

Seshasayee Paper and Boards Limited

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Forty fourth Annual Report
2003-04

SESHASAYEE PAPER AND BOARDS LIMITED

DIRECTORS

Sri N GOPALARATNAM, *Chairman and Managing Director*

Sri ARUN RAMANATHAN, I A S, *Nominee of TIIC*

Sri S P ELANGO VAN, I A S

Dr V GAURI SHANKER

Sri R V GUPTA, *Nominee of IDBI*

Sri BIMAL KUMAR PODDAR

Sri M R B PUNJA

Dr G RANGASWAMI

Sri N RAVINDRANATHAN

Sri R V SUBRAHMANIAN, I A S, (Retd.)

**VICE PRESIDENT (FINANCE) &
SECRETARY**

Sri V PICHAI

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AUDITORS

Messrs SURI & CO., Chennai

Messrs S VISWANATHAN, Chennai

FINANCIAL INSTITUTION / BANKS

INDUSTRIAL DEVELOPMENT BANK OF INDIA

UCO BANK

SYNDICATE BANK

CENTRAL BANK OF INDIA

CANARA BANK

UNITED BANK OF INDIA

STATE BANK OF INDIA



REGD. OFFICE & WORKS

PALLIPALAYAM, CAUVERY RS PO


ERODE - 638 007, TAMIL NADU

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—SESHASAYEE PAPER AND BOARDS LIMITED—**NOTICE**

 Notice is hereby given that the Forty fourth Annual General Meeting of the Members of the Company will be held at the Community Centre, SPB Colony, Erode 638 010, on Saturday, the July 24, 2004, at 11.00 AM, to transact the following business :

ORDINARY BUSINESS

- 1 To consider and adopt the Balance Sheet as at 31st March 2004, the Profit and Loss Account for the year ended on that date and the Reports of the Board of Directors and Auditors thereon.
- 2 To declare a dividend.
- 3 Sri R V Subrahmanian, I A S (Retd.) and Dr V Gaurishanker retire by rotation at this meeting and do not seek re-election.
- 4 To consider and, if thought fit, to pass with or without modifications, the following resolution as a SPECIAL RESOLUTION:

“RESOLVED THAT pursuant to Section 224-A of the Companies Act, 1956, Messrs Suri & Co., Chennai and Messrs S Viswanathan, Chennai, the retiring Auditors, be and are hereby re-appointed as Auditors of the Company, to hold office from the conclusion of this meeting, until the conclusion of the next Annual General Meeting, on a remuneration of Rs 2 00 000 for each of them, together with Service Tax, if any, in addition to reimbursement of travelling and other out-of-pocket expenses actually incurred by them in connection with the Audit.”

(By Order of the Board)
For SESHASAYEE PAPER AND BOARDS LIMITED

(V PICHAI)
VICE PRESIDENT (FINANCE) & SECRETARY

Chennai
June 12, 2004

NOTES:

- 1 A Member, entitled to attend and vote at the meeting, is entitled to appoint one or more Proxies, to attend and vote on a poll, instead of himself and such Proxy need not be a Member of the Company.
- 2 Proxies, in order to be effective, must be filed with the Company not later than 48 hours before the meeting.
- 3 The Register of Members and Share Transfer Books will be closed from Thursday, the July 15, 2004, to Saturday, the July 24, 2004. (both days inclusive).
- 4 Dividend, if declared, will be paid to the Members whose names appear on the Register of Members as on July 24, 2004 and in respect of shares held in Electronic Form, to the beneficial owners, as per list that will be furnished by National Securities Depository Limited / Central Depository Services (India) Limited, as on that date.
- 5 Members holding shares in physical form are requested to notify, promptly, any change in their address, to the Registrar and Share Transfer Agents of the Company, M/s Integrated Enterprises (India) Limited, Chennai, quoting their Membership Number, besides changes, if any, in the Dividend Mandates given by them and those holding shares in Electronic Form, may communicate the above information to their respective Depository Participants.
- 6 The amended provisions of the Companies Act, 1956, provide for Nomination facility to Members. Members are requested to write to the Registrar and Share Transfer Agents of the Company, M/s Integrated Enterprises (India) Limited, Chennai, for more information, if any needed, on Nomination facility and / or to get a copy of Nomination Form.
- 7 Pursuant to Section 205A of the Companies Act, 1956, all unclaimed dividends, upto the financial year ended March 31, 1995, have been transferred to the General Reserve Account of the Central Government. Members who have not

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encashed the dividend warrants for the said period are requested to claim the amount from the Registrar of Companies, Second Floor, Coimbatore Stock Exchange Building, Trichi Main Road, Singanallur, Coimbatore 641 005, Tamilnadu. In case any assistance is required in this regard, please write to the Registered Office of the Company.

