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A MEMBER OF LALBHAI GROUP

Speech of the Chairman
Shri Sunil S Lalbhai
at the Annual General Meeting
of The Company

Ahmedabad
August 31, 2007

Ladies and Gentlemen,

I am pleased to welcome you to this Annual General Meeting of the Company, and I feel privileged to address this august gathering.

Sad demise of Shri Arvind N Lalbhai

Shri Arvind N Lalbhai passed away on August 3. He was the Chairman of the Company for over 8 years. With his deep knowledge of the Textile Industry, a rich experience in corporate management and varied interests in different fields he was indeed a guiding force. He also fondly cherished and nurtured the high standards of ethics laid down by the Founder Shri Kasturbhai Lalbhai, and it is by upholding the same tradition that we can pay tributes to him. For me, I have lost a father-figure and one who gave me full freedom to operate, provided a lot of encouragement particularly in difficult times and reposed full faith. May I say that even as the cast may change, the values will remain the same?

Last Year (2006-07)

During the year ended March 31, 2007 the net sales increased by 10% to Rs895 crores and the profit before tax and non-recurring/exceptional items marginally decreased to Rs31 crores as compared with Rs33 crores relating to the earlier year. Exports grew by 13% to Rs479 crores.

The growth of 10% in sales was the result of the diligent efforts made by the Company to increase its market share in certain product groups mainly in Aromatics and Polymers businesses both of which operate in a highly competitive environment.

The period under review witnessed a steep rise in prices of many raw materials which had an adverse impact of Rs30 cr. The performance was

also marred by declining selling prices in certain product groups as a result of intense competition, thus squeezing margins from both ends.

The Company however minimized the impact on the bottom-line through higher sales, better efficiencies and lower employee cost. To protect margins, the Company initiated several small projects for achieving yield improvements successfully.

Amidst stagnant profitability, a sharp focus on supply chain management yielded unprecedented benefits. The net cash flow from operating activities increased from Rs27 crores in 2005-06 to Rs73 crores in 2006-07, an increase of 170%. This was mainly achieved by adopting stringent working capital norms and thus collapsing the levels of certain inventories even while increasing sales.

Current Year (2007-08)

For the Q ended June 30, 2007, the net sales at Rs205 crores remained the same as in the previous year; however, the profit before tax and non-recurring exceptional items showed a loss for the first time since 12 Qs at Rs(3) cr as compared to Rs5 cr in the previous year.

The deterioration in performance occurred mainly due to the abrupt strengthening of Rupee (from Rs45.47 per USD in the previous year to Rs41.23) and higher costs which could not be passed on to the customers. The Company is now gearing to address the deleterious effects of the rising Rupee; it has vigorously initiated corrective actions like ramping up volumes, improving efficiencies, increasing imports particularly from cheaper sources, initiating price increases on finished goods and bringing down certain costs.

Barring unforeseen circumstances, the net sales during Q2 will be of the order of Rs245 crores as compared to only Rs205 crores in Q1 of the

current year and Rs227 crores in Q2 of the previous year. Barring unforeseen circumstances, the loss of Q1 will be wiped off in Q2 itself.

Initiatives and Outlook

The Company is crystallizing specific strategies for each of its businesses revolving around their respective core strengths and the opportunities which exist. The Company has recently commissioned a project in Polymers Division for increasing the capacity of Epoxy Resins by 8000 tpa. Three other projects for increasing the capacities of Para Anisic Aldehyde by 2400 tpa, Para Anisic Alcohol by 1000 tpa and Para Cresol by 1000 tpa are slated to be commissioned during the year. Effective steps are being taken for expansion of capacity of an intermediate from 1450 tpa to 2100 tpa. Eight small projects for manufacture of certain new dyes are under execution with significant sales potential. The sales potential of these initiatives is expected to be more than Rs 200 crores on an annualized basis. A few other major projects are under evaluation coupled with several initiatives relating to new product development and market development for the existing categories of products.

Dividend

The members may be happy to note that despite stagnant profits from operations last year and a loss reported in the first quarter of the current year, the Board has reposed faith in future and has maintained the rate of dividend of 30% in its recommendation.

Directors

Mr. Manu R Shroff expired on January 29, 2007. A noted economist, he was a director on the Board for about 15 years. He was also a member of the Audit Committee and the Share Transfer Committee. I wish to put on record that Mr. Shroff made an invaluable contribution as a Director on

the Board and a Member of the said Committees and that the Company immensely benefited from his wide knowledge and rich experience.

Ladies and Gentlemen,

May I thank you for your unstinted cooperation, constructive approach and a patient hearing.