

## Management Discussion & Analysis

### Financial and Operational Performance

The Company was able to sustain its business performance and registered a positive growth in sales. Of the total sales revenue of the Company for the year, 21% is contributed by exports. In view of rising cost of raw materials and escalation in other operating costs, profit before depreciation, interest, exceptional items and tax (PBDIT) is lower as compared to the previous year. However, there is marginal improvement in profit after tax (PAT) from ₹ 10814 lakhs to **₹ 11241 lakhs** as compared to the previous year. The following ratios reflect the financial performance for the year in relation to the previous year.

	2010	2009
Sales growth (%)	5.8	0.5
Domestic sales growth (%)	2.3	2.8
Export sales growth (%)	21.0	(8.3)
PBDIT (% to sales)	19.5	22.6
PAT (% to sales)	11.5	11.7
ROCE (%)	30.5	30.9
Debt : Equity ratio	0.003	0.006
Earnings per share (₹)	42.16	40.56
Cash earnings per share (₹)	48.50	48.19
Book value per share (₹)	137.69	130.45

The Company remains a zero debt company with no long-term borrowings. CRISIL has upgraded its rating for long-term debt instruments and bank facilities to 'AA+/Stable' from 'AA/Stable', and has reaffirmed its 'P1+' rating for short-term debt and bank facilities. Short-term borrowings are restricted to the need based working capital requirements. The Company has created a benchmark in efficient management of working capital. The year-end ratio of inventory to sales of 9.3%, receivables to sales of 12.9% and net working capital (NWC) to sales of 10.1% is one of the best in the specialty chemical industry. Net cash flow from operating activities during the year was ₹ 16371 lakhs. Funds surplus to the operational needs have been prudently invested to earn reasonable returns with a high degree of safety. A sum of **₹ 18859 lakhs** (previous year ₹ 12125 lakhs) stands invested in debt schemes of mutual funds at the end of the year.

During the year under review, all the plants had smooth operations and the capacity utilisation was further improved as compared to

previous year. The Company sold its diketene and intermediate business in January 2010 and with closure of its Balkum, Thane plant, the manufacturing operations of Phthalo green was closed effective from November 2010.

The certification under ISO 9001, ISO 14001 and OHSAS-ISO 18001 from SQS (Swiss Association of Quality Management System) for the Management Systems and Environment Management and Safety in its operations reflects your Company's continuous commitment towards quality, safety and sustainable environment friendly approach.

### Business Segments and Performance

In accordance with the Accounting Standard-17 notified by Companies (Accounting Standards) Rules, 2006 and based on characteristics of products, production processes and the class of customers, the Company has classified its range of products into two reportable business segments as under:

#### 1. Intermediates and Colours:

The intermediates and colours segment includes Pigment Dyestuffs and their dispersion, Intermediates for dyes, pesticides and pharmaceuticals and Masterbatches for plastics and nylon fibers.

Clariant's Pigments business is a leading global provider of organic pigments, pigment preparations and specialty dyes used in coatings, printing, plastics, consumer products and other special applications. Its product portfolio meets the demands for automotive, industrial and architectural paints and coatings; high fastness, color stability and non-warping solutions for plastic sector; colorants for the full range of printing technology - from newsprint, magazines, food packaging and security printing to inkjet, other non-impact printing systems and electronic display technologies and a wide range of colorants designed to meet international safety regulations for use, in toys and food packaging, etc.

The manufacturing facilities and state of art technical service laboratories provide cutting edge technology which helps in realizing the goals set by Clariant, for sustainable growth of the business. The Company is a pioneer in the promotion of lead and chrome-free pigments and in spreading the awareness on use of non-halogenated flame retardants. The Pigment and Additives businesses of the Company had a growth of 4.2% in domestic and good growth of 40.9% in export markets on like to like basis over the previous year.

Clariant is the leader in providing colour and additive concentrates and performance solutions for the plastic industry

and holds strong positions in the packaging, consumer goods, automotive and fiber segments of masterbatches. Clariant's worldwide presence and local support make it a preferred supplier for thermoplastic processors and brand owners, as well as for fiber manufacturers globally. Clariant provides a complete technical service offering for all products and applications and delivers consistent quality standards with quick response time. Its customers operate in a broad range of markets including packaging, household and consumer goods, medical, electrical, textile, personal care, food, beverages and automotive.

