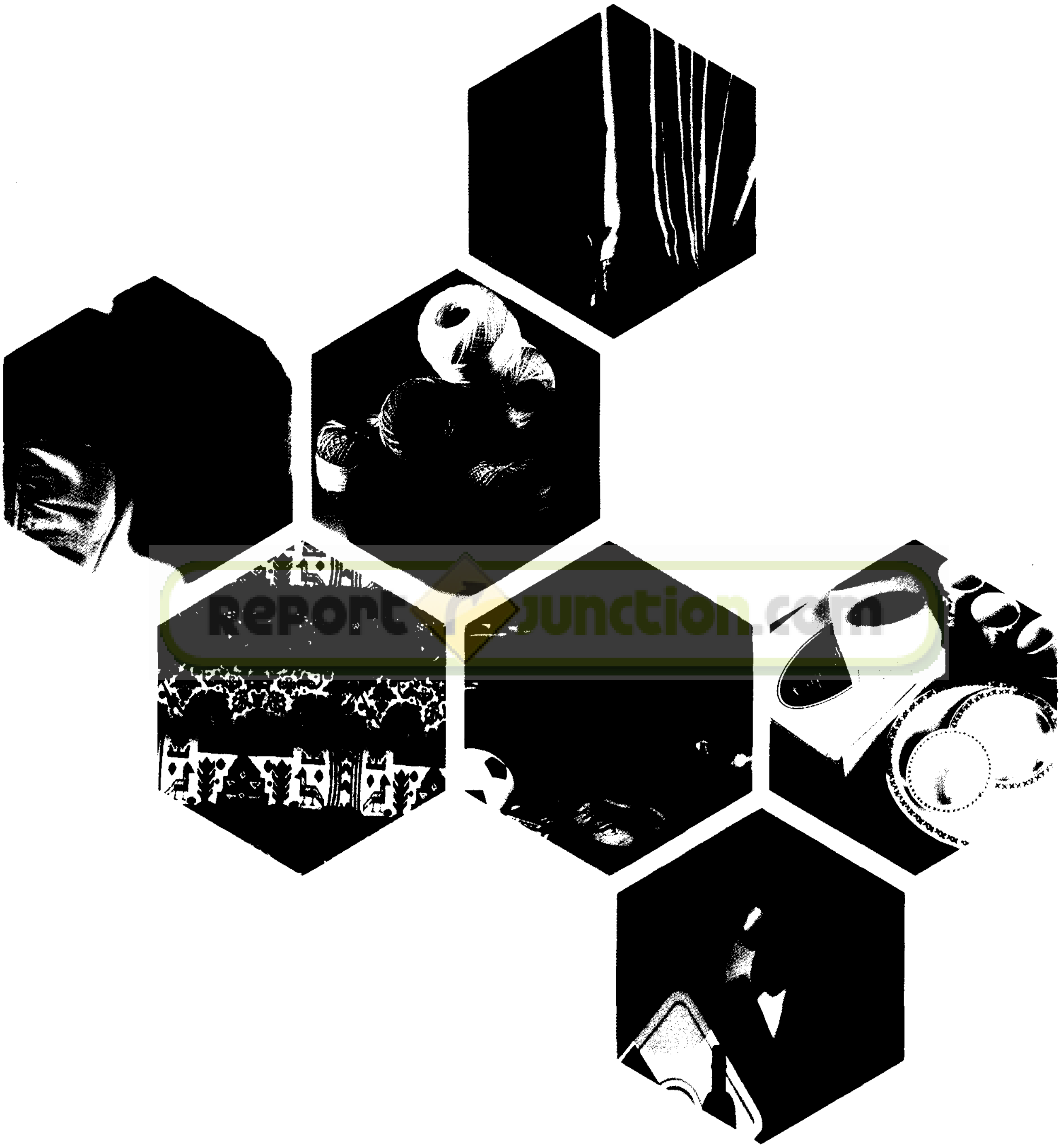
Clariant



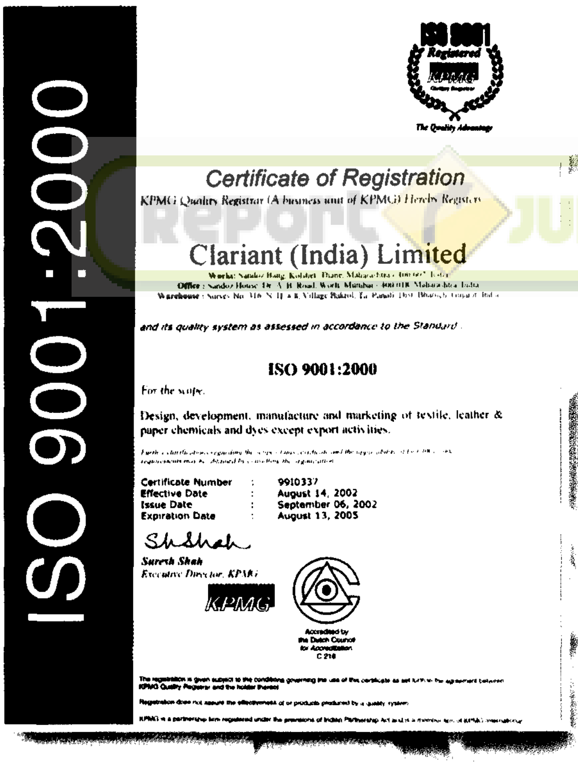
Clariant (India) Limited

ANNUAL REPORT 2002-2003

Clariant - an update

Clariant, a Swiss based multinational operating worldwide with over 100 group Companies in all five continents, came into existence in 1995 when the Sandoz chemicals division was spun off to form an independent company named Clariant. In 1997 Hoechst specialty chemicals business were integrated with Clariant and later in 2000 it acquired the British fine chemicals producer known as BTP. Clariant, with over 28,000 employees, generates annual sales over 9 billion CHF.

Clariant is a global leader in the field of fine and speciality chemicals. Its innovative products meet the customer requirement of increasing the value of end products by improving the properties and play an important role in the manufacture and processing of the end products.


ISO 9001:2000

ISO 9001 Registered KPMG

The Quality Advantage

Certificate of Registration

KPMG Quality Registrar (A business unit of KPMG) Hereby Registers

Clariant (India) Limited

and its quality system as assessed in accordance to the Standard

ISO 9001:2000

For the scope.

Design, development, manufacture and marketing of textile, leather & paper chemicals and dyes except export activities.

Certificate Number	:	9910337
Effective Date	:	August 14, 2002
Issue Date	:	September 06, 2002
Expiration Date	:	August 13, 2005

Suresh Shah
Executive Director, KPMG

KPMG

Accredited by the Dutch Council for Accreditation C 218

Registration does not assure the effectiveness of or products produced by a quality system.

Clariant (India) Ltd. since its formation in 1996 has swiftly emerged as a company whose potential is reflected in its performance. It has created a broad product base that spans dyes and speciality chemicals for textiles, leather, paper, and masterbatches for plastics and fibres. The Company considers that sustained growth can be possible only by partnering with customers by understanding their needs, providing cost effective solutions, adding value and constantly upgrading the products catering to changes in fashion and preferences. It is this focus that has won the confidence and trust of its customers. Clariant (India) Ltd. holds the position of being a market leader in textile chemicals and leather dyes and has constantly improved its market position in all other segments in which it operates.

