

17TH ANNUAL REPORT 2003-2004



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OXIDES AND SPECIALTIES LIMITED

DUNCAN GOENKA



OXIDES AND SPECIALITIES LIMITED

BOARD OF DIRECTORS

N. S. PARULEKAR

A. K. GOENKA

J. S. NEERAV
(upto 28.08.2003)

SUDHIR GOYAL **Wholetime Director**
(w.e.f. 22.10.2003)

V. B. DALAL

P. S. SHARMA

G. G. GOGATE **Managing Director**
(upto 29-06-2003)

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.

CONTENTS

	Page Nos.
Notice	1
Report of the Directors	3
Annexure to the Directors' Report	4
Management Discussion and Analysis	5
Corporate Governance Report	6
Auditors' Report	11
Annexure to the Auditors' Report	12
Balance Sheet	13
Profit & Loss Account	14
Schedules	15
Cash Flow Statement	24



OXIDES AND SPECIALITIES LIMITED

NOTICE

Notice is hereby given that the Seventeenth Annual General Meeting of the members of the Company will be held at the Registered Office of the Company at F/1, MIDC, Lote-Parshuram, Taluka Khed, Dist. Ratnagiri (Mah.) - 415722 on Friday, the September 24, 2004 at 3.00 p.m. to transact the following business:

ORDINARY BUSINESS

1. To consider, receive and adopt the Audited Accounts for the year ended March 31, 2004 together with Directors' Report thereon.
2. To appoint a Director in place of Mr. N. S. Parulekar, who retires by rotation and being eligible, offers himself for re-appointment.
3. To appoint a Director in place of Mr. V. B. Dalal, who retires by rotation and being eligible, offers himself for re-appointment.
4. To appoint Auditors to hold Office from the conclusion of this meeting, until the conclusion of the next Annual General Meeting and to fix their remuneration.

SPECIAL BUSINESS

5. To consider and if thought fit, to pass with or without modification (s), the following resolution as an Ordinary Resolution:

"RESOLVED THAT Mr. Sudhir Goyal, who was appointed as an Additional Director of the Company by the Board of Directors and who holds Office upto the date of this Annual General Meeting of the Company, pursuant to the provisions of Section 260 of the Companies Act, 1956 and Article 159 of the Articles of Association of the Company and in respect of whom the Company has received Notice in writing from a member of the Company, expressing his intention of proposing his candidature for the Office of Director, be and is hereby appointed as a Director of the Company."

6. To consider and if thought fit, to pass, with or without modifications, the following resolution as an Ordinary Resolution:

"RESOLVED THAT pursuant to provisions of Section 269, 198, 309 read with Schedule XIII and other applicable provisions, if any, of the Companies Act, 1956, ("the Act") the Company hereby approves the terms of appointment of Mr. Sudhir Goyal, who has been appointed by the Board of Directors, as the Whole-time Director of the Company for a period of 3 years with effect from 22.10.2003 on the terms and conditions set out in the Agreement, which is hereby specifically sanctioned with liberty to the Directors to alter and vary the terms and conditions of the said appointment and/or Agreement in such a manner, as may be agreed to between the Directors and Mr. Sudhir Goyal."

"RESOLVED FURTHER THAT the Directors be and are hereby authorised to take such steps and to do all such acts, deeds, matters and things, as may be necessary, expedient or desirable to give effect to the above resolution."

By Order of the Board
P. S. SHARMA
DIRECTOR

Date: June 23, 2004

Registered Office:
F/1, MIDC Area
Lote-Parshuram
Dist. Ratnagiri (Maharashtra) - 415 722.

