



Shaping the Future

Annual Report 2004 - 2005

BASF
The Chemical Company



Message from the Chairman & Managing Director

Dear Shareholders,

The year gone by has been a mixed bag. On the one hand, the Indian economy and Gross Domestic Product has been strongly supported by the growth in the manufacturing sector, whilst on the other hand, the increasing input prices have put pressure on margins.

I would like to thank all the employees who have risen to the challenge and once again ensured BASF is ahead of the market, enabling your Board of Directors to recommend a dividend of 60%.

BASF is a reliable partner to virtually all industries. We offer intelligent solutions and high value products to enable our customers to be successful.

Report

Our continued success depends on the determined implementation of the Four Strategic Guidelines:

- Earn a premium on cost of capital
- Help our customers to be more successful
- Form the best team in industry
- Ensure Sustainable Development

Thanks to the continued support of all stakeholders, BASF has been voted by Fortune Magazine as "The Most Admired Chemical Company in the World".

With Best Wishes,

A handwritten signature in black ink, appearing to read 'Prasad Chandran', with a horizontal line underneath.

Prasad Chandran

61st Annual General Meeting

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Friday, 5th August 2005 at 3.00 p.m. at Yashwantrao Chavan Pratishthan Auditorium, Y. B. Chavan Centre, General Jagannath Bhosale Marg, Nariman Point, Mumbai - 400 021.	
Agenda	
1. Presentation of Financial Statements and the Directors'/Auditors' Report	2
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The Notice of the Meeting is enclosed.

BASF India Limited

Registered Office:

RBC, Mahindra Towers,
1st Floor, 'A' Wing,
Dr. G. M. Bhosale Marg,
Worli, Mumbai - 400 018.
Phone: 022-5661 8000
www.basf-india.com

Works

Thane-Belapur Road,
Turbhe, Navi Mumbai - 400 705
Maharashtra.

Bala/Thokur Village,
Surathkal-Bajpe Road,
Mangalore Taluka,
Dakshina Kannada District,
Karnataka - 575 030.

83/2, Demni Village,
Dena Bank Road,
Dadra - 396 191.
Union Territory of Dadra & Nagar Haveli

Branches

Ahmedabad, Chennai, Delhi, Kolkata

Registrar and Share Transfer Agent

Sharepro Services (India) Private Limited
Satam Estate, 3rd Floor, Above Bank of Baroda,
Cardinal Gracious Road, Chakala,
Andheri (East),
Mumbai - 400 099.
Phone : 022-2821 5168/2832 9828
Fax : 022-2837 5646

Board of Directors

Mr. Prasad Chandran
Chairman and Managing Director

Dr. E. Baumgartner

Mr. S. Kumarasamy
Alternate to Dr. E. Baumgartner

Mr. K.R. Coorlawala

Mr. Boon Yeow Yee

Mr. R.E. Vaz
Alternate to Mr. Boon Yeow Yee

Dr. Harald Lauke

Mr. R.R. Nair

Mr. Pradip P. Shah

Mr. R.A. Shah

Auditors

Deloitte Haskins & Sells
Chartered Accountants

Solicitors

Messrs Crawford Bayley & Co.

Bankers

State Bank of India
ABN Amro Bank N.V.
Citibank N.A.
Deutsche Bank
HDFC Bank Limited
Standard Chartered Bank

