

14TH ANNUAL REPORT 2000-2001



OXIDES AND SPECIALITIES LIMITED
(Formerly Herdillia Oxides and Electronics Limited)

DUNCAN GOENKA



OXIDES AND SPECIALITIES LIMITED

BOARD OF DIRECTORS

N. S. PARULEKAR

A. K. GOENKA

R. M. PANDIA

J. S. NEERAV

G. G. GOGATE *Managing Director*

B. M. RAUL *General Manager -
Corporate Affairs & Secretarial*

BANKERS

State Bank of India

Janata Sahakari Bank Limited, Pune

AUDITORS

Lodha & Company

REGISTERED OFFICE & WORKS

F-1, MIDC, Lote Parshuram
Tal. Khed,
Dist. Ratnagiri (Mah.) - 415 722

CORPORATE OFFICE

2/2, TTC Industrial Area, (D Block)
M.I.D.C. Thane-Belapur Road,
Turbhe, Navi Mumbai - 400 705.

REGISTRAR & TRANSFER AGENTS

Bigshare Services Pvt. Ltd.
E-2, Ansa Industrial Estate,
Sakivihar Road,
Saki Naka, Andheri (E),
Mumbai - 400 072.

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ANNUAL REPORT 2000-2001**REPORT OF THE DIRECTORS**

The Directors present herewith their Fourteenth Annual Report together with the Audited Accounts of the Company for the year ended March 31, 2001.

1. FINANCIAL RESULTS

	(Rs. in lacs)	
	2000-01	1999-00
Sales	610.55	609.49
Other Income	20.19	26.24
	<u>630.74</u>	<u>635.73</u>
Profit/(Loss) before depreciation	(242.56)	(353.10)
Depreciation	176.63	176.03
Less : Transferred from Revaluation Reserve	--	35.88
	<u>176.63</u>	<u>140.15</u>
Amortisation of Miscellaneous Expenditure	2.52	2.94
Profit/(Loss) for the year	(421.71)	(496.19)
Prior period adjustments (net)	(1.97)	(0.51)
Excess Depreciation written back	--	0.11
Balance of (loss) brought forward from previous year	(322.49)	(408.05)
Balance transferred from Revaluation Reserve	--	582.15
PROFIT/(LOSS) CARRIED TO BALANCE SHEET	<u>(746.17)</u>	<u>(322.49)</u>

2. OPERATIONS

The total sales turnover was only marginally higher than the previous year. The MIO sales were stagnant due to influx of many competing grades and brands at lower rates. There was some improvement in the market for Ferrous Salts. Sales of Yellow Iron Oxide Pigment showed downward trend during the year.

Due to continuing adverse business conditions arising out of the sudden opening up of the economy and liberalised imports at lower duty tariff, there has been sub-optimal utilisation of the installed capacity for MIO. On Company's representation the Government of India has levied Safeguard Duty on imported MIO for two and half years effective January 23, 2001. This should provide legitimate protection for the domestic product and improve the Company's operations.

However, the validity of the Sales Tax exemption under the package scheme of Incentive for MIO and Pigment has expired on March 31, 2001. Accordingly, effective April 1, 2001 MIO and Pigment sales are liable for payment of Sales Tax. Since the major portion of the eligible amount has remained unutilised due to lower level of operations over the years, the Company has represented to the State Government for getting extension under the scheme.

In anticipation of the imposition of safeguard duty, the customers had stock piled imported MIO. This is likely to deprive the Company from deriving the legitimate benefits of the safeguard duty for some time but thereafter, given the sustained supply and after sales service levels, the Company expects to improve volumes and price realisation for MIO commensurated with the quality of its product and matching the landed price of imported MIO.

The Ferrous salts and Yellow Iron Oxide Pigment business is stagnant and needs to be reviewed for improvement.

3. CHANGE OF NAME

In accordance with the fresh certificate of Incorporation issued by the Registrar of Companies, Maharashtra dated July 4, 2001, the name of the Company has been changed to "Oxides and Specialities Limited" effective that date.

4. PARTICULARS OF EMPLOYEES

As required by Section 217(2A) of the Companies Act, 1956, read with Companies (Particulars of Employees) Rules, 1975 a statement of information relating to the employees, is given in Annexure to the Directors' Report.

