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KOTHARI SUGARS AND CHEMICALS LIMITED



BOARD OF DIRECTORS

KOTHARI SUGARS AND CHEMICALS LIMITED

B.H. KOTHARI - Chairman & Managing Director

PRANAB KUMAR RUDRA

DR. P.S. MANISUNDARAM

P.S. GOPALAKRISHNAN

V.R. DEENADAYALU

V.R. KOTHANDARAMAN - (Nominee - LIC)

V.K. CHANDOK - (Nominee - ICICI)

P.N. DEVARAJAN

EXECUTIVE DIRECTOR

PRESIDENT - SUGAR DIVISION

COMPANY SECRETARY

REGISTERED OFFICE

N. CHANDRAMOULI

K. JAYACHANDRAN

N. SRIDHARAN

**"Kothari Buildings" 115, Mahatma Gandhi Salai
Chennai - 600 034**

Phone : 30225507, 30225616

Fax : 044 - 28334560

AUDITORS

M/s. R. SUBRAMANIAN AND COMPANY
Chartered Accountants, Chennai - 600 004.

INTERNAL AUDITORS

M/s. SESA & RAJAN
Chartered Accountants, Chennai - 600 083

COST AUDITOR

L.S. SATHIAMURTHI
Cost Accountant, Chennai - 600 020

REGISTRAR & TRANSFER AGENT

M/s. Cameo Corporate Services Limited
"Subramanian Buildings"

1, Club House Road

Chennai - 600 002

Phone : 28460390 to 28460394

Fax : 044-28460129

WORKS :

KATTUR : Kattur Railway Station, Lalgudi, Trichy Dist. - 621 601. Tamil Nadu Phone : 0431-2541224, 2541350

MANALI : Sathangadu Village, Tiruvottriyur - Ponneri High Road, Manali, Chennai - 600068. Tamil Nadu - Phone : 25941308, 25941309

KARAIKAL : Melavanjore, Karaikal - 611 002. Union Territory of Pondicherry Phone : 04365-256023

MARKETING OFFICE AT MUMBAI : B-205/206, Kamanwala Chambers, Udyog Mandir Premises, Mogul Lane Mahim (West), Mumbai - 400 016.
Phone : 022-24668150, 24468382



This Award was received by Mr.K.Jayachandran, President on behalf of Kothari Sugars and Chemicals Limited from Dr. Akilesh Prasad Singh, Hon'ble Minister for State, Agriculture, Food & Consumer Affairs and Public Distribution, Government of India on 13.08.2005 at Hyderabad towards Best Cane Development in Tamilnadu, awarded by South Indian Sugarcane and Sugar Technologists Association (SISSTA) for the season 2004-05.



NOTICE TO THE MEMBERS

Notice is hereby given that the 44th Annual General Meeting of the Members of Kothari Sugars & Chemicals Limited will be held on Thursday, 15th September 2005 at 10.00 A.M. at The Bala Mandir German Hall, No.17, Prakasam Street, T.Nagar, Chennai - 600 017 to transact the following Business:

ORDINARY BUSINESS:

1. To receive, consider and adopt the Profit and Loss account of the Company for the year ended 31st March 2005 and the Balance Sheet as on that date and the Cash Flow Statement for the year ended 31.03.2005 together with Reports of Directors and Auditors thereon.
2. To appoint a Director in the place of Mr.P K Rudra, who retires by rotation and being eligible, offers himself for re-appointment.
3. To appoint a Director in the place of Mr.V R Deenadayalu, who retires by rotation and being eligible, offers himself for re-appointment.
4. To consider and if thought fit, to pass with or without modifications, the following resolution as a Special Resolution:

"RESOLVED THAT M/s.R.Subramanian and Company, Chartered Accountants, the retiring auditors be and are hereby appointed as Statutory Auditors of the company to hold office from the conclusion of this meeting till the conclusion of the next Annual General Meeting on a remuneration as approved by the Board of Directors."