Executive Committee

Mr. Prasad Chandran

Mr. P.M. Balakrishnan

Mr. P.K. Bhattacharya

Mr. S. Kumarasamy

Dr. G. Ramaseshan

Mr. S. Ramnath

Mr. D.R. Thuse

Mr. R.E. Vaz

Dr. R. Ramachandran

Mr. M.R. Iyer

Mr. Ravi Nair

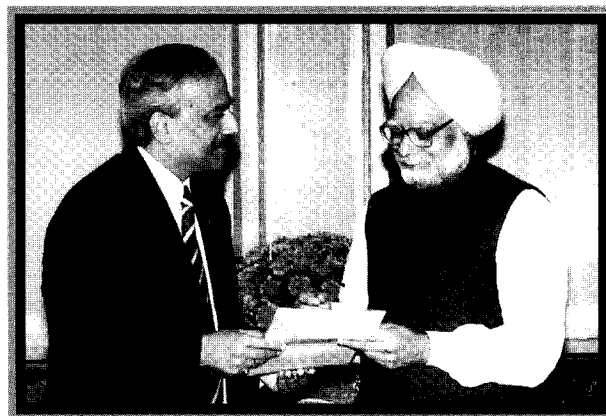
Internal Auditors

Mahajan & Aibara
Chartered Accountants

Secretary

Mr. M.R. Iyer

Directors' Report

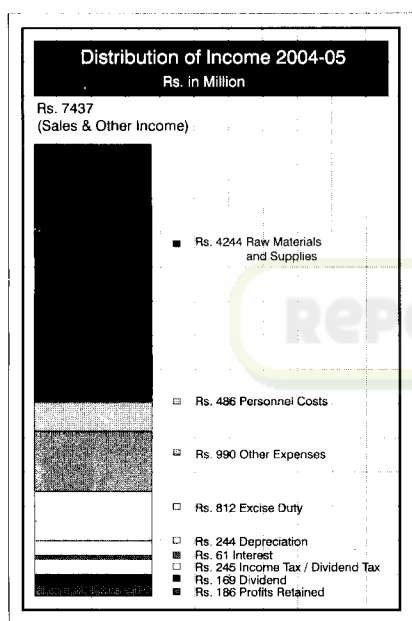


BASF wholeheartedly supported the Tsunami relief efforts by the government. Mr. Prasad Chandran hands over a cheque of Rs. 14.2 million to Dr. Manmohan Singh towards the Prime Minister's National Relief Fund.

Your Directors have pleasure in presenting their Report for the financial year ended 31st March 2005.

Financial Results

(Rs. in Million)



	Year ended 31.3.2005	Year ended 31.3.2004
Sales	7401.8	6533.1
Profit before tax	600.6	513.3
Tax	220.9	172.5
Profit after tax	379.7	340.8
Balance brought forward	191.0	160.0
Available for appropriation	570.7	500.8
This has been appropriated as follows:		
Proposed Dividend	169.1	169.1
Corporate Tax on Dividend	23.7	21.7
Cess on Dividend pertaining to previous year	0.4	—
Debenture Redemption Reserve/(withdrawal)	(300.0)	45.9
General Reserve	484.5	73.1
and the balance of	193.0	191.0
has been carried forward		

Activities

The performance of your Company during the year under report has shown marked improvement over the previous year. Sales at Rs. 7401.8 million and profit before tax at Rs. 600.6 million during the year ended 31st March 2005, represent an increase of 13% and 17% respectively, over the previous year. This increase was mainly on account of better realizations, improved operating results of Plastics & Fibers, Agricultural Products and Nutrition and Chemicals businesses, significant reduction in interest cost and cost control measures initiated during the year under report.

Profit after tax at Rs. 379.7 million is higher by 11% compared to the previous year.

The Plastics & Fibers business registered significant increase in sales, both in value and volume terms and in profits during the year under report, due to better realizations and volume growth. Chemicals business registered significant increase in commission and profits for the year ended 31st March 2005 due to improved demand from end user industries.

The Performance Products segment which include textile, leather and speciality chemical businesses registered higher sales during the year under report. The textile chemicals business registered higher volumes and better realisations compared to the previous year. Margins in leather and speciality chemicals businesses were under pressure mainly on account of increase in raw material prices.

The Agricultural Products business recorded lower sales during the year ended 31st March 2005 compared to the previous year on account of unfavourable climatic and crop conditions. However, profits showed improvement mainly on account of rationalization measures undertaken in the areas of distribution and product portfolios.

The export sales at Rs. 564 million during the year, represented an increase of 10% over the previous year.

Dividend

Your Directors recommend payment of dividend on the equity shares @ 60% (Rs. 6/- per share) for the financial year ended 31st March 2005. The dividend will absorb Rs. 169.1 million.

Financial Ratios		
	2004-05	2003-04
Equity vs Total Assets (%)	61.26	57.28
Return on Capital Employed (%)	23.41	18.91
before interest and taxes		
Profitability of total income (%)	8.90	9.38
before interest and taxes		
Current Ratio	2.33	2.48
current assets :		
short term liabilities and provisions		
Acid Test Ratio	1.50	1.84
short term receivables plus		
cash and cash items:		
short term liabilities and provisions		

Finance & Accounts

With focus on cash flows and working capital management, your Company continued to reduce its total borrowings. This, coupled with access to low cost funds, resulted in overall reduction of interest costs for the year under report by 42%.

Debentures

Credit Rating Information Services of India Limited (CRISIL) and Investment Information and Credit Rating Agency (ICRA) have assigned the rating of "AAA" for the debentures issued by the Company.

