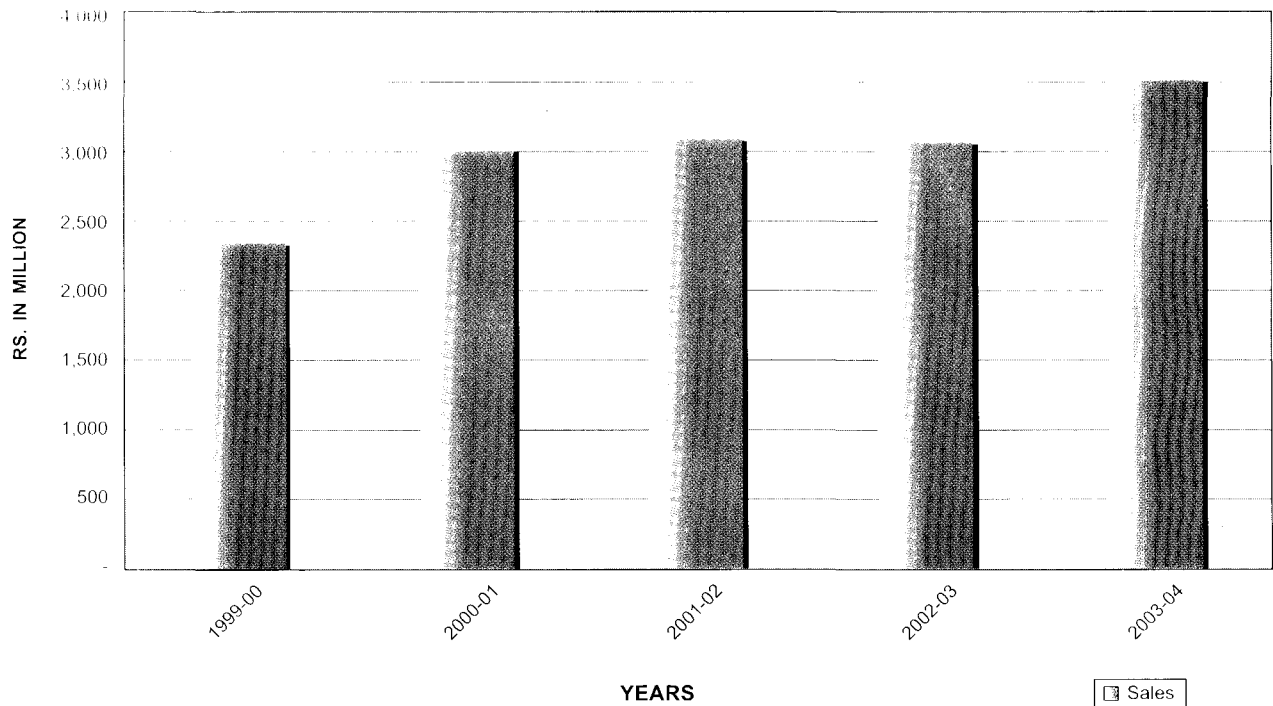


# The Madras Aluminium Company Limited



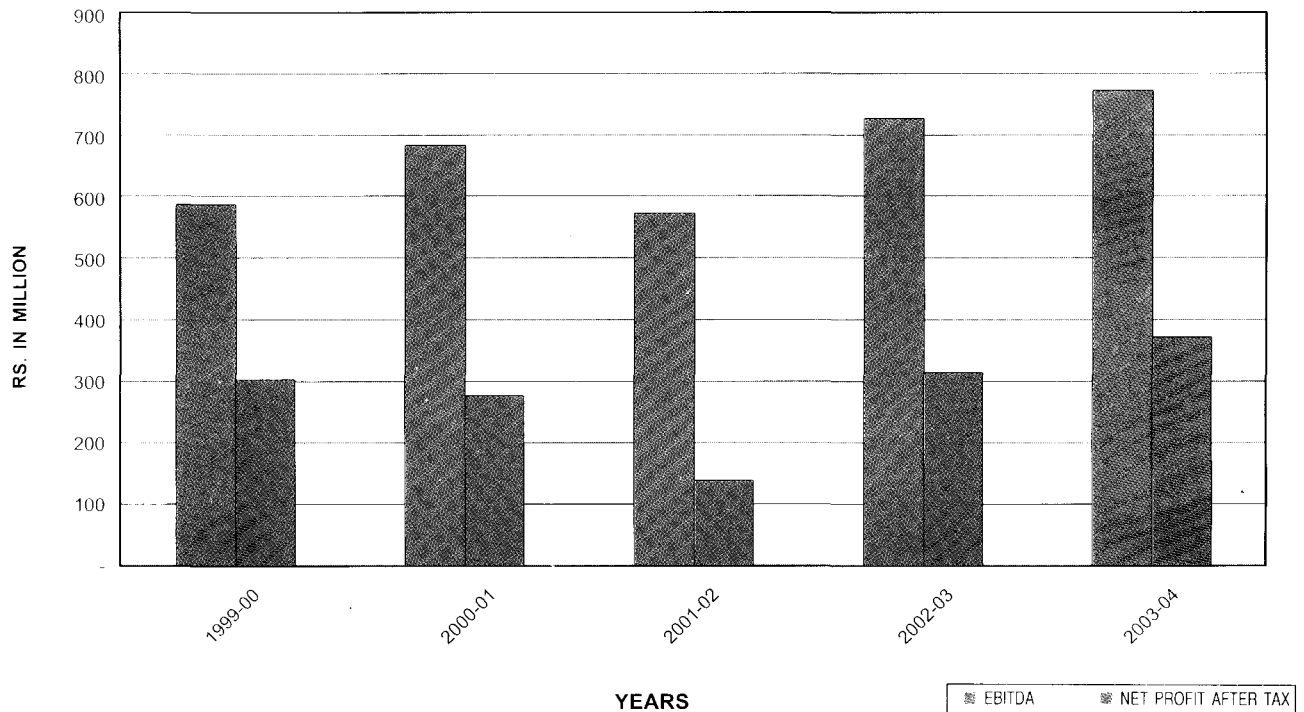
**44th Annual Report  
2003-2004**

## SALES TURNOVER



Report  junction.com

## PROFITABILITY



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**BOARD OF DIRECTORS**

ANIL AGARWAL  
*Managing Director*

NAVIN AGARWAL

TARUN JAIN

A.R. NARAYANASWAMY

S.C. KRISHNAN

PRAVIN AGARWAL  
*Whole-time Director*

AGNIVESH AGARWAL  
*Whole-time Director*

J.R. VENKATRAMAN  
*Whole-time Director*

**BANKERS**

ABN AMRO BANK N.V.

HDFC BANK

ICICI BANK

INDIAN BANK

STANDARD CHARTERED BANK

STATE BANK OF INDIA

**REGISTERED OFFICE & WORKS**

METTUR DAM R.S. 636 402

SALEM DIST, TAMIL NADU

**TRANSFER AGENTS**

KARVY COMPUTERSHARE PVT. LTD.  
TKN COMPLEX, 51/2, VANIVILAS ROAD,  
BASAVANAGUDI, BANGALORE 560 004

Phone : (080) 26613400

Fax : (080) 26621169

E-mail : bangalore@karvy.com

## REPORT OF THE BOARD OF DIRECTORS

To the Members of The Madras Aluminium Company Limited

*Dear Shareholders*

Your Directors take pleasure in presenting the Forty-Fourth Annual Report of the Company with the Audited Accounts for the year ended 30th June, 2004.

