

ANNUAL REPORT

2012-2013



**MEGHMANI
ORGANICS LIMITED**



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CORPORATE INFORMATION

BOARD OF DIRECTORS

Jayanti M Patel
Ashish N Soparkar
Natwarlal M Patel
Ramesh M Patel
Anand I Patel
Balkrishna T Thakkar
Chinubhai R Shah
Jayaraman Vishwanathan
K H Patel
Akthar Hassen G Shaik (Resigned on 11.02.2013)

AUDIT COMMITTEE

Balkrishna T Thakkar
Chinubhai R Shah
Jayaraman Vishwanathan

NOMINATING COMMITTEE

Chinubhai R Shah
Balkrishna T Thakkar
Jayanti M Patel

REMUNERATION COMMITTEE

Chinubhai R Shah
Balkrishna T Thakkar
Natwarlal M Patel

**THE SHAREHOLDERS' /
INVESTORS' GRIEVANCE,
SHARE ALLOTMENT AND
SHARE TRANSFER COMMITTEE**

Chinubhai R Shah
Balkrishna T Thakkar
Ashish Soparkar

COMPANY SECRETARY

Kamlesh Dinkerray Mehta

**REGISTRAR & SHARE TRANSFER AGENT -
INDIA**

Link Intime India Private Limited
C-13, Pannalal Silk Mills Compound
LBS Road, Bhandup (West),
Mumbai 400 078, India.
Tel: +91 22 2596 0320
Fax: +91 22 2596 0329

INVESTOR SERVICES E - MAIL ID

helpdesk@meghmani.com

CORPORATE INFORMATION**SINGAPORE DEPOSITORY SHARES ("SDSs")
REGISTRAR AND SDSs OFFICE**

Tricor Barbinder Share Registration Services
80 Robinson Road, #02-00
Singapore 068898
Telephone No. (65) 6236 3552
Fax No. (65) 6236 3405
E-mail : helpdesk@meghmani.com

SINGAPORE SECRETARIAL AGENT

Tricor Evatthouse Corporate Services
80 Robinson Road, #02-00
Singapore 068898
Telephone No. (65) 6236 3510
Fax No. (65) 6236 4399
E-mail : helpdesk@meghmani.com

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
Telephone No. 91-79-26640 668/669
Fax No. 91-79-26640670
E-mail : helpdesk@meghmani.com

MUMBAI OFFICE

Present Office :-
3/24, AC Market,
Tardeo Road, Mumbai 400 034

**PERMANENT OFFICE –
BUILDING UNDER RECONSTRUCTION**

Flat No. 22/23,
Vellard View Co.op. Housing Society,
Tardeo Road, Mumbai

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. 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

3. Pigment – Division – Dahej SEZ

Plot No. Z-31, Z-32,
Dahej SEZ Limited, - Dahej
Taluka :- Vagra, District :- Bharuch
Telephone No. 91-2646-276352
Fax No. 91-2646-276374
E-mail : helpdesk@meghmani.com

4. 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

5. 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

6. Agro Division – III

Plot No - Ch-1+2/A
GIDC Dahej
Taluka – Vagra Dahej – Bharuch -392130
Telephone No. 91-2641-256677 /88
E-mail : helpdesk@meghmani.com

7. Agro Division – IV

Plot No. 22/2,
G.I.D.C. Panoli,
District :- Bharuch
Telephone No. 91-2646- 276577
E-mail : helpdesk@meghmani.com

CORPORATE INFORMATION**PRINCIPAL BANKERS**

State Bank of India,
CAG Branch
58, Shreemali Society
Navrangpura,
Ahmedabad 380 009

HDFC Bank Limited
Mithakhali,
Ahmedabad 380 009

ICICI Bank Limited
JMC House, Opp. Parimal Garden,
Ambawadi,
Ahmedabad 380 009

Standard Chartered Bank,
Ground Floor, Abhijeet II,
Mithakhali Six Roads,
Ahmedabad – 380 006

AUDITOR

M/s Patel & Khandwala
204, Akik,
Opp. Lions Hall,
Mithakhali,
Ahmedabad 380 009

JOINT -AUDITOR

KPMG
Safal Profitaire, B4,
Third Floor, Corporate Road,
Opp. Auda Garden,
Prahladnagar,
Ahmedabad – 380 015

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CHAIRMAN'S STATEMENT

Dear Shareholders,

These 12 months have presented both challenges and opportunities for our Group, a leading manufacturer of pigment and pesticide products in India. We dealt with risks like inconsistent supply from third parties, continued uncertainty in the global economic recovery, competition from China as well as exchange rate fluctuations.