Your Directors certify that the debentures of Rs. 450 million and Rs. 150 million raised in the financial years 2001-02 and 2002-03 respectively, for meeting the working capital requirements were used only for that purpose. These debentures were redeemed during the year under report and no amount as on 31st March 2005 was outstanding in respect of the debentures.

Capital Expenditure

Capital Expenditure incurred during the year aggregated to Rs. 75.7 million.

Fixed Deposits

Your Company continued to maintain the highest rating of 'FAAA' awarded by CRISIL. Your Company did not accept any Fixed Deposit during the year under report. There were no overdue deposits except unclaimed deposits of Rs. 2.49 million as at 31st March 2005. Since then, deposits amounting to Rs. 0.02 million have been repaid.

Your Company transferred unclaimed fixed deposit of Rs. 0.26 million during the year to the Investor Education and Protection Fund.

Reduction in Borrowings

Strong cash accruals and tight control over working capital enabled your Company to reduce significantly its borrowing levels to Rs. 100.4 million, compared to Rs. 670.3 million in the previous year.

Management Discussion & Analysis Report

In terms of Clause 49 of the Listing Agreement with the Stock Exchanges, the Management Discussion & Analysis Report is appended to this Report.

Formation of wholly owned subsidiary

In line with the practice globally followed by Polyurethane business and with a view to impart greater focus to the Polyurethane business in India, the Board of Directors approved the formation of a wholly owned subsidiary of your Company named as BASF Polyurethanes India Limited (BPIL). BPIL was incorporated on 6th April 2005. BPIL will establish a system house, within Turbhe works, to manufacture Polyurethane System (PU) products.

The existing businesses of your Company include the activity of indenting and trading in PU products. After the requisite approvals are received, BPIL will commence manufacture of PU products. The indenting and trading activity of the Company relating to PU products will be suitably integrated in BPIL.

Further, in the event of synergies with existing operations of your Company not materialising, BASF AG or its affiliates will have the discretion to acquire your Company's holding in BPIL, in 2008. This will be done on the basis of a fair valuation of shares of BPIL, carried out by an independent valuer. In any event, the value of the said shares shall not be lower than the original investment value, appearing in the books of the Company.

Fipronil

In line with the global arrangement between Bayer CropScience AG and BASF AG and consequent upon the receipt of the approvals of the Commission of European Community and the US Federal Trade Commission, your Company executed the Licence Agreement with Bayer CropScience Limited for grant of Licensed Rights detailed in the Agreement relating to Agricultural uses of Fipronil.

Corporate Governance

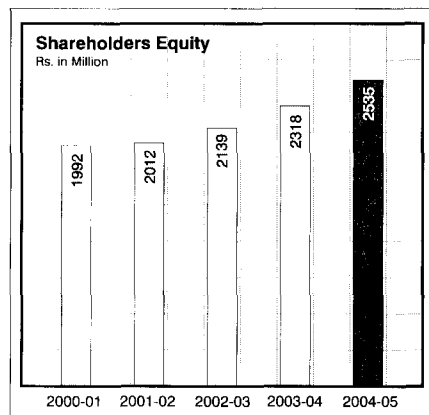
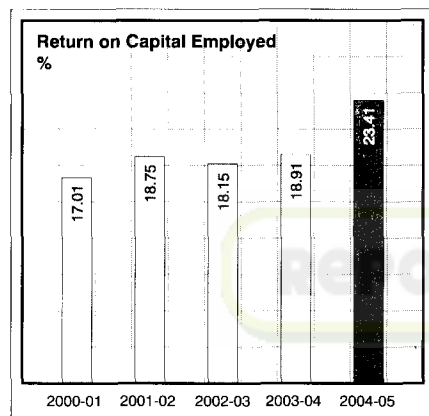
Your Company has always strived to incorporate appropriate standards for good corporate governance. As a listed Company, all required measures are taken to comply with the Listing Agreements with the Stock Exchanges.

A separate report on Corporate Governance alongwith a Certificate of Compliance from the Auditors, forms part of this report.

Directors' Responsibility Statement

Your Directors confirm:

- that in the preparation of the annual accounts, the applicable accounting standards have been followed;



- (ii) that the Directors have selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of your Company at the end of the financial year ended 31st March 2005 and of the profits of your Company for that year;
- (iii) that the Directors had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956, for safeguarding the assets of your Company and for preventing and detecting fraud and other irregularities; and
- (iv) that the Directors have prepared the annual accounts on a going concern basis.

