

42nd ANNUAL REPORT 2016-2017

Chembond Chemicals Limited



Board of Directors

Dr. Vinod D. Shah	Chairman Emeritus
Ashwin R. Nagarwadia	Director
Jawahar I. Mehta	Independent Director
Mahendra K. Ghelani	Independent Director
Nirmal V. Shah	Vice Chairman & MD
Perviz H. Dastur	Director
Dr. Prakash D. Trivedi	Independent Director
Sameer V. Shah	Chairman & MD
Mrs. Saraswati Sankar	Independent Director
Sushil U. Lakhani	Independent Director

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Chief Financial Officer

Rashmi S. Gavli

Company Secretary

Jay Mistry

Statutory Auditors

Kastury & Talati
Chartered Accountants
Mumbai

Cost Auditor

R. S. Raghavan

Secretarial Auditor

Virendra Bhatt

Bankers

HDFC Bank Limited
Bank of India
Kotak Mahindra Bank

Registrar & Transfer Agents

TSR Darashaw Ltd.

Plants

Tarapur, Maharashtra
Nalagarh, Himachal Pradesh
Ranipet, Tamil Nadu
Dudhwada, Gujarat
Mahape, Navi Mumbai

Registered Office Address

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EL71, MIDC Mahape
Navi Mumbai 400 710
Tel. : +91 22 3921 3000
Fax : +91 22 2768 1294

Management Discussion and Analysis

Your Company reports consolidated results considering the results of its subsidiaries and associates (together referred to as "the Group"). This discussion, therefore, covers the financial results and other developments from April 2016 to March 2017, in respect of the Group. Some statements in this discussion describing the projections, estimates, expectations or outlook may be forward looking. Actual results may, however, differ materially from those stated owing to various factors such as changes in government regulations, tax regimes, economic developments, exchange rates and interest rates fluctuations, impact of competition, demand and supply constraints.

During the year under review, your Company has achieved a sales turnover of ₹ 21,635 lakhs on a standalone basis and ₹ 27,015 lakhs on a consolidated basis. The comparative figures are tabulated below. Due to the divestment of your Company's stake in Henkel Chembond Surface Technologies Ltd., the numbers of 2015-16 are not comparable with those of the current year because the profit figures of 2015-16 include proceeds from the stake sale. Most businesses of the Company continued to show improved performance over the prior year though.

Financial and Operational Performance Standalone

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

(₹ in Lakhs)

Particulars	2016-17	2015-16	% Δ
Net Sales	21,635	21,435	0.93
Product Margin	4,188	3,835	9.22
Gross Margin	2,847	2,499	13.91
Selling & Administration	2,686	2,725	(1.42)
Employee Cost	1,837	1,702	7.90
EBITDA	757	18,955	(96.00)
PBT	420	18,567	(97.74)

Ratio Analysis

Particulars	2016-17	2015-16
Product Margin, % of Sales	19.36	17.89
Gross Margin, % of Sales	13.16	11.66
Selling & Admin Costs, % of Sales	12.41	12.71
Employee Costs, % of Sales	8.49	7.94
EBITDA, % of Sales	3.50	88.43
Earnings per share (Basic)	2.47	113.23
Earnings per share (Diluted)	2.47	111.50
Debt / Equity Ratio	0.04	0.04

Consolidated

The highlights of the consolidated financial performance are as follows:

(₹ in Lakhs)

Particulars	2016-17	2015-16	% Δ
Net Sales	27,015	26,341	2.56
Product Margin	8,981	8,223	9.21
Gross Margin	7,125	6,713	6.14
Selling & Administration Costs	6,693	6,348	5.43
Employee Costs	3,792	3,445	10.07
EBITDA	2,089	20,020	(89.56)
PBT	1,606	19,484	(91.76)

Ratio Analysis

Particulars	2016-17	2015-16
Product Margin, % of Sales	33.25	31.22
Gross Margin, % of Sales	26.37	25.48
Selling & Admin Costs, % of Sales	24.77	24.10
Employee Costs, % of Sales	14.04	13.08
EBITDA, % of Sales	7.73	76.00
Earnings per Share (Basic)	5.78	115.04
Earnings per Share (diluted)	5.78	113.29
Debt / Equity Ratio	0.04	0.05

Industry Structure & Developments

The relevant industry for your Company is Specialty Chemicals, which occupies an important position in the Indian economy. Stronger growth in end user segments coupled with the initiatives from the government and industry to enhance manufacturing has brought the focus on the Indian specialty chemicals manufacturing segment. Simultaneously, improved competitiveness of Indian manufacturers and an interest in India from global players is likely to result in significant growth of the diverse specialty chemicals segment.



