

ANNUAL REPORT 2003

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"KALYANPUR"

Cements Limited



BOARD OF DIRECTORS	MR. RANJIT SINGH		
	MR. D. N. BHANDARI		
	MR. B. C. SRIVASTAVA		
	DR. V. R. SINHA		
	MR. J.N. TRIVEDI		
	MR. MAHESH PRASAD		(Nominee Govt. of Bihar)
	MR. C. P. PADMANABHAN	Upto 26.11.03	(Nominee IFCI Ltd.)
	DR. K. C. VARSHNEY	Upto 14.5.03	(Nominee IDBI)
	MR. SHARAT KUMAR	Upto 22.7.03	(Nominee ICICI Bank Ltd.)
	MR. P. SITARAM	From 15.5.03	(Nominee IDBI)
	MR. DEVIINDER GUPTA	From 23.7.03	(Nominee ICICI Bank Ltd.)
AUDITORS	MESSRS. M. MUKERJEE & CO.		
CHIEF EXECUTIVE	MR. SHAILENDRA P. SINHA		
SR. VICE PRESIDENT (FINANCE)-CUM-COMPANY SECRETARY	MR. P. K. CHAUBEY		
BANKERS	ALLAHABAD BANK CANARA BANK STATE BANK OF INDIA		
REGISTERED OFFICE	2 & 3, CLIVE ROW, KOLKATA-700 001		
HEAD OFFICE	MAURYA CENTRE FRASER ROAD, PATNA-800 001		
FACTORY	BANJARI DT. ROHTAS-821 303 (BIHAR)		



DIRECTORS' REPORT

FOR THE YEAR ENDED 31st DECEMBER, 2003

The Shareholders,

Your Directors submit herewith their Report together with the audited accounts for the year ended 31st December, 2003.

	(Rupees in Lacs)	
	2003	2002
1. FINANCIAL RESULTS		
Total Turnover including other income	6569.57	10171.50
1. Profit before depreciation, interest, tax and other appropriations	(2325.83)	(459.59)
2. Less: Interest and Finance Charges	1651.95	1690.39
3. Less: Depreciation	1271.08	1270.90
4. Net Loss	(5248.86)	(3420.88)
5. Loss carried to Balance Sheet	(31773.19)	(26524.33)

2.0 PRODUCTION

Increased working capital difficulties affected operations. Capacity utilisation in Clinker and cement declined to 47% and 37% respectively due to intermittent operations on account of power disconnection, inadequate input procurement etc.

3.0 FINANCIAL PERFORMANCE :

Cement consumption in Bihar fell by 8%. This was by and large in conformity with sluggish trend on All India basis, where consumption recorded a growth of only 4% during the year against 10% last year. Average realisation declined for the second successive year and fell by around Rs. 50 per tonne compared to last year.

Lower capacity utilisation coupled with unremunerative cement prices resulted in increased losses during the year.

4.0 FINANCES

The Company was declared sick by BIFR on 28th May 2002. However, preparation of a fully tied up restructuring package continued to be delayed in the absence of decision by the Banks to release the additional working capital sanctioned in 1998. This finally led BIFR to issue a show cause notice for winding up the Company.

Meanwhile, Asset Reconstruction Company (India) Limited (ARCIL), set up as an asset reconstruction company under the Securitisation and Reconstruction of Assets & Enforcement of Security interest Act, 2002, have acquired the debt exposure of the major term lending Institutions viz. IDBI, ICICI Bank and IFCI in the Company. In view of the developments, the meeting fixed by BIFR on 8th March 2004, to hear the objections / suggestions to the proposed winding up has been deferred.



A new Rehabilitation Package is being worked out with ARCIL, which is expected to be put into operation in the next few months. With proposed measures for substantial reduction in debt servicing cost, essential renewals in plant and mines as well as improved capacity utilisation of the plant, the Company is hopeful of profitable operations soon after implementation of the Package.

5.0 DIVIDENDS

The Directors regret their inability to recommend any dividend in view of the present position of the Company.

6.0 LISTING AGREEMENTS WITH STOCK EXCHANGES

The Company's Equity Shares are listed on the Kolkata, Mumbai and Magadh Stock Exchanges. The Company has not been able to pay Annual Listing Fees to the above Stock Exchanges for the year 2003-2004 due to working capital problems.

7.0 AUDITORS REPORT

Although the remarks contained in the Auditors' Report have been appropriately explained in the Notes on Account in Schedule-16, replies to the qualifications / adverse comments made by the Auditors are separately enclosed as **ANNEXURE-1**.

