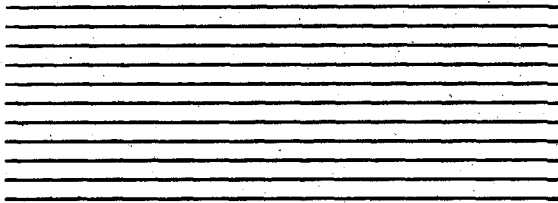
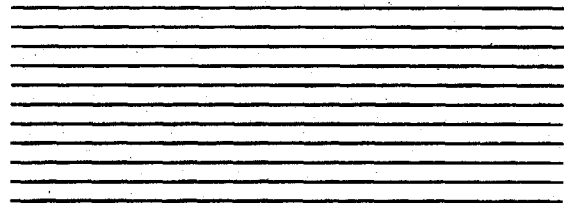




The **BAGLA** *Group*



16th
ANNUAL REPORT
2003 - 2004



HINDUSTAN ADHESIVES LIMITED

www.reportjunction.com

**HINDUSTAN ADHESIVES LIMITED****16TH ANNUAL REPORT FOR THE YEAR ENDED 31ST MARCH, 2004**

BOARD OF DIRECTORS	:	Mr. L.K. Bagla Mr. M.S. Bagla Mr. Purshotam Agarwal Mr. N.K. Jain Mrs. Urmila Goenka Mr. O.P. Tiwari Mr. Kailash Chand Dwivedi Mr. Venkateshwara Rao Yedlapalli
COMPANY SECRETARY	:	Mr. S.S. Dua
AUDITORS	:	M/s. Salarpuria & Partners Chartered Accountants, 1008, Chiranjiv Tower, 43, Nehru Place, New Delhi - 110 019
BANKERS	:	The United Western Bank Ltd., New Delhi Bank of Baroda, New Delhi Allahabad Bank, Ghaziabad
SHARE TRANSFER & DEMAT AGENT	:	Intime Spectrum Registry Ltd. A-31, 3rd Floor, Naraina Industrial Area, Phase-I Near PVR Cinema, New Delhi - 110 028
REGISTERED OFFICE	:	340/2-A, G.T. Road, Shahdara, Delhi-110 095
FACTORY	:	29th Mile Stone, Village Achheja, Tehsil-Dadri Distt.-Gautam Budh Nagar (U.P.)
SHARE LISTED AT	:	Delhi, Mumbai, Calcutta, Jaipur & Ahmedabad Stock Exchanges

CONTENTS

Notice	2
Director's Report	7
Auditor's Report	16
Balance Sheet	20
Profit & Loss Account	21
Schedule A to U	22
Cash Flow Statement	36



NOTICE

Notice is hereby given that the 16th Annual General Meeting of the members of Hindustan Adhesives Limited will be held on Thursday, the 30th September, 2004 at 3.30 P.M. at Vivekananda Auditorium, Vivekananda College, Vivek Vihar, Delhi 110 095 to transact the following business.

ORDINARY BUSINESS

1. To receive, consider and adopt the audited Balance Sheet of the Company as at March 31, 2004 and the Profit & Loss Account for the year ended on that date together with Report of Directors and Auditors thereon.
2. To appoint a Director in place of Sh. Kailash Chand Dwivedi & Sh. N.K. Jain, who retires by rotation and being eligible offers them-selves for re-appointment.
3. To appoint the statutory auditors and to fix their remuneration.

SPECIAL BUSINESS

4. To consider and if thought fit, to pass with or without modification(s) if any, the following resolution as an Ordinary Resolution.

"RESOLVED THAT Sh. Venkateswara Rao Yedlapalli who was appointed as an Additional Director of the Company in accordance with Section 260 of the Companies Act, 1956 w.e.f. 15.03.2004 and in respect of whom the company has received a notice under section 257 of the Companies Act, 1956 together with a deposit of Rs.500/- as required under the Act, be and is hereby appointed as a Director of the Company, whose period of office shall be liable to retirement by rotation".

5. To consider and if thought fit to pass with or without modification(s) if any, the following resolution as an ORDINARY RESOLUTION.