NOTES:

1. A MEMBER ENTITLED TO ATTEND AND VOTE AT THE MEETING IS ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE INSTEAD OF HIMSELF AND THE PROXY NEED NOT BE A MEMBER OF THE COMPANY.
2. The relevant explanatory statement pursuant to Section 173 of the Companies Act, 1956 in respect of the business under item nos. 5 & 6 annexed hereto.
3. The proxy form duly completed and signed should be deposited at the Registered Office of the Company, not later than 48 hours before the Meeting.
4. All documents referred to in the accompanying Notice and Explanatory Statement are open for inspection at the Registered Office of the Company between 10.30 a.m. and 12.30 p.m. on all working days, except Saturdays and holidays upto the date of the Annual General Meeting.
5. The Register of Members and Share Transfer Books of the Company will remain closed from Thursday, September 9, 2004 to Friday, September 24, 2004 (both days inclusive).
6. Members / Proxies who attend the Meeting are requested to bring the enclosed Attendance Slip duly filled in and deliver the same at the entrance of the Meeting Hall.
7. Members are requested to bring their copies of the Annual Report at the time of attending the Meeting.
8. Members who are holding Company's shares in dematerialised form are requested to bring details of their DP and Client ID number for identification.
9. As required under the Listing Agreement with the Stock Exchanges, the particulars of Directors who are proposed to be re-appointed/appointed are given below:

(A) (i) Name	Mr. N. S. Parulekar
(ii) Age	77 Years
(iii) Qualifications	B.Com, LL. B, CAIIB
(iv) Experience	Retired Senior Banker and Company Director
(v) Director of the Company	Since 19.4.1990.
(vi) Other Directorship	Chairman of: New Era Fabrics Ltd. Samson Maritime Ltd. Director in: S. P. Jaswal Estates Ltd. Indokem Ltd. Infotech Era Ltd. Twenty First Century Printers Ltd. Dempo Industries Pvt. Ltd. Navyug Holding Pvt. Ltd.
(B) (i) Name	Mr. V. B. Dalal
(ii) Age	59 Years.
(iii) Qualifications	B.Com, F.C.A.
(iv) Experience	Chartered Accountant in practice since 1969.
(v) Director of the Company	Since 30.10.2001
(vi) Other Directorship	Maharashtra Polybutenes Ltd.

ANNUAL REPORT 2003-2004

- (C) (i) Name : Mr. Sudhir Goyal
 (ii) Age : 56 Years
 (iii) Qualifications : M.A.
 (iv) Experience : 30 Years.
 Presently employed as
 Sr. Vice President -
 Group H.R.,
 Duncan Goenka Group
 Addl. Responsibility as
 Whole-time Director of
 the Company
 (v) Whole-Time Director
 Of the Company : Since 22.10.2003
 (vi) Other Directorships : NIL

ANNEXURE TO NOTICE

EXPLANATORY STATEMENT PURSUANT TO SECTION 173
 (2) OF THE COMPANIES ACT, 1956.

ITEM NOS. 5 & 6

The Board of Directors at its Meeting held on October 22, 2003 has appointed Mr. Sudhir Goyal as an Additional Director of the Company. In accordance with Section 260 of the Companies Act, 1956 and Article 159 of the Article of Association of the Company, he holds Office upto the date of this Annual General Meeting.

Mr. Sudhir Goyal (56 years) holds M.A. Degree and has 30 years of experience. Presently he holds the position as a Senior Vice President - Group H.R., Duncan Goenka Group and is based in Mumbai. Mr. Sudhir Goyal is appointed as a Whole - time Director of the Company for a period of three years, without any remuneration.

The Company has received Notice in writing from a Member, pursuant to Section 257 of the Companies Act, 1956, proposing the candidature of Mr. Sudhir Goyal as a Director of the Company, at the ensuing Annual General Meeting, together with requisite deposit as required by law.

None of the Directors other than Mr. Sudhir Goyal may be deemed to be concerned or interested in this resolution.

By Order of the Board
P. S. SHARMA
 DIRECTOR

Date : June 23, 2004.

Registered Office :

F/1, MIDC Area
 Lote-Parshuram
 Dist. Ratnagiri (Maharashtra) - 415 722



OXIDES AND SPECIALITIES LIMITED

REPORT OF THE DIRECTORS

The Directors present herewith their Seventeenth Annual Report together with the Audited Accounts of the Company for the year ended March 31, 2004.

