

34th ANNUAL REPORT 2003-04



KOTHARI INDUSTRIAL CORPORATION LIMITED



KOTHARI INDUSTRIAL CORPORATION LIMITED

Regd. Office : "Kothari Buildings" 114, Mahatma Gandhi Salai, Chennai 600 034

NOTICE TO MEMBERS

NOTICE is hereby given that the 34th Annual General Meeting of the Company will be held as scheduled below :

Day & Date : Tuesday, the 27th September, 2005

Time : Immediately after the conclusion of the Thirty-third Annual General Meeting of the Company

Place : German Hall
17, Prakasam Street,
T. Nagar,
CHENNAI 600 017.

The Agenda for the Meeting will be as follows:

ORDINARY BUSINESS

1. To consider and if thought fit, to pass with or without modification, the following Resolution as an Ordinary Resolution.

"RESOLVED THAT the audited Profit & Loss Account for the 9-months ended 31st March, 2004 and the Balance Sheet as at that date along with the Auditors' Report and the Directors' Report circulated to the members be and are hereby adopted".

(By Order of the Board)

for Kothari Industrial Corporation Limited

Place : Chennai

Date : 03.09.2005

Note:

1. Unclaimed Dividend:

Shareholders are hereby informed that all unpaid/unclaimed dividends for the years up to 1995 have been transferred to the Central Government as per the provisions of Sec.205-A(5) of the Companies Act, 1956. Those shareholders who have not encashed the dividend warrants are requested to claim the amount from the Registrar of Companies, Shastri Bhavan, Haddows Road, Chennai 600 006 and they may contact the Company for any assistance in this connection.

2. The Register of Members and the Transfer Books of the Company were closed from Thursday, the 16th December, 2004 to Wednesday, the 22nd December, 2004 (both days inclusive).

SPECIAL BUSINESS

2. To consider and if thought fit, to pass with or without modification, the following Resolution as an Ordinary Resolution.

"RESOLVED that the appointment of Messrs M.K.Dandeker & Co., and Messrs B.B.Naidu & Co., Chartered Accountants, as Joint Auditors of the Company who have audited the accounts of the Company for the year 2004-05 at a remuneration of Rs.90,000/- each plus service tax and out-of-pocket expenses be and is hereby ratified".

A MEMBER ENTITLED TO ATTEND AND VOTE IS ENTITLED TO APPOINT A PROXY TO ATTEND AND ON A POLL TO VOTE INSTEAD OF HIMSELF AND THE PROXY NEED NOT BE A MEMBER OF THE COMPANY. PROXIES IN ORDER TO BE EFFECTIVE, SHOULD BE LODGED WITH THE COMPANY AT ANY TIME NOT LESS THAN FORTY EIGHT HOURS BEFORE THE MEETING. A FORM OF PROXY IS ENCLOSED.

3. Members are also hereby informed that the equity shares of the company are now available for dematerialisation/ rematerialisation under the Depository System. Members desirous of having more information may write to the Secretarial Department of the company.
4. Members are requested to notify the change of address, if any immediately to the Company.
5. Members with identical order of names who are holding shares in multiple folios are requested to write to the Company enclosing their Share Certificates to enable the Company to consolidate their holdings into one folio.
6. Members/Proxies should bring Attendance Slip (duly completed) for attending the meeting as well as copy of the Annual Report.

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Explanatory Statement pursuant to Sec.173 of the Companies Act, 1956.

In respect of Item No.2:

At the 32nd Annual General Meeting of the Company for the year 2001-02 held on 14th November, 2002 Messrs. M.K. Dandekar & Co., and Messrs. B.B. Naidu & Co.. Chartered Accountants were re-appointed as Joint Auditors of the Company to hold office from the conclusion of that Annual General Meeting till the conclusion of the next Annual General Meeting. However, due to the shifting of certain divisions including the Accounts and EDP at the corporate office premises, there was a data

storage media crash, resulting in delay in the finalisation and consolidation of the accounts and hence, the 34th Annual General Meeting of the Company could not be held on the due date. The Auditors in view of their term of appointment continued to function and discharge their duties as Statutory Auditors of the Company during 2004-05. The members are requested to ratify the appointment and payment of remuneration to the Statutory Joint Auditors of the Company for 2004-05.

