

ANNUAL REPORT

2010-11

“ KALYANPUR ”
Cements Limited

Board of Directors

Sri Satyadeva P. Sinha, Executive Chairman
Sri Shailendra P. Sinha, Managing Director
Sri Anant P. Sinha, Joint Managing Director
Sri Mahesh Prasad
Sri D.N. Bhandari
Sri B.C. Srivastava
Dr. K.C.Varshney
Sri Arun Sharma
Sri Mahendra Lodha
Sri K. Balasubramanian
Sri Dhananjay Lodha

1. Auditors

M/s M. Mukerjee & Co.

2. Internal Auditors

M/s B. Gupta & Co.

3. Cost Auditors

M/s Mitra, Bose & Associates

Registered Office

2 & 3, Dr. Rajendra Prasad Sarani
Kolkata- 700 001

Corporate Office

Maurya Centre
1, Fraser Road, Patna-800 001
Bihar

Audit Committee

Sri D.N.Bhandari, Chairman
Dr. K.C.Varshney
Sri Dhananjay Lodha
Sri Arun Sharma
Sri B.C. Srivastava

**Share Transfer & Shareholders' Grievance
Redressal Committee**

Sri D.N. Bhandari, Chairman
Sri S.P. Sinha
Sri Shailendra P. Sinha

Senior Management

Sri Siddharth P. Sinha, Executive Director
Sri S.B.Prasad, President (Management Audit)
Sri P.K. Chaubey, President (Finance) & Co. Secretary
Sri Faisal Alam, President (Sales & Marketing)
Sri D.M. Sinha, Sr. Vice-President (Works)
Sri S.C. Banka, Group Head - HR

Factory

Banjari, Distt. Rohtas - 821 303
Bihar

DIRECTORS' REPORT

FOR THE YEAR ENDED 31st MARCH, 2011

The Shareholders,

Your Directors submit herewith their Report together with the audited accounts for the year ended 31st March '2011

1. FINANCIAL RESULTS

		(Rupees in Lacs)	
		Year ended 31.03.2011	Year ended 31.03.2010
Total Turnover including other income		23756.91	23244.06
1.	Profit before depreciation, interest, tax and other appropriations	(54.06)	2128.13
2.	Less :		
	Interest and Finance Charges & Misc. Provisions	299.79	248.33
	Depreciation/ deferred revenue expenditure written off	1380.64	1383.41
	Fringe Benefit Tax	0.00	5.77
3.	Net Loss	(1734.49)	490.62
4.	Write back of Sales Tax	8754.71	1207.11
5.	Sales Tax reversed	0.00	(8754.71)
6.	Loss carried to Balance Sheet	(18448.84)	(25469.06)

2.0 PRODUCTION

Clinker and Cement production further improved during the year, surpassing the previous year's performance levels, with capacity utilization of 88% in Clinker and 76% in cement production, against 83% and 68% achieved during 2009 -10.

3.0 FINANCIAL PERFORMANCE

After two years of slowdown, Indian economy made a broad based recovery in 2010-11 with Industrial Sector clocking a growth of 8.1%, Services Sector by 9.6% and Agricultural Sector by 5.4% taking the GDP growth to 8.6% overall.

However, Cement Industry entered a critical phase, with subdued demand adversely affecting capacity utilizations with lowest growth in over a decade. Cement production on All India basis increased by 4.69%, and consumption went up 4.57%. Cement prices remained under severe pressure and together with cost hikes, cut deeply into margins of the Industry.

Inflationary pressure particularly in food items which also affected public spending, was a major challenge, forcing the Govt. to roll back fiscal stimulus and resort to monetary tightening.

Despite achieving the highest ever production level, lower demand, cost hikes and steep fall in realization resulted in net loss from operations, for the Company. As a result of the aforesaid factors, the company incurred a loss of Rs. 17.34 crores during the year as compared to the profit of Rs. 4.91 crores during the previous financial year i.e. 2009-10.

4.0 FINANCES

The Company continued its efforts to strengthen plant operations and improve operating efficiency, resulting in achievement of highest ever capacity utilization of 103% in Clinker and 90% in Cement and power efficiency rate of 73 Kwh per tonne of Cement in the last quarter of 2010-11. However, pricing came under severe pressure and was lower by almost Rs. 300 per tonne, with more than 31% growth in supplies into Bihar markets in the last two years and the number of players in the Bihar market increasing from 26 in 2008-09 to 42 in 2010-11. With steep drop in margins as a result of lower prices, the Company experienced liquidity constraints. Furthermore, the prices of A and B grades of Coal were hiked by Coal India Ltd. by almost 100%.

