

# **SOUTHERN MAGNESIUM AND CHEMICALS LIMITED**

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**FOURTEENTH ANNUAL REPORT  
1998-99**

**SOUTHERN MAGNESIUM AND CHEMICALS LIMITED**

<b>BOARD OF DIRECTORS</b>	DR. N.B. PRASAD	(Chairman)
	SRI RAM N. PRASAD	(Vice-Chairman)
	PROF. S. BANERJEE	
	SRI P.K. DORAISWAMY	(APSFC Nominee)
	SRI I.G. REDDY	(APIDC Nominee)
	SRI N. RAVI PRASAD	(Managing Director)
	SRI N. RAJENDER PRASAD	(Joint Managing Director)

<b>AUDITORS</b>	M/s. K.S. RAO & COMPANY Chartered Accountants Hyderabad.
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<b>BANKERS</b>	INDIAN OVERSEAS BANK HYDERABAD
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<b>REGD. OFFICE</b>	DECCAN CHAMBERS, (5TH FLOOR) 6-3-666/B, SOMAJIGUDA HYDERABAD - 500 082.
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<b>WORKS</b>	GOWRIPATNAM WEST GODAVARI DISTRICT.
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<b>MINES</b>	1. MULUGU MANDAL WARANGAL DIST. ANDHRA PRADESH
	2. VENKATAYAPALAM VILLAGE KHAMMAM DIST. ANDHRA PRADESH.

**SOUTHERN MAGNESIUM AND CHEMICALS LIMITED****NOTICE**

Notice is hereby given that 14th Annual General Meeting of the Members of Southern Magnesium and Chemicals Limited will be held on 28th September, 1999 at 11.00 A.M. at Hotel Golkonda, Masab Tank, Hyderabad to transact the following business.

**ORDINARY BUSINESS:**

1. To receive, consider and adopt the Balance Sheet as on 31st March, 1999 and the reports of Directors and Auditors thereon.
2. To elect a Director in place of Sri.N. Rajendra Prasad who retires by rotation at the conclusion of this Annual General Meeting and being eligible, offers himself for reappointment.
3. To appoint Auditors and fix their remuneration and in this connection to pass the following Resolution with or without modifications.

"RESOLVED THAT the company Auditors M/s. K.S. Rao & Company, Chartered Accounts, Hyderabad be and are hereby re-appointed as Auditors of the Company to hold office from the conclusion of this Annual General Meeting of the Company until the conclusion of the next Annual General Meeting of the Company at such remuneration as may be determined by the Board of Directors of the Company."

For and on behalf of the Board of Directors  
For Southern Magnesium and Chemicals Limited

Sd/-  
**N. Ravi Prasad**  
Managing Director

Place : Hyderabad  
Date : 29th May, 1999

**Notes:**

- a) A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote instead of himself/herself and such proxy need not be a member of the company.
- b) Proxies in order to be valid must be received at the registered office of the company not later than 48 hours before the commencement of the Annual General Meeting.
- c) Members are requested to notify immediately any change in their address to the registered office of the company
- d) The register of members and share transfer books of the Company shall remain closed from 25th September 1999 to 28th September, 1999 (both days inclusive).

**SOUTHERN MAGNESIUM AND CHEMICALS LIMITED****DIRECTORS REPORT**

Your Directors have pleasure in presenting the 14th Annual Report and the Audited Accounts for the year ended 31st March, 1999.

**FINANCIAL RESULTS / OPERATIONS**

The year has been a very difficult one as dumping of magnesium metal from China and Russia continued and sales had to be effected at below cost. In addition, we could not get any retort tubes used in the reduction furnaces as the only supplier of these tubes was on strike / lockout and no supplies were received after October 1998. In fact, a fresh lot of retorts are expected only towards end July 1999, i.e., after a period of 9 months. This resulted in our having to reduce the number of furnaces in operation. Consequently, production was substantially lower at 152.8 tonnes as against 227.8 tonnes in the previous year resulting in inadequate contribution towards fixed expenses, inspite of a reduction in fixed costs and overhead.

There has been a delay in the commissioning of the Carbon-di-oxide plant and as the plant was under trial operation during the last quarter, it has not contributed much to revenues. These factors have resulted in an operating loss of Rs. 34.68 lakhs. There has also been an increase in interest charges to Rs.43.5 lakhs from Rs. 37.8 lakhs in the previous year. This has resulted in a loss of Rs.78.23 lakhs before depreciation. No provision for depreciation has been made in view of lack of any profits. Provision towards gratuity will be made as and when it becomes due.