The Board commends the resolution as set out in the Notice for approval of the Shareholders.

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REPORT OF THE DIRECTORS

Your Directors present herewith the Thirtyfourth Annual Report on the performance of the Company along with the Audited Balance Sheet and Profit and Loss Account for the 9 months period ended 31st March, 2004.

The financial year of the Company was changed from July-June to April-March and the financial year 2003-04 comprised of 9 Months period.

The Financial Results are as follows:

	(Rs. in lacs)	
	2003-04 (9 months)	2002-03 (15 months)
Turnover/Income from Services	2,569.71	3,771.56
Profit/(Loss) before Interest and Depreciation	(1,489.02)	(600.41)
Interest and Finance Charges	85.75	79.94
Profit/(Loss) before Depreciation	(1,574.77)	(680.35)
Depreciation	86.40	153.94
Profit/(Loss) before Tax	(1,661.17)	(834.29)
Provision for Income Tax	—	180.52
Profit/(Loss) after Tax	(1,661.17)	(653.77)
Balance Profit/(Loss) brought forward from the previous year	(1,274.41)	(620.64)
Balance Profit/(Loss) carried to Balance Sheet	(2,935.58)	(1,274.41)

In the absence of profits for the period under review, the Directors could not recommend any dividend.

PHYSICAL PERFORMANCE:

The production and turnover particulars of the various divisions are as follows:-

		PRODUCTION		TURNOVER	
		2003-04 (9 Months)	2002-03 (15 months)	2003-04 (9 Months)	2002-03 (15 months)
FERTILISERS					
Superphosphate	(MT)	—	—	40.19	148.03
Sulphuric Acid	(MT)	—	—	—	—
Mixtures	(MT)	23,475	31,711	1472.09	1756.83
Sodium Silico Flouride	(MT)	—	—	—	—
Straight Fertilisers		—	—	482.20	767.78
Pesticides Trading		—	—	159.14	222.92
				2153.62	2895.56
PLANTATION					
Tea	(lac Kgs)	8.43	16.95	416.09	876.00
				2569.71	3771.56

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The performance of the Company during the period under review was affected due to general economic recession, monsoon failure and financial constraints faced by the Company. The operations of the Fertilizer Factory, Super Phosphate Plant and Sulphuric Acid Plant continued to be suspended during the period under review. There was improvement in the sale of NPK Mixtures, Trading in Pesticides and Straight Fertilizers.

The performance of the Tea Division was affected on account of sharp decline in tea prices. Tea Division was unable to take up any development work.

Kothari Coffee Curing Works was operated and maintained by the buyer pending completion of formalities.

The Company obtained consent of the Shareholders pursuant to the provisions of Section 293(1)(a) of the Companies Act, 1956 for transfer of Glendale Estate, Nilgiris, Tamilnadu for transfer to the Company's wholly owned subsidiary Messrs Kothari (Madras) International Limited and the Company is yet to implement the resolution.

Due to severe financial constraints, the Company was not able to pay the overdue interest to the Debentureholders in respect of 16% Secured Redeemable Non Convertible Debentures of Rs. 150/- each and also could not redeem the Debentures on the due dates. At the meeting of the Debentureholders held on 22nd April, 2003, subject to the approval of Unit of India, consent was accorded for seeking modification to the Consent Terms dated 23rd June, 2000, redeeming the Debentures before 30th September, 2003, for payment of simple interest at 5% per annum and for waiver of interest, overdue interest and future interest liability. The Company could not implement the resolutions since the expected investment of funds did not materialize. Meanwhile, the Court Receiver, High Court of Judicature at Mumbai, Mumbai has taken steps pursuant to Consent Terms dated 23rd June, 2000 to take possession of the assets secured by way of second charge for the said Debenture in order to settle the dues to the Debentureholders.