Financial Results:-

With the right strategies, we have mitigated our risks and ended Financial Year 2013 ("FY 2013") with a 703.4% year-on-year ("yoy") surge in Group Net Profit to ₹ 283 million despite a marginal yoy dip in revenue to Rs. 10.4 billion and substantially higher income tax. Meghmani's key performance drivers in FY 2013 stemmed from the growth of the Indian domestic market, particularly sales of Caustic Chlorine, and synergies arising from our vertically integrated business model. Notwithstanding high raw material prices, the Group also achieved a 9.9% increase in Gross Profit to ₹ 1.9 billion in FY 2013 and further strengthened our gross margin from 16.4% to 18.1%.

In view of our Group's improved performance in FY 2013, I am pleased to propose a final dividend of ₹ 0.10 per share in FY 2013, which represents a dividend payout ratio of 29.4%.

Financial Review:-

In FY 2013, revenues of Pigments and Agrochemicals both decreased with Agrochemicals registering a larger drop of 14.5% yoy to ₹ 3.4 billion while revenue for Pigments fell 1.8% yoy to ₹ 2.6 billion. Caustic Chlorine, which overtook Pigments as the Group's second largest revenue contributor in FY 2013, registered a significant 23.4% yoy rise in revenue to ₹ 2.9 billion.

The Group's Agrochemical segment saw a 11.9% and 20.9% decline in revenue contribution from the export and domestic markets to ₹ 2.5 billion and ₹ 908.5 million respectively from lower quantity sales. This was due in part to the Group's lower production level during the year brought about by inconsistent raw material supplies, stricter implementation of environmental norms by State Pollution Control Board as well as the relocation of our operations at the Chharodi Plant to the Dahej Plant. Our lower production levels coupled with higher raw material prices for certain products impacted our profitability for this segment. As a result, the Group's Gross Profit from the Agrochemical segment in FY 2013 decreased by 28.9% to ₹ 366.4 million while our margin dipped from 13.0% to 10.8%. Notably, we have completed the relocation to the Dahej Plant and expect to see some improvements in revenue once our operations there are stabilized.

Our Pigment segment experienced a significant 41.4% revenue reduction in the domestic market, caused by a drop in quantity sales of CPC Blue and PG7. Fortunately, this was partially offset by a 10.6% revenue increase in the export market driven by the increase in quantity sales of Alpha Blue and Beta Blue. As such, our gross profit of Pigment declined by 23.8% yoy to ₹ 447.7 million while our margin of Agrochemical slipped from 22.1% to 17.2% in FY 2013.

Meanwhile, the revenue increase from Caustic Chlorine was mainly driven by a 25.3% increase in domestic sales, underpinned by higher sales quantity of our value added product Caustic Soda flake, as well as buoyant average selling prices in FY 2013. Backed by this, our gross profit for this segment saw an impressive surge of 82.8% to ₹ 998.6 million while our margin was boosted from 23.4% to 34.6% in FY 2013.

Our domestic market of India remained our largest revenue contributor in FY 2013, accounting for ₹ 4.3 billion or 41.0% of the Group's total revenue. North America accounted for the next biggest share of the revenue pie of ₹ 2.5 billion or 24.2%. The remaining regions accounted for the following share of revenues – Asia at 11.1% (₹ 1.1 billion), Europe at 9.3% (₹ 963.7 million), South America at 9.3% (₹ 963.2 million), Africa at 3.8% (₹ 399.2 million) and Australia at 1.4% (₹ 148.5 million).

Industry Outlook:-

Globally, the agrochemical industry is expected to grow at a moderate rate of 5.4% annually over next five years (2012-2017) to US\$ 262 billion in 2017. Amongst others, a large untapped market, shrinking of arable land in recent years, increasing demand for food grain production and increasing population are the anticipated key drivers behind this growth. In particular, growth will come from developing countries like China, demanding higher crop volumes and better quality produce, as well as Africa, which needs more fertilizers due to its rising soil infertility.

The global pigment market will earn revenues of over US\$ 14.7 billion in 2018. The emerging markets of Asia are expected to experience the strongest and fastest growth in terms of demand for the dye and organic pigments. While China is regarded as the largest single consumer globally, there are also sizeable growth opportunities in our home market of India as well. In particular, the Indian market is expected to enjoy double digit growth in the Paint, Plastics and Inks market. Also, additional market support is expected to come from an increasing demand for environmental-friendly products. Despite their higher prices, demand for organic pigments is expected to surpass that of dyes due to their ability to provide intense bright colours.