8.0 DIRECTORS' RESPONSIBILITY STATEMENT

In terms of Section 217 (2AA) of the Companies Act, 1956, your Directors have—

- i. followed the applicable accounting standards in preparation of the Annual Accounts for the year ended 31.12.2003.
- ii. selected the accounting policies and applied them consistently and made judgements and estimates which are reasonable and prudent so as to give a true and a fair view of the state of affairs of the Company at the end of the financial year and of the loss of the Company for that period.
- iii. taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities.
- iv. prepared the Accounts on a going concern basis.

9.0 CORPORATE GOVERNANCE

In terms of clause 49 of the Listing Agreement, the Company is required to comply with the Corporate Governance Code. The Corporate Governance Code has already been implemented by the Company and a separate section thereon is included in the Directors' Report as **ANNEXURE-2**.



10.0 DIRECTORS

- 1 Under Articles 108 & 109 of the Articles of Association of the Company, Mr Mahesh Prasad and Mr. B. C Srivastava retire by rotation in this Annual General Meeting and being eligible, offer themselves for reappointment.
2. Dr. K. C. Varshney ceased to be Director of the Company with effect from 15th May, 2003 due to withdrawal of his nomination by Industrial Development Bank of India (IDBI). The IDBI appointed Mr. P. Sitaram in his place on the Company Board with effect from 15th May, 2003.
3. Mr. C. P. Padmanabhan ceased to be Director of the Company with effect from 27.11.2003 due to withdrawal of his nomination by IFCI Ltd.
4. Mr. Sharat Kumar, Nominee, ICICI Bank Ltd. also ceased to be Director of the Company from 23rd July, 2003 due to withdrawal of his nomination by ICICI Bank Ltd. The ICICI Bank Ltd. appointed Mr. Deviinder Gupta in his place on the Company's Board with effect from 23rd July, 2003. His nomination also has been withdrawn by ICICI Bank Ltd. with effect from 23rd January, 2004.

The Board places on record its appreciation for the services rendered by and the contributions made to the Company by Dr. K. C. Varshney, Mr. Sharat Kumar, Mr. C. P. Padmanabhan and Mr. Deviinder Gupta.

11.0 AUDITORS

The Auditors M/s M.Mukerjee & Co., Chartered Accountants retire in terms of their appointment and being eligible offer themselves for re-appointment. Since not less than 25% of the subscribed capital of the Company is held collectively by Public Financial Institutions, the re-appointment of Auditors is being proposed as a Special Resolution in accordance with Section 224A of the Companies Act, 1956.

12.0 ENERGY, TECHNOLOGY & FOREIGN EXCHANGE

Statement giving the particulars relating to conservation of energy, technology absorption and foreign exchange earnings and outgo as required under the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 is annexed as **ANNEXURE-3**.

13.0 PARTICULARS REGARDING EMPLOYEES

None of the employees of the Company was in receipt of remuneration stipulated under Section 217(2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975.

14.0 APPRECIATION

The Directors wish to put on record their appreciation for the support and contribution made by the Employees of the Company towards the operation.

The Directors also wish to place on record their thanks and appreciation for the help and support given by All India Financial Institutions, State Govt. and Central Govt. in carrying out its operations.

15.0 MANAGEMENT DISCUSSION AND ANALYSIS

Management Discussion and Analysis has been appended to the Report, in terms of the Listing Agreement, as **ANNEXURE-4**.

On behalf of the Board

Shailendra P. Sinha - Chief Executive
Ranjit Singh Director
J. N. Trivedi Director

