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Company Secretary

Omkar Mhamunkar

Statutory Auditors

Kastury & Talati
Chartered Accountants,
Mumbai

Cost Auditor

R. S. Raghavan

Bankers

HDFC Bank Limited
Bank of India
Kotak Mahindra Bank

**Whole Time Practicing
Company Secretary**

Virendra Bhatt

Registrar & Transfer Agent

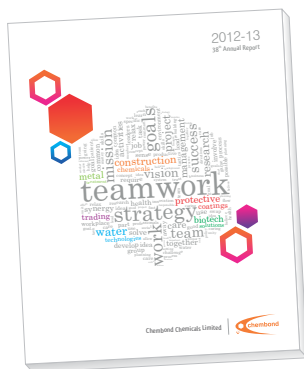
TSR Darashaw Pvt. Ltd.

Plants

Thane, Maharashtra
Nalagarh, Himachal Pradesh
Balasore, Orissa
Chennai, Tamil Nadu
Vadodara, Gujarat

Registered Office Address:

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Tel. : +91 22 3921 3000
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Rationale

Teamwork makes the Dreamwork. Offering intelligent solutions consistently has become a way of life at Chembond. Besides leveraging on our tried and tested expertise accumulated over 38 years, what truly drives each of our six verticals is our **team's** single minded determination to add value to the discerning needs of our Customers.

Board_{of} Directors



Dr. Vinod D. Shah
Chairman Emeritus



Ashwin R. Nagarwadia
Director



Jawahar I. Mehta
Independent Director



Jayantilal S. Vasani
Independent Director



Mahendra K. Ghelani
Independent Director



Nirmal V. Shah
Vice Chairman & MD



O. P. Malhotra
Independent Director



Perviz H. Dastur
Director



Sameer V. Shah
Chairman & MD



Sushil U. Lakhani
Independent Director

Management Discussion and Analysis

Over the last few years Indian industry has faced challenging times starting with the global financial crisis in 2008 through the current situation with high deficits, high inflation, greater public scrutiny, delayed macro decision making, etc. All of this seems to have led to a slowdown in infrastructure investment by the government, delayed capital investment by industry, and sharply lower spending (than forecasted) by the consumer on cars, appliances, and to a large extent on homes.

These factors have resulted in an exception where continuous profit growth has been interrupted for only the second time in recent memory. While sales have grown by almost 15%, this was much lower than planned. Thus, investments made in the year under review in people and brands have affected the profits of the Company. High inflation combined with a devaluation of the Rupee, added pressure to the gross margins. As a result, EBITDA and profits are lower.

There are good signs however, as everyone agrees that the Indian economy is still a better performing one than most developed and emerging countries and that it will soon revert to its higher growth phase. It could be said that the outcomes of the watchdog / public scrutiny, focus by the electorate on governance, the debate on deficits, and the waning of price controls, albeit gradual, bodes well for the future.

In Chembond as well, there are some encouraging news that come out of the analysis. The growth in sales has largely come from the newer businesses, where margins have also held their own for the most part. And, on a consolidated basis, the profit reduction is much smaller in percent terms. Over the last two years, your Company has built the infrastructure in capacities, people, technology, and brands and is well poised to handle and benefit from the growth of the country.

Business Areas

Construction Chemicals is a wide category of specialty chemicals which includes products like plasticizers for concrete, sealants, grouts, concrete curing compounds, tile fixing adhesives, waterproofing chemicals, membranes, and mortars. With the deployment of modern construction techniques, expectations of higher quality, and pressure on reduction of project durations, the use of these products becomes necessary. This is therefore a market that is growing rapidly. As with most of our products, this is a competitive market though with some strong Indian and multinational companies in the field.

During the year under review, your Company has further consolidated its position in the construction chemicals field. Several new products and technologies launched during the previous year are now well-established in the market. As in the last two years, this year too has seen a focus on marketing and promotions. Your Company has participated in several exhibitions and a new campaign to extend its market reach is underway. New capacity has been added to the existing facilities of manufacturing and R & D. The addition of new qualified and trained manpower has seen a visible change in the speed of new product turnaround and the system being strengthened.





The range of **highperformance coatings** for protection and enhancement of industrial floors and for use in corrosion protection has shown a steady growth in business. Several new products and technologies were successfully launched in the market to tap unmarked segments. Initiatives taken in previous years to develop and cater to demanding applications has helped the Company gain some high valued projects. Experienced personal were appointed throughout the regions to increase presence and to offer skilled technical assistance.

