



# *Empee Sugars and Chemicals Limited*



*Annual Report 1999-2000*

**BOARD OF DIRECTORS**

Sri. M.P. Purushothaman      Chairman & Managing Director  
Smt. A.K. Aruna  
Sri. M. Ravindran  
Dr. M. Shashidaran  
Ms. Nisha Purushothaman

**COMPANY SECRETARY**

Mr. A. Narayanan

**AUDITORS**

R. Rajagopalan  
Chartered Accountant  
15, Station Road  
West Mambalam  
Chennai - 600 033.

**BANKERS**


Indian Bank  
Union Bank of India  
Bank of Maharashtra  
Federal Bank Ltd.

**REGISTERED OFFICE & FACTORY**

Ayyapareddipalem  
Naidupet - 524 126  
Nellore Dist.,  
Andhra Pradesh.

**ADMINISTRATIVE OFFICE**

'Empee Towers'  
59, Harris Road,  
Pudupet,  
Chennai - 600 002.

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## NOTICE TO SHAREHOLDERS

NOTICE is hereby given that the Tenth Annual General Meeting of Empee Sugars and Chemicals Limited will be held on Saturday the 30th September 2000 at 11.00 A.M. at the Registered Office of the Company at the Company's factory premises at Ayyappareddipalem Village, Naidupet Mandal, Pin-524126, Nellore District, Andhra Pradesh to transact the following business.

### ORDINARY BUSINESS

1. To consider and adopt the audited Balance Sheet of the Company as at 31st March 2000, the Profit and Loss Account for the year ended on that date, the report of the Auditors thereon and the report of the Board of Directors.
2. To record the retirement by rotation of Dr. M. Shashidaran and his intention not to seek reappointment.
3. To appoint a Director in the place of Ms. Nisha Purushothaman who retires by rotation and being eligible offers herself for reappointment.
4. To appoint auditors of the Company and to fix their remuneration. Mr. R. Rajagopalan, Chartered Accountant, Chennai, who retires at this meeting, being eligible offers himself for reappointment.

### SPECIAL BUSINESS

5. To consider and if thought fit to pass with or without modification the following as a special resolution:

RESOLVED that subject to the sanction of the Company Law Board and subject to the Guidelines and Regulations issued by the Securities and Exchange Board of India (SEBI) the Board of Directors be and is authorised to convert, out of the aggregate outstanding sum of about Rs.7.78 crores from the Company to Empee Distilleries Ltd (EDL), the chief promoter company, a sum not exceeding Rs.7.50 crores into equity shares at a discounted rate of not less than Rs.3/- per share and the required number of equity shares of face value of Rs.10/- each out of the unissued capital of the Company be issued and allotted at discount as fully paid shares in pari passu with the existing shares, to EDL by

private placement with the condition that the shares to the extent required be subject to a lock-in as per SEBI Guidelines.

RESOLVED further that the Board of Directors of the Company be and is hereby authorised to submit application to the Company Law Board, offer and allot such number of shares at such discounted rate as CLB will permit to Empee Distilleries Ltd and to comply with the formalities relating to the issue of shares.

6. To consider and if thought fit to pass with or without modification the following as a special resolution:

RESOLVED that in accordance with the provisions of Section 198, 269 & 309 read with Schedule XIII to the Companies Act, 1956, the consent of the Company be and is hereby accorded to the reappointment of Mr.M.P.Purushothaman as Managing Director of the Company for a period of five years with effect from 25.12.2000.

RESOLVED further that for the time being the appointment be without remuneration and in the event of Mr.M.P.Purushothaman opting to draw any remuneration, the Board of Directors be and is hereby authorised to pay him remuneration including salary, commission, perquisites, allowance etc. within such limit as prescribed under Schedule XIII to the Companies Act, 1956 without any further reference to the Company in General Meeting.

