



**Pennar Aluminium
Company Limited**

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15th Annual Report 2004



Pennar Aluminium Company Limited

BOARD OF DIRECTORS

Nrupender Rao

Chairman

P P Shastri

Nominee of UTI

P Bhaskara Rao

Whole-time Director

Vijay Chandra Puljal

Director (w.e.f. 20.01.2005)

V P - FINANCE & COMPANY SECRETARY

R Ravi

AUDITORS

M/s Rambabu & Company
Chartered Accountants
31, Pancom Chambers,
6-3-1090/1A, Rajbhavan Road,
Somajiguda, Hyderabad - 500 082.

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BANKERS

State Bank of India

State Bank of Hyderabad

Vijaya Bank

REGISTERED OFFICE

Plot No.56, Sancharpuri Colony, Phase-II
New Bowenpally, Secunderabad - 500 011.

WORKS

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



NOTICE TO SHAREHOLDERS

Notice is hereby given that the 15th Annual General Meeting of the Company will be held on 22nd September, 2005 at 11.00 A.M. at Kamat Lingapur Hotel, 1-10-44/2, Chikoti Gardens, Begumpet, Hyderabad - 500 016 to transact the following business:

Ordinary Business

1. To receive, consider and adopt the 15th Directors' Report, Balance Sheet as at 31st December, 2004, Profit & Loss Account for the year ended on that date and the report of the Auditors thereon.
2. To appoint a Director in place of Mr. Nrupender Rao, who retires by rotation and offers himself for reappointment.
3. To appoint Auditors to hold office from the conclusion of this Annual General Meeting until the conclusion of the next Annual General Meeting and to fix their remuneration.

Special Business

4. To appoint Mr. Vijay Chandra Puljal (who was appointed as an Additional Director on 20th January, 2005 holds the office up to the date of the forthcoming Annual General Meeting of the Company under Section 260 of the Companies Act, 1956. The Company has received a notice in writing along with a deposit of Rs.500/- under Section 257 of the said act, from a Member signifying his intention to propose Mr. Vijay Chandra Puljal as a candidate for the office of Director) as a Director of the Company and to consider and, if thought fit, to pass the following resolution as an ordinary resolution.

"RESOLVED THAT pursuant to the Provisions of Section 257 and all other applicable provisions, if any, of the Companies Act, 1956, Mr. Vijay Chandra Puljal be and is hereby appointed as a Director of the Company liable to retire by rotation".

5. **Amendment to Memorandum of Association of the Company**

The present authorized share capital of the Company stood at Rs.120,00,00,000 (Rupees One Hundred and Twenty Crores only) divided into 9,00,00,000 equity shares of Rs.10/- each and 30,00,000 preference shares of Rs.100/- each. The Asset Reconstruction Company (India) Limited (ARCIL) wishes to convert part of the loans into equity subject to various approvals that may

be required. In view of this it is necessary to increase the equity shares. Consequentially the preference shares are proposed to be deleted.

The related clause in the Memorandum and Articles of Association are required to be amended and altered to facilitate to increase in equity shares and reduction of preference shares. The following resolutions are proposed to be passed as an ordinary resolution

"RESOLVED THAT subject to approvals, if and to the extent necessary, the Memorandum of Association of the Company be altered by deleting the existing Clause V and substituting the same by the following Clause V".

"The Authorized Capital of the Company is Rs.120,00,00,000 (Rupees One Hundred and Twenty Crores Only) divided into 12,00,00,000 equity shares of Rs.10/- each, with power to increase, reduce or modify the said capital from time to time in accordance with the regulations of the Company and the provisions of the Companies Act, 1956".

6. **Amendment to Articles of Association of the Company**

To consider, and if thought fit, to pass, with or without modification the following resolution as a special resolution.

