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**Punjab Alkalies & Chemicals Limited**  
29TH ANNUAL REPORT 2003-04

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## Punjab Alkalies & Chemicals Limited

### BOARD OF DIRECTORS

Shri S.C. Agrawal, IAS, Chairman  
 Shri Viswajeet Khanna, IAS  
 Shri S.K. Sandhu, IAS  
 Shri Sanjay Kumar, IAS  
 Shri S.K. Sharma  
 Shri J.S. Saraon  
 Shri D.C. Mehandru  
 Shri T. Chakravorty (IDBI Nominee)  
 Dr. Dharmendra Bhandari (IFCI Nominee)  
 Shri Jagpal Singh, IAS, Managing Director

### COMPANY SECRETARY

Shri Pradeep Nauharia

### BANKERS

Punjab National Bank  
 Punjab & Sind Bank

### AUDITORS

M/s. S. Tandon & Associates,  
 Chartered Accountants,  
 S.C.O. 201-203, 3rd Floor, Sector 34-B,  
 Chandigarh - 160 022

M/s. A.K. Sood & Associates,  
 Chartered Accountants,  
 S.C.O. 50-51, IInd Floor, Sector 17-A,  
 Chandigarh - 160 017

### INTERNAL AUDITORS

M/s. Ashwani & Associates,  
 Chartered Accountants,  
 19-A, Udham Singh Nagar,  
 Civil Lines,  
 Ludhiana-141 001

### REGISTERED OFFICE

S.C.O. 125-127, Sector 17-B,  
 Chandigarh-160 017

### WORKS

Nangal-Una Road,  
 Naya Nangal-140 126  
 Distt. Ropar, Punjab



## DIRECTORS' REPORT

Your Directors submit their 29<sup>th</sup> Annual Report together with the Audited Accounts for the financial year ended 31<sup>st</sup> March, 2004. The Company has decided to bring its 'Accounting Year' in line with the 'Previous Year' under the Income Tax Act, 1961 and to implement the same, it has closed its accounts for the nine months period ended 31<sup>st</sup> March, 2004.

### Financial Results

Your Directors report with satisfaction that the operations of the Company during the financial year 2003-04 (9 months period ended 31<sup>st</sup> March, 2004) show a significant improvement over its operations in the preceding financial year 2002-03 (15 months period ended 30<sup>th</sup> June, 2003) as would be evident from the following analysis of financial results :

	(Rs. in crores)	
	<b>2003-04</b>	<b>2002-03</b>
	<b>(9 months)</b>	<b>(15 months)</b>
Sales Turnover & Other Income	<b>138.86</b>	209.70
Total Expenditure excluding	<b>115.92</b>	196.55
Finance Charges and Depreciation		
Profit before Finance Charges	<b>22.94</b>	13.15
and Depreciation		
Finance Charges	<b>9.47</b>	25.93
Cash Profit / (Loss)	<b>13.47</b>	(12.78)
Depreciation, etc.	<b>9.11</b>	14.84
Net Profit / (Loss)	<b>4.36</b>	(27.62)

Members would be glad to learn that as a result of improvement in the combined average realisation from Rs.21,800 per Electro-Chemical Unit (ECU) in the financial year 2002-03 to Rs.23,500 per ECU in the financial year 2003-04, coupled with reduction in Finance Charges due to restructuring of Company's debt liabilities and cost reduction in other areas, the Company earned a Net Profit of Rs.4.36 crores in the financial year 2003-04 as against a Net Loss of Rs. 27.62 crores in the preceding financial year. The Cash Profit in this period stood at Rs.13.47 crores as against a Cash Loss of Rs.12.78 crores in the last financial year. The Company's Turnover during the financial year under review at Rs.138.86 crores was higher than the Turnover of Rs.129.31 crores in the corresponding period of the previous financial year.

However, in view of the accumulated losses of the Company, your Directors regret their inability to recommend any dividend for the financial year 2003-04.

