

Chembond Chemicals Limited

# 43<sup>rd</sup> Annual Report 2017-18

[chembondindia.com](http://chembondindia.com)



***Celebrating the Life of a Visionary,  
Self-made Achiever and a Fine Human Being.***



***Dr. Vinod D. Shah  
23<sup>rd</sup> April 1932 to 27<sup>th</sup> May 2018  
Founder and Chairman Emeritus  
Chembond Chemicals Limited***

## Board of Directors

<b>Ashwin R. Nagarwadia</b>	Director
<b>Mahendra K. Ghelani</b>	Independent Director
<b>Nirmal V. Shah</b>	Vice Chairman & MD
<b>Perviz H. Dastur</b>	Director
<b>Dr. Prakash D. Trivedi</b>	Independent Director
<b>Sameer V. Shah</b>	Chairman & MD
<b>Mrs. Saraswati Sankar</b>	Independent Director
<b>Sushil U. Lakhani</b>	Independent Director

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**Chief Financial Officer**  
Rashmi S. Gavli

**Company Secretary**  
Suchita Singh

**Statutory Auditors**  
B. D. Jokhakar & Co.  
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  
Rabale, Navi Mumbai  
Wagle Estate, Thane

**Registered Office Address**  
Chembond Centre  
EL71, MIDC Mahape  
Navi Mumbai 400 710  
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Website : www.chembondindia.com  
CIN : L24100MH1975PLC018235

# Management Discussion and Analysis

The following discussion is based on the Audited Standalone and Consolidated financial Statements of Chembond Chemicals Limited and its following subsidiaries, step-down subsidiary and associate (together referred to as "the Group"):

1. Chembond Water Technologies Limited
2. Chembond Clean Water Technologies Limited
3. Chembond Calvatis Industrial Hygiene Systems Limited
4. Chembond Polymers and Materials Limited
5. Chembond Industrial Coatings Limited
6. Protochem Industries Private Limited
7. Chembond Chemicals (Malaysia) SDN BHD
8. Phiroze Sethna Private Limited
9. Gramos Chemicals India Private Limited
10. Chembond Distribution Limited

This discussion, therefore, covers the financial results and other developments from April 2017 to March 2018, in respect of the Group. The Financial year 2017-18 has been referred to as "the year" and the Financial year 2016-17 has been referred to as "the previous year." 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 Revenue from operations of ₹ 23,779.03 lakhs on standalone basis and ₹ 33,422.81 lakhs on consolidated basis. The comparative figures are tabulated below. Most businesses of the Company continued to show improved performance over the prior year.

## Financial and Operational Performance

Consequent to the introduction of Goods and Services Tax (GST) with effect from 1<sup>st</sup> July 2017, Central Excise, Value Added Tax (VAT) etc. have been replaced by GST. In accordance with Indian Accounting Standard - 18 on Revenue and Schedule III of the Companies Act, 2013, GST, GST Compensation Cess, VAT etc. are excluded and Excise Duty is not excluded from Gross Revenue from sale of products and services for applicable periods. In view of the aforesaid restructuring of Indirect Taxes, Gross Revenue from sale of products and services and Excise Duty for the year ended 31<sup>st</sup> March, 2018 are not comparable with the previous periods.

Comparable revenue growth and comparable EBITDA margin improvement for 2017-18 has been arrived at by adjusting the excise duty from reported sales of Q1 2017-18 and FY 2016-17

## Standalone

The highlights of standalone performance are as follows:

(₹ in Lakhs)

Particulars	2017-18	2016-17
Net Sales	22,938	21,635
Product Margin	4,648	4,188
Gross Margin	3,230	2,847
Selling & Administration Costs	2,809	2,686
Employee Costs	1,866	1,837
EBITDA	1,748	2,068
PBT	1,359	1,451

## Ratio Analysis

Particulars	2017-18	2016-17
Product Margin, % of Sales	20.26	19.36
Gross Margin, % of Sales	14.08	13.16
Selling & Admin Costs, % of Sales	12.25	12.42
Employee Costs, % of Sales	8.13	8.49
% of EBITDA to Sales	7.62	9.56
Earnings per Share (Basic & Diluted)	10.11	10.81
Debt/Equity	0.02	0.03

## Consolidated

The highlights of the consolidated performance are as follows:

(₹ in Lakhs)

Particulars	2017-18	2016-17
Net Sales	31,236	27,915
Product Margin	10,342	9,085
Gross Margin	8,315	7,227
Selling & Administration Costs	7,572	6,702
Employee Costs	4,300	3,801
EBITDA	3,319	3,520
PBT	2,357	2,286

