



Chembond Chemicals Limited
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27th

ANNUAL REPORT 2001-2002

Board of Directors

Dr. Vinod D. Shah	Chairman & Managing Director
Chinubhai D. Shah	Jt. Managing Director
Ashwin R. Nagarwadia	
Jayant S. Vasani	
Mahendra K. Ghelani	
Perviz H. Dastur	
O.P. Malhotra	Resident Director, East India
Sameer V. Shah	MD – Henkel Chembond – JV
Nirmal V. Shah	MD – ChembondDrewtreat – JV

Key Executives

Bhadresh D. Shah	General Manager (Commercial)
Rajesh K Arora	General Manager (Operations)
Sandeep Karmarkar	Manager (WTP Department)
Tirtha Banerjee	Sr. Manager (Technical)

Auditors

Kastury & Talati
Chartered Accountants, Mumbai

Bankers

Bank of India
Worli Naka Branch
Mumbai.

HDFC Bank Ltd.
Nariman Point, Mumbai

Registered and Corporate Office

Chembond Centre
EL-71, Mahape MIDC
Navi Mumbai 400 705.
Tel. : (++91 22) 7618799
Fax : (++91 22) 7681294
e-mail: info@chembondindia.com
Website: www.chembondindia.com

City Office

B-23, Todi Estate, Sunmill Compound
Lower Parel, Mumbai – 400 013

Plant

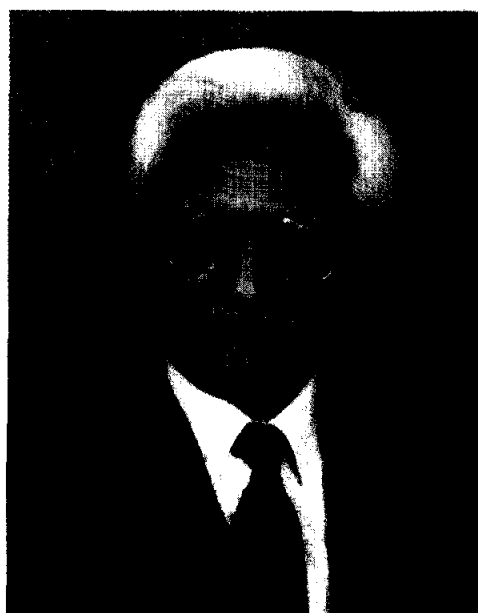
Plot E-6/3 & 6/4, MIDC Tarapur
Dist. Thane, Maharashtra

Registrar and Transfer Agent

Tata Share Registry Ltd
Army & Navy Building
148 – Mahatma Gandhi Road
Fort, Mumbai 400 001

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AGM on 17.09.02 at 4.00 p.m at Registered Office.	

Chembond Joint Managing Director, CHINUBHAI D. SHAH passes away.



With deep grief and sorrow we announce the sad and sudden demise of our beloved Chinubhai on 4th August.

Chinubhai (72), as he was fondly called, was the elder brother of Dr. Vinod Shah and co-founded Chembond some 30 years ago as a partnership company. A multifarious personality, Chinubhai has been a pillar of strength to the company especially during the initial formative years. His dashing and forthright manner and sincerity in approach won him business and laurels from all and sundry.

