



**Pennar Aluminium
Company Limited**

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14th Annual Report 2003



Pennar Aluminium Company Limited

BOARD OF DIRECTORS

Nrupender Rao	Chairman
G V Ranganadham	Nominee of IDBI
P P Shastri	Nominee of UTI
A B Telang	Nominee of BIFR
P Bhaskara Rao	Whole-time Director

V P - FINANCE & COMPANY SECRETARY

R Ravi

AUDITORS

M/s Rambabu & Company
Chartered Accountants
31, Pancom Chambers,
6-3-1090/1/A, Rajbhavan Road,
Somajiguda, Hyderabad - 500 082.

BANKERS

State Bank of India
State Bank of Hyderabad
State Bank of Mysore
Vijaya Bank
The South Indian Bank Ltd.
Syndicate Bank
Canara Bank
IndusInd Bank Ltd.

REGISTERED OFFICE

Plot No.56, Sancharpuri Colony, Phase-II
New Bowenpally, Secunderabad-500 011.

WORKS

Dahali Village, Mouda Taluk
Nagpur District,
Maharashtra - 441 104.



NOTICE TO SHAREHOLDERS

Notice is hereby given that the 14th Annual General Meeting of the Company will be held on Friday, 25th June, 2004 at 10.00 A.M. at Kamat Lingapur Hotel, 1-10-44/2, Chikoti Gardens, Begumpet, Hyderabad - 500 016 to transact the following business:

Ordinary Business

1. To receive, consider and adopt the 14th Directors' Report, Balance Sheet as at 31st December, 2003, Profit & Loss Account for the year ended on that date and the report of the Auditors thereon.
2. To appoint a Director in place of Mr.Nrupender Rao, who retires by rotation and offers himself for reappointment.
3. To appoint Auditors to hold office from the conclusion of this Annual General Meeting until the conclusion of the next Annual General Meeting and to fix their remuneration.

Special Business

4. To consider and if thought fit to pass with or without modifications, the following as Ordinary Resolution.

"RESOLVED that pursuant to the provisions of Sections 198, 269, 309, 310 and other applicable provisions, if any, of the Companies Act, 1956

and subject to the approval of the relevant authorities, the approval of the Company be and is hereby accorded to the appointment of Mr.P.Bhaskara Rao as Whole-time Director of the Company for a period of three years from 30th April, 2004 to 29th April, 2007, without any remuneration."

Notes

1. A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and, in the event of a poll, to vote on his behalf. A proxy need not be a member of the Company. Proxies in order to be effective must be received, by the Company not later than 48 hours before the time of the meeting.
2. The Register of Members and the Share Transfer Books of the Company will remain closed from 18/06/2004 to 25/06/2004 (both days inclusive).
3. An explanatory statement pursuant to Section 173(2) of the Companies Act, 1956, in respect of the Special Business is annexed hereto.

By Order of the Board

Hyderabad
30th April, 2004

R Ravi
VP (Fin) & Company Secretary.

Explanatory Statement

Pursuant to Section 173(2) of the Companies Act, 1956.

Item No.4

As per the Section 269 of the Companies Act, 1956, the Company shall have a Managing Director or Whole-time Director. Shri Bhaskara Rao is looking after the affairs of the Company since 1995. He has rich experience in Aluminium Industry. The Board has approved the appointment of Mr.P.Bhaskara Rao as Whole-time Director for a period of 3 years from 30/04/2004 to 29/04/2007 without any remuneration, subject to the approval of the members of the Company and relevant authorities.

Shri P.Bhaskara Rao, aged 55 years, is a Post Graduate in Engineering with three decades of experience in

various fields of management in industry.

The Directors recommend the resolution at Item No.4 for approval.

None of the Directors except Mr.Bhaskara Rao is any way concerned or interested in the resolution.

By Order of the Board

Hyderabad
30th April, 2004

R Ravi
VP (Fin) & Company Secretary.


Details of the Director seeking reappointment in Annual General Meeting to be held on 25/06/2004.

Name of Director	:	Mr. Nrupender Rao
Date of Birth	:	26-06-1945
Date of Appointment	:	01-09-1989
Qualification	:	B.Tech., (IIT), M.S. (Purdue)
Expertise in specific Functional areas	:	Promoter - Significant experience as industrialist and overall business management.
List of other companies in Which directorships held	:	Pennar Industries Limited Pennar Chemicals Limited Pennar Profiles Limited O & S Ratna Aluminium Fabricators Pvt.Ltd. O & S Metallimport Holdings Pvt.Ltd.
Chairman / Member of the Committees of Directors of Companies in Which he is a Director.	:	Pennar Profiles Limited Pennar Industries Limited Pennar Chemicals Limited

DIRECTORS' REPORT

To
The Members

Your Directors present the Fourteenth Annual Report together with the Audited Accounts and Cash Flow Statement for the financial year ended 31st December, 2003.

