

SOUTHERN MAGNESIUM AND CHEMICALS LIMITED



**TWENTY SIXTH ANNUAL REPORT
2011 - 2012**

BOARD OF DIRECTORS

Sri. N. RAVI PRASAD	Managing Director
Sri. N. RAJENDER PRASAD	Joint Managing Director
SRI. K. ESHWARAIAH	APIDC Nominee Director
Sri. SNEHAL A THAKKAR	Director
SRI.V.S.S.PRAKASH	Director

AUDITORS	M/S.K.S.RAO & COMPANY Chartered Accountants Hyderabad
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BANKERS	ANDHRA BANK SOMAJIGUDA HYDERABAD
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REGD.OFFICE	DECCAN CHAMBERS, (5 TH FLOOR) 6-3-666/B, SOMAJIGUDA HYDERABAD – 500 082
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WORKS	GOWRIPATNAM WEST GODAVARI DISTRICT
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MINES	1. MULUGU MANDAL WARANGAL DIST. ANDHRA PRADESH 2. VENKATAYAPALAM VILLAGE KHAMMAM DIST. ANDHRA PRADESH
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REGISTRAR AND SHARE TRANSFER AGENTS	AARTHI CONSULTANTS PRIVATE LIMITED, 1-2-285, DOMALGUDA HYDERABAD-500029
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NOTICE

Notice is hereby by given that the 26th Annual General Meeting of the Members of Southern Magnesium and Chemicals Limited will be held on Saturday the 29th day of September, 2012 at 11.30 AM at Hotel I.K.London Residency, 6-3-656, Kapadia Lane, Somajiguda, Hyderabad – 500 082 to transact the following business.

ORDINARY BUSINESS:

1. To receive consider and adopt the Balance Sheet as at 31st March, 2012 and Profit and Loss account for the year 2011-2012 and report of the Auditors and report of Directors thereon.
2. To note that Sri.Snehal A Thakkar, Director retires by rotation and being eligible offers himself for re-appointment .
3. To appoint M/s K.S.Rao & Co, Chartered Accountants as Statutory auditors to hold office up to the conclusion of next Annual General Meeting at a remuneration as may be fixed by the Board of Directors of the Company by passing the following resolution.

“Resolved that the Statutory Auditors M/s.K.S.Rao & Co, Chartered Accountants, Hyderabad be and are hereby appointed as Auditors of the Company to hold office from the conclusion of this 26th Annual General Meeting of the Company until the conclusion of next Annual General Meeting of the Company at such remuneration as may be determined by the Board of Directors of the Company”.

SPECIAL BUSINESS :

Alteration of Articles of Association :

4. To consider and if thought fit, to pass, with or without modification(s) the following resolution as a Special Resolution:

“RESOLVED THAT pursuant to the provisions of Section 31 and all other applicable provisions of the Companies Act, 1956 and Rules framed there under, the existing Article No.138.iii) of Articles of Association be and is hereby amended as under :

iii) Every Director, shall be paid such fee as the Board of Directors determine for each meeting of the Board or committee there of attended by him. The fee so determined shall not exceed the limits as prescribed under Companies Act, 1956.

“FURTHER RESOLVED THAT the Board of Directors of the Company (hereinafter referred to as “the Board” which term shall be deemed to include any Committee or any person which the Board may nominate/constitute to exercise its powers, including the powers by this Resolution) be and is hereby authorized to carry out the above mentioned amendments in the existing Articles of Association of the Company and to take all such steps as may be necessary to give effect to this Resolution.”

NOTES :

1. An Explanatory Statement pursuant to section 173(2) of the companies Act, 1956 in relation to the Special Business of the Meeting is annexed hereto and forms part of this notice.
2. **A MEMBER ENTITLED TO ATTEND AND VOTE AT THE MEETING IS ENTITLED TO APPOINT A PROXY OR PROXIES TO ATTEND AND VOTE ON A POLL INSTEAD OF HIMSELF / HERSELF AND THE PROXY NEED NOT BE A MEMBER OF THE COMPANY. PROXIES, IN ORDER TO BE EFFECTIVE MUST BE RECEIVED BY THE COMPANY NOT LESS THAN 48 HOURS BEFORE THE COMMENCEMENT OF THE MEETING.**
3. The Register of Members and Share Transfer Books of the Company will be closed from 26.09.2012 to 29.09.2012 (Both days inclusive).
4. Members are requested to produce the Attendance Slip duly signed as per the Specimen Signature recorded with the Company/Depository Participant for admission to the meeting hall.