Opportunities and Threats

Opportunities for growth of the industry and your Company are plentiful. In particular, these opportunities present themselves due to increasing customer as well as regulatory demands, such as

- treatment, conservation, and reuse of industrial water;
- improvements in nutrition in the dairy and poultry industry;
- modern and efficient construction materials and techniques;
- obtaining cost savings and efficiency improvement in industrial assets; and
- adopting convenient and cost effective adhesive technologies on the manufacturing floor.

At the same time the competitive landscape poses a threat with companies global and local, large and small, quality oriented and not, being treated almost as equals by users. Scarcity of skilled and trained human resources is another threat to the growth of the Company. Volatile raw material prices and foreign exchange rates can pose a threat to the short-term profitability of the company.

Risks & Concerns

The present risks and anticipated future risks are reviewed by the management of your company at regular intervals. Based on its past experiences, the management tries to remain vigilant about all prospective risks and takes suitable preventive measures to adequately safeguard its resources like men, machine & money, so that the business continues as usual even during difficult situations. The company also follows the norms of OHSAS 18001:2007 to provide a risk-free work environment to the employees, by providing them with the necessary safety equipment and gears to enable them to perform their tasks safely

Business areas

Water Treatment

Your Company offers chemical, equipment and microbial solutions for the treatment of industrial water. Having pioneered the introduction of non-chromate chemicals in 1980, the company today offers an ever-expanding range of products and technologies for the treatment of cooling water, boiler water, RO membranes, raw water and effluent.

The chemicals business is operated through a subsidiary of Your Company and until recently as a joint venture between Your Company (55%) and USA based Solenis Inc (45%). The water treatment chemicals business is a core business for us and the Company has been looking at various avenues to grow faster in the field. With this objective, and considering the opportunities available as well as our strengths in the business, we recently acquired the 45% shareholding of Solenis in the erstwhile JV. Your Company now owns 100% of the shares in Chembond Solenis Water Technologies Ltd enabling better integration and management of the water treatment solutions offered by us. Rebranding, renaming and realigning activities are currently underway to reflect the changes.

During the year, the Company also acquired all shareholding held by its now erstwhile JV partner in Malaysia. Your Company is now a 100% owner of the shares in Chembond Chemicals (Malaysia) Sdn. Bhd. and will be better positioned to offer uniform and consistent product and customer support technologies in the market.

While these developments were unfolding, we continued to invest in areas that enhance customer value creation. One such development is the technological platform - "Kem FLUX", which was introduced across several customer locations in India and overseas. This 24x7 online monitor and controller is powered by an Artificial Intelligence engine which analyses data,

learns and triggers corrective action helping improve treatment performance and enhanced control for the customer.

In line with building an integrated capability for water treatment and recycling, Your Company has invested in adding water treatment systems / equipment and in microbial remediation of high COD industrial waste water. Your Company is uniquely placed to offer integrated water treatment and recycling solutions to industry. The systems business is operated as Chembond Clean Water Technologies Limited and is a subsidiary of Your Company.

Construction Chemicals

Your Company offers a wide range of products for applications in concrete modification, waterproofing, repair and rehabilitation of structures. Our range of admixtures, sealants, waterproofing solutions, repair mortars and systems, tile fixing adhesives, tile joint fillers, floor hardeners, and cement / epoxy based grouts are used by construction companies, ready-mix concrete manufacturers, civil contractors and repair and waterproofing applicators. These products find applications in infrastructure projects, industrial construction, residential and commercial construction.

During the year, we have introduced a new single component polyurethane sealant and a new single component polyurethane based water proofing coating. These are high performance products having improved properties and performance compared with products from alternate technologies.

The governments focus on infrastructure construction has started showing signs of demand improvement for our products. However, the competitive landscape is fierce with companies large and small, national and local, quality conscious and otherwise bidding for the same piece of business. Your company continues to grow selectively in the business.

Biotech

The Animal health and nutrition business continues to grow consistently. The effect of demonetization was however more adversely felt in this business with the last two quarters of the year slowing down considerably. We grew our product line by launching products for dairy industry. The products have been well accepted by the industry.

Your Company has carried out R&D activities in the areas of enzymes, probiotics and new product formulations. Our manufacturing facility is suited to “produce” an array of consortia and individual probiotics and export quality enzymes, which have business potential from the B2B and B2C segments.

Industrial Technologies

The initiative undertaken in the previous year of combining the high-performance coatings, industrial coatings, MRO and newly launched adhesives product lines and regrouping them under the industrial technologies division has been completed.

Products meeting key customer expectations like environmental and safety compliances, cost effectiveness, appearance and superior performance have been introduced. Our Kem Vibra-TITE adhesives line has seen hectic activity during the first year of its introduction. We launched anaerobic products like thread lockers and retaining compounds, expanded sales operations for cyanoacrylates and epoxy adhesives, launched our dedicated website and participated in exhibitions and roadshows. We expect the product line to deliver accelerated and sustained growth in the years ahead.

