

SHAPING THE FUTURE

 **BASF**

The Chemical Company

## Annual Report 2005 - 2006

BASF India Limited



## Message from the Chairman & Managing Director

Dear Shareholders,

*"India everywhere"* – The theme of the Davos World Economic Forum conference, clearly reflected the changing perception of India in the Global Economy. Last few years, the economy has been consistently growing. Most importantly, last year the manufacturing sector has shown 9% growth. This augurs well for the Chemical industry.

We will shape our future on the principles of *"Sustainability"*. The equilibrium between the economic compulsions, ecological considerations and social needs has to be maintained for sustainable growth. Your Company has structured the organization and management process accordingly.

**BASF – The Chemical Company.** We believe in innovation. The Research & Development Centre is now part of the Global Technology Platform, attracting some of the best chemistry-minds in the country. We will shape the future with our Chemistry and are well positioned to achieve BASF Strategy 2015.

Our loyal, committed and professional employees will add value to our stakeholders.

With Best Wishes,

**Prasad Chandran**

# 62nd Annual General Meeting

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Thursday, 10th August 2006  
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. Declaration of Dividend
- 3-4. Appointment of Directors
5. Appointment of Auditors
- 6-10. Special Business

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: 022-6661 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

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## Board of Directors

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Mr. Prasad Chandran  
*Chairman and Managing Director*

Dr. Rainer Diercks

Dr. Raman Ramachandran  
*Alternate to Dr. Rainer Diercks*

Dr. Tilman Krauch

Mr. Deepak Thuse  
*Alternate to Dr. Tilman Krauch*

Mr. Boon Yeow Yee

Mr. S. Ramnath  
*Alternate to Mr. Boon Yeow Yee*

Mr. K.R. Coorlawala

Mr. R.R. Nair

Mr. Pradip P. Shah

Mr. R.A. Shah

### Auditors

Deloitte Haskins & Sells  
*Chartered Accountants*

### Solicitors

Messrs Crawford Bayley & Co.  
Messrs Udwadia & Udeshi

### Bankers

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

### Internal Auditors

Mahajan & Aibara  
*Chartered Accountants*

### Executive Committee

Mr. Prasad Chandran

Mr. P.M. Balakrishnan

Mr. M.R. Iyer

Mr. S. Khanolkar

Mr. Ravi Nair

Dr. Raman Ramachandran

Dr. G. Ramaseshan

Mr. S. Ramnath

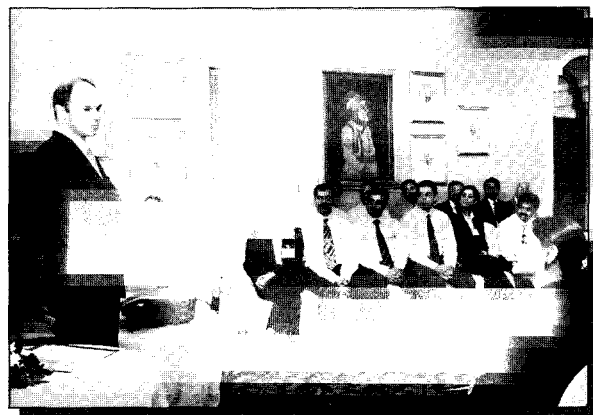
Mr. Deepak Thuse

Mr. R.Y. Vaidya

### Company Secretary

Mr. M.R. Iyer

# Directors' Report

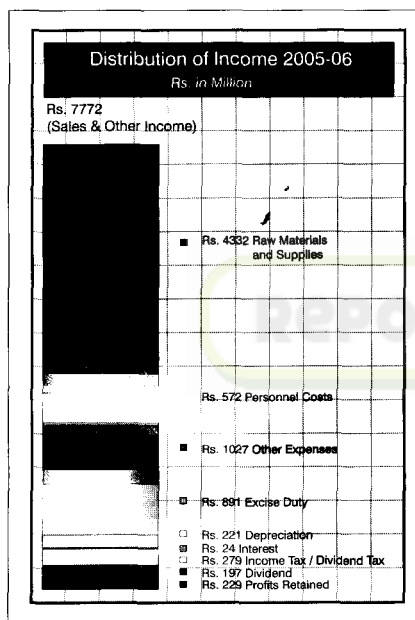


Maiden visit. On taking over as Member of the Board of Executive Directors, BASF AG, responsible for Asia Pacific, Dr. Martin Brudermueller visits India in his first week.

Your Directors have pleasure in presenting their Report for the financial year ended 31st March 2006.

