



**VIEWS OF THE TURKISH GOVERNMENT REGARDING THE ANTI-DUMPING
INVESTIGATION INITIATED AGAINST HYDROGEN PEROXIDE BY THE
REPUBLIC OF INDIA**

The Government of Turkey presents its compliments and has the honour to state that Turkey attaches great importance to promote bilateral trade relations with India. We hope the friendly and historical relations between our countries will allow us to solve this issue.

This document includes the views of the Turkish Government regarding the anti-dumping investigation initiated by the Ministry of Commerce & Industry of the Republic of India (hereinafter referred as the Ministry) in accordance with the related provisions of the Articles 6.1, 6.2 and 6.11 of the GATT 1994 Anti-Dumping Agreement.

1. General Remarks

On July 20, 2007, the Ministry initiated an anti-dumping investigation regarding the imports of hydrogen peroxide originating in China PR, Indonesia, Republic of Korea, the EU and Turkey after evaluating a complaint lodged by the Indian domestic industry including National Peroxide Limited, Gujarat Alkalies & Chemicals Limited, Asian Peroxide Limited and Hindustan Organic Chemicals Limited which represent the %100 of total hydrogen peroxide production in India.

The non-confidential version of the petition does not contain any information whether the above-mentioned producers are importers of the said product or not. Within the framework of the provisions of the Article 4.1 of the Anti-Dumping Agreement, producers that are related to exporters or importers or are themselves importers of the allegedly dumped product are not interpreted as domestic industry. Thus, Turkey is in the position to ask which of these companies import hydrogen peroxide and in what quantities. The Ministry should evaluate the situation of these companies by taking into account of the adequacy and accuracy of the petition in accordance with the Articles 4.1 and 5.3 of the Anti-Dumping Agreement.

The Government of Turkey expresses its regrets for the initiation of the said investigation, taking into consideration the fact that the complaint lodged by abovementioned petitioners lacks sufficient evidence to initiate an anti-dumping investigation under the provisions of the GATT 1994 Anti-Dumping Agreement.

2. Remarks On Dumping Allegation

A thorough examination of the non-confidential version of the petition shows that the dumping allegations are based on inadequate information that makes the petition misleading. In fact, the complaint lacks evidence to justify the initiation of an anti-dumping investigation within the light of the Article 5.3 of the GATT 1994 Anti-Dumping Agreement.

Examples of this inadequate information in the non-confidential version of the petition go as follows:

- For the calculation of the normal value equal freight costs are considered as the same for all countries subject to investigation.¹
- The calculation of the constructed normal value on the basis of estimates of cost of production by hydrogen route and naphtha route is not clear enough due to the fact that the value of raw material and other costs have been kept confidential.²
- The calculation of the net export price is ambiguous because of it is not clear how the adjustments are made.³

This confidential treatment is not in compliance with Article 6.5 of the Anti-Dumping Agreement. Likewise, the Ministry should take into account the provisions of Article 2.2 of the Agreement for using the constructed normal value in the determination of the dumping margin.

In this context, contrary to the Article 2.4 of the GATT 1994 Anti-Dumping Agreement, which defines standards of fair comparison between the export price and normal value, dumping margins calculated for the Turkish originating imports in the non-confidential version of the petition are arbitrary and ambiguous.

3. Remarks on Injury

The analysis of the non-confidential version of the petition and some petitioner's financial statements obtained through their official websites shows that no causal link could be established between material injury to Indian domestic market and Turkish originating imports. Nevertheless, the non-confidential version of the petition contains significant amount of biased and self-contradictory information about material injury and it fails to analyze all known factors.

While the custom duties are decreased on the subject product and petitioners are not competitive enough in the international market as an exporter of the subject product, it is understood that the petitioners aim to protect oligopolistic structure of the Indian hydrogen peroxide market. Actually, it is realized from the non-confidential version of the petition that the complainants are in a fair condition in terms of return in investment, capital employed, utilization of capacity and wages in particular.⁴ Under these positive conditions, any injury that petitioners claim to suffer may occur from their own problems rather than the import of the subject product.

Besides, in the non-confidential version of the petition, Israel and Thailand are considered among China PR, Indonesia, South Korea, the EU and Turkey that are causing material injury whereas they are not mentioned in the initiation notification.⁵ Turkish Government seeks clarification, unlike Turkey, why these two countries are not involved in the investigation. Turkish Government is of the view that any injury caused by the imports from any other country could not be attributed to Turkish originating imports.

i. Economic Parameters of the Domestic Industry

¹ See Annexure 3.2 of the non-confidential version of the petition.

² See Annexure 3.3 & Annexure 3.5 of the non-confidential version of the petition.

³ See Annexure 3.9 of the non-confidential version of the petition.

⁴ See Proforma IV A of the non-confidential version of the petition.

⁵ See page 4 of the non-confidential version of the petition.

In the non-confidential version of the petition, it is claimed that there is a decline in sales, profits, output, growth, market share of domestic industry, employment, productivity, return on investments and capacity utilization⁶ and in this framework the domestic industry has suffered material injury and is threatened with material injury. In fact, following information in some petitioner's official websites rebuts these claims:

a. Gujarat Alkalies & Chemicals Limited (GACL)

- Production & Profit

In the 33rd Annual Report of Gujarat Alkalies & Chemicals Limited (GACL) it is stated that *"The Company is expanding its capacities for Caustic Soda and Hydrogen Peroxide."*⁷ and *"With the improvement in the industrial demand and up-trend in the commodity cycle during 2005-06, demand for the Company's product has remained buoyant. The Company has been able to improve operating margins from 20.14 % in FY01 to 35.18 % in FY06."*⁸ for 2005-2006 period which is one of the periods covered by the injury investigation.

The number of employee of GACL increased from 1395⁹ in 2005 to 1529¹⁰ in 2006. Again, in the related reports, it is stated that *"Your Company performed very well during the year 2005-06. The year under review is one of the best fortunes for your Company. The Company could achieve the highest ever profit during the year under review."*¹¹ and *"Your Company has achieved highest ever production and sales turnover in its history."*¹²

Likewise, the News in the Press related to GACL such as *"In August 2007, GACL commissioned a Rs108-crore hydrogen peroxide project at Dahej that has a capacity of 12,540 tonnes per annum (tpa)."*¹³ and *"Gujarat Alkalies & Chemicals Limited reported earnings results for the nine months ended December 31, 2007. The company reported net profit rose 39 % at INR 2,057.3 million compared with INR 1,480 million for the same period last year."*¹⁴ disclose clearly that the Company has increased its capacity and profit on the contrary has suffered material injury.

In the light of abovementioned statements, it is obvious that the GACL has considerably positive financial performance during the period of 2005-2007 on the contrary claims in the non-confidential version of the petition.

- Input Costs

In the 33rd Annual Report of Gujarat Alkalies & Chemicals Limited it is implied that cost of raw materials in production and transportation are increasing.¹⁵ And in the 34th Annual Report of GACL it is stated that *"The raw material expenses increased by 24,55 % ... during*

⁶ See pages 20, 21 & 22 of the non-confidential version of the petition.

⁷ See Annex I (Page 16 of the Gujarat Alkalies & Chemicals Ltd., 33rd Annual Report, 2005-2006).