"RESOLVED THAT pursuant to section 269 of the Act read with Schedule XIII of The Companies Act, 1956 and other applicable provision if any Shri. M. S. Bagla be and is hereby reappointed as Managing Director of the company for period of five years w.e.f.10.01.2004 on following terms and conditions:

1. Salary will be Rs.20,000/- per month.
2. He will be entitled to the following perquisites subject to a maximum of Rs. 2, 40,000/- per annum:
 - a. Medical reimbursement: Expenses incurred for the appointee and for his family subject to the ceiling of one months salary in a year.
 - b. Leave Travel Concession As per the rules of the company.
 - c. Club Fees: Fees of Club subject to a maximum of two clubs. This will not include admission and life membership fees.
 - d. Personal Accident insurance: Premium not to exceed Rs.4,000/- per month.
 - e. Contribution to Provident Fund : As per the rules of the company.
 - f. Gratuity : As per the rules of the Company subject to a maximum of half months salary for each completed year of service.
 - g. Encashment of the leave : As per the rules of the Company at the end of the tenure"
6. To consider and if thought fit to pass with or without modification(s) if any, the following resolution as an Ordinary Resolution.

"RESOLVED THAT pursuant to the provisions of section 94 read with section 97 of The Companies Act, 1956 the Memorandum of Association of the Company be and is hereby altered and the following clause be substituted in place of the existing clause no. V in the Memorandum of Association of the Company."

V The Authorized share capital of the Company is Rs. 9,00,00,000 (Rupees Nine Crores Only) divided into 75,00,000 (Seventy Five Lacs Only) Equity shares of Rs. 10/- (Rupees Ten Only) each and 15,00,000 (Fifteen Lacs only) Cumulative Redeemable Preference Shares of Rs.10/- (Rupees Ten Only) each.

7. To consider and if thought fit to pass with or without modification(s) if any, the following resolution as a Special Resolution.



HINDUSTAN ADHESIVES LIMITED

"RESOLVED FURTHER THAT pursuant to the provisions of section 31 of The Companies Act, 1956. The Articles of Association of the Company be and is hereby altered and the following clause be and is hereby substituted in place of the existing clause no. 3 under the head Shares in the Articles of Association of the Company.

3. The Authorized share capital of the Company is Rs. 9,00,00,000 (Rupees Nine Crores Only) divided into 75,00,000 (Seventy Five Lacs Only) Equity shares of Rs. 10/- (Rupees Ten Only) each and 15,00,000 (Fifteen Lacs only) Cumulative Redeemable Preference Shares of Rs.10/- (Rupees Ten Only) each with power to sub-divide consolidate and increase or decrease and with power from time to time issue any shares of the original capital with and subject to any preferential, qualified or special rights, privileges or condition as may be thought fit, and upon the subdivision of shares apportion the right to participate in profits, in any manner as between, the shares resulting from such subdivision."

8. To consider and if thought fit to pass with or without modification(s) if any, the following resolution as a Special Resolution.

"RESOLVED THAT pursuant to the provisions of section 81(1A) and other applicable provisions, if any, of the Companies Act, 1956 and in accordance with the provisions of Article of Association of the Company and subject to the consent of the Securities and Exchange Board of India (SEBI) and all other concerned authorities and departments, if any and to the extent necessary, and such other approvals, permissions and sanctions, as may be necessary and subject to such conditions and modifications as may be prescribed in granting such approvals, consent of the Company be and is hereby accorded to the Board of Directors of the Company to issue to such persons as mentioned in Negotiated Settlement Agreement, with IDBI such number of Equity Shares of the Company of the face value of Rs.10 Each at Par not exceeding 22,00,000 equity shares.

"RESOLVED FURTHER THAT the above-mentioned shares shall rank parri-passu except for payment of dividend pro rata from the date of allotment with the existing shares issued by the company."

"RESOLVED FURTHER THAT, Mr. M. S. Bagla, Managing Director of the Company be and is hereby authorized to take such steps and do all acts, deeds, matter and things and accept any alterations or modification(s) as he may deem fit and also comply with all the formalities including filing of required forms with the ROC and various other related authorities."

9. To consider and if thought fit to pass with or without modification(s) if any, the following resolution as a SPECIAL RESOLUTION.