The Company continues to pursue its efforts to settle the dues to the pressing creditors including the Debentureholders' liability. The Company was also exploring the possibility of inducing a joint

venture partner who would be able to invest funds for settling the creditors, for reviving the operations of Fertilizer Division and for providing working capital funds.

DIRECTORS:

Mr. Justice (Retd.) S. Kalyanam and Mr. T.S. Raghavan were appointed as Additional Directors of the Company on 17th September, 2003.

Mr. G. Natarajan resigned from the Board with effect from 13th July, 2004. The Board placed on record its appreciation of the services rendered by Mr. G. Natarajan during his tenure as Director of the Company.

RESPONSIBILITY STATEMENT:

The Directors 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;
- They have selected such accounting policies and applied them consistently and made judgements and estimates that 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 Profit or Loss of the Company for that period;
- To the best of their knowledge and information, they 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; and
- They have prepared the annual accounts on a going concern basis.

CONSOLIDATED FINANCIAL STATEMENT

The Company's wholly owned subsidiaries, viz. Chennai Agro Tech and Stones Limited are held with a view of their disposal in the near future. Clause 11 of the Accounting Standard No. 21 on Consolidated Financial Statements issued by the Institute of Chartered Accountants of India exempts the presentation of consolidated accounts of holding and subsidiary companies in the circumstances and hence not included in the Annual Report. Messrs. Kothari (Madras) International Limited ceased to be a subsidiary of the Company.



AUDITORS

Messrs M.K Dandekar & Co., and B.B.Naidu & Co., Chartered Accountants, Chennai, the retiring Auditors are eligible for reappointment.

AUDITORS' REPORT:

With regard to the remarks in the Auditors' Report, the relevant financial notes are self explanatory. As regards gratuity liability, an actuarial evaluation will be undertaken to quantify the shortfall in this regard.

During the last three years, the Company had to face certain housekeeping issues such as the Computer data having become corrupt, exit of some the key executives viz. the Company Secretary, Finance Manager and Law Officer, besides experienced employees in the Accounts and Finance Sections having opted for Voluntary Retirement, most of the existing employees having got demoralized on account of their monthly emoluments having fallen into arrears, the top executives having to spend all their time and energy in having to deal daily with various negotiations/litigations, leaving little or no time to oversee the daily routine matters, compounded by misplacement of the accounting and other supporting records due to frequent shifting of the Accounts and other Departments from different locations in various floors of the building - all these factors which were largely beyond the reasonable control of the Company already facing financial and liquidity problems, have contributed the Company not being able to furnish comprehensive explanation/evidence to the satisfaction of the statutory auditors resulting in certain reservations/observations in the audit report. Besides, the Company had to write off significant amounts in the accounts due to inability to rationalize the carry forward of these amounts in the accounts.

SAFETY AND ENVIRONMENT:

The Company continued to maintain a good safety record. The manufacturing units and the plantations

of the Company are environment friendly and maintain all safety standards and measures.

DEPOSITS:

The Company held Rs.72.53 lacs as deposits from public and OCBs as on 31st March, 2004 out of which deposits aggregating to Rs.70.16 lacs (including NRI deposits of Rs.65.14 lacs) have matured, but remain unclaimed as on that date.

PARTICULARS OF EMPLOYEES:

None of the employees were in receipt of remuneration of Rs.2,00,000 and above.

SUBSIDIARIES:

The accounts for the subsidiary, Chennai Agro-Tech And Stones Ltd., are not available since the operator of the division has not yet submitted the accounts.

CORPORATE GOVERNANCE:

The Company is presently handicapped due to absence of a Company Secretary (the previous Company Secretary having left the services in December 2004) and there being only a skeleton staff in the Secretarial Department, it has not been possible to prepare in time the Corporate Governance and Management Analysis Report required to be annexed to the Annual Report which shall be circulated to the Members as soon as they are compiled.

