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Shaping The Future

Annual Report 2006 - 2007

BASF India Limited

 - **BASF**
The Chemical Company



Message from the Chairman & Managing Director

The India growth story continues – empowered by the manufacturing and services sectors. However, inflation and increasing raw material cost have been a cause for concern.

In spite of the severe competition, the Company has performed well, with increased sales and cost control measures, enabling recommendation of 70% dividend.

The Company places high emphasis on Environment, Health and Safety (EHS). Benchmarking against global best practices, continuous improvement programmes and Responsible Care initiatives have ensured safe operations at all our sites.

I take this opportunity to reiterate that our Professional, Passionate and Pioneering employees will continue to contribute to the success and growth of our customers and other stakeholders.

Best Wishes,

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

Prasad Chandran

63rd Annual General Meeting

Contents

Tuesday, 31st July 2007

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
- 6-7. 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 Agents

Sharepro Services (India) Private Ltd.,
Unit : BASF India Limited,
Satam Estate, 3rd Floor,
Above Bank of Baroda,
Cardinal Gracious Road, Chakala,
Andheri (East), Mumbai - 400 099
Tel. No. : 022-2821 5168, 2832 9828, 2821 5991,
2834 7719, 2834 8218
Fax No. : 022-2837 5646
Email : sharepro@vsnl.com

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Board of Directors

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

Messrs BSR & Co.,
Chartered Accountants

Solicitors

Messrs Crawford Bayley & Co.
Messrs Udawadia & Udeshi

Bankers

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. 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

Internal Auditors

Messrs Mahajan & Aibara
Chartered Accountants

Company Secretary

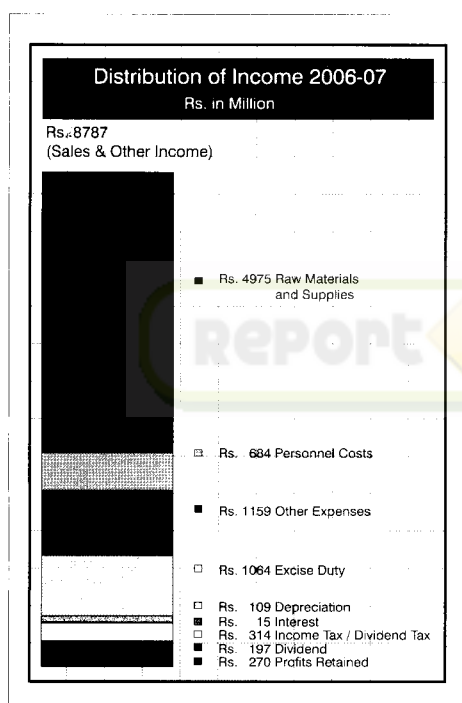
Mr. M.R. Iyer

Directors' Report



Mr. Prasad Chandran receives the prestigious IGCC Champions Award for BASF India from Minister Michael Glos, German Minister for Economics & Technology. Dr. Jürgen Hambrecht, Chairman of the Board of Executive Directors, BASF AG, also the Chairman of Asia Pacific Council for German Business (seated first on left) witnessed this important moment.

Your Directors have pleasure in presenting their Report for the financial year ended 31st March 2007.



Financial Results

(Rs. in Million)

	Year ended 31.3.2007	Year ended 31.3.2006
Sales	8749.6	7716.4
Profit before tax	781.0	705.7
Tax	280.1	251.6
Profit after tax	500.9	454.1
Balance brought forward	225.0	193.0
Available for appropriation	725.9	647.1
This has been appropriated as follows:		
Proposed Dividend	197.3	197.3
Corporate Tax on Dividend	33.6	27.7
General Reserve	264.0	197.1
Balance carried forward	231.0	225.0

Activities

The performance of your Company during the year under report registered an improvement over the previous year. Sales at Rs. 8749.6 million and Profit before tax at Rs. 781 million during the year ended 31st March 2007 represent an increase of 13.4% and 10.7% respectively, over the previous year. This increase was mainly on account of reduction in interest cost, higher capacity utilization and improved operating results of the Performance Products, Expandable Polystyrene (EPS) and Agricultural Products businesses. Chemicals business registered higher sales compared to the previous year.

