

CHAIRMAN'S STATEMENT - 2009-10



For the first time in its 25-year old history, CHEMFAB is presenting Chairman's Statement only in the Company website. This is an eco-friendly and cost-saving initiative.

Resilient Economy

The Indian Economy has shown remarkable resilience and has almost bounced back from the after-effects of the recent global melt-down. The Finance Minister has stated in his Budget that GDP growth for 2009-10 is estimated at 7.2% and higher. The manufacturing sector has grown 18.5% in December 2009 which is the highest to be recorded in two decades. This is not to say that there are no concerns: annual inflation has climbed to a high of 9.8% in February 2010 and food inflation at 18.5% is worrisome. It is hoped that the Central Government and the Reserve Bank of India will address these concerns most effectively.

Chlor-Alkali Industry

The performance of the Chlor-Alkali industry to which your Company belongs is dependent upon the following.

- a. Consistent power supply from grid by Puducherry Government
- b. Reasonable power tariff.

In the year alone, there is an increase by nearly 40 paise per unit - a steep 14% hike - meaning increase in the direct cost resulting in a clean loss of more than Rs. 4 crores annually, at the present level of operations.

c. Good domestic market.

The dumping of imported products makes it a tough market.

Company Performance

The set-back in the profitability of the Company is mainly due to the power problems faced by it during the first three quarters of the year under review. The extent of power supplied by the Puducherry Electricity Department was totally inadequate in relation to the Company's requirements and the quality of power was also far from satisfactory, leading to significant production loss. But it improved in last quarter and hope will sustain, due to the efforts of local Government in trying to get more Central allotments.

Possible gas supplies in future is another hope, our proposal of Power plant is cleared by the Government.

During the year, the Company had to take the painful decision to close down its Chlorates Division as it could not operate the Division at economic levels for want of requisite power as also due to labour non-cooperation.

In light of the above, your Company is planning various steps to strengthen our marketing set-up and efforts and also closely review and monitor operational costs under various heads with a view to bringing about as much economy as possible, by implementing innovations and cutting costs.

Results

You would note in spite of problems, your Company has made a reasonable profit and wiped out all debts to the Banks.

IT demand

During the year, the Company has received the demand from the Income Tax Department amounting to Rs.211 Lakhs. This demand is due to reopening of the assessment years 2004-05, 2005-06, 2006-07, which were already assessed and tax paid. The Department on reopening the assessments, disallowed the expenditure which are purely revenue in nature, incurred on replacement of membranes, recoating charges and other attendant expenses on these two areas. Earlier, the Department had accepted the company's stand and issued original order allowing this expenditure as revenue expenditure, but based on the revenue audit, they have reopened the assessment and had made this demand. The assessment for the year 2007-08, was also done by the Income tax department, on the same basis.



It is a Chlor-industry practice to treat the expenditure on replacement of membranes and recoating charges of anodes as capital expenditure, but for the income tax purpose, it is charged as revenue expenditure which is also well recognized under the statute. Your company, for the past 6 years, has been following the method of capitalizing this expenditure for the accounting purpose and writing-off of the entire expenditure incurred on these two areas for the income tax purpose.

Treating expenditure on replacement of membrane and recoating of anodes / cathodes as revenue expenditure are on the basis that these replacement / refurbishment expenditure lasts only for a limited period of 4 or 5 years and have to be necessarily replaced / refurbished, on a continuous basis. Therefore, we are advised, the Department's contention is not right in disallowing this as revenue expenditure and treating them as capital expenditure.

The Company is taking appropriate measures to take this on appeal; however, in the mean time, I would like to draw the attention of the Government and The Ministry of Finance

- a. to come out with a clear guideline to the Department, to avoid long drawn litigations between the department and the companies.
- b. consistent policy to be followed by all IT offices in the country; so all in the same industry are treated alike.
- c. There should be a single decision authority above which no appeal should be entertained, and decision to be awarded within a reasonable time bound limit, so the Government gets its revenues on time and Industry do not lose time in legal battle and end up with huge interest and penalty payments and un-necessary contingent liabilities hanging around.

Dividend

As you are aware, the Company declared 100% dividend for the year ended 31st March 2007. Thereafter, dividend for the subsequent two years, 2007-08 and 2008-09 was deferred as it was considered more desirable to conserve resources and utilize them for bringing down working capital drawings and thereby interest costs, which was achieved.

The Company was established in 1985 and the year ended 31st March 2010 marks its Silver Jubilee Year. This is a significant milestone in the annals of the Company. In this context, I am happy to announce that, subject to your approval, the Company proposes to pay a dividend of 50% for the Silver Jubilee Year.

Expansion

The Company's present installed capacity of Caustic Soda is 42,000 MT per annum and of Chlorine (co-product) is 37,000 MT per annum. We have planned expansion of the Caustic Soda capacity to 70,000 MT per annum (corresponding to 200 TPD) and of Chlorine to 61,600 MT per annum. The environmental clearance for the proposed capacity enhancements has been obtained from the Ministry of Environment and Forests, New Delhi, in August 2007. However, we are yet to get NOC from the Puducherry Government for undertaking the proposed capacity expansion and also for setting up (i) a captive 25 MW power plant and (ii) a 1000 m³/day desalination plant. Our request for the NOC is pending with the Puducherry Government for over 4 long years now. Your Company has appealed for quicker approval of the NOC to Puducherry Government which is under consideration.

The future of the Company largely depends upon getting adequate power supply from the Electricity Department for the present operations as well as for the expansion of capacities as planned. We are determined to succeed in this regard and we will pursue the matter with Government more vigorously and hope that Government will clear our proposals once they realize the extent to which benefits will accrue to the Union Territory. With the Union Ministry of Environment and Forests, coming out with new norms for environmental clearances, we hope the Puducherry Government, will clear our proposals for expansion and Power Plant, quickly without delay.

Acknowledgements

I wish to record my deep appreciation of the support received from the Governmental agencies, banks, institutions, our customers, associates and of the confidence reposed in the Company by its shareholders. I must also acknowledge the dedicated work put in by CALmates at all levels.

Place : Chennai
Date : 7th April 2010

Dr. C.H.Krishnamurthi Rao
Chairman