Clariant

CORPORATE INFORMATION

BOARD OF DIRECTORS

V. N. Nadkarni *Chairman*

P. R. Rastogi *Managing Director*

Dr. F. R. Dennefeld

F. Note

P. Lindner

R. A. Shah

Dr. M. L. Gulrajani

K. J. Bharucha

EXECUTIVE COMMITTEE

P. R. Rastogi *Managing Director*

B. L. Gaggar *Chief Financial Officer & Company Secretary*

R. Y. Mani *Vice President - Site Management*

D. K. Mittal *Vice President - Corporate Affairs & Auditing*

S. S. Patil *Vice President - Corporate HRD*

S. Sinh *Vice President - Sourcing and Exports*

R. V. Tiwari *Vice President - Supply Chain Management*

A. K. Prasad *Vice President - Textile Chemicals*

SOLICITORS

Messrs. Crawford Bayley & Co.

AUDITORS

Messrs. A. F. Ferguson & Co.

BANKERS

Standard Chartered Bank

Citibank N. A.

SHARE TRANSFER AGENTS

IIT Corporate Services Limited

2nd Floor, Protoprima Chambers,
Suren Road, Andheri (East),
Mumbai – 400 093

REGISTERED OFFICE

Sandoz House,
Dr. Annie Besant Road,
Worli, Mumbai - 400 018

WORKS

Kolshet Road, Thane - 400 607

ANNUAL GENERAL MEETING

Date & Time	:	23rd July, 2003, 11 a.m.
Day	:	Wednesday
Venue	:	Y.B. Chavan Auditorium, Gen. J. B. Marg, Next to Sachivalya Gymkhana, Mumbai – 400 021

CONTENTS

Notice

NOTICE is hereby given that the **Fifty Sixth** Annual General Meeting of the Members of **Clariant (India) Limited** will be held at Y. B. Chavan Auditorium, Gen. Jagganath Bhosale Marg, Next to Sachivalaya Gymkhana, Mumbai – 400 021 on Wednesday 23rd July 2003 at 11.00 a.m. to transact the following business:

Ordinary Business:

1. To receive, consider and adopt the Balance Sheet as at 31st March 2003 and the Profit and Loss Account for the year ended on that date and the Reports of the Directors and Auditors thereon.
2. To declare a dividend.
3. To appoint Auditors to hold office from the conclusion of this meeting until the conclusion of the next Annual General Meeting and to authorise the Board of Directors to fix their remuneration.
4. To elect a director in place of Mr. P. Lindner, who retires by rotation and being eligible, offers himself for re-appointment.
5. To elect a director in place of Dr. M. L. Gulrajani, who retires by rotation and being eligible, offers himself for re-appointment.

