

13th



INDSIL

Indsil Electrosmelts Limited

**INDSIL**

INDSIL ELECTROSMELTS LIMITED

13TH ANNUAL REPORT FOR THE YEAR ENDED 30TH JUNE 2003

BOARD OF DIRECTORS

SRI.S.N.VARADARAJAN
CHAIRMAN & MANAGING DIRECTOR

SRI.VINOD NARSIMAN
CHIEF EXECUTIVE OFFICER

SRI S. INDERCHAND

SRI B. BALCHAND

SMT. D. PUSHPA VARADARAJAN

DR. S. RAMA IYER

SRI K.S. MAHADEVAN

SRI M.K. RAVINDRANATHAN, IAS (RETD.)
NOMINEE OF KSIDC

DR. A.K. SREEDHARAN

SMT. P.S. PREMA
NOMINEE OF IDBI

COMPANY SECRETARY

SRI S. MAHADEVAN

AUDITORS

M/S. K.S.G. SUBRAMANYAM & CO.,
CHARTERED ACCOUNTANTS
COIMBATORE

REGISTRAR & SHARE TRANSFER AGENT (PHYSICAL & DEMAT)

SKDC CONSULTANTS LTD.
No.11, Street No.1
S.N. Layout, West Power House Road, Tatabad
COIMBATORE 641 012
Phone : 0422 - 2499856, 2494704, 2495962
E-mail : info@skdc_consultants.com

BANKERS

STATE BANK OF INDIA
STATE BANK OF TRAVANCORE
THE FEDERAL BANK LIMITED
IDBI BANK LIMITED

REGISTERED & ADMN. OFFICE

49 AVANASHI ROAD
COIMBATORE 641 037

WORKS

SMELTER UNIT
VI-679 PALLATHERI
ELAPULLY
PALAKKAD 678 007
KERALA

RAJAKKAD HYDRO ELECTRIC POWER PLANT
VIII/351 RAJAKKAD
IDUKKI DISTRICT - 685 566
KERALA

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**INDSIL**

NOTICE OF THE 13th ANNUAL GENERAL MEETING

NOTICE is hereby given that the 13th Annual General Meeting of the Company will be held at Chamber Towers, 8/732 Avanashi Road, Coimbatore 641 018 on Tuesday, the 23rd December 2003 at 10.45 A.M. to transact the following business :

Members are requested to make it convenient to attend the meeting.

AGENDA

ORDINARY BUSINESS

1. To consider and adopt the Profit & Loss Account for the year ended 30th June, 2003 Balance Sheet as at that date, Auditor's Report thereon, Directors' Report and the Cash Flow Statement for the year ended 30th June 2003.
2. To appoint a Director in the place of Sri.S.Inderchand who retires by rotation and being eligible for re-election offers himself for reappointment.
3. To appoint a Director in the place of Smt.D.Pushpa Varadarajan who retires by rotation and being eligible for re-election offers herself for reappointment.
4. To appoint Auditors to hold office from the conclusion of this Annual General Meeting till the conclusion of the next Annual General Meeting on such remuneration as may be decided by the Board of Directors of the Company. The retiring Auditors M/s.K.S.G. Subramanyam & Co., Chartered Accountants are eligible for reappointment.

By Order of the Board.