Chembond Calvatis Industrial Hygiene Systems Limited is a Joint Venture between Chembond (55%) and Calvatis GmbH, Germany (45%). The company offers industrial hygiene and cleaning products and solutions primarily to the dairy, food processing and

beverage and brewing industries. During the year, the company has built up its reference list in most of the user segments and has obtained approvals therefrom. The product technologies from Calvatis have been absorbed and sales and service network is now being expanded. The company expects to see strong performance and growth in successive years.

Research & Development

Continued research and development not only on products but also on the manufacturing floor has resulted in the streamlining of manufacturing and introduction of several new products. These activities have resulted in your Company being recognized as an innovative company with a differentiated strategy.

Polymers

Our Kemyon series of PA610 made from renewable resources has been accepted by customers and is being used by them with promised results. The price of competing polymers using the non-renewable resources route however has suddenly crashed thereby making the cost effectiveness of our Kemyon series less attractive to customers who can use non-renewable resources in their products. An adhesion promoter product developed and patented by us has however started generating revenues and has ensured that our polymer division plans stay on course. Your Company was selected for product display at the Innovation Gallery of an industry leading exhibition "Plastivision 2017". We also received DSIR recognition for our R&D Lab for polymer research at Dudhwada while also successfully renewing the DSIR recognition for the R&D Lab at Mahape.

Manufacturing

Your Company has existing manufacturing units at Tarapur, Mahape, Dudhwada, Ranipet 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

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

In addition to Quality, Safety, Health, and Environment (SHE) 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's Tarapur plant underwent a major engineering revamp to comply with international SHE standards.

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

Human Resources

The manpower strength of your Company was 336 at the close of 2015-16 and it stood at 361 as of 31st March, 2017. Average age of the workforce is 35 years. In 2016-17, employee relations in your Company continued to be harmonious in all Plants and establishments. Talent

retention was done and fresh talent was inducted for key roles. At the beginning of the year business goals were set for each Division, which were dovetailed to departments and individual employees. Systems were sharpened to keep in focus 'big-ticket' activities, which were linked with the performance pay applicable to certain key positions. In the annual sales meetings best performers were rewarded. ESOPs were made available to employees, which added to the employee satisfaction.

Suitable Learning & Development initiatives were organized that included not only functional, technical and behavioral aspects, but also SHE.

Employee engagement initiatives were organized with some innovative themes, which were well received and reinforced the team spirit.

Internal Control Systems and their Adequacy

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 a "Risk Management Committee" comprising of Non-Executive Directors who are experts in the field of finance, strategic management, operations and law. Furthermore, the Company has engaged the services of independent firms of professionals to function as internal auditors and provide reports and necessary actions where required on various activities covering observation on adequacy of internal controls and their recommendations.

Corporate Social Responsibility (CSR)

The Chembond group believes that an organisation 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. The **Chembond Children's Centre**, is a non-formal educational centre at Pasthal and Shirgaon, near Tarapur, where English, Hindi, Marathi, Science, Mathematics, Social Studies, and General Knowledge form the main subjects of curriculum. The Centre was formed over fifteen years ago in partnership with Chembond's earlier joint venture partner, Henkel KGaA, and is now being continued by your Company. In addition to education, the Centre provides camps and workshops in health care, life skills, and scholarships. Further details pertaining to CSR Committee, Policy etc. are given in the Report of the Board of Directors.

Outlook

The investments made by your Company in technology, brands, people, and facilities over the past few years have begun to show some improvement in the last year. This is especially reflected in the performance of the construction chemicals and animal nutrition businesses. With the Indian economy steadily improving growth and a good monsoon to support the same, your Company will accelerate its strengths. While the impact of the divestment of your Company's metal treatment business will still affect the consolidated earnings from operations for a few more quarters, it is the objective of the management to more than compensate for the same by rapid growth in the new areas of business, like animal nutrition, construction chemicals, and industrial technologies, while maintaining better than GDP

growth in the more established business, like water treatment chemicals.

Forward Looking Statements

This report contains statements, which may constitute 'forward looking statements' within the meaning of the applicable securities laws and regulations. Forward-looking statements are based on certain assumptions and expectations of the future events. Actual results could differ materially from those expressed or implied. Important factors that could impact the Company's performance include, among others, economic conditions affecting the demand / supply and price conditions in the markets in which the Company

operates, changes in the Government policies, regulations, tax laws, other statutes and incidental factors.

The Company undertakes no obligations to update or revise forward-looking statements based on any subsequent developments, information, or events.