Special Business:

6. To consider and, if thought fit, to pass, with or without modification, the following resolution as an **Ordinary resolution:**

   "RESOLVED THAT Mr. R. A. Shah, who was appointed as additonal director of the Company by the Board of Directors with effect from 23rd October 2002, pursuant to Article 119 of the Articles of Association of the Company and who holds office upto the day of this Annual General Meeting under section 262 of the Companies Act, 1956, and being eligible, offers himself for appointment and in respect of whom the Company has received notice in writing under section 257 of the Companies Act, 1956, along with the prescribed deposit, from a shareholder signifying his intention to propose Mr. Shah as a candidate for the office of Director, be and is hereby appointed as a Director of the Company whose term of office shall be liable to determination by retirement of Directors by rotation."

7. To consider and, if thought fit, to pass, with or without modification, the following Resolution as a **Special Resolution:**

   "RESOLVED THAT pursuant to Article 121 of the Articles of Association of the Company, provisions of Section 309(4) and other applicable provisions, if any, of the Companies Act, 1956, so long as the Company has a Managing or Whole time director(s), such sum by way of commission not exceeding in the aggregate 1 percent per annum of the net profits of the Company computed in the manner laid down in Section 198 of the Companies Act, 1956 for each of the five financial years of the Company commencing from 1st April 2003 be paid to and distributed amongst such Directors of the Company excluding the Managing Director or Whole-time director(s), as may be determined by the Board, the proportion and manner of such payment and distribution may be as decided by the Board from time to time.

   RESOLVED FURTHER THAT if at any time during the aforesaid period of five years commencing from 1st April 2003, the Company does not have Managing or Whole-time director, such sum by way of commission, not exceeding in the aggregate 3 percent per annum of the net profits of the Company computed in the manner laid down in the said Section 198 be paid to and distributed amongst such Directors of the Company, as may be determined by the Board, for the then residual unexpired part of the aforesaid period of five years, the proportion and manner of such payment and distribution to be as the Board may from time to time decide."

By Order of the Board
For **CLARIANT (INDIA) LTD**

B.L.GAGGAR
Chief Financial Officer
& Company Secretary

Mumbai, May 08, 2003

REGISTERED OFFICE
Sandoz House,
Dr. Annie Besant Road,
Worli, Mumbai 400 018

Notes:

1. A MEMBER ENTITLED TO ATTEND AND VOTE AT THE MEETING IS ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE INSTEAD OF HIMSELF AND THE PROXY NEED NOT BE A MEMBER OF THE COMPANY.

   Proxy in order to be effective must be received at the registered office of the Company not less than 48 hours before the meeting.
2. The Explanatory Statement as required by Section 173 of the Companies Act, 1956 in respect of item No. 6 & 7 of the Notice is annexed hereto.
3. The Register of Members and Share Transfer Books of the Company will remain closed from Wednesday, 2nd July 2003 to Wednesday, 23rd July 2003 (both days inclusive).
4. The dividend on shares as recommended by the Board of Directors, if declared at the meeting, will be payable to those members whose name appear
   (i) in respect of shares held in demat form, beneficial owners as per details furnished by the Depositories as at the end of the business on 1st July 2003 and
   (ii) in respect of shares held in physical form, as members in the Register of Members of the Company after giving effect to all valid share transfers lodged with the share transfer agent on or before 1st July 2003.

Notice *(Contd.)*

The Company will dispatch the dividend warrants from 24th July 2003 onwards.

5. The amount standing credit in unpaid dividend account in respect of 40th dividend declared on September 17, 1996 will be transferred to the 'Investor Education and Protection Fund' maintained with the Central Government after the end of 7 years on 9th October 2003. Members who have still not encashed their 40th dividend are requested to encash the same at the earliest.
6. In case of any change of particulars including address, bank mandate & nomination **for shares held in demat form, should be notified only to the respective Depository Participants where the member has opened its demat account and not to the share transfer agent of the Company.** However changes in particulars for shares held in physical form should be sent to the share transfer agent of the Company.
7. Members who wish to attend the meeting are requested to bring attendance slip sent herewith, duly filled in, and the copy of the annual report. Copies of the annual report will not be distributed at the meeting.
8. Members having any query/clarification on the accompanying accounts are requested to send their queries/ questions in writing, well in advance, at the registered office of the Company. This will enable us to keep the answers ready at the meeting.

