



**MEGHMANI ORGANICS LIMITED**



ANNUAL REPORT  
2007-08

## CONTENTS

Corporate Information	03
Chairmans' Statement	06
Directors' Report	09
Management Discussion and Analysis	15
Corporate Governance	18
Auditors' Report	29
Balance Sheet	33
Profit and Loss Account	34
Schedules Forming Part of Balance Sheet and Profit and Loss Account	35
Cash Flow	62
Auditors' Report on Consolidated Financial Statements	66
Consolidated Balance Sheet	67
Consolidated Profit and Loss Account	68
Schedules Forming Part of Consolidated Balance Sheet and Profit and Loss Account	69
Consolidated Cash Flow	84
Meghmani Energy Limited	86
Meghmani Finechem Limited	103
Meghmani Europe BVBA	117
Meghmani Organics Inc. USA	123
Secretarial Audit Report	128
Notice of Annual General Meeting	130

---



**MEGHMANI ORGANICS LIMITED****Corporate Information****Board Of Directors**

Jayanti M. Patel  
 Ashish N. Soparkar  
 Natwarlal M. Patel  
 Ramesh M. Patel  
 Anand I. Patel  
 Ashvin Raythatha  
 Chinubhai R. Shah  
 Balkrishna T. Thakkar  
 Jayaraman Vishwanathan  
 Foo Meng Tong  
 K N Venkatasubramanian  
 Chandan Bhattacharya  
 (Appointed on 30.07.2007)

**Audit Committee**

Balkrishna T. Thakkar  
 Foo Meng Tong  
 Chinubhai R. Shah

**Nominating Committee**

Jayanti M. Patel  
 Foo Meng Tong  
 Chinubhai R. Shah

**Remuneration Committee**

Chinubhai R. Shah  
 Balkrishna T. Thakkar  
 Natwarlal M. Patel

**Shareholders / Investors  
Grievance Committee**

Chinubhai R. Shah  
 Balkrishna T. Thakkar  
 Ashish N. Soparkar

**Company Secretary**

K. D. Mehta

**Registrar & Share Transfer Agent**

Intime Spectrum Registry Limited  
 C-13, Pannalal Silk Mills Compound,  
 LBS Road, Bhandup (West),  
 Mumbai 400 078. India.

**MEGHMANI ORGANICS LIMITED****Corporate Information****Singapore Depository Shares  
("SDSS") Registrar And SDSS Office**

Tricor Barbinder & Co. Pte. Ltd.  
8 Cross Street # 11,  
PWC Building,  
Singapore 048424

**Registered Office**

Plot No. 184, Phase II,  
G.I.D.C. Vatva, Ahmedabad -382 445  
Telephone No. 91-79-25831210  
Fax No. 91-79-25833403  
E-mail : helpdesk@meghmani.com

**Corporate Office**

Meghmani House  
Shreenivas Society,  
Off: Vikas Gruh Road,  
Paldi, Ahmedabad - 380 007

**Mumbai Office**

22 / 23, Vellard View, 1st Floor,  
Tardeo Road,  
MUMBAI - 400 007.

**MEGHMANI ORGANICS LIMITED****Corporate Information****PLANT LOCATION****1. Pigment Green - Division**

Plot No. 184, Phase II,  
G.I.D.C. Vatva, Ahmedabad -382 445  
Telephone No. 91-79-25831210  
Fax No. 91-79-25833403  
E-mail : helpdesk@meghmani.com

**2. Agro Division - I**

Plot No. 402,403,404 & 452,  
Village Chharodi,  
Taluka Sanand,  
District :- Ahmedabad  
Telephone No. 91-2717-273251  
Fax No. 91-2717-273254  
E-mail : helpdesk@meghmani.com

**3. Pigment Blue - Division**

Plot No. 21,21/1,  
G.I.D.C. Panoli,  
District :- Bharuch  
Telephone No. 91-2646-276352  
Fax No. 91-2646-276374  
E-mail : helpdesk@meghmani.com

**4. Agro Division - II**

5001/B, G.I.D.C. Ankleshwar,  
District :- Bharuch  
Telephone No. 91-2646-222971  
Fax No. 91-2646-222965  
E-mail : helpdesk@meghmani.com

**PRINCIPAL BANKERS**

State Bank of India,  
Overseas Branch,  
Navjivan Trust Building,  
Ahmedabad - 380014  
HDFC Bank Limited  
3rd Floor, HDFC Bank House,  
Mithakhali, Ahmedabad - 380006  
ICICI Bank Limited  
JMC House, Opp. Parimal Garden,  
Ambawadi, Ahmedabad - 380009

**AUDITORS**

M/s Patel & Khandwala  
204, Akik, Opp. Lions Hall,  
Mithakhali, Ahmedabad - 380006

**MEGHMANI ORGANICS LIMITED****Chairman's Statement****Dear Members,**

Before I proceed further to present our Annual Report 2008, I would like to thank all the investors for their overwhelming response to the Initial Public Offer of the Company on Indian Stock Exchanges. Without your support it would not have been possible to have issue oversubscribed over 26 times, underscoring investors' recognition of the Company's business model, investment merits and established track record. With this listing, the responsibility of the Company has increased tremendously towards Indian as well as Singapore Depository Shareholders. I would also like to thank our Singapore Depository Shareholders for their continued support and trust in the Company and the Management.

