

The difference is **Chembond**

CONTENTS

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
Chennai, Tamil Nadu
Vadodara, Gujarat

Registered Office Address

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| | |
|---|----|
| Management Discussion & Analysis | 1 |
| Highlights | 9 |
| Directors' Report | 12 |
| Corporate Governance | 18 |
| Auditor's Report | 27 |
| Balance Sheet | 31 |
| Statement of Profit & Loss | 32 |
| Cash Flow Statement | 33 |
| Notes to Financial Statements | 34 |
| Auditor's Report on Consolidated Financial Statements | 55 |
| Consolidated Balance Sheet | 57 |
| Consolidated Statement of Profit & Loss | 58 |
| Consolidated Cash Flow Statement | 59 |
| Notes to Consolidated Financial Statements | 60 |
| Notice, Proxy Form & Attendance Slip | 78 |

Rationale

Chembond stands out among its many competitors, across its business segments. The way we Connect with our diverse customers due to the depth of our knowledge; the way we utilise our expertise and infrastructure to Innovate; and the way we continue to build on the foundation of trust to Bond with our customers. **The difference is Chembond.**



BOARD OF DIRECTORS



Dr. Vinod D. Shah
Chairman Emeritus



Ashwin R. Nagarwadia
Director



Jawahar L. 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

During the year under review, your Company has achieved a growth of over 15% in sales on a standalone basis and 3% on a consolidated basis. Although the tough economic environment continued in the year under review, your Company was able to record significant growth in the areas of water

treatment chemicals, construction chemicals, and biotechnology. Whereas metal treatment chemicals, offered via your Company's joint venture, Henkel Chembond, and protective coatings continued to face tough market demand conditions.

Financial and Operational Performance

Standalone

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

| Particulars | in ₹ Lakhs | | |
|----------------|------------|---------|------------|
| | 2013-14 | 2012-13 | % Δ |
| Net Sales | 20,132 | 17,447 | 15.39 |
| Product Margin | 3,532 | 2,863 | 23.37 |
| Gross Margin | 2,370 | 1,899 | 24.80 |
| SG&A | 1,975 | 1,674 | 18.01 |
| Employee Cost | 1,550 | 1,278 | 21.28 |
| EBITDA | 907 | 893 | 1.57 |
| PBT | 411 | 419 | -1.91 |

Ratio Analysis

| Particulars | 2013-14 | 2012-13 |
|------------------------------|---------|---------|
| % Product Margin to Sales | 17.54 | 16.41 |
| % Gross Margin to Sales | 11.77 | 10.88 |
| % SG&A to Sales | 9.81 | 9.59 |
| % Employee Cost to Sales | 7.70 | 7.33 |
| % EBITDA to Sales | 4.51 | 5.12 |
| Earnings per Share (Basic) | 5.89 | 5.46 |
| Earnings per Share (Diluted) | 5.72 | 5.44 |
| Debt / Equity | 0.51 | 0.50 |

Consolidated

The highlights of the consolidated financial performance are as follows:

| in ₹ Lakhs | | | |
|----------------|---------|---------|------------|
| Particulars | 2013-14 | 2012-13 | % Δ |
| Net Sales | 27,038 | 26,232 | 3.07 |
| Product Margin | 9,828 | 9,199 | 6.83 |
| Gross Margin | 8,447 | 7,978 | 5.88 |
| SG&A | 6,773 | 6,185 | 9.51 |
| Employee Cost | 3,575 | 3,085 | 15.88 |
| EBITDA | 2,203 | 2,288 | -3.72 |
| PBT | 1,519 | 1,577 | -3.68 |

Ratio Analysis

| Particulars | 2013-14 | 2012-13 |
|------------------------------|---------|---------|
| % Product Margin to Sales | 36.35 | 35.07 |
| % Gross Margin to Sales | 31.24 | 30.41 |
| % SG&A to Sales | 25.05 | 23.58 |
| % Employee Cost to Sales | 13.22 | 11.76 |
| % EBITDA to Sales | 8.15 | 8.72 |
| Earnings per Share (Basic) | 11.65 | 11.13 |
| Earnings per Share (Diluted) | 11.31 | 11.09 |
| Debt / Equity | 0.34 | 0.36 |

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 added a new array of products and systems, with an objective of becoming a total solution provider in construction chemicals sector. This has been achieved through the continuous internal R&D process and aligning with key international strategic partners. Introduction of a system for mitigating the rising dampness in old structures, development of potable water contact tested coating system for water reservoirs, various concrete admixtures based on PCE polymers have helped the sales growth during this financial year. Some new approaches in repair of marine and on shore assets have been explored in partnership with some international companies. Products like Kem Proof 86 and Kem Proof 87, which are targeted primarily towards water proofing of residential and commercial buildings, have now started generating good revenues.

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.

There has been a consistent acceptance for your Company's **High Performance Coatings** in the market. However, sluggish trends were



observed and growth of industrial output was lower than expected. Your Company has been awarded a few new projects, which bodes well for the short to medium term. Some of the new products developed have passed exceptional criteria like 6000 hours of the salt spray test.

