ANNUAL REPORT 2006-2007

METROCHEM INDUSTRIES LIMITED

PROFILE

Metrochem began its operations in 1976 with Small installed capacity of 100 tons per year and today its manufacturing capacity is in the range of 21,000 MT per year. Metrochem Industries Limited, a Govt. of India Recognised Trading House. (for its exports performance) is having manufacturing facilities at two locations, GIDC, Vatva, Ahmedabad and at Umraya, Vadodara.

MetroChem's commitment to quality and customer satisfaction has found a new expression by obtaining 9001 and 14001 accerediton. ISOQAR Internationally Renowned Quality Registrars, have recognised Company's manufacturing facilities at Umraya, Taluka Padra, District Vadodara, by awarding ISO 9001:2000 and ISO 14001:2004, its highest citation, in recognition of the unit's Quality Management System and Environment Management System respectively.

MetroChem, today enjoys a distinct leadership advantage in dyestuff and dye intermediates industry. The total sales turnover of the Company went up from Rs. 15 crores in 1986-87 to Rs. 240 crores in 2006-07. Nearly 75% of the Company's turnover comes from exports. Its products find acceptance by renowned multinational corporations and several other customers in over 30 countries, worldwide. The Company has got the recognition as Two Star Export House from Ministry of Commerce & Industries. The company is among the top exporters of dyestuff and intermediates from India for several years and has been awarded several awards from Chemexcil, Dyestuffs Manufacturers Association of India, Gujarat Dyestuff Manufacturers' Association.

The Company's state of the art manufacturing facilities, one of the largest, integrated Dyes and Intermediates manufacturing plants at a single campus has won accolades from world renowned multinational Corporation like Huntsman and the Company has been able to forge strategic alliances with them.

Research and Development and Quality Assurance facilities are the key success factors behind the company's excellence over the years. It has an integrated state-of-the-art R&D and QC facility-KROMA LABS, a division of MetroChem, which is established with investment of Rs. 6 crores. The lab is recognized as 'In-house R&D and QC lab' by the Ministry of Science and Technology, Govt. of India.

In its endeavour to excel in the industry and to protect the environment, MCIL has taken due care for the preservation of nature by constructing state-of-the-art Effluent Treatment Plant which is designed to treat effluent in compliance with the statutory norms. The Effluent Treatment facility have been set-up with investment of approx. Rs. 7 Crores and Rs. 15 Crores in Ahmedabad and Vadodara respectively. The plants at both the locations are equipped to perform Primary, Secondary and Teriary treatment for Biodegradable Effluent and for other difficult degradable effluent, a ZERO EFFLUENT DISCHARGE System is created. The location at Umraya has an added advantage of having proximity to Effluent Disposal Channel for safe disposal of treated effluent, as per marine norms.

From the Chairman

LOCALISING AND GLOBALISING

Sharper Focus, Wider Reach.

"Today is better than yesterday
but not as good as tomorrow"

Every period and phase of time throws up its own equations and demands upon organizations that have to delve deeply into their innermost and fullest resources of technology, knowledge and management to first survive and then thrive.

The year gone by has witnessed several changes at the national, international and corporate level. Numerous factors combined to place tremendous stress on operational areas and financial environment that tested all the resources and ingenuity, both evident and potential.

These included US market uncertainties, slowdown of the European market, reducing import tariffs, a strong rupee against the dollar, rising crude prices and other factors.

Yet with the positive attitude, vision, skills, focus and commitment, your company managed to not only resist the forces but also perform well to achieve growth and profitability.

It was the innovative mindset that led your company to evolve strategy to not only resolve current problems but also lay the strong foundations for future stability and growth.

The twin strategic moves of demerging and global tie-ups will in one stroke liberate resources, ensure markets and enable progress for your company.

As you are aware both the Vadodara and Ahmedabad units are independent and self sufficient in operations. Demerging and hiving off the Vadodara unit as a 'going concern' will unlock its value at its intrinsic value to make precious resources available for alternative application.

The long term tie-up with M/s Huntsman for sourcing from the Ahmedabad unit ensures a steady off take that can lead to economy and efficiency in planned production.