It is with my great pleasure that I share with you our signature milestones and highlights for the year ended 31 March 2008 [FY2008]. We are heartened to report that Meghmani continued to deliver robust financial numbers and highly commendable margins. Despite the ever-escalating increases in the cost of crude oil and other raw materials seen in FY2008, the Group has continued to deliver, both operationally and financially. It is indeed my firm belief that we have emerged stronger and in better competitive shape than ever.

Our announcement on the setting-up of a Caustic Chlorine Complex in Dahej in October 2007 marks the other important thrust of our growth plans. This large-scale integrated complex will commercially produce caustic soda, chlorine gas and hydrogen gas in the first phase, and moving on to caustic/chlorine derivatives in subsequent phases.

After highly successful listing of our shares on the National Stock Exchange (NSE) and the Bombay Stock Exchange (BSE) of India, our shares will also enjoy two-way fungibility between Singapore and Indian Stock Exchanges starting from 28th June, 2008. This will not only enhance the liquidity of our shares but also give an option to our investors to benefit from more vibrant stock exchanges of the two.

**The Year in Numbers**

For the 12 months ended 31 March 2008, the Group turned in after tax profit of 306 million rupees on the back of approximately 6.0 billion rupees. These compared with profit after tax and revenue of 409 million rupees and 4.7 billion rupees, in the preceding 12-month period.

In spite of rising costs in raw materials and crude oil, Meghmani was still able to demonstrate strong profitability. The Group recorded gross profit of over 1 billion rupees, while gross profit margin came in at 17% compared to 22.8% previously a fair achievement when compared to industry peers.

Growth in Group's revenue was spearheaded by our Agrochemicals business segment with a contribution of approximately 2.58 billion rupees - this marked a 12.6% increase from a revenue of almost 2.27 billion rupees in FY2007. Our Pigments division contributed almost 2.29 billion rupees to Group revenue, against 2.36 billion rupees in the year ago period.

Moving in parallel with revenue growth, distribution and administrative expenses grew by 22% and 9.7% to 87.2 million and 12.5 million rupees, correspondingly. The bulk of distribution expenses are attributed to increase in freight (marine), clearing, forwarding charges and packing material costs. Finance costs for FY2008 witnessed an uplift of 28.9% to 34.89 million rupees, brought about by a higher utilization of working capital facilities, increase in sales and funding for Meghmani Finechem Limited ("MFL").

Earnings per share stood at 1.27 rupees compared to 2.04 rupees in the earlier period, while the earnings per SDS came in at 0.63 rupees as at 31 March 2008, versus 1.02 rupees as at 31 March 2007. The earning per share came down due to infusion of new share capital base because of India Listing. Net asset value per share surged almost 25% from 14.11 rupees to 17.59 rupees.

**Review of Core Business Segments**

Our Agrochemicals division turned in a revenue of 2.58 billion rupees, up 12.6% from the year ago period of 2.27 billion rupees. Contribution from Pigments slipped 3% to 2.29 billion rupees versus 2.36 billion rupees in FY2007.

**Review by Geographical Markets**

The Group's export sales grew by 35.7% to reach 4.4 billion rupees, up from 3.3 billion rupees previously. Revenue contributions from Pigments and Agrochemicals edged up 1.1% and 4.4% respectively to 1.9 billion and 1.35 billion rupees. The increase in export sales of Agrochemicals was mainly attributable to heightened quantity sale of Acephate Technical and Chlorpyrifos.

## MEGHMANI ORGANICS LIMITED



Domestic sales of Pigments decreased 20.7% to 351 million rupees as a result of a stronger focus on the export markets while the domestic sales of Agrochemicals increased by 23.6% due to good monsoon and increased sales of Acephate, Cypermethrin Technical and Imidacloprid Technical.

### Pathway to Long Term Sustainable Growth

The Group's Rs 555.16 crores [S\$191.3 million] investment in the Caustic Chlorine Complex forms the cornerstone to our long term sustainable growth. We view this project as an opportunity to achieve inorganic growth in a diversified yet chemistry-related business with positive growth potential.