5. Members are requested to notify immediately any change in their address to the Share Transfer Agents and in case their shares are held in dematerialized form, this information should be passed on to their respective Depository Participants.
6. A Member desirous of receiving any information on the accounts or operations of the company is requested to forward his/her queries to the company at least 7 working days prior to the meeting, so that the required information can be made available at the meeting.
7. Members holding shares in physical form are requested to notify immediately any change in their address along with address proof, i.e. Electric /Telephone Bill, Driving License or a copy of passport and Bank particulars to the company or its Registrar & Share Transfer Agent and in case their shares are held in dematerialized form, this information should be passed on directly to their respective Depository Participants and not to the company/RTA without delay.
8. Members, who hold shares in de-materialized form, are requested to bring their Client ID and DP IDs for easier identification of attendance at the meeting.
9. It shall be mandatory for the transferee(s) to furnish copy of PAN Card to the Company/RTAs for registration of transfer of shares for securities market transactions and off market/private transaction involving transfer of shares in physical form of listed companies.
10. As part of Green Initiative in Corporate Governance the Ministry of Corporate Affairs (MCA), Government of India vide its Circular has allowed paperless compliances by Companies inter-alia stating that if the Company sends official documents to their shareholders electronically, it will be in compliance with the provisions of Section 53 of the Companies Act, 1956. Keeping in view shareholders are requested to update their E-Mail ID with their DP.

For and on behalf of the Board of Directors
For **SOUTHERN MAGNESIUM AND CHEMICALS LIMITED**

Place : Hyderabad
Date : 14.08.2012

Sd/-
N.Ravi Prasad
Managing Director

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

The existing provisions of Articles of Association of the Company says that the remuneration paid to the Directors for each meeting of Board shall not exceed Rs.250/- The Board considered now it is necessary to revise the same. Hence it is proposed to amend Articles of Association of the Company for payment of remuneration/sitting fees as per the limits prescribed by the Companies Act, 1956.

As per Section 31 of the Companies Act, 1956, any amendment to Articles requires the approval of Shareholders. Hence the resolution is commended for your approval.

None of the Directors are interested in the specified resolution.

For and on behalf of the Board of Directors
For **SOUTHERN MAGNESIUM AND CHEMICALS LIMITED**

Place : Hyderabad
Date : 14.08.2012

Sd/-
N.Ravi Prasad
Managing Director

DIRECTOR'S REPORT

Your Directors have pleasure in presenting the 26th Annual Report and the Audited Accounts for the year ended 31st March 2012.

FINANCIAL REPORT / OPERATIONS

(Rs.Lakhs)

Particulars	Current Year As on 31.03.2012	Previous Year As on 31.03.2011
Net Sale and other income	163.61	185.29
Profit/(Loss)Before Depreciation and interest	(2.49)	29.28
Depreciation, and Interest	8.62	14.13
Net Profit/Net loss (-)	(11.11)	15.15
Total Cum.Loss	(657.61)	(646.50)

REVIEW OF OPERATIONS :

The Income for the year 2011-12 is Rs. 163.61 lakhs and a loss of Rs..11.11 lakhs. The income for the previous year 2010-11 was Rs.185.29 Lakhs and a Profit of Rs.15.15 lakhs. The loss for the current year was on account of write off of Rs.29.48 lakhs towards fraud committed by a new vendor in China. The Board is taking necessary steps to recover the same.

DIVIDEND:

In view of the accumulated losses, your Directors have decided not to recommend dividend for the year.

PUBLIC DEPOSITS:

Your Company has not accepted any deposits falling within the meaning of Sec.58A of the Companies Act, 1956 read with the Companies (Acceptance of Deposits) Rules, during the financial year under review.

LISTING:

The equity shares of your company are listed on Bombay Stock Exchange.

CAPITAL OF THE COMPANY:

The Authorised Capital of the company stands at 40,00,000 equity shares of Rs. 10/- each and 10,00,000 preference shares of Rs.10/- each. The Issued, Subscribed and Paid up capital of the company stands at 30,00,000 equity shares of Rs 10/- each and 10,00,000 preference shares of Rs.10/- each.

SUBSIDIARY COMPANY:

The Company has no subsidiaries.

INSURANCE:

The company's assets have been adequately insured against major risks.

