Discussion and Analysis

16. As required by Clause 49 of the Listing Agreement, the Management's Discussion and Analysis is provided in the Annexure to this Report.

Corporate Governance

17. Your Company has been duly complying with the requirements of clause 49 of the Listing Agreement dealing with Corporate Governance and the details are set out in the Annexure to this report.

Employees

18. The negotiations with the Employees' Unions for revision of the terms and service conditions applicable to the unionised category of employees have been concluded amicably and an agreement has been signed with the Unions on 30th April, 2003, which will be valid for a period of three years from 1st January, 2002. The Industrial relations at the Company's factory and other establishments continued to remain cordial during the year.

19. The statement giving particulars of employees, as required under Section 217(2A) of the Companies Act, 1956 read with Companies (Particulars of Employees) Rules, 1975 forms part of this report. However, as per the provision of Section 219(1)(b)(iv) of the Companies Act, 1956, the report and the statement of accounts are being sent to all shareholders excluding the above statement. Any shareholder interested in obtaining a copy of this statement may write to the Company Secretary at the Registered Office of the Company.

Directors

20. In accordance with the requirements of the Companies Act, 1956, and the Articles of Association of the Company, Dr.G.S. Laddha and Mr. R. Ramakrishnan are due to retire at the forthcoming Annual General Meeting of the Company and being eligible have offered themselves for re-appointment.

21. Mr.T.P. Jagannathan, who was appointed as the Managing Director of the Company with effect from

1st July, 1998 for a period of 3 years and re-appointed twice for a period of one year each, will be retiring on 30th June, 2003. During his tenure as the Managing Director, the Company saw the expansion in the capacity of Blue Pigments Plant and modernisation of the Waste Water Treatment Plant and the Incinerator. Further he contributed immensely when the Company was undergoing difficult business conditions during the last two years due to recession in the specialty chemicals business world-wide, leading to severe pressure on the selling prices on one side and increase in the prices of certain raw materials on the other by shoring up the margins through cost reduction measures and also by improving the process efficiencies. The Board of Directors placed on record its appreciation of the valuable services rendered to the Company by Mr. Jagannathan during his term as the Managing Director.

Auditors

22. M/s A.F. Ferguson & Co., the retiring Auditors, are eligible for re-appointment and have furnished a certificate to the effect that their re-appointment, if made, will be in accordance with the limits specified in Section 224(1B) of the Companies Act, 1956. Members are requested to appoint the Auditors for

the current year at a remuneration to be decided by the Board of Directors of the Company.

General

23. Statements giving particulars relating to the conservation of energy, technology absorption and foreign exchange earnings and outgo, as required under the Companies (Disclosure of Particulars in the Board of Directors' Report) Rules, 1988 are annexed.

Acknowledgement

24. Your Directors greatly value and acknowledge the support and co-operation that the Company received from Colour-Chem Limited, Clariant International Ltd., the Company's bankers, statutory authorities and all the other establishments connected with the business of the Company.

25. Your Directors place on record their appreciation of the valuable contributions made by the Company's employees at all levels during the year

For and on behalf of the Board of Directors,

Chennai
14th May, 2003

K.J. BHARUCHA
Chairman

Management Discussion and Analysis Report

1. Industry structure and Developments

The main market for Vanavil's products are industries which utilise pigments for colouration of end products such as plastics, printing inks, paints etc. Globally there is an excess capacity for pigment production. Lower selling prices, depressed demand and increased manufacturing costs will have a negative impact on the growth of the industry.

During the year, Vanavil suffered from a steep increase in the electricity tariff and fuel prices. Increase in the prices of some of the major raw materials also impacted the production/profitability of the Company in 2002-03. In spite of the adverse conditions, the performance of the Company in 2002-03 was substantially better compared to the previous year. This was possible because of the improved product mix and the overall efforts taken to reduce costs and improve efficiencies.

2. Opportunities and threats

Vanavil's products are on demand both in the local and export markets. Vanavil is a leading manufacturer of Naphthols in India, which are raw materials for pigment production. They are also used for direct dyeing of textiles.

Vanavil's Naphthols are well accepted by the leading pigment manufacturers in India. Dyeing grade naphthols are in good demand, but the prices are under severe pressure due to competition from small scale manufacturers.