1. FINANCIAL RESULTS

	(Rs. in lacs)	
	2003 - 04	2002 - 03
	Rs.	Rs.
Sales	384.05	556.35
Other Income	19.01	45.07
	<u>403.06</u>	<u>601.42</u>
Profit/(Loss) before depreciation	(113.01)	(61.93)
Depreciation	172.89	173.53
Profit/(Loss) for the year	(285.90)	(235.75)
Balance of (loss) brought forward from previous year	(1075.99)	(840.54)
PROFIT/(LOSS) CARRIED TO BALANCE SHEET	<u>(1361.89)</u>	<u>(1075.99)</u>

2. OPERATIONS

During the year, the Company has been passing through a severe crisis on account of steep fall in demand for Magnetic Iron Oxide. With the rapid decline in the music industry and growth of alternate media like CDs, demand for our product has been severely affected over the past few years. Further, the mini-budget of the Government in January, 2004 has reduced the import duty on tapes by 5% and that on MIO from 15% to 5%. This has resulted in making imports still cheaper.

Sales quantities of Magnetic Iron Oxide registered a 25% decrease over the previous year. The domestic market for MIO which has been severely affected due to poor performances of film music and imports of coated tape at low prices, showed a decline of more than 38 %. Export of MIO was also significantly lower than anticipated. Sales of ferrous salts continued to be very poor.

The demand situation has been so poor during the current year, that the Company was forced to suspend production from end-November, 2003. Further reduction in import duty of MIO in the mini-budget of January, 2004 has also badly affected the business plans and prospects. The cash flow situation has become stagnant, due to which the Company has not been able to meet many of its financial commitments.

3. DIVIDEND

In view of the continuing losses your Directors regret that they cannot declare Dividend for the year.

4. FUTURE OUTLOOK

In view of the unviable situation, the Management is in the process of contemplating a change in the product line, with minor modification in the present Plant, like manufacture of pigments.

5. PARTICULARS OF EMPLOYEES

The Provision of Section 217 (2A) of the Companies Act, 1956 read with Companies (Particulars of Employees) Rules, 1975 as amended, are not applicable to the Company, as none of the employees employed throughout the year, or employed for part of the year have received remuneration equal to, or exceeding the limits prescribed in the said section.

6. 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.

7. DIRECTORS

Mr. Sudhir Goyal was appointed as an Additional Director and

Whole-Time Director of the Company on October 22, 2003. The Company has received Notice in writing from a Member pursuant to Section 257 of the Companies Act, 1956 signifying intention to propose Mr. Sudhir Goyal as a Whole-Time Director of the Company at the forthcoming Annual General Meeting.

Mr. J. S. Neerav resigned as Director from the Board of Directors, with effect from August 28, 2003. Mr. G. G. Gogate resigned as Managing Director, with effect from May 29, 2003. The Board commended the contribution made by Mr. J. S. Neerav and Mr. G. G. Gogate from time to time in the management of the Company and wished them Best of Luck in their future endeavours.

Mr. N. S. Parulekar and Mr. V. B. Dalal, Directors, retire by rotation at the Annual General Meeting and being eligible, offer themselves for re-appointment.

8. 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.

9. AUDITORS' REPORT

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

(i) The production has been temporarily stopped since November 26, 2003 due to Financial and Marketing constraints. Efforts are on for :

- (a) Obtaining assistance from Banks and Financial Institutions.
- (b) Exploring domestic / export market potential.
- (c) Strengthening pigment manufacturing business etc.

The Management is confident of overcoming the present difficulties in the near future and hence, the accounts have been prepared on the assumption of a "going concern".

(ii) The accumulated losses were adjusted against the re-valuation reserve, in accordance with legal advice.

(iii) The interest of Rs. 1194.51 lacs upto the year end on unsecured loans/debentures will be accounted on cash basis, hence no provision for accrued liability of interest has been made in the accounts.