### FINANCIAL PERFORMANCE

(Rs. Million)

|  | 2003-2004 | 2002-2003 |
|--|-----------|-----------|
| Income from Operations                       | 3,514.88  | 3,066.61  |
| Less : Operating Expenses                    | 2,742.71  | 2,339.30  |
| Operating Profit                             | 772.17    | 727.31    |
| Add : Other Income                           | 46.03     | 26.97     |
| PBDIT  | 818.20    | 754.28    |
| Less : Interest                              | 89.91     | 160.63    |
| PBDT   | 728.29    | 593.65    |
| Less : Depreciation                          | 194.84    | 195.74    |
| Profit Before Tax & Exceptional item         | 533.45    | 397.91    |
| Less : Exceptional item                      | 80.00     | -         |
| Profit Before Tax and after Exceptional item | 453.45    | 397.91    |
| Less : Provision for Taxation                |           |           |
| Current                                      | 33.78     | 30.20     |
| Deferred                                     | 47.50     | 52.50     |
| Profit after Taxation                        | 372.17    | 315.21    |
| Add : Profit brought forward                 | 392.24    | 577.16    |
| Profit available for appropriation           | 764.41    | 892.37    |
| Less : Appropriations                        |           |           |
| Interim Dividend                             | 123.75    | -         |
| Final Dividend                               | -         | 112.50    |
| Tax on Dividend                              | 15.85     | 14.41     |
| Transfer to Debenture Redemption Reserve     | -         | 341.70    |
| Transfer to General Reserve                  | 37.22     | 31.52     |
| Balance carried forward to next year         | 587.59    | 392.24    |

### MODERNISATION AND EXPANSION PLANS

Your Company has added 18 new pots to augment the hot metal capacity, as planned, in a very short span of time. The Company has taken initiatives for debottlenecking in Alumina Plant to have matching alumina production capacity and also in process to commission the back pressure turbine to increase the power generation by 1 MW. The Company is hopeful to complete this exercise by September, 2004.

As reported earlier, the modernisation project could not be successful due to non achievement of the guaranteed parameters specified in the contract signed by the Italian Company, M/s.Techmo Car SpA, in spite of the best support provided by your Company. Your Company has taken effective steps to defend itself against the alleged demand of M/s.Techmo Car SpA of USD 2.71 million in the Arbitration proceedings and also filed its counter claim for recovering the amount spent on modernisation project amounting to USD 5.89 million together with consequential damages. The Salem Court has given its verdict in favour of the Company directing M/s. Techmo Car SpA to furnish interim security for USD 5.89 million, which has been reversed by the Madras High Court. Your Company has filed a special leave petition in Hon'ble Supreme Court to safeguard its interest.

### OPERATIONAL PERFORMANCE

The year under review witnessed another landmark year for your Company.

The performance is commendable considering the challenging business environment prevailed during the year. Notwithstanding rise in LME prices and reduction in import duty on Non Coking Coal, the steep rise in the Non Coking Coal prices in the international market, steep increase in ocean freight globally, cut in the import tariff on aluminium, levy

of new generation tax by the Government of Tamilnadu has affected the performance adversely. At this critical juncture, the strategic initiatives to augment the hot metal capacity and regaining of cost control effectiveness, prepayment of long term loans carrying high interest rate have mainly shown the positive change in the financial performance of your Company.

The year under review witnessed an increase in production of aluminium to 33,027 MT from the previous year's 31,140 MT, registering a growth of 6.06%. Production of alumina hydrate also saw an increase to 67,874 MT from the previous year's 61,956 MT, registering a growth of 9.55%. Volume growth was possible mainly on account of the commissioning of the new pots and also due to the consistent efforts to increase productivity and also the de-bottlenecking initiatives taken up by the Company.

The sales turnover of the Company aggregated Rs. 3,514.88 million, compared to previous year's turnover of Rs. 3,066.61 million. The sales of Aluminium registered an increase of Rs. 420.53 million, due to increase in both selling price and volume of sales. During the current year, your Company also exported 2922 MT of Calcined Alumina amounting to Rs. 37.85 million for the first time.

The operational performance of your Company's power plant is amongst the best thermal power plants operating globally. The power plant generated 712 million units during the year compared to 673 million units during the previous year. The power plant was operated during the year at an average PLF of 108%.

