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Punjab Alkalies & Chemicals Limited
34TH ANNUAL REPORT 2008 - 09

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Punjab Alkalies & Chemicals Limited

BOARD OF DIRECTORS

Dr. S.S. Channy, IAS, Chairman
Shri S.S. Rajput, IAS
Dr. A.K. Kundra, IAS (Retd.)
Shri S.K. Sharma
Shri J.S. Saraon
Shri D.C. Mehandru
Shri Rajinder Kumar (IDBI Nominee)
Shri Rattan Singh (IFCI Nominee)
Shri Ajay Kumar Mahajan, Managing Director

**COMPANY SECRETARY &
GENERAL MANAGER (CO. AFFAIRS)**

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-A,
Chandigarh - 160 022

M/s. A.K. Sood & Associates,
Chartered Accountants,
S.C.O. 126-127, 2nd Floor, Sector 8-C,
Chandigarh - 160 008

INTERNAL AUDITORS

M/s. D.K. Singla & Associates,
Chartered Accountants,
S.C.O. 1126-27, Sector 22-B,
Chandigarh-160 022

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 34th Annual Report together with the Audited Accounts for the financial year ended 31st March, 2009.

Financial Results

The Directors report that the overall performance of the Company during the financial year 2008-09 has been encouraging. The financial results of the Company for the financial year ended 31st March, 2009 are summarised below :-

	(Rs. in crores)	
	2008-09	2007-08
Sales Turnover & Other Income	233.78	235.40
Total Expenditure excluding Finance Charges and Depreciation	198.92	204.02
Profit before Finance Charges and Depreciation	34.86	31.38
Finance Charges	9.78	11.40
Cash Profit	25.08	19.98
Depreciation, etc.	11.87	12.79
Net Profit before tax	13.21	7.19
Provision for taxation	6.09	3.25
Net Profit after tax	7.12	3.94

The members would be glad to learn that your Company has registered a higher Net Profit (before tax) of Rs.13.21 crores in the financial year 2008-09 as compared to Rs.7.19 crores in the preceding financial year. This could be accomplished primarily due to a better combined average realisation of Rs.29,000 per Electro-Chemical Unit (ECU) during the financial year under review as against Rs.25,300 per ECU during the preceding financial year. The Net Profit (after tax) also increased from Rs.3.94 crores in the financial year 2007-08 to Rs.7.12 crores in the financial year 2008-09. With this, the Company has been able to wipe out its entire remaining accumulated losses. The Profit before Finance Charges and Depreciation at Rs.34.86 crores was also higher than that of Rs.31.38 crores in the preceding financial year.

The production and sale of Caustic Soda Lye were 84551 MT and 79259 MT, respectively during the financial year under review as against 95144 MT and 91650 MT, respectively in the preceding financial year. The Sales Turnover in the financial year under review was Rs.233.78 crores as against Rs.235.40 crores during the preceding financial year.

The results would have been still better but for the lower combined average realisation per ECU in the third quarter of the financial year under review, hike in power tariff and increase in cost of other inputs such as salt and other chemicals.

In view of the fund requirements for the essential capital and other expenditure in the Plant of the Company, the Directors regret their inability to recommend any dividend for the financial year 2008-09.

Finance and Corporate Debt Restructuring

The Corporate Debt Restructuring (CDR) Empowered Group of CDR Cell has approved a Rework Package of the CDR approved Revised Restructuring Package for the Company, in May and June, 2009, for deferment of repayment of principal long term dues of the Financial Institutions and Banks for enabling the Company to meet the fund requirements for the essential capital and other expenditure in the Plant of the Company.

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

Current Operations and Outlook

The first quarter ended 30th June, 2009 of the financial year 2009-10 has been tough as Company's operations came under severe pressure due to lower combined average realisation per ECU and lesser production - because of the power restrictions imposed by the Punjab State Electricity Board (PSEB) and technical disruptions in the Plant operations. The Cash Profit in the said period was Rs.2.09 crores. The Net Loss (before tax) during the said period was Rs.0.88 crore.

The Company is continuing its efforts to reduce its costs. The major input cost i.e. Power cost, constitutes about 55% of the total cost of production. In this regard, the Company has been examining various options for cheaper power.