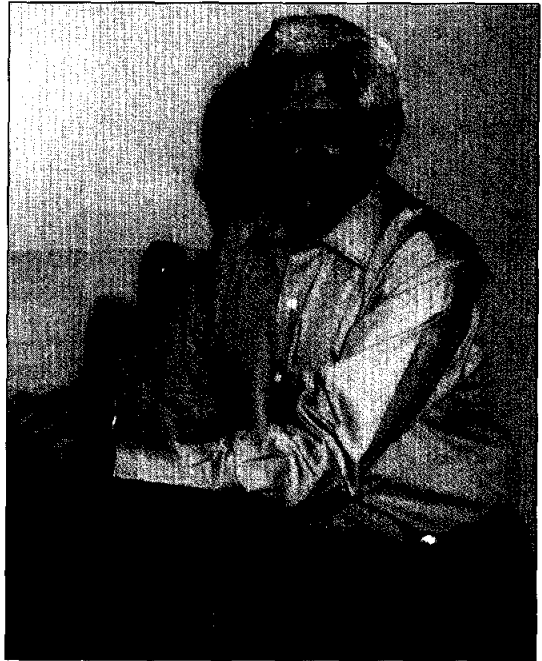
Starting his career with the then family business of yarn and textiles in Amritsar, Chinubhai established and expanded the business of electrical and electronic raw materials under the name Ceedee Agencies Pvt. Ltd. in Mumbai. Widely travelled locally and globally, especially Japan, Taiwan, Korea and China, he formed long lasting business and personal relationships with all and one that he came in contact with because of his compassionate, loving and friendly nature.

A philanthropist, he believed in helping the poor and desolate without expecting fame or publicity. He maintained excellent health throughout his life till the end moments when he suddenly passed away. He spent the last three days of his life in the company of the people and at places dearest to his heart, namely, with his childhood friends at the native village. He is survived by his wife Vimlaben, sons Sanjiv and Ajay, and daughter Sangeeta.

May God bestow eternal peace to the departed soul.

Chairman's Message

The last 2 years have been rather sluggish for the world economy and India is no exception. There has been virtual stagnancy on the industrial front. The year 2000-2001 witnessed an industrial growth rate of only 4%, too small for a developing country such as India. The year 2001-2002 recorded a better growth of 6%, but that is mostly from agriculture sector with the industrial sector still stagnant. The processes of globalisation and free market economy have also added new dimensions to the management of business enterprises. These changes do pose challenges but also open up exciting opportunities.



The above cited factors become very relevant for running the business at Chembond. The decision taken in 1996/97 to separate out the pre-treatment business to form a JV with Henkel has proved out to be a great success with the sales increasing by more than three fold during this period. Henkel Chembond Surface Technologies Limited offers the "state of art" technology and products and operates at number one position for the pre-treatment chemicals in India. This has resulted in a growth in an otherwise stagnant market.

The year 2001-02 has also witnessed an important milestone in Chembond history by separating out the Water treatment chemicals business and forming another JV with the Drew Industrial Division of Ashland Specialty Chemicals Company, USA. With this new JV, ChembondDrewtreat Ltd., we are well poised to broaden our horizons for water treatment chemicals with complementary product lines and highly experienced technical personnel. We do expect a growth rate to match the Henkel Chembond performance.

I wish to reassure the shareholders of Chembond, that we are aware of the changing times and situations and will adapt ourselves by making strategic decisions that will propel growth, especially under adverse conditions.