Your Company's strategy and initiative taken to improve the profitability have been fairly successful, as the cash profit before taxation of the Company has gone up to the level of Rs. 728.29 million as against Rs. 593.65 million in the previous year, registering an increase of 22.68 %. The net profit after tax has increased to Rs. 372.17 million as against Rs. 315.21 million in the previous year, registering an increase of 18.07 %, in spite of providing Rs. 80 million towards diminution in the market value of investment.

## **FINANCE**

M/s. Sterlite Opportunities & Ventures Limited (SOVL) has repaid the inter corporate loan and accordingly, your Company has exercised its put and call option and redeemed the Non Convertible Debentures of Rs. 2500 million.

The Company has prepaid Rs. 178.60 million long term loan carrying interest rate of 9 % p.a. The Company has also availed External Commercial Borrowing of USD 5 million. Your Company enjoys the confidence of the banks and rating agencies.

## **IPO BY VEDANTA RESOURCES plc**

Your Directors are pleased to report that, your ultimate holding Company M/s. Vedanta Resources plc has successfully completed its initial public offer on the London Stock Exchange in December, 2003 by raising USD 825 million (net of expenses). This has been the second largest listing in 2003 and first primary listing of an Indian Company on the London Stock Exchange. It is a matter of pride that your Company is part of Vedanta Group.

## **DIVIDEND**

The Board of Directors declared an interim dividend of Rs. 5.50 per share (55%) for the year ended 30<sup>th</sup> June, 2004 and in view of the interim dividend, no final dividend is being recommended, as against Rs. 5 per share for the previous year. The interim dividend outflow aggregates Rs. 139.60 million (including dividend tax Rs. 15.85 million), compared to the final dividend of Rs. 126.91 million for the previous year (including dividend tax of Rs. 14.41 million).

## **DIRECTORS**

Mr. J.R. Venkatraman has been appointed as Whole-time Director in the Board Meeting held on 28<sup>th</sup> January, 2004 with immediate effect and his appointment is subject to confirmation at the ensuing Annual General Meeting.

Mr. Pravin Agarwal and Mr. A.R. Narayanaswamy, Directors, retire by rotation at the ensuing Annual General Meeting and being eligible, offer themselves for re-appointment.

## **DEMATERIALISATION OF EQUITY SHARES**

As the Members are aware, your Company has entered into agreements with the National Securities Depository Limited and the Central Depository Services (India) Limited for providing electronic connectivity and dematerialised trading in the Company's equity shares. As at the year-end date 2,119,369 equity shares, constituting 9.42% of the total paid-up equity share capital, have been dematerialised and are being held in electronic form. Members who wish to dematerialise their shares may forward their request to the Share Transfer Agents of the Company, M/s. Karvy Computershare Pvt. Limited, 51/2, TKN Complex, Vani Vilas Road, Basavanagudi, Bangalore - 560 004 through any registered Depository Participant.





## CORPORATE GOVERNANCE

A separate report on Corporate Governance pursuant to Clause 49 of the Listing Agreement with the Stock Exchanges, including the Management Discussion and Analysis, Shareholders' Information and Auditors' Certificate on its compliance, form part of this Annual Report.

## ADEQUACY OF INTERNAL CONTROLS

Your Company has a system of internal controls to ensure that all assets are safeguarded and protected against loss due to unauthorised use or disposal and that all the transactions are duly authorised, properly recorded and correctly reported.

Your Company's internal control systems are supplemented by internal audit by a reputed firm of independent Chartered Accountants, regular review by the management and documented policies and procedures, which ensure reliability of the financial statements and other operational data.

## CERTIFICATION

Your Company places utmost emphasis on quality systems and to justify this, your Company has been accredited with ISO 9001(2000), ISO 14001(1996) and OHSAS 18001(1999). Your Company is one among the few, who have achieved this rare milestone of obtaining all the three certifications together, in the maiden attempt.

## AUDITORS' REPORT ON ACCOUNTS

Auditors' Report is self-explanatory and therefore, do not call for any further comments / explanations.