Sited in a 161-acre piece of land in Dahej, the proposed plant will be set up under a special purpose vehicle, Meghmani Finechem Limited (MFL), employing the latest membrane cell technology to provide a ready and captive source of basic chemicals as the Group consumes significant quantities of caustic soda, chlorine gas and derivatives of chlorine gas for our pigments and agrochemicals operations.

The caustic-chlorine chemicals are used in a multitude of industries including Pigments, Pesticides, production of metals and resource materials; pulp and paper; petroleum and natural gas extraction; manufacture of organic chemicals, plastics, industrial solvents, water treatment chemicals and pharmaceuticals. Due to their wide ranging applications across industries, demand for Caustic Soda and Chlorine Gas are increasing.

Dahej is widely considered a strategic location for chemical and related industries as it is an approved Chemical Special Economic Zone ("SEZ") with a high concentration of chemicals companies. Dahej also has important infrastructure in place such as communications, effluent treatment, power and water / sanitation facilities. In addition, Dahej possesses a Chemical Port, which has jetties capable of handling gaseous, liquid and solid cargoes and is well-connected by rail, road and sea for easy transportation of raw materials and end products. The Dahej port will be vital to the import of coal from countries such as South Africa and Indonesia amongst others for Meghmani's 40 MW coal based captive power plant.

Another benefit of Dahej is its easy accessibility to salt, a major raw material for the plant, and other basic chemicals which are important for chemical manufacturing operations.

Hence, the critical success factors in driving the plant, namely, salt and power supply, are both reliably and readily available.

The commercial production of the first phase is targeted to commence by December 2008 / January 2009. Phase 2 will comprise the production of derivative products with higher value-addition. The annual manufacturing capacity of Caustic Soda will be 113,000 TPA and Chlorine Gas 100,000 TPA.

We are honoured that the International Finance Corporation (IFC), a member of the World Bank Group, will be investing 461 million rupees and also provide a long term loan (ECB) of 800 million rupees to MFL for this plant. This solid endorsement by a world renowned institution is certainly heartwarming. IFC will certainly help strengthen the project's technology and environment-friendly operating standards.

### Industry Prospects

#### Pigments

On a global basis, consumption of organic pigments is growing at a rate of 2-3%. Improving economic conditions in Europe and increased growth in Asia Pacific pigments market bode well for the Company. Additionally, countries such as the US, Europe, Central & South America, and Japan are increasing their direct supplies of pigments from India.

From Meghmani's perspective, we have bolstered the production capacity of our Pigment Green 7 plant at Vatva to cope up demand in India. We are currently evaluating the possibility of also boosting our Pigment Blue Plant in Panoli.

We are also in the process of introducing a new range of High Performance Pigments - Orange, Red and Yellow - to better cater to global customers.

#### Agrochemicals

The Group has installed multi-faceted production capacities to produce Permethrin, Alpha Cypermethrin and Acephate at the Ankleshwar Plants to meet growing demand for Organo Phosphorous and Synthetic Pyrethroid. Meghmani performed well in the domestic market last year as the Indian monsoon was good. We expect this to continue as we focus on the sale of domestic-branded formulations. Despite threats of global warming and severe flooding in certain parts of the world, we expect Agrochemicals market to remain buoyant this year.

#### Registrations

We expect to gain from the new registration received from Brazil and Pakistan - two of the world's fastest growing markets for pesticides.



**MEGHMANI ORGANICS LIMITED**

Total pesticides market in Brazil is currently worth about US\$3.3 billion and Meghmani wasted no time in selling into the Brazilian market. The first order of Acephate was delivered between July and October 2007, just months after we received registration in June 2007. This order accounted for about 30% of Brazilian market share for the Acephate product. Today, we are one of the few players in the Acephate market in Brazil; a market which accounts for between 2000 and 2200 MT (metric tonnes) per year and increasing every year.

As for Pakistan, which has a market size for pesticides worth US\$250 million, Meghmani is one of the earliest registrants after the Pakistan government opened the doors for Indian pesticides suppliers.

It is worth noting that there is a lot of similarity between Pakistan and Indian agrochemicals market as crop patterns and climatic conditions are quite similar between the two countries. So we are confident we will be able to capture market share in Pakistan within a short period of time.

Our latest breakthrough in new markets is a vital part of our ongoing strategy to increase our market penetration and raise our profile in the fast growing agrochemicals market, especially in Brazil. We will now be able to embark on marketing activities and sell our products directly to major formulators and distributors in these two markets.

The Group will continue to make concerted efforts to secure overseas registrations - which are essentially "passports" which allow us to sell products in those markets. To date, we have received a total of 130 registrations, and currently have 430 pending registrations in different stages across 60 countries. This healthy pipeline span diverse countries such as Australia, Brazil, China, Indonesia, Malaysia, Nigeria, Paraguay, Thailand, Turkey and Vietnam.