RESOLVED further that in the event of the Company deciding to pay remuneration to Mr.M.P.Purushothaman, where in any financial year the Company has no profits or its profits are inadequate, the Company may pay him remuneration by way of salary, perquisite and other allowances not exceeding the ceiling limit prescribed under Schedule XIII to the Companies Act, 1956.

RESOLVED further that the Board of directors of the Company be and is hereby authorised to take such steps as may be necessary to give effect to this resolution.

7. To consider and if thought fit to pass with or without modification the following as a special resolution:

RESOLVED that the authorised share capital of the Company be increased from Rs.40 crores to Rs.45 crores by further creation of 50 lakhs equity shares of Rs.10 each ranking pari passu with the existing equity shares.

## EMPEE SUGARS AND CHEMICALS LTD.

RESOLVED further that Clause V of the Memorandum of Association and Article No.3 of the Articles of Association of the Company be altered accordingly.

/By order of the Board/

Place : Chennai  
Date : 31.8.2000

**M.P.PURUSHOTHAMAN**  
Chairman & Managing Director

**NOTES:**

1. A member entitled to attend and vote at the Meeting is entitled to appoint a proxy to attend and vote on a poll on his behalf and the proxy need not be a member. The proxy form duly completed and stamped must reach

- the Registered Office of the Company not less than 48 hours before the time for holding the aforesaid meeting.
2. The Explanatory Statement setting out material facts, in respect of the business under item No.5, 6 & 7 is annexed hereto.
3. The Register of Members and Share Transfer Books of the Company were closed from 27th September 2000 to 30th September 2000, both days inclusive.
4. Members/Proxies should bring the attendance slip duly filled in for attending the meeting.
5. Members are requested to intimate change if any, in their address to the Company at its Registered Office quoting their folio numbers.
6. Members/Proxies attending the meeting are requested to bring their copy of the Annual Report for reference at the meeting.

**ANNEXURE TO THE NOTICE****EXPLANATORY STATEMENT:****Item No.5**

As the members are aware, the Company has been facing serious financial constraints during the last two years. Some remedial action has to be taken and infusion of fresh funds either by way of equity or long term loans is necessary to turn around the Company. However, the present financial position of the company and particularly the imbalance in the debt-equity ratios renders it very difficult for the company to source fresh funds.

As a first step in the revival process, it is necessary to reduce the debt and increase the equity base by seeking conversion of part of the outstanding loans into equity. The Company's bankers have also been pressing upon the company to take such action.

Empee Distilleries Limited, one of the chief promoters of the Company are holding 46.61% of the issued and paid-up capital. They have also advanced substantial amounts to the Company by way of loans and ICDs and also made equipment lease facilities to the company. As on 31.3.1999 (the date of latest audited Balance sheet), the company owes the said Empee Distilleries Ltd an amount of Rs.7,77,57,102/- without charging any interest.

It was suggested to the said Empee Distilleries Ltd that they should consider converting a substantial part of their outstandings, namely, Rs.7.50 crores into equity capital.

While the said Empee Distilleries Ltd are agreeable in principle to do so, they have pointed out that considering the financial position of the Company and the fact that the company's shares have been currently quoting at prices less than Rs.2/- such conversion can only be at a discounted rate of Rs.3/-. This offer is reasonable and in the interest of the company.

After the conversion, the face value equity of the Company will go up to Rs.42 crores (at the issue price of Rs.3/- per share). The debt equity ratio will thereby substantially improve to about 3:1. This will enable the bankers to increase their exposure to the Company.

Approval of the Company in general meeting is required for *Preferential issue of shares*. For discount issue, besides the general body's approval, sanction of the Company Law Board (CLB) is also required. Application to CLB will be made after the general meeting approves it.