**CURRENT YEAR :**

Your Directors have come to the conclusion that any significant improvement in magnesium metal sales is unlikely in the short to medium term as China has stepped up production of magnesium metal and is currently exporting large quantities to the world markets at very low prices. In fact, Dow Chemicals of United States which had pioneered the production of magnesium metal, and till recently was the largest producer in the world, has shut down their magnesium production facilities permanently. It is in this context that our Company has to devise a strategy for sustaining operations at a profitable level.

The Company has received substantial orders from Defence Establishments and private sector companies for downstream products including powders, forgings and sheets after successful execution of trial orders earlier received from them. These are high value added products and as these are made to order, will not suffer from dumping. The operation of the Carbon-di-oxide plant has stabilised and the product has been well received in the market. Your Company is taking steps to increase the capacity of the plant as it has been found to be quite profitable.

Fresh retort pipes are expected towards end July, and your Directors expect to step up production of magnesium metal to previous levels. With these developments, your Directors are reasonably confident that operations from the second quarter onwards would be profitable and the results for the current year would be encouraging. In order to ensure that the Company does not suffer due to non supply of retort tubes in future, alternate sources of supply are being established.

**FINANCES :**

In view of the cash losses, your Company has obtained a Working Capital Loan of Rs. 30.00 lakhs from Andhra Pradesh State Financial Corporation in December 1998 and your Company is very grateful for their timely assistance.

In addition, your Company has allotted Rs. 60.00 lakhs of 14% redeemable cumulative preference shares, redeemable after 3 years and before 7 years on private placement basis to augment working capital and reduce interest burden.

**SOUTHERN MAGNESIUM AND CHEMICALS LIMITED****PARTICULARS OF EMPLOYEES :**

As per Section 217 (2A) of the Companies Act, 1956 there are no employees who are in receipt of remuneration exceeding Rs. 3.00 lakhs per annum.

**DIRECTORS :**

Sri N. Rajender Prasad, retires by rotation and being eligible offer himself for re-appointment.

**AUDITORS :**

You are requested to appoint M/s. K.S. Rao & Company, Chartered Accountants, Hyderabad as Auditors for the year 1999-2000 and fix their remuneration.

**DEPOSITS :**

In terms of Reserve Bank of India, Direction 1977 read with Section 58A of Companies Act, 1956, the Directors Report as under.

1. Number of Depositors who have not claimed their deposits has been paid by the Company after due date : Nil.
2. Total amount remaining unclaimed / unpaid : Nil.

**LISTING ON STOCK EXCHANGES :**

Company's shares are listed on Hyderabad and Bombay Stock Exchanges. Listing fees have been paid upto date to the Bombay Stock Exchange.

**ACKNOWLEDGEMENT :**

Your Directors wish to place on record their appreciation of the assistance received from Andhra Pradesh Industrial Development Corporation Ltd., Andhra Pradesh State Financial Corporation and Indian Overseas Bank. Your Directors wish to place on record their appreciation of the excellent services rendered by all the employees of the Company.

On behalf of the Board

Place : Hyderabad  
Date : 21.07.99

Sd/-  
(Dr. N.B. Prasad)



**SOUTHERN MAGNESIUM AND CHEMICALS LIMITED****FORM - B****FORM FOR DISCLOSURE OF PARTICULARS WITH RESPECT TO TECHNOLOGY ABSORPTION.**

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|---|--|
| 1. Specific areas in which R & D carried out by the Company.  | Work on manufacture of magnesium powders, plates and sheets and manufacture of magnesium alloys. |
| 2. Benefits derived as a result of the above R & D.           | Production of magnesium powder has been commercialised and Company received substantial orders.  |
| 3. Future plan of action alloys.                              | Continue work on production of magnesium alloys  |
| 4. Expenditure on R & D                                       | NIL (Included in revenue expenses)   |
| a) Capital  |  |
| b) Recurring  |  |
| c) Total  |  |
| d) Total R & D expenditure as a percentage of total turnover. |  |

**TECHNOLOGY ABSORPTION ADOPTION AND INNOVATION.**

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|--|----------------|
| 1. Efforts made towards technology   | N.A.           |
| 2. Benefits derived as a result of the above efforts   | N.A.           |
| 3. In case of imported technology imported during the 1st 5 yrs. (reckoned from the beginning of the financial year), following information may be furnished : | Not applicable |
| a) Technology  |                |
| b) Year of import  |                |
| c) Has technology been fully absorbed  |                |
| d) If not fully absorbed, area where this has not been place, reason therefore and future plans of action.   |                |

**B. FOREIGN EXCHANGE EARNING & OUTGO**

During the year foreign exchange outgo was Rs. 3.68 lakhs and foreign exchange earnings was Rs. NIL.