⁸ See Annex I (Page 16 of the Gujarat Alkalies & Chemicals Ltd., 33rd Annual Report, 2005-2006).

⁹ See Annex I (Page 16 of the Gujarat Alkalies & Chemicals Ltd., 33rd Annual Report, 2005-2006).

¹⁰ See Annex I (Page 17 of the Gujarat Alkalies & Chemicals Ltd., 34th Annual Report, 2006-2007).

¹¹ See Annex I (Page 17 of the Gujarat Alkalies & Chemicals Ltd., 33rd Annual Report, 2005-2006).

¹² See Annex I (Page 18 of the Gujarat Alkalies & Chemicals Ltd., 34th Annual Report, 2006-2007).

¹³ See Annex II. (<http://www.tmcnet.com/usubmit/2007/12/26/3184840.htm>)

¹⁴ See Annex III. (<http://investing.businessweek.com/research/stocks/snapshot/snapshot.asp?symbol=GJAKF.PK>)

¹⁵ See Annex I. (Page 17 of the Gujarat Alkalies & Chemicals Ltd., 33rd Annual Report, 2005-2006).

the previous financial year 2005-2006, mainly due to increase in the procurement cost of various raw materials like ... and additional transportation costs. Electricity charges have increased by 32,87 % ... during the previous financial year 2005-2006. Other operating expenses which include manufacturing and operating costs, employee remuneration and benefits, administrative, miscellaneous and marketing expenses increased in the F.Y. 2006-07 by 19,86 %..."¹⁶

Turkish Government is of the view that, no injury to the Indian domestic industry caused by increasing costs in the domestic market could be attributed to Turkish originating imports.

b. Hindustan Organic Chemicals Limited

- Financial Instability of the Company

In the 45th Annual Report of Hindustan Organic Chemicals Limited it is noticed that the Company had been incurring losses from the financial year 1997-98 to 2005-06. Moreover, to find out lasting revival strategy the Company had appointed SBI Capital Markets Ltd. for techno-economic feasibility study. According to the Annual Report, Government of India is requested to provide equity to be utilized for repayment of loans and to provide funds to be utilized for repayment of high cost overdue bonds and also requested to the continuation of Government of India Guarantee of Rs.100 crore for full term of ten years to be utilized to liquidate high cost debt.¹⁷ This situation clearly shows the instability of the Company.

Meanwhile, in the Ministry of Chemicals and Fertilizers Department of Chemicals and Petrochemicals 2005 Report¹⁸ it is stated that the loss the Company had faced is because of old technology, high cost of man power in comparison to industry norm, uneconomic operations and marketing problems.

Turkish Government is of the view that, no injury to the Indian domestic industry caused by financial problems of the petitioners could be attributed to Turkish originating imports.

- Input Costs

In the 45th Annual Report of Hindustan Organic Chemicals Limited it is implied that the capacity of Indian Industry is small as compared to the competitors abroad; in effect the Indian industry is in a disadvantageous position with regard to overhead costs, the manpower cost per ton of finished product is high and old depreciated plants requires high maintenance cost.¹⁹

Furthermore, according to the same report injury suffered by the Company is a result of increasing costs related to surging crude oil prices, high labor costs, closed plants due to flood and major repairs of furnace.²⁰

¹⁶ See Annex I. (Page 18 of the Gujarat Alkalies & Chemicals Ltd., 34th Annual Report, 2006-2007).

¹⁷ See Annex IV. (Page 4 of the Hindustan Organic Chemicals Limited Annual Report 2005-2006.)

¹⁸ See Annex V. (<http://www.rti.sdjindia.org/cag%20chemical%20ch1.pdf>)

¹⁹ See Annex IV. (Page 10 of the Hindustan Organic Chemicals Limited Annual Report 2005-2006.)

²⁰ See Annex IV. (Page 4 of the Hindustan Organic Chemicals Limited Annual Report 2005-2006.)

Turkish Government is of the view that, no injury to the Indian domestic industry caused by increasing costs in the domestic industry could be attributed to Turkish originating imports.

ii. Tariff Reductions

Republic of India has reduced the customs duties on the subject product by 30 % in 2002-03 to 12,5 % in 2006-07²¹; in this framework domestic producers' products have to face competition from imports.

In the 33rd Annual Report of the Gujarat Alkalies & Chemicals Limited it is stated that "*Alkali products have to face competition from imports with reduction in custom duties. To protect from unfair competition for products like ... , Company had approached designated authority for levy of Anti-dumping duties against such imports and Anti-dumping duties have been imposed on imports of these products from various countries.*"²² This approach stated in this Report is not appropriate under the provisions of Article 3.5 of the Anti-Dumping Agreement regulates that investigating authorities shall examine all "known factors", "other than dumped imports", which "at the same time" causing injury to the domestic industry and factors which may be relevant in this respect include, ... "competition between the foreign and domestic producers". In addition to this, the WTO Appellate Body concluded in *US-Hot-Rolled Steel Case* that investigating authorities must ensure that injury caused by known factors, other than dumped imports, are not "*attributed*" to the dumped imports.

Under these circumstances, a possible material injury that was caused by domestic industry's inability to compete under lower tariff rates could not be attributed to Turkish originating imports.

4. Conclusion

Contrary to the Article 3.5 of the Anti-Dumping Agreement, the non-confidential version of the petition tries to attribute injury caused by other factors (such as increasing costs, financial problems of the petitioners, competition after tariff reductions) to the Turkish originating imports.

Under these circumstances, The Government of Turkey is not convinced that the complaint contains sufficient evidence to initiate an anti-dumping investigation against Turkish originating imports within the framework of the provisions of Article 5.3 of the GATT 1994 Anti-Dumping Agreement.

And Turkey is in the view that on the contrary the steps taken towards a liberalized market economy within the terms of reducing the custom duties by Indian Government, the petitioners aim to retain the oligopolistic structure of the Indian hydrogen peroxide market with eliminating competition.

Within the framework of Article 12.2 of the Anti-Dumping Agreement the Government of Turkey requests the Ministry to inform the Turkish Government about the final findings, whether affirmative or negative, of the anti-dumping investigation regarding the imports of hydrogen peroxide originating, *inter alia*, in Turkey.

²¹ See page 3 of the non-confidential version of the petition.

²² See Annex I. (Page 19 of the Gujarat Alkalies & Chemicals Ltd., 33rd Annual Report, 2005-2006).

Bearing in mind the great value attributed by both Turkey and India to the friendly and constructive relations between our countries, the Government of Turkey kindly requests the Republic of India to terminate this proceeding immediately without imposition of any measures on Turkish originating imports.