Sd/-
S.N. VARADARAJAN
Chairman & Managing Director

Place : Coimbatore
Date : 31.10.2003

**INDSIL****NOTES FOR MEMBERS' ATTENTION:**

1. A member entitled to attend and vote at the Annual General Meeting is entitled to appoint a proxy to attend and vote instead of himself and the proxy need not be a member of the Company. The proxy form should be lodged at the Registered Office of the Company atleast 48 hours before the commencement of the meeting.
2. The Register of Members and Share Transfer Books of the Company will remain closed from 16.12.2003 to 23.12.2003. (Both days inclusive)
3. Details in respect of reappointment of Directors retiring by rotation, pursuant to Clause 49 of the Listing Agreements, are annexed hitherto.
4. Consequent upon amendment in Section 205A of the Companies Act, 1956 and introduction of Section 205C by the Companies (Amendment) Act, 1999, the amount of dividend remaining unclaimed for a period of seven years shall be transferred to the Investor Education and Protection Fund of the Central Government and no payments shall be made in respect of any such claims by the Fund. After completion of seven years, unclaimed dividend amounts for the financial year 1995-96 have been transferred to the abovesaid fund accordingly. Members who have not encashed their Dividend Warrants for the earlier years are requested to make their claim to the Company.
5. Members holding shares in physical form are requested to notify change in their address, if any, to the Registrar & Share Transfer Agent of the Company and Members holding shares in dematerialised form are requested to notify change in their address to their respective Depository Participants.
6. Members are requested to bring their copy of the Annual Report to the meeting.
7. Members who have not yet given their Bank's Name, Address and Account Number are requested to furnish the same to the Registrar & Share Transfer Agent of the Company.
8. The equity shares of the Company are listed on Coimbatore, Mumbai, Chennai, New Delhi and Ahmedabad Stock Exchanges. The Annual Listing fees have been paid upto date to all the exchanges.
9. Members who have multiple accounts in identical names or joint accounts in same order are requested to send all their share certificates to the Registrar & Share Transfer Agent of the Company for consolidation of all such shareholding into one account to facilitate better service.
10. For the convenience of the Members, an attendance slip is annexed to the proxy form. Members are requested to affix their signatures at the space provided and hand over the attendance slip at the place of the meeting.
11. All the documents referred to in the Notice of the AGM are open for inspection at the Registered Office of the Company during the office hours (9.30 A.M to 5.30 P.M) on all working days except Holidays before the date of the Annual General Meeting.
12. Shareholders seeking any information with regard to accounts are requested to write to the Company seven days prior to the meeting so as to enable the management to keep the information ready.
13. Equity shares of the Company have been placed under Compulsory Demat Trading. Members who have not dematerialised their physical holding in the Company are advised to avail the facility of dematerialisation of equity shares of the Company.

14. DEMATERIALISATION OF SHARES

Consequent to the direction received from the Governing Board of Mumbai Stock Exchange, trading of equity shares of your Company in dematerialised form has been made compulsory. Your Company has entered into agreements with National Securities Depository Limited (NSDL) and Central Depository Services (India) Limited (CDSL) and SKDC Consultants Ltd., Coimbatore (for connectivity with NSDL & CDSL) to enable the shareholders to have the option of holding and dealing in the shares of the Company in electronic form through NSDL or CDSL.

The ISIN of the equity shares of your Company is **INE867D01018**.

The Depository System (DS) envisages the elimination of several problems involved in the scrip-based system such as bad deliveries, fraudulent transfers, fake certificates, thefts in postal transit, delay in transfers, long settlement cycles, mutilation of share certificates, etc.,. Simultaneously, DS offers several advantages like exemption from stamp duty, elimination of concept of market lot, elimination of bad deliveries, reduction in transaction costs, improved liquidity, etc.,.

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In order to maintain your shareholding in the electronic form by joining the DS, you will have to open an account with a DEPOSITORY PARTICIPANT (DP), who are agents of NSDL or CDSL and lodge your share certificates through the DP with the Registrar and Share Transfer Agent of the Company for Dematerialization. The DP will then ensure that the physical share certificates are cancelled and after verification, an equivalent number of shares will be credited to your account with the DP in the electronic form. You are also permitted under the DS to reconvert your electronic shareholding into the physical form of share certificates by a process of Rematerialisation. It may be noted that the DP would charge the investors for its services, which may vary from one DP to another.

It is reiterated that requests for Dematerialization and Rematerialisation are to be made only to the DP with whom you have opened an account AND NOT DIRECTLY TO THE COMPANY.

Place : Coimbatore
Date : 31.10.2003

By Order of the Board

Sd/-
S.N. VARADARAJAN
Chairman & Managing Director.

Details of the Directors seeking appointment / reappointment at the forthcoming Annual General Meeting

Sri. S.Inderchand (Non-Executive Director) is a reputed businessman of Coimbatore region with considerable contacts among business communities. He joined the Board since the date of the Company's inception.

Smt.D.Pushpa Varadarajan, B.A B.Ed., (Non Executive Director) is the wife of Sri S.N. Varadarajan, Chairman and Managing Director and she is the first Director of the Company since its inception. She is also the Member of the Shareholders'/Investors' Grievance Committee and Share Transfer Committee.