ACKNOWLEDGEMENT:

Your Directors place on record their appreciation of the valuable support and timely help of the financial institutions, government authorities, banks and employees. The cooperation and the forbearance of the members are gratefully acknowledged.

On behalf of the Board of Directors

Place : Chennai
Date : 3rd September 2005

Pradip D. Kothari
Chairman

Kothari Industrial Corporation Limited

REPORT OF THE AUDITORS

To

The Members of
Kothari Industrial Corporation Limited

We have audited the attached Balance Sheet of M/s Kothari Industrial Corporation Limited, Chennai 600 034 as at 31st March 2004, the Profit and Loss Account for the period ended on that date annexed thereto and the Cash Flow statement for the period ended on that date. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

1. We conducted our audit in accordance with auditing standards generally accepted in India. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.
2. As required by the Companies (Auditor's Report) Order, 2003 and amended by the Companies (Auditor's Report) (Amendment) Order, 2004 issued by the Central Government in terms of sub section (4A) of Section 227 of the Companies Act, 1956. We enclose in the annexure a statement on the matters specified in paragraphs 4 and 5 of the said Order.
3. Further to our comments in the annexure referred to above, we state that :
 - i) **The Company has made available the draft accounts only recently and a comprehensive audit could not thereafter be carried out in the absence of comprehensive details/information and explanation including in particular the Granite Division which to the best of our knowledge and belief were necessary for the purpose of our audit.**
 - ii) In our opinion proper books of account as required by law have been maintained **with the exception of Granite Division** so far as appears from the examination of those books. and **non availability of the Register under Section 301 of the Companies Act, 1956 for our audit.**
 - iii) The Balance Sheet and Profit and Loss Account and the cash flow statement referred to in this report are in agreement with such books of account referred to in paragraph (ii) above.
 - iv) In our opinion the Balance Sheet, Profit and Loss account and cash flow statements dealt with this report comply with the Accounting standards referred to in section 211(3c) of the Companies Act 1956 **subject to specific qualifications contained in para 5 and 6 on non observance of accrual basis of accounting and impairment of assets**
 - v) In our opinion the said accounts together with the accounting policies and notes in Schedule 17 give the information required under the Companies Act 1956 in the manner required.
4. In view of the Company not having redeemed the debentures and the term loans to financial institutions and not repaid certain matured fixed deposits, for a period exceeding three years, **we report that all the Directors are disqualified as on 31st March 2004 from being appointed as Directors in any other public limited Company in term of Section 274(1)(G) of the Companies Act 1956.** The Company has been advised by the counsel that there is no bar for the existing Directors of the company from being reappointed as Directors in the same Company.
5. **Attention is invited to**
 - i) **Note No.7(ii) relating to non provision for disputed sales tax demands aggregating to Rs.891.97 lacs.**
 - ii) **Non provision for power tariff consequent to withdrawal of concessional power tariff relating to earlier years Rs.328.73 lacs (note 7(iii))**