ANNEX I

MANAGEMENT DISCUSSION AND ANALYSIS

INTRODUCTION:

Gujarat Alkalies And Chemicals Limited (GACL) is a Company promoted by Government of Gujarat through Gujarat Industrial Investment Corporation Ltd. GACL is the single largest producer of Caustic Soda in India with production capacity of 820 TPD and enjoys the economies of scale. The Company is accredited with IS/ISO 9001:2000, ISO 14001:2004 and IS 18001:2000 Certifications. The quality policy of the Company reflects its emphasis and commitments. From an initial capacity of 37,425 TPA Caustic Soda, it has grown to be the largest producer in India, with a capacity of 2,70,000 TPA spread over two complexes at Vadodara and Dahej. Gujarat has the longest coastal area and the Company has proximity to the salt pans leading to uninterrupted supply of the major raw material i.e. salt. GACL commenced operations in 1976 and subsequently went into the manufacture of other basic chemicals like Sodium Cyanide, Sodium Ferrocyanide, Chloromethanes, Hydrochloric Acid, Caustic Potash, Potassium Carbonate, Phosphoric Acid (85%) and Hydrogen Peroxide. The Company has made its presence felt across the globe even against stiff competition by exporting products to USA, Europe, Australia, Africa, Far & Middle East Countries, China & South Asian Markets.

AN ANALYSIS:

GACL is a multi-product Company manufacturing 23 products. The Company derives around 65% of its revenues from chlor-alkali business and 35% revenues from the other value added products. The Company has a 16% market-share in the domestic chlor-alkali industry. The Company is expanding its capacities for Caustic Soda and Hydrogen Peroxide.

Coupled with the economies of scale the synergy of having 90 MW gas based co-generation power plant at Dahej and its strategic equity participation in Gujarat Industries Power Company Limited at Vadodara to take care of its power requirements have enabled the Company to remain the most cost effective producer of Caustic Soda in the country. GACL has been able to achieve over 100% capacity utilisation for majority of its plants. Currently, GACL has employee strength of 1395 as on 31st March, 2006. The average sale per employee is around Rs.78 lakhs per annum.

With the improvement in the industrial demand and up-trend in the commodity cycle during 2005-06, demand for the Company's products has remained buoyant. The Company has been able to improve operating margins from 20.14% in FY01 to 35.18% in FY06. Operating margin on External Sales has improved to 43.69% in F.Y. 2005-06 from 29.49% in F.Y. 2000-01. The Company has re-structured its debt in FY04 and has reduced the interest cost from 16.00% in FY01 to 8.6% in FY06. Caustic Soda and Chlorine are the major chemicals used in the manufacture of other chemicals.

Both these chemicals find extensive usage across various industries and have thousands of applications.

The removal of quota on textiles and capacity expansion in the paper and aluminum industry are the positive factors for the demand for the Company's products in the domestic market.

GACL along with the other manufacturers, has filed anti-dumping duties cases and has succeeded in getting imposed anti-dumping duties on imports of Caustic Soda, Potassium Carbonate, Methylene Chloride, Phosphoric Acid and Sodium Cyanide.

With a wide range of products, having diverse applications across various industries, the Company expects to have lower dependence on the chlor-alkali product range.

OVERVIEW OF INDIAN ECONOMY:

India's GDP growth for the financial year 2005-06 is expected to be higher at 8.1 percent as against 7.5 percent during the previous year 2004-05. The major driver of higher growth this year is revival in agriculture due to very good monsoon. The industrial sector too has been on a higher growth scale. The overall industrial growth has been led by a robust performance from manufacturing, construction and infrastructure sectors. The union budget 2006-07 has laid emphasis on irrigation and agriculture. The rural infrastructure development through various programmes is a main target initiative envisaged during the fiscal 2006-07.

Some significant dimensions of the dynamic growth in recent years are: a new industrial resurgence; a pick up in investment; modest inflation in spite of spiraling global crude prices; rapid growth in exports and imports with a widening of the current account deficit; laying of some institutional foundations for faster development of physical infrastructure and progress in fiscal consolidation.

The economic factors indicate a broad-based recovery. The highlights of Indian economy is reflected in the following points:

- Industrial recovery driven mainly by firming up of manufacturing sector.
- The service sector also remained in the forefront of overall economy with an impressive growth rate.
- GDP in agricultural and allied activities firmed up by 1.1%.
- The buoyant stock market with the Indian bourses outperforming many international stock indices contributed in growth acceleration.
- Exports at about \$80 bn exceeded the target while forex reserves were at an all time high of \$163 bn.

The year under review witnessed large scale volatility in the commodity market. The crude price touched a new height resulting into creation of uncertainty in sustaining the global



GACL

growth momentum. Consequently, the major cause of concern for most of the manufacturing business entities was rising input costs. In spite of these negative factors, the Indian manufacturing sector grew at 9.4% during 2005-06. The construction Industry has been maintaining its growth rate of double digits during last few years.

The overall growth in the economy is aided by productive gains, cost cutting by corporates, trade expansions and financial stability. Further, the commodity sectors like steel, oil and gas attracted very large investments.

(The above data is taken from published information of GOI and others)

FINANCIAL PERFORMANCE:

Your Company performed very well during the year 2005-06. The year under review is one of the best fortunes for your Company. The Company could achieve the highest ever profit during the year under review.

The profitability of the Company after providing for taxation has improved from Rs.144.27 crore in 2004-05 to Rs.197.97 crore in 2005-06 an increase of 37.21%. Despite tough competition, the sales volumes of Caustic Soda, Hydrochloric Acid and Chloromethanes have improved. The sales realisation of Caustic Soda Group of Products, Chloromethanes, Hydrogen Peroxide, Caustic Potash Group of Products and Phosphoric Acid have also improved and stabilized.

For the year ended 31.03.2006, the Company achieved turnover of Rs.1093.96 crore, an increase of about 4.54% from Rs.1046.42 crore in the previous year. It is hoped that the demand for the Company's products and the realisation will continue to improve or remain more or less at the same level in the coming year. The other income, during the year ended 31.03.2006, had been Rs. 27.78 crore, as compared with Rs.10.75 crore for the previous year.

With concerted efforts the Company has achieved higher operational efficiency of all the plants and exercised adequate cost control measures. The Company has continued to reduce its total debts during the year under review by Rs.67.21 crore. The efforts to improve the performance of the Company are continuing.

The raw material expenses increased by 18.06% to Rs. 261.60 crore from Rs. 221.58 crore during the previous financial year 2004-05, mainly due to increase in production and increase in transportation costs of raw materials. Electricity charges have increased by Rs.18.65 crore (7.60%). Other operating expenses which include manufacturing and operating costs (especially power costs), employee remuneration and benefits, administrative, miscellaneous and marketing expenses, increased in the F.Y. 2005-06 by 6.23% to Rs. 302.11 crore from Rs. 284.39 crore in the F.Y.2004-05.

The operating profit (earnings before depreciation, interest and taxes) has increased to Rs. 412.52 crore in the F.Y. 2005-06 from Rs.405 crore in the F.Y. 2004-05.

Further, the interest expenses and financial charges in F.Y. 2005-06 could be brought down by 34.14% to Rs. 39.36 crore from Rs. 59.76 crore for the F.Y. 2004-05. The profit after interest but before depreciation has been Rs.373.16 crore as against Rs.345.24 crore for the F.Y.2004-05, an increase of 8.09%.

OPERATIONS AND BUSINESS FOR (UPWARD):

The Company achieved highest ever production of 3,10,470 MT of Caustic Soda Lye against the production of 3,05,930 MT in 2004-2005, which shows an increase of 1.48% over the previous year breaking all previous records.