Punjab Alkalies & Chemicals Limited

The Company is in the process of replacing the Membranes in two Electrolysers of its Plant Unit-I and six Electrolysers of its Plant Unit-II, getting the Anodes and Cathodes recoated in six Electrolysers of its Plant Unit-II and replacing/repairing some other critical items of Plant & Machinery in its Plant Unit-I and Plant Unit-II, at a cost of about Rs.29 crores. These will lead to reduction in power consumption per unit of Caustic Soda Lye and increase in capacity utilisation and the consequent improvement in the profitability of the Company.

The signs of economic recovery have started becoming visible. The combined average realisation per ECU is also expected to firm up. The Company has requested the PSEB to exempt the Company's Plant from the power restrictions imposed by the PSEB. The Directors are hopeful of improvement in the Company's operations in the days to come.

Environment and Energy Conservation

The Company continues to accord high priority to carry out its operations in an environment-friendly fashion and has been taking appropriate pollution control and safety measures.

The Company continues to place a great emphasis on energy conservation. The Company has been getting an Energy Audit of its Plants conducted at regular intervals. 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 are listed on the Bombay Stock Exchange Limited. The Annual listing fee for the year 2009-10 has been paid to the Bombay Stock Exchange Limited.

Human Resources

Your Company continues to develop and upgrade the skills of its human resources. Industrial relations continued to be cordial.

During the financial year ended 31st March, 2009, 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 2008-09 required in terms of Clause 49 of the Listing Agreement with the Bombay Stock Exchange Limited is annexed herewith as Annexure - II forming a part of this report. The Corporate Governance Report for the financial year 2008-09 and Auditors' Certificate regarding compliance of conditions of Corporate Governance, required in terms of Clause 49 of the Listing Agreement with the Bombay Stock Exchange Limited are also annexed.

Directors

Shri J.S. Saraon 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 J.S. Saraon, Shri D.C. Mehandru, Shri S.K. Sharma and Shri Rajinder Kumar with Shri J.S. Saraon as its 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 31st March, 2009, 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 31st March, 2009 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 re-appointed.



Acknowledgements

Your Directors place on record their appreciation of the cooperation and support extended by the Central and State Governments, Financial Institutions, Punjab State Industrial Development Corporation Limited, Punjab State Electricity Board, Company's Bankers and esteemed customers.

Your Directors also acknowledge the valuable contribution made by the members of management team, staff and work-force.

For and on behalf of the Board

Place: Chandigarh
Date : July 29, 2009

Sd/-
(J.S. SARAON)
Director

Sd/-
(AJAY KUMAR MAHAJAN)
Managing Director



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 31st March, 2009.

Energy Consumption and Conservation

	<u>2008-09</u>	<u>2007-08</u>
A. Power and Fuel Consumption		
1. Electricity		
(a) Purchased		
Units (lacs KWH)	2228.65	2477.36
Total Amount (Rs. in lacs)	10025.75	10386.59
Rate / Unit (Rs.)	4.50	4.19
(b) Own Generation	Nil	Nil
2. Coal	Nil	Nil
3. Furnace Oil/LDO/HSD		
Quantity (K. litres)	3743.41	3351.78
Total Amount (Rs. in lacs)	897.43	675.17
Average Rate (Rs. per K.litre)	23973.50	20143.73
4. Others	Nil	Nil
B. Consumption per Unit of Caustic Soda Produced		
1. Electricity (KWH)		
— Caustic Soda Lye	2632	2601
— Additional Consumption for conversion to Caustic Soda Flakes	108	92
2. Furnace Oil/LDO/HSD(ltrs.)		
— For Caustic Soda Lye	42.07	34.18
— Additional Consumption for conversion to Caustic Soda Flakes	58	32

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.

The Company is in the process of replacing the Membranes in two Electrolysers of its Plant Unit-I and six Electrolysers of its Plant Unit-II, getting the Anodes and Cathodes recoated in six Electrolysers of its Plant Unit-II and replacing/repairing some other critical items of Plant & Machinery in its Plant Unit-I and Plant Unit-II, at a cost of about Rs.29 crores. These will lead to reduction in power consumption per unit of Caustic Soda Lye and increase in capacity utilisation and the consequent improvement in the profitability of the Company.

Research and Development

The Research & Development effort of the Company continued to be directed towards pollution control and energy conservation.