- 8 As regards dividends pertaining to the financial year ended March 31, 1996 and thereafter, amounts remaining in the unpaid dividend accounts of the Company, shall, at the expiry of 7 years, be transferred to the Investor Education and Protection Fund, established by the Central Government. Thereafter, the Members shall have no claim against the Fund or the Company, in respect of his unpaid dividend. Members are, therefore, requested to lodge their claims for unpaid dividend, if any, immediately with the Company.
- 9 For Dematerialisation of Equity Shares, the Company has entered into a tripartite agreement with National Securities Depository Limited (NSDL) and Central Depository Services (India) Limited (CDSL). The Company's Equity Shares have been included in the list in which trading is compulsory for all the investors in dematerialised

form, along with other scrips, from July 24, 2000. Hence, Members are requested to convert their physical share certificates into DEMAT form, through their Depository Participants.

- 10 So far, more than 2/3 of the total number of Shares, in the Equity Capital of the Company, have been dematerialised. In view of the advantages of the Depository System and for easy trading of the shares, Members are requested to opt for Dematerialisation of the shares of the Company, through any of the Depository Participants of their choice.
- 11 *Members holding shares in DEMAT form* are requested to incorporate the DP ID Number and Client ID Number in the Attendance Slip / Proxy Form, for easy identification of attendance at the meeting.
- 12 For receiving Dividend through Electronic Clearing Service (ECS), in the notified Centres, Members are requested to forward the Form attached to the Circular letter, duly filled in, to the Registrar and Share Transfer Agents of the Company, M/s Integrated Enterprises (India) Limited, Chennai or to their respective Depository Participants.

SESHASAYEE PAPER AND BOARDS LIMITED**DIRECTORS' REPORT**

7 The Directors hereby present their Forty fourth Annual Report and the Audited Accounts for the year ended 31st March, 2004:

WORKING RESULTS

	2003-04 (Actuals) (in tonnes)	2002-03 (Actuals) (in tonnes)
Production	117271	113684
Sales	116598	112970
	(Rs lakhs)	(Rs lakhs)
Gross Sales	41800	39124
Other Income	89	322
Less: Excise Duty and Excise Cess	4385	3869
Sales and other income (net of Excise Duty)	37504	35577
Profit before interest depreciation and tax	5565	6301
Interest	1302	1963
Depreciation	1111	1096
Profit before extraordinary items	3152	3242
Extraordinary items	-	(-) 460
Profit before tax	3152	2782
Provision for current Tax	230	200
Transfer to Deferred Tax	956	894
Net Profit	1966	1688

DIVIDEND

The Directors recommend a dividend of Rs 1.80 per share, absorbing a sum of Rs 203 lakhs. As per the provisions of the Income tax Act, 1961, no tax will be deducted at source on dividends distributed. However, the Company will bear the tax at 12.5%, plus Surcharge thereon at 2.5%, on the dividend distributed.

APPROPRIATIONS

Your Directors propose the following appropriations:

	2003-04 (Rs lakhs)
Net profit for the year	1966
<i>Add:</i>	
Surplus brought forward from the previous year	578
	2544
<i>Less:</i>	
Transfer to General Reserve	1500
Proposed dividend and tax thereon	228
	1728
Balance carried forward	816

OPERATIONS

During the year, the Company achieved a production of 117271 tonnes, at an overall average basis weight of 74 gsm, compared to 113684 tonnes, in the previous year. The production could have been higher by another 1000 tonnes, but for the water shortage and the poor quality of water from the River Cauvery. The production of 117271 tonnes, is the highest achieved by the Company, so far.

The gross turnover was Rs 41800 lakhs, for the year 2003-04, compared to Rs 39124 lakhs, during the previous year. The turnover achieved, during the year, the highest so far, was higher by 7%, compared to the previous year.