The Company had become a Sick Industrial Company within the meaning of Section 3(1)(o) of the Sick Industrial Companies (Special Provisions) Act, 1985 (SICA) and a reference has been made to the Board for Industrial and Financial Reconstruction (BIFR) under Section 15(1) of the SICA. The Company's reference has been registered by BIFR.

### Finance

The Company's efforts for restructuring its debt liabilities continued during the year. The Corporate Debt Restructuring (CDR) Empowered Group of CDR Cell has sanctioned a Revised Restructuring Package for the Company under which the debt liabilities of the Company have been further restructured, resulting in considerable reduction in rate of interest and reschedulement of repayment of debts. The Company has filed an Appeal before the CDR Core Group against the decision of CDR Empowered Group regarding some of the conditions stipulated in the said Revised Restructuring Package. The said Appeal is pending.

During the financial year under review, the Company did not raise funds by way of fixed deposits.

### Current Operations and Outlook

The operations of the Company in the first quarter ended 30<sup>th</sup> June, 2004 of the financial year 2004-05 continued in tandem with the pace in financial year 2003-04. The combined average realisation of Rs. 23,600 per ECU in this period is marginally higher than the average realisation during the financial year 2003-04. The operations of the Company in this period generated a revenue of Rs.44.14 crores with a Cash Profit of Rs.2.85 crores against a revenue of Rs.41.47 crores and a Cash Loss of Rs.0.31 crore in the corresponding period in the preceding financial year. However, the Company incurred a marginal Net Loss of Rs.0.22 crore in this period as against a Net Loss of Rs.3.28 crores during the corresponding period in the last year. The Directors are hopeful of a discernible improvement in the performance of the Company in the financial year 2004-05.

The Company is continuing its endeavour to reduce its costs. The major input cost i.e. Power cost, constitutes about 60% of the total production cost. The Company's Petition for allowing the Company to import power from other cheaper sources outside the State of Punjab in terms of the Government of Punjab's new Industrial Policy-2003 and the Electricity Act, 2003 is pending before the Punjab State Electricity Regulatory Commission (PSERC). Your Directors are optimistic that the import of power from cheaper alternate sources after the grant of PSERC's permission, will lead to considerable savings for the company.

### Environment and Energy Conservation

The Company is fully committed to run its operations in an environment-friendly manner and has been taking adequate pollution control measures. The Company is in the process of implementing an Environmental Management System conforming to ISO 14001:1996 Standard. The Company continues to accord high priority to safety in its Plants. An environmental audit and a Safety audit of the Plants were got conducted.

The Company continues to direct its attention on conservation of energy. The information required under the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988, is given in Annexure-I forming a part of this report.

### Listing

The Equity Shares of the Company were earlier listed on The Stock Exchange, Mumbai (BSE), The Stock Exchange, Ahmedabad (ASE), The Delhi Stock Exchange Association Limited (DSE) and The Ludhiana Stock Exchange Association Limited (LSE). In response to the Company's Applications for getting the Voluntary Delisting of its Equity Shares under the provisions of the Securities and Exchange Board of India (Delisting of Securities) Guidelines-2003, the ASE, DSE and LSE have approved the Delisting of the Equity Shares of the Company from ASE, DSE and LSE with effect from 18<sup>th</sup> March, 2004, 31<sup>st</sup> March, 2004 and 15<sup>th</sup> June, 2004, respectively. The Ludhiana Stock Exchange Association Limited (LSE) had waived 50% of the Annual listing fee payable by the Company for the year 2004-05 and the balance 50% fee has been paid to LSE. The Annual listing fee for the year 2004-05 has been paid to The Stock Exchange, Mumbai.

### Human Resources

The Company continues to place emphasis on the enhancement of capabilities and skills of its human resources. Industrial relations remained cordial. The management entered into a wage agreement with the workmen valid for a period of three years from 1<sup>st</sup> January, 2003.

During the financial year ended 31<sup>st</sup> March, 2004, there was no employee of the Company whose particulars need to be included in this report under Section 217(2A) of the Companies Act, 1956.