- iii) An amount of Rs.649.96 lacs is due by a public company which is under liquidation (Note 12(b)(i)) being related party transaction.
 - iv) The advances referred to para (iii) above have been to companies with which there is no direct business nexus and the end use of these amounts by the recipient companies which, we are informed, are controlled by the promoter, his family members and associates, have not been made known to us to comment on the propriety of these transaction or the recoverability of these amounts.
 - v) Non provision for potential liability for unfulfilled export obligation pertaining to textile division amounting to Rs.84.07 lacs (Note 7(vii)).
 - vi) Non provision for overdue and penal interest and other charges in respect of certain Non convertible Debentures, which have become overdue for redemption. (Note 3(ii)). Consequently, the bank borrowings and outstanding liability to debentureholders, are understated in the Balance Sheet.
 - vii) Non incorporation of the transactions of the Granite Division during the year (Note 10)
 - viii) The Company has yet to give effect to the order of City Civil Court, Chennai regarding refund of share monies (Note 2 (v) & (vi))
 - ix) The Company has not given effect to the consent decree filed with Supreme Court regarding disputed share allotment (Note 2(vii))
 - x) The liability on account of shortfall between the realisable value of certain leased machineries of Kothari Mill No.2 repossessed by the leasing company and the amount that would become ultimately payable, has not been quantified and provided for (Note 17(a))
 - xi) The suspension of construction activities at Brewery Project in Andhra Pradesh (Note 18)
 - xii) Legal possession of certain plantation lands acquired is over due and yet to be registered by the Company (Schedule 5 Note 2)
 - xiii) We have not audited the unpaid dividend bank accounts of the company in the absence of complete details/bank statements and the consequential payments to the Investor Education and Protection Fund.
 - xiv) Non provision of interest on certain unsecured advances to related parties (Note 16(iii)).
 - xv) The company has not conducted Audit Committee Meetings during the period.
 - xvi) Advances of Rs.112.10 Lacs due from Kothari Group Employees Gratuity Fund representing Gratuity paid directly to employees by the Company. In the absence of ascertainment of the quantum of gratuity liability either on actuarial basis or otherwise, it has not been possible to ascertain whether the gratuity liability has been recognised in full in the accounts and whether the amount of Rs.112.10 Lacs shown as due from Gratuity Fund is recoverable in the absence of the accounts of the fund which have not been made available.
6. i) The company has not complied with most of the requirements of Clause 49 of SEBI regulations and the Companies Act 1956 in regard to the timely preparation and publication of the quarterly/final accounts.
- ii) The Fertiliser Factory at Ennore has not been in operation since 2001. The present condition of the Plant and machinery of the fertiliser factory and at the Granite factory which are in the proximity to the sea has not been ascertained to assess the impairment in their condition.
- iii) The incomplete factory building meant for brewery in Andhra Pradesh has remained as such for the last few years and diminution/impairment in its carrying value has not been quantified and adjusted in the accounts.
7. (a) We are unable to express any opinion on

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- i) the quantum of liability relating to item (i),(ii),(v) in paragraph (5)
 - ii) the realisability of the amounts referred to in paragraph (5) (iii) & (iv) above and
 - iii) the effect of impact of significant matters mentioned in paragraph (5)(vi), (vii), (viii), (ix), (x), (xi) and (xii) the quantum thereof not having been quantified or estimated by the Company
 - iv) the effect of unadjusted shortfall between the revalued assets and the reduced Revaluation Reserve on account of periodical utilisation of the Reserve in the earlier years for absorbing capital losses on disposal of certain divisions in the past years and the amount has not been quantified by the management.
 - (b) Considering developments which have taken place after the Balance Sheet date Referred to in Note No.26 and erosion in networth besides the exposure of the Company in regard to guarantees issued by the company which might devolve on the company we are unable to express any opinion on the financial viability of the company. The future profitability would depend upon further financial assistance/restructuring scheme in the absence of which the presentation of the accounts on principles applicable to a going concern in our opinion is inappropriate.
 - (c) The future survival of the company would depend upon the successful resolution of certain winding up petition filed by certain creditors before the various courts.
 - (d) Certain significant amounts aggregating to Rs.1201.31 lacs (Note 16(iv)) have been absorbed as expenditure without proper authority for which satisfactory justification and /or evidence were not provided for audit. This includes advances of Rs.806.63 lacs which are due from limited companies/firm in which Chairman and Managing Director is directly interested.
 - (e) In the absence of comprehensive details, adequate supporting evidence for certain items of expenditure under various head of account, it has not been feasible to ascertain the genuineness of the expenses and also if any personal expenses of Chairman and Managing Director and other Senior Executives have been included in the accounts and if so the quantum thereof.
 - (f) The accounts of the Company for the financial year 2002-03 has not yet been adopted by the shareholders of the Company.
8. In view of our observations in paragraphs (3), (5), (6) and (7) above, and the consequent effect thereof on the Reserves and the Loss for the period both being not quantifiable, we are unable to express our opinion on the true and fair view in the case of ;
- (a) the Balance Sheet as at 31st March 2004 of the state of the Company's affairs as at 31st March 2004
 - (b) in the case of the Profit and Loss Account for the year ended 31st March 2004 the loss for the year ended on that date and
 - (c) in the case of the Cash flow statement for the year ended 31st March 2004 the cash flows for the year ended on that date.
9. The Company has not prepared Corporate Governance report and Management discussion and analysis report for our verification.