The Masterbatches business of the Company, during the year, had an excellent growth of 32.2% over the previous year and continued its thrust on expansion and up-gradation of laboratories to provide prompt and best services to its customers. The capability of the Company to develop and produce new products with accuracy and consistency has helped in achieving high growth rates over the period. Implementation of a green field manufacturing facility in MIDC, Ambernath is in initial stages as of now.

The total sales under the intermediates and colour segment of ₹ **35851 lakhs** comprises of pigments and additives of ₹ **28820 lakhs** and masterbatches of ₹ **7031 lakhs**. The ratio of domestic sales to export sales was 66 : 34. The segment contributes 37% to the total sales and registered a growth of 15.4% on like to like basis over the previous year.

## 2. Dyes and Specialty Chemicals:

The dyes and specialty segment includes dyestuffs, synthetic resins, binder materials, auxiliaries and chemicals, comprising of specialty chemicals and dyes for the textile, leather and paper industry and performance chemicals for personal care and industrial applications.

Clariant's Textile, Leather, Paper and Industrial & Consumer Specialties and Detergents & Intermediates businesses add value through functionality and aesthetics to the textile, leather, paper and personal care industries and provide solutions to meet customers' needs across the entire production chain in the user industry.

The chemical technology of the Company, '*from fiber to finish*', plays a key role throughout the entire textile supply chain and its broad range of product offering, this combined with outstanding chemical expertise and global reach, makes Clariant a leading supplier to brands and mills worldwide. Its customer segments include apparel & fashion, automotive / home textiles and technical textiles. The Company provides special chemicals for pre-treatment, dyeing, printing and finishing of textiles; optical brighteners and for functional treatment of technical textiles and dyes such as dispersion, reactive, acid and sulfur dyes. Clariant's process chemicals improve carding, spinning, weaving and printing and its dyes and functional chemicals deliver color and special effects such as moisture management, easy to iron and UV protection. The Company's color trends analysis and color matching technology help the customers in quick introduction of products to market and its innovative technology and services, including nanotech effects, more

environmentally friendly solutions, and concepts such as advanced denim, ensure that they stay one step ahead of their competition.

Clariant is a leading provider of chemicals, technical services and solutions over the entire value chain of leather production. The Company offers environment friendly chemicals and technical solutions with expertise in the complete leather manufacturing process, chrome-free tanning solutions, from beam house to finishing and for customers in the shoe, automotive, furniture or garment. Its technical expertise and colorants for wet-end and finishing help customers to achieve consistently brilliant colors and natural tones. The production plants and its fully equipped service centers are continuously adapted to the latest findings and developments to remain competitive in the world market. Clariant has introduced a large number of innovations in recent years not only to meet new legal and retailer brand requirements for environmental safety which become more and more important, but also to become the industry benchmark for the upcoming years. Market leadership in India in the leather business is fortified with a comprehensive range of dyes, wet end chemicals and finishing solutions that cater to the retanning, dyeing and finishing of all types of leather.

Clariant's paper specialty products improve the optical and functional properties of all kinds of paper and board via tailored solutions and aim to provide knowledge and expertise in the management of whiteness, coloration, special coatings and strength for all kinds of paper, offering the most cost effective product choices and solutions to its customers. The key market segments of the Company are printing and writing copy papers, coated paper and board, newsprint, packaging and specialized applications.

Industrial & Consumer Specialties (ICS) is one of the largest business units of Clariant globally. Business unit ICS is a leading provider of specialty chemicals and ethylene oxide derivatives for a broad spectrum of industries in consumer care and industrial application. The consumer care business offers a complete range of ingredients for skin care, hair care formulations and pharmaceutical applications. The industrial and home care business helps customers gain competitive advantage with its range of cleaning solutions for home and institutional care. The industrial application business combines technical excellence, application know-how and a strong portfolio to serve a broad range of industries. The Company is a partner of choice to deliver solutions in areas as paints & coatings, construction, crop protection, industrial lubricant, automotive fluids, heat transfer fluids, special solvents and have global strength in aviation.