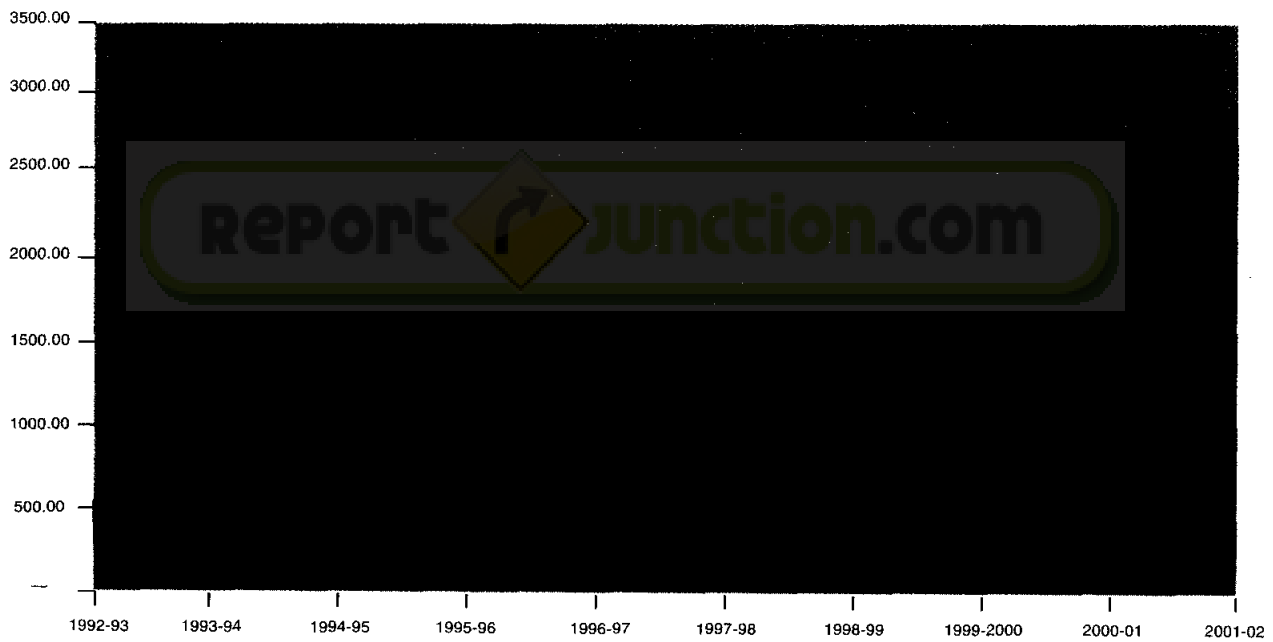
Vinod Shah
Chairman

Select Financial Data

in Rs. Lakhs except share data and ratios

For the year	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-2000	2000-01	2001-02
Sales	552.83	625.72	969.27	1197.59	1452.47	1646.22	1962.62	2183.22	2479.73	3005.77
Profit before tax	40.76	50.78	68.52	94.33	333.41	100.81	125.37	147.27	148.45	313.12
Profit after tax	22.76	30.78	43.52	60.33	256.36	73.81	91.37	111.27	108.45	242.96
As at year end										
Share Capital	94.50	99.95	225.00	300.00	300.00	300.00	300.00	300.00	300.00	300.00
Gross Block	77.06	189.72	206.81	226.89	254.19	402.88	464.73	475.43	501.98	567.78
per share data, ratios										
Earnings per share	2.40	3.07	1.93	2.01	8.54	2.46	3.05	3.71	3.61	8.09
Dividend per share	0.90	0.90	1.50	1.50	1.80	1.50	1.50	1.80	1.50	1.80
Return on net worth (%)	33.48	21.10	19.18	20.44	50.63	14.77	17.33	19.06	17.85	32.51
Return on investment (%)	43.13	50.81	29.56	31.44	111.14	33.60	41.79	49.09	49.48	104.37

Sales
(in Rs. lakhs)



DIRECTORS' REPORT

To
The Members,

Your Directors have pleasure in presenting their twenty-seventh annual report on the business and operations of the Company together with the audited statement of accounts for the year ended 31st March 2002.

FINANCIAL RESULTS:

The highlights of the Financial results are:

	2001-2002 Rs. in Lacs	2000-2001 Rs. in Lacs
Turnover of Sales	3,005.77	2,479.73
Less: Excise duty	484.27	342.75
Net Sales	2,521.50	2,136.98
Profit before tax	313.12	148.45
Less: Deferred tax	5.16	-
Less: Provision for taxation	65.00	40.00
Profit after tax	242.96	108.45
Add: Balance as per last year	166.06	122.20
Less: Taxation arrears	30.19	0.01
	409.02	230.64
Appropriation		
General reserve	32.00	15.00
Proposed dividend	54.00	45.00
Tax on proposed dividend	0.00	4.59
Balance carried to balance sheet	323.02	166.05
Total	409.02	230.66

PERFORMANCE REVIEW

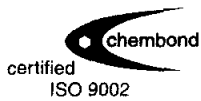
The year under review has been good for your company with the sales turnover during the year increasing by 21.21% to Rs. 3005.77 lacs, which can be attributed to an overall better sales performance. The profit before tax was Rs. 313.12 as compared to Rs. 148.44 lacs for the same period last year.