## Ratio Analysis

Particulars	2017-18	2016-17
Product Margin, % of Sales	33.11	32.54
Gross Margin, % of Sales	26.62	25.89
Selling & Admin Costs, % of Sales	24.24	24.01
Employee Costs, % of Sales	13.77	13.62
% of EBITDA to Sales	10.63	12.61
Earnings per Share (Basic & Diluted)	16.34	14.40
Debt/Equity	0.04	0.04

## Industry Structure & Developments

### Global Economy

The global economic activity is picking up with a long awaited cyclical recovery in investment, trade and manufacturing, which needs to be supported by new fiscal initiatives. As per data, 2017 marked a year of acceleration and it is anticipated that the trend will continue with GDP growth likely to be pushing upto 3.9% in 2018. Energy and commodity prices rejoice in an upturn, supporting investments. Growth results are seen to be broad based and includes advanced as well as emerging economies in its tide. Trade growth in 2018 is likely to fall within a range from 3.1% to 5.5% if current GDP forecasts come to pass, although a continued escalation of trade restrictive policies could lead to a significantly lower figure.

### Indian Economy

The Government implemented the Goods and Services Tax, touted as the single biggest taxation reform in the country, with an aim to create a seamless unified market for the \$2 trillion Indian economy. India joined the league of select countries like the US and Australia where fuel prices are revised daily. In October 2017, the Finance Ministry announced a mega ₹ 2.11 lakh crore recapitalization plan for PSU Banks over the next two years. The Insolvency and Bankruptcy Code 2016 (IBC) was brought into effect to protect the investment of small investors and make the process of doing business less cumbersome process. The IBC has been touted as a landmark reform in the banking sector and provides sweeping powers to the Central Bank to accelerate cleaning up of non-performing assets from the system. These reforms are considered to bring positive trend in the gross development of the nation.

The Chemical sector in India has registered a growth due to structural advantage, high domestic consumption, diversified industry and promising export potential. The Government policies in recognizing Chemical industry as a key growth element of Indian economy with 100% FDI has shown considerable positive response. Manufacture of most of chemical product is delicensed. Chemical industry in India is the third largest producer in Asia and sixth largest in the world. It is expected to double its share in global chemical industry 5-6% by 2021 registering growth of 8-9% in the next decade. Number of MNCs are focusing on India for their manufacturing hub. Lower cost of labour, availability of key raw materials, large consumer markets and adaptability to technology are some main attractions for having a strong manufacturing base in India.

### Opportunities and Threats

The Company has a well set up infrastructure in respect to manufacturing capacities, human resources, technical expertise, etc. which are a key factor for future growth of its business. The Company can bank on its in-house R&D for development of new products, backward integrations, quality improvements and cost reductions. Another important aspect which helps the Company in having its diverse portfolio of products is the fact that, the manufacturing capacities are fungible. The Company deals with majority of complex chemistry applications which are required for manufacture of specialty chemicals. This is possible because of the entire in-house chain for R&D, pilot plant and scale up operations. The dedicated teams

for Quality Management and Quality Assurance, helps in maintaining the standards required for various products. The entire project or process is designed to ensure delivery of Best Quality Products.

### Opportunities

1. A large domestic market fueled by rising incomes in urban and rural areas.
2. Formalisation of the economy and the unified GST levels the playing field, thus enabling your Company to access newer markets and segments.
3. Access to international selling and sourcing markets is a key success factor and vital for the Chemical Industry.

### Threats

1. Commoditization is a constant threat for chemical companies. Substantial resources and money is spent on developing products, which if superior can be sold at a high price, nevertheless, with time competitors are able to produce these or similar products.
2. Chemical companies are affected by environmental regulation. However, awareness about the regulations and their positive effects on the Company will add to value creation and growth.
3. The public image of the chemical industry is a barrier, because people are afraid of chemicals in their neighborhood whether they are hazardous or not. It becomes difficult to position the chemical industry as a sustainable and secure workplace.
4. Most of the chemical companies in India are smaller in scale as compared to their global counterparts. As the global companies enter and strengthen their presence in the Indian market, they will also invest in marketing, distribution and production systems that local companies may struggle to match.
5. Cost of compliance makes operations uneconomical and unviable for small players.