## Financial Results

(Rs. in Million)



	Year ended 31.3.2006	Year ended 31.3.2005
Sales	7716.4	7401.8
Profit before tax	705.7	600.6
Tax	251.6	220.9
Profit after tax	454.1	379.7
Balance brought forward	193.0	191.0
Available for appropriation	647.1	570.7
This has been appropriated as follows:		
Proposed Dividend	197.3	169.1
Corporate Tax on Dividend	27.7	23.7
Cess on Dividend pertaining to previous year	—	0.4
Debenture Redemption Reserve/(withdrawal)	—	(300.0)
General Reserve	197.1	484.5
Balance carried forward	225.0	193.0

## Activities

The performance of your Company during the year under report has registered an improvement over the previous year. Sales at Rs. 7716.4 million during the year ended 31st March 2006 registered increase of 4% compared to the previous year. Profit before tax at Rs. 705.7 million represents an increase of 17% compared to the previous year. This increase was mainly on account of higher capacity utilisation, improved operating results of Plastics, Agricultural Products and Chemicals businesses and reduction in interest cost during the year under report.

Profit after tax at Rs. 454.1 million was higher by 20% compared to the previous year.

The Plastics business registered higher sales and profits compared to the previous year. The Agricultural Products business recorded lower sales during the year ended 31st March 2006. However, profits showed improvement due to better realizations and rationalization measures undertaken in the areas of distribution and product portfolios. The Chemicals business registered significant increase due to improved demand from the end user industries.

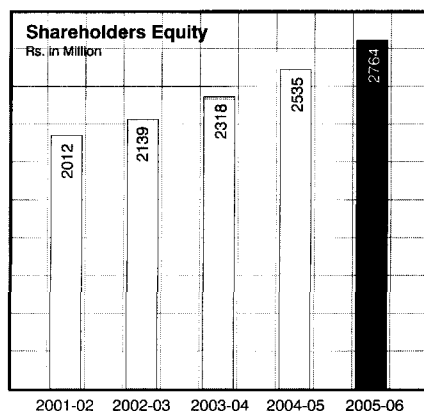
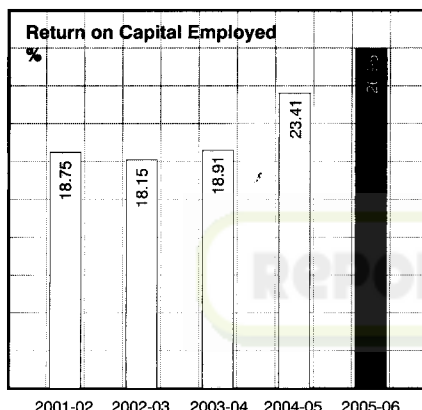
The Performance Products segment which include textiles, dispersions, specialty and leather chemicals businesses registered increase in sales during the year under report. The textiles, dispersions and specialty chemical businesses registered higher volumes and turnover compared to the previous year. Margins in leather chemicals were under pressure on account of increase in raw material prices and drop in the production of leather.

The export sales was at Rs. 252 million during the year under report.

## Dividend

Your Directors recommend payment of dividend on the equity shares @ 70% (including a special dividend of 10% out of the amount received on transfer of Phorate activity) for the financial year ended 31st March 2006. The dividend will absorb Rs. 197.3 million.

Financial Ratios		
	2005-06	2004-05
<b>Equity vs Total Assets (%)</b>	69.34	61.26
<b>Return on Capital Employed (%)</b>	26.95	23.41
before interest and taxes		
<b>Profitability of total income (%)</b>	9.38	8.90
before interest and taxes		
<b>Current Ratio</b>	3.06	2.33
current assets :		
short term liabilities and provisions		
<b>Acid Test Ratio</b>	2.01	1.50
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 in interest costs for the year under report by 61%.

### Capital Expenditure

Capital Expenditure incurred during the year aggregated to Rs. 142.6 million.

### Reduction in Borrowings

Strong cash accruals and tight control over working capital enabled your Company to significantly reduce its borrowing levels to Rs. 13 million, compared to Rs. 99.7 million in the previous year.

### Fixed Deposits

Your Company continued to maintain the highest rating of 'FAAA' awarded by CRISIL. Your Company did not accept any Fixed Deposits during the year under report. There were no overdue deposits except unclaimed deposits of Rs. 1.6 million as at 31st March 2006.

Your Company transferred unclaimed fixed deposit of Rs. 0.34 million during the year to the Investor Education and Protection Fund.

## 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.

### Wholly owned Subsidiary

BASF Polyurethanes India Limited (BPIL), your Company's subsidiary is in the process of setting up a system house at Turbhe, to manufacture Polyurethane System (PU) products. After receipt of the requisite approvals, BPIL will commence manufacture of PU products. The indenting and trading activities of your Company relating to PU products will also be suitably integrated in BPIL. Attached to the accounts of your Company are the Report and Audited Accounts of BPIL.

### Phorate Activity

In line with the global decision of BASF Group to divest Phorate activity relating to Agricultural Products business, your Company transferred its Phorate activity to AMVAC Chemical Corporation, USA, for Rs. 28.8 million.