**Dividends**

The Board is pleased to recommend a final dividend of 0.30 rupee per share, bringing the total distribution for FY2008 to Rs. 76.29 million.

**Looking Ahead**

The price of crude oil rose significantly in the course of FY2008, resulting in the higher costs of raw materials which are derivatives of crude oil. There was also a bullish trend in the prices of copper and aluminium. These phenomena have wide ranging effects which cut across myriad industries and sectors - its effects are universal, and not specific to our industry per se. Despite these challenges, we were effective in passing on the added costs to our customers. We expect this trend to continue.

The silver lining is that the global market for pigments products have shown signs of recovery in the pricing of some products. Separately, the pressure on pricing for agrochemicals seen in FY2008 is expected to ease in FY2009.

Our shareholders can also seek some comfort from our strong financial standing and excellent track record in dealing with price increases in raw materials over the years.

Regardless of the external environment ahead, we remain steadfast in executing our growth strategy with fervor as we further strengthen our leadership position in the global arena.

**Commitment to shareholders**

The Meghmani board has continued to focus on good governance. This is underpinned by our strong belief that good governance will invariably lead to a more valuable company.

With a bedrock foundation in best corporate practices, we are then better able to not only grow Meghmani, but also ensure sustained performance over the long term. We will drive initiatives to expand our business, and will develop people to uphold a culture that is adaptive to the ever-changing macro environment.

On behalf of the Board and the management team, we wish to thank you for your unstinting commitment and trust in us. We will continue to build the business and deliver returns for years to come.

**Jayanti M Patel**  
Executive Chairman  
Meghmani Organics Limited

**MEGHMANI ORGANICS LIMITED****Directors' Report**

The Members,

Your Directors have pleasure in presenting Fourteenth, Annual report and Audited Statement of Accounts of the Company for the Financial Year ended on 31st March, 2008.

**FINANCIAL RESULTS**

Rs. in Mn

<b>PARTICULARS</b>	<b>YEAR ENDED ON MARCH 31, 2008</b>	<b>YEAR ENDED ON MARCH 31, 2007</b>
(a) Sales, Other Income & Increase /Decrease in Stock	5870.23	4918.09
(b) Profit Before Interest & Depreciation	709.03	710.94
(c) Interest (Net)/ Financial Expenses	91.13	120.76
(d) Depreciation	143.70	135.01
<b>(e) Profit Before Tax</b>	<b>474.20</b>	<b>455.17</b>
(f) Payment / Provision for Current Tax and FBT	82.91	50.05
(g) Deferred Tax Expenses/(Income)	15.32	(3.69)
(h) Profit After Tax	375.97	408.81
<b>Profit Available for Appropriation</b>	<b>375.97</b>	<b>408.81</b>
<b>Appropriations:-</b>		
General Reserve	40.00	41.00
Proposed / Final Dividend	76.29	72.23
Tax on Proposed/ Final Dividend	12.97	12.27
Balance carried forward	246.71	283.31
<b>Total of Appropriations</b>	<b>375.97</b>	<b>408.81</b>

**DIVIDEND:-**

Your Directors are pleased to recommend dividend of 30% i.e. Rs. 0.30 per Equity share of Re. 1/- each on 254,314,211 Equity Shares of Re. 1/- each, for your final approval. The proposed dividend is tax free in the hands of shareholders.

**ISSUE OF EQUITY SHARES**

The Company had received the overwhelming response to its Initial Public Offer (IPO) of 53,684,211 Equity shares of Rs. 1/- each at a premium of Rs. 18/- per share aggregating Rs. 102 Crores to list its equity shares on Indian Stock Exchanges. The issue was over subscribed by 26 times. The present share capital after the issue of new equity shares stands to 254,314,211 of Rs. 1/- each.

**OPERATIONS:-**

The Net Sales Turn over of the Company increased to Rs. 5932.39 Mn in FY 2008 as against Rs. 4690.59 Mn in FY 2007, showing an increase of 26.47%.

**DOMESTIC SALES:-**

The Domestic Sales of the Company increased by 9.75 % i.e. from Rs. 1419.76 Mn to Rs. 1558.24 Mn in the year under review. The Domestic Sales of Pigment Division decreased from Rs. 442.85 million in FY 2007 to Rs. 351.01 million in FY 2008 and the domestic sales of Agro Division increased from Rs. 976.91 million in FY 2007 to Rs. 1207.23 million in FY 2008.

**EXPORT SALES**

The Export Sales increased by 33.73% i.e. from Rs. 3270.84 Mn in FY 2007 to Rs. 4374.15 Mn in FY 2008.

Export sales of Agrochemicals Division increased by 8.04% and Pigment Division by 12.25%.