"RESOLVED THAT pursuant to the provisions of section 81(1A) and other applicable provisions, if any, of the Companies Act, 1956 and in accordance with the provisions of Article of Association of the Company and subject to the consent of the Securities and Exchange Board of India (SEBI) and all other concerned authorities and departments, if any and to the extent necessary, and such other approvals, permissions and sanctions as may be necessary and subject to such conditions and modifications as may be prescribed in granting such approvals, consent of the Company be and is hereby accorded to the Board of Directors of the Company to issue Cumulative Redeemable Preference Share (CRPS) carrying Coupon rate of 12.5% p.a. (payable quarterly), of the face value of Rs.10 Each at Par not exceeding 12,00,000 Cumulative Redeemable Preference Share to IDBI on the following terms and conditions

The Company shall redeem the said CRPS in 16 quarterly installments of Rs7.15 lakhs from "1.04.2005 to 1.01.2009".

"RESOLVED FURTHER THAT, the Mr. M. S. Bagla, Managing Director of the Company be and is hereby authorized to take such steps and do all acts, deeds, matter and things and accept any alterations or modifications(s) as he may deem fit and also comply with all the formalities including filing of required forms with the ROC and various other related authorities.

By order of the Board of Directors of
Hindustan Adhesives Limited

Place : New Delhi

Dated : 6th September, 2004

(MADHUSUDAN BAGLA)

Managing Director

(K.C. DWIVEDI)

Director

NOTES

1. A MEMBER ENTITLED TO ATTEND AND VOTE AT THE MEETING IS ENTITLED TO APPOINT ONE OR MORE PROXY TO ATTEND AND VOTE INSTEAD OF HIMSELF. A PROXY NEED NOT BE MEMBER OF THE COMPANY. A BLANK FORM OF PROXY IS ENCLOSED PROXY IN ORDER TO BE EFFECTIVE MUST BE RECEIVED AT THE REGISTERED OFFICE OF THE COMPANY NOT LESS THAN 48 HOURS BEFORE THE ANNUAL GENERAL MEETING.
2. Members/proxy should bring the attendance slip duly filled in for attending the meeting.
3. The registers of members and shares transfer books of the company will remain closed from 29.09.2004 to 30.09.2004 (all inclusive).
4. The Explanatory Statement pursuant to section 173(2) of The Companies Act, 1956 is annexed and forms part of this Notice.
5. Members are requested to bring their copy of Annual Report at the meeting.
6. Members seeking any further information about the accounts are requested to write to the company at least 10 days before the date of annual general meeting so as to enable the Management to keep the information ready at the meeting.
7. Copies of relevant Director's report, Auditor's Report, Balance Sheet and Profit & Loss Account of the Company are enclosed herewith.
8. Shareholders are requested to address all communications regarding transfer/transmission of share/change of Address etc. to M/s Intime Spectrum Registry Ltd., A-31, 3rd Floor, Naraina Industrial Area, Phase-I, Near PVR Cinema, New Delhi-110028.
9. Members are requested to quote their folio number in all their correspondence with the company/share transfer agent.

EXPLANATORY STATEMENT PURSUANT TO SECTION 173(2) OF THE COMPANIES ACT, 1956.

ITEM NO.4

Mr. Venkateshwara Rao Yedlapalli was appointed as an additional Director to strengthen the Board of directors of the Company. Your directors feel that his continuance as a director of the Board will further boost the internal audit system of the company. He holds the office as such till the date ensuing Annual General Meeting. The Company has received necessary notice under section 257 of the Companies Act, 1956. Hence this resolution is for his appointment as the director of the company whose period of office shall be liable to determination by the retirement of directors of rotation. Mr. Venkateshwara Rao Yedlapalli may be deemed to be interested/concerned in the resolution contained as above.

None of the other Directors of the company is, in any way, concerned or interested in the said resolution.

ITEM NO. 5

Sh.M.S.Bagla was re-appointed as Managing Director w.e.f. 10.01.2004 for the period of five year vide Board resolution dated 30th October, 2003. As per the provision of section 269 read with Schedule XIII of the Companies Act, 1956 re-appointment of Managing Director require ordinary resolution.

Sh.M.S.Bagla himself and Sh. L.K.Bagla being father are deemed to be interested in the resolution.

None of the other Directors of the Company is, in any way, concerned or interested in the said resolution.

ITEM NO-6

Pursuant to the settlement entered with Industrial Development Bank of India (IDBI) Preferential Allotment is required to be made in favour of IDBI as well as to the Promoters of the Company, which requires an increase in Authorized Capital. Hence, the Board of Directors of the Company has decided to increase the Authorised Share Capital from Rs. 6,00,00,000/- (Rupees Six Crore only) to Rs. 9,00,00,000/- (Rupees Nine Crore only) divided into 75,00,000 (Seventy Five Lacs Only) Equity shares of Rs. 10/- (Rupees Ten Only) each and 15,00,000 (Fifteen Lacs only) Cumulative Redeemable Preference Shares of Rs.10/- (Rupees Ten Only) each.

