



MD	✓		BKC	✓
CS	✓		DPY	200
RO	✓		DIV	273
TRA	✓		AC	✓
AGM	✓	✓	SHI	✓
YE	✓	✓		

Pennar Aluminium Company Limited

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8th Annual Report 1996-97



Pennar Aluminium Company Limited

CHAIRMAN'S REVIEW

Dear Shareholders,

I have great pleasure in welcoming you to the Eighth Annual General Meeting of your Company.



Mr. S. Samarapungavan,
is a renowned metallurgist,
former chairman of Steel
Authority of India Limited
and has more than four
decades of experience in the
Indian Metallurgical
Industry.

During the year under review, there has been intense competition for aluminium rolled products business in India. The growth expected in infrastructure, communication, construction and consumer durable sectors has not been realised resulting in sluggish demand for rolled products. Due to frequent increase in raw material prices, there has been downgauging of several products resulting in a fall in demand. There has also been a substantial growth in supply of rolled products due to modernisation of existing mills and from imports due to reduction in import duties. The Company has not been able to achieve a good level of capacity utilisation and the margins have been very low due to heavy competition. This resulted in the Company incurring substantial losses and has created a severe strain on working capital cycle resulting in low production.

Due to the downtrend in operations and losses being incurred, your Company embarked on a financial restructuring plan during the year. The Company has approached financially sound and well experienced foreign and Indian companies in the Aluminium Industry to have a tie-up, to obtain marketing and financial support from them, for both the divisions of the Company. This will speed up the revival of the Company. The main strength of your Company has been modern equipment and technology and well-trained manpower. Your Company has progressed considerably in finalising this financial restructuring plan and hopes to implement the plan soon.

I wish to take this opportunity to thank banks, financial institutions, suppliers and customers for their sustained support in the hour of need.

I would like to thank all the shareholders for the support and cooperation they have extended to us.

Hyderabad
28th February 1998

S. Samarapungavan
S SAMARAPUNGAVAN
Chairman

**BOARD OF DIRECTORS**

S Samarapungavan
 Nrupender Rao
 P Bhaskara Rao
 Sheikh Ahmed A A Al Sabah
 Friedhelm Anhuth
 Ghulam Ghouse
 Mohammed Y Al Roomi
 S M M V Krishna Rao
 D M Chawathe
 P P Shastri
 M N Rao
 Vijay Chandra Puljal

Chairman
 Vice Chairman
 President & CEO

 Nominee of MG NE, Germany

 Alternate to Sheikh Al Sabah
 Nominee of IDBI
 Nominee of SICOM
 Nominee of UTI

COMPANY SECRETARY

S Sudhakaram

AUDITORS

M/s Rambabu & Company
 Chartered Accountants
 31, Pancom Chambers
 6-3-1090/1/A, Rajbhavan Road
 Somajiguda, Hyderabad - 500 482.

BANKERS

State Bank of India
 State Bank of Hyderabad
 State Bank of Mysore
 Vijaya Bank
 The South Indian Bank Ltd.
 Syndicate Bank
 Canara Bank
 IndusInd Bank Ltd.

REGISTERED OFFICE

1-10-63/4/1, Chikoti Gardens
 Begumpet, Hyderabad - 500 016.

WORKS

Dahali Village, Mouda Taluk
 Nagpur District,
 Maharashtra - 441 104.

REGISTRARS & SHARE TRANSFER AGENTS

Pennar Investor Services (P) Ltd.
 1-10-75/1/1-6, S P Road
 1st Floor, Saptagiri Towers
 Begumpet, Hyderabad - 500 016.



Pennar Aluminium Company Limited

NOTICE TO SHAREHOLDERS

Notice is hereby given that the Eighth Annual General Meeting of the Members of Pennar Aluminium Company Limited will be held on Friday, the 27th March 1998 at 10.00 a.m. at Hari Hara Kala Bhavan, Sardar Patel Road, Secunderabad - 500 003, to transact the following business :

ORDINARY BUSINESS

1. To receive, consider and adopt the 8th Directors' Report, Balance Sheet as at 30th September 1997, Profit & Loss Account for the period ended on that date and the report of the Auditors thereon.
2. To appoint a Director in place of Mr.M N Rao, who retires by rotation and, being eligible, offers himself for reappointment.
3. To appoint a Director in place of Mr. Vijay Chandra Puljal, who retires by rotation and, being eligible, offers himself for reappointment.
4. To consider and if thought fit to pass with or without modifications, the following as a Special Resolution.