Place : Coimbatore
Date : 31.10.2003

By Order of the Board

Sd/-
S.N. VARADARAJAN
Chairman & Managing Director.



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DIRECTORS' REPORT

To

The Shareholders,
Indsil Electrosmelts Limited,
49 Avanashi Road
COIMBATORE 641 037.

Ladies and Gentlemen,

Your Directors have great pleasure in presenting the 13th Annual Report of your Company together with the Audited Statements of Account for the 12 months period ended 30th June 2003.

FINANCIAL RESULTS

Rs. In lakhs

	2002-03	2001-02 (15 months)
Profit before depreciation and Financial charges	220.41	760.71
Less : Financial charges	615.97	806.55
Profit /(Loss) before Depreciation	(395.56)	(45.84)
Less : Depreciation	340.20	416.22
Profit /(Loss) before tax	(735.76)	(462.06)
Add : Deferred Tax asset	44.47	97.18
Profit /(Loss) after tax	(691.29)	(364.88)
Add : Balance brought forward	97.13	462.01
Balance carried over to Balance sheet	(594.16)	97.13

PERFORMANCE :

The past two years have seen unprecedented drought like conditions prevailing over the high range areas of the State of Kerala.

This has deeply affected utilization levels of all hydro electric power plants in the Idukki District of Kerala and your Company too has been affected due to this phenomenon.

Your Company's 21 MW, Rs.55 crore Rajakkad Hydro Electric Power Plant was expected to yield around 84 million units annually. Your Company's smelter plants at Palakkad consume a minimum of around 65 to 70 million units per annum.

Therefore the power plant, net of wheeling charges was expected to completely satisfy the requirements of the smelter plant.

Because of the above turn of events, the power plant managed to generate only 16 million units in the year under review. This translates to Plant Load factor (PLF) of only 9%. The total power generated during the previous financial year (2001-02) was 31 million units.

Apart from the low utilization of the power plant, another blow came in the form of a steep increase in power tariff by the Kerala State Electricity Board (KSEB). The increase was almost 25% and the smelter operations got deeply affected due to the fact that it had to continue buying high cost power from KSEB, without having adequate power from captive power plant, to maintain its operations.

Also, the total availability of the smelter plant was affected by two factors :

- There was a major re-lining work undertaken in one of its furnaces.
- There was a prolonged labour strike in the smelter plant for a period of two months between September and November 2002. The strike related to certain disciplinary issues and after a solution was arrived at, the situation has been normal.

In terms of PBDIT, as compared to the previous year, the single most important factor has been a 50% drop in power generation.

The performance of the smelter unit in terms of productivity and yields have been quite satisfactory and showed an improving trend through the year.

The markets for your Company's core product Low carbon Silico Manganese remained firm and steady.


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FUTURE PROSPECTS :

In terms of the Company's core product Low carbon Silico Manganese, the immediate future looks very bright because of the buoyancy in the Stainless Steel markets world wide.

This will result in strengthening of prices and consequently improve operating profits.

However, the Company's financial performance is extremely sensitive to the quantum of power available from its own captive power plant.

Therefore, the behaviour of the monsoon seasons are extremely critical to the Company's fortunes.

Your Company is confident that there would be an excellent turn around in the Company's fortune with the advent of atleast two good monsoon seasons.

The Rajakkad Hydro Electric Power Plant has inherent advantages like location at high rainfall areas and extremely competitive capital costs.

DIVIDEND

Due to the absence of profits, your Directors are unable to recommend any dividend for the year.

FINANCE

Despite significant cash losses, your Company has managed to satisfy all its obligations to the lenders and financial institutions in terms of interest payments.

It can be observed that the major part of the cash losses comprise of financial charges which in turn arise from interest on term loans taken for the Rajakkad hydro electric power project.

To partly mitigate the risks arising out of monsoon vagaries as well as return to reasonable financial strength, your Company has approached its lenders for restructuring of debt capital which would involve reschedulement of principal repayments and reduction in interest rates to be aligned with that of current market levels.

ADDITIONAL DISCLOSURES

In line with the requirement of the Listing Agreement with the Stock Exchanges, Management's Discussion and Analysis Report, Corporate Governance Report, Segment reporting and Related Party Disclosures are made part of this annual report.