5. THE COMPANIES (DISCLOSURE OF PARTICULARS IN THE REPORT OF THE BOARD OF DIRECTORS) RULES, 1988.

Particulars under Section 217(1) (e) of the Companies Act, 1956 relating to the conservation of energy, technology absorption, foreign exchange earnings and outgo are given in Annexure to the Directors' Report.

6. DIRECTORS

During the year, ICICI Ltd. has withdrawn the nomination of Mr. K.M. Bhole as its nominee Director on the Board. The Board places on record its sincere appreciation for the wise counsel and guidance provided by Mr. K.M. Bhole during his nomination as Director of the Company. Mr. S.K. Diwanji and Mr. K.S.B. Sanyal resigned from the Board in July 2001.

M/s. N.D. Gupte, G.G. Gogate and J.S. Neerav were appointed as additional Directors of the Company. Mr. N.D. Gupte, however, has already resigned from the Board. Mr. A. Deb resigned from the position of Managing Director on February 28, 2001.

The Company has received notices in writing from a member pursuant to Section 257 of the Companies Act, 1956 signifying intention to propose M/s. G.G. Gogate and J.S. Neerav as Directors of the Company at the forthcoming Annual General Meeting.

The Board places on record its sincere appreciation of the valuable guidance and contribution made by M/s. A. Deb, S.K. Diwanji and N.D. Gupte during their tenure as Director of the Company.

Mr. A.K. Goenka and Mr. R.M. Pandia, Directors, retire by rotation at the Annual General Meeting and being eligible, offer themselves for re-appointment.

Mr. G.G. Gogate is proposed to be appointed as Managing Director w.e.f. July 30, 2001 in place of Mr. A. Deb subject to approval of members, Central Government, if necessary and Financial Institutions as per the resolution recommended for the approval of members.

7. FIXED DEPOSITS

During the year under review, the Company has not accepted any deposits from the public pursuant to Section 58-A of the Companies Act, 1956.

8. AUDITORS' REPORT

The notes referred to in Auditors' Report are dealt with herein below.

As disclosed in the Accounting Policies and Notes to the Accounts, as the long term prospects appear conducive in view of the projective improvement in the operations of the Company post imposition of safeguard duty on MIO, implementation of the marketing policy for effecting change in product mix as per customer preference, and the resurgence of export potential leading to improved realisation, the accounts of the Company have been prepared on the basis of a "going concern".



OXIDES AND SPECIALITIES LIMITED

The accumulated losses were adjusted against the revaluation reserve in accordance with legal advice.

The interest of Rs.442.85 lacs for the year on unsecured loans/debentures will be accounted on cash basis, hence no provision for accrued liability of interest has been made in the accounts.

9. THE CORPORATE GOVERNANCE CODE

The Securities & Exchange Board of India has introduced a code of Corporate Governance for implementation by the listed companies by an amendment to the Listing Agreement. As per the amendment, this code is required to be implemented by your Company by March 31, 2002.

10. ISO CERTIFICATION

ISO re-certification has been done for further period of 3 years effective December 2000.

11. DEMATERIALIZATION OF SHARES

In terms of the notification issued by the Securities and Exchange Board of India (SEBI) trading in equity shares of all companies in 'B' group in the dematerialised form is now compulsory. Your Company has already registered for dematerialising the shares with both the depositories.

12. DIRECTORS' RESPONSIBILITY STATEMENT

Pursuant to sub-section (2AA) of Section 217 of the Companies Act, 1956, the Board of Directors of the Company hereby state and confirm that :

- i) in the preparation of the Annual Accounts, the applicable accounting standards had been followed along with proper explanation relating to material departures;
- ii) the Directors had 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/loss of the Company for that period;

iii) the Directors had 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.

iv) the Directors had prepared the annual accounts on a going concern basis.

13. WORKERS' LONG TERM SETTLEMENT

A long term agreement with the workers' Union for a period of three year effective January, 2000 was signed in February, 2001.

14. AUDITORS

The Auditors, M/s. Lodha & Company, Chartered Accountants, Mumbai, retire at the ensuing Annual General Meeting and are eligible for re-appointment. The members are requested to appoint Auditors for the current year and fix their remuneration.

15. ACKNOWLEDGEMENTS

The Directors thankfully acknowledge and place on record their appreciation of the support and co-operation received by the Company from Financial Institutions, Banks, Customers, Suppliers and Promoters.