Significant investments were made to further equip the R&D and product development facilities. Intensive testing for validation of new products was carried out. Some new products like the elastomeric PU coating have shown significant market potential amidst escalating demand. With continued focus on development the division is expected to exploit more opportunities to grow substantially during the coming year.

The range of products for use in the **Animal Health** industry continues its rapid growth.

This could have been much better if the industry had not faced the crises of rising feed ingredient costs, rainfall shortage, and disease outbreaks. With more than 20 products for the poultry & dairy segments, a robust product pipeline, and a



growing field force, the Animal Health business will be a major growth driver in the biotech division and the Company.

Your Company's enzymes for **textile processing** and **alcohol production** continue to show promising growth. Both of these segments have innovative products and a dedicated, focused team in sales, technical support, & development. The strong R&D capabilities have helped gain key accounts.

Performance of Joint Ventures and Subsidiaries

Chembond Ashland Water Technologies Limited is a Joint Venture between your Company and Ashland Inc., USA in which your Company holds 55% equity and rest is held by Ashland Inc. The Company is a leader nationally in the field of industrial water treatment chemicals used in cooling towers, boilers, RO plants and waste water treatment plants. During the year the sales of the Company grew by 10.29% but the pressure on input costs and higher expense levels saw a profit after tax growth of 2.25% over prior year. Your Company serves customers across very diverse manufacturing sectors. Ashland Inc. has recommitted its involvement in the water treatment segment globally and with USD 8 billion plus revenues is placed in the Fortune Global 500.

Henkel Chembond Surface Technologies Limited your Company's joint venture with Henkel. KGaA, Germany caters to the automotive, steel, and appliance industries. During the year sales of the Company grew by 6.53%, marginally higher than prior year owing to the industrial slowdown and PBT declined by 7.64%. Inflation in raw material prices and the value of the US Dollar also resulted in lower margins.

H₂O Innovation (India) Limited is a

Joint Venture between your Company and H₂O Innovation Inc., Canada in which Chembond owns 51% equity. The company, formed in 2010, is in the business of designing, fabricating, installing and operating water treatment equipment for front end water treatment, process water production as well as waste water recycle applications. During the year the company executed several projects for local customers as well as for export.

H₂O Innovation Inc. have expressed their desire to exit the India JV. The equipment business is one with a longer incubation period. Your Company is convinced about the future opportunities of this business and is working towards delivering a profitable performance.



Chembond Inver Coatings Limited is a wholly owned subsidiary of Chembond Chemicals Limited, which manufactures industrial coatings under license from Inver SpA, Italy. The business is focused in the field of agricultural machinery, construction equipment, trucks, metal furniture, engineering equipment, and architectural aluminum with a wide range of premium solvent borne, water borne, and powder paints. During the year under review, the teams at Chembond and Inver, Italy have exchanged the applications and the technology, undertaken visits to the labs and plant in Italy, as well as to key customers in India. Production of this product range has commenced at the plant in Dudhwada.

Protochem Industries Pvt. Ltd., the wholly owned subsidiary is mainly engaged in toll production for your Company's joint venture Henkel Chembond post the acquisition of Protochem and subsequent transfer of the metal treatment chemicals business to Henkel Chembond. Protochem is now embarking on new range of products for the Maintenance, Repair, and Overhaul (MRO) segment. MRO is a very large and fast growing market in the country and Protochem is a reputed name in the industry, which should help it stand out among some large international competitors and local players in MRO, heat treatment fluids & products for the defense sector.

Financial and Operational Performance

Standalone

The highlights of the financial performance of the Company on a Stand Alone basis are as follows:

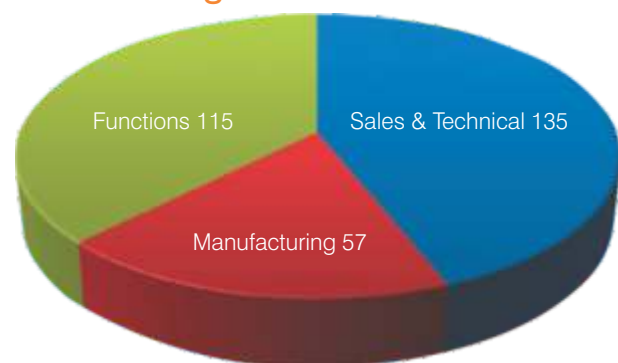
In ₹ Lakhs

Particulars	2012-13	2011-12	% Δ
Net Sales	17,447	15,197	14.80
Product Margin	2,863	2,586	10.71
Gross Margin	1,899	1,899	0.00
Selling & Administration	1,674	1,293	29.46
Employee Cost	1,278	1,011	26.41
EBITDA	893	1,177	-24.14
PBT	419	801	-47.63