The production of Caustic Soda Flakes and Prills was also highest ever at 1,45,975 MT compared to 1,31,249 MT during the previous year, which shows an increase of 11.22%.

The production of Caustic Potash Lye had decreased marginally to 18,858 MT compared to 19,000 MT during the previous year, which shows a decrease of 0.75% due to floods in Gujarat during the month of July, 2005.

The production of Caustic Potash Flakes had been 7,066 MT compared to 6,090 MT during the previous year, which shows an increase of 16.03%.

The production of Potassium Carbonate had been curtailed to 11,046 MT compared to 13,010 MT i.e. by 15.10% during 2005-06 because of increase in Caustic Potash Flakes market demand.

The production of Chloromethanes (CLM) had been highest ever at 26,166 MT in 2005-06 compared to 25,844 MT during the previous year.

The production of Hydrogen Peroxide was marginally lower at 13,225 MT compared to 13,551 MT (100% basis) during the previous year.

The production of Sodium Cyanide was marginally lower at 2,317.5 MT compared to 2,512.2 MT during the previous year because of low availability of HCN.

A record production of 24,730 MT of Phosphoric Acid had been achieved in 2005-06 compared to 23,900 MT during the previous year, which shows an increase of 3.47%.

The production of Calcium Chloride had been 9,304 MT compared to 7,585 MT during the previous year which shows an increase of 22.66%. Calcium Chloride product consists of Calcium Chloride Liquid (35%), Flakes and Powder. The production of Aluminium Chloride has also increased from 5,247 MT to 7,638 MT, an increase of about 46%.

The power generation had increased to 722.34 million units in 2005-06 from 704.66 million units in 2004-05, which shows an increase of about 2.51%. As compared to last year's PLF of 89%, the PLF in 2005-06 was 91.62%.

RESEARCH AND DEVELOPMENT:

The R&D efforts are strategically linked with our present operational line. We are primarily focused on the application

MANAGEMENT DISCUSSION AND ANALYSIS

INTRODUCTION:

Gujarat Alkalies And Chemicals Limited (GACL) was established in 1973 as a wholly owned subsidiary of Gujarat Industrial Investment Corporation Limited (GIIC), an industrial development Company owned by the Government of Gujarat. GIIC and other Govt. of Gujarat Corporations/ Boards together hold 40.48% share of the Company's equity as on 31st March, 2007. GACL is the single largest producer of Caustic Soda in India with installed production capacity of 379550 MT of Caustic Soda Lye/Caustic Potash as on 31st March, 2007 and enjoys the economies of scale. From a humble beginning in 1976, the Company's turnover soared to Rs.1215.11 Crore as on 31st March, 2007. The market capitalization of the Company's equity was Rs.856 Crore and Rs.854 Crore at BSE and NSE respectively as on 31st March, 2007.

The Company is accredited with IS/ISO 9001:2000, ISO 14001:2004 and IS 18001:2000 Certifications. The quality policy of the Company reflects its emphasis and commitments. Gujarat has the longest coastal area and the Company has proximity to the salt pans leading to uninterrupted supply of the major raw material i.e. salt. The economic transformation in the last decade and half has created profound changes in the profiles of Indian Industry. The Company is not confined to its predominant business of Chlor-Alkali Sector but also diversified into several products.

GACL commenced operations in 1976 and subsequently went into the manufacture of other basic chemicals like Sodium Cyanide, Sodium Ferrocyanide, Chloromethanes, Hydrochloric Acid, Caustic Potash, Potassium Carbonate, Phosphoric Acid (85%) and Hydrogen Peroxide. The Company through its products is associated with various industries viz. Textiles, Pulp & Paper, Soaps & Detergents, Food Processing, Steel, Paint, Metal & Metal refining, Water Treatment, Petroleum & Petroleum Chemicals, Fertilizer & Chemicals, Pharmaceuticals, Agrochemicals, Dyes & Dyes Intermediates, etc. The Company has made its' presence felt across the globe even against stiff competition by exporting products to USA, Europe, Australia, Africa, Far & Middle East Countries, China & South Asian Markets.

AN ANALYSIS:

GACL is a multi-product Company manufacturing 26 products. The Company derives around 66% of its revenues from chlor-alkali business and 34% revenues from the other value added products. The Company has a 17.8% market-share in the domestic chlor-alkali industry. The Company has expanded its capacities for Caustic Soda and Hydrogen Peroxide.

Coupled with the economies of scale, the synergy of having 90 MW gas based co-generation power plant at Dahej and its strategic equity participation in Gujarat Industries Power Company Limited at Vadodara to take care of its power requirements have enabled the Company to remain the most cost effective producer of Caustic Soda in the country.

GACL has been able to achieve over 100% capacity utilization for majority of its plants. Currently, GACL has employee strength of 1529 as on 31st March, 2007. The average sale per employee is around Rs.79 lakhs per annum.

With the improvement in the industrial demand and up-trend in the commodity cycle during 2006-07, demand for the Company's products has remained good. The Company has been able to improve operating margins from 20.14% in FY01 to 26.57% in FY07. Operating margin on External Sales has improved to 38.17% in F.Y. 2006-07 from 29.49% in F.Y. 2000-01. The Company has re-structured its debt in FY04 and has reduced the interest cost from 16.00% in FY01 to 8.70% in FY07. Caustic Soda and Chlorine are the major chemicals used in the manufacture of other chemicals. Both these chemicals find extensive usage across various industries and have thousands of applications.

The removal of quota on textiles and capacity expansion in the paper and aluminum industry are the positive factors for the demand for the Company's products in the domestic market.

GACL along with the other manufacturers, has filed anti-dumping cases and has succeeded in getting imposed anti-dumping duties on imports of Caustic Soda, Potassium Carbonate, Methylene Chloride, Phosphoric Acid and Sodium Cyanide.

With a wide range of products, having diverse applications across various industries, the Company expects to have lower dependence on the chlor-alkali product range.

AN OVERVIEW OF INDIAN ECONOMY:

There has been vigorous growth of the Indian economy in 2006-07 with strong macroeconomic fundamentals. The growth rate of 9.2% surpassed all past records and initial estimate of 8.1%. Though the services sector contributed a major share of this growth, the industrial sector growth, particularly in manufacturing has boosted the growth. A notable feature of the current growth phase is the sharp rise in the rate of investment in the economy for four consecutive years. Investment, in general being a forward-looking variable, reflects a high degree of business optimism. Impressive progress in Information Technology (IT) and IT-enabled services, both rail and road traffic, and fast addition to existing stock of telephone connections, particularly mobiles, played a key role in such growth. The financial services sector has also shown impressive growth in 2006-07.

After an annual average of 3.0 per cent in the first five years of the new millennium starting 2001-02, growth of agriculture at only 2.7 per cent in 2006-07, on a base of 6.0 per cent growth in the previous year, is a cause of concern. Low investment, imbalance in fertilizer use, low seeds replacement rate, a distorted incentive system and low post-harvest value addition continued to be a drag on the sector's performance.

The inflation rate in 2006-07 has been on a general upward trend with intermittent decreases. However, average inflation remained at 5 per cent. The major contributor to the higher rate of inflation has been food items and petro-products. The industrial resurgence and upswing in investment was reflected in, and sustained by, growth of gross bank credit.