Your Company has also started the process of catering to the OEM segments like cranes, transformers, and machinery and has made



some inroads. This will reduce to some extent the seasonal variance in top line and will give much needed stability.

The Biotech division of Chembond is emerging as a strong player in the animal health, textile processing, bioremediation, and sugar industries. The division has attracted the attention of its customers, suppliers, channel partners, and young talent. With a young and dynamic team, the Biotech division will be one of the growth drivers of the Company in the long run.

Performance of Joint Ventures & Subsidiaries

Chembond Ashland Water Technologies Limited (CAWTL)

is a Joint Venture between your Company and Ashland Inc., USA in which your Company holds 55% equity and rest by Ashland Inc. The Company has already established its name in the field of industrial water treatment chemicals used in cooling towers, boiler water treatment, RO antiscalant, polyelectrolyte and waste water treatment plants not only in India but also have presence Abroad. During the year, the Company saw the phenomenon growth of highest ever sales turnover corresponding to 16.65% rise but for want of higher input/expense cost, profit after tax grew only by 7.56 % over previous year. The Company customer base exists practically in all segments with major in fertilizers, chemicals, petrochemicals, refineries, steel & power etc. Ashland Inc. with increased commitment globally in water treatment business makes its position secured in Fortune Global 500.

Henkel Chembond Surface Technologies Limited (HCSTL)

is a joint venture between your Company and Henkel AG & Co. KGaA, Germany in which your Company holds 49% equity and rest by Henkel AG & Co. KGaA. Year 2013-14 was very challenging on all fronts with negative market growth especially in automotive (-10%), white goods (-3%). Due to this external environment 1st time in last 17 year HCSTL reported (0.3%) in Sales and (24.9%) drop in PBT. For the coming year in 2014-15, markets such as automotive and white goods will start getting momentum by end of Q2. Strong push on price correction and launch of new products/ technologies in this financial year will make positive impact on the margins.

Chembond Clean Water Technologies Limited (CCWTL)

is a subsidiary of your Company. The Company provides the single window solution for all types of industrial, domestic water

treatment related issues right from raw water source to its waste water treatment/recycling for its optimal utilization. Your company designs, develops and integrates state of the art custom build water treatment and chemical-dosing systems for multiple markets in India as well as abroad. The Company is looking forward for positive growth in water treatment business opportunities and enhanced profitability.

Chembond Inver Coatings Limited (CICL)

is a wholly owned subsidiary of your Company. With an intention of entry into new segments and after the initial investment in manpower and manufacturing resources last year, Chembond Inver Coatings Limited initiated its business activity in the field of industrial coatings. Strategically, the segment catered by Chembond Inver consists of heavy vehicle manufacturers, metal furniture, engine manufacturers, heavy commercial vehicles, and engineering equipment. Chembond Inver also entered into a new segment of powder coatings for general industrial applications. During the financial year, intense focus has been given to waterborne coatings, which has offered an edge over the competition. During the year, Chembond and Inver teams have exchanged technological information on solvent and water based products and technical support in local manufacturing of products. Chembond Inver launched its new website www.chembondinver.com during this year.

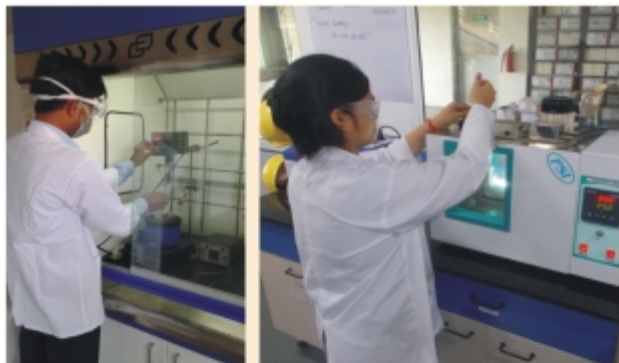
Protochem Industries Pvt. Ltd. (Protochem)

is a wholly owned subsidiary of your Company. The range of products manufactured by Protochem includes specialty chemicals and lubricants such as corrosion inhibitors, heat treatment chemicals, quenching fluids, and aerosol & non-aerosol MRO (Maintenance, Repair, and Operation) products. In the year under review Protochem has successfully commissioned a plant for the production of industrial enzymes via fermentation processes. These products have a captive consumption in your Company but much larger applications in areas like animal feed, textiles,

distilleries, food processing, juice processing, alcohol production, and wine making. Protochem has a flexible, state of the art manufacturing facility of at Mahape and a modern laboratory for quality control and product development.

Research & Development

Chembond's R&D functions span diverse areas of scientific and industrial research that a business chooses to conduct with the intention of making a discovery for future growth that can either lead to the development of new products or procedures and improvement of existing products covering investigative activities in areas of Organic Chemistry, Polymer Science, Green Chemistry, Materials Chemistry, Surface Treatment, Water Treatment and Biotechnology at well equipped and state-of-art facilities for synthesis, analysis and scale up at R&D Centers in Mahape and Dudhwada.



Our mission is to develop useful materials and substances creating value to our customers in particular and society in general with new innovative products and processes to improve and expand their applications / operations more efficiently.