HINDUSTAN ADHESIVES LIMITED

As per Sections 94 of the Companies Act, 1956, a an Ordinary Resolution of the shareholders of the Company is required to increase the authorised share capital of a Company. The resolution is accordingly recommended for your approval.

None of the Directors of the Company is, directly or indirectly, interested in or concerned with, the resolution.

ITEM NO-7

Pursuant to the settlement Agreement entered with Industrial Development Bank of India (IDBI) Preferential Allotment is required to be made in favour of IDBI as well as the Promoters of the Company which hereby requires an increase in Authorized Capital. Hence, the Board of Directors of the Company has decided to increase the Authorised Share Capital from Rs. 6,00,00,000/- (Rupees Six Crore only) to Rs.9,00,00,000/- (Rupees Nine Crore only) divided into 75,00,000 (Seventy Five Lacs Only) Equity shares of Rs. 10/- (Rupees Ten Only) each and 15,00,000 (Fifteen Lacs only) Cumulative Redeemable Preference Shares of Rs.10/- (Rupees Ten Only) each.

As per Sections 31 of the Companies Act, 1956, a Special Resolution of the shareholders of the Company is required to amend the Article of Association of Company to increase the authorised share capital of a Company. The resolution is accordingly recommended for your approval.

None of the Directors of the Company is, directly or indirectly, interested in or concerned with, the resolution.

ITEM NO. 8

As per modification of Negotiated Settlement (NS) of IDBI dues vide its letter dated 30.06.2004, Company is required to issue equity shares of Rs. 74.72 lacs to IDBI in lieu of interest and company is also required to convert from the unsecured loan of Rs.131.47 lacs brought in by the promoters and their associates as per books of account as on 31.03.2004 into equity share of the Company at Par.

Object and intention of the Promoters

Company is incurring losses and is unable to pay the liabilities of its Financial Institution (IDBI). Company has negotiated with IDBI for providing the extension of the re-payment of Term loan. Promoters are hopeful that company will start earning good profit in near future and will be able to repay all its debt within the time frame provided by IDBI under the negotiated settlement Agreement.

Pricing of Allotment

IDBI and Promoters are taking the shares at par while the market price of the Share is in the range of Rs.2 and 3 per Share.

Shareholding Before and after allotment

Name	Shares to be Allotted	Shareholding before allotment	Shareholding after allotment
IDBI :			
Equity Shares	7,47,200	00	7,47,200
Pref. Shares	11,44,600	00	11,44,600
Promoters and Associate	13,14,700	19,75,534	32,90,234

Further Allotment of shares to the persons other than exiting shareholder requires Special Resolution in the Meeting of Shareholder as per the provisions of the Section 81(1A) of the Companies Act, 1956. The resolution is accordingly recommended for your approval.

Promoters are interested in the resolution to the extent shares are allotted to them or their relative.

None of the Directors of the Company is, directly or indirectly, interested in or concerned with, the resolution

ITEM NO-9

As per modification in Negotiated Settlement (NS) of IDBI dues vide its letter dated 30.06.2004, Company is required to issue Cumulative redeemable Preference Shares (CRPS) carrying coupon rate of 12.5%p.a.(payable quarterly) of 114.46 Lakhs in lieu of Simple interest dues accrued from 1.10.2002 to 31.03.2004. The company is required to redeem the said CRPS in 16 quarterly installments of Rs. 7.15 lakhs from 1.04.2005 to 1.1.2009.

None of the Directors of the Company is, directly or indirectly, interested in or concerned with, the resolution

Terms and conditions

The Shares shall carry a right to a cumulative Preference dividend of 12.5% p.a.(Quarterly basis) in relation to the capital paid-up on them.

The holder of said shares shall have right to attend General Meeting of the Company and vote on the resolutions directly affecting their interest or where the dividends in respect thereof are in arrears for not less than two years on the date of the meeting, on all resolutions at every meeting of the company.

In a winding-up, the holders of the said shares shall be entitled to a preferential right of return of the amount paid-up on the shares together with arrear of cumulative preferential dividend due on the date of winding-up but shall not have any further right or claim over the surplus assets of the company agreement.