## INFORMATION PURSUANT TO SECTION 217 OF THE COMPANIES ACT, 1956

### A. CONSERVATION OF ENERGY, ABSORPTION, FOREIGN EXCHANGE EARNINGS AND OUTGO

Information pursuant to Clause (e) of sub-section (1) of Section 217 of the Companies Act, 1956 read with the Companies (Disclosure of Particulars in the Report of the Board of Directors) Rules, 1988, viz., a report on conservation of energy, technology absorption, foreign exchange earnings and outgo, is given in the Annexure attached hereto and forms part of this report.

### B. PARTICULARS OF EMPLOYEES

Information as required under Section 217 (2A) of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules, 1975, as amended, is given in Annexure to the Directors' Report. However, as per the provisions of Section 219(1)(b)(iv) of the Companies Act, 1956, the report and the accounts are being sent to all Members of the Company excluding the aforesaid information. Any Member interested in obtaining such particulars may write to the Chief Financial Officer at the Registered Office of the Company.

### C. DIRECTORS' RESPONSIBILITY STATEMENT

Statement under Sub-section 2AA of Section 217 of the Companies Act, 1956.

In the preparation of the Annual Accounts:

- i) The applicable accounting standards have been followed and wherever required, proper explanations relating to material departures have been given.
- ii) The Directors 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 of the Company for that period.
- iii) Proper and sufficient care has been taken for the maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities.
- iv) The accounts have been prepared on a going concern basis.

## GROUP

The Company is controlled by the Agarwal Group being a Group as defined under the Monopolies and Restrictive Trade Practices Act, 1969. A list of these entities is given below:

- Volcan Investments Limited, Bahamas
- Twinstar Holdings Limited, Mauritius
- Vedanta Resources Limited, United Kingdom
- Vedanta Resources Holdings Limited, United Kingdom
- Mr. Dwarkaprasad Agarwal
- Mr. Agnivesh Agarwal

**LISTING**

Your Company's shares are listed on The Stock Exchange, Mumbai and The Madras Stock Exchange Limited and the listing fee of these Stock Exchanges up to the year 2004-05 have been paid by the Company.

**ENVIRONMENT**

As a responsible corporate citizen, your Company is committed to protect and improve the Environment on a continual basis and the major initiatives taken in this regard are :

- Planted Acacia saplings, developed green turfing on red mud.
- Planted 1,000 saplings in the factory premises, 3,500 saplings in Yercaud mines and 2,500 saplings in Kolli mines.
- Provided rainwater harvesting system for the factory and colony.
- Achieved a reduction of 2,000 m<sup>3</sup>/day in water consumption by recycling cooling water.
- Provided an additional scrubber for Smelter.
- Provided SPM on-line monitors for Kiln.
- Provided a surge pond to collect and re-use process overflow.
- Effective steps for disposal of red mud to cement companies.

**HUMAN RESOURCES**

Your Company is committed to develop the Human resources to improve productivity and quality. Your Company wants to convert Malco to a 'Learning Organisation'. In order to achieve this, continuous in-house and external training is imparted to all the employees. Some of the employees have been sent to Norway for training as a part of our endeavor to improve the knowledge & skill level. Fresh candidates are inducted regularly to have a free flow of latest updated knowledge in Technology and Management.

We understand the importance of quality of life beyond work and to realise the same, your Company has taken a number of initiatives, like starting a recreation club and a health centre in the colony premises.

**SOCIAL RESPONSIBILITY**

Your Company is conscious about the welfare of adjoining villagers of Plant and Mines. Number of medical camps (with specialist Doctors) were organised, as a part of the Company's community development initiatives.

With a view to provide quality education, your Company continues to run the large school, Malco Vidyalaya Matriculation Higher Secondary School having a strength of 2900 students in Mettur. The school is one of the best renowned schools in the District and its students remain the toppers in the District, in the High School/ Higher Secondary Board examinations. The Company has also announced Sterlite Scholarship to the top three students pursuing their Engineering course. The Company has provided all infrastructures, including land & building, free power & water supply and other financial support.