All this will enable your company to focus on the corporate goals of raising quality and setting up international standards and to pursue the vital areas like R&D to develop new products that anticipate and meet the demands of future export markets with a cutting edge.

Other measures for sustaining the momentum include streamlining operations through suitable restructuring of resources, manpower and management that will convert potential into power and create empowerment for better performances and results

The courage and confidence to take these dynamic and bold decisions has come from the trust that all stakeholders have placed in the management. Their continuous support and encouragement to contribute our best efforts have been the inspiration and moving spirit behind the success of the company, often in the midst of difficult conditions.

I express my gratitude to all the shareholders, my organizational team, associates, suppliers, distributors, institutions and others who have been pillars of strength at all times and who I hope will continue to be closely associated with the company.

This is the approach taken in steering your company through the sea of competitive challenges with the unwavering goal of delivering maximum stakeholder value.

Ahmedabad
29th June, 2007

Gautam M. Jain

METROCHEM INDUSTRIES LIMITED

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METROCHEM INDUSTRIES LIMITED

BOARD OF DIRECTORS	:	**Gautam M. Jain** Chairman & Managing Director **Anil M. Jain** Deputy Managing Director **Rahul Jain** Executive Director **Sudhir N. Doshi** **Nilesh Desai** **Sandip S. Bhandari**
COMPANY SECRETARY	:	**K. N. Nevatia**
AUDITORS	:	**Deepak Soni & Associates** Chartered Accountants Ahmedabad
BANKERS	:	**State Bank of India** **Indian Bank** **Citibank**
REGISTERED OFFICE	:	Village : Umraya Taluka : Padra District : Baroda - 391 440 GUJARAT
ADMINISTRATIVE OFFICE	:	505/506, "SURYA RATH" Near White House, Panchwati, Ellisbridge Ahmedabad - 380 006
CORPORATE OFFICE	:	508/509 "SHILP" C.G. Road, Navrangpura, Ahmedabad - 380 009
WORKS	:	(I) Phase II, G.I.D.C., Vatva, Ahmedabad - 382 445 (II) Village : Umraya, Taluka : Padra, District: Baroda 391 440.
REGISTRARS AND TRANSFER AGENTS	:	Pinnacle Shares Registry Pvt. Limited Near Ashoka Mills, Naroda Road, Ahmedabad - 380 025

DIRECTORS' REPORT

To,
The Members,

Your Directors have pleasure in presenting their Twentieth Annual Report together with the audited Statement of Accounts for the year ended 31st March, 2007.

FINANCIAL RESULTS

(Rs. Lacs)

	YEAR ENDED 31-03-2007	YEAR ENDED 31-03-2006
Sales & Other Income	**24060.11**	17257.94
Profit Before Interest, Depreciation and Tax	**2548.35**	1811.80
Less : Interest	**693.63**	592.99
Depreciation	**1102.66**	1014.24
Profit Before Taxes	**752.06**	204.57
Less : Provision for Tax		
Current Tax	**380.00**	181.85
Deferred Tax	**(146.47)**	(405.49)
Profit After Tax	**511.53**	428.21
Add: Balance brought forward from the previous year	**731.12**	993.65
Profit Available for Appropriation	**1242.65**	1421.86
Appropriations:		
Transfer to General Reserve	**150.00**	430.00
Proposed Dividend on Equity Shares	**228.67**	228.67
Tax on Dividend	**38.86**	32.07
Total	**417.53**	690.74
Balance Carried to Balance Sheet	**825.12**	731.12
	1242.65	1421.86

OPERATIONS

During the year under review, sales and other income amounted to Rs 24060.11 Lacs (previous year Rs. 17257.94 Lacs). The exports turnover amounted to Rs. 18032.47 lacs (previous year Rs. 11836.83 lacs) showing an increase of 52.34 % in total turnover and 39.91 % in export turnover. The increase in the turnover was the result of increased production and has resulted in better profitability.

Net profit after tax was Rs.511.53 lacs as against Rs.428.21 lacs during the previous year showing an increase of 19.46%.

