

**THE
ANDHRA PETROCHEMICALS
LIMITED**

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**18th Annual Report
2001 - 02**

THE ANDHRA PETROCHEMICALS LIMITED

Board of Directors

Sri M.R.B. Punja (Chairman)
Dr. Mullapudi Harischandra Prasad
(Managing Director)
Dr. B.B. Ramaiah
Sri Salil Kumar Dutta (Nominee of IDBI)
Sri Davendra Mittal (Nominee of ADB)
Sri P.C. Parakh, I.A.S.
Sri M. Gopalakrishna, I.A.S.(Rtd.)
Sri Justice G. Ramanujam (Rtd.)
Sri A.A. Krishnan
Sri P. Narendranath Chowdary
Sri M. Thimmaraja

Company's Equity Shares are listed on the following Stock Exchanges :

The Hyderabad Stock Exchange Ltd.

(Regional Stock Exchange)
3-6-275, Himayatnagar
Hyderabad - 500 029

Madras Stock Exchange Ltd.

Exchange Building
11, Second Line Beach
P. B. No. 183
Chennai - 600 001

The Stock Exchange, Mumbai

Phiroze Jeejeebhoy Towers
Dalal Street
Mumbai - 400 001

Annual Listing Fees for the period 2002-03
has been paid to all the Stock Exchanges.

General Manager (Finance) & Secretary

Sri K.A.Prasad

Auditors

M/s. Brahmayya & Co.,
Chartered Accountants
26-13-37, Sanyasiraju Road,
Gandhi Nagar
Vijayawada - 520 003

Cost Auditors

M/s. Narasimha Murthy & Co.,
104, Pavani Estate
3-6-365, Himayatnagar
Hyderabad - 500 029

Bankers

State Bank of India
State Bank of Hyderabad
Andhra Bank

Registered Office

Venkatarayapuram
Tanuku - 534 215
West Godavari Dist.
Andhra Pradesh

Factory

Opp. Naval Dockyard
Post Box No. 1401
Visakhapatnam - 530 014
Andhra Pradesh

R.T. Agents (Demat)

M/s. XL Softech Systems Ltd.,
3, Sagar Society, Road No.2, Banjara Hills
Hyderabad - 500 034.

Physical Segment

In-house

Notice calling Extraordinary General Meeting of the members of the Company, scheduled on Tuesday, the 24th December, 2002, immediately after the conclusion of the Annual General Meeting is attached to this Annual Report.

The Andhra Petrochemicals Limited**NOTICE**

NOTICE is hereby given that the Eighteenth Annual General Meeting of THE ANDHRA PETROCHEMICALS LIMITED will be held at the Registered Office of the Company, Venkatarayapuram, Tanuku, West Godavari Dist., A.P., on Tuesday, the 24th December, 2002 at 3.00 p.m. to transact the following business:

1. To receive, consider and adopt the Audited Profit and Loss Account for the year ended 31st March, 2002 and the Balance Sheet as at that date and the Reports of the Board of Directors and Auditors thereon.
2. To appoint a Director in place of Sri P C Parakh, I.A.S., who retires by rotation and being eligible offers himself for reappointment.
3. To appoint a Director in place of Sri A A Krishnan who retires by rotation and being eligible offers himself for reappointment.
4. To appoint a Director in place of Sri M Thimmaraja who retires by rotation and being eligible offers himself for reappointment.
5. To consider and, if thought fit, to pass with or without modification(s), the following resolution as a Special Resolution.

"RESOLVED THAT pursuant to the provisions of Section 224A of the Companies Act, 1956, M/s Brahmaya & Co., Chartered Accountants, Vijayawada be and are hereby reappointed as Auditors of the Company to hold office till the conclusion of the next Annual General Meeting on such remuneration as may be decided by the Board of Directors."

Hyderabad By Order of the Board
21.10.2002 Dr MULLAPUDI HARISCHANDRA PRASAD
Managing Director
Registered Office:
Venkatarayapuram
TANUKU - 534 215
Andhra Pradesh

NOTES:

1. An Explanatory Statement pursuant to Section 173 of the Companies Act, 1956 is annexed hereto and the documents referred to therein are open for inspection at the Registered Office of the Company during business hours of any working day.
2. A Member entitled to attend and vote at the Meeting is entitled to appoint one or more proxies to attend and vote instead of himself and such proxy need not be a member of the Company. Proxy Forms duly stamped and executed should reach the Registered Office of the Company not less than 48 hours before the commencement of the meeting.
3. The Register of Members and Share Transfer Books of the Company will remain closed from 17th December, 2002 to 24th December, 2002 (both days inclusive).
4. Shareholders seeking any further information on the accounts and operations of the Company at the Annual General Meeting are requested to send their queries to the Company at the Registered Office at least seven days before the date of the meeting.
5. Members who hold shares in dematerialised form are requested to write their client ID and DPID numbers on the attendance slip for easy identification of attendance at the Meeting.