RESOLVED that pursuant to the provisions of Section 224A of the Companies Act, 1956, M/s Rambabu & Company, Chartered Accountants, retiring Auditors of the Company, be and are hereby reappointed as Auditors of the Company to hold office from the conclusion of this annual general meeting until the conclusion of the next Annual General Meeting on such remuneration and out-of-pocket expenses as may be fixed by the Board of Directors of the Company.

SPECIAL BUSINESS

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

RESOLVED that consent of the Company be and is hereby accorded to the Board of Directors in terms of Section 293(1)(a) and other applicable provisions, if any, of the

Companies Act, 1956 to mortgage and/or charge by way of second charge all the immovable and movable properties of the Company wheresoever situate, present and future, in favour of the following, namely:

- (1) State Bank of India (SBI),
- (2) State Bank of Hyderabad (SBH),
- (3) State Bank of Mysore (SBM),
- (4) The South Indian Bank Ltd. (SIB),
- (5) Syndicate Bank (SB),
- (6) Vijaya Bank (VB),
- (7) Canara Bank (CB), and
- (8) IndusInd Bank Ltd. (IB)

(hereinafter referred to as "the said Banks") to secure :

- (1) enhanced working capital facilities of Rs.1332.00 lakhs (enhanced from Rs.2576.00 lakhs to Rs.3908.00 lakhs) sanctioned by SBI to the Company;
- (2) enhanced working capital facilities of Rs.58.00 lakhs (enhanced from Rs.644.00 lakhs to Rs.702.00 lakhs) sanctioned by SBH to the Company;
- (3) enhanced working capital facilities of Rs.179.00 lakhs (enhanced from Rs.798.00 lakhs to Rs.977.00 lakhs) sanctioned by SBM to the Company;
- (4) enhanced working capital facilities of Rs.333.00 lakhs (enhanced from Rs.644.00 lakhs to Rs.977.00 lakhs) sanctioned by SIB to the Company;
- (5) enhanced working capital facilities of Rs.486.00 lakhs (enhanced from Rs.491.00 lakhs to Rs.977.00 lakhs) sanctioned by SB to the Company;
- (6) enhanced working capital facilities of Rs.333.00 lakhs (enhanced from Rs.644.00 lakhs to Rs.977.00 lakhs) sanctioned by VB to the Company;
- (7) enhanced working capital facilities of Rs.333.00 lakhs (enhanced from Rs.644.00 lakhs to Rs.977.00 lakhs)

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sanctioned by CB to the Company; and
(8) working capital facilities of Rs.275.00 lakhs sanctioned by IB to the Company,

together with interest thereon at the respective agreed rates, compound interest, additional interest, liquidated damages, costs, charges, expenses and other moneys payable by the Company to the said Banks under the Working Capital Loan Agreements/ Letters of Sanction/ Memorandum of Terms and Conditions entered into/ to be entered into by the Company in respect of the said working capital facilities.

RESOLVED FURTHER that the Board of Directors of the Company be and is hereby authorised to finalise with the said Banks the documents for creating aforesaid charge, to execute all such documents where necessary under the Common Seal of the Company and to do all such acts and things as may be necessary for giving effect to the above resolution.

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

RESOLVED that consent of the Company be and is hereby accorded to the Board of Directors in terms of Section 293(1)(a) and other applicable provisions, if any, of the Companies Act, 1956 to mortgage and/or charge by way of third charge, subject to the approval of the Company's Bankers, Financial Institutions, Debenture Trustees and/or such other approvals as may be required, all the immovable and movable properties of the Company wheresoever situate, present and

future, in favour of M/s National Aluminium Company Limited (Nalco), a Government of India Enterprise, Bhubaneswar, to secure the amount of Rs.34.02 crores together with interest thereon due from the expiry of the respective credit period which had been allowed by Nalco to the Company for primary aluminium metal supplied by Nalco to the Company.

RESOLVED FURTHER that the Board of Directors of the Company be and is hereby authorised to finalise with the said Nalco the documents for creating aforesaid charge, to execute all such documents where necessary under the Common Seal of the Company and to do all such acts and things as may be necessary for giving effect to the above resolution.