By Order of the Board

Place: Chennai
Date: 25th July 2005

N.SRIDHARAN
COMPANY SECRETARY

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Notes:

1. A MEMBER ENTITLED TO ATTEND AND VOTE 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 SHALL NOT BE ENTITLED TO VOTE EXCEPT ON A POLL. PROXIES SHOULD BE LODGED WITH THE REGISTERED OFFICE OF THE COMPANY AT ANY TIME NOT LESS THAN 48 HOURS BEFORE THE TIME FIXED FOR THE MEETING.
2. Member or proxy should fill the enclosed attendance slip and deposit the same at the entrance of the meeting hall.
3. Pursuant to section 205A (5) of the Companies Act, 1956, all unclaimed dividends upto the financial year ended 1996-97 have been transferred either to General Revenue Account of the Central Government or to the Investor Education and Protection Fund, as the case may be after the expiry of the period specified in the section
4. In respect of Item no.4 of the Notice i.e. appointment of Auditors, Special Resolution is required under section 224A of the Companies Act, 1956 when more than 25% of the subscribed share capital of the Company is held by one or more Public Financial Institutions and Nationalized Banks. Since more than 25% of the subscribed share capital of our company is held by Public Financial Institutions and Nationalized Banks, a Special Resolution is proposed.
5. All Change of Address, Mandate intimation, transfer of shares etc. and other correspondence may be made to the Registrars & Transfer Agents, Cameo Corporate Services Ltd.
6. Share Transfer books and Register of Members will be closed from 01.09.2005 to 08.09.2005 (both days inclusive).
7. Shareholders are requested to bring their copies of Annual Reports with them, as the same will not be provided at the meeting.



KOTHARI SUGARS AND CHEMICALS LIMITED

ANNEXURE TO THE NOTICE

THE INFORMATION IN RESPECT OF ITEM NO. 2 & 3 PURSUANT TO SEBI CODE FOR CORPORATE GOVERNANCE ABOUT DIRECTORS SEEKING RE-APPOINTMENT IN THIS ANNUAL GENERAL MEETING ARE FURNISHED HEREUNDER

Particulars	Item no. 2	Item no. 3
Name of the Director	Mr. P.K.Rudra	Mr.V R Deenadayalu
Date of Birth	29.10.1936	24-05-1932
Date of appointment	27.06.1996	22-08-2003
Qualification and experience in specific functional areas	<p>B.E (Mechanical) Post Graduate in Welding Equipment from Paris. MBA from Delhi University.</p> <p>35 years of experience in the field of Engineering. He was the Chairman & Managing Director of Engineers India Limited, Lubrisol India Limited and also he was the Managing Director of Essar Projects Limited and Bengal Chemicals Limited. Presently he is the Chairman of Triune Projects Pvt. Ltd.</p>	<p>B.E (Mechanical)</p> <p>He was the Chief Executive of BHEL, Trichy for over 8 years and was the Chairman & Managing Director of Madras Refineries Limited. He is the recipient of Sir Jahangir Gandhi medal for Industrial peace instituted by XLRI, Jamshedpur. He is the Chairman of Bharathidasan Institute of Management, Trichy and a member of the Board of Governors, of XIME-Bangalore, Institute of Energy- Trichy and Xavier Institute of Management, Bhubaneswar</p>
List of companies in which outside directorships held	<ol style="list-style-type: none"> 1. PSM Systems & Management Services Pvt. Ltd.Ltd. 2. J P Kenny Triune Engineering Pvt. Ltd. 	<ol style="list-style-type: none"> 1. Meltrack (I) Ltd.
Chairman/ Member of the committee of the Board of Director of the company	Member – Audit Committee	Member – Audit Committee
Chairman/ Member of the committees of other companies in which he is a director.	Chairman – Audit Committee	Nil



REPORT OF THE DIRECTORS TO THE MEMBERS

Your Directors present below the 44th Annual Report on the working of the Company alongwith the audited Balance Sheet, Profit and Loss Account and Cash Flow Statement for the year ended 31st March 2005.