The Directors also wish to place on record their special appreciation of the contribution made by employees at all levels during the year and for having stood by the Company in these testing times. The Directors look forward to their continued support.

By Order of the Board

N. S. PARULEKAR
DIRECTOR

G. G. GOGATE
MANAGING DIRECTOR

Dated : July 30, 2001.

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ANNEXURE TO THE DIRECTORS' REPORT

INFORMATION REQUIRED UNDER THE COMPANIES (DISCLOSURE OF PARTICULARS IN THE REPORT OF THE BOARD OF DIRECTORS) RULES, 1988, AND FORMING PART OF THE DIRECTORS' REPORT.

A. CONSERVATION OF ENERGY :

(a) Energy Conservation Measures taken :

The plant is so designed as to conserve energy at optimum level of operation. Energy losses were kept at minimum level.

(b) Additional investments and proposals, if any, being implemented for reduction of consumption of energy :

The Company is monitoring the power factor to maximise rebates on power bills.

(c) Impact of energy conservation measures :

The energy conservation measures have resulted in restricting consumption of electricity and saving in expenditure inspite of sub optimal production and increased tariff.

(d) Total energy consumption and energy consumption per unit of production :

Form 'A' of the Annexure to the Rules is not applicable as the Company is not covered under the list of specified industries.

B. TECHNOLOGY ABSORPTION :

I. Research and Development (R & D)

1. Specific areas in which R & D carried out by the company :

Product upgradation and magnetic particles studies. Development of new grade of MIO and further improvement in pigment to suit requirements of customers.

2. Benefit derived as a result of the above R & D :

Improved quality of Magnetic Iron Oxides for audio tapes are being produced. Developed Synthetic Yellow Iron Oxide Pigment and Ferrous Fumarate and products commercialised.

3. Future plan of action :

Proposal to put a bench scale facility and testing equipment for process optimisation and developmental work on other applications of iron oxides and for development of new chemicals.

4. Expenditure on R & D : -

II. Technology absorption, adaptation and innovation:

1. Efforts, in brief, made towards technology absorption, adaptation and innovation :

The technology received from collaborators has been fully absorbed and adapted to Indian conditions.

2. Benefits derived as a result of the above efforts :

Complete range of Magnetic Iron Oxide produced for audio, video, computer tapes and floppies.

3. Information in case of technology imported during the last 5 years reckoned from the beginning of the financial year :

(a) Technology : N.A.

(b) Year of import : N.A.

(c) Has technology been fully absorbed ? : N.A.

(d) If not fully absorbed, areas where this has not taken place, reasons therefore and future plans of action : N.A.

C. FOREIGN EXCHANGE EARNINGS AND OUTGO :

1. Earnings : Rs. 36.15 lakhs
2. Outgo : Rs. 0.04 lakhs

Particulars of Employees in terms of Section 217(2A) of the Companies Act, 1956 read with Companies (Particulars of Employees) Rules, 1975 for the year ended 31st March, 2001.

Name	Age	Designation/ Nature of duties	Remuneration Rupees	Qualification	Date of Joining	Exp. in yrs.	<u>Details of last employment</u>	
							Name of previous Employer	Position held
Mr. A. Deb*	55	Managing Director	14,62,571	B.Tech. Hons., (Chem. Eng.)	24.08.93	34	Rallis India Limited	Gen. Manager (Commercial) Pharmaceutical Division

* Resigned and relieved effective February 28, 2001.

Notes :

- The employment of Managing Director was contractual.
- Remuneration includes salary, contribution to Provident Fund, Superannuation Fund, Medical Reimbursement, Gratuity, leave encashment and other perquisites in accordance with the provisions of the Income-Tax Act, 1961 and rule made thereunder.