By Order of the Board
S Sudhakaram
Company Secretary

Hyderabad
23rd February 1998

NOTES

1. A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and, in the event of a poll, to vote on his behalf. A proxy need not be a member of the Company. Proxies in order to be effective must be received by the Company not later than 48 hours before the time of the meeting.
2. The Register of Members and the Share Transfer Books of the Company will remain closed for nine days from Thursday, the 19th March 1998 to Friday, the 27th March 1998 (both days inclusive).
3. An Explanatory Statement pursuant to Section 173(2) of the Companies Act, 1956, in respect of the Special Business, is annexed hereto.



Pennar Aluminium Company Limited

EXPLANATORY STATEMENT

Pursuant to Section 173(2) of the Companies Act, 1956

Item No.5

The working capital facilities sanctioned to the Company have been enhanced by the Banks during 1996 from Rs.6441.00 lakhs to Rs.9770.00 lakhs, i.e. by the addition thereto of Rs.3329.00 lakhs. These facilities are secured by first charge on current assets and second charge on fixed assets of the Company. The resolution under Item No.5 of the Notice seeks the approval of the shareholders for creating second charge on immovable and movable properties of the Company in favour of Banks to secure the enhanced working capital facilities.

The mortgage and/or charge by the Company of its immovable and movable properties in favour of the Banks, may be regarded as disposal of the Company's undertaking(s) within the meaning of Section 293(1)(a) of the Companies Act, 1956. Hence, it is necessary for the members to pass a resolution under the said Section.

The Directors commend the resolution for approval of the shareholders.

None of the Directors of the Company is in any way concerned or interested in the aforesaid resolution.

Item No.6

An amount of Rs. 34.02 crores was due as of 30th September, 1997 to National Aluminium Company Limited (Nalco), a Government of India Enterprise, Bhubaneswar, on account of primary aluminium metal supplied by Nalco to the Company on credit. The amount aforesaid is exclusive of interest on outstandings beyond the credit period allowed by Nalco. As the Company is presently not in a position to pay off the outstandings, Nalco has asked the Company to create in favour of Nalco security by way of

mortgage/ hypothecation of the Company's immovable and movable properties.

The Company's immovable assets are already mortgaged by way of first charge in favour of the term lending financial institutions, banks and debenture trustees, with second charge in favour of the banks which have extended working capital facilities. Further the movable assets such as stocks, raw material, work-in-process, finished goods, stores and book debts are hypothecated by way of first charge in favour of the banks which have extended working capital facilities, with second charge in favour of term lending financial institutions and banks and debenture trustees.

The resolution under Item No.6 of the Notice seeks the approval of the shareholders for creating third charge on immovable and movable properties of the Company in favour of Nalco to secure the amount due to them. The said third charge in favour of Nalco will be created after obtaining the approvals from the existing shareholders, viz. Financial Institutions, Banks and Debenture Trustees, and other concerned to the extent such approvals may be necessary.

The mortgage and/or charge by the Company of its immovable and movable properties in favour of Nalco, may be regarded as disposal of the Company's undertaking(s) within the meaning of Section 293(1)(a) of the Companies Act, 1956. Hence, it is necessary for the members to pass a resolution under the said Section.

The Directors commend the resolution for approval of the shareholders.

None of the Directors of the Company is in any way concerned or interested in the aforesaid resolution.

Hyderabad
23rd February 1998

By Order of the Board
S Sudhakaram
Company Secretary



DIRECTORS' REPORT

To
The Members

Your Directors present the Eighth Annual Report together with the Audited Accounts and Cash Flow Statement for the period ended 30th September, 1997.

FINANCIAL RESULTS

During the year under review, your Company has gone into financial difficulties and incurred heavy losses. There has been a significant reduction in the demand for aluminium rolled products due to unfavourable economic conditions and recession in the country in the white goods and construction industry. The projections made for the growth in demand for aluminium rolled products at the time of setting up of your Company's project have not been realised due to recession. The frequent fluctuations in metal price in the domestic market has also affected the demand growth. The reduction in import duty on rolled products from 105% three years back to 20% this year has also created unfavourable conditions of competing with imports of rolled products. During the year under review, your Company has manufactured and marketed 19,117 MT of rolled products and 6,312 MT of conductors, thus achieving a capacity utilisation of only 42% and 41% respectively.