DIRECTORS:

In accordance with the Companies Act, 1956 read with Articles of Association of the company the Director namely Sri.Snehal A Thakkar, Director retires by rotation and is eligible for re-appointment. Your Board recommends the re appointment of the Director above in the best interests of the company.

DIRECTORS RESPONSIBILITY STATEMENT :

As required under section 217(2AA) of the Companies Act, 1956, your Directors confirm that :

- I) In the preparation of the Annual Accounts, the Applicable accounting standards have been followed.
- II) The Directors have selected such accounting policies and applied them consistently and made judgements 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 or loss of the Company for the period:
- III) Proper and sufficient care has been taken for the maintenance of adequate accounting record in accordance with the provisions of the Companies Act 1956 for safeguarding the assets of the Company and for the preventing and detecting fraud and other irregularities.
- IV) The Directors have prepared the Annual Accounts on a going concern basis.

PARTICULARS OF EMPLOYEES

There is no employee who is falling under section 217 (2A). Therefore, the disclosures required to be made under section 217 (2A) of the Companies Act, 1956 and the rules made there under are not applicable.

AUDITORS

Your directors propose the appointment of M/s.K.S.Rao & Co, Chartered Accountants, Hyderabad as statutory auditors to hold office until the conclusion of the next Annual General Meeting of the company.

CORPORATE GOVERNANCE

As a listed company, necessary measures have been taken to comply with the listing agreements of Stock Exchanges. A report on Corporate Governance, along with a certificate of compliance from the Auditors, Forms part of this Report as Annexure.

PUBLIC DEPOSITS:

Your Company has not accepted any deposits falling within the meaning of Sec.58A of the Companies Act, 1956 read with the Companies (Acceptance of Deposits) Rules, during the financial year under review.

Conservation of energy, technology absorption, foreign exchange earnings and outgo

A) Conservation of Energy	Nil
B) Technology absorption, adoption and innovation.	
Specific areas in which R & D carried out by the company	Nil
Benefits derived as a result of the above R & D	Nil
Future plan of action	Nil
Expenditure on R & D	
a. Capital	Nil
b. Recurring	Nil
c. Total	Nil
d. Total R & D Expenditure as a percentage of Total Turnover	Nil
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 1st 5 years
(reckoned for the beginning of the Financial year)
following information is furnished:

a) Technology	N.A
b) Year Import	N.A
c) Has Technology been fully absorbed	N.A
d) If not fully absorbed, area not applicable	N.A
e) Where this has not been the, case reason	
Therefore and future plans of action	N.A

C) FOREIGN EXCHANGE EARNING & OUT GO

During the year Foreign Excnage out go was Rs.85.19 lakhs and Foreign Exchange earnings was Rs. Nil.

ACKNOWLEDGEMENT

Your Directors wish to place on record their appreciation of the excellent service rendered by all the employees of the Company.

DECLARATION BY MANAGING DIRECTOR OF AFFIRMATION BY DIRECTORS AND SENIOR MANAGEMENT PERSONNEL OF COMPLIANCE WITH THE CODE OF CONDUCT:

The shareholders

I, N.Ravi Prasad, Managing Director of the Company do hereby declare that the directors and senior management of the Company have exercised their authority and powers and discharged their duties and functions in accordance with the requirements of the code of conduct as prescribed by the company and have adhered to the provisions of the same.

For and on behalf of the board of Directors
For SOUTHERN MAGNESIUM AND CHEMICALS LIMITED

Place : Hyderabad
Date : 14.08.2012

(N.Ravi Prasad)
Managing Director

(N. Rajender Prasad)
Joint Managing Director

MANAGEMENT DISCUSSION AND ANALYSIS

The Company was set up to produce Primary Magnesium Metal. However due to dumping of Magnesium Metal from China we had to shift on focus to down stream products. To day we are largely produce magnesium powders, turnings and also regular magnesium metal ingots.

OPPORTUNITIES, RISKS, CONCERNS THREATS & OUTLOOK:

We are focused on increasing our market share of existing, products, and forging strong relationship with customers, laying thereby a robust foundation for sustainable growth.

The year 2012-13 looks promising with its own sets of challenges and opportunities for us and it is expected that there will be growth in chemical and Pharmaceuticals industry.

With global recession and idle/new capacities abroad and a weaker rupee, there is increasing threat of raw material cost increasing. Steep increase in imports into the country and withdrawal of safe guard duty are a concern.