OXIDES AND SPECIALITIES LIMITED

AUDITORS' REPORT

To

The Members of
OXIDES AND SPECIALITIES LIMITED
(Formerly : HERDILLIA OXIDES AND ELECTRONICS
LIMITED)

We have audited the attached Balance Sheet of OXIDES AND SPECIALITIES LIMITED (formerly : HERDILLIA OXIDES AND ELECTRONICS LIMITED) as at 31st March, 2001 and also the annexed Profit and Loss Account of the Company for the year ended on that date and report that:

1. As required by the Manufacturing and Other Companies (Auditor's Report) Order, 1988 issued by the Company Law Board in terms of Section 227(4A) of the Companies Act, 1956 (hereinafter referred to as the "Act") and on the basis of such checks as we considered appropriate and according to the information and explanations given to us during the course of audit, we annex hereto a statement on the matters specified in the paragraphs 4 and 5 of the said Order, to the extent applicable to the Company.
2. Further to our comments in the Annexure referred to in Paragraph (1) above, we report that:
 - a) the accumulated losses of the Company before adjusting the Revaluation Reserve (referred to in paragraph 2(b) below) exceed the entire net worth of the company substantially. The accounts have, however, been prepared by the management on a going concern basis as explained in Note No. 3 in schedule 17. This being a technical matter, we are not in a position to comment on the same. Should, however, the company be unable to continue as a going concern, the extent of the effect of the resultant adjustments to the assets and liabilities of the company as at the year end and loss for the year has presently been not ascertained.
 - b) following legal advice, accumulated losses of Rs.1,185.42lacs continue to remain adjusted against the revaluation reserve arising on the revaluation of certain fixed assets in an earlier year (refer Note no. 5(b) in Schedule 17). This treatment is not in accordance with the view of the Institute of Chartered Accountants of India on treatment of reserves created on revaluation and strictly not in accordance with Accounting Standard -10 "Accounting for Fixed Assets" issued by the Institute of Chartered Accountants of India;
 - c) no provision has been made for accrued interest liability of Rs. 442.85 lacs (including Rs.236.99 lacs for the year) on unsecured loans/debentures, the same being accounted for on cash/settlement basis. (Refer note no.6 in schedule 17);
 - d) we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit, subject to what is stated in paragraph 2(f) below:
 - e) subject to our comments at paragraph 2(c) above, in our opinion, proper books of account as required

by law have been kept by the Company so far as appears from our examination of those books;

- f) The accounts of debtors, certain creditors and secured / unsecured loans taken are subject to confirmations, reconciliations and consequent adjustments, if any, which are presently not ascertainable (Refer Note No. 7 in Schedule '17');
- g) the Balance Sheet and Profit and Loss Account dealt with by this report are in agreement with the books of account;
- h) On the basis of the written representations received from the directors as on 31.03.2001, and taken on record by the Board of Directors and considering the response from the Department of Company Affairs to a specific query raised by Federation of Indian Chambers of Commerce and Industry that the provisions of section 274 (1) (g) clause (B) of the Act will only apply prospectively, none of the director is disqualified as on 31.3.2001 from being appointed as a director of the Company in terms of the said section;
- i) in our opinion, the Balance Sheet and Profit and Loss Account dealt with by this report have been prepared in compliance with the Accounting Standards referred to in sub-section 3 (C) of Section 211 of the Act, to the extent applicable, except for Accounting Standard 10 - "Accounting for Fixed Assets", the details and effect of which have been disclosed in paragraph 2(b) above;
- j) without considering item mentioned at paragraph 2(a) and (f) above, the effect of which could not be determined, had the observations made by us in paragraphs 2 (b) & (c) above been considered, the loss for the year, reserves & surplus, accumulated losses and unsecured loans would have been Rs.580.92 lacs, Rs.1,215.40 lacs, Rs.2049.98 lacs and Rs.1,784.48 lacs, respectively, (as against the reported figures of Rs.421.71 lacs, Rs.30.00 lacs, Rs.746.17 lacs and Rs.1,341.63 lacs, respectively);

Subject to the above, in our opinion and to the best of our information and according to the explanations given to us, the said accounts read together with the Significant Accounting Policies and other notes appearing in Schedule '17' and elsewhere in the accounts, give the information required by the "Act", in the manner so required and give a true and fair view:

- (i) in the case of Balance Sheet, of the state of affairs of the Company as at 31st March, 2001 and
- (ii) in the case of Profit and Loss Account, of the loss of the Company for the year ended on that date.

For **LODHA & COMPANY**
Chartered Accountants

N. KISHORE BAFNA
Partner

Place: Mumbai
Date: 30th July, 2001

ANNUAL REPORT 2000-2001**ANNEXURE TO THE AUDITORS' REPORT**

Referred to in Paragraph (1) of our Report of even date.