The Profit before interest, depreciation and tax was Rs 5565 lakhs, as compared to Rs 6301 lakhs, in the previous year. The drop in profit was contributed by overall reduction in sales realisation, due to difficult market conditions, coupled with increase in cost of inputs and shortage and poor quality of water from River Cauvery, that not only affected production, but entailed additional expenditure on treatment. Further, in the Central Government Budget for the year 2003-04, excise duty exemption for the clearance of first 3500 tonnes of paper manufactured with unconventional raw materials was withdrawn and such paper was made to suffer excise duty at 8%.

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After absorbing interest and financing charges and depreciation of Rs 1302 lakhs and Rs 1111 lakhs, respectively, the profit before tax was Rs 3152 lakhs, as compared to Rs 2782 lakhs, in the previous year. The Company achieved substantial reduction in interest and financing charges by pre-payment of the high cost Term Loans well ahead of the respective due dates.

A sum of Rs 230 lakhs has been provided for liability towards Current tax, as against Rs 200 lakhs in the previous year. The Company was liable only to Minimum Alternate Tax (MAT), in view of availability of carried forward depreciation, for set off against the current year's income.

As per the Accounting Standard AS-22 of the Institute of Chartered Accountants of India, a sum of Rs 956 lakhs has been transferred to Deferred Tax from Profit and Loss Account, as against Rs 894 lakhs in the previous year.

In the result, profit after tax for the year was Rs 1966 lakhs, as compared to Rs 1688 lakhs, in the previous year.

WATER AVAILABILITY FROM RIVER CAUVERY

The Company depends on River Cauvery for its water requirements. Inadequate rain fall in the catchment areas led to poor inflow into the Mettur Reservoir. Consequently, Mettur Reservoir was opened and closed on and off during the year, depending on the demand for drinking water and for farming by the agriculturists in Tiruchi and Tanjore delta areas. For most part of the year, storage at Mettur Reservoir was close to dead storage level, leading to 'nil' discharge from the Reservoir. Consequently, the flow of water in the River Cauvery was almost 'nil' for major part of the year. Anticipating this difficulty, the Company, by its in-house water conservation measures, reduced the water consumption substantially. Continued drought and poor water flow in the River Cauvery are matters of great concern and will hamper production operations and may lead to production curtailments in future. Good monsoon, comfortable water storage in Mettur

Reservoir and sustained flow of water in the River Cauvery are the only permanent answers to overcome the current difficult situation.

FINANCE

During the year, the Company pre-paid in full the Term Loans availed from Banks for the Expansion / Modernisation Project. However, pre-payment of Term Loan availed from Industrial Development Bank of India (IDBI) could not be made due to stiff pre-payment premium conditions stipulated by them. The Company is negotiating with IDBI for reduction in rate of interest which is under their consideration. The Company paid the instalments of the Term Loan to IDBI on or before the due dates. The Company has also paid the interest dues on Term Loan and Working Capital Limits of Banks on the respective due dates.

INTEREST FREE SALES TAX DEFERRAL SCHEME

After completion of the Expansion Project in June 2000, the Company became eligible for the Interest Free Sales Tax deferral, offered by the Tamilnadu Government for existing industries undertaking expansion / diversification projects.

The Company is entitled to the benefit of Interest free Sales Tax Deferral for ten years from 01 06 2003 and not exceeding an amount of Rs 6304 lakhs, being the eligible value of Fixed Assets. However, the deferral is available only after the Company reaches the base limits with regard to production and turnover of 60042 tonnes and Rs 14952.78 lakhs, respectively, every year. The Sales Tax so deferred is to be repaid over a period of ten years from 01 06 2013.

During the year 2003-04, the Company availed Rs 655 lakhs under the Scheme.

MARKET CONDITIONS

While the first half of the financial year witnessed stability in the paper market conditions, from third quarter onwards, the sentiments in the paper market turned subdued. The market witnessed great resistance for white varieties of paper. The movement was slow and prices were under pressure. The Company had

— SESHASAYEE PAPER AND BOARDS LIMITED —

to offer price concessions for white varieties of paper in line with the market sentiments from January 2004 onwards.

Thanks mainly to the note book season, market for Creamwove varieties improved from March 2004 onwards.