Profit after tax at Rs. 500.9 million was higher by 10% compared to the previous year.

The EPS business registered growth in sales compared to the previous year. The Agricultural Products business recorded higher sales and profits during the year ended 31st March 2007 mainly due to higher realizations and rationalization measures undertaken by this business, during the year.

The Performance Products segment which include textiles, dispersions, speciality and leather chemicals businesses registered increase in sales and profits compared to the previous year. Capacity utilization in all segment of Performance Products business was higher compared to the previous year. However, margins were under pressure.

The export sales at Rs. 320.1 million during the year under report, represented an increase of 27% over the previous year.

Financial Ratios		
		2005-06
Equity vs Total Assets (%)	66.04	69.34
Return on Capital Employed (%)	27.38	26.95
before interest and taxes		
Profitability of total income (%)	9.06	9.38
before interest and taxes		
Current Ratio	2.46	3.06
current assets :		
short term liabilities and provisions		
Acid Test Ratio	1.63	2.01
short term receivables plus		
cash and cash items:		
short term liabilities and provisions		

Dividend

Your Directors recommend payment of dividend on the equity shares @ 70% (Rs. 7/- per share) for the financial year ended 31st March 2007. The dividend will absorb Rs. 197.3 million.

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 36%.

Capital Expenditure

Capital Expenditure incurred during the year aggregated to Rs. 451.2 million.

Reduction in Borrowings

Strong cash accruals and control over working capital enabled your Company to reduce its borrowing levels to Rs. 5.1 million, compared to Rs. 13 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. 1.16 million as at 31st March 2007.

Your Company transferred unclaimed fixed deposit of Rs. 0.46 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

The indenting and trading activity relating to the Polyurethane Systems business of the Company was transferred to your Company's wholly owned subsidiary, BASF Polyurethanes India Limited (BPIL), effective 1st July 2006. BPIL commenced commercial production from June 2006. The Audited Accounts of the Subsidiary and the Auditors' Report thereon form part of this Annual Report.

Expansion of Polymer Dispersions Capacity

Your Company expanded its polymer dispersions capacity at Mangalore from 20000 tpa to 65000 tpa. The new dispersions plant of 45000 tpa capacity was commissioned on 9th March 2007.

Competence Centre/Application Laboratory

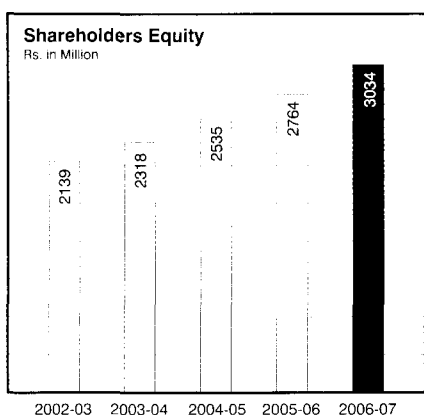
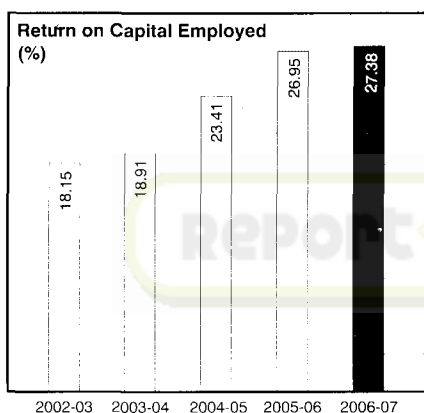
Your Company started a technical support centre viz., BASF Leather Competence Centre in September 2006, for the leather industry, at Bantala Leather Complex, Kolkata. This state of the art Centre will cater to the needs of all types of finished leather used in leather goods and footwear. Further, to augment the technical service capabilities of the dispersions business, an application laboratory for architectural coatings was set up at Mangalore.