"RESOLVED THAT pursuant to the provisions of Section 31 and other applicable provisions, if any, of the Companies Act, 1956, the existing articles of association is hereby amended as under

- (i) Substitution of existing Clause 3 with the following clause: The Authorized Capital of the Company is Rs.120,00,00,000 (Rupees One Hundred and Twenty Crores only) divided into 12,00,00,000 equity shares of Rs.10/- each, with power to increase, reduce or sub-divide the share in accordance with the provisions of the act.
 - (ii) Deletion of Clause 4".
7. 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 163 of the Companies Act, 1956, approval be and is hereby accorded to keep the Register of Members together with index of



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members, and copies of all Returns prepared under Section 159 of the Companies Act, 1956 as also copies of the certificates and documents required to be annexed thereto under Section 161 of the said Act at the office of M/s. Dakshin Consultants (P) Limited, 6-3-655/2/4, Civil Supplies Bhavan Lane, Somajiguda, Hyderabad- 500 082, who are appointed as the Company's Share Registrar & Transfer Agent to handle both physical share work and the electronic connectivity work".

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 from 15.09.2005 to 22.09.2005 (both days inclusive).
3. An explanatory statement pursuant to Section 173(2) of the Companies Act, 1956 in respect of the business under item Nos.4 to 7 above are annexed hereto.

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.

By Order of the Board

Secunderabad

R Ravi

19th August, 2005 VP (Fin) & Company Secretary.

Explanatory Statement

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

1. Item No.4

Mr. Vijay Chandra Puljal was appointed as an Additional Director on the Board. Pursuant to the provisions of Section 260 of the Companies Act, 1956, he holds office upto the date of the Annual General Meeting. Notice under Section 257 of the Companies Act, 1956 has been received from Member(s) in respect of appointment of aforesaid persons as Director of the company liable to retire by rotation.

Your Directors consider that the experience and Qualifications of Mr. Vijay Chandra Puljal would benefit the Company and recommend the Resolution for your approval.

Mr. Vijay Chandra Puljal may be deemed concerned or interested in the resolution relating to his appointment. Except the above, no other Director of the company is, in any way, concerned or interested in the said resolution.

2. Item Nos. 5 & 6

The Asset Reconstruction Company (India) Limited (ARCIL) under diverse assignment agreements acquired during the period March, 2004 to till December, 2004 from ICICI Bank Ltd., Industrial

Development Bank of India Ltd., State Bank of India, State Bank of Mysore, State Bank of Hyderabad, Syndicate Bank, Canara Bank, IndusInd Bank and The South Indian Bank Ltd., the loans / facilities granted by them to the Company together with other amounts due thereon and together with the security interest underlying each of the loans / facilities.

ARCIL further acquired the loans / facilities granted by IFCI Ltd., on April 20, 2005, whereby ARCIL holds around 83% of the total secured debt of the Company.

ARCIL proposes to initiate various steps aimed at realization of the dues of the lenders and to ensure that the financial liabilities are met within a reasonable time. Towards that ARCIL requires that amendments be made in the Memorandum and Articles of Association of the Company pertaining to the authorized share capital. The present authorized share capital of the Company is Rs.120,00,00,000 (Rupees One Hundred and Twenty Crores only) divided into 9,00,00,000 equity shares of Rs.10/- each and 30,00,000 preference shares of Rs.100/- each. ARCIL has proposed that the authorized share capital of the Company be revised to consist of only

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12,00,00,000 equity shares of Rs.10/- each and the reference regarding 30,00,000 preference shares of Rs.100/- each be deleted.

Approval of the members is accordingly sought by way of Ordinary Resolution for amendment to the Memorandum of Association and by way of special resolution for amendment to the Articles of Association.

A Copy of Memorandum and Articles of Association of the Company shall remain open for inspection by Members at the Registered Office of the Company between the hours of 11.00 A M and 1.00 P M on any working day of the Company up to the date of the ensuing Annual General Meeting.

Your Directors commend the Resolutions at Item No. 5 & 6 for the approval of the Members.

None of the Directors are interested in the resolutions.

3. Item No.7

Under Section 163 of the Companies Act, 1956, documents such as Register of Members and Index of Members which are normally required to be kept at the Registered Office of the Company may be kept at any other place, if such other place has been approved by a Special Resolution passed by the Company in General Meeting. The documents covered by the said Section 163 are presently kept at

M/s. CIL Securities Limited, 214, Raghava Ratna Towers, Chirag Ali Lane, Hyderabad – 500 001.

The Company has appointed M/s. Dakshin Consultants (P) Limited, 6-3-655/2/4, Civil Supplies Bhavan Lane, Somajiguda, Hyderabad - 500 082 as the Company's new Share Registrar & Transfer Agent to handle both physical share work and the electronic connectivity work with effect from 1st September, 2005 in the place of M/s. CIL Securities Limited.