With a wide range of products, the strong brand image of Clariant, knowledge and expertise of providing technical services and solutions in product development and application process to the needs of customers, the Company is well positioned in the business segment.

The total sales under dyes and speciality segment of ₹ **61620 lakhs** for the year comprises of ₹ **53059 lakhs** (86%) from domestic and ₹ **8561 lakhs** (14%) from export sales. The Dyes

and Specialty Chemicals segment has contributed 63% of total sales revenue for the year registering a growth of 16.6% over previous year.

The segment-wise financial performance of the Company is summarised below:

(₹ Lakhs)

Segments	2010	% to Total Sales	2009	% to Total Sales
Intermediates & colours	35851	37%	39267	43%
Dyes & specialty chemicals	61620	63%	52867	57%
<b>Total</b>	<b>97471</b>	<b>100%</b>	92134	100%

### Internal Control Systems

The Company has implemented a comprehensive system of internal controls to support smooth and efficient business operations and effective statutory compliance by standardizing and documenting policies and procedures for all the major processes and associated controls, for credible reporting of financial and operating results and these are regularly reviewed by both internal and external agencies for its efficiency and effectiveness. Management information and reporting system for key operational activities form part of overall control mechanism.

The Company has hired the services of independent firms of professionals to function as internal auditors and provide reports on various activities covering observations and pertinent comments on adequacy of internal controls and their recommendations. Findings of internal audit reports and effectiveness of internal control measures is reviewed by top management and audit committee of the Board.

The Company has established a well laid out policy to maintain the highest standards of environment, safety and health while maintaining operational integrity. This policy is strictly adhered to as per Clariant guidelines at all manufacturing sites.

### Human Resources

The Company continued its efforts to face a challenging business environment by building the capability of its Human Resources through various initiatives in development and training of employees at all levels. The Project "Clariant Excellence" continued with accelerated efforts through "Black Belt" and "Green Belt" projects across the company, to drive down costs, improve efficiency, and upgrade processes. A specialized program for certification of 16 senior Managers as "Coach" was conducted over a period of three months during the year. In addition, high potential Managers participated in an assessment process with a view to developing their competencies and management capabilities for enhanced roles in the future. A 360 degree feedback program combined with MBTI assessment for 42 high potential Managers was conducted by eminent Human Resources consultant, Dr. T.V. Rao. Further, a large number of internal as well as external training programs were conducted to enhance the skill and knowledge of all categories of employees. A special training

program, the first of its kind in the industry, spread over 18 months of intensive skill and knowledge building was commenced for 135 Production trainees at our Roha plant.

A wage settlement was arrived at through amicable negotiations with the Union at Roha. As a part of the continuing efforts of the company to reduce personnel cost and further streamline its operations, a Voluntary Retirement Scheme was launched successfully at Roha as well as Balkum, wherein 50 employees opted for Voluntary Retirement. The company successfully settled all matters relating to employees as well as contractors as a consequence of the discontinuation of operations at Balkum. The Industrial Relations climate at all sites and locations were characterized by an atmosphere of trust, mutual respect and fairness in all aspects.

The total number of employees on the rolls of the company as at December 31, 2010 was 837 as against 945 as at December 31, 2009.

### Industry Structure & Development

The chemical industry is one of the world's largest industries. In 2008 its sales exceeded 3 trillion USD. Chemical products and technologies are used in almost every area of the world economy. As the global economy grows, it increases the demand for the chemical products and the growth is further driven by product innovation and improved production process. The Indian chemical industry, with its size of USD 67 billion (Chemical News, July 2010), is ranked 12<sup>th</sup> largest in terms of volume and 3<sup>rd</sup> largest in Asia. This is one of the oldest industries in India, contributing significantly to the industrial and economic growth and growing annually at over 10%. With investments in R&D, the industry is registering significant growth in knowledge sector comprising of specialty chemicals, fine chemicals and pharmaceuticals. The industry is highly diversified and serves the basic needs of many different industry verticals like natural gas, water, oil, metals, minerals, air, etc. and all these verticals eventually bring into the market place an array of products.