### Risks & Concerns

The growth of speciality chemical industry is driven by R&D activities and a need for constant innovation in the product spectrum. On the other hand, strong R&D set-up ensures quality management and cost reductions. Since your

Company has its own R&D Centre, the above concerns are well addressed. The Company is exposed to health, safety, security and environmental risks, given the diversity and complexity of the industry in which the Company operates. The Managements commitment towards employee health, safety and security extends beyond accidents and occupational health hazards to social well-being of employees. The Company conducts environment, health and safety audit periodically to get assurance on Company's framework protocol on Environment, Health and Safety and regulatory compliances. The Company has also prepared and adopted Environment, Health and Safety policy entailing the commitment of the Company towards environment, health and safety. The evolution of the regulatory environment across the globe has resulted into increased regulatory scrutiny that raises minimum standards required by the Company necessitating increased investment in compliance. However, the Company considers the regulatory requirements as a source of competitive advantage and therefore strives to abide by the changing regulatory standards to consolidate its position in business and integrate these aspects in its business strategy. Macro-economic conditions like the policy decisions of the Government, currency fluctuations and volatility in commodity prices like crude oil can affect the business of the Company. However, since Company's revenue generating sources are diversified into various sectors backed up by the strong domestic demand such risks are mitigated to some extent.

### Business Snapshot

#### Water Treatment

Your Company offers chemical, equipment based and microbial solutions for the treatment of industrial water and waste water. **Chembond Water Technologies Limited** and **Chembond Clean Water Technologies Limited** (Chembond Water) are subsidiaries of the Company operating in this area of specialization. The business grew handsomely during the year on the back of some large business wins. The margins of the chemical business continued to be under pressure owing to a sudden rise in inputs material costs combined with tightening of availability of some of these materials. The equipment business performed much better over prior year and recorded a very healthy profit growth.





### Construction Chemicals

The infrastructure construction segment has been growing since the past 2 years and many projects have reached a stage during which they use construction chemicals. Your Company has been cautiously expanding its business having tight credit terms and doing business only with selected customers. This strategy has meant a slower topline growth nevertheless a healthy and sustainable one. During the year, we introduced new products based on PU chemistry with applications in waterproofing and sealants.

### Biotech

The Animal Health & Nutrition business had a strong second half and closed the year with a growth of 10% overcoming the challenges faced over the preceding four quarters. One of the challenges your Company overcame was that of increasing the team size in order to effectively cover the entire country and the segments of dairy and poultry. New products were launched and breakthroughs were made at some key accounts during the year. For the year ahead, the Animal Health & Nutrition division plans to further grow the team and enhance its Marketing and Technical Services teams.

The development activities in the areas of enzymes and probiotics for varied applications, in addition to animal health continues. In this context, six different microbial strains for nitrogen and sulphur metabolism have been delivered.

### Industrial Technologies

Your Company's Industrial Technologies division comprises a group of products that cater to similar customers. The **Adhesives** business has doubled with major share of business coming from epoxy, cyanoacrylate and pre-applied adhesives. New customers were added in North and South India in agriculture and construction equipment companies, pump manufacturers, and automotive component manufacturers. The **Industrial Coatings** business grew by over 60% vs the prior year. Waterborne coatings and new customers in the transportation segment contributed to the strong growth. **Phiroze Sethna Pvt. Ltd.** and **Gramos Chemicals India Pvt. Ltd.** were acquired for the synergies these products add to the other products offered by your Company. **Phiroze Sethna** manufactures sealants and underbody coatings for the automotive industry and has presence across the country.

**Gramos** produces industrial wipes, which are tackified to pick up dust and paint particles from the car bodies before they are painted, thus ensuring a blemish free painted vehicle. Most OEM's in India use Gramos' TakRag.

**Protochem** has indigenously developed full range MRO (Maintenance, Repair & Overhaul) aerosols used in Industrial machineries maintenance, Workshops, Automotive, Shipping & Aviation applications. These are widely accepted in the market because of its performance & cost effectiveness. One of **Protochem's** product has the distinction of meeting the stringent defence standards and as a result, it has been accepted by Indian Navy & Air Force. No other local company is able to meet these standards.

**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.

On the back of the approval from a major brewing company, the Company started business in the segment by supplying bottle cleaning products to several of their plants. The Company also developed, and successfully supplies products to the food processing and dairy segments. Team expansion to serve the customers and new application trials are underway to build on sales growth opportunities for the next year. Lubricant and cold disinfectant applications are being explored by the Company.