Patna

Date : 24th March, 2004





ANNEXURE-1

AUDITORS' REMARKS AND MANAGEMENT'S REPLIES

S. No.	Remarks	Explanation
3 (iv) of Auditors' Report.	Interest and other charges of Rs. 9300.13 lacs payable to the lending Financial Institutions upto current financial year have not been provided and is shown as contingent liability. Reference may be made to Note 1 (c) in Schedule-16 to the Account	This has been suitably explained in note 1(c) in Schedule 16 to the Accounts.
3 (v) of Auditors' Report.	Without qualifying our opinion, though the accounts have been drawn on going concern concept, loss for the current year was Rs. 5248.86 Lacs, which together with net carry forward loss of Rs. 26484.06 Lacs amounts to Rs. 31732.92 lacs against the capital and reserve of Rs. 9839.75 lacs leaving a negative networth, of Rs. 21893.17 Lacs. In view of this negative networth, ability of the Company to continue as a going concern is dependent upon restructuring of equity and debt. Reference may be made to clause no. (x) of annexure of Auditors' Report read with para 15 of Accounting Policies to the Accounts.	The Company made a reference to BIFR in March '01 and was registered as a Sick Industrial Company in April '01. BIFR declared the Company as a Sick Industrial Company in its meeting held on 28th May '02 and appointed IFCI Ltd. as Operating Agency under provisions of Sick Industrial Companies (Special Provisions) Act 1985. The Company has since submitted a Financial Restructuring Proposal to the Operating Agency for consideration and approval by the Financial Institutions, Banks and Govt. of Bihar. In the meantime, an Asset Reconstruction Company namely Asset Reconstruction Co. (India) Ltd. (ARCIL) has acquired the financial assistance to the company from three major secured creditors namely IDBI, ICICI Bank Ltd. and IFCI Ltd. in terms of an Assignment Agreement pursuant to the provisions of the Securitisation & Reconstruction of Financial Assets & Enforcement of Security Interest Act 2002. ARCIL is in the process of finalising a Financial Restructuring Package for the company and therefore the company reasonably expects to continue as a going concern.
3 (xi) of Auditors' Report.	As per explanation given to us by the Management all the directors of the Company excluding the institutional and Government nominee on the board are disqualified under Clause(g) of sub-section (I) of Section 274 of the Companies Act, 1956.	The disqualification of Directors under Section 274 (1)(g) of the Companies Act, 1956 was attracted due to non-redemption of Non-Convertible Debentures (NCDs) issued to Financial Institutions. The disqualification clause will cease to apply after approval of Financial Restructuring Package which envisages write-off of Funded interest of Financial Institutions, a part of which was converted into NCDs.

S. No.	Remarks	Explanation																		
Sl.No.(ix) of Annexure to the Auditors' Report	<p>According to the information and as explained to us, in view of financial constraints the company is not regular in depositing undisputed statutory dues including provident fund, employees state insurance, income tax, sales tax, custom duty, excise duty, royalty and cess with the appropriate authorities.The extent of arrears as on 31st December 2003 in respect of dues over six months are as below :</p> <table><tr><td>Particulars</td><td>Amount(Rs. in Lacs)</td></tr><tr><td>Sales Tax (Retained)*</td><td>2831.39</td></tr><tr><td>Sales Tax</td><td>111.94</td></tr><tr><td>Royalty &Cess</td><td>423.89</td></tr><tr><td>Custom Duty</td><td>82.89</td></tr><tr><td>Provident Fund</td><td>606.98</td></tr><tr><td>Employees State Insurance</td><td>23.48</td></tr><tr><td>Income Tax(Tax Deducted at Source)</td><td>20.90</td></tr><tr><td>Cement Regulation Account Dues</td><td>208.22</td></tr></table> <p>*Granted by State Government as per Industrial Policy.</p> <p>Of the above,dues of cement regulation account have been challenged in Delhi High Court.All the other dues are undisputed.</p>	Particulars	Amount(Rs. in Lacs)	Sales Tax (Retained)*	2831.39	Sales Tax	111.94	Royalty &Cess	423.89	Custom Duty	82.89	Provident Fund	606.98	Employees State Insurance	23.48	Income Tax(Tax Deducted at Source)	20.90	Cement Regulation Account Dues	208.22	<p>In view of the continuing deterioration in financial performance of the company over last few years mainly resulting from non-release of working capital by the banks despite sanction in 1998,the company has been trying only to hold on the operation in anticipation of its long term revival and therefore the liabilities on account of statutory dues have accumulated.The proposed Financial Restructuring Package envisages payment of dues in a phased manner out of the generation of resources by the company.The company reasonably expects to fulfil its statutory commitments,once the Restructuring Package is put into operation.</p>
Particulars	Amount(Rs. in Lacs)																			
Sales Tax (Retained)*	2831.39																			
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Cement Regulation Account Dues	208.22																			
Sl. No. (x)of Annexure to Auditors' Report	<p>According to the information and as explained to us, the accumulated losses at the end of the financial year are not less than fifty percent of its net worth.It has also incurred cash losses of Rs.3977.78 lacs,in the financial year and cash loss of Rs. 2149.98 lacs, in the financial year immediately preceding the current financial year.</p>	<p>This is a statement of fact and as a result of erosion of the company's total net worth, it is already registered with BIFR as explained in reply to Sl.No.3 (v) of the Auditors' Report.</p>																		



