Vanavil Dyes and Chemicals Limited

TWENTY-EIGHTH
ANNUAL REPORT
AND ACCOUNTS
2004-2005

Vanavil Dyes and Chemicals Limited

DIRECTORS

Mr. K.J. Bharucha (Chairman)
Dr. G.S. Laddha
Dr. M. Santappa
Mr. R. Ramakrishnan
Mr. P. Lindner
Dr. G.G. Patkar

Dr. J. Chandrasekharan
Chief Executive Officer

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

16/17 Gali No. 14, Swaroop Enclave,
Burari Road,
Delhi - 110 042.

Thane

Old Mumbai-Agra Road,
Balkum,
Thane - 400 608.

Tirupur

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

Contents

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

Notice

NOTICE is hereby given that the **TWENTY-EIGHTH 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 15th July, 2005 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, 2005, the Balance Sheet as at that date and to consider the Reports of the Directors and Auditors thereon.

2. To declare a dividend for the year 2004-2005.

3. To appoint a Director in a place of Dr. G. G. Patkar who retires by rotation and, being eligible, offers himself for re-appointment.

4. To appoint a Director in a place of Dr. G. S. Laddha 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-eighth Annual General Meeting until the conclusion of the twenty-ninth 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 the following Resolution, with or without modification, as an Ordinary Resolution:

   "RESOLVED THAT subject to the provisions of Sections 198, 309 and other applicable provisions of the Companies Act, 1956 (the "Act") and Rule 10B of the Companies (Central Government's) General Rules & Forms, 1956 (the "Rules") and Article 113 of Articles of Association of the Company, the Company hereby approves the payment of sitting fee of Rs. 3,000/- (Rupees three thousand only) to the Directors for attending the meetings of the Board of Directors or the Audit Committee, Shareholders'/Investors' Grievance Committee and Remuneration Committee of the Directors and Rs. 1,500/- (Rupees one thousand and five hundred only) for attending the meeting of Share Transfer Committee or such fee not exceeding the limits prescribed by Rule 10B of the Rules as amended from time to time, to be decided by the Board of Directors.

   "RESOLVED FURTHER THAT the Company Secretary be and is hereby authorised to take necessary and effective steps to execute the same pursuant to Clause 49 of the Listing Agreement with the Stock Exchanges as amended upto date".

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 1st July, 2005 to 15th July, 2005 (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 20th July, 2005 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 Registrars & Share Transfer Agents, on or before 30th June, 2005.

   (ii) as Beneficial Owners at the end of the business on 30th June, 2005, as per list to be furnished by National Securities Depository Limited and Central Depository Services (India) Limited in respect of the shares of the Company held in electronic form.

(e) Members are requested to notify immediately any change in their address to their Depository Participants (DPs) in respect of their holdings in electronic form and to the Registrars & Share Transfer Agents, in respect of their holdings in physical form.

(f) In respect of members who have given mandate for payment of dividend through Electronic Clearing Service (ECS), the dividend will be paid through ECS and their bank account details will be printed on their dividend advices.

Notice (Contd.)

(g) 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.

(h) In terms of Section 205A(5) of the Companies Act, 1956 dividend remaining unpaid or unclaimed for a period of seven years from the date of transfer to unpaid/ unclaimed dividend account of the Company shall be transferred by the Company to the Investor Education and Protection Fund established by the Central Government pursuant to sub-section (1) of Section 205C of the Companies Act, 1956. Accordingly the Company has transferred the unclaimed dividends relating to the year 1996-97 to the Investor Education Protection Fund during the year.

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 Investor Education and Protection Fund or the Company upon transfer of the amounts to the Fund.

By Order of the Board of Directors

Chennai
13th May, 2005

K. Ramji
General Manager (Finance) & Secretary

Explanatory Statement

As required by Section 173 of the Act the following explanatory statement sets out all the material facts relating to Item No. 6 of the accompanying Notice dated 13th May, 2005.

Item No. 6

Pursuant to the amendments to the Clause 49 of the Listing Agreement and its implementation, inter alia, in respect of sitting fees to be paid to the Directors for attending the meetings of the Board or the committees thereof within the limits prescribed by the Companies Act, 1956, the applicable rules and the Articles of Association of the company, will be payable only with prior approval of the members of the Company at the General Meeting of the Company.

With the postponement of the implementation of the amendment till 31st December, 2005, it will be in order to have a prior approval of Members at the Annual General Meeting in respect of the sitting fees to be paid from 1st January, 2006.

By Order of the Board of Directors

Chennai
13th May, 2005

K. Ramji
General Manager (Finance) & Secretary

Directors' Report to the Members

The Directors have pleasure in presenting herewith their Twenty-Eighth Annual Report and the Audited Statement of Accounts of the Company for the year ended 31st March, 2005.