### Corporate Governance

The Management Discussion and Analysis Report for the financial year 2004-05 required in terms of Clause 49 of the Listing Agreement with the Stock Exchange, Mumbai, is annexed herewith as Annexure - II forming a part of this report. The Corporate Governance Report for the financial year 2004-05 and Auditors' Certificate regarding compliance of conditions of Corporate Governance, required in terms of Clause 49 of the Listing Agreement with the Stock Exchange, Mumbai, are also annexed.

## **Directors**

Shri Sudhir Mital, IAS resigned as a Director of the Company w.e.f. 23<sup>rd</sup> June, 2004. The Directors wish to place on record their deep appreciation of the valuable contribution made by Shri Sudhir Mital.

The Board has appointed Shri Sanjay Kumar, IAS as Additional Director of the Company on 24<sup>th</sup> June, 2004. Shri Sanjay Kumar holds office till the date of the ensuing Annual General Meeting. Notices in writing have been received from some members under Section 257 of the Companies Act, 1956, signifying their intention to propose at the ensuing Annual General Meeting the appointment of Shri Sanjay Kumar as Director of the Company, whose period of office shall be liable to determination by retirement of Directors by rotation.

Shri S.K. Sharma and Shri D.C. Mehandru retire by rotation at the ensuing Annual General Meeting and being eligible offer themselves for re-appointment.

## **Audit Committee**

The Audit Committee of the Board comprises of Shri T. Chakravorty, Shri D.C. Mehandru, Shri S.K. Sharma and Shri J.S. Saraon with Shri T. Chakravorty as its Chairman and Shri J.S. Saraon as its Alternate Chairman.

## **Directors' Responsibility Statement**

Pursuant to Section 217(2AA) of the Companies Act, 1956, the Directors confirm that:

- (i) In the preparation of the annual accounts for the financial year ended 31<sup>st</sup> March, 2004, the applicable accounting standards have been followed along with proper explanation relating to material departures;
- (ii) The Directors have selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profit of the Company for the year under review;
- (iii) The Directors have 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 have prepared the annual accounts for the financial year ended 31<sup>st</sup> March, 2004 on a 'going concern' basis.

## **Auditors**

M/s. S. Tandon & Associates, Chartered Accountants and M/s. A.K. Sood & Associates, Chartered Accountants, Auditors of the Company retire on the conclusion of the ensuing Annual General Meeting and being eligible they have indicated their willingness to be reappointed.

## **Acknowledgements**

The Directors wish to thank the Central and State Governments, Financial Institutions, Punjab State Industrial Development Corporation Limited, Punjab State Electricity Board, Company's Bankers and Business constituents for their continued cooperation and support to the Company.

The Directors also wish to express their deep appreciation of the valuable services rendered by the members of the management team, staff and work-force.

For and on behalf of the Board

Place: Chandigarh  
Date : July 28, 2004

Sd/-  
(S.C. AGRAWAL)  
Chairman

## Punjab Alkalies & Chemicals Limited

### ANNEXURE – I TO THE DIRECTORS' REPORT

Disclosure of particulars with respect to Conservation of Energy, Technology Absorption, Foreign Exchange Earnings and Outgo as required under Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 and forming part of the Directors' Report for the financial year ended 31<sup>st</sup> March, 2004.

#### Energy Consumption and Conservation

	2003-04 (9 months)	2002-03 (15 months)
A. Power and Fuel Consumption		
1. Electricity		
(a) Purchased		
Units (lacs KWH)	1631.91	2668.21
Total Amount (Rs. in lacs)	6449.80	10026.69
Rate / Unit (Rs.)	3.95	3.76
(b) Own Generation	Nil	Nil
2. Coal	Nil	Nil
3. Furnace Oil/LDO/HSD		
Quantity (K. litres)	2749.589	4909.292
Total Amount (Rs. in lacs)	315.07	588.65
Average Rate (Rs. per K.litre)	11458.71	11990.53
4. Others	Nil	Nil
B. Consumption per Unit of Caustic Soda Produced		
1. Electricity (KWH)		
— Caustic Soda Lye	2699	2687
— Additional Consumption for conversion to Caustic Soda Flakes	95	85
2. Furnace Oil/LDO/HSD(ltrs.)		
— For Caustic Soda Lye	41.9	43.5
— Additional Consumption for conversion to Caustic Soda Flakes	89.3	61.2

Keeping in view the costing pattern adopted by the Company, per unit energy consumption for by-products cannot be separated from Caustic Soda Lye figures.

