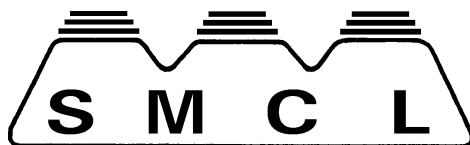


SOUTHERN MAGNESIUM AND CHEMICALS LIMITED



**TWENTY SEVENTH ANNUAL REPORT
2012 - 2013**

BOARD OF DIRECTORS

Sri N. RAVI PRASAD	Managing Director
Sri N. RAJENDER PRASAD	Joint Managing Director
Smt. MARIYAMMA	APIDC Nominee Director (w.e.f.01.02.2013)
Sri K. ESHWARAIAH	Director (up to 18.12.2012 & w.e.f. 30.05.2013)
Sri SNEHAL THAKKAR	Director (up to 30.05.2013)
Sri V. S. S. PRAKASH	Director

REGISTERED OFFICE: Deccan Chambers, 5th Floor, 6-3-666/B,
Somajiguda, Hyderabad – 500 082
Ph: 040-23311789, Fax No: 040-23319871

AUDITORS: K S Rao & Co.
Chartered Accountants,
Hyderabad.

BANKERS: Andhra Bank
Somajiguda, Hyderabad

WORKS: Gowripatnam
West Godavari District

MINES:

1. Mulugu Mandal
Warangal District
Andhra Pradesh
2. Venkatayapalam Village
Khammam District
Andhra Pradesh

LISTED AT: 1) BSE Limited

**REGISTRAR &
SHARE TRANSFER AGENTS:** Aarthi Consultants Private Limited,
1-2-285, Domalguda
Hyderabad-500029
Ph.Nos.040-27638111/27634445
Email : info@aarthiconsultants.com

NOTICE

Notice is hereby given that the 27th Annual General Meeting of the Members of Southern Magnesium and Chemicals Limited will be held on Monday, the 30th September, 2013 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 Audited Balance Sheet as at March 31, 2013, the Profit & Loss Account and Cash Flow Statement for the year ended on that date together with the Schedules and Notes attached thereto, along with the Reports of Auditors and Directors thereon.
2. To appoint a Director in place of Sri. V. S. S. Prakash, who retires by rotation and being eligible, offers himself for re-appointment.
3. To re-appoint M/s. K. S. Rao & Co., Chartered Accountants, Hyderabad as Statutory Auditors of the Company to hold office from the conclusion of this Annual General Meeting until the conclusion of the next Annual General Meeting of the Company and to fix their remuneration.

“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 27th 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:

4. To consider and if thought fit, to pass with or without modifications the following resolution as an Ordinary Resolution.
“**RESOLVED THAT** Smt. Mariamma who was appointed as an APIDC Nominee Director of the company by the Board of Directors at their meeting held on 01.02.2013 and who holds office under section 260 of the Companies Act 1956 until the date of the Annual General Meeting and in respect of who the company has received a notice in writing proposing his candidature for the office of the Director be and is hereby appointed as a APIDC Nominee Director of the Company liable to retire by rotation.”
5. To consider and if thought fit, to pass with or without modifications the following resolution as an Ordinary Resolution.
“**RESOLVED THAT** Sri. K. Eshwaraiah who was appointed as an Additional Director of the company by the Board of Directors at their meeting held on 30.05.2013 and who holds office under section 260 of the Companies Act 1956 until the date of the Annual General Meeting and in respect of who the company has received a notice in writing proposing his candidature for the office of the Director be and is hereby appointed as a Director of the Company liable to retire by rotation.”

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

Sd/-

(N.Ravi Prasad)
Managing Director

Place: Hyderabad
Date: 29.08.2013

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 27.09.2013 to 30.09.2013 (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
SOUTHERN MAGNESIUM AND CHEMICALS LIMITED

Place: Hyderabad
Date: 29.08.2013

Sd/-
(N.Ravi Prasad)
Managing Director

EXPLANATORY STATEMENT

(Pursuant to section 173 (2) of the companies act 1956)

ITEM NO.4

The members may note that Smt. Mariyamma was inducted into Board as APDIC Nominee Director of the company, with effect from 01.02.2013 pursuant to the provisions of Section 260 of the Companies Act, 1956 and holds the office as such up to the date of ensuing Annual General Meeting. The company has received notice in writing from member of the Company along with the requisite deposit under Section 257 read with section 190 of the Companies Act, 1956 proposing the candidature of the above said person for the Office of APIDC Nominee Director whose period of office is determinable by retirement of Directors by rotation.

As per the provisions of section 257 of the Act, any such proposal ought to be approved by the members in the General Meeting.

Hence, the Board recommends the resolution for your approval.

None of Directors except Smt.Mariyamma may be deemed to be concerned or interested in the resolution.