Reconciling the twin needs of facilitating credit for growth on the one hand and containing liquidity to tame inflation on the other remained a challenge for the Government. RBI put a restraint on the rapid



growth of personal loans, capital market exposures, residential housing and commercial real estate loans in April 2006. The cash reserve ratio (CRR) was hiked thrice by March 3, 2007. The change in the liquidity and inflation environment is reflected in the continuous hardening of interest rates in 2005-06 and in 2006-07 so far. With the high demand for credit not adequately matched by deposit growth, there was steady increase in the credit-deposit ratio and hardening of interest rates.

With the buoyant flows, the foreign exchange reserves grew to US\$185.1 billion by February, 2007. The foreign direct investment (FDI) and Capital flows into India remained strong. There was upbeat mood of the capital markets, reflecting the improved growth prospects of the economy. The positive sentiments were manifest also in most indicators such as resource mobilized through the primary market. Investment requirements for infrastructure during the Eleventh Five Year plan are estimated to be around US\$ 320 billion. While nearly 60 per cent of these resources would come from the public sector, the balance would need to come either from the private sector and/or through public-private partnership (PPP).

Efforts towards social sector development continued to focus on the key areas of human development and creation of social infrastructure. Various mandated flagship programmes of Government witnessed large increases in outlays. These programmes included the National Rural Employment Guarantee Scheme, Total Sanitation Campaign, National Rural Health Mission, Sarva Shiksha Abhiyan (SSA), Midday Meal, Integrated Child Development Services (ICDS), Jawaharlal Nehru National Urban Renewal Mission and the Rajiv Gandhi National Drinking Water Mission. Apart from extending their coverage, implementation continued to focus on the difficult task of improving their access, delivery and quality of the social services.

The economy appears to have decidedly 'taken off' and moved from a phase of moderate growth to a new phase of high growth and moving to a sustained high-growth with moderate inflation. The maintaining and managing high growth is possible with fiscal prudence and high investment.

With the economy growing, the annual growth rate of employment has accelerated and there is high potential of growth in employment. Generating more productive and sustainable jobs lies at the heart of inclusive growth.

The Government has launched the National Rural Employment Guarantee Scheme (NREGS), with the objective of providing social safety net and reduce poverty and improve rural infrastructure. There is a need for improvement in the quality of social services, standard of education and providing education to a large number of school-age children.

A sense of optimism characterizes the current economic conjuncture. Fostering the momentum of growth continues to be a top priority. Sustainability of such growth will depend on carefully calibrating policies to tame inflation without dampening growth; formulating appropriate supply-side measures, particularly in agriculture; better design and more effective delivery of social services, such as education, health and poverty-alleviation, to make growth more inclusive; and putting fresh impetus behind infrastructure.

(Source - website - www.indiabudget.nic.in)

FINANCIAL PERFORMANCE:

Your Company has achieved highest ever production and sales turnover in its history, during the year 2006-07. Despite tough competition and volatility in market, your Company has achieved highest ever sales volume in respect of Caustic Soda Group, Chloromethanes and Phosphoric Acid products. The sales realisation of Caustic Soda Lye, Hydrochloric Acid, Caustic Soda Flakes, Caustic Soda Prills, Caustic Potash Group, Sodium Cyanide, Hydrogen Peroxide, Calcium Chloride and Aluminium Chloride have also improved.

For the year ended 31.03.2007, the Company achieved turnover of Rs.1,215.11 crore including excise duty, an increase of about 11.07% from Rs.1,093.96 crore including excise duty in the previous year. It is hoped that the demand for the Company's products and the realisation will continue to improve or remain more or less at the same level in the coming year.

The other income, for the financial year 2006-07 had been Rs. 40.51 crore, as compared with Rs. 27.55 crore for the previous year. The other income includes Rs.15.07 crore being VAT Collected under Sales Tax incentive scheme of Government of Gujarat and allowed as remission under Gujarat Value Added Tax Act, 2003.

With the concerted efforts, the Company has achieved higher operational efficiency of all the plants and exercised adequate cost control measures. The Company has continued to reduce its total debts during the year under review by Rs.71.98 crore. During the Financial Year 2006-07, the Company has exited from Corporate Debt Restructuring Mechanism. There has been significant improvement in the Debt : Equity ratio at 0.26 : 1 as on 31.03.2007, as compared to 0.53 : 1 as on 31.03.2006. Interest Coverage ratio has improved to 10.57 times as on 31.03.2007, as compared to 10.48 times as on 31.03.2006. The Debt Service Coverage ratio has improved to 3.12 times as on 31.03.2007, as compared to 2.83 times as on 31.03.2006. The Gross Fixed Assets Coverage ratio has improved to 12.48 times as on 31.03.2007, as compared to 6.26 times as on 31.03.2006. The efforts to improve the performance of the Company are continuing.

The Raw Material expenses increased by 24.55% to Rs.325.82 crore from Rs.261.60 crore during the previous financial year 2005-06, mainly due to increase in the procurement cost of various raw materials like Common Salt, Barium Carbonate, other auxiliary chemicals, Aluminium ingots, Natural Gas, imported materials like KCL, Rock Phosphate etc. and additional transportation cost. Electricity charges have increased by 32.87% to Rs.350.89 crore from Rs.264.08 crore during the previous financial year 2005-06. Other operating expenses which include manufacturing and operating costs, employee remuneration and benefits, administrative, miscellaneous and marketing expenses, increased in the F.Y. 2006-07 by 19.86% to Rs.362.57 crore from Rs.302.50 crore in the F.Y.2005-06.

Further, the interest expenses and financial charges in F.Y. 2006-07 could be brought down by 4.14% to Rs.37.73 crore from Rs.39.36 crore for the F.Y.2005-06. Gross profit has reduced from Rs.412.52 crore in F.Y. 2005-06 to Rs.398.80 crore in F.Y. 2006-07. The Profit after interest but before depreciation (Cash Profit) has reduced from Rs.373.16 crore in F.Y. 2005-06 to Rs. 361.07 crore in F.Y. 2006-07. The Profit After Tax has reduced from Rs.197.97 crore in 2005-06 to Rs.186.56 crore in 2006-07.



GACL

Alkali products have to face competition from imports with reduction in custom duties. To protect from unfair competition for products like Caustic Soda Lye/Flakes and Potassium Carbonate, Company had approached designated authority for levy of Anti-dumping duties against such imports and Anti-dumping duties have been imposed on imports of these products from various countries.

Company also produces Carbon Tetrachloride (CTC) at Baroda Complex. The product comes under Ozone Depletion Substance (ODS) Rules, (2000) as per the guidelines of Montreal Protocol framed by Government of India. Under these Rules, CTC for non-feed stock application is to be phased out by 2010, however, production of CTC for feed stock application shall continue.

Key inputs required for power plant and Vadodara Complex for process and steam generation is NG/RLNG. Government of India has appointed the Tariff Commission to fix the price of NG/RLNG. However, the Company has already entered into contract for supply of NG/RLNG with M/s. GAIL and GSPC and have already substituted the costlier inputs like Naphtha and Furnace Oil. Now Gas supply is arranged in such a way that normally no other costlier fuel like Naphtha and Furnace Oil is required to be used. The international prices of NG/RLNG has been increasing.