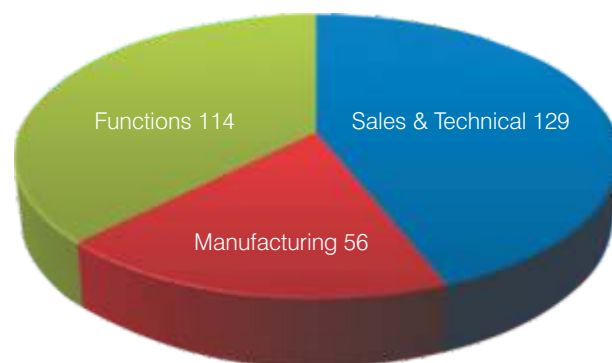
Ratio Analysis

Particulars	2012-13	2011-12
% Product Margin to Sales	16.41	17.02
% Gross Margin to Sales	10.89	12.50
% S & A to Sales	9.59	8.51
% Employee Cost to Sales	7.33	6.65
% EBITDA to Sales	5.12	7.74
Earnings per Share (Basic)	5.46	10.44
Earnings per Share (Diluted)	5.44	10.44
Debt / Equity	0.50	0.53

Team Strength



2013



2012

Consolidated

The highlights of the consolidated financial performance are as follows:

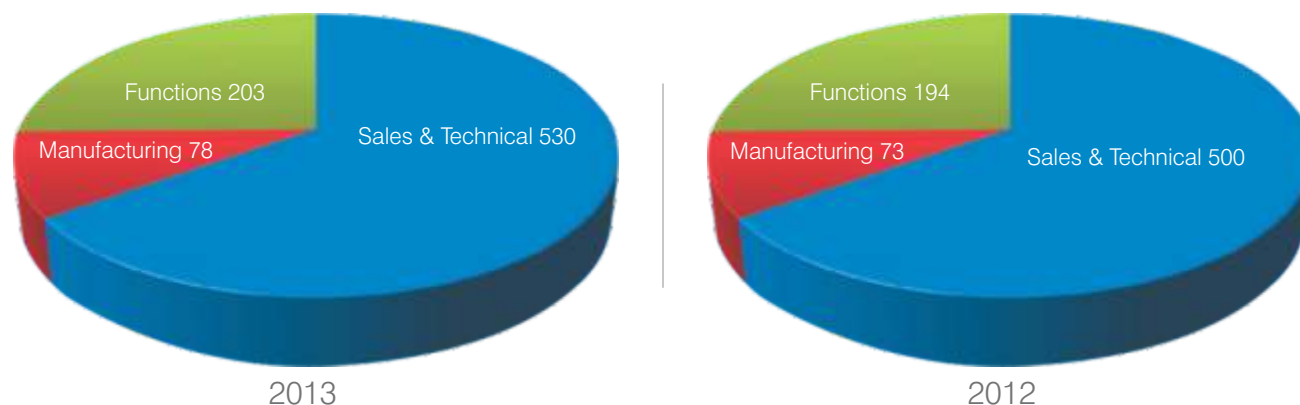
In ₹ Lakhs

Particulars	2012-13	2011-12	% Δ
Net Sales	26,232	22,845	15.69
Product Margin	9,199	8,374	9.86
Gross Margin	7,978	7,273	8.21
Selling & Administration	6,185	5,185	19.28
Employee Cost	3,085	2,542	21.34
EBITDA	2,288	2,609	-12.31
PBT	1,577	2,035	-22.52

Ratio Analysis

Particulars	2012-13	2011-12
% Product Margin to Sales	35.07	36.65
% Gross Margin to Sales	30.41	32.27
% S & A to Sales	23.58	22.70
% Employee Cost to Sales	11.76	11.13
% EBITDA to Sales	8.72	11.42
Earnings per Share (Basic)	11.13	19.70
Earnings per Share (Diluted)	11.09	19.70
Debt / Equity	0.36	0.51

Team Strength



Significant Developments During the Year

Start of Operations of Chembond Inver Coatings Limited

Your Company had identified industrial coatings as an area of diversification about 3 years ago. Discussions with an Italian company for licensing the technology have now culminated into the formation of Chembond Inver Coatings Limited. Key executives from Inver SpA, Italy have visited customers in India and our personnel from product development, production and sales have undergone training by Inver in Italy. This signals the start-up of operations in industrial coatings.