The marginal increase in electricity consumption per unit of Caustic Soda Lye over that of previous financial year is due to ageing of Membranes. But for certain energy conservation measures adopted by the Company, the increase would have been higher.

#### Research and Development

The main focus of the Research & Development effort of the Company continued to be on energy conservation and pollution control.

Expenses incurred on R & D are booked under respective general accounting heads and no amounts can therefore be quantified separately under the head of R & D expenses.

#### Technology Absorption, Adaptation and Innovation

The know-how for the Company's 100 TPD Membrane Cell Caustic Soda Plant has been fully absorbed. The know-how for the Company's Mercury Cell to 200 TPD Membrane Cell Converted Caustic Soda Plant has also been fully absorbed.

Total foreign exchange utilised during the accounting year is Rs.127.29 lacs.

For and on behalf of the Board

Place: Chandigarh  
Date: July 28, 2004

Sd/-  
(S.C. AGRAWAL)  
Chairman



## ANNEXURE - II TO THE DIRECTORS' REPORT

### MANAGEMENT DISCUSSION AND ANALYSIS REPORT FOR THE FINANCIAL YEAR 2003-04

#### Caustic Soda Industry in India

The production of Caustic Soda in India started in 1941. Since then, the Chlor-Alkali Industry in India, has shown significant growth. There are around 35 Caustic Soda Units in India at present with a total operational installed capacity of 21.74 lac M.T. per annum. The production of Caustic Soda results in co-production of 1 M.T. of Caustic Soda and 0.886 M.T. of Chlorine – collectively representing 1 Electro-Chemical Unit (ECU). The Chlor-Alkali Industry had to face the problem of gainful utilisation of Chlorine until 1993.

The Chlor-Alkali Industry is characterised by two Price Cycles - the Caustic Soda Price Cycle and the Chlorine Price Cycle. As these two products are used in different streams of end uses, the demand for these two products is not balanced. This results in volatility of the prices of these products. A Chlor-Alkali manufacturer's profitability is dependent upon the ability of the combined ECU prices to offer a margin over the total cost of production.

The Caustic Soda Industry in India, which faced a prolonged recessionary phase, has shown signs of recovery in the year 2003-04. The capacity utilisation of the Caustic Soda Industry, which had been in the range of 65% to 70% during the years 1997-98 to 2002-03, improved to 80% in the year 2003-04, partly due to reduced operational installed capacity and partly due to increased production.

#### Opportunities

The Company's two Caustic Soda Plants are located in its Works Complex at Naya Nangal, District Ropar, Punjab in close vicinity of a State Highway and around 12 Kms. from the Bhakra Left Bank Power Generating Station and around 2.5 Kms. from Sutlej River. The Company has the locational advantages of availability of uninterrupted Power supply – a major input, perennial source of water, skilled labour and close proximity to road/rail and the presence of several end-user Units in industries like paper, fertilizers, soaps and detergents, etc. in its natural marketing vicinity. The Company is having arrangement for supply of Hydrogen to a Hydrogen Compressing & Bottling Unit adjoining the Works Complex of the Company and the Company is also utilising Hydrogen as a fuel, which result in a considerable improvement of utilisation of its bye-product Hydrogen Gas.

The Company's Petition for allowing the Company to import power from other cheaper sources outside the State of Punjab in terms of the Government of Punjab's new Industrial Policy-2003 and the Electricity Act, 2003 is pending before the Punjab State Electricity Regulatory Commission (PSERC). The import of power from cheaper alternate sources after the grant of PSERC's permission, will lead to considerable savings for the Company.