Export was maintained at last year's level. Falling prices in export markets, appreciation of the Indian Rupee against US Dollar and Government's decision to curtail the DEPB benefit from 8% to 4%, had made exports un-remunerative.

EXPORT PERFORMANCE

The Company exported 24011 tonnes of paper and paper boards during the year, as compared to 24346 tonnes, during 2002-03. The exports accounted for 20.47% of the Production.

The export proceeds amounted to US \$ 16 260 485, equivalent to Rs 7402 lakhs, as compared to Rs 7459 lakhs, during the previous year. Softening of prices in the export markets, coupled with appreciation of the Indian Rupee against US Dollar, forced the Company to down revise its export target and maintain it almost at the same level as in the previous year. The Company's products are now being exported to over 26 countries.

Besides the above, the Company also sold 3560 tonnes, under deemed exports whose proceeds amounted to Rs 1148 lakhs.

The Company's imports were Rs 10293 lakhs, mainly on account of import of pulp for the new Paper Machine and coal. Due to higher imports, the net foreign exchange outgo was Rs 3211 lakhs, compared to net foreign exchange inflow of Rs 378 lakhs, during 2002-03.

ISO 9001 / ISO 14001 ACCREDITATION

Company's quality systems continue to be covered by the "ISO 9001" accreditation. Company's Environmental Management System, continues to enjoy ISO 14001, accreditation.

AWARDS

(i) Exports

Golden Export House Status

The Company continues to enjoy "Golden Export House" Status, accorded by Government of India, Ministry of Commerce, Directorate General of Foreign Trade.

Special Award

A Special Award was given by CAPAXIL, in recognition of the Company's Outstanding Export Performance, in respect of Paper and Paper Boards, for the year 2002-03.

(ii) Energy Conservation:

Second Prize in National Energy Conservation Award given by Government of India, Ministry of Power, in appreciation of the achievements in Energy Conservation in the Pulp and Paper Sector for the year 2003.

DEPOSITORY SYSTEM

As on March 31, 2004, 6308 Members are holding their shares in demat form and 81 46 709 Equity shares, representing 72.42% of the total Paid up Equity Share Capital of the Company, have been dematerialised.

DELISTING OF THE COMPANY'S EQUITY SHARES

At the Forty third Annual General Meeting held on July 25, 2003, Shareholders approved voluntary de-listing of the Company's Equity Shares from the Bangalore, Calcutta and Madras Stock Exchanges. The Company has secured approval from Bangalore Stock Exchange. Approval is awaited from Madras and Calcutta Stock Exchanges.

CURRENT YEAR (2004-05)

Production during April - May 2004, was 19576 tonnes as compared to 20018 tonnes, produced during April - May 2003. Sales realisation (net of excise duty and cess) during April - May 2004 amounted to Rs 5229 lakhs (16720 tonnes), as compared to Rs 5280 lakhs (16565 tonnes) during April - May 2003.

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During April - May 2004, 2612 tonnes of paper and boards, valued at US \$ 1 847 072 (equivalent to Rs 838 lakhs) were exported.

Market conditions were favourable during the two month period. This trend may continue for another two months. Prices in export markets moved up marginally.

Monsoon is predicted to be normal and it is hoped that catchment areas will receive significant rainfall, resulting in storage level in Mettur Reservoir going up. Due to sharp summer showers in the month of May 2004, no acute water scarcity was felt during this two month period.

ENVIRONMENTAL PROTECTION

The Company continues to provide utmost attention to the conservation and improvement of the environment. The Power Boilers and Recovery Boilers are equipped with Electro Static Precipitators, to arrest dust emissions. The Company has installed and operates an Anaerobic Lagoon, for high BOD liquid effluents and a Secondary Treatment System, for total Mill effluent. These facilities are operating efficiently, enabling the Company to comply with the pollution control norms, prescribed by the Pollution Control Authorities, on a sustained basis. The treated effluent water continues to be utilised for irrigation purposes, in the nearby fields.

CAPTIVE POWER PROJECT

During the year, the Company embarked on setting up a 20 MW Captive Power Project at an estimated cost of Rs 65 crores. Orders have been placed for major equipments like Boiler, Turbo Alternator, Electrostatic Precipitator, etc. Civil Works are under progress. The Project is expected to be completed by end December 2004. Once commissioned and operated to full capacity, the Company will be self sufficient on power.