The key characteristics of the Indian chemical industry are - focus on high domestic demand with increase in per capita consumption levels, high degree of fragmentation, small scale operations, limited emphasis on exports, low cost competitiveness due to high taxation and cost of capital and low focus on R&D. The chemical industry is divided into three key segments (1) basic chemicals (inorganic chemicals, petrochemicals, fertilizers and industrial chemicals), (2) specialty chemicals (paints and varnishes, textile chemicals, dyestuff and intermediaries, catalysts, plastic additives, adhesives & sealants, industrial gases etc.) and (3) knowledge chemicals (pharmaceuticals, biotechnology, agrochemicals). The specialty chemical segment is characterized with high product differentiation and value addition, typically smaller production units with more flexibility and low capital investment levels.

The chemical industry as a whole and the specialty chemicals segment in particular operated in a favorable market environment in 2010 and overall chemical production both in India and worldwide increased over the previous year. The first half of 2010 brought a rapid recovery for the chemicals sector, driven by replenishment of inventories by customers. However, the positive momentum eased from the third

quarter. The rate of growth and demand for chemicals in all segments of Indian chemical industry which remained high in first half returned to normal over the course of the second half of the year.

### Outlook

The Indian chemical industry has come out of its protected market. The industry forms the backbone of industrial development of India. Over the years, the industry has evolved from basic chemical producer to knowledge intensive industry with healthy growth. Specialty chemical segment which caters to several key applications will be increasingly important for India and with expanding economic growth and per capita income; it is poised to grow at nearly double the rate of growth of the overall economy. This offers unique opportunities for research and technology inputs to support and realise the growth potential and to bring the Indian specialty chemical industry on the global map while meeting the needs of enhanced quality of life for developing India.

The estimated market size of the Indian paint industry segment is about USD 2.5 billion and is growing over 10% annually. Per capita consumption of India is about 1 kg compared to about 15-25 kg. in the developed countries. With rising income levels and growth in housing, the industry is expected to grow significantly. The Company has positioned itself as preferred supplier of pigments, additives and intermediates to major paint, coatings and ink manufacturing companies in the country.

The size of the Indian dyestuff industry is estimated at USD 4 billion and it holds about 7% share in global market. India has emerged as a global supplier of dyestuffs and dye intermediates. The dyestuff market is highly fragmented with a high concentration in Maharashtra and Gujarat. There are about 50 large and medium players and over 900 small scale manufacturers. The per capita consumption of dyestuff is very low in India as compared to the developed countries.

The plastics & polymer segment is growing steadily with a very high potential of domestic consumption. It remains one of the fastest growing markets in the recent past. Many overseas plastic processors have started investing in India for exports as well as for domestic consumption.

The Indian textile industry which accounts for about 4% of Gross Domestic Product (GDP) is estimated to expand significantly and this will provide opportunities to the textile chemical segment to grow and add value in the expanding market of fashion, formal and leisurewear garments. Clariant is a market leader in textile chemicals and has a significant presence in all segments of the industry including technical textiles.

India's share in the world's leather trade is just over 2% and with the advantage of a large labour force and wide raw material base, it provides opportunities for significant growth. The Company has done significantly well with strong growth in exports led by demand from the Clariant group. The Company has a wide product range for leather dyeing and finishing chemicals to cater to the market needs for a variety of products and is the market leader in wet end chemicals.

With expectation of significant growth in the paper demand, the Indian paper industry is investing heavily on capacity expansion. Clariant's paper business offers a wide range of high performance

products for improving whiteness, strength, strong and bright shades with excellent printability.

With increase in per capita income, the personal care sector in India is set for a lot of action by way of expansion in capacity, fast replacement of product portfolio and investment in research and development projects. Clariant with its strong global presence is looking forward for improving its position in this segment.

### Opportunities and Challenges

The business environment for the chemical industry globally has been changing very fast and if the Indian chemical businesses have to hold against competition they have to change and adopt their strategies, methodology of working and organizational structure. Highly developed technology, in-depth research capabilities, backward and forward linkages and development of domestic capacity to reduce the dependence on imports are some of the crucial factors that need to be taken into consideration. Safety, health and environment protection issues have become the major talking point in the Indian chemical industry.