Further Allotment of shares to the persons other than exiting shareholder requires Special Resolution in the Meeting of Shareholder as per the provisions of the Section 81(1A) of the Companies Act, 1956. The resolution is accordingly recommended for your approval.

INSPECTION

Copy of the Memorandum and Articles of Association of the Company together with the proposed alteration shall be open for inspection of Shareholders at the Company's Registered Office on any working day up to and inclusive of the date of Annual General Meeting between 3.30 P. M. to 6.00 P.M.

By order of the Board of Directors of
Hindustan Adhesives Limited

Place : New Delhi

Dated : 6th September, 2004

(MADHUSUDAN BAGLA)
Managing Director

(K.C. DWIVEDI)
Director

DIRECTOR'S REPORT

Dear Members,

Your Board of Directors presents this 16th Annual Report along with audited accounts for the accounting period ended on 31st March 2004.

FINANCIAL RESULTS

Key Financial figures are as follows:

(Amount. In lacs)

Particulars	31.03.2004	31.03.2003
Total Income	3265.85	3599.32
Profit before interest, Depreciation & tax	198.76	359.06
Interest & Financial Charges	248.33	256.50
Depreciation	158.83	154.03
Profit (Loss) before tax	(208.40)	(51.51)
Provision for tax	Nil	Nil
Net profit (Loss) after tax before extra ordinary Items	(208.40)	(51.51)
Add : Deferred tax Assets	(23.60)	36.91
Add : Extra Ordinary Items	(2.73)	Nil
Net profit after tax & Extra Ordinary Items	(234.74)	(14.60)
Equity	511.63	511.63
Net worth	149.87	356.40

DIVIDEND

Yours directors regret to inform you that on account of insufficient profit in the company no dividend is recommended for the year ended 31st March 2004.

OPERATIONS

During the year under review :

This year the company has not been able to significantly operate the BOPP film plant capacity due to over capacities in the Indian markets with the new production capacities having been installed in India, and also because of large scale imports of the BOPP film from China at very low prices. The prices of the finished product reduced drastically and the raw materials were very high during the year and hence the margins were just not available to the company to sell the finished BOPP film in the market.

The overall situation has worsened with the unprecedented spurt in Crude Oil prices and upward trend in all the base polymer prices and the outlook for the current year is also that of concern for the BOPP Film plant.

The company has focused on the conversion of the BOPP film into packaging tapes and the sales of the packaging tape have improved. The company also has expanded the capacity of producing the packaging tapes and it is planning to convert at least 50% of the total BOPP film capacity into packaging tapes in the current year and hence reducing the impact of the uncertainties of the BOPP film market for the company. The company is also considering selling the BOPP film Line and reducing the debt of the company in the coming year and hence being able to utilize 100% capacity of the balance BOPP film capacity in-house for production of tapes.

CURRENT SCENARIO

The increasing sales of Packaging Tapes and also specialties adhesive coated products in the overseas market and the focus of the company to concentrate on conversion of the film into tapes promises a better year and consistent results in the times to come. The demand for the packaging tapes is increasing rapidly and there is a lot of consolidation and awareness of quality from the consumers, which will be helpful to the company. Our company is one of the very few with ISO-9002 certification in this industry and this gives us a leading edge over the competition. The expansion in the tape production will help the company improve the timely service to the customers and as well increase the total sales of the company.

The support of the Financial Institutions and Banks have helped the company to meet its financial requirements comfortably and IDBI has also agreed to a Financial Package where it would be converting part of Term Liabilities in the equity of the company and hence reinforcing its support and faith in the company.

FINANCIAL RESULTS

The Total Income of the company has decreased by 9.07% in the current year and also the PBIDT has decreased by 44.64%. Although the interest and depreciation costs have kept the company in the Red, it is positive of a turnaround in the current year with better capacity utilizations and enhanced sales turnover. It is expected that the export sales of the company will also increase in the current year with the efforts to expand the market for speciality products of the company.

A NOTE ON EROSION AND CAUSES OF EROSION OF 50% OR MORE OF PEAK NET WORTH

The Company has incurred losses in the last seven years. The accumulated losses as at the end of 31st March 2004 stood at Rs. 582.17 lakhs, which is more than 50% of peak net worth of the company in immediately preceding four financial years. The peak net worth in the preceding four financial years was as under.