FINANCIAL RESULTS

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

	2004-2005 Rupees lakhs	Previous Year Rupees lakhs
The pre-tax profit for the year, after providing Rs. 330.24 lakhs (previous year – Rs. 325.88 lakhs) for Depreciation amounts to	238.96	86.71
After deducting provision for taxation		
Current Year Tax	133.00	41.00
Deferred Tax	(66.97)	(27.22)
and adding		
(a) transfer from investment allowance reserve account	36.89	–
(b) balance brought forward from the previous year	307.87	300.58
the amount available for disposal is	517.69	373.51
The Directors have made the following appropriations therefrom:		
(a) General Reserve	50.00	10.00
(b) Proposed Dividend	98.63	49.32
(c) Tax on Dividend	13.83	6.32
	162.46	65.64
leaving a balance to be carried forward of	355.23	307.87
	517.69	373.51

DIVIDEND

3. The Directors recommend the payment of a dividend of Rs. 2/- per equity share (20%) to the shareholders of the Company, for the financial year 2004-05 (previous year Re. 1.00 per share, i.e. 10%).

ACCOUNTS AND FINANCE

Working Capital

4. The Company effectively managed its working capital requirement within the sanctioned limits.

Term Loans

5. The Company has obtained a term loan of Rs. 250 lakhs in September 2004 from Hongkong & Shanghai Banking Corporation Ltd. (HSBC) to finance the restructuring costs, of compensation to be paid to those employees under the Voluntary Retirement Scheme. The loan is to be repaid in 10 equal quarterly instalments commencing from January 2005. The first instalment has accordingly been paid by the Company.

OPERATIONS

Sales

6. The Company recorded a total turnover of Rs. 5337 lakhs (inclusive of excise duty) during the year against Rs. 5243 lakhs during the previous year. The export sales of Rs. 3442 lakhs were significantly higher during the year compared to Rs. 3055 lakhs in the year 2003-04 mainly due to the increase in export of Phthalocyanine Blue Pigments.

Production

7. During the year under review, your Company produced 1851 tonnes of organic pigments and intermediates compared to 1769 tonnes produced during the year 2003-04.

Foreign Exchange Earnings and Outgo

8. The foreign exchange earnings of the Company during the year amounted to Rs. 3443 lakhs (previous year – Rs. 3055 lakhs). With imports accounting for Rs. 1332 lakhs (previous year – Rs. 863 lakhs), and after deducting outflows on other accounts, the net foreign exchange earnings of your Company during the year amounted to Rs. 2107 lakhs (previous year – Rs. 2183 lakhs).

Profitability

9. Despite reduction in price of an intermediate and rise in the price of major raw materials, the Company improved its profitability by importing a key raw material at a lower cost, by controlling and reducing power & fuel cost, by changing the product mix and by better utilisation of the capacity by manufacturing new products.

Capital Expenditure/Projects

10. The Company further upgraded the infrastructrual facilities and installed safety equipments during the year. The total capital expenditure during the year under review amounted to Rs. 124 lakhs.

Safety and Ecology

11. The Company is following several guidelines on safety and health administration (ESHA) recommended by the Clariant group. Continuous Improvement Process (CIP) techniques are being actively pursued for its manufacturing operations. This is an ongoing programme at all levels for improving processes which has resulted in improved house keeping and work practices leading to cost effective operations. The Company has evolved an Environment Management System (EMS) for its manufacturing activities. The Company's Environment Management System has been successfully certified under ISO-14001 during the year under review.

12. The Company continues to train and educate its employees in the process of upgrading the safety and health standards throughout its operations.

Quality Assurance and Systems

13. The Company continues to maintain its quality management system according to the ISO 9001-2000 standards and has successfully completed its surveillance audits during the year under review.

Responsibility Statement

14. 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, 2005, the applicable accounting standards have been followed along with proper explanations in case of material departures;

(ii) that such accounting policies as mentioned in Note 1 of Schedule 18 of the Annual Accounts have been applied consistently and judgements and estimates that are reasonable and prudent have been 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, 2005 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, 2005 have been prepared on a going concern basis.

Management Discussion and Analysis

15. The Management Discussion and Analysis Report is provided in the Annexure to this Report, as required by Clause 49 of the Listing Agreement.

Corporate Governance

16. The Company continues to comply 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

17. The industrial relations in the Company's factory and other establishments continued to remain cordial during the year. On the expiry of the settlement with the Vanavil Employees' Unions on 31st December, 2004, the unions have submitted their Charter of Demands seeking revision of the terms and service conditions applicable to the unionised category of employees. The negotiations on the Charter of Demands which has commenced in a spirit of mutual trust are presently in progress.

18. During the year under review, none of the employees of the Company have received remuneration of Rs. 24,00,000 or more per annum or at a rate of Rs. 2,00,000 per month or more. Therefore, the disclosure in accordance with the provisions of Section 217(2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975, as amended, has not been made.

Voluntary Retirement Scheme

19. The Company implemented a Voluntary Retirement Scheme during the year. Consequently the number of employees reduced from 229 to 172. Compensation of Rs. 233 lakhs was paid to those employees who opted for VRS, which is being expensed over a period of 3 years from 2004-05.

Directors

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

Auditors

21. 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

22. 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

23. 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.