The Govt. changed the Excise Duty structure which put an additional burden of Rs. 50/- MT which could not be passed on to the consumer. In addition, BSEB has levied Fuel Surcharge with retrospective effect, having a financial bearing of Rs. 4.5 crores for the company. Although challenged in the court of Law, if upheld, the liability on account of Fuel Surcharge would crystallize putting Company's liquidity into further stress.

The Company's reference before the Board for Industrial and Financial Reconstruction (BIFR) made in terms of the provisions of the Sick Industrial Companies (Special Provisions) Act, 1985 is still pending. BIFR has circulated the Draft Rehabilitation Scheme (DRS) to various Stakeholders for approval. The approvals are awaited.

The outlook for Cement Industry has been explained in the 'Management Discussion and Analysis' report appended as Annexure-4 to the Directors Report.

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 Calcutta Stock Exchange and Bombay Stock Exchange. Magadh Stock Exchange where, too, the Company was listed has since been derecognized by SEBI. There are no arrears of Annual Listing Fees pending with the Company.

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 31.03.11.
- 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 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

Under Articles 108 & 109 of the Articles of Association of the Company, Mr. Mahendra Lodha, Mr. D. N. Bhandari and Mr. B. C. Srivastava, Directors retire by rotation in this Annual General Meeting and being eligible offer themselves for reappointment.

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.

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 MANAGEMENT DISCUSSION AND ANALYSIS

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

15.0 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 Asset Reconstruction Company (India) Ltd, Financial Institutions / Banks, State Govt. and Central Govt. in carrying out its operations.

On behalf of the Board

Satyadeva Prakash Sinha
Executive Chairman

Patna
Dated : 20th May, 2011

ANNEXURE – 1

AUDITOR'S REMARKS AND MANAGEMENT'S REPLIES

Sl. No.	Remarks	Explanation
3(i) of Auditors' Report	As stated in Para B 1.1 and B 1.2 of Schedule 16, the claims of BSEB are disputed in respect of 33 KV and 132 KV power connections. The extent and nature of disputes as well as the financial implications, if not resolved as anticipated, have been explained by the Management in the said notes.	<p>(i) The matter relating to the dispute about 33 KV power line referred to the Arbitration has been fully explained in Paragraph B 1.1 of Schedule 16 to the accounts of the company.</p> <p>(ii) Bihar State Electricity Board (BSEB) has wrongly levied DPS of Rs. 6.27 crores which has been challenged in the Hon'ble Patna High Court on the ground that the DPS could not be levied by BSEB in terms of the tariff Order till the revised energy bill was issued to the Company. The Company is confident of relief in the matter from the Hon'ble Court. This point has been fully explained in Para B 1.2 of Schedule 16 to the Accounts of the Company.</p> <p>(iii) BSEB has levied Fuel Surcharge for the period January–September 2009 and December 2010 to February 2011 aggregating Rs. 4.50 crores. The Company has contended that this is a wrong levy and not payable and accordingly a writ petition has been filed by the Company in the Hon'ble Patna High Court. This point has also been appropriately explained in Para B 1.2 of Schedule 16 to the Accounts of the Company.</p>
3(ii) of Auditors' Report	As stated in Para B 1.3 of Schedule 16, the claims of Cement Regulation Account are disputed.	The Company has disputed before the Hon'ble Delhi High Court, the demand raised by the Ministry of Industry in respect of the levy under Cement Regulation Account amounting to Rs. 2.08 crores on the ground that the levy is not correct and hence interest thereon is also not payable. The point has been fully explained in Para B 1.3 of Schedule 16 to the accounts of the Company.
3(iii) of Auditors' Report	As stated in Para B 1.5 of Schedule 16, Sales Tax liability amounting to Rs. 439.25 lacs (including Rs. 198.27 lacs of penalty and interest) is disputed.	This has been fully explained in Paragraph No. B 1.5 of Schedule 16 to the Accounts.

