

CHAIRMAN'S SPEECH

Ladies and Gentlemen,

Your Board of Directors and I, welcome you to the 57th Annual General Meeting of your Company and thank you for your attendance here today. I am also pleased to welcome, on behalf of all of us, our German Directors. Each of you has had a copy of the Annual Report for some time now and with your permission, I shall take it as read.

The Annual Report and other details for the financial year ended 31st March 2001 are before you. The year 2000-01 was a difficult year for chemical companies in India. However, your Company has performed well, thanks to the proactive measures taken by the management and the diligent and hard work of our employees at all levels.

Income for the year at Rs.4265.91 million was 11% higher than the previous year. Profit before tax at Rs. 360.32 million represents an increase of 8% over the previous year. Profit after tax for the year at Rs.224.32 million represents an increase of 12% over the previous year. Although margins were under pressure, the cost control measures initiated by your Company together with the significant reduction in the interest costs enabled your Company to maintain the growth in profits, in line with the sales.

Export sales during the year was Rs.250 million as compared to Rs.344 million in the previous year.

Your directors have recommended an increase in the dividend on the equity shares from 40% to 50% for the financial year ended 31st March 2001. This includes a special dividend of 10% out of the compensation received on transfer of textile dyes business. The proposed dividend together with the corporate tax on dividend, result in a pay out of 59%.

Your Company has taken adequate steps to ensure that all mandatory provisions governing Corporate Governance as prescribed under the Listing Agreement of the Stock Exchanges have been complied with.

I am also glad to inform you that the Hon'ble High Court of Judicature at Bombay had vide its Order dated 22nd June 2001 approved the Scheme of Amalgamation of Cyanamid Agro Limited with your Company, with effect from the Appointed Date viz. 1st April 2001.

The Amalgamation has become effective from 23rd July 2001 and Cyanamid Agro Limited has been dissolved without winding up. The record date for the allotment of shares of your Company to the erstwhile shareholders of Cyanamid Agro Limited has been fixed as 31st August 2001.

As you are all aware, for the quarter ended 30th June 2001, your Company reported a sales increase of 58% over the corresponding quarter of the previous year. The profit before tax was higher by 64%, while the profit after tax increased by 97%. The results of the Company for the quarter ended 30th June 2001 include the results of the erstwhile Cyanamid Agro Limited consequent to its Amalgamation with your Company.

The outlook for the current year is encouraging and we expect the year to end with favourable results.

I would now like to review the performance of the individual business units.

The Leather Chemicals business recorded an increase in sales volume and turnover of 14% and 16% respectively compared to the previous year against the 7% growth in leather production. The sale of dyes, syntans and finishing chemicals registered significant growth on account of innovative promotion measures taken by the division and technical service rendered to customers. Exports of leather chemicals increased by 134% compared to the previous year. Sales for the first quarter of the current year ended 30th June, 2001 registered an increase of 10% compared to the corresponding period of the previous year. Your Company expects a quantum increase in the export of syntans and dyes during the current year.

The Textile Chemicals division introduced several eco-friendly and multifunctional speciality products in the field of pretreatment and finishing during the financial year ended 31st March 2001 to meet the demand of the industry. While the textile industry grew at a rate of 4%, the textile chemicals business recorded increase in sales volume and turnover of 16% and 20% respectively compared to the previous year.

Pursuant to the approval given by the members of the Company at the Extraordinary General Meeting held on 20th March 2001 for transfer of the textile dyes business to the DyStar Group, your Company executed the Deeds of Assignment with DyStar for transfer of this business, effective 1st December 2000, for an aggregate consideration of Rs.70.16 million. The entire consideration amount has been received.

The Chemicals business cater to the requirements of a wide range of user industries, which include pharmaceuticals, cosmetics, catalysts and plastics. The demand for imported chemicals depend to a large extent on the growth of the chemical industry and the economy. During the year ended 31st March 2001, lower industrial growth coupled with intense competition from local and overseas suppliers affected this business. The current trends in the chemical industry in India are towards consolidation of business, technology upgradation and formulation of growth strategies for exports. These developments augur well for the business on account of BASF's excellent standing in the market and being perceived as a competitive supplier of sophisticated chemicals to the customers.

Although the division earned lower technical service fee and profits in the financial year under report, the outlook for the current year is favourable as this division has registered significant growth in business. BASF Group's focus on the Asian market is now increasing and consequently, the outlook for the chemicals business in India is promising in the coming years.

The products of the dispersions and speciality chemicals business cater to the requirements of varied industries which include paper, construction, automotive paints, dyes and crop protection chemicals. Over the last few years this business has grown significantly, registering a compounded annual volume growth rate of 20%. This growth was mainly on account of new applications, broadening of product range and growth in market share. In most of its application areas, this business has maintained a position of being one amongst the top 3 suppliers.