1. The Company is in the process of updating its fixed assets records to show full particulars including quantitative details and situation of fixed assets. As explained to us, most of the Assets have been physically verified by the management during the year. In our opinion, the frequency of such verification is reasonable having regard to the size of the Company and nature of its fixed assets. The discrepancies, if any as may be noticed would be adjusted on updation of the said records.
2. None of the Fixed Assets have been revalued during the year.
3. (i) The stocks of finished goods, raw materials, packing materials and stores and spare parts have been physically verified by the management at reasonable intervals during the year.
(ii) In our opinion, the procedures of physical verification of above referred stocks followed by the management are reasonable and adequate in relation to the size of the Company and nature of its business.
(iii) No material discrepancies were noticed on physical verification of stocks as compared to the book records.
(iv) In our opinion and on the basis of our examination, the valuation of stocks is fair and proper in accordance with the normally accepted accounting principles and is on the same basis as in the preceding year.
4. In our opinion, the rate of interest and other terms and conditions of unsecured loans taken from companies listed in the register maintained under Section 301 of the Act are, prima-facie, not prejudicial to the interest of the Company. The Company has not taken any loan from firms or other parties listed in the said register. As explained, there are no Companies under the same management within the meaning of Section 370(1-B) (non-operative) of the Act.
5. The Company has not granted any secured or unsecured loans to companies, firms or other parties listed in the register maintained under Section 301 of the Act. As explained, there are no Companies under the same management within the meaning of Section 370 (1-B) (non-operative) of the Act.
6. In respect of loans and advances in the nature of loans given by the Company to employees, the same are being repaid as stipulated along with interest, wherever applicable.
7. In our opinion, there are adequate internal control procedures commensurate with the size of the Company and nature of its business with regard to the purchase of stores, raw materials, plant and machinery, equipment and other assets and for the sale of goods.
8. In our opinion, the transactions of purchase materials made in pursuance of contracts or arrangements entered in the register maintained under Section 301 of the Act and aggregating during the year to Rs.50,000 or more in respect of each party, have been made at prices which are reasonable having regard to prevailing market prices for such materials or prices at which transactions for similar materials have been made with other parties.
9. The Company has a regular procedure for determination of unserviceable or damaged stores, raw materials and finished goods. Adequate provision has been made in the accounts for the loss arising on the items so determined.
10. The Company has not accepted any deposits within the meaning of Section 58A of the Act and the Companies (Acceptance of Deposits) Rules, 1975 framed there-under.
11. In our opinion, reasonable records have been maintained by the Company for the sale and disposal of realisable scrap. The Company does not have any by-product.
12. In our opinion, the existing internal audit system of the Company needs to be strengthened and extended to be commensurate with the size of the Company and the nature of its business.
13. The maintenance of Cost records has not been prescribed by the Central Government under Section 209(1) (d) of the Act, for the products manufactured by the Company.
14. According to the records of the Company, Provident Fund dues have been regularly deposited during the year with the appropriate authorities. As explained to us, the provisions of Employees' State Insurance Act, 1948 are not applicable to the Company.
15. There were no undisputed amounts payable in respect of Income Tax, Wealth Tax, Sales Tax, Customs Duty and Excise Duty outstanding as at 31st March, 2001 for a period of more than six months from the date they became payable, except, in respect of service tax of Rs.1.85 lacs.
16. According to the information and explanations given to us and records examined by us, no personal expenses have been charged to revenue account other than those payable under contractual obligations or in accordance with generally accepted business practice.
17. According to the management and as per legal opinion obtained by them in an earlier year, the Company is not a Sick Industrial Company within the meaning of clause (o) of Section 3(1) of the Sick Industrial Companies (Special Provisions) Act, 1985 (SICA) on the basis that the qualifications given in paragraphs 2 (b) and (c) of our main report of even date are not to be considered in computing the erosion of networth. Accordingly, no reference has been made to the Board for Industrial and Financial Reconstruction under Section 15 of the Act. However, in our opinion and as per an amendment to the Statement on the Manufacturing and Other Companies (Auditor's Report) Order, 1988 issued by the Institute of Chartered Accountants of India requiring consideration of the Auditors' qualifications in determining the quantum of loss, the Company would become a Sick Industrial Company within the meaning of aforesaid provisions of SICA.

For **LODHA & COMPANY**
Chartered Accountants

N. KISHORE BAFNA
Partner

Place: Mumbai
Date: 30th July, 2001