As you are aware, in March last year your company acquired the stake held by Goodlass Nerolac Paints Ltd. in their joint venture with Ashland Inc., USA called Drewtreat Chemicals Limited. During the fiscal year, in October 2001, your company combined its existing water treatment chemicals business with the operations of Drewtreat Chemicals Ltd. for which it received Rs.159.40 lacs from Ashland Inc. The company has since been renamed as ChembondDrewtreat Limited in which your company holds a 55% stake. I am happy to say that this JV company's performance has bettered expectations and was integrated into your company seamlessly. The performance of this company is reflected in the attached consolidated statement of accounts.

The other divisions of your company – construction chemicals, anti-corrosive coatings, trading, water treatment equipment – have added several new customers and projects during the year. Examples of these are, NTPC for chemical dosing equipment and systems, Delhi Metro Rail and the national highways project for construction chemicals, and GAIL and Vizag Steel, for protective and marine coatings. These projects along with others in the offing will be a strong source of growth for your company in the years to come.

ChembondDrewtreat Limited

The water treatment chemicals business recorded an impressive growth of 12% this year. Aggressive market development initiatives and new product introductions from the Drew Industrial international range were the highlights of the year. Your company has now emerged as the leading supplier of products and services to the fertiliser industry in the country.

**Henkel Chembond Surface Technologies Limited**

Henkel Chembond Surface Technologies Ltd., your company's joint venture with Henkel KGaA, recorded sales of Rs. 15.1 crores for the year ended December 31, 2001 as against Rs. 13.2 crores for the year ending December 31, 2000, which represents a growth of 14.3% over the previous year. Customers and new products added during the previous year drove this modest sales growth even though the industrial scenario for these products was sluggish. Profits grew at a higher rate of 52% due to better economies of scale. The profit after tax for the same period was Rs. 84.47 lacs compared to Rs. 55.3 lacs in the previous year.

An abridged balance sheet and profit and loss statement of Henkel Chembond Surface Technologies Ltd. is appended to this report for the information of all shareholders.

Exports

Your company's exports during the year were Rs. 68.28 Lacs.

Dividend

Your Directors have recommended a dividend of 18% on equity shares for the financial year ended March 31, 2002. The total outflow on account of dividend and the tax thereon amounts to Rs. 54.00 lacs (previous year Rs.49.59 lacs).

Directors

Mr. A.R. Nagarwadia and Mr. M.K. Ghelani will retire by rotation at the forthcoming Annual General Meeting and are eligible for reappointment.

Community Development

Your company and Henkel Chembond Surface Technologies Ltd., with active support from its joint venture partner, Henkel, Germany, have established a center in Tarapur for the development of the girl child. More than forty girls from low income and tribal communities between the ages of 3 and 7 currently participate in the program. This is part of your company's responsibility to contribute to the wider communities in which it operates.

By order of the Board

Sameer V. Shah
Director

Nirmal V. Shah
Director

Mumbai, 13th July, 2002



ANNEXURE "A" TO THE DIRECTORS REPORT

Particulars required under section 217 (1) (e) of the Company's Act 1956 read with (Disclosure of particulars in the report of Board of Directors) Rule, 1988:-

I CONSERVATION OF ENERGY**A) Energy Conservation Measures taken :**

The company has taken adequate timely measures to reduce the energy consumption by change in elements in furnace & other plants.

B) Additional investments and proposals for Reduction of energy :-

None under the present condition.

C) Impact of the measures at (a) & (b) above for reduction of energy consumption and consequent impact on the cost of production of goods:-

In view of the measures taken by the company as above-mentioned the quantitative consumption of energy has been brought down to satisfactory levels. The cost of consumption per unit has gone up only due to the increase in the rates of energy.