ITEM NO.5

The members may note that Sri. K. Eshwaraiah was inducted into Board as Additional Director of the company, with effect from 30.05.2013 pursuant to the provisions of Section 260 of the Companies Act, 1956 and holds the office as such up to the date of ensuing Annual General Meeting. The company has received notice in writing from member of the Company along with the requisite deposit under Section 257 read with section 190 of the Companies Act, 1956 proposing the candidature of the above said person for the Office of Director whose period of office is determinable by retirement of Directors by rotation.

As per the provisions of section 257 of the Act, any such proposal ought to be approved by the members in the General Meeting.

Hence, the Board recommends the resolution for your approval.

None of Directors except Sri. K. Eshwaraiah may be deemed to be concerned or interested in the resolution.

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

Place: Hyderabad
Date: 29.08.2013

Sd/-
(N.Ravi Prasad)
Managing Director

DIRECTORS' REPORT

Your Directors have pleasure in presenting the 27th Annual Report and the Audited Accounts for the year ended 31st March, 2013.

FINANCIAL REPORT / OPERATIONS:

(Rs. In Lakhs)

Particulars	Current Year As on 31.03.2013	Previous Year As on 31.03.2012
Net Sale and other Income	208.97	163.61
Profit/(Loss) Before Depreciation and Interest	60.02	(2.49)
Depreciation, and Interest	4.81	8.62
Net Profit / Net Loss (-)	55.21	(11.11)
Total Cum. Loss	602.40	(657.61)

It is with deep sorrow that we bring to your attention that our Founder and former Chairman, Padmashree Dr. N. B. Prasad has left for heavenly abode on 29th April this year leaving a big void amongst us. The Board wishes to place on record the unstinted support, advice and guidance that he has given during the last nearly three decades and for the selfless contributions he has made.

REVIEW OF OPERATIONS:

During the year 2012-13, the Company had an income of Rs. 208.97 Lakhs against which the Company incurred a net profit of Rs. 55.21 Lakhs as compared to the income of Rs. 163.61 Lakhs and a net loss of Rs. 11.11 Lakhs in the previous year 2011-12.

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 BSE Limited.

CAPITAL OF THE COMPANY:

The Authorised Capital of the company stands at Rs. 5,00,00,000/- divided into 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 Rs. 4,00,00,000 divided into 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. V. S. S. Prakash, 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.

Sri. Snehal A Thakkar resigned the Board on 30.05.2013 and the Board of Directors of the company places on record their sincere appreciation and thanks for the valuable guidelines and contribution given by Sri. Snehal A Thakkar.

Sri. K. Eshwaraiah was appointed as additional director on the board w.e.f. 30.05.2013.

BRIEF PROFILE OF SRI. V. S. S. PRAKASH:

Particulars	Sri. V. S. S. Prakash
Date of Birth	12.05.1958
Date of Appointment	30.04.2009
Qualifications	B.com
No. of Shares held in the Company	Nil

BRIEF PROFILE OF SMT.MARIYAMMA

Particulars	Smt.Mariyamma
Date of Birth	22.05.1957
Date of Appointment	01.02.2013
Qualifications	DGM, APIDC (APIDC Nominee Director)
No. of Shares held in the Company	Nil

BRIEF PROFILE OF SRI. K. ESHWARAIAH:

Particulars	Sri. K. Eshwaraiah
Date of Birth	12.08.1954
Date of Appointment	30.05.2013
Qualifications	DGM RRL (Retd.,) APIDC
No. of Shares held in the Company	Nil
Directorships held in other companies	Nil

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.

COST AUDITOR

Your Directors have appointed Sri Karuchola Koteswara Rao, Hyderabad, Cost Accountant, as the cost auditor for the financial year 2012-13.

CLARIFICATIONS ON AUDITORS' COMMENT IN AUDITORS REPORT:

1. Emphasis of matter: In view of the losses of the Company, the Board has taken decision to provide for gratuity when it materializes.
2. Basis for qualified opinion: Although this net worth of the Company has been eroded, the Company is presently making profits and hopes to come to positive net worth in the coming years.

MANAGEMENT DISCUSSION AND ANALYSIS:

A detailed review of operations, performance and future outlook of your Company and its businesses is given in the Management Discussion and Analysis, which forms part of this Report.

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 is given elsewhere in the Annual report.

CODE OF CONDUCT:

The Code of conduct has been circulated to all the members of the Board and Senior Management and the compliance of the same has been affirmed by them. Code of conduct has also been placed signed on the website of the company. A declaration signed by the Managing Director is given elsewhere in the Annual report.

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 1 st 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 Exchange out go was Rs.85.67 lakhs and Foreign Exchange earnings was Rs. Nil.