For M K DANDEKER & CO
Chartered Accountants

K J DANDEKER
Membership No.18533
Partner

Place : Chennai
Date : 3rd September, 2005

FOR B B NAIDU & CO
Chartered Accountants

B SURENDER
Membership No.6020
Partner



**ANNEXURE REFERRED TO IN OUR REPORT OF
EVEN DATE ON THE ACCOUNTS FOR THE
PERIOD ENDED 31-03-2004**

1. (a) The company has maintained proper records showing full particulars including quantitative details and situation of fixed assets except Granite Division.
- (b) **All the fixed assets have not been physically verified by the Management during the year** which is not in accordance with the programme of verification followed in the past. The existence of Plant and machineries at Granite Division which had been closed have not been verified by the Management. It is not possible for us to ascertain if there are any material discrepancies.
- (c) No substantial part of the Fixed Assets have been disposed off during the financial year.
2. (a) The inventories except pertaining to Granite Division has been physically verified during the year by the management. In our opinion, the frequency of verification is reasonable.
- (b) The procedures of physical verification of inventories followed by the management are reasonable and adequate in relation to the size of the company and the nature of its business.
- (c) On the basis of our examination of the records of inventory, we are of the opinion that the company is maintaining proper records of inventory. The discrepancies noticed during physical verification between the physical stocks and the book records were not material.
3. (a) The Register maintained under Section 301 of the Companies Act 1956, has not been produced to us for verification. However, from the financial records, we have ascertained that there are three firms to which the Company has granted loans/ advances. The company has also availed loans/advances from some companies/ firms. The maximum amount involved during the year was Rs.770.95 lacs and the year end value of loans/advances granted to such parties was Rs.770.95 lacs and loans and advances availed from such parties is Rs.37.00 lacs.
- (b) We could not ascertain the rate of interest and other terms and conditions on which loans have been taken from/granted to companies, firms or other parties listed in the registers maintained under Section 301 are prima facie, prejudicial to the interest of the company or not as the Register to be maintained under Section 301, has not been made available to us for verification.
- (c) The Company is not regular in repaying the principal amounts as stipulated and has not been regular in the payment of interest. The parties which have availed loans/advances from the companies have not repaid the principal amounts as stipulated and have not been regular in the payment of interest.
- (d) Since the Register maintained under Section 301 of the Company's Act 1956, has not been produced to us for verification we could not give any opinion whether any over due amount of loans were taken from or granted to companies, firms or other particulars listed in the Register maintained under Section 301 of the Companies Act 1956.
4. In our opinion and according to the information and explanations given to us, there are adequate internal control procedures commensurate with the size of the company and the nature of its business with regard to purchases of inventory and fixed assets and with regard to the sale of goods. During the course of our audit, we noticed the absence of effective internal control relating to Finance management and expenditure.
5. The Register to be maintained under Section 301, has not been made available to us for verification and therefore we could not ascertain if the transaction that need to be entered in to the register maintained under Section 301 have been entered.
6. The Register to be maintained under Section 301 has not been produced to us for verification and therefore we could not give any opinion on the transactions made in pursuance of contracts or arrangements entered in the registers maintained under Section 301 and exceeding the value of five lakh rupees in