Annexure to the Notice

Explanatory Statement under Section 173 of the Companies Act, 1956

ITEM NO 6

At the meeting of the Board of Directors ("the Board") of the Company held on 23rd October 2002, the Board appointed Mr. R. A. Shah as an additional director of the Company with effect from 23rd October 2002. Pursuant to Section 262 of the Companies Act, 1956, read with Article 119 of the Articles of Association of the Company, Mr. Shah holds office only up to the date of the forthcoming Annual General Meeting.

Notice in writing has been received from a member of the Company along with the prescribed deposit under section 257 of the Companies Act, 1956, signifying his intention to propose Mr. Shah as a candidate for the office of Director.

The Directors commend the Resolution for Member's approval.

No Director other than Mr. Shah is concerned / interested in this resolution.

ITEM NO 7

At the fifty-second Annual General Meeting of the Members of the Company held on 28th July 1999, the shareholders have approved the payment of commission upto 1% per annum of the net profits of the Company to Directors (other than Managing/ Whole-time directors) for each of the five financial years commencing from 1st April 1998. The proportion of the commission to be distributed amongst such directors excluding Managing/Whole-time director(s) of the Company was determined by the Board from time to time.

The period of five years expired on 31st March 2003.

In view of continued business activities of the Company, it is appropriate that pursuant to the provisions of the Companies Act, 1956, a commission not exceeding in the aggregate 1% per annum of the net profis of the Company computed in the manner laid down in Section 198 of the Companies Act, 1956 may be paid for each of the five financial years of the Company commencing from 1st April 2003 and be distributed amongst such directors of the Company excluding Managing Director or Whole-time director(s) as the Board may decide from time to time.

The Second part of the resolution relates to a situation where during the aforesaid period of five years beginning 1st April 2003, the Company may not have a Managing or Whole-time director. In such a case, it its proposed to pay such Directors of the Company, as may be determined by the Board, for the then residual unexpired part of the said period of five years, commission not exceeding in the aggregate 3% of the net profits of the Company computed in the manner laid down in the said Section 198.

The proportion and manner of such payment and distribution would be as the Board may from time to time decide.

Apart from commission proposed to be paid to Directors in terms of the special resolution, the Directors also receive sitting fees for each of the Board or Audit committee meetings attended as the case may be.

The Directors commend the Special Resolution for Member's approval.

All the Directors of the Company save and except Mr. P. R. Rastogi, the Managing Director, may be deemed to be interested in this Resolution.

By Order of the Board
For **CLARIANT (INDIA) LTD**

B.L.GAGGAR
Chief Financial Officer
& Company Secretary

Mumbai, May 08, 2003

REGISTERED OFFICE
Sandoz House,
Dr. Annie Besant Road,
Worli, Mumbai 400 018

Report of the Directors

To the Members

The Directors have pleasure in presenting the **Fifty-sixth** Annual Report and Audited Financial Statements for the year ended 31st March 2003.

Financial Results:

(Rs. in Lakhs)

	2002-2003	2001-2002
Net Sales		
Domestic	**20463.83**	19768.29
Exports	**11424.52**	8403.79
	31888.35	28172.08
Operating results		
Profit before tax	**3042.74**	3030.91
Net profit after tax	**1958.39**	2005.00
Balance in Profit & Loss Account brought forward	**798.50**	587.88
Balance available for appropriation	**2756.89**	2592.88
Appropriation:		
Dividend	**1192.50**	894.38
Tax on dividend	**152.79**	-
Transfer to General Reserve	**600.00**	900.00
Profit & Loss Account balance carried forward	**811.60**	798.50
	2756.89	2592.88

Dividends:

Your Directors are pleased to recommend a dividend of **Rs. 10** per share (including a special dividend of **Rs. 2.50** per share) for the year ended 31st March 2003 as compared to Rs. 7.50 per share for the preceding year ended 31st March 2002. The dividend if approved at the forthcoming Annual General Meeting will be paid out of the profits of the Company for the year and will absorb a sum of **Rs. 1345.29 lakhs** (including tax on dividends) as compared to Rs. 894.38 lakhs for the previous year. The quantum of dividend together with tax thereon has gone up by **50** percent compared to previous year.