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.26.73 lacs on account of imported Raw Materials and Stores & Spares.

For and on behalf of the Board

Place: Chandigarh
Date: July 29, 2009

Sd/-
(J.S. SARAON)
Director

Sd/-
(AJAY KUMAR MAHAJAN)
Managing Director

ANNEXURE - II TO THE DIRECTORS' REPORT

MANAGEMENT DISCUSSION AND ANALYSIS REPORT FOR THE FINANCIAL YEAR 2008-09

Caustic Soda Industry in India

At present, there are about 31 Caustic Soda Units in operation in the Country having a total operational installed capacity of about 29 lac M.T. per annum.

The Caustic Soda and other products of this industry are used in a wide range of industries like Paper, Aluminum, Soaps and Detergents, Rayon, Pesticides, Pharmaceuticals, Dyestuff and Water Purification, etc. The ability of the aggregate selling prices of Caustic Soda and Chlorine to generate a surplus over the aggregate cost of production, determines the profitability of a Chlor-Alkali manufacturer.

During the financial year under review, the overall performance of the Caustic Soda Industry has been encouraging. However, the combined average realisation per Electro-Chemical Unit (ECU) came under pressure in the third quarter of the said financial year, which improved during the fourth quarter of the said financial year. The Caustic Soda Industry's capacity utilisation has been 75% in the financial year 2008-09 as compared to 79% during the financial year 2007-08.

Performance

During the financial year 2008-09, the Company's production of Caustic Soda Lye was 84551 M.T. The capacity utilisation of the Company's plant at 85% in the financial year under review is higher as compared to the industry average of 75% during the financial year 2008-09. In the financial year 2008-09, the combined average realisation at Rs.29,000 per M.T. of Caustic Soda was better than Rs.25,300 per M.T. of Caustic Soda during the preceding financial year. The Sales Turnover during the financial year under review was Rs.233.78 crores as against Rs. 235.40 crores in the preceding financial year. The Company earned a higher Net Profit (before tax) of Rs.13.21 crores in the financial year 2008-09 as compared to Rs.7.19 crores during the financial year 2007-08. The Company has posted a higher Net Profit (after tax) of Rs.7.12 crores during the financial year 2008-09 as against Rs.3.94 crores in the preceding financial year. With this, the Company has been able to wipe out its entire remaining accumulated losses.

Marketing

The product-wise Sales of the Company are given below:

Product	Sales	
	Quantity	Value (Rs. in crores)
Caustic Soda Lye	76522 M.T.	188.88
Caustic Soda Flakes	2737 M.T.	8.09
Liquid Chlorine	57475 M.T.	17.95
Hydrochloric Acid	47993 M.T.	8.16
Sodium Hypochlorite	13977 M.T.	4.69
Hydrogen Gas	20.71 Lac NM ³	2.49

The combined average sales realisation of all the products has been Rs.29,000 per M.T. of Caustic Soda during the financial year 2008-09 as compared to Rs.25,300 in the preceding financial year.

Opportunities

The Company has locational advantages as its Caustic Soda Plants are situated in its Complex at Naya Nangal, District Ropar, Punjab, which is close to a State Highway and about 12 Kms. from the Bhakra Left Bank Power Generating Station and about 2.5 Kms. from River Sutlej. These include the availability of uninterrupted Power—a crucial input, continuous water source, skilled labour and proximity to rail/road besides the existence of various end-user Units in industries like paper, fertilizers, soaps and detergents, etc. in its natural marketing zone. The Company is also supplying Hydrogen Gas to a Hydrogen Compressing & Bottling Unit adjoining the Company's Plant Complex. The Company is also utilising Hydrogen as a fuel, resulting in gainful utilisation of this bye-product. GAIL (India) Limited is planning to extend its Gas Pipe-line upto Nangal, which will open up the prospects of availability of Natural Gas for setting up a Gas based Power Plant at Nangal.

Threats

The Chlor-Alkali Industry is a power-intensive industry. The Company's power costs account for about 55% of its total cost of production. At present, the Company is dependent on the Punjab State Electricity Board (PSEB) for its power requirements. A hike in power tariff for the power supplied by the PSEB, constitutes a threat to the Company's operations. The other possible threats are increase in other input costs, expansion of installed

Punjab Alkalies & Chemicals Limited

capacities in Indian Caustic Soda Industry and import of Caustic Soda at lower rates.