Plant for Manufacturing Coatings commissioned at Dudhwada

A new, well laid out plant for manufacturing high performance coatings was commissioned at the Dudhwada site. The facility includes a well-equipped quality control and product development laboratory and incorporates automation in manufacturing and material handling.

H₂O Innovation India

Three years ago your Company entered in a new area of design and manufacturing of water treatment equipment. The field though exciting and full of opportunities also has its own set of challenges worldwide. Your Company has had an excellent start and has marquee reference projects and the infrastructure to set-off the not so good financial results. The global economic slowdown affected the business of several international companies forcing them to review their strategy. One such change in the strategy of the JV partner – H₂O Innovation Inc, Canada – has resulted in a cordial and mutual termination of the JV – H₂O Innovation India Limited. Reflecting the change in ownership, the company has been renamed as Chembond Clean Water Technologies Limited.

Visibility and Branding

As mentioned earlier in the MDA, the Company has been investing to increase its visibility to users and influencers of its products. During the year your Company exhibited Construction Chemicals and Animal Health divisions at the industry best events to an overwhelming response. Your Company sponsored the leading annual corrosion conference in Mumbai and also the construction chemicals national seminar in Delhi. Branding efforts continued with interactive meets with influencers and users and an FM radio campaign in Gujarat for waterproofing products.



Acetech Exhibition 2012

Poultry India Expo-2012



Outdoor Hording at Gujarat

● Periodic Call Auction

As a result of a circular issued by SEBI changes have been made by the BSE for trading in illiquid stocks. The introduction of these changes has resulted in the shares of your Company now being traded in the Periodic Call Auction route. A stock is classified as 'illiquid' when in a quarter the average volume is below 10000 and average daily number of trades is below 50.

● Research & Development

For a long time your Company has wished to put increased focus on R&D activities. At a time when the economy was passing through a stage of guarded optimism, Chembond believed that R&D was crucial for maintaining a leading edge for your Company. A few steps in the direction of taking R&D activities to a higher level have been taken. Facilities at Mahape have been extended to house a new R&D centre; and novel techniques for remediation of waste water and have been initiated.



Safety Health Environment Quality

Chembond has an objective of being the "supplier of choice" to its diverse customers. In order to achieve this objective, all manufacturing sites and functions have targets on customer service, among others. Chembond aims to continually improve these targets through its Quality Management Systems.

Your Company follows an integrated SHE-Q Management System under which following locations are certified:



Locations	ISO 9001:2008	ISO 14001	OHSAS 18001	ISO/TS 16949
HO - Mahape	✓	NA	NA	✓
Tarapur	✓	✓	✓	✓
Dudhwada	✓	Recommended		NA
Baddi	✓	-	-	NA

"Quality is not an act, it is a habit." Chembond also has a Safety, Health, and Environment objective of zero lost time due to accidents across the organization. Everyone at Chembond is committed to protect the environment by controlling the interaction with environment by process control, systematic waste management, energy conservation, and emission control.

Risk and Internal Control Systems

The internal control system in place throughout the Company is aimed at ensuring the effectiveness of operations. It makes an important contribution towards ensuring compliance with the laws that apply as well as providing assurance on the propriety and reliability of internal and external financial reporting. The internal control system is therefore a significant factor in the management of process risks.

The Company engages the services of independent firms of professionals to function as internal auditor and provide reports and necessary actions where required on various activities covering observation on adequacy of internal controls and their recommendations.

Human Resources

Your Company enjoyed excellent employee relations throughout the year 2012-13 since there was a significant increase in hiring in the latter part of 2011-12, there was a marginal increase in the employee strength during the year. At the beginning of the year it was 299, which rose to 307 by the year-end.