EXPLANATORY STATEMENT UNDER SECTION 173 OF THE COMPANIES ACT, 1956:**Item Nos.2, 3 and 4**

In terms of Clause 49 of the Listing Agreement the particulars of Directors who are proposed to be appointed/re-appointed at this meeting are given below:

Sri P C Parakh, IAS., appointed on the Board of the Company on 25.2.1989 as Nominee Director of The Andhra Pradesh Industrial Development Corporation Ltd., (Promoter Company). He has rich experience in managing various industries in the Public Sector as Director/Chairman. Presently he is a member of Commissionerate of Enquiries, Government of Andhra Pradesh. He is a member of the Audit Committee of the Company.

Sri A A Krishnan joined the Board on 19.10.1992. He is a Chemical Engineer with more than 30 years experience in Petrochemical industry. He retired as Executive Director(Projects), IPCL. He is a Director on the Boards of:

1. Vinati Organics Ltd.
2. Petron Engineering Construction Ltd.,
3. Mafi Trends Turbomachinery India Pvt.Ltd.

Sri M Thimmaraja joined as Director on the Board on 7.11.1992. He is a graduate in Chemical Engineering and Post Graduate in Business Management from the University of Florida, U.S.A. He has experience in Project Management and Marketing of Sugar, Organic and Inorganic Chemicals. He is a member of the "Shareholders/Investors Grievance Committee" of the Company. Presently he is a Joint Managing Director of The Andhra Sugars Limited, Co-promoter company. He is also a Director on the Board of JOCIL Limited. He is a member of the following Committees:

Name of the Company	Nature of Committee
The Andhra Sugars Ltd.	i) Shareholders' Grievance Committee ii) Share Transfer Committee
JOCIL Limited	i) Share Transfer and Shareholders / Investors Grievance Committee ii) Audit Committee

Sri M Thimmaraja is related to Dr Mullapudi Harischandra Prasad, Managing Director.

None of the other Directors is concerned or interested in the said resolution.

Hyderabad By Order of the Board
21.10.2002 Dr MULLAPUDI HARISCHANDRA PRASAD
Managing Director

Registered Office:
Venkatarayapuram
TANUKU - 534 215
Andhra Pradesh

The Andhra Petrochemicals Limited**DIRECTORS' REPORT TO THE MEMBERS**

Your Directors present the Eighteenth Annual Report and Statement of Accounts for the year ended 31st March, 2002.

FINANCIAL RESULTS:

(Rs. in Lakhs)

	2001-2002	2000-2001
Net Sales(Excl. of excise duty)	8541.79	12454.61
Gross Profit before Interest & Depreciation	1351.38	1883.96
Less: Interest	1331.38	1451.82
Depreciation	1160.48	1164.32
Profit/(Loss) for the year	(1140.48)	(732.18)
Less: Excess provision of interest in earlier years credited back (Resulting from Financial Restructuring Package)	3.98	61.66
Extraordinary and prior year adjustments	202.86	—
Net loss for the year	(933.64)	(670.52)
Add: Balance brought forward from the Previous year	(4706.28)	(4035.76)
Balance carried to Balance Sheet	(5639.92)	(4706.28)

MANAGEMENT DISCUSSION AND ANALYSIS:

The strategy of APL is to meet the threat the Indian Oxo-Alcohols industry is facing due to liberalisation and international oversupply position and competition.

Increased competition due to dumping of Oxo-Alcohols and its end products by Multinationals and consequent pressure on prices is the major risk and concern to the Company. The Management is representing to the Government to cover additional Countries for imposition of Anti-Dumping Duty on Oxo-Alcohols.

The Company has laid out Internal Control procedures and systems covering Key areas. The procedures and systems are updated on continual basis. An Audit Committee of the Board has been functioning much before the introduction of Corporate Governance.

The Company as on 31.3.2002 had 250 employees on its rolls.