Conservation of Energy, Technology Absorption and Foreign Exchange Earnings and Outgo:

Information pursuant to Section 217(1)(e) of the Companies Act, 1956, read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988, is given in the annexure to this Report.

Corporate Social Responsibility: Tsunami Relief

The devastating Tsunami that struck the coastline of southern and eastern India caused immense loss of life and property, primarily in the States of Tamil Nadu, Andhra Pradesh, Kerala and the Union Territory of Andaman & Nicobar Islands.

Your Company as a responsible corporate citizen, responded by donating an amount of Rs. 2.5 million to the Prime Minister's National Relief Fund and Rs. 0.1 million to the Karnataka Chief Minister's Fund, towards relief activities of Tsunami affected people. Employees of your Company also donated a day's salary. After including the contributions made by the BASF Group worldwide towards Tsunami relief in India, a total amount of Rs. 14.2 million was handed over to the Prime Minister's National Relief Fund.

Your Company also took up two rehabilitation projects in the Tsunami affected areas at a cost of Rs. 0.9 million, by setting up Rural Knowledge Centres in collaboration with the Dr. M. S. Swaminathan Foundation, Chennai and for providing agriculture extension/advisory services.

Directors

Dr. E. Baumgartner and Mr. Pradip P. Shah, retire by rotation at the ensuing Annual General Meeting and being eligible, offer themselves for re-appointment.

As required under Clause 49 of the Listing Agreement with the Stock Exchanges, the details of Directors seeking re-appointment at the ensuing Annual General Meeting is provided in the Corporate Governance Report, forming part of this Annual Report.

Personnel and Welfare

Industrial relations in the Mangalore, Thane & Dadra factories remained cordial.

Your Directors express their sincere appreciation for the dedicated efforts put in by all the employees and for their continued contribution for ensuring higher performance of your Company during the year.

Auditors

M/s. Deloitte Haskins & Sells, Mumbai retire at the forthcoming Annual General Meeting and being eligible, offer themselves for re-appointment. The Audit Committee recommends the re-appointment of M/s. Deloitte Haskins & Sells, as Statutory Auditors of the Company.

Cost Audit

The Board of Directors in pursuance of an order under Section 233B of the Companies Act, 1956, issued by the Government have appointed M/s. R. Nanabhoy & Co., Cost Accountants, Mumbai as Cost Auditors of your Company for conducting audit of the cost accounts maintained by the Company in respect of Insecticides for the financial year 2005-2006.

Particulars of Employees

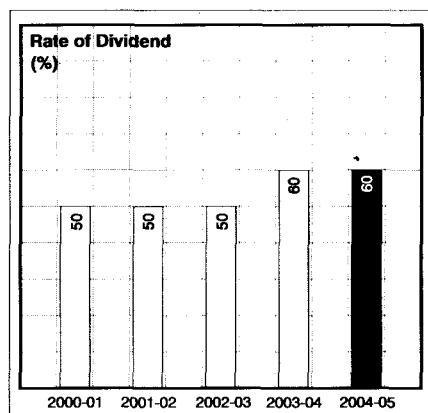
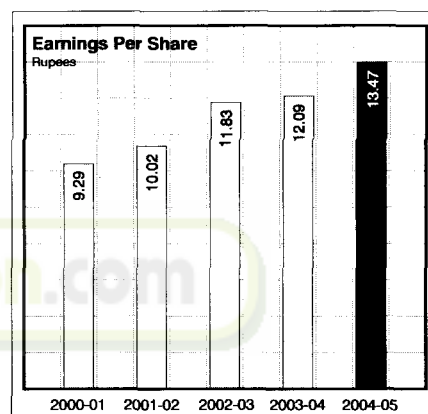
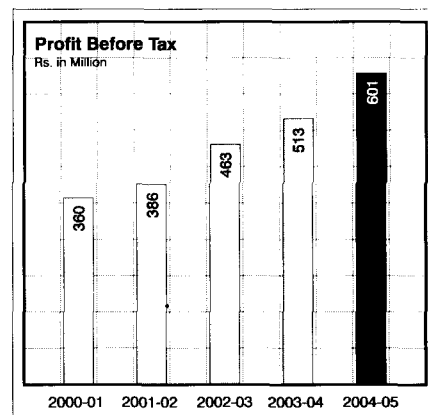
The particulars of employees required to be furnished under Section 217(2A) of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules, 1975, forms part of this Report. However, as per the provisions of Section 219(1)(b)(iv) of the Companies Act, 1956, the Report and Accounts are being sent to all shareholders, excluding the statement of particulars of employees. Any shareholder interested in obtaining a copy may write to the Company Secretary at the Registered Office of the Company.