All Chemical products generally pass through cyclic phase and some of the product of GACL are in short supplies whereas some products do not move satisfactorily. Owing to availability of 23 products in its market, GACL is in a position to leverage products in short supplies against slow moving products.

INDIAN CHLOR-ALKALI INDUSTRY AT A GLANCE:

The Indian Chlorine industry is 62 years old. The products from the industry are raw materials for other industries like Paper, Pesticides, Pharmaceuticals, Dyestuffs and Water Purification.

The industry had seen marginal growth till 1970. After that the production has taken strides and the installed capacity of Caustic Soda has grown to 23.00 lakh MT in 2005-06.

There are 33 Chlor-alkali units in India. The actual production of Caustic Soda for the financial year 2005-06 has been approx. 19.36 lakh metric tons.

Capacity utilization of the Industry this year has come down to 84.2% from 87.3% due to increase in Installed Capacity by 2.23 Lac MTPA in the country. There has been an increase in caustic soda production by 6.8% and domestic consumption by 6.65% during the year.

(Source: AMAI Annual Report 2005-06)

THE CAUSTIC SODA MARKET SCENARIO

GACL is a multi-product Company, yet Caustic Soda market scenario is of prime importance to it.

1. The installed capacity of Caustic Soda in the country is about 23.00 lacs MTA whereas the demand is around

19.78 lac MTA. Out of the installed capacity of 23.00 lac MTA, about 4.32 lac MTA is on mercury cells, 18.47 lac MTA is on membrane cells. The Membrane cell production is energy efficient as the power requirement is around 2500-2700 KWH per MT as compared to mercury cell where it is around 3200-3400 KWH per MT. GACL has the advantage of having its entire production from Membrane Cells.

2. GACL has been able to maintain about 110% capacity utilization of its Caustic Soda plant, while the average capacity utilization in the country's Caustic Soda industry is only 84.2%.
3. With a captive power plant installed at its Dahej complex and strategic participation in GIPCL, GACL enjoys the advantage of being the most efficient Caustic Soda producer in the country.
4. Government of India has imposed Anti dumping duty on imports of Caustic Soda from some of the countries within WTO guidelines.

(Source: AMAI Annual Report 2005-06)

MARKETING STRATEGY OF GACL:

GACL deals in marketing of Caustic Soda (Lye, Flakes and Prills), Chlorine, Hydrochloric Acid, Chloromethanes, Hydrogen Peroxide, Sodium Cyanide, Caustic Potash Lye and Flakes, Potassium Carbonate, Aluminium Chloride, Phosphoric Acid, Calcium Chloride (Powder / Flakes).

Most of the plants are integrated in such a way that part of finished product of one plant is consumed as a raw material for the other plant. For example, Hydrogen Gas produced in Caustic Soda Plant is consumed as raw material in Hydrogen Peroxide. Hydrochloric Acid is consumed as a raw material in Phosphoric Acid. Chlorine produced in Caustic Plant is consumed in Chloromethane Plant. Caustic Soda produced in Caustic Plant is consumed as raw material in Sodium Cyanide Plant.

This gives GACL a competitive leverage over competitors. On the same strategy, Company is expanding Caustic Soda capacity by 200 TPD at their Dahej complex, which would consume additional 22 MW of power. As a part of forward integration, Company is coming up with Aluminum Chloride at its Dahej plant, which is again value addition to Liquid Chlorine, and it will simultaneously make company self-dependent in the sluggish market conditions.

The Company is also coming up with Hydrogen Peroxide plant at Dahej which will consume its own Hydrogen Gas, which would also a value addition to Hydrogen Gas.

The Company is also coming up with Poly Aluminum Chloride at its both Baroda and Dahej works which would again value addition to Hydrochloric Acid with multiple applications in different areas.

Gujarat is predominantly an industrial state, which contains a number of large businesses in the Chemical, Petrochemical,

ANNEX II

[December 26, 2007]

GUJARAT ALKALIES AND CHEMICALS: FUTURE PERFECT (the company has been continuously expanding its capacities since 2006-2007)

(India Business Insight Via Thomson Dialog NewsEdge) Gujarat Alkalies and Chemicals Ltd (GACL) produces 26 products. It earns 66 percent of its revenues from its Chlor Alkali business and 34 percent from the rest of its products.

GACL's products find use in industries like paper, textile, alumina, soaps and detergents, pharmaceuticals, dyes and pesticides.

It has been able to maintain a market share of 17 percent over the last 8-10 years.

GACL has been continuously expanding its capacities since 2006-2007. Several of these expansion projects were commissioned in 2006-2007 itself.

In Aug 2007, GACL commissioned a Rs108-crore hydrogen peroxide project at Dahej that has a capacity of 12,540 tonnes per annum (tpa). The project will contribute Rs45 crore to GACL's revenues in the first year with a 70 percent capacity utilisation. GACL is also setting up a anhydrous aluminium chloride project at Dahej with an investment of Rs30 crore. This project will be commissioned in Dec 2008 and will contribute Rs45 crore to GACL's revenues in the first year. The company is also developing a 23.75-megawatt (MW) wind farm at Kutch.

Under a capital expenditure of Rs600-700 crore, the company is setting up a 90-MW gas-based power plant. GACL is also increasing its caustic soda capacity by 300-400 tonnes per annum. GACL posted revenues of Rs1,215.11 crore and net profit of Rs186.81 crore in 2006-2007. During Apr-Jun 2007, GACL posted revenues of Rs291.2 crore and net profit of Rs50.72 crore.

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ANNEX III

February 04, 2008 5:29 AM ET

MATERIALS SECTOR



CHEMICALS INDUSTRY

Gujarat Alkalies and Chemicals Ltd

QJAKF DETAILS

Gujarat Alkalies and Chemicals Limited engages in the manufacture and sale of caustic soda and basic chemicals in India. Its products include caustic soda flakes, caustic soda lye, caustic soda prills, sodium hypo chlorite, liquid chlorine, compressed hydrogen gas, hydrochloric acid, caustic potash flakes, caustic potash lye, potassium carbonate, methyle chloride, methylene chloride, carbon tetrachloride, and chloroform. The company also offers sodium cyanide, sodium ferro cyanide, hydrogen peroxide, bleachwin, phosphoric acid, calcium chloride flakes, calcium chloride powder, dilute sulphuric acid, aluminum chloride anhydrous, and poly aluminum chloride. It serves various industries, includ...

Detailed Description...

www.gujaratalkalies.com

1,529 Employees

Founded in 1973

KEY DEVELOPMENTS

Gujarat Alkalies & Chemicals Ltd. Reports Earnings Results for the Nine Months Ended December 31, 2007

01/19/2008

Gujarat Alkalies & Chemicals Ltd. reported earnings results for the nine months ended December 31, 2007. The company reported net profit rose 39% at INR 2,057.3 million compared with INR 1,480 million for the same period last year.