Cessation of agrochemicals production at Thane

As part of the rationalization measures undertaken by the Company at its Thane site, the production activity at the agrochemicals plant in Thane was discontinued, effective 1st January 2007.

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 Clause 49 of the Listing Agreements with the Stock Exchanges.

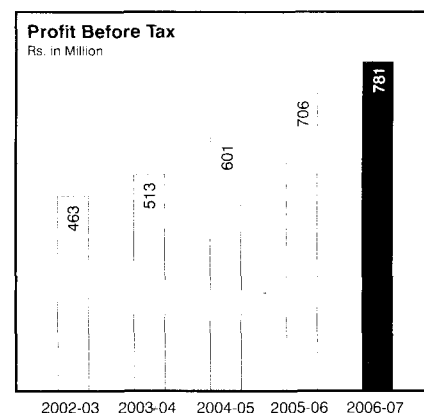


A separate report on Corporate Governance along with a Certificate of Compliance from the Auditors, forms part of this report.

Directors' Responsibility Statement

Your Directors confirm:

- (i) 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 2007 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

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

Dr. Rainer Diercks was appointed as Director of the Company on 23rd January 2006 in the casual vacancy caused by the resignation of Dr. E. Baumgartner. In terms of Section 262 of the Companies Act, 1956, Dr. Rainer Diercks holds office upto the date of the forthcoming Annual General Meeting, being the date on which Dr. E. Baumgartner would have retired by rotation had he continued to be a Director of the Company. Notice has been received under Section 257 of the Companies Act, 1956 from a shareholder proposing Dr. Rainer Diercks as a Director of the Company.

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

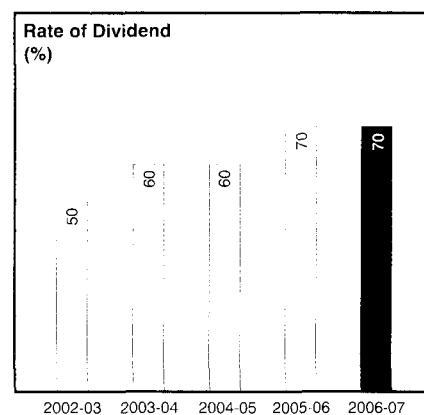
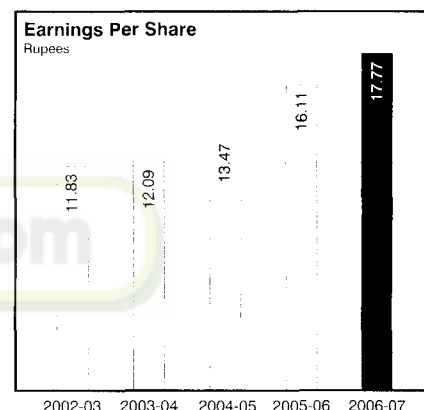
M/s. BSR & Co., Chartered Accountants, Mumbai retire at the forthcoming Annual General Meeting and are eligible for re-appointment.

Auditors Report

Your Directors would like to refer to Para 2 of the Auditors' Report dated 6th June 2007. We invite your attention to Note 4 of Schedule 20 attached to these accounts with respect to accounting of Voluntary Retirement Scheme. Taking into consideration the amount involved and on a conservative view of the matter, your directors have decided to write off the amount of Rs. 39.2 million incurred, during the year. 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 the Company in respect of Insecticides for the financial year 2007-08.

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 the 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.



Dr. Martin Brudermüller, Member of the Board of Executive Directors, BASF AG, responsible for Asia Pacific, shared his optimism about BASF India's growth, with employees.

