

**THE
ANDHRA PETROCHEMICALS
LIMITED**

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**19th Annual Report
2002 - 03**

THE ANDHRA PETROCHEMICALS LIMITED

Board of Directors

Sri M.R.B. Punja (Chairman)
Dr. Mullapudi Harischandra Prasad
(Managing Director)
Dr. B.B. Ramaiah
Sri M. Gopalakrishna, I.A.S.(Rtd.)
Sri P.C. Parakh, I.A.S.
Sri Salil Kumar Dutta (Nominee of IDBI)
Sri Davendra Mittal (Nominee of ADB)
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)
6-3-654, Adjacent to Erramanzil Bus Stop,
Somajiguda, Hyderabad - 500 082

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 2003-04
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.
Tel : 08819 - 224075

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

The Andhra Petrochemicals Limited

Sri Justice G Ramanujam (Rtd.) joined the Board w.e.f. 1.7.1989 as an Independent Director. He holds Degrees in Law and Maths (Hons), was elevated as Madras High Court Judge, dealt with all branches of law viz., Taxation, Labour, Company and Constitution law. He was Vice-Chairman, Central, Administrative Tribunal, Madras Bench and Chairman, Tamilnadu Fifth Pay Commission.

He is the Chairman of Audit Committee of the Company. He is also Director on the Boards of Lakshmi Machine Works Ltd.; Viswapriya Financial Services & Securities Ltd.; Viswapriya Gold Hire Purchase Ltd.; The Andhra Sugars Ltd.; The Lakshmi Mills Company Ltd.; Tamilnadu Jai Bharath Mills Ltd.; Madras Stock Exchange Ltd., and Rousel Health Care (India) Pvt. Ltd.

He is also Chairman / Member on the following Committees:

Name of the Company	Name of the Committee	Chairman/Member
The Andhra Sugars Ltd.	Shareholders Grievance Committee	Chairman
The Lakshmi Mills Co. Ltd.,	Audit Committee	Chairman
"	Shareholders Grievance Committee	Member
Tamilnadu Jai Bharath Mills Ltd.,	Audit Committee	Chairman
"	Shareholders Grievance Committee	Member
Lakshmi Machine Works Ltd.,	Audit Committee	Chairman
"	Shareholders Grievance Committee	Member
Madras Stock Exchange Ltd.,	Ethics Committee	Chairman

Sri Pendyala Narendranath Chowdary joined as Director on the Board of the Company as Noninee of The Andhra Sugars Ltd., Co-promoter Company w.e.f. 8.8.1996. He is a Graduate in Faculty of Science. He joined The Andhra Sugars Ltd., as a Director in the year 1968 and subsequently elevated as Wholetime Director in 1976 and Joint Managing Director in 1983 looking after day-to-day affairs of chemical complexes at Kovvur and Saggonda. As Joint Managing Director, he was instrumental in setting-up new complex at Saggonda with installation of energy saving and environment friendly chemical plant. He is a Member of 'Shareholders / Investors Grievance Committee' of the Company.

He is also Director on the Boards of Hindustan Allied Chemicals Ltd.; The Andhra Farm Chemicals Corporation Ltd.; Sree Akkamamba Textiles Ltd.; Sree Satyanarayana Spinning Mills Ltd., and JOCIL Limited. He is Member of the following Committees:

Name of the Company	Name of the Committee
The Andhra Sugars Ltd.,	Shareholders Grievance Committee
"	Share Transfer Committee
JOCIL Limited	Share Transfer and Shareholders / Investors Grievance Committee

Sri Pendyala Narendranath Chowdary is related to Dr B B Ramaiah, Director of the Company.

EXPLANATORY STATEMENT PURSUANT TO SECTION 173(2) OF THE COMPANIES ACT, 1956:**Item No.6:**

The Equity Shares of the Company are listed on the following Stock Exchanges:

1. The Hyderabad Stock Exchange Ltd., (HSE)
2. Madras Stock Exchange Ltd., (MSE)
3. The Stock Exchange, Mumbai (BSE)

The Company Equity Shares are specified for settlement only in dematerialised form for all investors since 25th September, 2000.