#### Threats

The Chlor-Alkali Industry is a power-intensive industry. The Company's power costs constitute about 60% of its total production cost. At present, the Company is dependent on the Punjab State Electricity Board (PSEB) for its power requirements. A hike in power tariff by the PSEB, which cannot be absorbed by the market, constitutes a threat to the Company's operations. The import of Caustic Soda at cheaper rates constitutes another possible threat.

#### Marketing

The product-wise Sales of the Company's products in the financial year 2003-04 are given below:

Product	Sales	
	Quantity	Value (Rs. in crores)
Caustic Soda Lye	55976 M.T.	85.44
Caustic Soda Flakes	2397 M.T.	3.65
Liquid Chlorine	43290 M.T.	36.04
Hydrochloric Acid	30460 M.T.	7.87
Sodium Hypochlorite	8297 M.T.	2.42
Hydrogen Gas.	20.62 Lac NM <sup>3</sup>	2.00



## Punjab Alkalies & Chemicals Limited

The combined average sales realisation of all the products has been Rs.23,500 per M.T. of Caustic Soda in the financial year 2003-04 as against Rs.21,800 in the preceding financial year.

### Outlook

During the year 2003-04, the Caustic Soda Industry has shown signs of recovery after a prolonged recessionary phase. The situation of demand and supply imbalance has improved and is expected to improve further in view of recovery in the end-user industries like Paper and Aluminium. The imposition of anti-dumping duties by the Government of India is likely to reduce unhealthy competition. Your Company has withstood the market pressures well and is optimistic about the future.

### Risks and Concerns

The Caustic Soda Industry is recovering from a prolonged recessionary phase. Any impediments in this recovery process including cheaper imports and power tariff hikes are major concerns for the Company.

### Internal Control Systems

The Company has adequate internal control systems commensurate with its size and nature of its business. The internal control is supplemented by internal audits conducted by M/s. Ashwani & Associates, Chartered Accountants, Internal Auditors of the Company. The reports of the Internal Auditors are reviewed by the Management and the Audit Committee of the Board of Directors. The adequacy of the internal control systems is also examined by the Statutory Auditors of the Company.

### Performance

During the financial year under review, the production of Caustic Soda Lye at 60378 M.T. was marginally higher than that of 60165 M.T. in the corresponding period of the preceding financial year. The capacity utilisation of the Company's plant at 81% in the financial year under review is higher than the industry average of 80% during the year 2003-04. During the financial year 2003-04, the combined average realisation went up to Rs.23,500 per M.T. of Caustic Soda as compared to Rs.21,800 per M.T. of Caustic Soda during the preceding financial year. The Company earned a Net Profit of Rs.4.36 crores in the financial year 2003-04 (9 months period ended 31<sup>st</sup> March, 2004) as compared to a Net Loss of Rs.27.62 crores in the preceding financial year 2002-03 (15 months period ended 30<sup>th</sup> June, 2003).

### Human Resources

Human resources continue to be a key thrust area. Training and retraining continued to be an integral component of its Human Resources Development Plan. During the financial year under review, the industrial relations continued to be cordial. The management entered into a wage agreement with the workmen valid for a period of three years from 1<sup>st</sup> January, 2003. The Company had 535 employees as on 31<sup>st</sup> March, 2004.

### Cautionary Statement

The statements in this Management Discussion and Analysis Report describing the Company's objectives, projections, estimates, expectations or predictions may be 'forward looking statements' within the meaning of applicable laws or regulations. These statements are based on certain assumptions and expectations of future events. Actual results could differ materially from those expressed or implied. Important factors that could make a difference to the Company's operations include economic conditions affecting global and domestic demand-supply, finished goods prices, power and raw materials costs and availability, changes in Government regulations, tax regimes, economic developments within India and other factors such as litigation and industrial relations. The Company assumes no responsibility to publicly amend, modify or revise any forward looking statements, on the basis of any subsequent developments, information or events.