### Polymers

The polymers business venture of your Company is being housed in **Chembond Polymers and Materials Limited (CPML)**, which is the new name for one of your Company's subsidiaries, Chembond Enzyme Company Limited. CPML has firmed up plans to scale-up its bio-based polyamide production. Polyamides, also known as Nylons, are a family of thermoplastic polymers that can be melt processed into filaments, films or shapes for application in various industrial and non-industrial uses. Development work on polyamide 610 and other specialty polyamides, most of which are based on bio-renewable raw materials, was started around 4 years ago. The technology for making these polymers was developed in-house by a team of dedicated researchers. Today, your Company has a pilot plant operating continuously, in which polyamides are manufactured on a partially commercial

scale. In the current year this production will be scaled up several notches and we plan to simultaneously commence work on building a plant to global scales. One of your Company's patented product, developed over three years ago, has been accepted by customers and is being used by them with promised results.

### Manufacturing

The Company has unique in-house capabilities for the development and production of specialty chemicals backed by several decades of experience in the field. With multi-product manufacturing plants at Tarapur, Baddi, Dudhwada, Ranipet, Mahape, Rabale and Thane, the Company efficiently caters to customers across the country. The manufacturing capacity is elastic and is capable of meeting the expected sales growth for the next few 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 strongly believes a safe and healthy workplace to its employees, a clean environment to its locations and in being a "supplier of choice" to its diverse customers. In order to achieve these objects, all manufacturing sites and functions have targets on safety, quality and customer service, among others.

- Your Company has conducted risk assessments of all its sites to identify occupational hazards and define control measures to reduce the risk to acceptable levels as per the OHSAS 18001:2007 standard.
- Your Company has upgraded its Quality Management Systems as per revised standards to ISO 9001:2015, IATF 16949:2016
- Your Company has upgraded its Environment Management System as per revised standards to ISO 14001:2015.

According to the above revised standards, your Company has adopted a risk base thinking that enables an organization to consistently meet requirements and address future needs and expectations posing challenges for an organization in increasingly dynamic and complex business environment.

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

Locations	ISO 9001	ISO 14001	OHSAS 18001	IATF 16949
Tarapur	Y	Y	Y	Y
Dudhwada	Y	Y	Y	-
Baddi	Y	-	-	-
PSPL	Y	-	-	-

"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

The manpower strength of your Company was 361 at the close of 2016-17 and it stood at 318 as of 31<sup>st</sup> March, 2018. Average age of the workforce is 36 years. In 2017-18, employee relations in your Company continued to be harmonious in all plants and establishments. Your Company has tied up with renowned educational institutes/colleges for fresh campus recruitment at regional levels to offer the best opportunities to the best talent available in the job market regionally.

Based on Company's objective & departmental annual goals for 2017-18, the key result areas & key performance indicators were set employee wise for each department. With the implementation of performance pay variable last year & its positive impact, more employee categories have been covered for the variable pay voluntarily.

Learning & Development initiatives have been focused with holistic approach to enhance key competencies of work force at all the levels including regional site, plant level employees which is helping them to explore their potential at work place.

The focus on culture building is driven through various employee engagement programmes such as Diwali functions, sports, events, wishing employees on the wedding days & birthdays and blood donation camps.





### Internal Control Systems and their adequacy

Chembond has a sound Internal Control System, which ensures that (a) its financial reports are reliable (b) its operations are effective and efficient and (c) its activities comply with applicable laws and regulations. Also, as mandated by the Companies Act, 2013, the Company has implemented the Internal Financial Control (IFC) framework to ensure proper Internal Controls over financial reporting. The internal control system is further supplemented by Internal Audit carried out by an independent firm of Chartered Accountants and periodical review by Management. The Internal Audit process is designed to review the adequacy of internal control checks in the system and covers all the significant areas of the Company's operations.

The Audit Committee reviews the adequacy and effectiveness of the internal control systems and tracks the implementation of corrective actions. Significant audit observations and corrective actions taken by the Management are presented to the Audit Committee. To maintain its objectivity and independence, the Internal Audit reports are submitted to the Chairman of the Audit Committee. The Audit Committee plays a key role in providing assurance to the Board of Directors.

### Corporate Social Responsibility (CSR)

Corporate Social Responsibility at Chembond Group aims to take a balanced approach to address social, economic and environmental issues through diverse programs, recognizes that its business activities have wide impact on the societies in which it operates. The Company endeavors to make CSR a key business process for sustainable development and it is committed to play active role in improving the lives of people.