Outlook

The signs of economic recovery have started becoming visible. The Caustic Soda and Chlorine prices are expected to firm up and combined average realisation is likely to improve. The Government of India has re-imposed anti-dumping duty on the import of Caustic Soda in order to curb the unhealthy competition from overseas. Your Company is optimistic about an improved performance in the future.

Risks and Concerns

The major concerns for the Company are increase in power tariff, rise in other input costs, import of Caustic Soda at cheaper rates, expansion of installed capacities in the domestic Caustic Soda Industry and installation of Chemical Recovery Plants in Paper Units.

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 the 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.

Human Resources

The Company attaches a great value to its human resources. 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 Company had 498 employees as on 31st March, 2009.

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 29, 2009

Sd/- (J.S. SARAON) Director	Sd/- (AJAY KUMAR MAHAJAN) Managing Director
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CORPORATE GOVERNANCE REPORT FOR THE FINANCIAL YEAR 2008-09

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. The Company had further modified its corporate practices so as to bring them in consonance with the requirements of the revised Clause 49 of the Listing Agreement with the Bombay Stock Exchange Limited.

2. Board of Directors

The Board of Directors as on 29th July, 2009 comprises of 9 Directors. The Company has a Non-Executive Chairman and 6 Independent Directors. The Company has a Managing Director and 8 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 2008-09 (1.4.2008 to 31.3.2009)	Attendance at last AGM on 27.9.2008	No. of Directorships in other Companies		Memberships of the Committees of the Board of all the Companies*	
						Chairman	Director	Chairman	Member
Dr. S.S. Channy, IAS, Chairman (PSIDC Nominee)	31.3.2008	-	NE&NI	7	Yes	2	3	-	-
Shri Ajay Kumar Mahajan, Managing Director (PSIDC Nominee)	-As Director: 30.7.2007 -As Managing Director: 1.8.2007	-	E&NI	7	Yes	4	6	-	3
Shri J.S. Saraon	30.11.1987	-	NE&I	7	Yes	-	-	1	1
Shri S.K. Sharma	24.9.1997	-	NE&I	7	No	-	2	1	1
Shri D.C. Mehndru	26.6.2002	-	NE&I	5	No	-	-	-	1
Dr. A. K. Kundra, IAS (Retd.)	13.12.2004	-	NE&I	5	Yes	-	4	2	2
Shri P.M. Mukherjee (IDBI Nominee)	9.3.2005	3.6.2008	NE&I	-	N.A.	N.A.	N.A.	N.A.	N.A.
Shri Naresh Saluja (IFCI Nominee)	28.4.2005	22.5.2008	NE&I	-	N.A.	N.A.	N.A.	N.A.	N.A.
Shri Anurag Verma, IAS (PSIDC Nominee)	14.8.2006	29.7.2008	NE&NI	-	N.A.	N.A.	N.A.	N.A.	N.A.
Shri Rattan Singh (IFCI Nominee)	22.5.2008	-	NE&I	7	Yes	-	3	-	1
Shri Rajinder Kumar (IDBI Nominee)	3.6.2008	-	NE&I	3	No	-	-	-	1
Shri Karan A. Singh, IAS (PSIDC Nominee)	29.7.2008	-	NE&NI	-	No	3	2	-	-

* Includes only Audit Committee and Shareholders/Investors Grievance Committee.

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 Limited (Lender)

IFCI - IFCI Limited (Lender)

Seven Board Meetings were held during the financial year 2008-09 as against the minimum requirement of four meetings in a year. The dates on which the Board Meetings were held are given below :

22nd May, 2008, 13th June, 2008, 27th June, 2008, 30th July, 2008, 27th September, 2008, 30th October, 2008 and 28th January, 2009.

The Non-Executive Directors had no pecuniary relationship or transactions with the Company in their personal capacity during the financial year 2008-09 other than receiving Sitting Fees and/or reimbursement of expenses, if any, incurred for attending the meetings of the Company.

The Board of Directors of the Company in its meeting held on 30th October, 2006 had approved a Code of Conduct for Directors and Senior Management Personnel of the Company with effect from 1st January, 2006. The same has also been placed on the Company's Website www.punjabkalies.com. All the Directors and