D) Total energy consumption & energy consumption per unit of Production :-**1) Electricity Purchased :**

1) Units		182199
2) Total Amount	Rs. In Lacs	4.59
3) Rate/ KWH	Rs.	2.52

2) Kerosene Purchased :

1) Litres		35173
2) Total Amount	Rs. In Lacs	5.54
3) Rate / KWH	Rs.	15.75

II TECHNOLOGY ABSORPTION

The company has an on-going process of Research & Development and the company continues its efforts to assimilate group technology for improving product quality.

III FOREIGN EXCHANGE EARNINGS AND OUTGO:-

Total Foreign Exchange earned Rs. In Lacs 68.28

Total Foreign Exchange used Rs. In Lacs 404.76

ANNEXURE "B" TO THE DIRECTORS REPORT

Statement of Particulars of employees as required under Section 217 (2A) of Companies Act, 1956 read with companies (Particulars of employees) Rules 1975 :-

Employed throughout the year

Name of employee/ Age in Years	Designation/ Experience	Remun- eration Rs. in Lacs	Qualification	Date of Commencement of employment	Last Employment Held	Experience In years
Dr. Vinod D. Shah (70)	Chairman & Managing Director	14.75	Ph. D. (Chem Eng.)	April 1975	Union Carbide India Ltd.	46 years

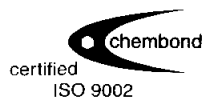
Note : Gross Remuneration includes Salary, Bonus, L.T.A., Medical Aid, Company's Contribution to Provident Fund and Family, Pension Fund etc.

By order of the Board

Sameer V. Shah
Director

Nirmal V. Shah
Director

Mumbai, 13th July, 2002



AUDITORS' REPORT

To the Members of

Chembond Chemicals Ltd.

We have audited the attached Balance sheet of **Chembond Chemicals Ltd.**, as at 31st March, 2002 and also the Profit and Loss Account for the year ended on that date annexed thereto. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As required by the Manufacturing and Other Companies (Auditor's Report) Order, 1988 issued by the Central Government of India in terms of sub-section (4A) of section 227 of the Companies Act, 1956, we enclose in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the said Order.

Further to our comments in the Annexure referred to above, we report that:

- (i) We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purposes of our audit;
- (ii) In our opinion, proper books of account as required by law have been kept by the company so far as appears from our examination of those books.
- (iii) The Balance Sheet and Profit and Loss Account dealt with by this report are in agreement with the books of account.
- (iv) In our opinion, the Balance Sheet and Profit and Loss Account dealt with by this report comply with the accounting standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956 ;
- (v) On the basis of written representation received from the directors, as on 15th June, 2002, and taken on record by the Board of Directors, we report that none of the directors is disqualified as on 31st March, 2002 from being appointed as a director in terms of clause (g) of sub-section (1) of section 274 of the Companies Act, 1956;
- (vi) In our opinion and to the best of our information and according to the explanations given to us, the said accounts give the information required by the Companies Act, 1956, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India;
 - (a) in the case of the Balance Sheet, of the state of affairs of the Company as at 31st March, 2002; and
 - (b) in the case of the Profit and Loss Account, of the profit for the year ended on that date.

For M/S KASTURY & TALATI
Chartered Accountants

DHIREN P. TALATI
Partner

Mumbai, 13th July, 2002.