10. REPORT ON CORPORATE GOVERNANCE

Pursuant to Clause 49 of the Listing Agreement with the Stock Exchanges, a Report on Corporate Governance Code and Auditors' Certificate regarding compliance of the conditions of the code and Management Discussions and Analysis are annexed as part of the Annual Report.

11. DEMATERILISATION OF SHARES

In terms of the notification issued by the Securities and Exchange Board of India (SEBI), the Company has dematerialised its shares:

The Company has so far dematerialised 83,69,900 Equity Shares representing 71.72 % of the total Paid-up Capital of the Company as on March 31, 2004.

12. SICK INDUSTRIAL COMPANIES (Special Provisions) ACT, 1985

Consequent upon erosion in excess of 50% of peak net worth of the Company, Report as to such erosion under Section 23 of the Sick Industrial Companies (Special Provision) Act, 1985 has been sent to the Board for Industrial and Financial Reconstruction (BIFR). The Company has not received any order of the BIFR on its Report.

ANNUAL REPORT 2003-2004

13. 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 provision 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.

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 acknowledge and place on record their appreciation for the support and co-operation received from the Banks, suppliers, customers and promoters.

The Directors also wish to place on record their appreciation for the continuing support of the employees during the year and having stood by the Company in these testing times.

By Order of the Board
DIRECTOR
WHOLE-TIME DIRECTOR

Date : June 23, 2004

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 DIRECTOR'S 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. **Further plan of action :**
Proposed 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 :**
Nil

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, area where this has not taken place, reasons therefore & future plans of action	:	N. A.

C. FOREIGN EXCHANGE EARNINGS AND OUTGO :

1. Earnings	:	Rs. 59.95 lacs
2. Outgo	:	Rs. 2.21 lacs



OXIDES AND SPECIALITIES LIMITED

MANAGEMENT DISCUSSION AND ANALYSIS

a) Industry Structure and Development :

The main product of the Company is Magnetic Iron Oxide (MIO) also known as Gamma Ferric Oxide (GFO) used for coating polyester films to make Magnetic Tapes for use in audio, video, data and computer applications including for swipe cards of toners.

The technology is from Magnox Inc., Pulaski, Virginia, U.S.A.

The Company has diversified into the manufacture of Ferrous salts to US Pharmacopeal standards and Iron Oxide colour pigments as an import substitution for international pigments.

b) Opportunities and Threats :

The Company has major market share in the domestic MIO business and is currently exporting its products to various countries such as Korea, Turkey, Malaysia and Spain.

Globally, magnetic tapes usage is declining with the advent of alternate formats like CD's, CD-R, DVD and online availability of music through cable and internet.

Products like Ferrous Fumarate are getting replaced by cheaper ferrous sulphate globally as iron supplement leading to erosion in growth of Ferrous Fumarate business.

Iron Oxide Pigment manufactured by the Company is a high end product with limited high cost paint application.

c) Segmentwise or productwise performance :

The domestic market for MIO is largely influenced by the performance of films and film music and import of coated tapes. Due to the unpredictable and wide fluctuation of success of films, and imports of cheap coated tapes, the domestic market volume has been declining. Capacity utilisation of MIO plant has been at sub-optimal level due to lack of adequate domestic demand and declining global demand.

Sales of Ferrous Fumarate is fast declining due to recessionary trends in international markets. Iron Oxide Pigment has a very limited niche market in India.

Since there is not much market in the domestic front, the future outlook is not positive. The Mini-Budget in early this year has reduced the effect on Import Duty on MIO by 5%, besides abolition of SAD which makes Imports cheaper. With the introduction of MP3, FM Radio, CDs in the market, the demand for Audio Cassettes is fast declining.

d) Internal Control System and their adequacy :

There is adequate internal control system in the Company through Internal Audit and regular operations reviews.

e) Financial performance with respect to Operational performance :

The performance of the Company over the previous year was not encouraging. As compared to the previous year, sales of MIO had registered a 25% drop because of poor domestic demand and lower exports. Sales realisation was lower by 10% per ton because of competitive prices, Import Duty reductions and weakening Dollar.

f) Development in Human Resources / Industrial Relations front :

Industrial relations are cordial and number of employees are at the optimum level.