FINANCIAL RESULTS

During the year under review, your Company incurred losses due to continued financial difficulties. Your Company could not procure raw materials to run the plant as the banks have suspended all credit facilities to your Company. Your Company carried on its operations mainly on a job work basis, manufacturing 12482 MT (previous year 12439 MT) of rolled products, a capacity utilisation of only 41%. Out of this, a very small quantity of 17 MT (Previous year: 1351 MT) is direct sales and balance was produced on job work basis. The net sales, together with income on job works and other income, for the year under review were Rs.1485 lakhs (previous year: Rs.2795 Lakhs). The manufacturing expenses (including financial charges) were Rs.4599 Lakhs (previous year: Rs.5836 Lakhs). The Company has incurred a net loss of Rs.3114 Lakhs (previous year: Rs.3041 Lakhs), which has been carried forward to the Balance Sheet. The operations of your Company's conductor plant continued to be shut down for non-availability of bank guarantee and letters of credit facilities from Banks.

AUDITORS QUALIFICATIONS

The qualifications made by the auditors in their report regarding the accounts for the year ended 31st December, 2003 have been dealt with in the Notes to Accounts (Schedule 18) and are self-explanatory.

REHABILITATION

IDBI has submitted a Rehabilitation Report to BIFR based on the offer received by it from Hindusthan Seals Limited (HSL) who is proposing to acquire the Company and rehabilitate it. The BIFR has asked IDBI to submit some additional information with regard to that rehabilitation proposal. In the meanwhile, the Asset Reconstruction Company (India) Limited (ARCIL) has communicated to your Company that ICICI Bank, SBI and IDBI have transferred their loan assets to ARCIL.

DIRECTORS

Mr. Nrupender Rao, retires by rotation at the ensuing Annual General Meeting and offers himself for reappointment.

Mr.A.B.Telang was appointed as Nominee of BIFR in place of Mr.S.N.Mathur w.e.f. 27th June, 2003. Your directors take this opportunity to thank Mr.S.N.Mathur for his valuable guidance to the Company during his tenure as Director.

Filing of Form No.DD-B with ROC U/s 274(1)(g) of the Companies Act, 1956

Due to sickness, the Company could not redeem the



debentures issued by the Company. Hence, the Directors become disqualified u/s 274(1)(g) of the Companies Act, 1956. According to the rules contained in the Government of India notification dated 21st October, 2003, the Form No.DD-B has been filed with the Registrar of Companies, Andhra Pradesh.

DIRECTORS' RESPONSIBILITY STATEMENT

In terms of Section 217(2AA) of the Companies Act, 1956, the Directors would like to state that:

- i) in the preparation of the annual accounts, the applicable accounting standards have been followed along with proper explanation relating to material departures;
- ii) they have selected such accounting policies and applied them consistently and made judgments and estimates that were reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profit or loss of the Company for the year under review;
- iii) they have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
- iv) they have prepared the annual accounts on a going concern basis.

COST AUDIT

Mr. A.V.N.S. Nageswara Rao, Cost Accountant, Hyderabad was appointed as the Cost Auditor of the Company for the financial year ended 31st December, 2002 with the approval of the Central Government. The Cost Audit Report for the year 2002 was submitted to the Central Government on 26th September, 2003.

INTERNAL AUDIT

M/s.G.S.Murty & Associates, Chartered Accountants, Hyderabad, has been appointed as Internal Auditor of the Company w.e.f. 01/11/2003 in place of Ms.Sharadha Suresh, Chartered Accountant, Nagpur, for operational convenience. The Internal Auditor has been submitting reports to the Company on quarterly basis.

SHIFTING OF REGISTERED OFFICE

The Registered Office of the Company shifted from the Chikoti Gardens, Begumpet, Hyderabad to Plot No. 56, Sancharpuri Colony, New Bowenpally, Hyderabad, w.e.f. 27th January, 2004, as a cost reduction measure.

Management Discussion and Analysis Report

(a) Industry structure and development

Your Company is in the aluminium rolled products industry. This sector is largely dominated by the primary manufacturers who supply about 70% of the domestic demand. These companies have expanded their capacities during recent years after the liberalisation and globalisation process commenced by Government of India and the expanded capacity of these primary producers has met the additional demand for aluminium rolled products from the growth in white goods industry. Your Company is in the secondary sector and can produce upto 30000 MT of aluminium rolled products which is about 10% of the country's demand. There are also several other secondary manufacturers in this sector in India producing rolled products in small quantities scattered through out the country. All the secondary manufacturers depend upon primary producers for sourcing the raw material and they also have to compete with them. The reduction in import duties of aluminium raw material over the last three years has not reduced the dependance of secondary manufacturers for raw material on primary producers due to high fluctuation on LME market. The secondary sector is thus unable to contain costs and unable to compete with the primary manufacturers. The secondary sector, being in a very small value addition chain is not able to show good financial results. The market development for aluminium rolled products is expected to be very good in future due to the growth of white goods industry and the power and telecom sectors. It is expected that the demand for rolled products will grow at 8% p.a. due to growth of packaging and foil industries. The secondary sector may become competitive in the aluminium rolled products field if this growth increase happens in the future years. The aluminium price which has gone up by 250% during the last seven years is another impediment for growth of demand for rolled products. The substitute products have not become costlier to this extent over last seven years and hence there is slow growth in demand for rolled products.