Your Company has strong faith in the capabilities of employees. In keeping with this ideology, the Company invited participation of key personnel of all departments/ functions to build VISION 2015. Year-wise action plans are then evolved. The thrust areas to meet organizational objectives are determined and they are deployed in concerned departments. Key performance indicators (KPIs) are defined for individuals. Annual performance appraisal of the employees is done on the basis of actual results accomplished against the KPIs. Performance-linked Incentive plans are put in place to maintain the focus on accomplishment of targets.



In order to further reinforce result oriented work culture and to share the fruits of growth with the employees, an Employees' Stock Options Plan was finalized and rolled out during the year. Vesting of options under this scheme will be done on yearly basis in 2013, 2014, 2015 and 2016 and it has been linked with accomplishment of financial goals of your Company.

Need-based training and development activities were organized at Plants and offices to enhance the employees' technical/functional knowledge and behavioral competencies. Star performers are given suitable encouragement including promotions, job enlargement and job enrichment. Employee engagement activities were organized periodically to enhance the sense of belonging.

Research & Development

R&D has always been emphasized in your Company. It is at the core of its businesses, right since the founding of the Company, and is one of the main reasons for the leading positions of the metal treatment and water treatment businesses today. The R&D facilities, where the focus is on product development and application testing, are certified by the Department of Scientific and Industrial Research, Ministry of Science and Technology, New Delhi.

The construction of an additional and modern R&D Center at the headquarters in Mahape, will further intensify these activities. The Company has moved forward and implemented the promise by the founder, Dr. Vinod Shah, and added a senior scientist to head the R&D activities of the Company. Your Company will also be guided by a noted polymer scientist on the Company's advisory board. During the year under review, your Company, commissioned a study and review of a unique form of water treatment – Constructed Wetlands – with a view of adding such capabilities to the Company's offerings to its customers. Wetlands have been known for centuries to be good for treatment of wastewater but their role has been forgotten or ignored in recent years. Your Company is being advised by a leading academic from an American university and expects to soon setup an experimental facility to treat industrial effluent.

The focus areas for new R&D activities in the coming years is expected to be in,

- Development of specialty polymers
- Treatment of wastewater using a combination of your Company's strengths – water treatment chemicals, water treatment equipment, bioremediation using microbes, and constructed wetlands.
- Construction Chemicals: Design and development of new systems in the field of repair and waterproofing. Basic research on material properties leading to some insights on corrosion and mechanical properties of concrete.
- Environment friendly and high performance applications using the latest technologies in protective coatings.
- Pilot production, application, and performance evaluation of industrial coatings.

Manufacturing

During the year, the Coatings production was moved to a modern, larger facility in Dudhwada and construction of the new plant at Ranipet reached an advanced stage of commissioning. Your Company has existing manufacturing units at Tarapur, Mahape, Dudhwada, Baddi, Chennai, and Balasore. With this, your Company has the capability to efficiently serve the customers' requirements in all parts of the country. The overall manufacturing capacity is elastic, with a flexibility of wide range of product categories and capable of handling the requirements of the Company for the next several years. The plants are modern, compliant with health, safety, and environment norms, and the team is also well trained to use the best manufacturing practices.

Outlook

A few months ago, the management team of the Company prepared a blueprint outlining the vision for the next five years. Although this was when everyone was more optimistic about the economy, the long-term vision remains intact. Sales are expected to double in the next three years primarily driven by the Construction Chemicals, Coatings, Biotech, and Animal Health businesses. The necessary infrastructure for handling such a growth is in place with the investments made by the Company in facilities, brands, people, IT, systems, and technology. Emphasis on delivering the growth is now one of the prime focus areas for the management of the Company and accordingly, some processes are being changed. Your Company introduced its CRM system, SalesPro, a year ago, which with continued training is beginning to show its benefits in the minds of the sales and service teams. Compensation policies have also been tweaked in line with the expectations.

The outlook for the established businesses of water and metal treatment chemicals is to grow at a minimum of twice the GDP growth. Since these businesses need only make incremental investments, the bottom lines will grow at better than topline percentages. The Construction Chemicals and Coatings businesses will consistently grow at a minimum of 20 – 25% for at least the next three to five years. For the new businesses of biotech, animal health, bioremediation, and the subsidiaries Protochem, Chembond Clean Water, and Chembond Inver, the requirements are much higher and the management will devote considerable energies to make each of these areas achieve scale.

The management team is enthused with the opportunities the economy and the business areas present and your Company is well positioned to rise to these challenges.