Gujarat Alkalies & Chemicals Ltd. Announces Earnings Results for the Third Quarter Ended December 31, 2007

01/18/2008

Gujarat Alkalies & Chemicals Ltd. announced earnings results for the third quarter ended December 31, 2007. Gujarat Alkalies & Chemicals Ltd. reported a rise of 37.88% in earnings in the quarter ended December 31, 2007, to INR 721.40 million compared with INR 523.20 million in the previous year period. The earnings per share for the quarter climbed 31.66% to INR 9.82 compared with INR 7.12 in prior year period. Net sales for the quarter climbed 5.37% to INR 2,835.90 million, when compared with INR 2,691.30 million in the corresponding quarter, a year ago.

Gujarat Alkalies & Chemicals Ltd. Reports Earnings Results for the First Quarter Ended June 2007

01/7/2008

Gujarat Alkalies & Chemicals Ltd. reported earnings results for the first quarter ended June 2007. For the period, the company announced 19% increase in net profit at INR 504.7 million. Its sales grew by 3% to INR 2,487 million.

ANNEX IV



DIRECTORS' REPORT

To,
The Shareholders of
HINDUSTAN ORGANIC CHEMICALS LIMITED

On behalf of the Board of Directors, I present herewith the Forty-Fifth Annual Report of the Company together with audited Profit & Loss Account for the year ended 31st March, 2006 and Balance Sheet as on that date.

FINANCIAL HIGHLIGHTS

	Rs. in lacs	
	Year ended 31/03/2006	Year ended 31/03/2005
Sales	45103.24	75147.76
Operating Profit / (Loss)	(40.73)	8469.59
Less: Interest	2762.76	3437.10
Depreciation	2786.32	2823.73
Profit / (Loss) before tax	(5589.81)	2208.76
Less: Provision for taxation	12.98	0.05
Add: Prior Period adjustments	58.26	1568.53
Profit / (Loss) after tax & Prior period adjustments/Provisions.	(5661.05)	640.18

In view of loss incurred by the company, your Directors do not recommend any dividend on equity shares for the year ended 31st March, 2006.

OPERATIONS

The Organic Chemical Industry during the year has faced both supply side and demand led pressure on Surging Crude oil prices, pushed the raw material cost in one hand & cheaper availability of imported finished products like Phenol, Acetone and Aniline led to adverse impact on demand for domestic production, on the other hand. The results of the year reflect these difficulties. Your Company could achieve an overall capacity utilisation of 54% during the year, as against that of 77% of the previous year. As against the production of 313460 MTs (main products) during the year 2004-05, the Company achieved a production of 216224 MTs (main products) during the year 2005-06. Sales volume during the year declined significantly, impacted the turnover in value considerably. The company recorded the sale of 138431.77 MTs during the year (last year 194911.67 MT) valuing Rs. 38604.67 lacs (last year Rs. 64755.21 lacs).

The high labour cost and high incidence of cost on closed plants at Rasayani unit are the major concerns. Your Company has initiated different cost cutting measures to counter these problems.

PRODUCTION PERFORMANCE :

Cochin Unit :

During the Year, Cochin Unit of your Company could achieve 115644 MTs of production as against 195890MTs of the previous year. It is 41% less than the last year's production. This was due to shut down of the plant for two months for major repairs of furnace coincided with major technology up gradation taken up by our principal Raw-material supplier viz. M/s Kochi Refineries, during April-May-05.

Rasayani Unit :

During the Year, Rasayani Unit of your Company could achieve only 1,07,403 MTs of production as against 1,26,370 MTs

production of the previous year, 15% less than the previous year's production, mainly due to flood in Mumbai/ Panvel/ Rasayani areas in July, 2005 affecting the factory area. The operations of the unit remain suspended for more than a month.

MARKETING PERFORMANCE:

HOC continued to enjoy support from all its valuable customers during the year 2005-06 due to excellent quality of its products manufactured at Kochi and Rasayani. It has achieved sales turnover of Rs. 386 crores (net of excise duty) as against Rs. 648 crores (net of excise duty) of the previous year. The sales volume during year 2005-06 was 138342 MTs against 175224 MTs for the year 2004-05. The sales in terms of volume as well as value has come down primarily due to huge import of major products like Phenol, Acetone, Aniline etc. International producers especially from the European Union, Taiwan, Korea, Singapore have exported these products through international traders which resulted into squeezing of margins and also affected the production cycle. As mentioned earlier Kochi unit had suspended the production for 2 months for major repairs of furnace and non availability of raw materials from Kochi Refineries Ltd. (KRL).

The company could not export bulk parcels of Phenol during 2005-06 due to unremunerative prices of these products in the export market. The marketing strategy was mainly focused on domestic customers to maximize the market share by adopting flexible marketing strategies which helped in countering the threat posed by the importers and the domestic competitors as well.

TURNAROUND PROGRAMME

Your company had been incurring losses from the financial year 1997-98 to 2003-04 and was referred to BIFR as a sick unit after erosion of net worth at the end of the financial year 2003-04. In a bid to find out lasting revival strategy, as reported previous year, the company had appointed M/s. SBI Capital Markets Ltd. for techno-economic feasibility study and to recommend a suitable restructuring proposal for turnaround of the company. SBI Capital Markets Ltd. submitted their report which was approved by the Board of Directors of the company. Based on the recommendations of the consultant the company submitted the financial restructuring proposal to the Dept. of Chemicals & Petrochemicals, Ministry of Chemicals & Fertilizers, Govt. of India for consideration.

The Board for Reconstruction of Public Sector Enterprise (BRPSE) discussed the proposal in its meeting held on October 18, 2005 and recommended with minor modification as follows:-

- Government of India to provide equity of Rs.75 crore to be utilized for (i) repayment of VRS loan of Rs.31 crore availed from Bank of Baroda, (ii) introduction of fresh VRS costing Rs.36 crore and (iii) Rs.8 crore towards part repayment of bonds.
- Government of India to provide funds to the tune of Rs.175 crore in the form of 8% Redeemable non-cumulative preference shares to be redeemed @ 20% each year from 4th year onwards and this amount to be utilized by HOCL for repayment of high cost overdue Bonds.
- Continuation of Government of India Guarantee of Rs.100 crore for full term of ten years (issue date 19/12/2001) to be utilized to liquidate high cost debt; beside
- Waiver of penal interest and interest on interest upto 31/3/2005.



MANAGEMENT DISCUSSION AND ANALYSIS REPORT
(Annexure V to Directors' Report)

The Management of Hindustan Organic Chemicals Ltd. (HOCL) presents its Analysis Report covering the Performance and Outlook of the Company. The Report contains business perspective and prospects based on the current environment and strategic options to steer the Company through unforeseen and uncontrollable external factors.

The Company is engaged in the business of manufacturing and marketing of basic chemicals and chemical intermediates. The Chemical Industry occupies a pivotal position in meeting the basic human needs and desires and in improving the quality of life. The marked improvements in the average of life expectancy of our countrymen can be attributed to the produce of the Chemical Industry which has provided the life saving drugs and chemicals required for public health. We live in chemical age and most of the products that we buy for every day use, to make our lives healthier, happier and wealthier are intimately linked to the use of chemicals.