(b) Opportunities & threats.

Your Company has not been able to exploit every opportunity available to it as the Company is sick and is having financial difficulties. Your Company's working capital accounts have been frozen by the banks and hence no working capital limit are available to develop the company's own manufacturing business. The Company is producing rolled products on a conversion basis to few good customers. When the Company is rehabilitated, and produces to its full capacity of 30000 t.p.a it will be in a position to exploit all its opportunities and overcome the threats.

(c) Segment wise or Product wise performance

Company is engaged only in conversion activities to



Nrupender Aluminium Company Limited

manufacture aluminium rolled products. The Conductor Division of the Company is non operational due to non availability of working capital assistance for last four years. Your company has achieved 41% of manufacturing capacity through job work basis in the rolled products division.

(d) Outlook

The future of the Company is dependent on the outcome of reference made by it to BIFR and the Rehabilitation package that may be approved by the Financial Institutions and BIFR.

(e) Risks and concerns

The main concern is delay in approval of rehabilitation package. Once the rehabilitation package is final, the Company can achieve full capacity utilisation in both the rolled products and conductor division. The business of aluminium rolled products and conductors is working capital intensive and hence, working capital availability is the main concern for this business.

(f) Internal Control systems and their adequacy

Though the Company is conducting its business on a job work basis, the Company has installed adequate internal controls in all areas of production and engineering operations. The Company has adequate internal audit and external audit procedures. The Audit Committee and Board meetings are held on a regular basis. All cost elements in production operations are reviewed periodically and necessary controls are exercised.

(g) Discussion on financial performance with respect to operational performance.

As explained above, the Company, due to lack of working capital, is dependent only on job work. The Company is unable to utilise its full installed capacity due to lack of adequate working capital. The Company despite operating at about 40% capacity utilisation has been able to remain in operation since 1998 after the Company was declared a 'sick' company and the working capital facilities to the company were withdrawn by banks.

(h) Material developments in Human Resources / Industrial Relations front, including number of people employed.

The main strength of Company is its excellent manufacturing facilities and its human resources. The Company has maintained its plant in excellent condition and has been able to retain all key personnel who have been trained abroad. The Company employs about 350 people including senior management staff and workers. Company has entered into a wage revision agreement with the workers during

September, 2003 valid for three years. The workers went on strike demanding payment of Bonus to those who were not eligible for bonus under payment of Bonus Act. The strike has however been called off unconditionally, subsequently.

CORPORATE GOVERNANCE

A brief report on Compliance with Corporate Governance and the Auditor's Certificate thereon are attached to this report.

AUDIT COMMITTEE

The Audit Committee of the Company is reviewing various areas of audit and accounts. The Committee comprises Mr. G.V.Ranganadham (Chairman), Dr P.P.Shastri and Mr. A.B.Telang.

AUDITORS

M/s. Rambabu & Co., Chartered Accountants, Hyderabad, the Auditors of the Company, retire at the conclusion of the ensuing Annual General Meeting and being eligible offer themselves for reappointment.

LISTING OF SECURITIES

Your Company's securities are listed on two Stock Exchanges, viz., (1) The Hyderabad Stock Exchange Limited, Hyderabad and (2) The Stock Exchange, Mumbai (BSE). Your Company has paid the annual listing fee for 2003-04 to BSE, Mumbai.

PERSONNEL

Your Directors place on record their appreciation for the dedicated work put in by the employees.

CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION AND FOREIGN EXCHANGE EARNINGS AND OUTGO

In accordance with the provisions of Section 217(1)(e) of the Companies Act, 1956, the required information relating to Conservation of Energy, Technology Absorption and Foreign Exchange Earnings and Outgo is annexed.

ACKNOWLEDGEMENTS

Your Directors place on record their appreciation of the guidance and assistance received from BIFR, Financial Institutions, Banks, Auditors and the Registrar and Share Transfer Agents.

Your Directors express their gratitude to the shareholders and debentureholders for the confidence reposed in the Company.

Your Directors acknowledge the dedicated work done by the employees at various levels.

For and on behalf of the Board

Hyderabad
30th April, 2004

Nrupender Rao
Chairman

**ANNEXURE TO THE DIRECTORS' REPORT**

Conservation of Energy, Technology Absorption and Foreign Exchange Earnings and Outgo.