Some of various other welfare programmes are given herein below:

- Desilting of lake in Yercaud done and a floating fountain commissioned on the lake.
- Drinking water supply to nearby villages.
- AIDS awareness campaign is organised on 'World AIDS Awareness Day'.
- Assistance to Gonur village maternity ward.
- Distribution of environment friendly aluminium pots in the Yercaud hill area, replacing the plastic pots.

**ACKNOWLEDGEMENT**

Your Directors acknowledge the co-operation and assistance received from the Central and State Governments, Bankers, Customers and Suppliers.

Your Directors would also like to acknowledge the continued support of the Company's Shareholders.

In conclusion, your Directors would like to record their deep appreciation of the dedicated efforts put in by the Company's employees at all levels.

For and on behalf of the Board

Sd/-

**Anil Agarwal**  
Managing Director

Place : Mumbai  
Date : 26th July 2004

## ANNEXURE 'A' TO THE DIRECTORS' REPORT

Information under section 217(1)(e) of the Companies Act, 1956, read with the Companies (Disclosure of particulars in the Report of the Board of Directors) Rules 1988 and forming part of the Directors' Report for the year ended 30th June, 2004.

### A. CONSERVATION OF ENERGY

#### a. Energy conservation measures taken

Energy is the key driver of performance of your Company. Energy conservation measures taken are :

- i). All the cooling tower fans were replaced with energy efficient fans resulting in a savings of 2.10 million units per annum.
- ii). Installation of energy efficient boiler feed pumps resulting in a savings of 0.70 million units per annum.
- iii). Modifications were made in condensate extraction pump impellers resulting in a saving of 0.25 million units per annum.
- iv). Installed capacitor banks to relieve the generators from reactive power generation and to utilise generator capability to generate more MW.
- v). Steam consumption reduction by 0.24 t/t, resulting in a saving of Rs. 7.10 million per annum.

#### b. Additional investments and proposals, if any, being implemented for reduction of consumption of energy

Following measures under consideration for reduction of energy consumption.

- i). Modification of multi staged boiler feed pumps for better efficiencies resulting in a saving of Rs. 1.07 million per pump.
- ii). Installation of back pressure turbine in place of pressure reducing station. Additional 1 MW is expected to be generated by this process.
- iii). Installation of an additional Evaporator body, Insulation of all major Pipe lines / Tanks and Installation of Plate heat exchanger for better heat recovery for reducing steam consumption.

#### c. Impact of measures (a) and (b) above for reduction of energy consumption and consequent impact on cost of production of goods

Improved operational efficiencies coupled with measures taken in Captive Power Plant for reduction in auxilliary power and specific fuel consumption and conservation of water initiatives will help to improve cost competitiveness.

#### d. Total energy consumption and energy consumption per unit of production

As per Form A annexed.

### B. TECHNOLOGY ABSORPTION

#### a. Efforts made in technology absorption

As per Form B annexed.



**C. FOREIGN EXCHANGE EARNINGS AND OUTGO**

- a. Activities relating to exports, initiatives taken to increase exports, development of new export markets for products and services and export plans

Exported 2922 MT of Calcined Alumina amounting to Rs. 37.85 million during the year 2003 - 2004.

- b. Total foreign exchange used and earned

|  | 2003-2004<br>(Rs. Million) | 2002-2003<br>(Rs. Million) |
|--|----------------------------|----------------------------|
| (i) CIF value of Imports               | 639.63                     | 412.86                     |
| (ii) Expenditure in Foreign currency   | 9.76                       | 0.79                       |
| (iii) Foreign exchange earned - Others | 0.78                       | 1.44                       |
| (iv) FOB value of Exports              | 37.85                      | -                          |

**FORM A****A. POWER AND FUEL CONSUMPTION****2003-2004****2002-2003****1. Electricity****a. Purchased**

Units (kWh) - million units

5.39

4.13

Total Amount - Rs. million

171.75

98.00

(inclusive of Demand charges and Generation Tax)

Rate / Unit Rs.