Particulars	Year ended 31 st March 2005	Year ended 31 st March 2004
	Rs. in Lakhs	Rs. in Lakhs
Profit/(Loss) before Interest and Depreciation	1701.04	1420.44
Interest	(5.87)	(2265.33)
Depreciation(previous year includes additional depreciation of Rs.2450.01 Lakhs)	(722.38)	(3444.26)
Profit/(Loss) for the year Before Exceptional items	972.79	(4289.15)
Exceptional Item – Relief as per AAIFR order	12,226.24	—
Exceptional Item- relief on one time settlement of debts	—	2866.77
Provision for Impairment of Assets	(454.99)	—
Profit/(Loss) before Tax	12744.04	(1422.38)
Tax Adjustments	(0.19)	—
Profit / (Loss) after Tax	12743.85	(1422.38)
Transfer to Debenture Redemption Reserve	(75.00)	—
Exceptional Item – Relief as per AAIFR order	7131.40	—
	19800.25	(1422.38)
Balance brought forward from previous year	(24777.40)	(23355.02)
Balance carried to the Balance Sheet	(4977.15)	(24777.40)

The net worth of the Company has become positive for the year ended 31st March, 2005

IMPLEMENTATION OF THE REHABILITATION SCHEME SANCTIONED BY AAIFR

As informed in the last year's Annual Report, AAIFR vide its order dated 17.06.2004 sanctioned the rehabilitation scheme. The Company has started to implement the scheme. The share capital was reduced and restructured and the loans from Banks / Financial Institutions have been repaid as stipulated in the AAIFR order. The Company is now under the rehabilitation path.

SCENARIO

SUGAR DIVISION

The sugar production throughout India for the season 2003-04 was 139.95 lakhs MT as against the normal production of around 180 lakhs MT and the current season 2004-05 estimates are at 130 lakhs MT. The price of sugar has improved.

CHEMICALS DIVISION

The PIB industry has achieved satisfactory results in the year 2004-05. Though there was a slump in the PIB offtake in the first quarter, it has picked up well in the remaining period of the year. The unprecedented rise in LPG price throughout the year owing to all time high crude oil prices resulted in very high cost of production and low margin. Due to closure of one PIB unit in India, the demand is expected to increase and the Company hopes to achieve full capacity utilization in the coming year but due to high input raw material LPG cost, the contribution may be marginal. The market demand and price for high grade polymer and light polymer were steady during the year and are expected to become better in the forthcoming year.

NITRO-AROMATIC INDUSTRY

Due to the unfavourable market conditions prevailing in the industry, the NCB plant remained non-operative throughout the year and steps have been taken in the Current year to dispose of the Nitro-Aromatic plant.

The Nitric Acid Plant also remained non-operative throughout the year and steps have been taken in the Current year to dispose of the Nitric Acid Plant.

DIVIDEND

Considering the accumulated losses, your Directors have not recommended any dividend on equity share capital of the Company for the year ended 31st March 2005.



REPORT OF THE DIRECTORS TO THE MEMBERS

OPERATIONS AND PERFORMANCE

A. SUGAR DIVISION

The Sugar plant at Kattur crushed 402762 MTs of cane between April 2004 and March 2005 as against 579366 MTs for the corresponding period last year. However, recovery percentage for the year 2004-05 was higher at 10.3% as against 10.03% during the previous year. We have sold 18932 MTs bagasse during the year 2004-05 as against 21701 MTs in the previous year.

Considering the overall upward trend in the Sugar industry the company is contemplating to expand sugar business.

CANE SEPARATION SYSTEM

The Cane Separation System continuous to be not in operation. The case is being pursued in the court of Minnesota, United States of America.

B. COGENERATION

The Cogeneration plant at Kattur is functioning satisfactorily. Power export during the year 2004-05 was 10019 MW against 14137 MW in year 2003-04. The reduction was due to lower volume of cane crushing.

C. DISTILLERY

Alcohol production during the year 2004-05 was 9840 KL as against 10657 KL last year. The reduced production of alcohol was again due to lower volume of cane crushing and inability to procure outside molasses, due to high price.