During the year under review, the Production of Dyes and Dye intermediates was 21365.27 MT inclusive of captive consumption (previous year 15898.81 MT) showing an crease of 34.38%. The sales of Dyes and Dye intermediates was 13894.06 MT (previous year 11108.25 MT) showing an increase of 25.09%. For trading of finished goods, the company purchased 1078.64 MT of Dyes and Dye intermediates (previous year 2979.58 MT) and sold 1061.64 MT (previous year 2999.61 MT).

There was no sale of Iron Ore during the year as against an export of 4658 MT amounting Rs.71.10 Lacs during the previous year.

DIVIDEND

The Board of Directors have recommended dividend @ 20%, (previous year @ 20%) on paid up equity share capital of the Company for the year ended 31st March, 2007, subject to the approval by the shareholders at the Annual General Meeting.

CAPITAL EXPENDITURE

Your Company has made a net addition of Rs.720.05 lacs to various manufacturing fixed assets (Previous year Rs. 346.87 lacs) during the year under review.

INSURANCE

The fixed assets and stocks of the Company are adequately insured.

ENVIORNMENT AND POLLUTION CONTROL MEASURES

The Company continues to embark upon the environment and pollution control measures. In order to keep the plants environmental friendly, natural plants and trees are developed in and around the manufacturing area and all measures to keep pollution in control are taken.

DE-MERGER OF VADODARA DIVISION

As you are aware, the manufacturing operations of the company are situated at its two independent divisions namely at Ahmedabad and at Vadodara. The operations at 2 divisions are independent and self-sufficient. With a view to unlock the value of its Vadodara division at its intrinsic value, it is proposed to de-merge the Vadodara division as a going concern to a subsidiary of Metrochem Industries Ltd. Your Company has incorporated M/s Baroda Textile Effects Limited (BTEL) as a subsidiary company for hiving off the Vadodara division as a 'going concern' to BTEL.

The Board of Directors of the company at its meeting held on 28-06-2007 approved the Scheme of De-merger and the same has been filed with the Stock Exchanges.

The Scheme of Demerger is subject to the approval of the High Court of Gujarat and will be effective after the receipt of necessary approvals by both Metrochem and Huntsman.

Your Company has entered into an agreement with USA based Huntsman group for transfer of ownership of BTEL, subsequent to de-merger of Vadodara division. The agreement approved at the meeting of the Board of Directors of Metrochem Industries Limited held on 28th June, also envisages a long-term sourcing arrangement by Huntsman for the products to be manufactured by Ahmedabad Division of Metrochem Industries Limited.

AWARDS

The Company has been awarded with the following awards for its export performance from:

1. Dyestuffs Manufacturers' Association of India - First award in recognition of excellent performance in exports of dyestuffs for 2006-07 by a large scale unit, Second Award in recognition of excellent performance in export of dye intermediates for 2006-07 by a large scale unit and Anil Mehta award for the best large scale unit for 2006-07.
2. The Gujarat Dyestuffs Manufacturers' Association, Second Award for direct export of self manufactured Dyes during 2005-06.

COST AUDIT

Your Company has appointed Kiran J. Mehta & Co., Cost Auditors, a firm of practising Cost Accountants, for the financial year 2007-2008 for the cost audit of the Company's cost records pursuant to an order of the Department of Company Affairs, Company Law Board, and New Delhi.

CONSOLIDATED ACCOUNTS

As required under Clause 32 of the Listing Agreement with the Stock Exchanges, audited consolidated financial statements form part of the Annual Report.

SUBSIDIARY COMPANY

As required under section 212 of the Companies Act, 1956, the Audited Balance Sheet and Profit and Loss Account along with the Reports of Directors and Auditors of Metrochem Capital Trust Limited, Subsidiary of the Company, are annexed hereto.

DIRECTORS

Shri Sudhir N.Doshi and Shri Sandeep S. Bhandari, Directors of the Company, retire by rotation and being eligible offer themselves for reappointment. Shri Sandeep M.Singhi resigned from the Board Of Directors on June 09, 2007. Board places on record its appreciation towards contribution made by Shri Sandeep Singhi during his tenure as director of the Company.