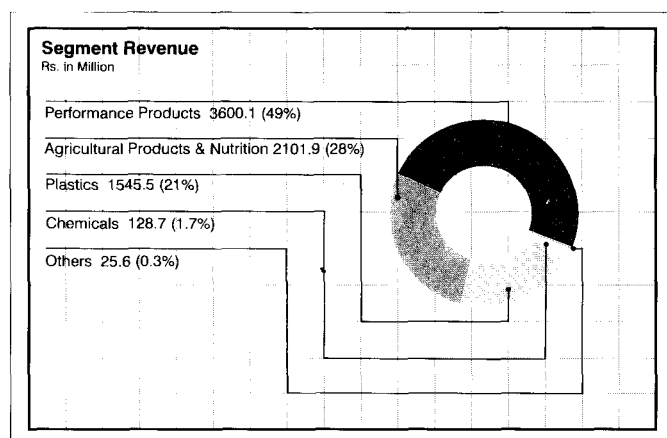
On behalf of the Board of Directors

PRASAD CHANDRAN
Chairman & Managing Director

Mumbai

Dated: 27th June 2005





Annexure to the Directors' Report

Statement containing particulars pursuant to the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 and forming part of the Directors' Report.

A. Conservation of Energy

The Company continued its policy of giving priority to energy conservation measures including regular review of energy generation, distribution and consumption and effective control on utilisation of energy, in its manufacturing facilities at Dadra, Mangalore and Thane.

During the year under report, various energy saving measures were implemented in the Company's factories which include:

- Installation of dual fuel high efficiency burners on boilers to achieve higher combustion efficiency.
- Installation and commissioning of solar heating system for boiler feed water to reduce fuel oil consumption and consequent reduction in carbon dioxide emission levels.
- Optimisation in the operation of chilled water refrigeration system by carrying out technical modifications to meet the chilling requirement for different products to save energy and enhance productivity levels.
- Installation of magnetic device in the water circulation system of polyvessels to eliminate use of chemicals for prevention of corrosion and scaling to reduce batch cycle time.
- Carrying out of regular inspection of utility distribution systems at all the sites and implementation of corrective measures to prevent losses through leakages.
- Rationalization in production planning and scheduling including optimisation through campaign production to meet peak demand and reduce specific utility consumption.
- Implementation of rain water harvesting scheme on a trial basis, at one of the sites.
- Successful trial of dried effluent treatment plant sludge at one of the sites as co-fuel in a cement plant to save fuel oil.

The above measures not only resulted in significant savings in the total energy consumed but also had a positive impact on improvement in the environment.

In addition, the Company plans to implement the following energy conservation measures:

- To execute the second solar water heating system for pre-heating boiler feed water.
- To rationalize process parameters to bring down batch cycle time of energy intensive production processes to achieve reduction in energy consumption.
- To carry out feasibility studies for:
 - (a) introduction of economiser for recovery of waste heat from the flue gas of boilers.
 - (b) implementation of solar water heating system in a different location to pre-heat boiler feed water and explore the possibilities of using solar energy for other process applications.
 - (c) adoption of rain water harvesting in a scientific manner to use rain water during monsoon and improve the underground water table level.
 - (d) installation of auto switching system for a plant.

Requisite data in respect of Energy Consumption are given below:

	Current Year 1.4.2004 to 31.3.2005	Previous Year 1.4.2003 to 31.3.2004
(a) Power & Fuel Consumption		
1. Electricity		
(a) Purchased		
Units (in '000' kwh)	8513	7891
Total amount (Rs. in million)	30.70	29.05
Rate per unit (Rs.)	3.61	3.68
(b) Own generation		
• Through diesel generator		
Units (in '000' kwh)	8104	8254
Units per litre of oil	3.75	3.75
Cost per unit (Rs.)	6.16	4.46