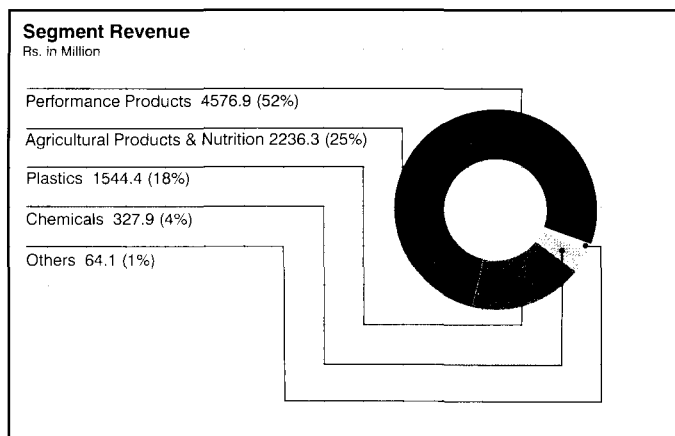
On behalf of the Board of Directors

PRASAD CHANDRAN
Chairman & Managing Director

Mumbai

Dated : 6th June 2007.

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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 utilization 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:

- Installation of energy efficient stirrers at its plants.
- Installation of energy efficient light fittings at its factory.
- Installation of energy and water meters at various locations in a factory.
- Lower power cost by obtaining power from the State Grid.
- Increasing set temperature of air-conditioners to save on power.
- Reduction in specific power consumption in a plant by incorporating following measures/carrying out modifications viz.:
 - Incorporating measures for switching certain equipment as per batch requirements.
 - Reducing run hours of an equipment, so as to have campaign production.
 - Rationalise process parameters to reduce batch cycle time of energy intensive production processes.
 - Reduce working hours by improving machine efficiencies.

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:

- Replacement of existing boiler with a new energy efficient boiler.
- Installation of energy efficient split and window air-conditioners in place of existing air-conditioners at its plants.
- To replace old air compressors in a plant by energy efficient new compressors having energy monitoring device to optimize power consumption.
- To carry out audit of various processes in its plants in view of changing product profile so as to achieve optimal power consumption.
- To carry out feasibility studies for:
 - Adoption of rain water harvesting to improve underground water table level.
 - Implementation of drip irrigation for gardening.
 - Installation of energy efficient gear boxes in existing reactors.

Requisite data in respect of Energy Consumption are given below:

	Current Year 1.4.2006 to 31.3.2007	Previous Year 1.4.2005 to 31.3.2006
(a) Power & Fuel Consumption		
1. Electricity		
(a) Purchased		
Units (in '000 kwh)	12988	7427
Total amount (Rs. in million)	61.29	27.60
Rate per unit (Rs.)	4.72	3.72
(b) Own generation		
• Through diesel generator		
Units (in '000 kwh)	2886	7721
Units per litre of oil	3.55	3.67
Cost per unit (Rs.)	8.70	7.39

	Current Year 1.4.2006 to 31.3.2007	Previous Year 1.4.2005 to 31.3.2006
• 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)	3473	2673
Total Amount (Rs. in million)	57.71	40.96
Average rate (Rs./litre)	16.62	15.32
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)	77	61
Furnace oil/fuels (litres)	23	24
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)	294	343
Furnace oil/fuels (litres)	50	52
Coal (specify quality)	N.A.	N.A.
Others (specify)	N.A.	N.A.
Pesticides		
Unit M.T.		
Electricity (kwh)	247	290
Furnace oil/fuels (litres)	193	170
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 under report, the R&D Centre of the Company was engaged in supporting the businesses through innovations and undertook multifold research activities including:

- Basic Research
- 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
- Optimizing effluent treatment processes

As part of the Global Technology platform, the facilities at the R&D Centre were upgraded. Work on Global research projects include:

- Collaborative research with BASF AG in the areas of performance chemicals, fine chemicals, intermediates and other organic materials, ionic liquids and metal organic frameworks
- Improvement of existing laboratories