In view of this, approval of the members is sought in terms of Section 163 of Companies Act, 1956, to keep the Register of Members, Index of Shareholders and other returns, books, certificates and documents pertaining thereto at the Office of the said M/s. Dakshin Consultants (P) Limited, 6-3-655/2/4, Civil Supplies Bhavan Lane, Somajiguda, Hyderabad - 500 082 with effect from 1st September, 2005.

None of the Directors are interested in the resolutions.

By Order of the Board

Secunderabad
19th August, 2005

P. Bhaskara Rao
Director

Details of the Directors proposed to be appointed/re-appointed in Annual General Meeting to be held on 22nd September, 2005.

A.	Name of Director	:	Mr. Nrupender Rao
	Date of Birth	:	26-06-1945
	Date of Appointment	:	01-09-1989
	Qualification	:	B.Tech., (IIT), M.S. (Purdue)
	Expertise in specific functional areas	:	Promoter - Significant experience as industrialist and overall business management.
	List of other companies in which directorships held	:	Pennar Industries Limited Pennar Chemicals Limited Pennar Profiles Limited O & S Ratna Aluminium Fabricators Pvt. Ltd. O & S Metallimport Holdings Pvt. Ltd.
	Chairman / Member of the Committees of Directors of Companies in which he is a Director.	:	Pennar Profiles Limited Pennar Industries Limited Pennar Chemicals Limited



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B.	Name of Director	:	Mr. Vijay Chandra Puljal
	Date of Birth	:	01.03.1951
	Date of Appointment	:	20.01.2005
	Qualification	:	Post Graduate in Agricultural Science
	Expertise in specific functional areas	:	Promoter - Significant experience as industrialist and overall business management.
	List of other companies in which directorships held	:	Pennar Industries Limited
	Chairman / Member of the Committees of Directors of Companies in which he is a Director.	:	NIL

DIRECTORS' REPORT

To
The Members

Your Directors present the Fifteenth Annual Report together with the Audited Accounts and Cash Flow Statement for the financial year ended 31st December, 2004.

FINANCIAL RESULTS

During the year under review, your Company incurred losses due to continued financial difficulties. Your Company could not procure raw materials to run the Plant as the banks have suspended all credit facilities to your Company. Your Company carried on its operations mainly on a job work basis, manufacturing 13704 MT (previous year 12482 MT) of rolled products, a capacity utilisation of only 46%. Out of this, a very small quantity of 249 MT (Previous year: 17 MT) is direct sales and balance was produced on job work basis. The income on job work, sales and other income, for the year under review were Rs.1970 lakhs (previous year: Rs.1485 Lakhs). The Company has incurred a net loss of Rs.3175 Lakhs (previous year: Rs.3114 Lakhs), which is carried forward to the Balance Sheet.

The operations of your Company's Conductor Plant continued to be shut down for lack of working capital.

AUDITORS QUALIFICATIONS

The qualifications made by the auditors in their report regarding the accounts for the year ended 31st December, 2004 have been dealt with in the Notes to Accounts (Schedule 16) and are self-explanatory.

REHABILITATION

The Secured Lenders of the Company viz., ICICI, IDBI, IFCI, State Bank of India, State Bank of Mysore, State Bank of Hyderabad, Syndicate Bank, IndusInd Bank & The South Indian Bank Limited have assigned their rights, title and interest in respect of financial assets granted to your Company to Asset Reconstruction Company (India) Limited (ARCIL). In respect of such financial assets, Notice under Section 13(2) of Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 was given by ARCIL on October 8, 2004 asking the Company to make payment of the outstanding principal with interest accrued thereon. As your Company was unable to repay the loan with interest thereon ARCIL took possession of a part of the Company's immovable property on 10.03.2005 by invoking Section 13(4) of SARFAESI Act and abated BIFR.

DIRECTORS

Mr. G.V. Ranganadham, Nominee Director of IDBI and Mr. A.B. Telang, Nominee Director of BIFR ceased to be Directors of the Company w.e.f. 18th May, 2004 & 6th August, 2005 respectively. Your Directors take this opportunity to thank Mr. G.V. Ranganadham and Mr. A.B. Telang for their valuable guidance to the Company during their tenure as Directors.