CHAIRMAN'S STATEMENT**Business Strategies:-**

Despite the positive landscape painted above, we remain vigilant as the Group faces an increasingly competitive global environment. In addition, we are exposed to volatility in the foreign exchange market as well as increases in raw materials prices, which could erode our profitability in FY 2014.

As such, we will remain watchful of exchange rate fluctuations, especially of the Rupee versus the Dollar and maintain our current vertically-integrated production structure to help us control costs as well as reduce supply chain disruptions.

For our Agrochemical business, we plan to launch at least three new generic products in CY 2013 and 2014 and continue our efforts to develop new product formulations. We also plan to obtain new trademark registrations in regulated markets like the USA, Brazil and European Union to aid in the marketing of our products overseas. At the same time, we will continue our focus on R&D to extend our pipeline of potential registrations, which is an important part of our future growth. As part of this strategy, we plan to invest in data generation and registrations, which could then be used in non-regulated markets. To-date, Meghmani has 111 export registrations, made applications for another 628 registrations worldwide, holds 185 registrations with the Central Insecticides Board (CIB), Faridabad and has 26 registered trademarks relating to our corporate identity and products, an improvement over FY 2012.

The Indian agrochemicals market is projected to more than double to US\$ 5 billion by 2017. Given the impeccable quality record of Meghmani's products, there is potential for increasing the uptake of agrochemical products among farmers. To better harness the potential in our home market, we intend to increase utilization of our existing plants to raise production levels. To raise and stabilize our output, we intend to enter into strategic long-term tie ups with suppliers of key raw materials. We have also grown our own domestic sales forces to 17 states, from 15 last year, which we believe will go a long way to help the Group achieve better market penetration domestically. We have also employed local staff supported by warehousing facilities at the strategic locations to better cater to the needs of our domestic customers. Further, we plan to leverage on our available economies of scale to produce specialized products at the best possible prices to our customers.

For our Pigment business, the company is at advance stage of setting-up a pigment expansion plant having installed capacity of 650 MT per month to manufacture CPC Blue, 250 MT per month of Beta Blue and 100 MT of Alpha Blue at Dahej SEZ Limited, Dahej. The company has spent ₹ 780 million for expansion.

Even though there are competitors in India offering similar products as us, we are confident that we can compete effectively based on our consistent product quality, strong technical competence, vertically integrated capabilities, strategically located logistics facilities, excellent after-sales service and robust customer relationships.

Acknowledgements:-

On behalf of the Board, I want to thank the management and staff of Meghmani, who have worked hard and dealt with various challenges to maintain our profitable position in FY 2013. I am also grateful to my fellow directors for their continued guidance, advice and foresight that helped steer the Group's business through the increasingly competitive industry landscape. Thank you also to our customers for your continued faith in our products and our business partners for your support of our business. Finally, I want to thank our shareholders for the trust and confidence you have given us. We will continue to strive for better results and returns for you.

Jayanti Patel
Executive Chairman

DIRECTORS' REPORT

To,
The Members,
Meghmani Organics Limited

Your Directors have pleasure in presenting Nineteenth Annual report and Audited Statement of Accounts of the Company for the Financial Year ended on 31st March, 2013.

FINANCIAL RESULTS

₹ in Lacs

PARTICULARS	YEAR ENDED ON 31st MARCH, 2013	YEAR ENDED ON 31st MARCH, 2012
Net Revenue from operations	74,974.22	82,209.78
Other Income	1,048.51	951.16
Total Revenue	76,022.73	83,160.94
Profit before Finance Cost & Depreciation	6,326.97	8,434.77
Financial Cost	2,723.64	2,779.92
Depreciation	2,636.07	2,607.83
Profit Before Extra Ordinary Item & Tax	967.25	3,047.01
Extra Ordinary Item	87.28	0
Profit Before Tax	879.97	3,047.01
Payment & Provision of Current Tax	66.58	600.00
Deferred Tax Expenses/(Income)	235.14	788.64
Profit After Tax	578.25	1,658.37
Profit Available for Appropriation	578.25	1,658.37
Transfer to Debenture Redemption Reserve	562.15	825.51
Transfer to General Reserve	0	50.00
Proposed dividend	254.31	254.31
Dividend Tax	43.22	41.26
Balance Carried forward	(281.43)	487.29

DIVIDEND:-

Your directors have recommended a dividend of ₹ 0.10 per Equity Share on 254,314,211 Equity Shares of ₹ 1/- each fully paid up for Financial year 2012-2013. The dividend will entail an out flow of ₹ 297.53 Lacs including dividend distribution tax. The proposed dividend is tax free in the hands of shareholders. The dividend is declared out of surplus Profit of previous years.