With the extensive networking connectivity and extension of trading terminals across the country, investors have access to deal in the Equity Shares of the Company. The bulk of the trading in Equity Shares of the Company takes place on the BSE. Trading in Company Equity Shares on the other two Stock Exchanges i.e., HSE & MSE is negligible. Listing fees paid to these two Stock Exchanges is disproportionately higher compared to the trading volumes of Equity Shares of the Company. As part of cost reduction measures, without effecting the interest of investors and the liquidity of Company Equity Shares, it is proposed to voluntarily delist the Equity Shares of the Company from the Stock Exchanges at Madras and Hyderabad in terms of the Securities and Exchange Board of India (Delisting of Securities) Guidelines, 2003.

The Shares have been listed with Hyderabad and Madras Stock Exchanges for the past 3-years and continued listing with The Stock Exchange, Mumbai will meet the delisting guidelines.

Since the approval of members is required for such voluntary delisting by way of a Special Resolution, the Directors commend the passing of the Special Resolution.

None of the Directors of the Company, except Sri Justice G Ramanujam (Rtd.) in the case of MSE, is concerned or interested in the above resolution.

Hyderabad
29.07.2003

By Order of the Board
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 Nineteenth Annual Report and Statement of Accounts for the year ended 31st March, 2003.

FINANCIAL RESULTS: (Rs. in Lakhs)

	2002-2003	2001-2002
Net Sales (Excl. of excise duty)	16002.92	8629.62
Gross Profit before Interest & Depreciation	5295.01	1355.36
Less: Interest	1361.23	1331.38
Depreciation	1148.18	1160.48
Profit / (Loss) for the year	2785.60	(1136.50)
Add / Less: Extraordinary items:		
1. Excess provision of interest in earlier years credited back (Resulting from Financial Restructuring Package)	80.59	—
2. Valuation of Ropac Catalyst	—	202.86
Net Profit / (Loss) for the year	2866.19	(933.64)
Provision for Income Tax (MAT)	91.00	—
Net Profit / (Loss) after Tax	2775.19	(933.64)
Add/Less: Balance of loss brought forward from previous year	(5639.92)	(4706.28)
Balance of loss carried to Balance Sheet	(2864.73)	(5639.92)

MANAGEMENT DISCUSSION AND ANALYSIS:

Your Company continues to face a highly competitive situation and pressures arising out of liberalisation of Indian economy and the impact of recession in world economy. This situation has been accentuated due to oversupply of Oxo-Alcohols by imports. Increased competition by way of dumping of Oxo-Alcohols at cheaper prices from exporting countries and consequent pressure on domestic sale price is the major concern of your Company. Prospects of the Company are dependent on international prices and continuance of Anti-Dumping duties.

Also the turmoil witnessed in the international oil markets has resulted in a volatile and fluctuating market which affects domestic sale prices.

With improvement in supplies of raw-material, there was significant increase in capacity utilisation. The Anti-Dumping Duties and support of the Government of India and improved sales helped the Company to post good results.

With the expected improvement in the rate of economic growth, the industry's prospects may be better. On the whole, the performance for the current year may therefore be satisfactory.

Internal Control, Audit and Systems:

The Company has effective and adequate Internal Control Systems to ensure reliable Financial Reporting, Safeguarding of Assets, Management of risks and adherence to good management principles and policies. The Internal Controls are supplemented by an efficient Internal Audit being carried out by an external firm of Chartered Accountants. The Internal Controls are reviewed regularly at management level and also at the Audit Committee Meetings.

The Audit Committee reviews the findings of external and internal Auditors and the adequacy of Internal Control System.

Human Resources and Industrial Relations:

Your Company has 282 well qualified employees who are highly motivated and result oriented. The Company's HR processes ensure skills improvement and competence building. The industrial relations continued to be cordial.

OPERATIONS:

The Company achieved a production of 41,211 MT and sales of 38,429 MT during the year. Sales and other income for the year under review was Rs.19017.71 lakhs as compared to Rs.10281.92 lakhs in the previous year.

The extraordinary item consists of waiver of interest on account of one time settlement of UTI & CDC Term Loans.

DEPOSITS:

The Company has not accepted any fixed deposits during the year.

SAFETY, HEALTH AND ENVIRONMENT:

Safety, Occupational health and Environment protection continues to be accorded high 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 M R B Punja, Sri Justice G Ramanujam (Rtd.) and Sri P Narendranath Chowdary retire by rotation and being eligible, offer themselves for reappointment.