AUDIT COMMITTEE

The Audit Committee of the Board consists of four Non-whole time Directors,

viz., Sri R V Subrahmanian, I A S (Retd.), Sri M R B Punja, Sri R V Gupta and Sri N Ravindranathan, all of whom are independent Directors.

Sri R V Subrahmanian, I A S (Retd.), is the Chairman of the Audit Committee.

DIRECTORS' RESPONSIBILITY STATEMENT

While preparing the annual financial statements, the Company has adhered to the following

- ◇ In the preparation of the said financial statements, the Company has followed the applicable Accounting Standards referred to in Section 211(3-C) of the Companies Act, 1956
- ◇ The Company has followed the said Accounting Standards and has been applying them consistently and has made judgements and estimates that are reasonable, prudent and are in the interest of the Company's business so as to give a true and fair view of the state of affairs of the Company as at March 31, 2004 and of the profit of the Company for the said period.
- ◇ 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.
- ◇ The Directors have prepared the financial statements on a "going concern" basis.

CORPORATE GOVERNANCE

The Report on Management's Discussion and Analysis and Report on Corporate Governance are forming part of Directors' Report and are annexed as Annexure - III and Annexure - IV.

As required by the Listing Agreement, an Auditors' Report on Corporate Governance is also attached to the said Report.

—SESHASAYEE PAPER AND BOARDS LIMITED—**CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION AND FOREIGN EXCHANGE EARNINGS AND OUTGO**

The information relating to Conservation of Energy, Technology Absorption and Foreign Exchange Earnings and Outgo, as required under Section 217(1)(e) of the Companies Act, 1956, read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988, is given in Annexure I and forms part of this Report.

PARTICULARS OF EMPLOYEES

The statement of employees, referred to in sub-section (2A) of Section 217 of the Companies Act, 1956, read with Companies (Particulars of Employees) Rules, 1975, is given in Annexure - II and forms part of this Report. The employee shown therein is not a relative of any Director of the Company.

CASH FLOW STATEMENT

As required under Clause 32 of the Listing Agreement with the Stock Exchanges, a Cash Flow Statement is attached to the Balance Sheet, along with Auditors' Certificate.

LABOUR

Relations between the Management and the labour were cordial throughout the year under review.

DIRECTORS

Sri N Gopalaratnam was re-appointed as Chairman and Managing Director for a further term of three years from April 1, 2003.

The Tamilnadu Industrial Investment Corporation Limited has nominated its Chairman, Sri Arun Ramanathan, I A S, as its Nominee Director, on the Board of our Company, in place of Sri P V Rajaraman, I A S, with effect from March 27, 2004.

Your Directors place on record the invaluable services rendered by Sri P V Rajaraman, I A S, during his tenure as Director of the Company.

Sri R V Subrahmanian, I A S (Retd.) and Dr V Gaurishanker, Directors, retire by rotation, under Article 104 of the Articles of Association of the Company at the conclusion of the ensuing Forty fourth Annual General Meeting. They do not seek re-election. An Ordinary Resolution for not filling up the vacancy for the present, caused by the retirement of the above two Directors, is proposed at the ensuing Annual General Meeting.

AUDITORS

Messrs Suri & Co., Chennai and Messrs S Viswanathan, Chennai, Auditors of the Company, retire at the conclusion of the ensuing Annual General Meeting and are eligible for re-appointment. Necessary resolution for their appointment is proposed as a Special Resolution, pursuant to Section 224-A of the Companies Act, 1956.

COST AUDIT

Pursuant to Section 233B of the Companies Act, 1956, the Central Government has ordered that the Company carries out an audit of cost accounts relating to paper every year. Sri M B Kannan, Cost Accountant, has been appointed as Cost Auditor. The Cost Audit Report for the year 2003-04 will be submitted to the Central Government before the due date.

ACKNOWLEDGEMENT

The Directors place on record their great appreciation of the excellent contribution made by all Executives and Employees of the Company which was instrumental in achieving improved profitable financial results in a difficult year. The Directors also express their sincere thanks to the Government of India, Government of Tamilnadu, All-India Financial Institutions and Banks, for their understanding, guidance and assistance, at all times.

On behalf of the Board

N GOPALARATNAM
Chairman and Managing Director

Chennai
June 12, 2004