Management Discussion & Analysis:

Financial and Operational Performance:

The following ratios reflect your company's financial performance:

	2002-2003	2001-2002
Sales Growth (%)	**13.2**	7.3
PBIDT (% to sales)	**10.6**	11.9
PAT (% to sales)	**6.1**	7.1
ROCE (%)	**31.3**	33.2
Return on net worth (%)	**21.6**	23.7
Debt : Equity ratio	**0.06**	0.08
W/Capital (% to sales)	**8.0**	12.8
Earning per share (Rs.)	**16.4**	16.8
Cash earning per share (Rs.)	**19.4**	19.6
Book value per share (Rs.)	**76.1**	70.9

The turnover (net of excise duty) crossed **Rs. 3 billion** mark during the year. Your Company recorded highest ever growth of **35.9** percent in exports. Inspite of overall growth in sales, net profit after tax for the year is marginally lower as compared to previous year. Due to change in the basis of accruing the liability in respect of gratuity, the profits before tax for the current year are lower by Rs. 331.39 lakhs. Had this change in accounting practice not considered by the Company, the operating profit (PBDIT) for the year would have been **11.6** percent of sales compared to 11.9 percent for the previous year. The operating profits during the year were adversely affected due to spiralling price rise in some of basic raw materials and depreciation of Indian Rupee against European currencies resulting into higher costs of imported raw materials and finished products. Profit after tax without considering the change in accounting practice mentioned above would have been higher by 209.6 lakhs at **6.8** percent of sales as compared to 7.1 percent in the previous year. Higher tax rate as compared to previous year has further affected profits after tax.

Inspite of highly challenging and competitive market environment, your Company has been able to sustain its overall performance both in terms of consistent growth in top line and maintaining the bottom line. This is the result of customer centric approach the Company has been practising in all its operations. The Company has further consolidated its market leadership in highly competitive textile chemicals and leather dyes and constantly increasing its market share in textile dyes and paper chemicals.

Continuous thrust on working capital management has resulted in creating benchmark in inventory and receivables management in the industry segment it operates. The receivables at year-end constitute **12.4** percent of gross sales as compared to 15.4 percent of gross sales in the previous year. Receivables and inventory together consist of **84 days** of gross sales as compared to 91 days of gross sales during the previous year. Your Company is a debt free company and has built up enough resources to take any opportunity for substantial growth in its core competence market segments. The funds surplus to its business operations have been prudently invested into debt schemes of mutual funds to earn reasonable returns with high degree of safety. As the requirement of borrowed funds is almost nil, the consortium of five banks is now changed to two banks. The net cash flow from operating activities during the year was Rs. 1878.76 lakhs.

The Company has four major production plants viz. dyes, chemicals, leather chemicals and masterbatches. All these plants during the year have shown higher utilization and productivity as compared to previous year with smoother overall operations.

Fresh certification of **ISO 9001 - 2000** issued during the year by KPMG Quality Registrar for the Company's quality system in design, development, manufacturing and supply of textile, leather and paper chemicals and dyes under American National Standards

Report of the Directors *(Contd.)*

Institute reflects your Company's continuous commitment towards quality and standards.

Segment-wise Performance:

1. **Dyes and Intermediates:**

Dyes and intermediates segment of your Company mainly caters to the requirement of fast changing fashion and highly performing colours for textile and leather industry. Your Company's sales performance for the year under review in various industry segments is as under:

(Rs.in lakhs)

	Textile	Leather	Paper	Total
Domestic	3885	2358	48	6291
Exports	7471	1453	1964	10888
Total	**11356**	**3811**	**2012**	**17179**

Dyes and Intermediates have emerged as major segment contributing **54** percent of total sales revenue for the year as compared to 49 percent in the previous year. While the overall growth in domestic markets remained flat, export revenues from dyes and intermediates have contributed significantly with a record growth of **42** percent over previous year. The segment registered overall growth of **24** percent over previous year.

In the domestic markets, textile dyes have recorded impressive growth of **13** percent over previous year mainly contributed by **Drimarene®** range of reactive dyes targeted for cotton/ viscose segments. The newly introduced **Printofix H®** range of pigment emulsions received good market response and is expected to emerge as major contributor to the sales revenues of textile dyes. Your company continues to remain market leader in Acid / Metal Complex dyes and has significantly improved its market share of dyes for high value cottons and blends in domestic markets. The Company is focusing on concept selling rather than product promotion with focus on process cost optimization by savings in water consumption and thereby adding value to its customers.

Leather industry in India is passing through a very difficult time. New regulations on environmental and ecological issues have put serious challenges to conventional leather production in India. Indian industries are facing stiff competition from emerging manufacturing countries such as China, Thailand, Indonesia and Vietnam in Asia and Poland, Romania, Czech and Slovakia in East Europe. Environmental issues and competitive market conditions in the industry has hit hard Indian leather industry resulting negative growth of about 10 percent in exports of leather and leather goods and consequent loss of market share in global trade. The turmoil in the leather industry has affected the leather dyes industry segment of the Company by recording a negative growth of about 15 percent in the domestic markets. The Company has introduced speciality dyestuffs with very low salt contents, environment friendly syntans with free foam free formaldehyde contributing significantly to the sales revenue for the year. In order to further strengthen its market leadership in leather dyes, the Company is aggressively promoting its products in emerging new production segments such as furniture upholstery through innovative and time tested research based products and processes with the support of its parent company and focus to customer development projects. As a result of **55** percent growth in export of leather dyes/ intermediates, leather industry segment achieved an overall growth of about **3** percent over previous year.

