

products, resulting in polymer prices increasing substantially. This together with the unrelenting recession in manufacturing over the past 3 years, and the exodus of some industrial customers to China, have had some impact on the performance of the Company.

Under these circumstances, a 9.12% growth in sales turnover of the Company could be considered satisfactory.

MANAGEMENT DISCUSSION AND ANALYSIS REPORT

INDUSTRY STRUCTURE AND DEVELOPMENT: OPPORTUNITIES AND THREATS, RISKS AND CONCERNS

Speciality Chemicals:

The Company has continued its strategy to realign its direction with a view to maintain and improve its technological leadership in the industry. Product portfolios have been restructured towards improved competitiveness and profitability. The Company is now looking at appropriate investments in upgradation of the present plant and realigning reactor capacities to take advantage of economies of scale.

On the cost control front, the Company has been able to reduce its employee costs due to the residual effects of the Voluntary Retirement Scheme and other costs including reductions in interest costs. In spite of this, the Company has made a loss of approximate one crore in the year. With the surging prices of crude oil and its derivatives and its serious impact on the price of raw material inputs, the Company was unable to increase prices to its customers to the same extent. This has seriously eroded the bottom-line of the Company. Sectorwise, the Company has made the following progress:

In the Anionics sector, the Company has exported surfactants to some Gulf and Asian customers. Since innovation remains the key to success and growth, the Company's main focus remained in developing newer product initiatives, based on application needs of various customers.

In the Pesticide Emulsifier area, the Company has received bulk orders from leading bio-pesticide manufacturers for one of its speciality surfactants. We hope this will become a key growth area, not only for local sales but also for exports to Europe in the coming year.

In the area of Spin Finishes, the Company has introduced several new customers for its newly generated finishes for POY. In addition, the Company has now introduced new finishes for high speed texturizing and this has been successfully commercialized with some of our key new customers.

In the Rayon Industry, the Company has continued to receive bulk orders for its speciality lubricants for filament yarn. In addition, based on the newer needs of the customer, the Company has developed improved finishes for viscose fiber mainly used for export markets.

In the textile area, the Company continued its supply of finishing chemicals to China. In addition, taking advantage of the new situation, (where its customers in the organized sector have received large export orders), the Company was able to develop pre-treatment speciality products for a major export initiative. The Company is also focusing on working with some multi-national companies to develop and supply competitive products for their speciality chemical needs for this sector.

In the adhesive segments, the Company is exploring exports to Saudi Arabia. As leading manufacturers overseas, are looking towards India for their outsourcing needs, the Company is seeing a healthy trend towards purchases from India.

There has been a steady growth for mineral (metal) treatment chemicals for exports.

The Company's focus has been to develop export business, through various initiatives. One of these initiatives is a tie-up with a Consultant for the development of the European and Far Eastern markets.

In addition, as manufacturers shift to bio-degradable and high energy dispersants, the Company will be ready to offer suitable products. The Company's progress in introducing polymerisable surfactants and biodegradable emulsifiers to key customers has been a major step forward.

Exports will continue to be the channel for growth this year. The Company has received a 400 kgs trial order for Pour Point Depressants from one of its leading customers in Sudan. The Company hopes that this will lead to increased business in the coming year.



Polyacrylamides:

2004-05 has seen an increase in turnover, in terms of value and volume in sectors like waste water treatment, mineral processing, gel refrigeration, coal washeries, etc. The Company was able to retain its business and market share with most of its regular clients, against very severe price competition from multi-nationals. In many sectors, the Company was able to improve its market share. Unfortunately, in areas like sewage and CETP, though growth was originally projected and anticipated, several of these projects did not take off. Therefore flocculant consumption was very low. For the paper industry, the Company introduced new grades with improved performance and was able to stabilize the performance at various customers. The result of this will be felt in higher growth in 2005-06. Unfortunately, in the sugar and oil sectors, the Company has had a serious set-back due to very low prices being quoted by multi-nationals and through low priced imports.

For the future, the Company expects to see severe price competition from the multi-nationals inspite of the increasing raw material and crude costs. These increasing costs, together with the customers ever increasing demand for cost economics, better logistic services and technical support will see a constraint on the Company's bottom line for these products.

On the other hand, the Company has developed several new speciality chemicals for the alumina industry and we hope this will contribute significantly in volume and turnover in the coming year. The Company has also developed new colour coagulant product for the sugar industry and hopes to target additional business in the coming year.

Pharma:

The Company showed improved performance in all spheres of business in the year 2004-05. This was achieved by strengthening its chemistry, which is the basic growth engine for high level performance. This improved chemistry was successfully translated to commercial scale.