OPERATIONS:

The Plant operations were suspended during the first quarter of the year due to uneconomic market prices. The Company achieved a production of 27,702 MTs and sales of 27,093 MTs during the year. Sales and other income for the year under review was Rs.10190.12 lakhs as compared to Rs.14757.79 lakhs in the previous year.

PROSPECTS FOR THE CURRENT YEAR:

In view of the increased International competition, prospects for the current year are dependant upon the continuation of the existing Anti-Dumping Duty and its extension of coverage to the additional Countries.

DEPOSITS:

The Company has not accepted any Fixed Deposits during the year.

INDUSTRIAL RELATIONS:

Industrial relations continued to be cordial throughout the year. The Directors wish to place on record their appreciation of the dedication of the employees at all levels.

SAFETY, HEALTH AND ENVIRONMENT:

Safety, Occupational health and Environment protection continues to be accorded priority and the year was accident free. Pollution Control devices have been functioning satisfactorily.

INSURANCE:

All the insurable Assets of the Company including Plant and Machinery, Buildings and Inventories are insured on reinstatement value basis.

DIRECTORS:

Sri P.C.Parakh, I.A.S., Sri A.A.Krishnan and Sri M.Thimmaraja retire by rotation and being eligible, offer themselves for reappointment. During the year Asian Development Bank nominated Sri Davendra Mittal as Director on the Board. Industrial Development Bank of India has nominated Sri Sahil Kumar Dutta as Director on the Board in place of Sri N.Biswas.

The Board of Directors wish to place on record its appreciation of the services rendered by Sri Biswas during his tenure of office.

AUDITORS:

M/s Brahmayya & Co., Vijayawada, Auditors of the Company hold office until the conclusion of the ensuing Annual General Meeting and are eligible for reappointment as Auditors.

COST AUDITORS:

The Board with the Approval of the Company Law Board has Appointed M/s Narasimha Murthy & Co., as Cost Auditors for the year ended 31st March, 2002.

SICK INDUSTRIAL COMPANIES(SPECIAL PROVISIONS) ACT, 1985:

It would be observed that more than 50% of the Peak Net Worth of the Company during the preceding Four Financial Years was eroded as of 31st March, 2002. An Extraordinary General Meeting is therefore being held to consider the position as required under Section 23 of the said Act.

PARTICULARS OF EMPLOYEES:

There is no employee getting remuneration as prescribed under Section 217(2A) of the Companies Act, 1956 read with Companies (Particulars of Employees) Rules, 1975 as amended.

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

Particulars prescribed under Section 217(1)(c) of the Companies Act, 1956 read with Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 is given in Annexure 'A' to this report.

DEMATERIALISATION OF SHARES:

As directed by SEBI, Company's shares are traded compulsorily in dematerialised form from September 25, 2000. The Company has entered into agreements with National Securities Depository Limited (NSDL) and Central Depository Services (India) Limited (CDSL) for this purpose. As on 31st March, 2002, 2,27,73,183 shares of the Company stands dematerialised.

DIRECTORS' RESPONSIBILITY STATEMENT:

It is hereby confirmed:

- i) that in the preparation of Annual Accounts, the applicable Accounting Standards have been followed along with proper explanation relating to material departures, if any.
- ii) that Accounting Policies have been selected and applied them consistently and made judgements and estimates that are 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 that period.
- iii) that proper and sufficient care has been taken 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.
- iv) that the Directors had prepared the Annual Accounts on a going concern basis.

REPORT ON CORPORATE GOVERNANCE:

The report on Corporate Governance in accordance with Clause 49 of the Listing Agreement with Stock Exchanges is attached to this report vide Annexure 'B'.

ACKNOWLEDGEMENT:

Your Directors acknowledge the co-operation and continued valuable support received from Central and State Governments, The Andhra Sugars Limited, APIDC, Financial Institutions, Banks, HPCL, Davy Process Technology, Shareholders, Customers and Suppliers.

Hyderabad
21-10-2002

On behalf of the Board
M R B Punja
Chairman

The Andhra Petrochemicals Limited**Annexure 'A' to the Directors' Report:**

Additional information as per Section 217(1)(c) of the Companies Act, 1956 read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 for the year ended 31st March, 2002.

A. Conservation of Energy:

The plant was operated consistently on steady loads realising higher production at optimum level, based on Propylene available, realising lower consumption per ton of production both in Electric power and steam resulting in considerable energy savings.