D. POLYBUTENES

During the year under review, the plant has produced 7045 MTs of PIB and sold 7890 MTs. The plant has achieved capacity utilisation of only 84% which was due to sluggish market demand in the First Quarter and non-availability of required feedstock for 53 days in the second quarter due to shutdown of M/s.CPCL, major feedstock supplier.

The plant has been working without any reportable accidents since commissioning of the plant and has achieved 5489 safe man days as on 31.03.2005. Safety audit and periodical training classes on Chemical and Fire Safety are being conducted. Excellent green belt has been developed and being maintained.

The Plant is being operated with QMS (ISO 9001-2000) and EMS (ISO 14001) and periodical surveillance audits are also conducted by M/s.DNV, Netherlands. ERP system has been implemented for supply chain and it is functioning well.

As part of energy conservation, further reduction in water and power consumption is being tried.

Wheeling of power from Kattur Co-generation unit was done this year also, contributing to savings in power cost.

E. NITROAROMATICS

NCB plant, Hydrogenation plant and Amination plant were not operated during the year. The company has entered into an agreement for sale of Karaikal plant with M/s. Chemplast Sanmar Limited, in the current year, in accordance with AAIFR order dated 17.06.2004.

F. NITRIC ACID

The Plant at Sangareddy remained shut down throughout the year. The company has sold the Nitric Acid unit to M/s. EMMENAR Biotech Private Limited, Hyderabad in the current year, in accordance with AAIFR order dated 17.06.2004.

DELISTING OF EQUITY SHARES

As approved by the shareholders at the Annual General Meeting on 24.09.2003, the Equity shares of the Company were delisted from the Madras Stock Exchange, Chennai, The Stock Exchange, Mumbai w.e.f 05.05.2004 and 21.10.2004 respectively. However, the company continues its listing in the National Stock Exchange, Mumbai.

Since the company has already applied for delisting from the Bangalore Stock Exchange Limited, Bangalore and the Calcutta Stock Exchange Association Limited, Kolkatta and also due to its sickness it has not paid its listing fees to these two exchanges. The company is yet to get the approval for delisting from them.

AUSTERITY MEASURES

Cost reduction drive is a continuous exercise and is being pursued in all areas.

DIRECTORS

Mr.P K Rudra and Mr.V R Deenadayalu are retiring by rotation at the ensuing Annual General Meeting and being eligible offer themselves for re-appointment.



REPORT OF THE DIRECTORS TO THE MEMBERS

DIRECTORS' RESPONSIBILITY STATEMENT

The Directors confirm:

1. That in the preparation of the annual accounts, the applicable accounting standards have been followed along with proper explanation relating to material departures;
2. That 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 profit of the company for that period;
3. That they have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the company and for preventing and detecting fraud and other irregularities.
4. That they have prepared the Annual Accounts on a going concern basis.

CORPORATE GOVERNANCE

A separate report on Corporate Governance alongwith Auditor's Certificate on its compliance is attached as Annexure to this report.

DEPOSITS

The Company has not accepted/renewed any deposits during the year and has no outstanding Public deposits.

AUDITORS

M/s.R.Subramanian and Company, Auditors of the Company retire at this Annual General Meeting & are eligible for reappointment. The appointment of Auditors has to be made by a Special Resolution pursuant to Section 224A of the Companies Act, 1956.

COST AUDIT

The Company's Cost records in respect of Sugar are being audited by Mr.L.S.Sathiamurthi, who was appointed by the Board as Cost Auditor with the approval of the Central Government.

DISCLOSURE UNDER SECTION 217(2A) OF THE COMPANIES ACT, 1956

During the year no employee had drawn salary in excess of the amounts prescribed under section 217(2A) of the Companies Act, 1956 read with Companies (Particulars of Employees) Rules, 1975. Information required under Section 217(1)(e) of the Companies Act, 1956 is appended.