On behalf of the Board

Sameer V. Shah
Chairman &
Managing Director

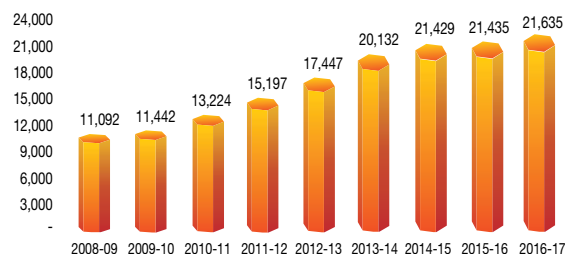
Mumbai
6th May, 2017

Nirmal V. Shah
Vice - Chairman &
Managing Director

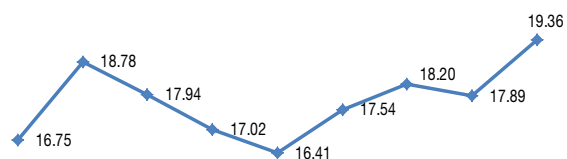
Highlights

Standalone

Standalone Sales

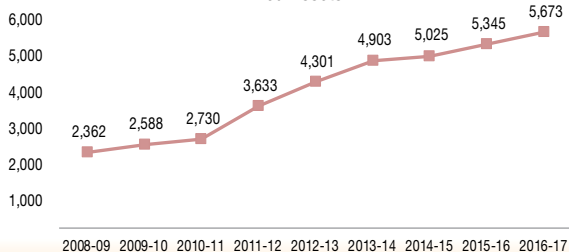


Product Margin (in %)



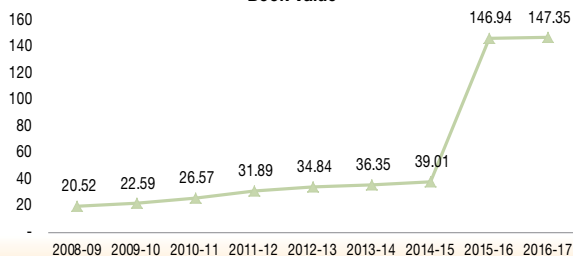
2008-09 2009-10 2010-11 2011-12 2012-13 2013-14 2014-15 2015-16 2016-17

Fixed Assets



2008-09 2009-10 2010-11 2011-12 2012-13 2013-14 2014-15 2015-16 2016-17

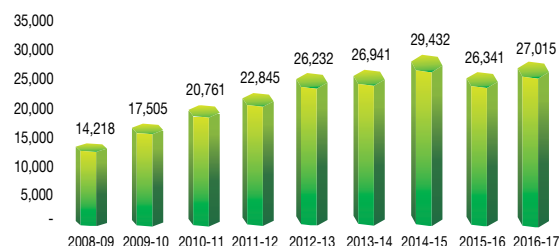
Book Value



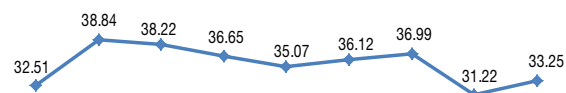
2008-09 2009-10 2010-11 2011-12 2012-13 2013-14 2014-15 2015-16 2016-17

Consolidated

Consolidated Sales

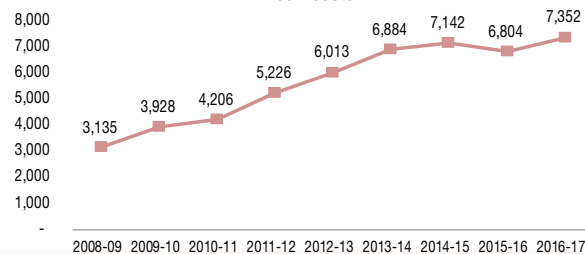


Product Margin (in %)



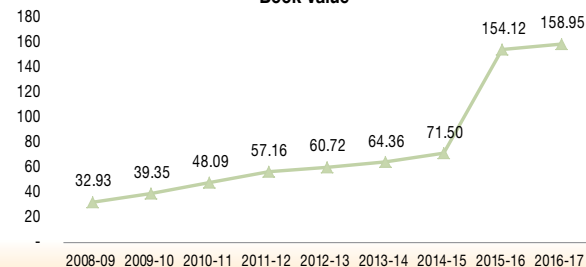
2008-09 2009-10 2010-11 2011-12 2012-13 2013-14 2014-15 2015-16 2016-17

Fixed Assets



2008-09 2009-10 2010-11 2011-12 2012-13 2013-14 2014-15 2015-16 2016-17

Book Value



2008-09 2009-10 2010-11 2011-12 2012-13 2013-14 2014-15 2015-16 2016-17

for the year ended on March, 2017

all numbers in ₹ Lakhs except Book Value and EPS

Numbers adjusted for issue of Bonus Shares in March 2010 in the ratio of 1 : 1

Numbers adjusted for Subdivision of Shares from face value of ₹10/- each to ₹5/- each