OPERATING RESULTS:-

The Sales Turn over of the Company has decreased by ₹ 7,346.22 Lacs i.e. from ₹ 80,512.89 Lacs in FY 2012 to ₹ 73,166.67 Lacs in FY 2013.

1) DOMESTIC SALES:-

The Domestic Sales decreased by ₹ 4,674.94 Lacs (25.22%) i.e. from ₹ 18,426.69 Lacs in FY 2012 to ₹ 13,778.75 Lacs in FY 2013.

The Domestic Sales of Pigment Division decreased by ₹ 2,618.31 Lacs (41.41%) i.e. from ₹ 6,322.17 Lacs in FY 2012 to ₹ 3,703.86 Lacs in FY 2013.

The Domestic sales of Agro Division decreased by ₹ 2,403.94 Lacs (20.92%) i.e. from ₹ 11,489.18 Lacs in FY 2012 to ₹ 9,085.24 Lacs in FY 2013.

DIRECTORS' REPORT**2) EXPORT SALES :-**

The Export Sales decreased by ₹ 2,698.27 Lacs (4.35%) i.e. from ₹ 62,086.19 Lacs in FY 2012 to ₹ 59,387.92 Lacs in FY 2013.

The Export Sales of Pigment Division increased by ₹ 3,661.35 Lacs (13.91%) i.e. from ₹ 26,320.62 Lacs in FY 2012 to ₹ 29,981.97 Lacs in FY 2013.

The Export Sales of Agro Division decreased by ₹ 3,223.78 Lacs (11.35%) i.e. from ₹ 28,411.69 Lacs in FY 2012 to ₹ 25,187.91 Lacs in FY 2013.

3) OTHER INCOME :-

Other income increased by ₹ 97.35 Lacs. This is due to Mark to Market gain on Derivative.

4) PROFITABILITY :-

Profit Before Tax decreased by ₹ 2,167.04 Lacs i.e. by 71.12% while Profit After Tax decreased by ₹ 1,080.12 Lacs i.e. by 65.13%. The main reasons for decrease in profitability are :-

1. Delay in Clearance from Ministry of Environment and Forests, Delhi for Dahej SEZ Plant
2. Technical bottleneck in setting Agro Division III at Dahej
3. Reduction in Production affecting manufacturing sales
4. Reduction in manufacturing sales affecting the contribution
5. Macro level environment issues
6. Increase in energy cost (Power and Fuel)

INSURANCE:-

The Company's plant, property, equipments and stocks are adequately insured under the Industrial All Risk Policy. The Company also has insurance covers particularly for Product Liability and Public Liability. The Company has also taken Directors' and Officers' Liability Policy to provide coverage against the liabilities arising on them.

1) ACCIDENT AT ANKLESHWAR :-

A fatal accident had taken place on Saturday, 2nd March, 2013, at our Agrochemical Manufacturing Division situated at Plot No. 5001/B, GIDC Industrial Estate Ankleshwar, Ankleshwar Gujarat, (India), on account of gas leakage. We regret the casualty of three (3) workers. The Workers are covered under Employee State Insurance Scheme and the payment of compensation under the policy is in the process.

2) NEW BETA BLUE PLANT FIRE CLAIM - UPDATE

The Company has lodged the claim of ₹ 2,268.30 lacs. Till date the Company has received the payment of ₹ 1,760.42 lacs by way of on account installments from Oriental Insurance Company Limited, Ahmedabad and sale of debris and salvage.

The assessment for the final claim amount has been completed by the Surveyor and the Company is expecting the final balance claim amount of ₹ 420.60 Lacs. Thereby, the Company has suffered a loss of ₹ 87.28 Lacs on account of fire at New Beta Blue Plant - Panoli.

INVESTMENT – MEGHMANI EUROPE BVBA :-

The Company has invested ₹ 7,97,00,280/- (Equivalent to 1.1 Million Euro) in Meghmani Europe BVBA – Belgium, Europe (which is a wholly owned subsidiary of Meghmani Organics Limited) as an investment to increase its share capital. The investment has been made as per the requirements of Belgium Law. Meghmani Europe BVBA is in the process of issuance of share certificates.