FORM A**A. Power and Fuel Consumption:**

	Current Year	Previous Year
1. Electricity:		
a. Purchased		
Units	1,01,39,215	1,22,53,541
Total Amount(Rs.)	2,51,77,694	3,93,33,867
Rate/Unit(Rs.)	2.48	3.21
b. Own generation		
i. Through diesel generator		
Units	1,01,04,150	1,11,90,640
Units per litre of diesel oil	3.72	3.84
Cost/Unit(Rs.)	3.97	3.86
ii. Through steam turbines/generator	N.A	N.A
2. Coal:		
Quantity(Tonnes)	N.A	N.A
Total Amount(Rs.)	N.A	N.A
Average Rate	N.A	N.A
3.a)Furnace Oil:		
Quantity(KL)	1,940.000	730.000
Total Amount(Rs.)	1,60,35,411	64,12,059
Average Rate	8,265.68	8,783.64
b)LSHS:		
Quantity(KL)	896.774	2,970.567
Total Amount(Rs.)	71,86,707	2,77,83,335
Average Rate	8,013.96	9,352.87
4. Others/Internal generation		
Oxo Alcohol Residue:		
Quantity(MT)	1,401.000	1,237.000
Total Amount(Rs.)	NIL	NIL
Average Rate/MT	NIL	NIL

The Andhra Petrochemicals Limited**B. Consumption per tonne of production:**

Product	Current Year		Previous Year	
	Power KWH	Steam MT	Power KWH	Steam MT
2-Ethyl Hexanol	768	2.46	706	2.37
N-Butanol	634	2.07	626	2.14
I-Butanol	646	2.11	658	2.25

B. Technology Absorption :**FORM B****I. 1. Research and Development:**

New type of pre-reformer catalyst and improved treatment for sea water cooling system were implemented.

2. Benefits derived:

Realised longer life of pre-reformer catalyst with resultant cost saving improved quality of cooling sea water.

3. Plan of Action:

Continued improvements in plant productivity and efficiencies.

4. Expenditure on Research & Development (R & D):

The Company has incurred Rs.21.47 lakhs on R&D.

II. Technology Absorption, Adaptation and Innovation:**1. Efforts made:**

The technology has been absorbed well. A number of in-house improvements for better productivity were implemented.

2. Benefits:

The Company has realised higher output and cost savings.

III. Imported Technology:

There is no import of technology during the year.

C. Foreign Exchange Earning and Outgo (on cash basis):
(Rs. in Lakhs)

	For the Year ended 31-03-2002	For the Year ended 31-03-2001
i. Earning	NIL	NIL
ii. Outgo	219.60	42.50

Hyderabad
21-10-2002

On behalf of the Board
M R B Punja
Chairman

Annexure 'B' to the Directors' Report:**REPORT ON CORPORATE GOVERNANCE:****A. MANDATORY REQUIREMENTS:****a) Company's philosophy on Corporate Governance:**

Your Company believes good Corporate Governance results in long term shareholder value and enhances interest of other stakeholders. Code of Corporate Governance introduced by the Securities & Exchange Board of India (SEBI) is required to be implemented by 31st March, 2002 in the case of your Company. Applicable mandatory provisions of Corporate Governance have been implemented by your Company.

b) Board of Directors

Board comprises of 11 directors, of whom 10 are non-executive Directors. 5 of the non-executive directors, including non-executive chairman, are independent having no material / pecuniary relationship with the Company. The composition of the Board is given below:

Name of Director	Promoter, Executive, Non-executive Independent, Non-executive Nominee	No. of other Companies* in which		No. of other Board Committees in which	
		Director	Chairman	Chairman	Member
Shri M R B Punja, Chairman	Non-executive, Independent	13	5	4	3
Dr Mullapudi Harisachandra Prasad Managing Director	Executive, Promoter Group	1	7	4	4
Dr B B Ramaiah	Non-executive, Promoter Group	1	---	---	---
Shri N Biswas (Nominee of IDBI as Lender) (Till 7.5.2002)	Non-executive, Independent	2	---	---	---
Shri Sali! Kumar Dutta (Nominee of IDBI as Lender) (w.e.f. 8.5.2002)	Non-executive, Independent	---	---	---	---
Shri P C Parakh, I.A.S.	Non-executive, Promoter Group	---	---	---	---
Shri M Gopalakrishna I.A.S. (Retd)	Non-executive, Promoter Group	5	3	---	---
Shri Davendra Mittal ++ (Nominee of ADB as Lender)	Non-executive, Independent	2	---	---	---
Shri Justice G Ramanujam (Retd)	Non-executive, Independent	7	---	4	2
Shri A A Krishnan	-do-	3	---	---	---
Shri P Narendranath Chowdary	Non-executive, Promoter Group	6	---	---	3
Shri M Thimmaraja	-do-	2	---	---	4

* (including private limited companies)

++ appointed as a director w.e.f. 8.2.2002

The Andhra Petrochemicals Limited**Attendance of Directors at Board Meetings and Annual General Meeting:**

4 Board Meetings were held in the last Financial Year 2001-02 on the following dates:

21.4.2001, 16.7.2001, 20.10.2001 and 21.1.2002

Last Annual General Meeting (AGM) was held on 29.9.2001.