ANNUAL REPORT 2003-2004

CORPORATE GOVERNANCE REPORT

The detailed report on Corporate Governance as per the format prescribed by SEBI and incorporated in, Clause 49 of the Listing Agreement is set out below :

A. MANDATORY REQUIREMENTS

1. COMPANY'S PHILOSOPHY ON CODE OF GOVERNANCE :

The Company's Philosophy on Corporate Governance envisages the attainment of the high level of transparency and accountability in the functioning of the Company and the conduct of its business internally and externally, including its inter-action with employees, shareholders, creditors, consumers and institutional and other lenders and places due emphasis on regulatory compliance.

The Company will continue its efforts in raising the standards in Corporate Governance and will also review its systems and procedures constantly to keep pace with the changing economic environment.

2. BOARD OF DIRECTORS :

The present strength of the Board of Directors is five, whose composition is given below :

	No. of Directors
1 Non-promoter , Executive Director	1
2 Independent, Non-Executive Directors	4

The composition of the Board of Directors and also the number of other Board of Directors or Board Committees of which he is a Member/Chairman are as under :

Name of Director	Category	No. of other Public Directorship (*)	No. of membership of other Board Committees	No. of Board Committees for which Chairman
Shri N. S. Parulekar	Independent, Non-Executive	9	7	4
Shri Ashok K. Goenka	Independent, Non-Executive	2	1	—
Shri V. B. Dalal	Independent, Non-Executive	1	1	1
Shri P. S. Sharma	Independent, Non-Executive	5	5	—
Shri Sudhir Goyal	Whole-time Director	Nil	Nil	Nil

(*) - excludes Directorships in Indian Private Limited Companies, membership of Managing Committees of various Chambers/bodies.

ATTENDANCE OF EACH DIRECTOR AT THE BOARD MEETINGS AND THE LAST ANNUAL GENERAL MEETING

During the financial year ended March 31, 2004, four Board Meetings were held on May 28, 2003, July 24, 2003, October 22, 2003 and January 22, 2004. The attendance of each Director at Board Meetings and the last Annual General Meeting (AGM) is as follows :

Name of the Director	No. of Board Meetings attended	Attendance at last AGM held on 22.08.2003
Shri N. S. Parulekar	3	Present
Shri A. K. Goenka	2	Absent
Shri P. S. Sharma	4	Present
Shri V. B. Dalal (appointed w.e.f. 28.05.03)	4	Present
Shri Sudhir Goyal (appointed as Wholetime Director w.e.f. 22.10.03)	Nil	N.A.
Shri G. G. Gogate (Managing Director upto 28.5.2003)	1	N.A.

All significant information had been placed before the Board. Henceforth, the required information as listed in Annexure-I of clause 49 will be made available to the Board.

3. AUDIT COMMITTEE :

BROAD TERMS OF REFERENCE

The terms of reference of the Audit Committee include :

- To review the Company's financial reporting process and its financial statements.
- To review the accounting and financial policies and practices.
- To review the efficacy of the internal control mechanism and monitor risk management policies adopted by the Company and ensure compliance with regulatory guidelines.
- To review reports furnished by the internal and statutory auditors, and ensure that suitable follow-up action is taken.
- To examine accountancy, taxation and disclosure aspects of all significant transactions.

The terms of reference of this Committee are wide enough covering the matters specified under the Listing Agreement.

COMPOSITION

The Audit Committee of the Company comprises three Directors, of which all are Independent, Non-Executive Directors. All these Directors possess knowledge of corporate finance, accounts and company law. The Chairman of the Committee is an Independent,