Mr. Nrupender Rao retires by rotation and offers himself for reappointment as Director of the Company.

Mr. Vijay Chandra Puljal, who was appointed as an Additional Director of the Company with effect from 20th January, 2005 holds office up to the date of the ensuing Annual General Meeting and the company has received a notice from a Member under Section 257 of the Companies Act, 1956 proposing his appointment as a Director of the Company.



DIRECTORS' RESPONSIBILITY STATEMENT

In terms of Section 217(2AA) of the Companies Act, 1956, the Directors would like to state that:

- i) in the preparation of the annual accounts, the applicable accounting standards have been followed along with proper explanation relating to material departures;
- ii) they have selected such accounting policies and applied them consistently and made judgments and estimates that were 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 or loss of the Company for the year under review;
- iii) they have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
- iv) they have prepared the annual accounts on a going concern basis.

COST AUDIT

Mr. A.V.N.S. Nageswara Rao, Cost Accountant, Hyderabad was appointed as the Cost Auditor of the Company for the financial year ended 31st December, 2003 with the approval of the Central Government. The Cost Audit Report for the year 2003 was submitted to the Central Government on 5th August, 2004.

INTERNAL AUDIT

M/s.G.S.Murthy & Associates, Chartered Accountants, Hyderabad, have been working as Internal Auditor of the Company and are submitting reports to the Company on a quarterly basis.

Management Discussion and Analysis Report

(a) Industry structure and development

The aluminium rolled product industry continues to be dominated by the primary manufacturers. The demand for rolled products is increasing and the same is met by primary producers who have strong backing of primary metal. This enables them to price the products at a rate which does not leave much margin to the secondary producers. The relentless upward trend in the aluminium raw material prices both in international and domestic markets coupled with steep increase in fuel cost have led to an average performance by the secondary sector during the current year.

Despite the long existence of World class major

players in the primary Sector Indigenous technological innovation on a major scale is yet to take place in our country. The primary producers do not have much incentive to develop the market for aluminium rolled products as they earn a high margin in primary products.

(b) Opportunities & threats

In view of the financial difficulties encountered by your company due to non-availability of working capital, your company has been unable to procure raw material on its own and continue to rely upon the production of rolled products on conversion basis. As the installed capacity of your company is utilised to the extent of 46% only, your company is able to barely meet its operating expenses.

(c) Segment wise or Product wise performance

The company undertakes manufacture of rolled products on conversion basis. The Conductor Division of the company remains closed since 1998.

(d) Outlook

ARCIL has given a notice to the Company under Section 13(2) of Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act and took over a part of the immovable properties of the Company invoking Section 13(4) of SARFAESI Act on 10th March, 2005 thereby abating provisions of SICA. The future course of action by ARCIL will determine the future of the Company. ARCIL is presently on the process of evaluating various options it has for rehabilitation / restructuring of the Company / its assets.

(e) Risks and concerns

Infusion of funds for meeting the working capital requirements and towards procurement of finishing line equipments to utilise the capacity of the rolling mill to the full extent is required for survival of the company.

(f) Internal Control systems and their adequacy

Though the Company is conducting its business on a job work basis, the Company has installed adequate internal controls in all areas of production and engineering operations. The Company has adequate internal audit and external audit procedures. The Audit Committee and Board Meetings are held on a regular basis. All cost elements in production operations are reviewed periodically and necessary controls are exercised.

(g) Discussion on financial performance with respect to operational performance



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As explained above, the Company, due to lack of working capital, is dependent only on job work. The Company is unable to utilise its full installed capacity due to lack of adequate working capital. The Company despite operating at about 46% capacity utilisation has been able to remain in operation since 1998 after the Company was declared a 'sick' company and the working capital facilities to the company were withdrawn by banks.

(h) MATERIAL DEVELOPMENTS IN HUMAN RESOURCES / INDUSTRIAL RELATIONS FRONT, INCLUDING NUMBER OF PEOPLE EMPLOYED.

The main strength of Company is its excellent manufacturing facilities and its human resources. The Company has maintained its plant in excellent condition and has been able to retain all key personnel who have been trained abroad. The Company employs about 350 people including senior management staff and workers. Company has entered into a wage revision agreement with the workers during September, 2003 valid for three years.