SUBSIDIARY COMPANIES

Kothari International Trading Limited and Kothari Biotech Limited are the Subsidiary Companies. The Company has applied to the Government for exemption from attaching the Balance Sheet of the Subsidiary Companies to the Balance Sheet of the holding Company.

AUDITORS' OBSERVATIONS:

The reply to the Auditors' observations are given below:

Sl. No.	Reference in the Auditor's Report	Reply
1.	4 (a) - Residual value of Cane Separation System	Please refer Schedule 17.4 (b)

ACKNOWLEDGEMENT

Your Directors thank the customers, suppliers, farmers, financial institutions, Banks, Government Authorities, debenture holders and shareholders for their continued support. Your directors also place on record their appreciation for the committed services of the Executives, Staff and Workers of the Company.

On Behalf of the Board

for **KOTHARI SUGARS AND CHEMICALS LIMITED**

Place : Chennai

Date : 25.07.2005

B.H. KOTHARI

CHAIRMAN AND MANAGING DIRECTOR

**REPORT OF THE DIRECTORS TO THE MEMBERS****FORM A****PARTICULARS AS PER SECTION 217(1)(e) OF THE COMPANIES ACT, 1956****CURRENT YEAR (APRIL-2004 TO MARCH - 2005)**

A. Power and Fuel Consumption	Sugar Unit	Distillery Unit	Karaikal Unit	Manali Unit	Nitric Acid Unit
1. Electricity					
a. Purchased Unit in KWH	833447	1090716	544860	4029280	N.A.
Total Amount Paid (Rs.)	6352610	5475859	1850811	17258851	
Rate per unit (Rs.)	7.62	5.02	3.40	4.28	
b. Own Generation through Diesel					
Generator Unit in KWH	21168	N.A.	N.A.	91696	N.A.
Unit per Litre of Diesel	3.11			3.21	
Cost per Unit (Rs.)	8.71			7.59	
c. Power generated through					
Steam turbine Unit in KWH	25060768	702725	N.A.	N.A.	N.A.
Unit per Kg. / Litre of fuel	0.26	8.84	-	-	-
Cost per unit (Rs.)	3.68	0.08	-	-	-
2. Coal (specify quantity and where used)	N.A.	N.A.	N.A.	N.A.	N.A.
Quantity (tonnes)					
Total cost (Rs.)					
Average Rate (Rs.)					
3. Fuel Oil					
Quantity (Litres / Tonnes)	N.A.	79508	NA	1542.27	NA
Total Cost (Rs.)		1186932		18242476	
Average Rate (Rs.) per Litre / Ton		14.93		11828	
4. Natural Gas					
Quantity M3	N.A.	N.A.	1754427	N.A.	N.A.
Total Cost (in Rs.)			14420970		
Average Rate per M3 (Rs.)			8.22		

(B) CONSUMPTION PER**UNIT OF PRODUCTION**

Products (with details)	SUGAR	ALCOHOL	MCB/OCA	POLYBUTENE	CNA/WNA
Electricity (Unit per MT/LIT) in KWH	35.36	0.28	—	584.950	—
	per ton of cane	per litre of alcohol			

NOTE :

- Nitric Acid Plant is non-operational throughout the year. Hence required information could not be furnished.
- There was no production in Karaikal Unit during this year 2004-2005
- N.A. means Not Applicable



REPORT OF THE DIRECTORS TO THE MEMBERS

B. TECHNOLOGY ABSORPTION

FORM B.

(Form for disclosure of Particulars with respect to Technology Absorption)

RESEARCH AND DEVELOPMENT (R & D)

The Company adopts the following R & D measures:

1. High Sugar variety cane development activities are being implemented to increase the sugar recovery.

Expenditure on R & D

Rs. in Lakhs

a. Capital	:	Nil
b. Revenue	:	Nil
c. Total	:	Nil
d. Total R & D as percentage of turnover of the Company	:	Nil

Technology absorption, adoption and innovation:

Nil

Information regarding imported technology

Product	Technology from	Year of Import	Status of implementation absorption
Hydrogenation	Biazzi SA	1995	Under absorption
Sugar	Amcane International - USA	1995	Under Litigation

C. FOREIGN EXCHANGE EARNINGS AND OUTGO

Total Foreign Exchange used and earned

Rs. in lakhs

a. Total Foreign Exchange earned	NIL
b. Total Foreign Exchange used	88.11



MANAGEMENT DISCUSSION AND ANALYSIS REPORT

OVERVIEW

The company operates in 3 segments namely Sugar, Distillery & Petrochemicals.