(Rs. in Lakhs)				
Year	Paid Capital	Share Premium	Free Reserve	Total Net worth
1999-2000	511.63	212.59	25.00	749.22
2000-2001	511.63	212.59	25.00	749.22
2001-2002	511.63	212.59	25.00	749.22
2002-2003	511.63	212.59	25.00	749.22

The Peak Net Worth in immediately preceding for financial years was Rs. 749.22 lakhs hence, accumulated loss of Rs. 582.17 lakhs as at the 31st March 2004 is more than 50% of said peak net worth.

Section 23 of Sick Industrial Companies (Special Provisions) Act 1985 requires such a potentially sick company to inform BIFR about such state of affairs.

According, the company is mandatory required to file, a reference to BIFR, informing of such potential sickness. The shareholders are requested to pass the following Resolution, with or without modification.

RESOLVED That the Net worth of the Company having been eroded by more than 50% of Peak Net worth in immediately preceding four financial years and this fact is noted.

"RESOLVED FURTHER that Shri M.S. Bagla, Managing Director of the Company be and is hereby authorized to file applicable Form B with BIFR and to take all such steps and measures as may be considered necessary to prepare and finalize a scheme with approval of BIFR.

The Shareholders are requested to consider passing above resolution as the accounts have been approved and adopted by the shareholders at this very meeting today.

CAUSES FOR EROSION OF MORE THAN 50% OF PEAK NET WORTH

The causes leading to erosion of 50% or more Peak Net Worth of the Company are discussed herein below.

1. Change in Govt. Policies :

The Govt. of India is pursuing the path of liberalization policies, under which customs duties have been lowered. The idea has been to rationalize the duty structure but in garb of the same, the industry had to contend with dumping of goods by foreign companies, which has had a very bad effect on the Indian Market. Indian Govt. as usual, was slow in reacting to the same and imposing the necessary anti-dumping duties on the same. Govt. of India has continued to encourage un-organized/SSI sector and self adhesive tape business is one of those segments, where both organized and unorganized sectors co-exist. The organized sector has to face a very unhealthy and cutthroat competition provided by the un-organized sector. The un-organized sector is able to sell cheap, owing to excise duty exemption, for sale upto a value of Rs. 1 Crore, low overhead and also some other mal-practices. The price conscious market has ignored the quality of the product produced by a company like HAL, forcing such companies also to match their prices and supply goods at lower margins.

Government's policies of granting excise concession, sales tax & Income Tax holiday to new units in certain states further create unfair competition to existing units.

2. Marketing Problems

The Principal Products of the company are BOPP Film and Self Adhesive Tapes. Due to liberalization policies of the Govt., our country has witnessed tremendous imports and dumping of material. This has cast great impact on BOPP film market. The prices have become very volatile and any increase or decrease in International prices casts its impact on prices in our country.

The prices of BOPP Film fell abnormally low making own manufacture of BOPP film in-house unviable. For own consumption also, the company considered purchase from the market more economical. However, this rendered the BOPP Film line idle or it had to be operated at very low level of capacity utilization, which proved to be a drag on the profit generation, by Self Adhesive Tape Business.

Self Adhesive Tape business of the Company is a profitable one, and that has sustained the company in such times also.

The interest and depreciation as also other fixed costs like wages etc. could not be recovered in respect of BOPP film line.

3. Increase in cost of Inputs :

The increase in cost of inputs without commensurate increase in selling prices has cast a very adverse impact. The prices of Polypropylene Granule have increased from Rs. 40/- per kg to Rs. 64/- per kg. (Basic Price). Price of diesel, used for DG has increased by 39%, which increase could not be passed on to the customers.

The non-commensurate increase in prices has made the company incur losses in the past which has ultimately lead to erosion of more than 50% of Peak Net Worth.

4. Interest & Bank charges

High interest cost charges by banks and institutions as compared to international rates have become a big burden on the company due to accumulated losses.

RESPONSIBILITY STATEMENT

Pursuant to Section 217(2A) of the Companies (Amendment) Act, 2000, the Director's confirm that:

- In the preparation of the Annual Accounts, the applicable accounting standards have been followed and that no material departures have been made from the same.
- Appropriate accounting policies have been selected and applied consistently and judgments and estimates that are reasonable and prudent has been made so as to give a true and fair view of the State of Affairs at the end of the financial year and the loss of the Company for the financial year ended March 31, 2004.
- 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 the detecting fraud and other irregularities; and
- The annual accounts have been prepared on a going concern basis.