Mr. Rahul Jain who is qualified as Bachelors of Science in Business Management and Administration from U.S.A. was inducted as member on the Board as Additional Director on May 05, 2007. He was also appointed as Whole Time Director of the Company and he would look after Export operations of the Company. His appointment as director is till the conclusion of the annual general meeting and Board recommends confirmation of his appointment as Director as well as Whole Time Director.

Mr. Nilesh Desai who is an Insurance professional and an Insurance Advisor were inducted to the Board as Additional Director on June 09, 2007. His appointment as director is till the conclusion of the annual general meeting and Board recommends confirmation of his appointment as Director.

FIXED DEPOSITS

During the year under review, your Company has repaid fixed deposits amounting to Rs.93.20 lacs and renewed others amounting to Rs.443.25 lacs and the outstanding fixed deposits at the end of the year under review were Rs.443.25 Lacs.

MANAGEMENT DISCUSSION AND ANALYSIS REPORT

Management Discussion and Analysis Report as required under the Listing Agreement with the Stock Exchanges is enclosed.

CORPORATE GOVERNANCE

A separate report on Corporate Governance, along with Auditors Certificate on its compliance, is enclosed.

DIRECTORS RESPONSIBILITY STATEMENT

In compliance of Section 217 (2AA) as incorporated by the Companies (Amendment) Act, 2000 in the Companies Act, 1956, your Directors confirm that:

a) The company has followed the applicable accounting standards in the preparation of the Annual Accounts and there had been no material departure.
b) The directors had selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company as at March 31, 2007 and of the Profit of the Company for the year ended on that date.
c) The directors had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities.
d) The directors have prepared the Annual Accounts on a going concern basis.

AUDITORS

M/s. Deepak Soni & Associates, Chartered Accountants, Ahmedabad, the Auditors of the Company, hold office until the conclusion of the ensuing Annual General Meeting and are eligible for reappointment. They have expressed willingness to serve, if reappointed.

Observations of the Auditors are self-explanatory.

CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION

The statement containing the necessary information required under the Companies (Disclosure of Particulars in the Report of the Board of Directors) Rules, 1988 is given in Annexure and forms part of this Report.

PARTICULARS OF EMPLOYEES

There was no employee drawing salaries exceeding the limit stipulated under Section 217 (2A) of the Companies Act 1956, read with the Companies (Particulars of Employees) Rules 1975.

INDUSTRIAL RELATIONS

During the year under review, the industrial relations remained harmonious and cordial. The Directors wish to place on record the unstinted efforts and dedicated services extended by the employees at all levels. With their support the Company looks forward to a brighter future.

ACKNOWLEDGEMENT

The Directors extend their sincere thanks to the Bankers, Financial Institutions, Central and State Government Authorities, Customers, Shareholders and all other who have been associated with the Company, for their co-operation, continued support and for the confidence reposed in the management of the Company.

For and on behalf of the Board

Ahmedabad
28th June, 2007

GAUTAM M. JAIN
Chairman & Managing Director

ANNEXURE TO DIRECTORS' REPORT

Information as required Under Section 217(1)(e) of the Companies Act, 1956 read with the Companies (Disclosure of Particulars in the Report of the Board of Directors) Rules, 1988.

A. CONSERVATION OF ENERGY

The ompany is making continuous effort for energy conservation. Effective measures have been taken to monitor generation & consumption of energy during the process of manufacture. Certain equipments have been installed to ensure optimum utilization of steam & power.

Some of the measures taken are as follows:

- Condensate recovery implemented to increase boiler efficiency steam trap installed in main steam piping.
- Heat exchanges are being cleaned chemically for efficient heat transfer.
- Thermal insulation improved for reducing radiation loss from process vessel, heat exchanges and steam piping.
- In power distribution system capacitor banks added for increasing power factor very near to unity. This has reduced the transmission losses substantially.
- Variable frequency drives installed for conservation of power in boiler auxiliaries like ID Fan feeders etc
- For optimum utilization of emergency power of three DG sets put on auto Synchronization panel.

The above measures have resulted in optimum utilization of energy and reduction in cost of production and thereby making the products more competitive.