- **R & D in Construction Chemicals:** Design and development of new systems in the field of repair and waterproofing. After a thorough testing and verification, a new product (Kem Proof 90) for integral water proofing of mortars and concrete in residential building construction has been launched. Work was carried out on suitability of various systems for resolving rising dampness and a product Kem Inject OxyDamp C, has been successfully launched and demonstrated.

- **R & D in Coatings:** Your Company has introduced the Invergreen series of products for Direct to Metal (DTM) application for use in Automotive and General Industrial segments. These products are water based with minimal amounts of solvents. Theoretical emissions of these products are less than 0.10 gram per square meter per 1 micron thickness. Therefore, it is the most environmentally sound product in the market. These products do not contain hazardous substances like solvents, lead, and chrome and are compatible with substrates like cast iron, alloys, aluminium, plastics and rubber. The product is characterized by fast drying, gloss, easy application that is similar to those of traditional solvent-based enamels.



- **R & D in Polymers:** In July 2013 your Company established a Research & Development group for polymer research. Consisting of a highly qualified, talented, and experienced team and equipped with a modern laboratory for synthesis, testing, and application testing at Dudhwada, Chembond has made successfully developed polymer products from lab to pilot and then plant scale for acrylic emulsions in six month and has also developed polyamine adducts, polyamides from green precursors, styrenic co-polymers, bio-sourced polymers, plasticizers and other resins and additives. Your Company expects the innovative approach of this group to lead to the launch of many high performance, functional and unique products that are used in a broad range of applications and polymers.
- **R & D in Biotechnology:** During the year under review, your Company's biotechnology group successfully commissioned the in-house fermentation production of industrial enzymes.

This is a milestone event based on the foundations that were put in place several years ago with a visit by your Company's founder and Chairman Emeritus, Dr. Vinod D. Shah, to similar plants in China. Your Company expects continued breakthroughs in processes to manufacture industrial enzymes.

Manufacturing

During the year, the Coatings operations streamlined in Dudhwada and new plant at Ranipet is now completely operational. Your Company has existing manufacturing units at Tarapur, Mahape, Dudhwada, and Baddi. 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 well trained to use the best manufacturing practices.

Safety, Health, Environment and Quality

Your Company 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.



Your Company aims to continually improve these targets through its Quality Management Systems.

In addition to Quality, Safety, Health, and Environment is an integral part of Chembond's business and operations. Your Company's Tarapur and Dudhwada plants have implemented safety, health & environment management systems, which is integrated with its Quality Management System.

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

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

"Quality is not an act, it is a habit". Chembond also has a Safety, Health, and Environment objective of having 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.

Human Resources

In the year 2013-14, your Company laid emphasis on providing opportunity to in-house talent to unfold itself through restructuring of responsibility allocation, job enrichment, process improvements and learning. Providing better service to internal customers thereby reinforcing inter-personal coordination and teamwork was kept in focus. Efforts were made to make it a part of organisational culture to achieve measurable goals aligned to the objectives and targets set by the respective Division. Suitable training programmes were organized to enhance functional knowledge and capabilities of employees. Parameters linked with incentive plans were redefined wherever necessary to encourage the employees to pay more attention to important value adding activities. The work practices are revisited periodically to enhance productivity at individual level as well as team level. Efforts are made to instill a culture of optimally utilizing all resources.

Risk and Internal Control Systems

The internal control system in place throughout the Company is aimed at systematic and thorough identification and assessment of all major risks, which threaten the achievement of objectives, including risks related to business operations, finance, legal and strategic. 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.

Your Company has also formed "Risk Management Committee" comprised of Non Executive Directors who are expert in the field of finance, strategic management, operations and legal. Furthermore, the Company has engaged 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.

Developments during the year

Some of the other developments at Chembond during the year are:

- **Start of operations of your Company's plant at Ranipet, TN.** This modern plant will manufacture Construction Chemicals and Water Treatment Chemicals for sale in the rapidly growing markets of South India. In addition to reducing transportation costs and transit time, this plant will provide your Company with a local edge in the market and allows your Company to be close to its customers.
- **Periodic Call Auction:** as a result of representations by similar companies and us about the "Periodic Call Auction," SEBI, on January 13, 2014 issued a circular redefining the criteria for classification of scrip as illiquid. As a result, normal trading is allowed in the scrip of the Company on BSE. The Company's scrip is now classified as liquid and is actively traded.

Corporate Social Responsibility

The Chembond group believes that an organization should make decisions based not only on financial factors, but also on the social and environmental consequences and do recognizes that its business activities have wide impact on the societies in which it operates, and therefore an effective practice is required giving due consideration to the interests of its stakeholders. The Company endeavors to make CSR a key business process for sustainable development and it is always committed to play active role in improving the lives of people. Some of the initiatives undertaken by your Company in this and other areas during the year include,

- **Henkel Chembond Children's Centre:** The Company along with its joint venture partner Henkel runs a non-formal educational centre near Tarapur where English, Hindi, Marathi, Science, Mathematics, Social Studies, and General Knowledge form the main subjects of curriculum. Group discussions and sessions with the community and parents help children understand issues like their rights and duties for education better.