Going by the SEBI Guidelines for preferential allotment dated 4.8.94 (as amended by press release dated 8.8.94), the price to be fixed for the issue shall not be less than the higher of (1) the average of the weekly high and low of the closing price during the last 6 months preceding 30 days prior to 27.7.2000, the date of Board meeting at which this issue was considered and (2) average of the weekly high and low of the closing price of the shares during 2 weeks preceding 30 days prior to the said day (27.7.2000). The higher of the above two rates was Rs.2.76. So the issue price shall be Rs.2.76 per share or more.

As per SEBI (Substantial acquisition of shares and takeovers) Regulations, 1997 the following information pertaining to this issue is furnished. The proposed allottee

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is Empee Distilleries Ltd, one of the chief promoters of the Company. The proposed allotment will increase their holding by more than 5% of the post issued capital of the Company. The price & purpose of issue is as narrated above. Consequent to the allotment no change in the Board of Directors is contemplated. Voting rights and shareholding pattern will change according to the number of shares to be allotted. Precisely as to how many shares will be allotted cannot be stated now because the percentage of discount the Company Law Board (CLB) will allow will determine the exact number of shares. Whether Empee Distilleries Ltd will be vested with power to appoint the majority of Directors will also depend on the exact number of shares that will be allotted to EDL which will be in turn based on the rate of discount that CLB will allow.

Empee Distilleries Limited has issued a consent letter for conversion. It can be inspected at the registered office of the Company. A certificate from the statutory auditors of the Company that the issue is in accordance with the SEBI requirements is available for inspection at the registered office of the company. The certificate will also be laid before the General Meeting.

The approval of the Company by way of special resolution sought pursuant to Section 81(1A) and Section 79(2) of the Companies Act 1956 is recommended by the Board.

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

**Item No. 6**

Mr.M.P.Purushothaman was appointed the Managing Director of the Company with effect from 25.12.1995 for a period of 5 years and his term of office expires on 24.12.2000.

Statutorily the Company has to be managed by a Managing Director. In view of the critical time that the company is passing through, it has to be headed by an able Managing Director. Being the promoter of the company and the Managing Director of the company for 10 years, Mr.M.P.Purushothaman knows well the intricacies of the problems facing the company and is fairly expected to discharge the function of Managing Director well. So far he has not drawn any salary or enjoyed any perquisite from the company. He is agreeable to continue to serve the company at the same terms if reappointed. Reappointment can be made at a time for a period not exceeding 5 years. The Board at its meeting held on 28.8.2000, reappointed him as Managing Director for a further period of 5 years from 25.12.2000 to 24.12.2005, the reappointment being

without remuneration for the time being. The reappointment has to be approved by the company in general meeting. The approval is being sought by proposing the resolution under item No.6.

The approval of the Central Government is not necessary if the provisions of Part I of Schedule XIII are fulfilled. Part I of schedule XIII having been fulfilled Mr.M.P.Purushothaman is entitled to be appointed by the company without approval of the Central Government.

During the tenure of appointment if Mr.M.P.Purushothaman chooses to draw remuneration from this company, authorisation to the Board to pay him remuneration subject to the ceiling provided in schedule XIII, to the Board, has also been proposed in the resolution.

In compliance of clause (1) of Part III of schedule XIII the resolution approving the appointment and payment of remuneration is placed before the members for their approval.

This statement should be treated as an abstract of the terms of the contract with Mr.M.P.Purushothaman for the purpose of Section 302 of the Companies Act 1956.

Mr.M.P.Purushothaman, Mrs.A.K.Aruna, Ms.Nisha Purushothaman and Mr.M.Ravindran Directors are deemed to be concerned or interested in the resolution.