Vanavil did not achieve full utilisation of its capacity in the Naphthols plant due to non-availability of a major raw material during the second half of the year. Capacity utilisation and sale of Naphthols in the local market are dependent on the availability of this raw material, for which there are only two major suppliers in India.

Vanavil is looking for opportunities for the export of Naphthols to multinationals in USA, Canada and Germany. If this materialises, Vanavil will import the raw material to achieve 100% utilisation of capacity.

Vanavil has developed processes for manufacture of its Blue pigment, which will meet the present day specifications of sophisticated markets in

U.S.A. and Europe. It is hoped that this will give a boost to the export of Blue pigments.

Vanavil exports an intermediate which is used for the manufacture of a high performance pigment. During the year 2002-2003, the Company achieved a good capacity utilisation. However the availability of the same quality products at a lower price is having a dampening effect apart from price adjustment to lower levels.

3. Product-wise performance during the year 2002-2003

Product group	Production	Sales	
	Qty. (tons)	Qty (tons)	Value (Rs. lakhs)
Naphthols	255	319	906.33
Specialty Intermediates	731	776	1979.15
Blue Pigments and preparations	643	661	1994.15

4. Outlook

Vanavil's business is steady. With the existing product range there will not be high growth in the volume of business in the coming year. It is estimated that capacity utilization of intermediates plant will be 80-90% during the year 2003-2004. There are indications that good quantities of Naphthols would be exported during the year. It is also expected that sale of Blue Pigments would marginally increase during the year, especially in the export market. Prices, however, will continue to be under pressure.

5. Risk and Concerns

The product range of Vanavil is relatively limited and so are its customers. Any adverse condition in the business of a key customer directly affects the business of Vanavil which is a matter of concern to Vanavil.

In the market segments where Vanavil is operating, the prices of most products are falling. Though, the products of Vanavil are distinctly superior to those of many of its competitors, there is little price advantage to Vanavil, as customers are more focussed on their input costs.

Under these circumstances, realisation and profitability are under pressure. In addition, there

are steep price hikes in utilities such as fuel oils, electricity etc. Exporters do not enjoy the same benefits as they did two years ago. Increase in costs and decrease in realisation will have a negative impact on the profitability of the Company's operations, although the Company is taking several steps to control costs through most functions and production plants.

6. Internal Control systems and their adequacy

The Company has well laid down systems for all its functions. All procedures relating to the operations were updated and documented during the year, as a preparation for obtaining ISO 9001-2000 certification. The Company obtained the re-certification in November 2002. There are adequate internal control systems in the Company commensurate with its size and the nature of business. Internal audits of various departments of the Company are carried out periodically by an external firm of auditors. The Audit Committee of the Board of Directors of the Company reviews the findings of the audit and monitors the actions taken by the Company based on the recommendations contained in the internal audit report.

7. Financial and Operational Performance

Sales during the year 2002-2003 were Rs.5304.42 lakhs (1921 Tons) compared to Rs.4417.55 lakhs (1863 Tons) in 2001-2002. Sale of Naphthols was adversely affected by non-availability of a major raw material required for the manufacture of the product. Loss in sale of Naphthols was more than compensated by the increase in the sale of Blue Pigments both in the local and export markets. Increased sales resulted in an increase of 91% in the profit before tax.

8. Material developments in human resources/ industrial relations front, including number of people employed

The Company has adopted a management technique known as Continuous Improvement Process (CIP) by which the knowledge and experience of Clariant is shared with VDCL. Need for cost control and cost reduction has been imbibed to the employees at all levels. Specialised and relevant training is being continued to be imparted depending upon the specific job requirement. After negotiation and discussions with the unions on the charter of demands submitted by them, an agreement has been successfully reached and the Memorandum of Settlement has been signed on 30th April, 2003, covering a period of three years from 1st January, 2002.

Number of employees :

Managers and Officers	70
Supervisors	34
Workmen	138
Total	242

9. Cautionary Statement

Statements in this Management Discussion and Analysis Report are based upon the data available with the Company at this point of time and on certain assumptions having regard to the economic conditions, government policies, political developments within and outside the country, factors affecting the selling prices of products etc. The Management is not in a position to guarantee the accuracy of the assumptions and the projected performance of the Company in future. It is, therefore, cautioned that the actual results may differ from those expressed or implied herein."