The Company stood by its commitment to enter the regulated market. To this end, the Company has set-up a new production facility in total conformity with USFDA requirements. APIs for export to regulated market will be manufactured here. The old manufacturing block is also being revamped to conform to the revised schedule M of the Government of India. This block will be used to manufacture intermediates (for APIs) meant for export as well as the local market. The Company has four compounds in the pipeline for export to advanced market and production will start as soon as the COSs are approved and US DMFs are triggered.

The Company is also in the process of developing technologies for some new molecules having different therapeutic indications like anti-histaminic and newer generation entries in the CNS area.

Late last year, the Company was approached by the GVK Group to consider the possibility of joining hands, to expand the scope of the division to include process chemistry and custom synthesis.

In this regard, the Company has signed an MOU to participate in a JV with the GVK Group. The Company believes that this partnership will be extremely beneficial to it not only in terms of receiving fair value for its assets, but also in getting shareholding in a dynamic forward thinking venture. The Company would focus on its core competency viz. Surfactant Chemistry.

INTERNAL CONTROL SYSTEMS AND THEIR ADEQUACY

The Company has an adequate system of internal control in all the spheres of its activities and is commensurate with the size and the nature of its business. It ensures adequate protection of the Company's resources provision of accurate and speedy financial statements and reports and compliance with the Company policies and procedures and other statutory and legal obligations. The internal control is supplemented by effective internal audit being carried out by reputed external firms of Chartered Accountants who are independent of the Statutory auditors. The Management regularly reviews the findings of the internal auditors and effective steps to implement any suggestions/observations of the internal auditors are taken and mentioned regularly.

FINANCIAL PERFORMANCE WITH RESPECT TO OPERATIONAL PERFORMANCE

Though, there was a growth in the sales by 9.12% compared to previous year, the company has incurred the operational loss of Rs. 102 Lacs for 12 months period ended 31st March 2005 as compared to profit of Rs. 95 Lacs of the previous year, which was mainly due to sale of capital assets.

MATERIAL DEVELOPMENTS ON HUMAN RESOURCES/INDUSTRIAL RELATIONS FRONT, INCLUDING NO. OF PEOPLE EMPLOYED

The company believes that motivated employees are the most important resource if the company has to attain business growth and retain the customers. Development and harmonization of the knowledge and skills of the employees of the Company have gone a long way in fulfilling the organizational goal of delivering the best value to the Customers and honouring the mission of optimizing the performance of our customers' processes — time and time again.

Cordial relations were maintained throughout the year. The company has initiated many steps in the career and personality development of the employees belonging to different departments. The employees attended various seminars/workshops to enhance their skills and knowledge.

As on March 2005, the total number of employees on the rolls of the company at Corporate Office and all locations was 388.

4. FIXED DEPOSITS:

Out of the fixed deposits totaling to Rs. 335 Lacs as at 31st March 2005, deposits amounting to Rs. 1,36,000/- which matured, have not been claimed by the depositors on the said date.

5. INFORMATION PURSUANT TO SECTION 217 OF THE COMPANIES ACT, 1956:

- (a) The company has no employees of category specified as per Section 217(2A) of the Companies Act, 1956, read with Companies (Particulars of Employees) Rules, 1975 during the financial year.
- (b) The particulars as prescribed under sub-section (1)(e) of Section 217 of the Companies Act, 1956, read with Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988, are given in this annexure to this Report.

6. DIRECTORS:

During the year, Dr. Eduljee has resigned from the Board w.e.f. 21st January 2005. Dr. Adarkar has sadly passed away, therefore and ceases to be Director of the Company with effect from 7th March 2005. Mrs. S. F. Vakil has been appointed as Vice-Chairperson of the Board with effect from 11.3.2005 and Dr. Anil M. Naik was co-opted as additional Director with effect from 24.6.2005.

In accordance with the provisions of the Companies Act, 1956 and Articles of Association of the Company, Mr. J. H. C. Jehangir and Dr. K. R. Bharucha retire from the Board of Directors by rotation and are eligible for reappointment. Brief resumes of the above Directors, nature of their expertise, numbers of companies in which they are Directors or members of the committees of the Board as stipulated in the clause 49 of the Listing Agreement of the Stock Exchanges are given in section on Corporate Governance attached to this Report.

7. DIRECTOR'S RESPONSIBILITY:

Pursuant to Section 217 (2AA) of the Companies (Amendment) Act, 2000 the Directors confirm that:

1. in the preparation of the annual accounts, the applicable accounting standards have been followed;
2. appropriate accounting policies have been selected and applied consistently, and have 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 as at March 31, 2005, and of the loss of the Company for the period April 1, 2004 to March 2005;
3. 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 fraud and other irregularities;
4. the annual accounts have been prepared on a going concern basis.