S. No.	Remarks	Explanation														
Sl. No. (xi) of Annexure to Auditors Report	<p>According to the information and as explained to us,the Company has not paid the following dues to financial institutions, banks and debenture holders.The period and amount are given below :</p> <table><thead><tr><th>Particulars</th><th>Amount (Rs.in Lacs)</th></tr></thead><tbody><tr><td>Financial Institutions During the period 1997-98 to 2003</td><td></td></tr><tr><td>- Principal / Funded Interest /NCD</td><td>13,265.34</td></tr><tr><td>- Interest</td><td>6,746.10</td></tr><tr><td>Banks During the period Oct'02 to Dec' 03</td><td></td></tr><tr><td>- Principal</td><td>107.90</td></tr><tr><td>- Interest</td><td>323.01</td></tr></tbody></table>	Particulars	Amount (Rs.in Lacs)	Financial Institutions During the period 1997-98 to 2003		- Principal / Funded Interest /NCD	13,265.34	- Interest	6,746.10	Banks During the period Oct'02 to Dec' 03		- Principal	107.90	- Interest	323.01	<p>The dues to Financial Institutions,Banks and the Debenture-holders could not be paid only due to deterioration in financial performance of the company caused by absence of need based working capital which, despite promises and sanctions was not released by the Banks.Timely release of need based working capital would have enabled the company avoiding losses to a substantial extent and the dues also would not have accumulated to the present level.</p>
Particulars	Amount (Rs.in Lacs)															
Financial Institutions During the period 1997-98 to 2003																
- Principal / Funded Interest /NCD	13,265.34															
- Interest	6,746.10															
Banks During the period Oct'02 to Dec' 03																
- Principal	107.90															
- Interest	323.01															
Sl. No. (xvii) of Annexure to the Auditors' Report	<p>According to the information and as explained to us,except for purchase of fixed assets amounting to Rs.1.85 Lacs,funds raised for short term basis have not been used for long term investment and vice versa.</p>	<p>As observed in the Auditors Report, funds raised on short term basis have not been used for long term investment and only a sum of Rs.1.85 lacs has been used for purchase of fixed assets which were essential for operating requirements of the company.</p>														

On behalf of the Board

Shailendra P. Sinha - Chief Executive
Ranjit Singh Director
J. N. Trivedi Director

Patna

Date : 24th March, 2004

ANNEXURE-2**CORPORATE GOVERNANCE :****1. Brief statement on Company's Philosophy on Code of Governance :**

In terms of the report of Kumarmangalam Birla Committee on Corporate Governance and the directives of SEBI, the listing agreement with Stock Exchanges has been amended by addition of Clause 49 therein. The Company is required to implement the Corporate Governance Code in letter and spirit. In fact the Company has already been following some of the sound Corporate Governance practices. Now as stipulated in the listing agreement, it is endeavour of the Company to follow the Code of Corporate Governance by adopting Sound Corporate practices and complying with various laws, rules, regulations and the listing agreement with the Stock Exchanges.

2. a) Composition and category of Directors.

Sn	Name of the Directors	Category	Promoter/ Non-Promoter	Remarks
01.	Mr. Mahesh Prasad	Non-Executive	Independent	Nominee of the Govt of Bihar
02.	Mr.C.P. Padmanabhan (upto 26.11.2003)	Non-Executive	Independent	Nominee of IFCI Ltd. IFCI Ltd. is both a lender and a shareholder
03.	Dr. K. C. Varshney (Upto 14.5.2003)	Non-Executive	Independent	Nominee of IDBI. IDBI is both a lender and a shareholder
04.	Mr. Ranjit Singh	Non-Executive	Independent	--
05.	Mr. D. N. Bhandari	Non-Executive	Independent	--
06.	Mr. B. C. Srivastava	Non-Executive	Independent	--
07.	Dr. V. R.Sinha	Non-Executive	Independent	--
08.	Mr. J.N. Trivedi	Non-Executive	Independent	--
09.	Mr. Sharat Kumar (Upto 22.7.03)	Non-Executive	Independent	Nominee of ICICI Bank Ltd. ICICI Bank Ltd. is both a lender and a shareholder
10.	Mr. P. Sitaram (From 15.5.03)	Non-Executive	Independent	Nominee of IDBI. IDBI is both a lender and a shareholder
11.	Mr. Deviinder Gupta (From 23.7.03)	Non-Executive	Independent	Nominee of ICICI Bank Ltd. ICICI Bank Ltd. is both a lender and a shareholder.