The petroleum feedstock prices in India are significantly higher as compared to major exporting countries. The capability of manufacturing units to earn a reasonable return has been largely affected by global competition and tightening of parameters like rationalized duty structure and strict quality controls. Moreover, the capacity in the Indian industry is small as compared to the competitors abroad; in effect the Indian Industry is in a disadvantageous position with regard to overhead costs. In order to prevent dumping and to reform the sector to enable it to meet global competition, Government will have to find alternatives. The bottom line of chemical companies can be protected only through excellence in production and marketing efforts.

The industry should reorient its promotional activities and formulate strategies to meet the challenges of competitive marketing scenario. Further, Industry will have to adopt collaborative approach in price discipline, sharing of market information for healthy competition to effectively compete with global players.

KEY OPPORTUNITIES INCLUDE

- Growth in certain sectors such as phenolic resins, laminates, plastics, rubber chemicals etc. in the overall markets of the country.
- High quality standard and wide spread marketing network to remain preferred supplier to large consumer all over the country.
- Growth in production/promotion of chemical industry.

KEY THREATS INCLUDE

- Availability of cheaper imported chemicals.
- Increasing input prices of feed-stock i.e. Benzene, Toluene, Naptha, LPG, LSHS, Fuel oil etc.

SEGMENTWISE PERFORMANCE

The Company is primarily in the business of manufacture and sale of chemicals.

Product Segment	Year ending 31/3/06			Year ending 31/3/05		
	Target MT	Product MT	Percentage Achieved	Target MT	Product MT	Percentage
Chemicals	265584	179147	67%	230030	219270	95%

PRODUCTWISE PERFORMANCE (MAIN PRODUCTS)

Product Cum.	Upto this quarter this year			
	Quantity (MT)		Value/Rs. Lakhs	
	Target	Actual	Target	Actual
Nitrobenzene Products	31500	19392	10591	6520
Aniline	21000	12355	13017	7658
Phenol	42200	28754	22038	15017
Acetone	26164	18253	10583	7382
H2O2	5500	3666	1051	701

OUTLOOK AND INITIATIVES FOR THE CURRENT YEAR

The management is working towards achieving enhanced efficiencies in consumption, raw material procurement and working capital cycles to become lowest cost producer in the industry.

The Management is also planned to start up of caustic Soda/Chlorine, NB-I and AN-I plants at Rasayani as per the restructuring plan for improving the financial viabilities of Rasayani unit. Retirement of high cost matured bonds is also planned to reduce the interest burden substantially. As regards Kochi unit, debottlenecking of Hydrogen Peroxide along with Phenol/Acetone plant and technology upgrade for Cumene manufacture from conventional Solid phosphoric acid to zeolite is planned.

SOME RISKS & CONCERNS

- The employee - even after rationalisation of employees strength through VRS, the man power cost per ton of finished product remains high.
- Old depreciated plants, requires high maintenance cost.
- Huge investments required for revamp/replacement/modernisation of the old plants.

INTERNAL CONTROL SYSTEMS & THE ADEQUACY

Right from the start, our people recognize the true role of system and controls.

Company has established a sound internal control system. Internal controls are supported by Internal Audit and Management Reviews. Company ensures existence of adequate internal control through documented policy and procedures to be followed by the executives at various levels. The Management is keen on these issues and initiated various measures such as upgrading IT infrastructure, evaluating & implementing ERP software, web based application and establishing connectivity amongst manufacturing units and branch offices for effective & proactive services and business benefits.

With the objective of improving the systems and removing bottlenecks, systems review is carried out and policies and procedure manuals are amended. Both Rasayani & Kochi units have received ISO 9001-2000 Certification from Bureau Veritas Quality International (BVQI). Kochi unit has also been awarded ISO 14001 certificate by BVQI.

As part of good Corporate Governance an Audit Committee was in existence till 17-1-2005, whose Chairman was an Independent Director (and a CA). The Committee (till 17-1-05) and then Finance Dept. under the leadership of CFO (Director (Finance)) periodically review the internal controls, Audit Programmes, Results, Recommendations of the Auditors and Management's Replies to those Recommendations.

REVIEW OF FINANCIAL PERFORMANCE

The financial statements have been prepared in accordance with the requirements of the Companies Act, 1956 and Generally Accepted Accounting Principles.

The financial performance highlights are as follows :-

- The sales turnover was of the order of Rs. 451.03 crores against Rs. 751.48 crores for the previous year showing an decrease of 40%. Other income was Rs. 14.10 crores against Rs. 5.71 crores for the previous year. There was an Operating Loss before interest and depreciation of Rs. 0.41 crores against the Operating Profit of Rs. 84.70 crores for the previous year. Company incurred an Interest expenditure of Rs. 27.63 crores against Rs. 34.37 crores for the previous year, showing a decreasing trend.

The outlook for the future appears to be good with the revival of economic growth. The Accumulated losses are likely to go down substantially during the year in view of proposed implementation of several improvement plans for Rasayani and Kochi Units, restructuring of Debts of Bond holders and also the proposed restructuring package for the revival of the Company to be approved by the Govt. for implementation in the company.

CAUTIONARY STATEMENT

Statement in this Management Discussion and Analysis describing the Company's objectives, projections, estimates and expectations may be 'forward looking statements' within the meaning of applicable laws and regulations. Actual results might differ substantially or materially from those expressed or implied. Important developments that could affect the Company's operations include a downtrend in the chemical industry - global or domestic or both, significant changes in political and economic environment in India or key markets abroad, tax laws, litigation, labour relations, exchange rate fluctuations, interest and other costs.

ANNEX V

MINISTRY OF CHEMICALS AND FERTILIZERS
DEPARTMENT OF CHEMICALS AND PETROCHEMICALS

CHAPTER : I

Hindustan Organic Chemicals Limited

Manpower Analysis

Highlights

The Company had suffered a total loss of Rs.459.19 crore in the operation of the Rasayani unit during the last five years up to 2003-04 mainly on account of old technology and high cost of manpower in comparison to industry norm.

(Para 1.3)

The Company due to uneconomic operations, marketing and other problems closed the operations of seven plants of the Rasayani unit from 1999 to 2003. The Company had not reviewed plant-wise requirement of manpower and their effective utilisation after the closure of seven plants.

(Para 1.4.1)

The delay in implementing the rolling back of retirement age from 60 years to 58 years after its clearance by the Board in August 1999 resulted in additional outgo of Rs.59.92 lakh.

(Para 1.4.2)

The Company could not derive the benefit of annual savings to the extent of Rs.77 lakh pending acceptance of voluntary retirement scheme (VRS) applications received from 33 employees in April 2002 for want of financial assistance amounting to Rs.3.26 crore from the Government of India.

(Para 1.4.3)

The Company identified (April 2004) surplus manpower to the extent of 500 employees in Rasayani on which it had been incurring recurring expenditure of Rs.14 crore per annum, however, the final decision to reduce the surplus manpower so as to minimise the cost of labour for improving the profitability was still awaited (October 2004).

(Para 1.4.5)

The value addition per employee, which was Rs.1.66 lakh in 1999-2000, had come down to Rs.1.27 lakh in 2003-04 in spite of the need to control increased cost of labour and overheads.

(Para 1.4.6)

Due to non-formulating of any suitable VRS for certain categories of workers like Mathadi, Society and Canteen workers, the Company had to pay idle wages to the extent of Rs.3.21 crore during the last three years.

(Para 1.4.8)