Total energy consumption and energy consumption per unit of production:

Form A is Annexed.

B. TECHNOLOGY ABSORPTION

Form B is annexed.

C. FOREIGN EXCHANGE EARNINGS AND OUTGO

(a) Activities relating to exports:`

The Company has retained its position of leading player in the international market and maintained the status of Two Star Export House recognized by DGFT.

(b) Foreign Exchange Earnings and Outgo: (Rs. Lacs)

	2006-2007	2005-2006
(i) Earnings	**18032.47**	11836.83
(ii) Outgo	**3667.20**	2034.39

FORM 'A'

A. POWER AND FUEL CONSUMPTION

(Rs. Lacs)

PARTICULARS	2006-2007	2005-2006
1. Electricity		
a) Purchased		
Units (kwh/Lacs)	**81.30**	41.65
Total Amount (Rs.Lacs)	**415.50**	203.79
Rate/Unit (Rs.)	**5.11**	4.89
b) Own Generation Through Power Plant		
Units (kwh/Lacs)	**170.21**	161.42
Total Amount (Rs. Lacs)	**805.56**	717.34
Rate/unit	**4.73**	4.44
c) Own Generation Through Diesel Generator		
Unit (kwh/Lacs)	**10.59**	6.54
Unit per litre of diesel oil	**4.39**	3.69
Rate/unit (Rs.)	**6.75**	6.18

PARTICULARS		2006-2007	2005-2006 (Rs./Lacs)
2.	Light Diesel Oil (LDO) and Furnace Oil		
	Quantity (ltr/Lacs)	**29.34**	22.60
	Total Cost (Rs. Lacs)	**524.49**	363.74
	Average Rate (Rs/Ltr)	**17.88**	16.09
3.	Fire wood		
	Quantity (M.T.)	**5843.07**	1253.72
	Total Cost (Rs. Lacs)	**78.10**	16.96
	Average Rate (Rs. per kg.)	**1.34**	1.35
B.	**CONSUMPTION PER UNIT OF PRODUCTION**		
	Production of Dyes & Dyes Intermediates (Tonnes)	**21365.27**	15898.81
	(i) Electricity (Units per Tonne)	**1226.74**	1318.40
	(ii) LDO (Ltr/Per Tonne) and Furnace Oil	**137.33**	142.15
	(iii) Firewood (Units per tonne)	**0.27**	0.08

Note : There are no separate standards available for each product since the product range consists of various products with different consumption.

FORM 'B'

Form for disclosure of particulars with respect to:

RESEARCH AND DEVELOPMENT (R&D)

1) Areas in which R & D is being carried out :

   The R & D Center continues to strengthen the Company's business by providing new products and optimizing processes.A brief note on the same is given below:

   a) Certain reactive and direct dyes successfully developed and commercialized,
   b) Process improvement in some dyes intermediates,
   c) Pollution control was given continued importance,
   d) Process control strengthened by addition of newer version of some analytical instruments.

2) Benefits derived as a result of above R & D :

   a) Cost reduction, improvement in product quality and enhanced productivity,
   b) Increase in product range resulting in better marketability,
   c) Process control improvement, and up gradation of processes.

3) Future plan of action :

   a) New product development to expand product range,
   b) Pollution abatement and waste minimization,
   c) Commercialization of new products.

4) Expenditure on R & D. (Rs. Lacs)

PARTICULARS	2006-2007	2005-2006
i) Capital	**0.17**	16.61
ii) Recurring	**45.05**	46.15
iii) Total	**45.22**	62.16
iv) Total R & D Expenditure as percentage to turnover	**0.19**	0.36

A. TECHNOLOGY ABSORPTION, ADAPTATION AND INNOVATION

1) Efforts made :

   a. R & D absorbs technology from various sources for new product development, pollution control and process up-gradation,
   b. Strengthening the R & D team and increasing process control capabilities,
   c. Emphasis on technical services to meet customer's requirements.

2) Benefits derived as result of above efforts:

   a. Cost effectiveness.
   b. Better customer services.

3) Imported technology :

   There is no import of technology.