**Item No.7**

The authorised share capital of the Company presently stands at Rs.40 crores. About Rs.17 crores is the present paidup share capital and the unissued capital available for further allotment is only Rs.23 crores. Equity shares of the Company are proposed to be allotted to Empee Distilleries Limited (EDL) at a discount, by conversion of Rs.7.50 crores out of the Company's outstanding loans and other dues to EDL. Subject to Company Law Board's approval, maximum discount proposed is 70%. At that discount the Company will have to allot 2.5 crores equity shares of aggregate face value of Rs.25 crores to EDL whereas the available limit of unissued share capital is only Rs.23 crores. To enable the Company to allot shares to EDL and to have some further buffer authorised capital limit, it is considered necessary to increase the authorised share capital of the company from Rs.40 crores to Rs.45 crores by creation of 50 lakhs equity shares of Rs.10 each which will rank pari passu with the existing shares. The proposed increase in authorised capital requires the approval of the Company in General Meeting. The Board recommends that the resolution may be passed.

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

**DIRECTORS REPORT**

To the members,

Your Directors present the Ninth Annual Report together with the Audited Accounts for the financial year ended 31st March 2000.

**FINANCIAL RESULTS:**

	Financial year ended 31.3.2000	Financial year ended 31.3.99 (Rs. '000)
Sales	389313	439944
Profit before Interest and Depreciation	81023	57436
Interest	48118	48619
Operating Profit	32905	8817
Depreciation	18143	—
Net Profit	14762	8817

**DIVIDEND:**

In view of the accumulated losses, the directors are not recommending for declaration of dividend for the year.

**OPERATIONS:****(i) Sugar Division:**

	Season 1999-2000	Season 1998-99
Quantity of cane crushed (Tonnes)	223815	300553
Recovery (%)	9.02	8.29
Quantity of Sugar produced (Tonnes)	20471	24888

**(ii) Industrial Alcohol Division:**

	Year 1999-2000	Year 1998-99
Quantity of RS produced (Ltrs)	6592584	56,99,238
Quantity of ENA produced by redistillation of the RS stock (Ltrs)	5371890	45,50,636

**PERFORMANCE OF THE COMPANY:**

During the year under review the sales turnover of the company appears to be lesser than last year by about Rs. 5 crores. But if we take into account the closing stock increase of over Rs.6 crores the total revenue earned is slightly higher than last year. The stock piling at the end of the year is because of low monthly sugar release orders issued by the Government. The total cane crushed during the season 1999-2000 came down from 3 lakh tonnes to 2.24 lakh tonnes. This is because of lesser availability of cane resulting from switching over to other crops by the cane growers in the factory zone. The growers who switched over due to better price obtained for paddy and ground nut are expected to return to sugar cane plantation in view of the fall in price of the said alternate crops. For the season 2001-2002 crushing of not less than 3 lakh tonnes is estimated. Despite the low quantity of crushing, the quantity of sugar produced was more than last year. It was due to the achievement of very good recovery. Average recovery of sugar touched all time high of 9.02% during 1999-2000 season. It will be consolidated in the next season. This achievement however could not be converted into monetary gain due to very low selling price prevailing throughout the year. Average selling price was about just Rs.1250 per quintal. Currently the price has however improved to Rs.1400 per quintal which is fairly a reasonable price.

Alcohol sales turnover also appears to be lesser. But quantity wise you may observe that ENA is produced about 8.2 lakh litres more than last year. Because of fall in price of ENA, the sales turnover is less. You may appreciate that the entire RS produced is converted into value added product of ENA. The profit margin in Alcohol sales is maintained because the price of raw material, molasses has come down.

**FUTURE OUTLOOK:**

After a sustained representation by the domestic sugar industry, the Government has taken some far reaching steps to help domestic sugar producers. Import of sugar is curtailed due to increase of import duty on sugar and by making imported sugar subject to levy system. Failure of sugar crop in major sugar producing countries also made the international price high thereby reducing import into the country. Reduction of levy quota for domestic factories from 40% to 30% is a welcome step taken by the Government. India is now trying to export sugar by giving various concessions. This will help sizable export of sugar from India. As a whole the sugar industry is expected to do well in the years to come.

**EROSION OF MORE THAN 50% OF PEAK NET WORTH:**

The erosion of net worth by more than 50% of the peak net worth is not yet corrected. As mentioned above, the company is taking necessary efforts to improve the performance and make the net worth positive.