### Asian Technical Centre for Textiles

Keeping in line with the requirements of the market for quality technical service in textile chemicals, your Company set up the Asian Technical Centre for Textiles at Thane to cater to the needs of the customers in the Indian sub-continent. The Centre is equipped with the state-of-the-art equipment for textile processing and will also function as a training centre for employees and customers.

### Expansion of Polymer Dispersions Capacity

Your Directors had in October 2005, approved the proposal for expansion of the polymer dispersions plant capacity at Mangalore from 20000 tpa to 65000 tpa to meet the demand of customers in the paper and architectural coatings, adhesive and construction segment. The project cost estimated at Rs. 410 million, is expected to be commissioned by the first quarter of 2007. The project is financed by internal accruals and borrowings.

## Corporate Governance

Your Company always strived to incorporate appropriate standards for good corporate governance. Your Company has complied with the Corporate Governance requirements as per the revised Clause 49 of 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 2006 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;
- (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.

### Directors

Dr. E. Baumgartner resigned from the Board w.e.f. 23rd January 2006. Your Directors wish to place on record their sincere appreciation of the guidance and valuable advice received from Dr. E. Baumgartner in the deliberations of the Board during his tenure as a Director.

Consequent upon the resignation of Dr. E. Baumgartner from the Board, Mr. S. Kumarasamy, ceased to be his Alternate Director effective from 23rd January 2006. Mr. S. Kumarasamy retired from the services of the Company effective 1st April 2006.

Mr. R. E. Vaz, who was the Alternate Director to Mr. Boon Yeow Yee, resigned from the Board effective 1st April 2006 consequent upon attaining superannuation.

Your Board of Directors wish to place on record their sincere appreciation of the guidance and valuable advice received from Mr. S. Kumarasamy and Mr. R. E. Vaz in the deliberations of the Board during their tenure as Directors.

Dr. Rainer Diercks was appointed as a Director on 23rd January 2006 in the casual vacancy caused by the resignation of Dr. E. Baumgartner in terms of Article 108 of the Articles of Association of your Company and Section 262 of the Companies Act, 1956.

Mr. Deepak Thuse was initially appointed as an Alternate Director to Dr. Harald Lauke effective 23rd January 2006 and thereafter appointed as an Alternate to Dr. Tilman Krauch, effective 17th April 2006.

Mr. S. Ramnath was appointed as an Alternate Director to Mr. Boon Yeow Yee, effective 1st April 2006.

Dr. Raman Ramachandran was appointed as an Alternate Director to Dr. Rainer Diercks, effective 1st April 2006.

Dr. Harald Lauke resigned from the Board w.e.f. 17th April 2006. Your Directors wish to place on record their sincere appreciation of the guidance and valuable advice received from Dr. Harald Lauke in the deliberations of the Board during his tenure as a Director.

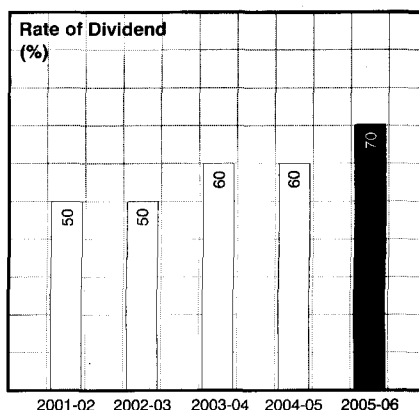
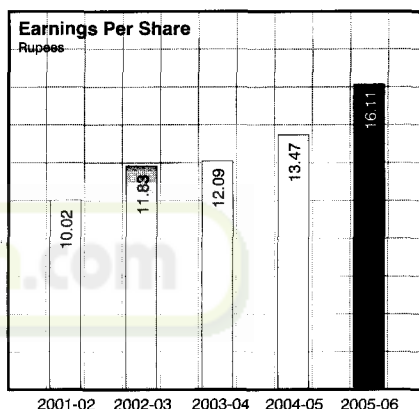
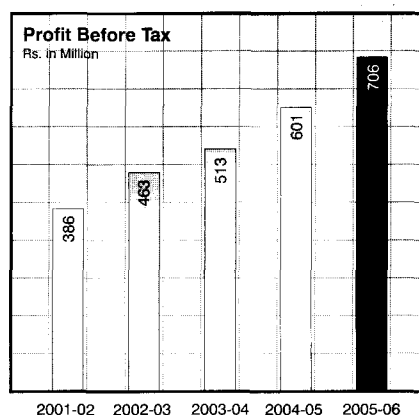
Dr. Tilman Krauch was appointed as an Additional Director of your Company w.e.f. 17th April 2006 in terms of Article 108 of the Articles of Association of your Company and Section 260 of the Companies Act, 1956 and he holds office up to the date of the ensuing Annual General Meeting.