Industries Structure and Development

SUGAR SEGMENT

The Company is in the business of manufacturing four products i.e. Sugar, Alcohol, Power & Organic Manure. Most of our Sugar is sold in the domestic market and a small quantity exported. Power is sold to T.N.E.B. who sell to the consumers.

DISTILLERY SEGMENT

The Distillery Unit is in the business of manufacturing products namely Extra Neutral Alcohol, Rectified Spirit, Anhydrous Alcohol & Denatured Spirit. Rectified Spirit, Extra Neutral Alcohol & Denatured Spirit are mainly purchased by liquor manufacturers and a small quantity by Pharma and Chemical Industry. Anhydrous Alcohol is purchased by Oil Companies & the Company has setup a facility to manufacture the same.

PETROCHEMICALS SEGMENT

The Petrochemicals segment is in the business of manufacturing and sale of Petrochemicals viz., Poly Isobutene, Nitro-Aromatic Products etc.,

The Poly Isobutene plant (PIB) is one of the units in the Petrochemical division of the company. The PIB product finds major application in the market of 2T oil formulation. Polybutene will reduce the pollution level due to usage of 2T oil application.

The company is also in the business of manufacturing and sale of Nitro Aromatic products, Amination products and Hydrogenated products.

The Operations in NCB Hydrogenation Unit have been suspended since 1999 due to operational failure and economic non-viability. There are no operations being carried out in Aromatics unit as well. Operations in Amination Plant were stopped due to non-viability since 1999. The company leased out the Amination plant in July 2003 but the same was terminated in March 2004 since the Lessee also experienced operational non viability.

The Company has executed an agreement for sale of Karaikal plant with M/s.Chemplast Sanmar Limited, in the current year.

Opportunities and Threats

SUGAR SEGMENT

Sugar – Presently the Sugar production at the all India level as well as in the State (Tamilnadu) is low and this has resulted in an increase in the Sugar price.

Power – TamilNadu Electricity Regulatory Commission (TNERC) has initiated the much awaited reforms in the Electricity sector in the state and as a result, our payment position from TNEB has improved of late. This has presented us with an opportunity to take up energy conservation measures and maximize our electricity sale.

DISTILLERY SEGMENT

Alcohol – We had an allotment from State Government to consume 40000 tons of Molasses and were producing around 90 lakh litres alcohol per annum. Recently we have got an allotment of 60000 tons and plan to produce more. The products comprises of Rectified Spirit, Extra Neutral Alcohol and Impure Spirit. The market is expected to be significant and we are working to tap this market.

Organic Manure – We have recently started producing this. Demand from our farmers is slowly picking up.

PETROCHEMICALS

PIB Market had been volatile in the beginning but in the later part of this year it has picked up well. This favourable trend is expected to continue in the forthcoming year as well.

The market for Light Polymer has become steady. This year too, it is expected to remain at the same level.

Though the import threats have generally declined, the imports from other countries not covered under anti-dumping duty are still a matter of concern.

The major threat was in the form of raw-material price which sky rocketed in the wake of global hike in crude oil price and this has affected the net realization.

Segmentwise (or) Productwise performance

SUGAR SEGMENT

Due to prevailing drought situation in the country as well as Tamilnadu, the Sugar plant crushed lower quantum of cane in the current year i.e. 402762 MTs as compared to 579366 MTs in the previous year. However the recovery was better at 10.30% as compared to 10.03% last year. Power export was 10019 MWH as compared to 14137 MWH during last year. We have sold 18932 Mts bagasse in the year 2004-05 as against 21701 Mts in the previous year.