During the current year, in view of the general recessionary trend, certain industries like paper and dyestuff have shown lower growth rate and this may slacken the growth of this business. In its efforts to increase its business during the year, your Company is planning to introduce dispersion products based on new chemistry. Simultaneously some of the existing products are being revamped to make them more cost effective. These steps will help the Company in facing competition and overcoming the recessionary trend in the market.

The sale of superplasticizers (Tamol)[®] for the building and construction industry registered increase both in local and Middle East markets. Exports of the division registered a significant increase of 79%, from Rs.35.5 million to Rs.63.7 million during the current financial year ended 31st March 2001. Third party imports of speciality chemicals registered an increase during the financial year ended 31st March 2001. With the increased emphasis given by the Government on development of infrastructure facilities in the country, this business is expected to grow significantly in the coming years.

The expandable polystyrene (EPS) business recorded a decrease in volume of 4%, although the turnover increased by 6% compared to the previous year. The decrease was primarily attributable to the negative growth in the end user industries. Your Company was however successful in maintaining its market share. The profitability of this business was adversely affected during the year due to sharp increase in the international prices of styrene monomer, a primary raw material for EPS, which could not be passed on to the customers due to intense competition and depressed market conditions. Further, the high cost of imported styrene monomer, led to higher market prices for EPS, making the product less competitive vis-a-vis other alternate packing materials.

The prices of styrene monomer stabilised during the second half of the year, thereby improving the business situation. The business of imported plastics showed improvement over the previous year and I expect this trend to be maintained in the current year. The Plastics division initiated several cost cutting measures during the year ended 31st March 2001, the full impact of which would be reflected from the current year onwards.

The overall sales performance of the crop protection chemicals business during the financial year ended 31st March 2001 was in line with the previous year while the profits were higher compared to the previous year. This was possible mainly through cost optimisation and expansion of distribution network. Export sales of Rs.94.1 million during the year was lower compared to the previous year due to stiff competition from Indian generic producers of pesticides. Continuous investment in strengthening your Company's brands helped the division in improving its market share.

I am happy to inform you all that the agricultural situation in the country is looking up, thanks to the progress of the monsoon. The agriculture sector is expected to substantially contribute to the National Economy during the current year as agricultural growth is expected to be higher vis-a-vis the previous years.

The present business scenario augurs well for the crop protection business. Sales, during the current year are ahead of the budget and given a favourable monsoon during the rest of the year, the outlook is encouraging. In order to take advantage of the favourable business situation, the division has undertaken several marketing initiatives which are yielding positive results.

As a prelude to introducing "Clearfield" technology in the country viz. an integrated system of value added seeds and custom designed herbicides that optimises the yield, your Company has entered into appropriate arrangements with identified Agricultural Universities and seed companies during the current year.

Consequent to the Amalgamation of Cyanamid Agro Limited, this division is now operationally and legally integrated as "One Team – One Business". With the rationalization of product portfolio, alignment of sales territories and distribution network, the synergy benefits resulting from the merger have started contributing to the profitability and your Company is now poised to play a key role in the Indian crop protection industry.

The manufacturing facilities at Thane and Mangalore were operated during the year employing innovative ideas with a view to optimally utilise all available resources. Low cost improvements carried out in the Styropor plant at Thane resulted in increasing the plant capacity. A new formulation was introduced in the crop protection chemicals plant at Thane to meet the export demand.

At Mangalore, the operations of the dispersions plant were optimised to achieve 20000 tpa capacity. Implementation of other innovative ideas helped in improvement of product quality and in energy conservation. These ideas not only resulted in improved products and productivity at a low cost but also helped the Company in furthering the cause of environmental protection.

At Thane, several new products were introduced for the leather and textile industry. Likewise, at Mangalore, new products were introduced in the dispersions segment. These products gained wide customer acceptance, thanks to the sustained quality improvement efforts undertaken by your Company.

In line with vision for BASF in India – Vision 2015, the Research & Development Centre of your Company-, recognised by the Ministry of Science and Technology, Government of India has focussed on developing more cost effective technologies and new products to strengthen the Company's position in the market.

Your Company continued its policy of giving priority to the implementation of "Responsible Care" concept and "Sustainable Development" programmes resulting in improvement of safety and environment standards at its production sites.

Industrial relations in Thane and Mangalore factories continued to remain cordial.

I wish to place on record the Board's appreciation of the efforts of the employees in achieving good performance during the year. I would also like to commend the excellent efforts made by the employees to reduce costs and improve customer focus.

I also take this opportunity to thank my colleagues on the Board for their advice and guidance, BASF AG for their continued support and all of you, Ladies & Gentlemen, for your continued interest in the affairs of your Company.

PRASAD CHANDRAN