CORPORATE GOVERNANCE

A brief report on Compliance with Corporate Governance and the Auditor's Certificate thereon are attached to this report.

AUDIT COMMITTEE

The Audit Committee of the Company is reviewing various areas of audit and accounts. The Committee comprises Dr. P.P. Shastri (Chairman), Mr. Vijay Chandra Puljal and Mr. P. Bhaskara Rao

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.

LISTING OF SECURITIES

Your Company's securities are listed on two Stock Exchanges, viz., (1) The Hyderabad Stock Exchange Limited, Hyderabad and (2) The Stock Exchange, Mumbai (BSE). Your Company has paid the annual listing fee for 2004-05 to BSE, Mumbai.

PERSONNEL

Your Directors place on record their appreciation for the dedicated work put in by the employees.

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 annexed.

ACKNOWLEDGEMENTS

Your Directors place on record their appreciation of the guidance and assistance received from BIFR, Financial Institutions, Banks, Auditors and the Registrar and Share Transfer Agents.

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

Your Directors acknowledge the dedicated work done by the employees at various levels.

For and on behalf of the Board

Secunderabad
19th August, 2005.

Nrupender Rao
Chairman

ANNEXURE TO THE DIRECTORS' REPORT

Conservation of Energy, Technology Absorption and Foreign Exchange Earnings and Outgo.

The Companies (Disclosure of Particulars in the Report of Directors) Rules, 1988.

A. Conservation of Energy

a) Energy Conservation measures taken :

Since the Company has not been running its plant

continuously due to financial crisis, fresh studies have not been conducted.

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

c) Impact of the measures at (a) and (b) above for reduction of energy consumption and consequent impact on the cost of production of goods: NOT APPLICABLE.

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FORM - 'A'

(A) Power and Fuel Consumption

	2004	2003
1. Electricity		
a) Purchased Units	12183640	10893300
Total Amount	468.33	413.71
(Rs.in Lakhs)		
Avg. Cost / KWH (Rs.)	3.84	3.80
b) Own Generation	NIL	NIL
2. Coal	NIL	NIL
3. Furnace Oil		
(incl. of LDO & LSHS)		
Qty. (K.Ltr.)	2076.881	1832.77
Total Amount		
(Rs.in Lakhs)	271.10	206.12
Avg. Cost/K.Ltr. (Rs.)	13053	11246
4. Others/Internal Generation	NIL	NIL

(B) Consumption per unit of Production

Products	2004	2003
Aluminium Conductors		
Electricity (KWH/Tonne)	N.A.	N.A.
Aluminium Strips		
Electricity (KWH/Tonne)	889	873
Furnace Oil (Ltrs./Tonne)	131	130

FORM - 'B'

B. Technology Absorption
Research and Development (R&D)

1. Specific areas in which R&D carried out by the Company	:	NIL
2. Benefits derived as a result of the above R & D	:	NIL
3. Future plan of action	:	NIL
4. Expenditure on R&D	:	NIL

Technology absorption, adaptation and innovation

The Company has absorbed the technology given by Pechiney Rhenalu of France fully and the Company is in a position to produce its products matching international quality.

C. Foreign Exchange Earnings and Outgo

- a) Activities relating to exports; initiatives taken to increase exports; development of new products and services; and export plans:

During the year under review, the Company exported 3897 MT of rolled products i.e., towards job work.

- b) The foreign exchange used and earned:

Rs. in Lakhs.

	2004	2003
Used	289	72
Earned	NIL	NIL

CORPORATE GOVERNANCE

We at Pennar Aluminium Company Limited are committed to the concept and philosophy of corporate governance as a means of effective internal control, fair and transparent decision making process and fullest support of the Board and Management for enhancing customer satisfaction and shareholder value.

Given below is a brief report on the practices followed at Pennar Aluminium Company Limited towards achievement of good Corporate Governance.

Composition of Board

The Board comprises five Directors. The non-executive directors bring with them rich and varied experience in different facets of corporate functioning. The Chairman of the Board is a non-executive director. The Board formulates policy decisions so as to lead and control the Company.

Board Meetings

The attendance at various meetings of the Board of Directors and the Annual General Meeting during the year 2004 is as follows :