The Companies (Disclosure of Particulars in the Report of Directors) Rules, 1988.

A. Conservation of Energy

a) Energy Conservation measures taken :

Since the Company has not been running its plant continuously due to financial crisis, fresh studies have not been conducted.

b) Additional investments and proposals, if any, being implemented for reduction of consumption of energy:

NIL

c) Impact of the measures at (a) and (b) above for reduction of energy consumption and consequent impact on the cost of production of goods:

NOT APPLICABLE.

FORM - 'A'**(A) Power and Fuel Consumption**

	2003	2002
1. Electricity		
a) Purchased Units	10893300	11768700
Total Amount (Rs. in lakhs)	413.71	466.33
Avg. Cost/KWH (Rs.)	3.80	3.96
b) Own Generation	NIL	NIL
2. Coal	NIL	NIL
3. Furnace Oil (incl. of LDO & LSHS)		
Qty. (K.Ltr.)	1832.77	1756.40
Total Amount (Rs. in lakhs)	206.12	171.86
Avg. Cost/K.Ltr. (Rs.)	11246	9785
4. Others/Internal Generation	NIL	NIL

(B) Consumption per unit of Production

	2003	2002
Products		
Aluminium Conductors		
Electricity (KWH/Tonne)	N.A.	N.A.
Aluminium Strips		
Electricity (KWH/Tonne)	873	946
Furnace Oil (Ltrs./Tonne)	130	132

FORM - 'B'**B. Technology Absorption Research and Development (R&D)**

1. Specific areas in which R&D carried out by the Company : NIL
2. Benefits derived as a result of the above R&D : NIL
3. Future plan of action : NIL
4. Expenditure on R&D : NIL

Technology absorption, adaptation and innovation

The Company has absorbed the technology given by Pechiney Rhenalu of France fully and the Company is in a position to produce its products matching international quality.

C. Foreign Exchange Earnings and Outgo

- a) Activities relating to exports; initiatives taken to increase exports; development of new products and services; and export plans:
During the year under review, the Company exported 3746 MT of rolled products i.e., towards job work.

	<i>Rs. lakhs</i>	
	2003	2002
b) Total foreign exchange used and earned:		
Used	72	64
Earned	—	NIL



CORPORATE GOVERNANCE

We at Pennar Aluminium Company Limited are committed to the concept and philosophy of corporate governance as a means of effective internal control, fair and transparent decision making process and fullest support of the Board and Management for enhancing customer satisfaction and shareholder value.

Given below is a brief report on the practices followed at Pennar Aluminium Company Limited towards achievement of good Corporate Governance.

Composition of Board

The Board comprises five Directors. The non-executive directors bring with them rich and varied experience in different facets of corporate functioning. The Chairman of the Board is a non-executive director. The Board formulates policy decisions so as to lead and control the Company.

Board Meetings

The attendance at various meetings of the Board of Directors and the Annual General Meeting during the year 2003 is as follows :

Director	No. of Meetings held	Attended	Attended last AGM
Mr. Nrupender Rao	5	5	Yes
Mr.G.V. Ranganadham	5	3	Yes
Dr. P.P. Shastri	5	4	Yes
Mr. S.N. Mathur*	2	2	No
Mr. A.B.Telang *	3	1	N.A.
Mr. P. Bhaskara Rao	5	5	Yes

* Mr.A.B.Telang was appointed as Nominee of BIFR in place of Mr.S.N.Mathur w.e.f. 27th June, 2003.

Number of other directorships held:

Director	Category	Number of directorships held
Mr. Nrupender Rao	Chairman & Non-Executive Director	5
Mr. G.V.Ranganadham	Non-Executive Director	1
Dr. P.P. Shastri	Non-Executive Director	1
Mr. A.B.Telang	Non-Executive Director	7
Mr. P. Bhaskara Rao	Whole-time Director	4

Audit Committee

The Audit Committee of the Board of Directors of the Company was constituted to review various areas of audit and accounts. The Audit Committee comprises Mr. G.V.Ranganadham (Chairman), Dr P.P.Shastri and Mr.A.B.Telang. The terms of reference of the Audit Committee have been in conformity with the provisions of the listing agreement and the Companies Act.

Share Transfer Committee

The Board had delegated the authority to approve transfer of shares to a Committee of Directors. The meetings of the committee are held every month to approve transfers, transmissions, splitting and consolidation of shares issued by the Company. The minutes of the Meetings of the Share Transfer Committee are placed before the Board for its information.

Compliance

The Secretarial Department headed by the Company Secretary is responsible for compliance in respect of company law and other allied laws, SEBI, Stock Exchange rules and regulations.

Management Information System

As a matter of transparency and good governance, key operational and financial data and also other relevant information is furnished to the Directors in every meeting of the Board.