**ONE TIME SETTLEMENT (OTS):**

While the Company was paying regularly to ICICI w.e.f. May 1999 a sum of Rs.20 lakhs per month as per the interim order passed by the Mumbai High Court in the suit filed by ICICI, the Company represented to ICICI to freeze the liability of the Company and to allow the Company to settle the amount in monthly instalments. Appreciating the Company's genuine difficulties, excluding the amount of Rs.1.65 Crores paid as per the Mumbai High Court's order, ICICI fixed the liability at Rs.5.80 crores and agreed for repayment thereof in one instalment of Rs.30 lakhs and thereafter in 22 instalments of Rs.25 lakhs each. The Company since paid the first instalment of Rs.30 lakhs and thereafter is paying Rs.25 lakhs per month w.e.f. February 2000 regularly.

In line with our settlement with ICICI we submitted a proposal to IFCI to settle their dues. IFCI froze their claim at Rs. 7.20 crores, made it payable in 41 instalments of Rs. 17.50 lakhs each and one last instalment of Rs.2.50 lakhs. With effect from July 2000 the Company is paying the instalments.

Negotiation is going on with IDBI for settlement of their dues provided they freeze their claim in line with the other two Institutions, as their claim is considered exorbitant and disputed by the Company. In the meantime the Company has paid Rs.55 lakhs since April 2000 to IDBI.

**ISSUE OF SHARES BY CONVERSION OF OUTSTANDING DUES TO EMPEE DISTILLERIES LTD.:**

The Company needs further borrowings for the business. With the existing poor debt - equity ratio no fresh borrowing is possible. The prospective lending banks put a condition to improve the ratio. The Chief Promotor Company, Empee Distilleries Ltd. is agreeable for conversion of their dues into equity at a discounted rate. Necessary resolution is proposed in the AGM Notice.

**AUDIT REPORT:**

Regarding the Auditors' remarks in their report, your Directors wish to clarify as follows:

**Annexure A**

18. The networth of the company as determined from the audited Balance Sheet of the company is not fully eroded. The company has not provided for certain items enumerated in Annexure B of audit report after due consideration of them. Under the circumstances, the company is not falling within the purview of Sec.3(1)(0) of SICA. However as more than 50% of the networth has already been eroded, the company is falling within the purview of Sec.23 of SICA.

**Annexure B**

- 1.(i) The other two term lending institutions namely ICICI and IFCI have agreed for one time settlements waiving substantial interest dues. The company is making monthly payments to them as stipulated by them. Similar OTS proposal has been submitted to IDBI also and it is under their consideration. It is hoped that similar waiver of interest will be obtained from IDBI also. Hence no interest provision is made for IDBI term loan.
- ii) Pending resolution of the whole matter, the company is of the view that the debt of Rs.28.40 lacs is recoverable and hence no provision is made therefor.
- iv) Purchase tax payable to the grower (33.33% of whole claim) is provided for. The portion that is payable to the AP State government (66.66%) is not provided for based on the representation made to the State government for waiver thereof and the possibility of getting the said waiver.
- v) The company is of the view that the interest due is recoverable. Therefore no provision is made.
- vi) The supplier's advance of Rs.5.54 lakhs is recoverable. Therefore provision not made.
2. Please refer to Note 3 of Notes on Accounts.
3. Letters seeking confirmations were sent to the concerned parties. Whatever replies received were given to the auditors.
4. Please refer to Note No.19 which is self explanatory.
5. Please refer to Note No.23 which is self explanatory.

**DIRECTORS:**

Dr.M.Shashidran, the Director of the Company retires at the ensuing Annual General Meeting and has expressed his intention not to opt for reappointment.

Ms.Nisha Purushothaman, Director is retiring by rotation at the ensuing AGM and being eligible offers herself for reappointment.