	Current Year 1.4.2004 to 31.3.2005	Previous Year 1.4.2003 to 31.3.2004
• Through Steam Turbine/Generator units		
Units per litre of fuel	N.A.	N.A.
Oil/gas		
Cost per unit		
2. Coal (specify quality and where used)	N.A.	N.A.
Qty. (tonnes)		
Total cost		
Average rate		
3. Furnace oil/fuels		
Qty. (k. litres)	3057	2758
Total Amount (Rs. in million)	36.38	31.71
Average rate (Rs./litre)	11.90	11.50
4. Others/Internal Generation (Qty.)	N.A.	N.A.
Total cost rate/unit		
(b) Consumption per unit of production		
Products		
Expandable polystyrene		
Unit M.T.		
Electricity (kwh)	80	93
Furnace oil/fuels (litres)	27	29
Coal (specify quality)	N.A.	N.A.
Others (specify)	N.A.	N.A.
Leather chemicals, auxiliaries, pigments, tanning and finishing agents including metal complex dyes, acrylic polymers and carboxylated styrene butadiene lattices		
Unit M.T.		
Electricity (kwh)	365	382
Furnace oil/fuels (litres)	62	61
Coal (specify quality)	N.A.	N.A.
Others (specify)	N.A.	N.A.
Pesticides		
Unit M.T.		
Electricity (kwh)	267	287
Furnace oil/fuels (litres)	114	101
Coal (specify quality)	N.A.	N.A.
Others (specify)	N.A.	N.A.

B. Technology Absorption

RESEARCH & DEVELOPMENT (R&D)

1. Specific Areas in which R&D was carried out by the Company:

During the year, the R&D Centre of the Company was engaged in supporting all the businesses through innovations and undertook multifold research activities including:

- Development of new products/formulations
- Developing cost effective processes in the areas of paper/leather/textile/speciality chemicals and auxiliaries
- Optimising effluent treatment processes

During the year under report, the R&D Centre continued its collaborative research efforts with BASF AG in different areas including:

- Pharmaceutical intermediates
- Textile dyeing & pigment printing auxiliaries
- Paper dyes and dye intermediates
- Isolation of potential pesticides from natural sources

- Eco-friendly leather chemicals
- Catalysts
- Eco-friendly solvents
- New organic chemical intermediates

2. *Benefits derived as a result of the above R&D:*

With its endeavour to explore and apply new and innovative chemistry for the benefit of customers, the R&D Centre developed new products during the year.

As a part of the collaborative research efforts, two new textile auxiliaries were developed for introduction in the Indian and Asian markets. The R&D Centre developed technology for three export oriented products.

The R&D efforts carried out in Mangalore plant resulted in successful production of a new range of leather dyes having export potential in the global market.

3. *Future plan of action:*

Future plans of action of the R&D Centre are as follows:

- Development of innovative and eco-friendly processes for speciality chemical products.
- Enhancing collaborative research with BASF AG and other group companies.
- Identifying and developing technologies for export oriented products.
- Continuing research for launch of new agro chemical products with a long term goal to have a new active pesticide molecule.
- Developing new products/formulations for specific business needs.
- Upgradation of research facilities in the R&D Centre.
- Exploring newer areas of research.

4. *Expenditure on R&D:*

	Rs. in million
(a) Capital	2.6
(b) Recurring	19.8
(c) Total	22.4
(d) Total R&D Expenditure as a percentage of total turnover	0.3%

TECHNOLOGY ABSORPTION, ADAPTATION AND INNOVATION

1. *Efforts in brief, towards technology absorption, adaptation and innovation*

The R&D Centre of the Company is recognised by the Ministry of Science and Technology, Government of India. The Centre is engaged in developmental activities such as import substitution of raw materials, new cost effective technologies for existing and new products, batch cycle time reduction as also carrying out basic research in areas such as environment friendly leather chemicals, textile chemicals, paper dyes and intermediates, novel and environment friendly solvents for specific use, catalyst and isolation of pesticide molecules from natural sources. The R&D Centre is also engaged in research activities pertaining to the adaptation of process technologies received from BASF AG.

2. *Benefits derived and the results of the above efforts:*

Various new products and processes were developed and commercialized during the year. Introduction of innovative products enabled the Company to pass on the benefits of technology to its customers. Additional efforts in process optimization resulted in significant cost reduction. This helped the businesses to remain cost-competitive in the market.

3. *Imported technology:*

During the last 5 years, the Company entered into agreements with BASF AG for sourcing the following technical know-how:

- In 2002 and 2004 for manufacture of new products.
- In 2004 for manufacture of expandable polystyrene.

The Company has excellent interaction with its parent Company BASF AG and receives on an ongoing basis, valuable technical information and support. As a result, the Company introduced a range of new products in different business segments.

C. Foreign Exchange Earnings and Outgo

The particulars with regard to foreign exchange earnings and outgo appear on page 37 and 38 of the Annual Report and Accounts.

On behalf of the Board of Directors

PRASAD CHANDRAN
Chairman & Managing Director

Mumbai

Dated: 27th June 2005