24. 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
13th May, 2005

K. J. Bharucha
Chairman

Annexure to the Directors' Report

Information as per Section 217(1)(e) read with Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 and forming part of the Directors' Report for the period ended 31st March, 2005.

A. **CONSERVATION OF ENERGY:**

(a) **Energy conservation measures taken:**

– Modifications in the processes and installation of measurement and control instrumentation devices for various unit operations is continued.

(b) **Additional investments and proposals, if any, being implemented for reduction of consumption of energy:**

– Some of the recommendations of energy audit conducted in the previous year have been implemented. Others are under active consideration.

(c) **Impact of measures (a) and (b) above for reduction of energy consumption and consequent impact on the cost of production of goods:**

– The measures taken have resulted in savings in the cost of manufacture.

FORM-A

Form of disclosure of particulars with respect to conservation of energy

	2004-2005	2003-2004
A. POWER AND FUEL CONSUMPTION:		
1. Electricity		
(a) Purchased:		
Unit (KWH lakhs)	66.18	74.88
Total amount (Rs. lakhs)	298.84	350.06
Rate/Unit (Rs.)	4.52	4.67
(b) Own generation		
(i) Through Diesel Generator		
Unit (KWH lakhs)	0.53	0.98
Units per ltr. of Diesel Oil (KWH)	3.02	3.20
Cost/Unit (Rs.)	6.88	6.62
(ii) Through Steam Turbine/Generator		
Units Units per Ltr. of Fuel Oil/Gas Cost/Unit	Nil	Nil
2. Coal (used in the Boiler)		
Quantity (MT)	108	
Total Cost (Rs. lakhs)	3.53	Nil
Average Rate (Rs./MT)	3277	
3. LSHS		
Quantity (KG lakhs)	4.05	11.85
Total Cost (Rs. lakhs)	48.31	136.78
Rate/Unit (Rs.)	11.96	11.54
4. Furnace Oil		
Quantity (KL)	6.03	
Total Cost	72.06	Nil
Average Rate	1380	
5. Others		
(a) Lignite		
Quantity (MT)	48	212
Total Cost (Rs. lakhs)	0.66	2.22
Rate/Unit (Rs./MT)	1380	1047
(b) Fire Wood		
Quantity (MT)	1250	
Total Cost (Rs. lakhs)	15.37	Nil
Rate/Unit (Rs./MT)	1229	

B. CONSUMPTION PER UNIT OF PRODUCTION:

	Standards (if any)	2004-2005 per MT	2003-2004 per MT
Products: Synthetic Organic Compounds/Intermediates			
Electricity (KWH)		3604	4288
Others: Coal (MT)	Not applicable	0.06	–
LSHS (MT)		0.22	0.67
Furnace Oil (MT)		0.33	–
Lignite (MT)		0.03	0.12
Fire Wood (MT)		0.68	–

FORM-B

Form of disclosure of particulars with respect to absorption

Research & Development:

1.	Specific areas in which R&D carried out by the Company	:	Development of technology for new products – intermediates, specialty chemicals and pigments – meant for local and overseas markets and re-working of existing processes with the object of improving their efficiency which will lead to better management of quality and ecology.
2.	Benefits derived as a result of the above R&D	:	The R&D work resulted in achieving cost efficiencies through process modifications, yield improvements, waste reduction, energy saving and quality improvements.
3.	Further plan of action	:	(a) Efforts will be continued in the same direction; further, new products will be added under the Company's programme to extend its range of products for the overseas and local markets. (b) Efforts are being made, on a continuing basis, to develop intermediates for pigments and specialty chemicals. Also efforts are being taken for yield and process improvement of existing products.

4. Expenditure on R&D	:	2004-2005 (Rs. lakhs)	2003-2004 (Rs. lakhs)
a. Capital		–	–
b. Revenue		**10.19**	12.65
c. Total		**10.19**	12.65
d. Total R&D expenditure as a percentage of total turnover		**0.19%**	0.24%

Technology absorption, adaptation and innovation:

1.	Efforts, in brief, made towards technology absorption, adaptation and innovation	:	The Company's R&D department continues to absorb technology received from its principals and from other sources and to adapt the same to suit local conditions and effect improvements by further developmental work. The R&D activities are also aimed at reduction in the impact on the environment of the products and processes so developed.
2.	Benefits derived as a result of the above efforts, e.g. product improvement, cost reduction, product development, import substitution etc.	:	These efforts have resulted in the rationalisation and streamlining of the technology and operations, import substitution and enhancement of overall cost efficiencies.
3.	In case of imported technology (imported during the last 5 years reckoned from the beginning of the financial year) following information may be furnished.		
	a. Technology imported	:	None
	b. Year of import	:	Not Applicable
	c. Has technology been fully absorbed?	:	Not Applicable
	d. If not fully absorbed, areas where this has not taken place, reasons therefor and future plans of action.	:	Not Applicable

Foreign Exchange Earnings and Outgo		Rs. lakhs
1. Total foreign exchange earned	:	**3443.15**
2. Total foreign exchange used	:	**1335.69**

For and on behalf of the Board of Directors,

Chennai
13th May, 2005

K. J. Bharucha
Chairman