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, 2003.

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)(e) of the Companies Act, 1956 read with Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 are given in Annexure 'A' to this Report.

The Andhra Petrochemicals Limited**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, 2003, 2,81,93,438 shares of the Company stand 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 consistently and judgements and estimates made 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 year.
- 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 Government authorities, The Andhra Sugars Limited, APIDC, Financial Institutions, Banks, HPCL, IOCL, Davy Process Technology, Shareholders, Customers and Suppliers. The Directors wish to place on record their appreciation of the dedicated services of all the executives and employees of the Company.

Hyderabad
29-07-2003

On behalf of the Board
M R B Punja
Chairman

Annexure 'A' to the Directors' Report:

Additional information as per Section 217(1)(e) 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, 2003.

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	1,39,29,257	1,01,39,215
Total Amount(Rs.)	3,30,39,916	2,51,77,694
Rate/Unit(Rs.)	2.37	2.48
b. Own generation		
i. Through diesel generator		
Units	1,31,47,600	1,01,04,150
Units per litre of diesel oil	3.83	3.72
Cost/Unit(Rs.)	4.67	3.97
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)	2,329.987	1,940.000
Total Amount(Rs.)	2,43,33,235	1,60,35,411
Average Rate	10,443.51	8,265.68
b)LSHS:		
Quantity(KL)	1,556.170	896.774
Total Amount(Rs.)	1,64,92,912	71,86,707
Average Rate	10,598.40	8,013.96
4. Others/Internal generation		
Oxo Alcohol Residue:		
Quantity(MT)	2,641.000	1,401.000
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	Steam	Power	Steam
	KWH	MT	KWH	MT
2-Ethyl Hexanol	710	2.39	768	2.46
N-Butanol	586	2.01	634	2.07
1-Butanol	594	2.03	646	2.11

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

Plant performance has been improved by way of improved efficiencies through further optimisation of operations. Electrical power distribution system has been improved for better reliability. Realised certain reduction in power consumption and capacity increase of some compressors by changing to higher efficiency valves.

2. Benefits derived:

Realised higher plant capacity coupled with improved efficiencies.

3. Plan of Action:

Concentrate on energy conservation.

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

The Company has incurred Rs.25.95 lakhs on Research and Development

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

The technology has been fully absorbed. A number of improvements were implemented in the process areas as well as in certain equipments.

2. Benefits:

The Company has realised higher production and better efficiencies.

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 31-03-2003	For the Year ended 31-03-2002
i. Earning	NIL	NIL
ii. Outgo	729.68	219.60

On behalf of the Board
M R B Punja
Chairman

Hyderabad
29.07.2003

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

Your Company believes observance of good Corporate Governance policy serves the best interests of all stake holders encompassing customers, employees, shareholders and the community in which the Company operates. Applicable mandatory provisions of Corporate Governance have been implemented by your Company to ensure integrity, transparency and social accountability in all its business practices and dealings.

b) Board of Directors

Board comprises 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, who have a wide and varied experience in different disciplines of corporate working.

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	12	5	5	4
Dr Mullanpudi Harischandra Prasad Managing Director	Executive, Promoter Group	1	7	5	1
Dr B B Ramaiah	Non-executive, Promoter Group	1	—	—	—
Shri M Gopalakrishna I.A.S. (Retd)	Non-executive, Promoter Group	4	3	—	—
Shri P C Parakh, I.A.S.	Non-executive, Promoter Group	—	—	—	—
Shri N Biswas (Nominee of IDBI as Lender, upto 7.5 2002)	Non-executive, Independent	2	—	—	—
Shri Salil Kumar Dutta (Nominee of IDBI as Lender, w.e.f. 8.5.2002)	Non-executive, Independent	—	—	—	—
Shri Davendra Mittal (Nominee of ADB as Lender)	Non-executive, Independent	3	—	—	—
Shri Justice G Ramanujam (Retd)	Non-executive, Independent	8	—	5	3
Shri A A Krishnan	Non-executive, Independent	4	—	—	—
Shri P Narendranath Chowdary	Non-executive, Promoter Group	6	—	—	3
Shri M Thimmaraja	Non-executive, Promoter Group	2	—	—	4

* including private limited companies