Annexure referred to in paragraph 3 of the Auditors report to the members of Chembond Chemicals Ltd. on the accounts for the year ended March 31, 2002

- 1) The Company has maintained proper records showing full particulars including quantitative details and situation of Fixed Assets. During the year the management had carried out physical verification of these assets at regular interval and we have been informed that no material discrepancies were noticed on such verification as compared to the available records. In our opinion, the frequency of physical verification of Assets is reasonable having regard to the size of the company & the nature of its Fixed Assets.
- 2) None of the Fixed Assets have been revalued during the year under consideration.
- 3) As explained to us, the stocks of finished goods, stores, spares parts, and raw materials have been physically verified by the management and in our opinion the frequency of verification of these stocks are reasonable.
- 4) In our opinion, and according to the information & explanation given to us the procedures of physical verification of the stocks followed by the management are reasonable and adequate in relation to the size of the company and the nature of its business.
- 5) As per the information and explanations provided to us and having regard to the size of the operations of the company no material discrepancies have been noticed on physical verification of stocks as compared to book records.
- 6) In our opinion, the valuation of stock of finished goods, stores, & spare parts, raw materials and goods in process, is fair and proper in accordance with the normally accepted accounting principles and is on the same basis as in the previous year.
- 7) The company has taken loans and advances in the nature of Loans from companies, firms and other parties listed in the register maintained u/s 301 and 370(1-C) of the Companies Act, 1956, and the rate of interest and other terms and conditions of such loans are prima facie not prejudicial to the interest of the company.
- 8) As per the information and explanation given to us the company has granted loans to companies listed in the register maintained u/s 301 and the companies under the same management u/s 370(1-B) of Companies Act, 1956 and the rate of interest and other terms and conditions of such loans are prima facie not prejudicial to the interest of the company.
- 9) The company has given loans and advances in the nature of interest-free loans to its employees, who are repaying the principal amounts as stipulated.
- 10) In our opinion and according to the information and explanations given to us there are adequate internal control procedures commensurate with the size of the company and the nature of its business for the purchase of stores, raw materials, plant and machinery, equipments and other assets and for the sale of goods.
- 11) In our opinion and according to the information and explanations given to us, the transactions of purchase of goods and sale of goods, materials and service made in pursuance of contracts or arrangements entered in the register maintained u/s 301 of Companies Act 1956, and aggregating during the year to Rs. 50,000 /- or more in respect of each party have been made at prices which are reasonable, having regard to the prevailing market prices for such goods.
- 12) As explained to us, the company has a regular procedure for the determination of unserviceable or damaged stores, raw materials and finished goods. Adequate provision wherever required is made in the accounts for the loss arising on the items so determined.
- 13) The company has not accepted any deposits from the public, hence, the provisions of section 58A of the Companies Act, 1956 and the companies (Acceptance of Deposits) Rules, 1975 with regard to the deposits accepted from public are not applicable.
- 14) In our opinion the company has maintained reasonable records for the sale and disposal of realisable scrap, wherever significant. The company's operations do not generate any by-products.
- 15) In our opinion the company has an adequate internal audit system commensurate with the size and nature of its business.
- 16) We are informed that the maintenance of cost records has not been prescribed for this company by the Central Government u/s 209(1)(d) of the Companies Act 1956 in respect of the company's products.
- 17) According to the records of the company, Provident fund/ Employees States Insurance Scheme dues have generally been regularly deposited with the appropriate authorities during the period of our audit.
- 18) According to the information & explanations given to us no undisputed amounts payable in respect of Income-Tax, Wealth-Tax, Sales-Tax, Custom Duty and Excise Duty were outstanding as at 31.03.2002 for a period of more than six months from the date they became payable.
- 19) According to the information and explanations given to us no personal expenses of employees or directors have been charged to revenue account other than those payable under contractual obligations or in accordance with generally accepted business practices.
- 20) The company is not a sick industrial company within the meaning of clause (O) of sub section (1) of section 3 of the Sick Industrial Companies (Special Provisions) Act, 1985.
- 21) In respect of the company's trading activities, we are informed that there are no damaged stocks.
- 22) In respect of the company's investments, the shares and other investments have been held by the company in its own name except as permissible under section 49 of the Company's Act 1956.

For **M/S KASTURY & TALATI**
Chartered Accountants

DHIREN P. TALATI
Partner

Mumbai, 13th July, 2002