Attendance of each Director at the Board Meetings and last AGM:

Name of Director	Attendance at	
	Board Meetings	AGM
Shri M R B Punja	4	—
Dr Mallapudi Harischandra Prasad	4	—
Dr B B Ramaiah	3	✓
Shri N Biswas	2	—
Shri P C Parakh, I.A.S.	2	—
Shri M Gopalakrishna I.A.S. (Retd)	4	—
Shri Davendra Mittal	—	—
Shri Justice G Ramanujam (Retd)	3	✓
Shri A A Krishnan	4	—
Shri P Narendranath Chowdary	3	✓
Shri M Thimmaraja	3	✓

c) Audit Committee

Board Audit Committee was formed on 10.9.1989. The Committee was reconstituted on 30.5.1996, comprising Shri Justice G Ramanujam (Retd), Shri P C Parakh, I.A.S., and Shri N Biswas. Shri M Gopalakrishna I.A.S. (Retd) was inducted as fourth member w.e.f. 21.1.2002. Shri P C Parakh, I.A.S. and Shri M Gopalakrishna I.A.S. (Retd) are non-executive directors with financial and accounting knowledge, belonging to promoter group. Shri Justice G Ramanujam (Retd), Chairman of the Audit Committee and Shri N Biswas are non-executive, independent directors.

3 Audit Committee Meetings were held in the last year 2001-02 on 21.4.2001, 20.10.2001 and 21.1.2002.

Attendance of Directors at the Audit Committee Meetings:

Name of the Member / Director	Attendance at	
	Audit Committee Meetings	
Shri Justice G Ramanujam (Retd)	3	
Shri P C Parakh, I.A.S.	2	
Shri M Gopalakrishna I.A.S. (Retd)	1	
Shri N Biswas	2	

Broad terms of reference of the Audit Committee:

- ✓ Approving and improving the audit procedures and techniques.
- ✓ Reviewing audit reports of both internal and external auditors with auditors and management.
- ✓ Reviewing financial reporting system, internal control systems and control procedures.
- ✓ Ensuring compliance with statutory guidelines.

d) Shareholders / Investors Grievance Committee

This Committee comprises of Dr B B Ramaiah as Chairman and Shri P Narendranath Chowdary and Shri M Thimmaraja as Members. Shri K A Prasad, Company Secretary, is the Compliance Officer.

Investors Complaints received during the year ended 31.3.2002

No. of shareholders complaints received so far	:	166
No. of complaints not solved to the satisfaction of the shareholders	:	Nil
No. of pending share transfers (as at 31.3.2002)	:	15

e) Details of last 3 Annual General Meetings:

Location and time of last 3 Annual General Meetings:

Year	Location	Date & Time
1999	Regd. Office, Venkatarayapuram	29 th September, 1999, 3.00 p.m.
2000	-do-	29 th September, 2000, 3.00 p.m.
2001	-do-	29 th September, 2001, 3.00 p.m.

No special resolution was required to be put through the Postal Ballot.

f) Disclosures:

- i) No transaction of material nature has been entered into by the Company with Directors or Management and their relatives etc., that may have potential conflict with the interest of the Company at large. The Register of Contracts containing transactions in which Directors are interested, is placed before the Board regularly.
- ii) No penalties or strictures were imposed on the Company for non-compliance by Stock Exchange / SEBI or any authority on any matter related to capital markets during last 3 years.

g) Means of Communication:

- ▶ Half-yearly report sent to each shareholder's residence : Half Yearly financial results are published in news papers having wide coverage
- ▶ News papers in which quarterly results are normally published : The Business Line (English) and Andhra Bhoomi (Telugu)
- ▶ Any website where results or official news are displayed : Not Applicable
- ▶ Whether Management Discussion & Analysis is a part of the Annual Report or not : Yes.