Industry segment for paper dyes contributed **12** percent of total revenue of dyes and intermediates segment of the Company. In highly competitive and otherwise very small domestic market for paper dyes, the Company has been able to make inroads.

Revenue from sourcing and exports during the year has contributed **36** percent of net sales revenues of the Company. Export of dyes and intermediates contributed over **95** percent of total export revenues and constitutes a major segment contributing **34** percent of total sales revenues for the year. India has emerged as major producer of dyestuff and is progressively increasing its market share in highly competitive global trade. Your company is one of the global sourcing centers for Clariant group and is meeting the required demand of Clariant affiliates located in all five continents for quality dyestuff and intermediates sourced from Indian manufacturers. During the year revenue from export of dyes and intermediates have grown by a record **42** percent over previous year. Growth was mainly contributed by exports to Brazil, Spain, Switzerland and Pakistan. The Company enjoys the status of a **Trading House** in respect of its export business.

2. **Speciality Chemicals:**

Vastly differentiated products with a high degree of value addition characterize speciality chemicals. Speciality chemicals segment is witnessing a continuous pressure on margins as speciality products mature and transit into commodity chemicals. This segment of your Company caters to the requirement of user industries in textile, leather and paper. Given the product range, strong brand image created by the parent company coupled with capabilities of providing technical services in product development and application process, the Company enjoys the status of preferred supplier in market place. The Company's sales performance of speciality chemicals in various industry segments is as under:

Report of the Directors *(Contd.)*

(Rs. in lakhs)

	Textile	Leather	Paper	Total
Domestic	9433	3006	1018	13457
Exports	518	-	-	518
Total	**9951**	**3006**	**1018**	**13975**

This segment has contributed **44** percent of net sales for the year registering a growth of **6** percent in domestic markets and **4** percent overall.

Textile chemicals contributed **71** percent of the sales revenue of speciality chemicals segment and **31** percent of total sales revenue of the Company for the year. **95** percent of sales revenues from textile chemicals is generated from domestic market. Your Company continues to remain a market leader and has improved its position in highly challenging market conditions registering a growth of **10** percent over previous year in domestic markets. Growth was mainly contributed by pretreatment, dyeing, printing and finishing chemicals. The Company catered to the demand of **Green Products** and packages which help customers, facing the shortage of water and power, reduce their processing costs and also comply with stringent pollution norms. During the year Company launched effluent treatment chemicals. The Company is focusing on continued customer interaction, relationship building and identifying new areas for growth.

Leather chemicals contributed 22 percent of total sales of the speciality chemical segment and about **9** percent of total sales revenue of the Company. Adverse market conditions prevailing in leather industry affected the sales of leather chemicals, down by **9** percent over previous year. The Company enjoys good market share in wet chemicals and continues to increase its presence in finishing chemicals with introduction of new products to meet the requirements of customer.

Paper chemicals, relatively a small sector, contributed 7 percent of the sales revenue of speciality chemical segment and about 3 percent of total sales revenue of the Company. Paper chemicals registered a significant growth of 23 percent over previous year. The paper industry witnessed improvement in whiteness effects and use of speciality chemicals. Inspite of stiff competition from Indian industries resulting into pressure on margins and value loss, the Company has significantly increased its market share in optical whitening agents. Anti defoaming chemicals contributed in realizing record growth. The Company, as part of its customer development project, launched retention aid programme for baggase based paper and surface strength improvers for coating segment of paper industry. These projects are expected to result in sales growth in the coming years.

Revenues from sourcing and exports of speciality chemicals have remained very insignificant and are generated by textile chemicals. In view of poor demands for Indian speciality in global markets, there was drop of 31 percent in exports of speciality chemicals during the year.

3. **Masterbatches:**

Masterbatches segment recorded sales of 733 lakhs during the year as compared to Rs. 808 lakhs in the previous year registering a drop of 9 percent. In view of poor consumption ratio of commodity plastic, the market size of masterbatches in India is relatively very small and is facing stiff competition from over 150 masterbatches manufactures operating at poor capacity utilization of over 50 percent. Nearly 70 percent of consumption is in white and black masterbatches. Your Company is positioning itself as quick response custom made colour masterbatches manufacturer leveraging its global strength and image to offer premium grade masterbatches for quality conscious customers. The capacity utilization of manufacturing plant has been improved significantly and the Company has made inroads in local market by offering range of locally developed colours. The Company has renewed its focus on developing fibre masterbatches and increasing customer spread for higher market share in premium segment. Over 190 new colours introduced during the year contributed about 50 percent of total sales for the year. The Company is hopeful to realise the full potential of its global expertise in coming years.