During the period under review, the Company achieved net sales of Rs.200.64 crores. Higher interest cost of Rs.55.13 crores and depreciation provision of Rs.9.47 crores resulted in a net loss of Rs.88.89 crores to the Company before prior period expenses of Rs.7.70 crores.

Since the Company's losses as at the end of the financial year under review exceed its net worth, the Company would be treated as a "sick industrial company" under the provisions of Sick Industrial Companies (Special Provisions) Act, 1985 (SICA). As the Audited Accounts are now available, your Directors will be making a reference to the Board for Industrial & Financial Reconstruction under the proviso to sub-section (1) of Section 15 of SICA.

EXPORTS

The Company's exports during the year under review increased to Rs.50.08 crores from Rs.9.70 crores in the previous year. Your Company won the Regional Export Award announced by the Engineering Export Council on 23rd July 1997 for outstanding export performance for the year 1995-96.

FINANCIAL YEAR

The year under review was extended by six months upto 30th September 1997 with the approval of the Registrar of Companies, Andhra Pradesh.

FINANCIAL RESTRUCTURING

To tide over the financial problems of the Company, your Directors envisage a financial restructuring plan under which technical and financial collaborators in the field of aluminium products would bring in adequate funds and technology for the Company's operations. This would help to develop alternative export markets, procure raw material at competitive prices, upgrade technology and reduce manufacturing costs.

Discussions are being held with certain multinational and Indian companies in the relevant field to identify suitable technical and financial collaborators for the Company who would be able to bring in both finance and technology for revival of the Company. It appears that two separate collaborators may be required for the two divisions of the Company. The financial restructuring may involve hiving off of the assets of the Conductor Division as a separate company and inviting a collaborator for the same while the strip division will have another collaborator. The process of selection of leading manufacturers in the relevant field as collaborators for completion of the financial restructuring exercise is in progress. After the completion of the financial restructuring exercise, the Company is expected to perform better.

DIRECTORS

Mr M N Rao and Mr Vijay Chandra Puljal retire by rotation at the ensuing Annual General Meeting



Pennar Aluminium Company Limited

and being eligible offer themselves for reappointment.

Industrial Development Bank of India has withdrawn the nomination of Mr.A.K.Basu as Director with effect from 10th December 1996 and Mr.S.M.M.V.Krishna Rao has been nominated on the Board with effect from that date.

Mr.P.D.Karandikar resigned from the Board with effect from 7th June, 1997 consequent upon his appointment as Secretary of Rural Development, Government of Maharashtra. Mr.D.M.Chawathe has been nominated by SICOM Ltd. on the Board with effect from 1st July, 1997.

Your Directors place on record their appreciation of the services rendered by Mr.A.K.Basu and Mr.P.D.Karandikar during their tenure as Directors of the Company.

AUDITORS

M/s.Rambabu & Co., Chartered Accountants, Hyderabad, the Auditors of the Company, retire at the conclusion of the ensuing Annual General Meeting and being eligible offer themselves for reappointment.

The qualifications made by the Auditors in their Report on the Accounts for the period ended 30th September, 1997 have been dealt with in the Notes to the Accounts (Schedule XVI). Steps are being taken to strengthen and streamline the existing internal controls, systems and procedures.

PERSONNEL

Employee relations remained cordial during the year. Your Directors place on record their appreciation to the dedicated work put in by the employees.

As required under Section 217(2A) of the Companies Act, 1956, the particulars of employees drawing an aggregate remuneration of Rs.3,00,000 or above per annum, are set out in the Annexure to this 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 shareholders of the Company excluding the aforesaid information. Any shareholder interested in obtaining such particulars may write to the Company Secretary at the Registered Office of the Company.

CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION AND FOREIGN EXCHANGE EARNINGS AND OUTGO

In accordance with the provisions of Section 217(1)(e) of the Companies Act, 1956, the required information relating to Conservation of Energy, Technology Absorption and Foreign Exchange Earnings and Outgo is given in the Annexure forming part of this Report.

ACKNOWLEDGEMENTS

Your Directors place on record their appreciation of the guidance and assistance received from Financial Institutions and Banks.

Your Directors express their gratitude to the shareholders and debentureholders for the confidence reposed in the Company.

For and on behalf of the Board

Nrupender Rao
Vice Chairman

P Bhaskara Rao
Wholetime Director

Hyderabad
23rd February 1998