DIRECTORS' RESPONSIBILITY STATEMENT UNDER SECTION 217 (2AA) OF THE COMPANIES (AMENDMENT ACT) 2000

The Board of Directors Report

1. That in the preparation of the annual accounts, the applicable accounting standards have been followed alongwith proper explanation relating to material departures, if any
2. That the Directors have selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company as at 30th June, 2003 and of the profit or loss account of the Company for the year ended as that date.
3. That the Directors have taken proper and sufficient care 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.
4. The Directors have prepared the Annual Accounts on a 'going concern' basis.

**INDSIL****DEPOSITS**

No deposits are received or renewed during the year.

DIRECTORS.

Sri.S.Inderchand and Smt.D.Pushpa Varadarajan are retiring by rotation at the forthcoming Annual General Meeting and being eligible for re-election offer themselves for re-appointment.

AUDITORS

M/s. K.S.G. Subramanyam & Co., the existing Auditors are to retire at the ensuing Annual General Meeting and being eligible for reappointment, they have consented to continue to be the Auditors of the Company.

PARTICULARS REQUIRED UNDER SECTION 217 OF THE COMPANIES ACT, 1956.

Particulars required under Section 217 of the Companies Act, read with relevant rules are given in Annexure-A.

None of the employees of the Company were in receipt of remuneration, which in the aggregate exceeded the limits prescribed under sub-section (2A) of Section 217 of the Companies Act, 1956.

BANKERS

Besides State Bank of Travancore (SBT), The Federal Bank Limited (FBL) and State Bank of India (SBI), facilities and services are being availed from IDBI Bank Limited as well. Your Company is maintaining a Current Account with Citi Bank NA, IndusInd Bank and The South Indian Bank Ltd.

ACKNOWLEDGEMENT

Your Directors are extremely thankful to Industrial Development Bank of India, Kerala State Industrial Development Corporation Limited, State Bank of Travancore, State Bank of India, The Federal Bank Limited and IDBI Bank Limited for their continued support and guidance.

Your Directors place on record their gratefulness to the shareholders for the trust they have reposed on them. They also appreciate the co-operation and contribution made by the Executives, Staff and Workers of the Company.

By Order of the Board.

Place : Coimbatore
Date : 31.10.2003

Sd/-
S.N. VARADARAJAN
Chairman & Managing Director



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ANNEXURE 'A' TO DIRECTORS' REPORT

INFORMATION REQUIRED UNDER SECTION 217 (1)(e) OF THE COMPANIES ACT, 1956.

I. CONSERVATION OF ENERGY.

- a. Energy conservation measures : At the time of installation of the equipment, sufficient devices have already been incorporated to conserve energy. These devices and furnace operation practices based on indigenous technology have resulted in maintaining the industry standards of consumption.
- b. Additional Investments proposed for reduction in consumption of energy : Nil
- c. Impact of measures at (a) and (b) above for energy conservation : Nil
- d. Total energy consumption per unit of production as per Form A of the Annexure in respect of industries specified. : As per the prevailing rules, Ferro Alloys and Power Generation are excluded industries for the purpose of this information.

II. TECHNOLOGY ABSORPTION

- a. Research & Development : The Company through R&D in process control has consistently improved the performance through innovative practices developed and perfected in-house.
- b. Benefits derived as a result of the above R&D : The metallurgical balance and recovery rates achieved through in-house R&D has made this Company outstanding in performance when compared with other industries in this class.
- c. Future plan of action : To concentrate on in-house R&D
- d. Expenditure on R&D : Nil.
- e. Technology absorption, adoption & innovation : The Company's indigenous technological methods have already yielded results that match well with imported ones.

III. FOREIGN EXCHANGE EARNINGS AND OUTGO

Foreign Exchange Earnings and Outgo	Current Year 2002-03 [Rs.in lakhs] (12 months period ended 30.06.2003)	Previous Year 2001-02 [Rs.in lakhs] (15 months period ended 30.06.2002)
1. Earnings (Export)	26.56	534.65
2. Expenditure in Foreign Currency		
a. Raw Materials	116.16	168.35
b. Travel & Others	3.76	14.70
c. Net dividend	-	1.79

- Initiatives taken to increase exports : The Company is taking efforts to increase the exports by constant quality improvements, change of product and penetrating a wider customer base.