For and on behalf of the Board

Place: Chandigarh  
Date: July 28, 2004

Sd/-  
(S.C. AGRAWAL)  
Chairman



## CORPORATE GOVERNANCE REPORT FOR THE FINANCIAL YEAR 2003-04

### 1. Brief Statement on the Company's philosophy on Code of Governance

The Company believes in good Corporate Governance and has been practising it for the conduct of its business and for meeting its obligations towards its stakeholders.

The Company had modified its corporate practices in the financial year 2001-02 so as to bring them in line with the requirements of Clause 49 of the Listing Agreements with the Stock Exchanges.

### 2. Board of Directors

The Board of Directors as on 28<sup>th</sup> July, 2004 comprises of 10 Directors. The Company has a Non-Executive Chairman and 6 Independent Directors. The Company has a Managing Director and 9 Non-Executive Directors.

The names and categories of the Directors on the Board, their attendance at the Board Meetings during the financial year and at the last Annual General Meeting, as also the number of Directorships held by them in other Companies and memberships of the Committees of the Board of the Companies in which they are Directors are given below:-

Name	Date of Appointment	Date of Cessation	Category	Attendance at Board Meetings during 2003-04 (1.7.2003 to 31.3.2004)	Attendance at last AGM on 20.12.2003	No. of Directorships in other Companies		Memberships of the Committees of the Board of all the Companies	
						Chairman	Director	Chairman	Member
Shri S.C. Agrawal, IAS, Chairman (PSIDC Nominee)	12.5.2003	-	NE&NI	5	Yes	-	6	2	1
Shri Jagpal Singh, IAS, Managing Director (PSIDC Nominee)	31.10.2001	-	E&NI	5	Yes	1	1	4	1
Shri J.S. Saroon	30.11.1987	-	NE&I	5	Yes	-	-	-	5
Shri S.K. Sharma (PSIDC Officer)	24.9.1997	-	NE&NI	4	No	9	2	2	5
Shri T. Chakravorty (IDBI Nominee)	29.11.2001	-	NE&I	2	No	-	5	1	1
Shri Sudhir Mittal, IAS	26.6.2002	23.6.2004	NE&I	-	No	N.A.	N.A.	N.A.	N.A.
Shri T.R. Sarangal, IAS	26.6.2002	22.10.2003	NE&I	-	N.A.	N.A.	N.A.	N.A.	N.A.
Shri D.C. Mehandru	26.6.2002	-	NE&I	5	Yes	-	3	-	4
Shri Raj Kumar (PSIDC Nominee)	20.6.2003	1.7.2003	NE&NI	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Shri Viswajeet Khanna, IAS (PSIDC Nominee)	1.7.2003	-	NE&NI	4	No	6	3	1	4
Dr. Dharmendra Bhandari (IFCI Nominee)	27.8.2003	-	NE&I	-	No	-	3	-	2
Shri S.K. Sandhu, IAS	27.8.2003	-	NE&I	2	Yes	-	-	-	-
Shri Sanjay Kumar, IAS	24.6.2004	-	NE&I	N.A.	N.A.	-	3	-	2

NE&NI - Non-Executive Non-Independent Director PSIDC - Punjab State Industrial Development Corporation Limited (Promoter-NE&I) - Non-Executive Independent Director holding 44.26% of the Subscribed Capital)

E&NI - Executive Non-Independent Director IDBI - Industrial Development Bank of India (Lender)

IFCI - IFCI Limited (Lender)

Five Board Meetings were held during the financial year 2003-04 (9 months period) as against the minimum requirement of four meetings in a year (12 months period). The dates on which the Board Meetings were held are given below :

27<sup>th</sup> August, 2003, 28<sup>th</sup> October, 2003, 20<sup>th</sup> December, 2003, 28<sup>th</sup> January, 2004 and 22<sup>nd</sup> March, 2004.

The Non-Executive Directors had no pecuniary relationship or transactions with the Company in their personal capacity during the financial year 2003-04 other than receiving Sitting Fees and/or reimbursement of expenses, if any, incurred for attending the meetings of the Company.