The huge potential of domestic demand and low per capita consumption in each of its industry segments compared to world average provide a strong potential for overall performance for Indian chemical industry. The Indian chemical industry is a potential powerhouse benefiting from comparative low labour costs, an excellent army of technical manpower and capabilities for research and development facilities, huge and fast developing domestic market and thus poised to increase its share in global markets. However, the escalation of crude oil prices, demanding international environment protection standards and sustaining low cost competitiveness has posed major challenges to the industry.

The opportunities for significant growth in the specialty chemical industry are driven from the growth momentum of the Indian economy and increase in per capita income. Infrastructure development and housing demand provide opportunity of growth in the construction chemical segment. However, this segment is highly competitive, adds low value from product technology and export opportunities are limited with compliance of REACH regulations. The Indian paint industry has seen remarkable changes during last decade and has become far more sophisticated in terms of the products it manufactures, the way it sells to customers and the range of technologies it uses. The industry is poised for quick adaptation of quality to match international standards and with growing domestic need of housing it has potential for good growth. The industry is highly fragmented and facing competition from Chinese imports. Dyes and intermediates industry is growing with good demands from domestic and export markets. However, the industry has to address the issues with respect to clean and green environment and meet competitive pressure from China and other markets. Textile chemical industry has the advantage of established textile manufacturing hub, low cost manpower and pool of technical experts. However, the textile industry is highly dependent on input costs and faces competition from low cost countries like Bangladesh, Vietnam etc. Rising consumer awareness, increasing disposable income of a growing middle class and growing replacement of imported products provides opportunity of growth for personal care industry.

A diversified product range, well established customer base and aggressive support services provide opportunities to the Company to significantly reap the benefits of this growing domestic market. With strong technology support from the parent company, state of art product development facilities, a world class product safety laboratory with excellent product testing facilities and continuous emphasis on cost management, the Company is well prepared to exploit the opportunities both in the domestic and global markets to improve its presence.

### Risks and Concerns

Risk assessment is linked to Clariant's overall short and medium-term objectives. The risk score measures the likelihood of risk as well as its financial, reputational and operational impact. Each risk assessment reports the threat or opportunity, cause, impact, treatment, and control measures, level of confidence in the controls, acceptability of identified risks, potential improvements, risk improvement plans, and timescale. The risk assessment is done annually with quarterly updates. The process has been designed to deliver timely results.

The Company has aligned its policy on risk assessment in line with global approach and risk assessment reports are reviewed on regular intervals. The Company has adopted a focused approach towards risk management in the form of a corporate insurance program which has the goal of optimizing the financing of insurable risks by using a combination of risk retention and risk transfer techniques. The program covers risks relating to business interruption resulting from property damage and legal liability resulting from operations and personal injury.

As part of a global policy, the relevant parameters for all manufacturing sites are analyzed to minimize risk associated with

protection of environment, safety of operations and health of people at work and monitored regularly with reference to statutory regulations prescribed by the government authorities and guidelines defined by Clariant. The Company fulfills its legal requirements concerning emission, waste water and waste disposal. The Company has created a benchmark of completing the internal landmark of 74.47 lakhs man-hours of accident free working between November 2007 and January 2011.

The Company's business critical software is operated on a server with regular maintenance and back-up of data and is connected to centralized computer center with two physically separated server parks operated by the Clariant group. The system's parallel architecture overcomes failures and breakdowns. Reliable and permanently updated tools guard against virus attacks. The global communication network is managed centrally and is equipped to deal with failures and breakdowns. Updated tools are regularly loaded to ensure a virus free environment.

### Cautionary Statement

*Certain statements under "Management Discussion & Analysis" describing the Company's objectives, projections, estimates, expectations or predictions may be forward looking statement within the meaning of applicable securities laws and regulations. Although the expectations are based on reasonable assumptions, the actual results could materially differ from those expressed or implied, since the Company's operations are influenced by many external and internal factors beyond the control of the Company. The Company assumes no responsibility to publicly amend, modify or revise any forward looking statements, on the basis of any subsequent developments, information or events.*