Sl. No.	Remarks	Explanation
3(iv) of Auditors' Report	<p>In terms of Note B 11 of Schedule 16 to the Accounts, the documents relating to the title of all immovable properties including land at Banjari were deposited with IFCI Limited, which has assigned its loan earlier granted to the Company to ARCIL-Kalyanpur Cements Ltd. Trust.</p> <p>Although documents and papers relating to the title of immovable properties could not be produced before us for our verification we were assured that the Company enjoyed peaceful possession of the said immovable properties.</p>	<p>This is a statement of fact and the Company enjoys peaceful possession of all its immovable properties.</p>
3(vi) of Auditors' Report	<p>Without qualifying our opinion, though the accounts have been drawn on going concern concept, the accumulated losses at the end of current Financial Year considering the loss of Rs. 1734.49 Lacs, for the year and write back of Sales Tax dues of Rs. 8754.71 lacs amount to Rs. 18448.84 lacs against the capital and reserve of Rs. 4836.54 lacs which leaves a negative networth of Rs. 13612.30 lacs. In view of this negative networth, ability of the Company to continue as a going concern is dependent upon the Company's performance after the scheme of compromise. Reference may be made to Clause No.(x) of annexure of Auditors' Report read with Note B13 of Schedule 16 to the Accounts.</p>	<p>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 hearing held on 28.05.02 and appointed IFCI Ltd. as Operating Agency under the Provisions of Sick Industrial Companies (Special Provisions) Act, 1985. In the meantime, an Asset Reconstruction company namely Asset Reconstruction Company (India) Ltd. (ARCIL) acquired the debts of the company from various Financial Institutions and Banks in terms of the Assignment Agreements pursuant to the provisions of the Securitisation & Reconstruction of Financial Assets & Enforcement of Security Interests Act, 2002. A Scheme of Compromise under the Companies Act, 1956 between the Company and its shareholders and Secured Creditors was also approved by the Hon'ble Calcutta High Court on 21.11.2006. Subsequently, BIFR held several hearings and has now circulated a Draft Rehabilitation Scheme (DRS) prepared by the Operating Agency and finalized by BIFR to various agencies including the Govt. of Bihar. The DRS is under consideration of the State Govt. as well as other agencies and the Company is hopeful of approval of DRS by the State Govt. as well as other Agencies and subsequently by BIFR. On implementation of the DRS, the Company's accumulated losses will get wiped out and the Net Worth turn positive in the 6th year of the scheme period. The company, therefore expects to continue as a going concern.</p>
(ix) of Annexure to the Auditors' Report	<p>According to information and as explained to us, barring few exceptions, the Company generally is regular in depositing undisputed statutory dues including Provident Fund, Investor Education and Protection Fund, Employees' State Insurance, Income-tax, Sales-tax, Wealth tax, Service tax, Custom Duty, Excise Duty, Cess and any other statutory dues with the appropriate authorities. The extent of arrears as on 31st March, 2011 in respect of dues over six months are as below :</p>	<p>With improvement in operations & financials, the position of payment of statutory dues has significantly improved. The position with regard to each of the dues is given below :</p>

Sl. No.	Remarks	Explanation
(ix) of Annexure to the Auditors' Report	<p>a) Sales Tax (Retained) - Rs. 2040.16 lacs Granted by State Government as per Industrial Policy 1989. As per information and explanation received, the sales tax dues upto 30.09.02 have been stayed by the Hon'ble Board for Industrial and Financial Reconstruction (BIFR) vide the order dt. 20.09.2002. Such dues would be ordered to be recovered as per the Rehabilitation Scheme to be finalized by BIFR. In addition, BIFR, in the DRS circulated by it, has provided for payment of these dues in instalments.</p> <p>b) Royalty on Limestone – Rs. 466.28 lacs. As per information and explanation received, BIFR, in its DRS, has provided for payment of these dues in instalments.</p> <p>c) Cement Regulation Account – Rs. 208.23 lacs. The above dues of Cement Regulation Account have been challenged in Delhi High Court.</p> <p>All the dues except at (c) above are undisputed.</p>	<p>The Draft Rehabilitation Scheme (DRS) circulated by BIFR provides for payment of these dues in instalments. DRS provided for payment of Rs. 500 lacs in 1st year of the Scheme which has since been paid.</p> <p>DRS provides for payment of Royalty dues of Rs. 316.28 lacs in instalments besides payment of Rs. 150 lacs in the 1st year of the scheme and payment of Rs. 66 lacs already made to the concerned department of the Govt. of Bihar. The payment of these dues will be made in terms of the approval of the DRS by the Govt. of Bihar which is awaited.</p> <p>DRS provides for payment of CRA dues of Rs. 208.23 lacs in 7th year of the scheme i.e. 2015-16. However, BIFR has subsequently directed for payment of this amount in two instalments in 2nd and 3rd year of the scheme.</p>
(x) of Annexure to the Auditors' Report	According to the information and as explained to us, the accumulated losses at the end of financial year are not less than fifty percent of its net worth. It has made cash loss in the current financial year but cash profit in the immediately preceding financial year.	This is a statement of fact and as a result of erosion of the Company's total networth, it is already registered with BIFR as explained in reply to auditors comment at Para No. 3 (vi) of their Report.