ACKNOWLEDGEMENT

Your Directors wish to place on record their appreciation for 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
Southern Magnesium and Chemicals Limited

Place: Hyderabad
 Date: 29.08.2013

Sd/-
 (N.Ravi Prasad)
 Managing Director

MANAGEMENT DISCUSSION AND ANALYSIS

The Company was set up to produce primary Magnesium metal. However due to dumping magnesium metal from china we had to shift on focus to downstream products. Today 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 there by a robust foundation for sustainable growth.

The year 2013-14 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 the 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 31.03.2013 (Rs in lakhs)
Net Sale and other Income	208.97
Profit (loss) before Depreciation and interest	60.02
Depreciation And Interest	4.81
Net Profit/ (Net loss)	55.21
Total Cum. Loss	602.40

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
Southern Magnesium and Chemicals Limited

Sd/-
(N.Ravi Prasad)
Managing Director

Place: Hyderabad
Date: 29.08.2013

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:

The Board of Directors Comprises 2 Executive Directors and 4 Non-Executive Directors. The Composition of the Board is in conformity with the listing requirements.

The details of the Directors being appointed/ re-appointed on retirement by rotation at the ensuing Annual General Meeting, as required pursuant to Clause 49(IV) (G) of the Listing Agreement, are mentioned in the Directors' Report, forming part of the Annual Report.

The names and categories of the Directors on the Board, their attendance at Board Meetings held during the year and the number of Directorships and Committee Chairmanships/Memberships held by them in other companies is given below. Other Directorships do not include alternate directorships, directorships of the private limited companies, section 25 companies and of companies incorporated outside India. Chairmanship/Membership of board Committees includes only Audit and shareholders/ Investor Grievances Committees.

Pecuniary relationship or transaction of the Non-executive Directors vis-à-vis the company. None of the Non-executive Directors has any pecuniary relationship or transactions with the company.

During the Year under review 4 Board Meetings were held on 30.05.2012, 14.08.2012, 14.11.2012 and 01.02.2013.

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 Directorship	No. of Board Meetings Attended	Attendance At Last A.G.M	No. of Other Directorship	Committee Memberships in other cos.
Mr. N. Ravi Prasad	Promoter Managing Director	4	Yes	2	-
Mr. N. Rajender Prasad	Promoter Joint Managing Director	4	Yes	2	-
*Mr.K. Eshwaraiah	Independent Non – Executive Director	-	No	-	-
***Mr. Snehal A.Thakkar	Independent Non – Executive Director	3	No	-	-
Mr.V. S. S. Prakash	Independent Non – Executive Director	3	Yes	-	-
**Mrs. Mariyamma	Nominee Director Independent Non – Executive Director	1	No	2	-

* Appointed w.e.f. 30.05.2013

**Appointed w.e.f. 01.02.2013

***Resigned w.e.f. 30.05.2013

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 3 (Three) Non-executive Independent Directors and One Executive Director. The Audit Committee met 4 (Four) times during the year under review on 30.05.2012, 14.08.2012, 14.11.2012, 01.02.2013

The Composition of Audit Committee and the details of meeting attended are given below:

Sl. No	Name	Position held in the Committee	Number of committee meeting attended
1	Mr. Snehal A. Thakkar (Up to 30.05.2013)	Chairman	4
2	Mrs. Mariyamma	Member/Chairperson	1
3	Mr. K. Eshwaraiah(w.e.f. 30.05.2013)	Member	-
4	Mr. N. Rajender Prasad	Member	4
5	Mr. V. S. S. Prakash	Member	4

During these meetings, the Committee inter alia, reviewed the financial statements including changes in accounting policies and practices before submitting to the Board, recommended the appointment of statutory Auditors including fixation of audit fee, and reviewed the company's financial and risk management policies.

INVESTORS' GRIEVANCE COMMITTEE:

The responsibilities of the committee include

- to approve share transfers and transmissions and
- to approve splitting of share certificates, consolidation of share certificates and related matters including wish you of fresh share certificates in lieu of the split / consolidated certificates and redressal of all share holders queries and grievances. The Committee has been meeting at regular intervals to resolve the complaints and replied / resolved to the satisfaction of the investors.

During the year the committee met on 20.12.2012, 21.02.2013,30.03.2013

The Composition of share holders / investors' grievance committee and the details of meeting attended are given below.

Sl. No	Name	Position held in the Committee	Number of committee meeting attended
1	Mr. Snehal A Thakkar(up to 30.05.2013)	Chairman	-
2	Mr. K. Eshwaraiah	(w.e.f. 30.05.2013)	Member -
3	Mr.N.Rajender Prasad	Member	3
4	Mr.V.S.S.Prakash	Member	3

REMUNERATION COMMITTEE:

The responsibilities of remuneration committee are to appraise the performance of Executive Directors and senior officers of the Company and to determine and recommended to the Board compensation payable to the above said persons.