Industry Structure & Development:

The dyestuff industry comprising of various dyes, dye intermediates and pigments, caters to several industry segments such as textiles, leather, paper, paints, printing inks, plastics and aluminum. Due to increased clothing requirement and fast changing fashion and colour preference of people, about 80 percent of dyes are consumed by textile sector alone.

Traditionally, India has had a very strong base in cotton production and textile manufacture and this has always led the demand for dyestuffs. The Indian dyestuff industry characterized by its unique co-existence of large and small-scale sector has made rapid strides and come to maturity. With over 1000 manufacturing units largely in small-scale setup having production capacity of about 150,000 MT per annum currently accounts for about 5% of the total industry output worldwide. With export revenues of over Rs. 3000 crores the industry has positioned itself as one of the important players in global dyestuff markets. With improving awareness about ecological issues and increased demands for quality products, the local industries are increasing their standards in quality and reliability and preparing themselves to meet the demand and progressively increase market share in international markets.

Report of the Directors *(Contd.)*

Speciality chemicals are characterised by vastly differentiated products with a high degree of value addition. Production units are typically small and have greater flexibility in terms of switch capacities. While capital investment is relatively low, investment in R & D and new products and application is very high. This segment includes paints and coating, adhesives and sealant, additives for pharmaceuticals, catalysts, water treatment chemicals, chemicals for textile printing, finishing and sizing, paper coating and leather finishing. The main influencing factors on speciality chemical industries are product performance, product differentiation, new effect, customer service and value addition. Speciality product once mature, transit into commodity chemicals. Increasing commoditisation has led to customer focus on reducing costs. This has led to players in low cost locations like China, South Korea and India to setup large-scale plant to enter into global competition.

India had a slow start in speciality chemicals. In the 1980's, a shift to a market oriented approach led to impressive growth. With liberalization in 1990's, the industry took advantage of the lower production costs prevalent in the country and shifted to value-added products. Speciality chemical industry has since witnessed a high growth rate. Low capacity intensity of the industry, the availability of technical manpower and high profit margins have helped promote a large number of small manufacturing units. The cost advantage to these units has deterred the entry of organised players. Indian market for speciality chemicals is estimated at USD 1.2 billion, which constitutes 2.5% of the global speciality chemicals market.

Both dyes and speciality chemicals industry in India had a tough time in domestic markets due to lowering of entry barriers and reduction in import tariffs. The industry is highly fragmented and inspite of recent entry of multinational companies, the units set up in unorganised sector command a good market share. There is limited emphasis on exports due to domestic focus and small scale of operations resulting into low cost competitiveness as compared to other countries. Inspite of adverse environment, the India dyes and speciality industry has potential to register above world average growth leveraging from the country strength of skilled technical manpower, established R & D infrastructure and growing domestic market.

Business outlook and strategy:

The chemical industry in India has the potential to grow from present USD 60 billion to around USD 100 billion by 2010 according to KPMG's analysis on a survey of the industry. In order to achieve this growth, speciality chemical industry would need to grow at 16.4 percent as against current growth rate of 7.9 percent. At USD 100 billion, the industry's contribution to India's GDP will grow from the current 6.7 percent to 12.1 percent and its share in global industry will increase from the present 1.9 percent (USD 28 billion) to 3.9 percent. In the highly competitive present market conditions, the yearly growth projected by the analysis particularly in the textile, leather and paper industry segment in which the Company operates looks to be far from reality.

Inspite of better growth in manufacturing sector, the overall performance of dyes and speciality chemical industry during the year under review was not very impressive due to low demand and socio-economic issues faced by the user industry segments. The textile industry, crippled by slow down in exports, was expecting special package from the government to improve its cost competitiveness in domestic and global markets. Government initiatives in Union budget 2003 are expected to improve sentiments of the industry. The performance of leather industry was severally affected due to environment and pollution related issues leading to negative growth.

Industry is now focusing on reducing costs of manufacturing for competitive advantage. Development of innovative products is getting importance across the industry segments. With number of initiatives in the economic and regulatory regime on cards, the business environment is expected to be more conducive and poised for sustainable growth.