On behalf of the Board

Satyadeva Prakash Sinha
Executive Chairman

Patna

Dated: 20th May, 2011

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/ Independent	No. of Shares held	Remarks
01	Shri Satyadeva Prakash Sinha	Executive	Promoter	-	-
02	Shri Shailendra Prakash Sinha	Executive	Promoter	-	-
03	Shri Anant Prakash Sinha	Executive	Promoter	-	-
04	Shri Mahesh Prasad	Non-Executive	Independent	-	Nominee of the Govt. of Bihar
05	Shri D.N. Bhandari	Non-Executive	Independent	176	Please ref. Clause 7(v)(d)
06	Shri B.C. Srivastava	Non-Executive	Independent	-	
07	Dr. K.C.Varshney	Non-Executive	Independent	-	
08	Shri Mahendra Lodha	Non-Executive	Independent	-	
09	Shri Arun Sharma	Non-Executive	Independent	-	Nominee of Asset Reconstruction Company (India) Ltd. (both Lender and Equity Investor).
10	Shri K. Balasubramanian	Non-Executive	Independent	-	
11	Shri Dhananjay Lodha	Non-Executive	Independent	-	

The company presently has three Directors on its Board from Promoter category. The remaining eight Directors are non-Executive independent Directors in terms of the definition of Independent Director contained in Clause 1(A) (iii) of Clause 49 of the Listing Agreement.

2. (b) The attendance record of the Directors at the Board Meetings during the financial year ended on 31st March, 2011 and the last Annual General Meeting (AGM) is as under

Sn.	Name of Directors	No. of Meetings held during the tenure	Attendance at Board Meetings	Attendance at AGM
01	Shri Satyadeva Prakash Sinha	5	5	No
02	Shri Shailendra Prakash Sinha	5	5	No
03	Shri Anant Prakash Sinha	5	5	No
04	Shri Mahesh Prasad	5	1	No
05	Shri D.N. Bhandari	5	4	No
06	Shri B.C. Srivastava	5	5	Yes
07	Dr. K.C. Varshney	5	4	No
08	Shri Mahendra Lodha	5	-	No
09	Shri Arun Sharma	5	3	No
10	Shri K. Balasubramanian	5	3	No
11	Shri Dhananjay Lodha	5	3	No

(c) Details of Directorships etc :

The details of Directorship in Companies (excluding Private Limited Companies and Section 25 Companies), Chairmanship and the Committee Membership held by the Directors are given below :

Name of Directors	No. of Directorship	Chairman of the Board	Board Committees of which he is a Member	Board Committees of which he is a Chairman
Shri Satyadeva Prakash Sinha	1	1	1	-
Shri Shailendra Prakash Sinha	3	-	1	-
Shri Anant Prakash Sinha	2	-	-	-
Shri Mahesh Prasad	N.A.	N.A.	N.A.	N.A.
Shri D.N. Bhandari	1	-	1	2
Shri B.C. Srivastava	2	-	2	-
Dr. K.C. Varshney	3	-	-	3
Shri Mahendra Lodha	9	-	4	5
Shri Arun Sharma	1	-	2	-
Shri K. Balasubramanian	1	-	-	-
Shri Dhananjay Lodha	2	-	1	-

The position indicated above includes the Directorship and Membership/Chairmanship of the Committees of the Board of Directors of the Company also.