Mr. R. A. Shah and Mr. R. R. Nair, 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.

### Auditors

M/s. Deloitte Haskins & Sells, Mumbai retire at the forthcoming Annual General Meeting and are eligible for re-appointment.



**Auditors' Report**

Your Directors would like to refer to Para 4(vi) of the Auditors' Report dated 2nd May 2006. We invite your attention to Note 12 of Schedule 21 attached to these accounts which depicts the position in regard to the pending approval from the members of the Company in the General Meeting. In your Directors' opinion, the Note is self-explanatory.

**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 your Company in respect of Insecticides for the financial year 2006-07.



Expansion Project. Ground breaking ceremony at Mangalore to increase capacity of the Dispersions Plant from 20,000 metric tons to 65,000 metric tons per annum.

**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.

**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.

**General**

The Consolidated Financial Statements of your Company in this Annual Report are inclusive of the results of BASF Polyurethanes India Limited.

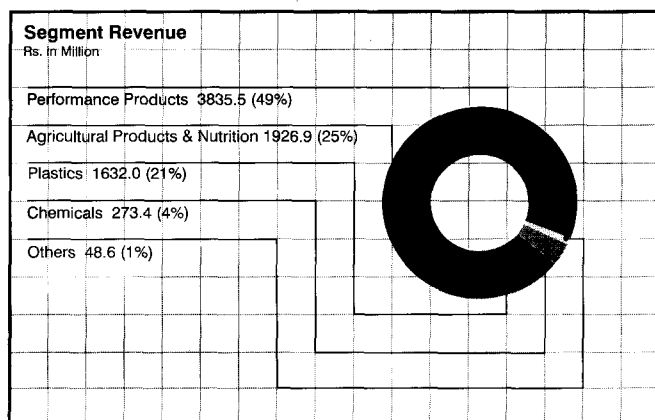
On behalf of the Board of Directors

PRASAD CHANDRAN  
Chairman & Managing Director

Mumbai

Dated: 2nd May 2006





## 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 Thane, Mangalore & Dadra.

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

- Reduction in specific power consumption in a plant by incorporating the following measures/carrying out modifications viz.
  - Modification of cooling water circuit in a plant.
  - Incorporating measures for switching certain equipment as per batch requirements.
  - Reducing run hours of an equipment, so as to have campaign production.
  - Modification in a chilling plant to reduce compressor run hours.
- Rationalise process parameters to bring down batch cycle time of production processes.
- Replacement of old gear box by an energy efficient one in a plant.
- Installation of energy efficient split and window Air-conditioners in place of existing Air Conditioners.
- Increasing set temperature of Air-conditioners to save on power.
- All personal computer monitors programmed to switch off after a set time of non-use.

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 reduce power cost by obtaining power from the State Grid.
- To reduce spray dryer running cost by converting existing LDO fuel fired generator burner to Furnace oil/fuel fired burner.
- To carry out feasibility studies for:
  - (a) Introduction of economizer 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 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.
  - (e) Implementing drip irrigation for gardening.
  - (f) Installation of energy efficient gear boxes in existing reactors.

Requisite data in respect of Energy Consumption are given below:

	Current Year 1.4.2005 to 31.3.2006	Previous Year 1.4.2004 to 31.3.2005
(a) Power & Fuel Consumption		
1. Electricity		
(a) Purchased		
Units (in '000' kwh)	7427	8513
Total amount (Rs. in million)	27.60	30.70
Rate per unit (Rs.)	3.72	3.61
(b) Own generation		
• Through diesel generator		
Units (in '000' kwh)	7721	8104
Units per litre of oil	3.67	3.75
Cost per unit (Rs.)	7.39	6.16

	Current Year 1.4.2005 to 31.3.2006	Previous Year 1.4.2004 to 31.3.2005
• 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)	2673	3057
Total Amount (Rs. in million)	40.96	36.38
Average rate (Rs./litre)	15.32	11.90
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)	61	80
Furnace oil/fuels (litres)	24	27
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)	343	365
Furnace oil/fuels (litres)	52	62
Coal (specify quality)	N.A.	N.A.
Others (specify)	N.A.	N.A.
Pesticides		
Unit M.T.		
Electricity (kwh)	290	267
Furnace oil/fuels (litres)	170	114
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 and streamlining existing processes in the areas of paper/leather/textile/other specialty chemicals and auxiliaries
- Optimising effluent treatment processes

During the year under report, the R & D Centre was recognized by BASF AG as a part of its Global Technology Platform. This recognition brought several Global Research projects to the R & D Centre and the laboratories were modernized. The R&D Centre augmented research instruments facility. Presently, the Centre is working on Global Research projects in the following areas:

- New organic chemical intermediates for various applications
- Textile auxiliaries