**Chembond Children's Centre** was formed over fifteen years ago with Education as one of the core functional areas for CSR activities. Our philosophy is to ensure meaningful education to the economically underserved sections. Chembond Children's Centre is a non-formal educational centre at Pasthal and Shirgaon near Tarapur. English, Hindi, Marathi, Science, Mathematics, Social

Science and General Knowledge form the main subjects of the curriculum. In addition to education, the Centre provides camps and workshops in health care, life skills, and scholarships. Details pertaining to CSR Committee, Policy etc. are given in the Board's Report which forms part of this Annual Report.

### Future Outlook

Your Company's toll manufacturing agreement with Henkel Adhesive Technologies Ltd. has come to an end in Q1 2018-19. This would free up capacity at the Tarapur plant and would allow manufacturing realignment of the products we make and to allow debottlenecking operations in some businesses. The scale-up of polymer manufacturing would be a milestone event and has the potential to change the revenue mix of the Company.

### 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 and Managing Director

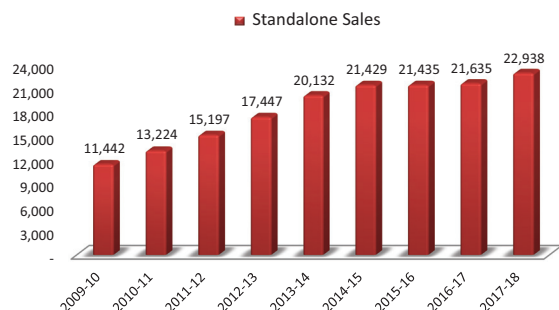
Mumbai  
17<sup>th</sup> July, 2018

**Nirmal V. Shah**

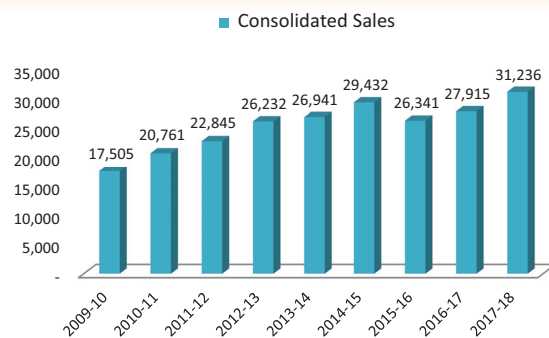
Vice - Chairman and Managing Director

# Highlights

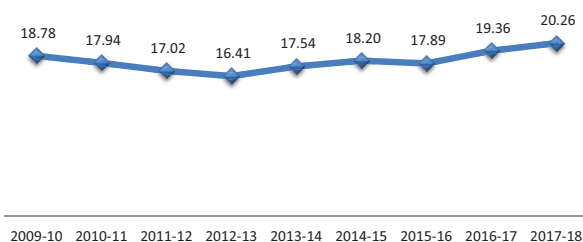
## Standalone



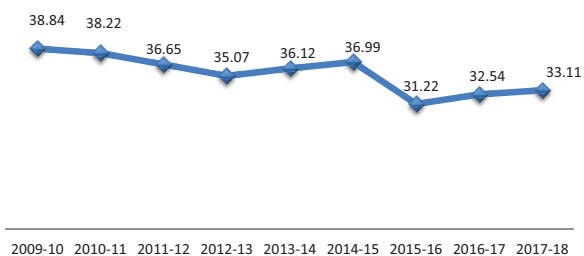
## Consolidated



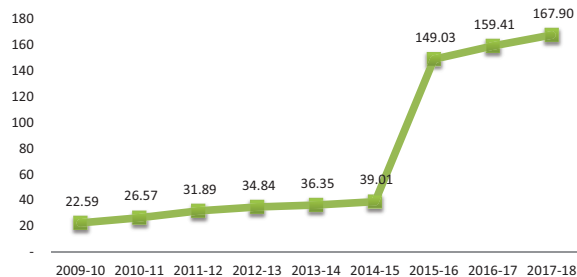
## Product Margin (in %)



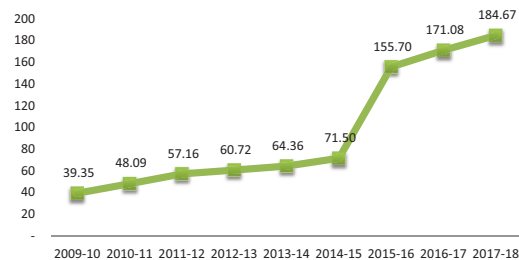
## Product Margin (in %)



## Book Value



## Book Value



for the year ended on March, 2018

all numbers in ₹ Lakhs except Book Value

Book value of previous years 2015-16 and 2016-17 are adjusted for Ind AS

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