31.86

23.73

**b. Own Generation****i) Through Diesel Generator**

Units

Nil

Nil

Units / litre of Diesel

Nil

Nil

Cost / Unit

Nil

Nil

**ii) Through Steam Turbine/Generator (Captive Power Plant)**

Units (kWh) - million units

712.19

673.74

Units / Tonne of Coal &amp; Petcoke

1,946.65

2,069.38

Cost / Unit (net) Rs. per unit

1.44

1.25

**2. Coal (Non-coking Coal for Captive Power Plant) & Pet Coke**

Quantity (Tonnes)

365,854

325,575

Total Cost - Rs. million

942.73

775.38

Average rate - Rs. per tonne

2,577

2,382

**3. Furnace Oil**

Quantity - (KL)

9,922

8,609

Total Amount - Rs. million

103.68

88.10

Average rate - Rs. per KL

10,449

10,233

**4. Others / Internal Generation**

Nil

Nil

**B. CONSUMPTION PER UNIT OF PRODUCTION**

Electricity (kWh / Tonne)

17,860

17,742

Furnace Oil (KL / Tonne)

0.300

0.276

Coal (Non-coking) &amp; Pet Coke

514

483

(gms./kWh)

**FORM B**

**FORM OF DISCLOSURE OF PARTICULARS WITH RESPECT TO TECHNOLOGY ABSORPTION**

**RESEARCH AND DEVELOPMENT (R & D)**

- |  |   |
|--|---|
| 1. Specific areas in which R & D carried out by the Company  | <ul style="list-style-type: none"> <li>i). Coal pulverisers modified to suit low HGI coal at elevated loads.</li> <li>ii). Installation of cooling fans at rectifier transformer and generator transformer to take care of higher loadings.</li> <li>iii). Voltage reduction from 4.80 volts to 4.76 volts in smelter.</li> <li>iv). Identification of suitable residence time across digester for silica reduction in product by operating 5 digesters in line.</li> <li>v). Caustic ratio controller has been commissioned in the bauxite digestion area to reduce the fluctuation in the extraction efficiency.</li> </ul> |
| 2. Benefits derived as a result of above R & D   | Improvement in the specific consumption parameters of key inputs.   |
| 3. Future plan of action   | Bauxite ore beneficiation to increase life of mines.  |
| 4. Expenditure on R & D :  |   |
| <ul style="list-style-type: none"> <li>a. Capital</li> <li>b. Recurring</li> <li>c. Total</li> <li>d. Total R &amp; D expenditure as a percentage of total turnover</li> </ul> | <div style="font-size: 4em; line-height: 1;">}</div> <p>Not applicable</p>  |

**TECHNOLOGY ABSORPTION, ADAPTATION AND INNOVATION**

- |   |   |
|---|---|
| 1. Efforts, in brief, made towards technology absorption, adaptation and innovation   | <ul style="list-style-type: none"> <li>i). Addition of Hydrate dewatering chemical for reducing the moisture in the kiln feed hydrate.</li> <li>ii). Addition of crystal growth modifier in the precipitation.</li> </ul>   |
| 2. Benefits derived as a result of above efforts e.g. product improvement, cost reduction, product development, import substitution, etc.                       | Reduction in cost of production and improved product quality.   |
| 3. In case of imported technology (imported during the last 5 years reckoned from the beginning of the financial year), following information may be furnished. |   |
| a. Technology imported  | Technology transfer agreement entered into with M/s. Techmo Car, SpA., Italy for modernisation of smelter and improvement of process and environment. However, the desired results could not be achieved.   |
| b. Year of Import   | 2000 - 2001   |
| c. Has technology been fully absorbed?<br>If not fully absorbed, areas where this has not taken place, reasons therefor and future plans of action.             | The guaranteed parameters of increase in output and reduction in energy consumption could not be achieved in spite of the best support provided by the Company. Bank Guarantees furnished by the contractor have been invoked and the Company is taking further steps to safeguard its interests. |

For and on behalf of the Board

Sd/-  
**Anil Agarwal**  
Managing Director

Place : Mumbai  
Date : 26th July 2004