INTERNAL CONTROL SYSTEMS & ADEQUACY:

The Company has established an appropriate system of internal control to ensure that there exists a proper control over all the transactions and that all its assets are properly safeguarded and not exposed to risk arising out of unauthorised use or disposal. The Internal Audit conducted at all divisions for all the key areas of business. The Internal Control System is supplemented by a programme of Internal Audits to ensure that the assets are properly accounted for and the business operations are conducted in adherence to laid down policies and procedures. The Internal Audit is oriented towards review of controls and operational improvements.

FINANCIAL AND OPERATIONAL PERFORMANCE:

Highlights of financial and operational Performance are given below:

Particulars	As at 31.03.2012 (Rs in lakhs)
Net Sale and other income	163.61
Profit/(loss) before Depreciation and interest	(2.49)
Depreciation. and Interest	8.62
Net Profit/ (Net loss)	(11.11)
Total Cum.Loss	(657.61)

SEGMENT WISE OR PRODUCT WISE PERFORMANCE: Not Applicable

HUMAN RESOURCES, INDUSTRY DEVELOPMENT RELATIONS:

Relations with the employees remained cordial in general throughout the year. In order to optimise the contribution of the employees to the Company's business and operations, in- house training is given to the employees to induce contribution to productivity increase and development programmes for all levels of employees have been devised. Occupational Health Safety and Environmental Management are given utmost importance.

SENIOR MANAGEMENT DISCLOSURES:

The Company's senior management makes disclosures to the Board relating to all material financial and commercial transactions as when they occur.

CAUTIONARY STATEMENT:

Statement in this Management Discussion and Analysis describing the Company's objectives, projections, estimates, expectations or predictions may be 'forward-looking statements' within the meaning of applicable securities laws and regulations and such forward-looking statements involve risks and uncertainties. Actual results could differ materially from those expressed or implied important factors that could make a difference to the Company's operations include raw material availability and prices, cyclical demand and pricing in the Company's principal markets, changes in Government regulations, tax regimes, economic developments within India and the Countries in which the Company conducts business and other incidental factors. The Company undertakes no obligation to publicly update or revise any forward looking statements, whether as a result of new information, future events, or otherwise. Readers are cautioned not to place undue reliance on these forward looking statements that speaks only as of their dates.

For and on behalf of the Board of Directors
For **SOUTHERN MAGNESIUM AND CHEMICALS LIMITED**

Sd/-
N.Ravi Prasad
Managing Director

Place : Hyderabad
Date : 14.08.2012

REPORT ON CORPORATE GOVERNANCE

1. Company's Philosophy on code of Governance:

Corporate Governance is a synonym for sound management, transparency and disclosure. The Company's Philosophy of Corporate Governance envisages the highest level of transparency, accountability equity in all its dealings with shareholders, employees, government and lenders. The Company's guiding principles are focused to achieve the highest standards of corporate governance. In compliance with the disclosure requirements of Clause 49 of the Listing Agreement executed with the Stock Exchanges the details are set out below:

2. Board of Directors:

Composition and Category of Directors as at 31st March, 2012

The Board of Directors Comprises 2 Executive Directors and 3 non Executive Directors, During the Year under review 4 Board Meetings were held on 31.05.2011, 10.08.2011, 12.11.2011, 13.02.2012

The compositions of the Board Directors and their attendance at the meeting during the year and at the last Annual General Meeting as also number of other Directorship of committees are as follows:

Name of Director	Category of Directorship	No. of Board Meetings attended	Attendance at last AGM	No. of other Directorships	Committee Membership in Others Cos.
Mr. N. Ravi Prasad	Promoter, Managing Director	1	YES	3	1
Mr. N. Rajender Prasad	Promoter, Joint Managing Director	4	YES	3	4
Mr. K. Eshwaraiah	Nominee Director, Independent Non Executive Director	2	NO	-	2
Mr. Snehal Thakkar	Independent Non Executive Director	4	NO	-	3
Mr. V.S.S. Prakash	Independent Non Executive Director	4	YES	-	1

AUDIT COMMITTEE

The composition of the Audit Committee is in compliance with the clause 49 of the Listing Agreement and the terms of reference, role and scope are in line with those prescribed by clause 49 of the Listing Agreement with the Stock Exchanges.

The Audit Committee comprises of 2 (Two) Non-executive Independent Directors and One Executive Director. The Audit Committee met 4 (Four) times during the year under review on 31.05.2011, 10.08.2011, 12.11.2011 and 13.02.2012.