Your Company considers that sustained growth can be possible only by partnering with customers by understanding their needs, providing cost-effective solutions, adding value and constantly upgrading the products catering to changes in fashion and preferences. Keeping these in focus and customer centric approach, your Company has been able to withstand all challenges and pressure and improved its market position in almost all segments in which it operates. With a view to develop market and customer spread, the Company during the year implemented Business Intelligence System **(BIS)** in addition to all other systems already established and implemented across the business segments. There is continuous thrust on development of new products and processes. Contribution of new products in sales is increasing year after year. Continuous emphasis on cost management has given desired results to improve overall profitability. In order to focus on control of non-productive overhead costs and to improve efficiency, the management has introduced efficiency improvement programme across the functions. The Company has improved its own benchmarking targets for efficient management of working capital.

With the customer centering focused business strategy, the Company has developed its vision to create wealth and value for all its stakeholders by offering innovative package and solutions by harnessing new technologies and global expertise.

Opportunities:

The Indian dyestuff industry has several strengths, which has enabled it to enter and demonstrate rapid growth in global markets.

Report of the Directors *(Contd.)*

One of the significant advantages for dyestuff industry has been rapidly growing domestic market, thanks to the developing culture of adapting to the fast changing fashion and preference of people. With increasing consumerism in domestic markets, the low per capita consumption of textile, leather, paper and plastic are expected to show higher than average growth rates in the coming years. The country has pool of developed technical skills and technical institutes of international standards. The opportunity therefore exists for positioning the industry to cater to the demand of mass domestic markets by modernizing the plants to cater environmental regulations and setting up of development facilities to offer research oriented performing products. Dyestuff industry also offers opportunities for players to work together to improve competitiveness, increase knowledge and improver market power by collaborating.

As the growth in speciality chemicals segment will be driven mainly through development of new products and applications, opportunity exists for Indian speciality chemicals to develop capabilities for product and application on research & development. As a matter of strategy this segment should ensure that significant revenue each year is generated from new products. Opportunities should be explored to outsource products by partnering with players operating in medium and small-scale sector to leverage core skills of other players specializing in certain areas of chemistry. Cost reduction is critical in dyes & speciality chemical industry for competing effectively in domestic & global markets. The industry, therefore, needs to consolidate and upgrade the scale of operations to reduce the operational costs and benefit by leveraging the proprietary knowledge and individual relationships with key customers.

Vast experience in handling demands of variety of customers in different geographical regions creates opportunities for rapid export growth through development of innovative products meeting high standards of quality and creating **"Made in India"** brand in global markets.

The intrinsic strength of Clariant provides opportunity for the Company to position itself as strong player in developing Indian markets by leveraging its well-developed research and development facilities, technical manpower support and reputation of being working with its customers for over 50 years.

Risks and Concerns:

Notwithstanding the impressive growth it achieved in recent past, both in domestic and global markets, Indian dyestuff and speciality chemical industry faces a number of challenges. Higher taxes, higher cost of finance, unfavourable import duty, poor logistic infrastructure, high costs of raw materials and utilities, uneconomical size of operations and low focus to R & D activities have lead Indian products highly uncompetitive in global markets when compared with countries like China, Indonesia, Thailand and Pakistan.

In order to realize the potential and growth opportunities in domestic and global markets, Indian dyestuff and speciality chemical industry would require:

- Transparency and understanding of customer needs and competition knowledge;
- Improvement in core competencies and skills in speciality chemical engineering and general management;
- Improvement in safety, health and environmental standards;
- Extensive use of information technology for business applications;
- Improvement in quality standards and performance levels;
- Improvement in logistic facilities and rapid response of supply chain management support.

Your Company is addressing each of the above issues in its practice, policies and system. Customer demands are being tracked through Key Account Management **(KAM)** system practiced across the Company for all its customers. Core competency of its technical and managerial staff is being constantly reviewed through training, feedbacks, performance appraisals, priority setting process and **pbViews**, a technical tool to track the performance on daily basis. Safety, health and environmental issues are given utmost importance not only at the Company's production site but also through developing environmental friendly product concepts for its customers. In house developed **e-Business** tool implemented for speedier response of supply chain management is giving desired results to the Company. Quality standards are constantly strengthened by reviewing processes and removing gaps wherever exist. Customer development project, **CuDePro,** is being implemented for all business lines for improving customer/market base. Inspite of all these measures taken by the Company, the growth of its business segments is directly related to overall growth of industry segments to which it caters for. Slow down in economy and under performance by any of the user industry may have adverse impact on the industry and the Company.

Industries in unorganized sector account for a substantially large share in production of dyes and chemicals. Any lapse in quality of products manufactured and non-compliance of pollution and environment related norms set up by the Govt. might have adverse impact both in local and upcountry markets. Pollution and environmental issues have in recent past impacted leather industry. Continuous depreciation of Indian Rupee in relation to European currencies in the recent past has also adversely affected industries that are dependant for supply of imported raw materials and intermediates.