

33rd Annual Report 2002 - 2003

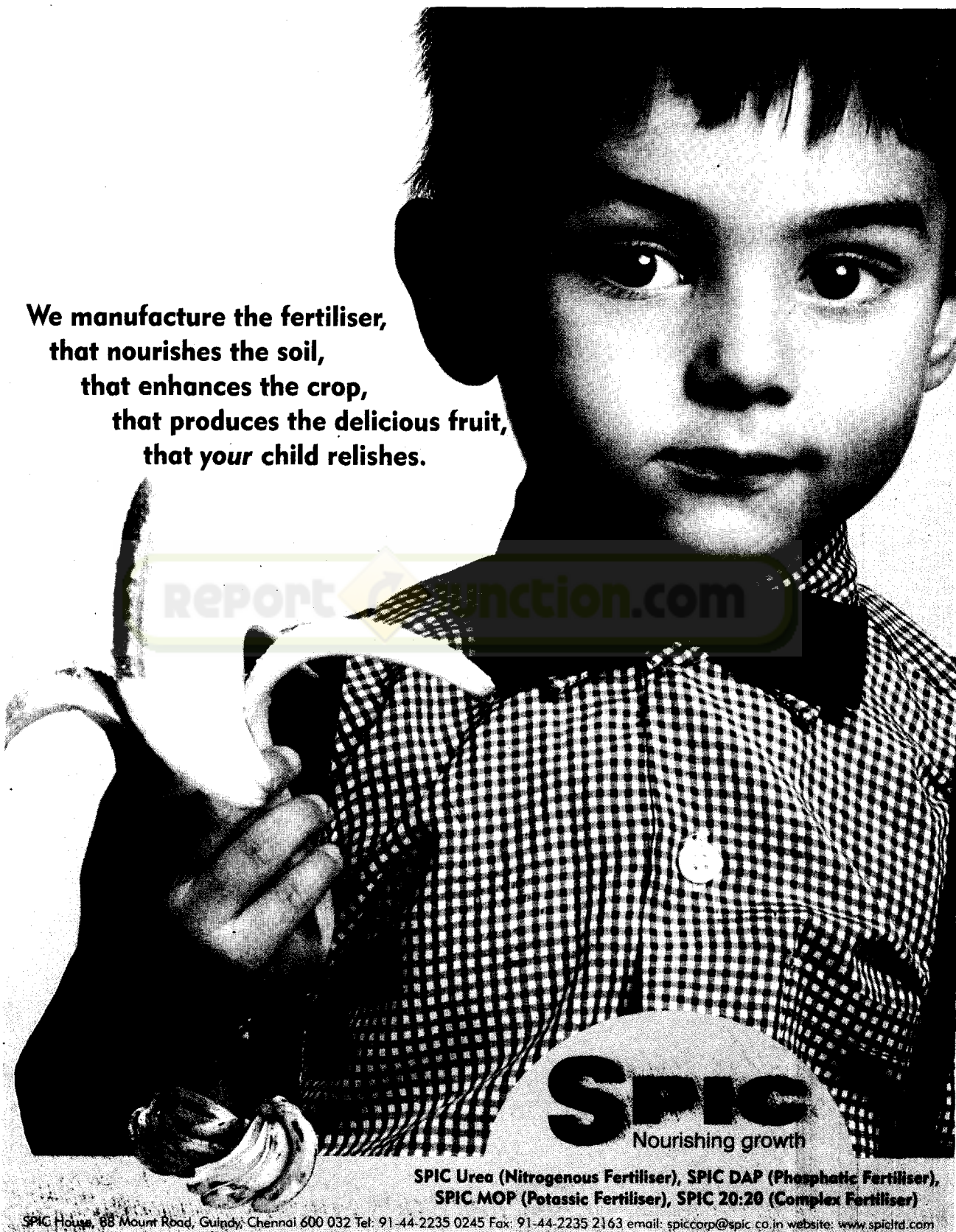


In pursuit of defined growth

SPIC

**SOUTHERN PETROCHEMICAL
INDUSTRIES CORPORATION LIMITED**

**We manufacture the fertiliser,
that nourishes the soil,
that enhances the crop,
that produces the delicious fruit,
that *your* child relishes.**



SPIC
Nourishing growth

**SPIC Urea (Nitrogenous Fertiliser), SPIC DAP (Phosphatic Fertiliser),
SPIC MOP (Potassic Fertiliser), SPIC 20:20 (Complex Fertiliser)**

SPIC House, 88 Mount Road, Guindy, Chennai 600 032 Tel: 91-44-2235 0245 Fax: 91-44-2235 2163 email: spiccorp@spic.co.in website: www.spicofd.com



Southern Petrochemical Industries Corporation Limited

Board of Directors

| | |
|----------------------------|---------------------|
| Dr. A C Muthiah | - Chairman |
| Thiru Ashwin C Muthiah | - Vice-Chairman |
| Thiru K Skandan, IAS | - Director |
| Thiru Arun Ramanathan, IAS | - Director |
| Thiru N Narayanan, IAS | - Director |
| Thiru T S Sridhar, IAS | - Director |
| Dr. K U. Mada | - Director |
| Thiru N R Krishnan | - Director |
| Thiru S Venkitaramanan | - Director |
| Thiru S Rajagopal | - Director |
| Thiru R V Gupta | - Director |
| Thiru Jawahar Vadivelu | - Director |
| Dr. P L Sanjeev Reddy | - Director |
| Thiru V R Mehta | - Director |
| Thiru P C Ghosh | - Director |
| Thiru J M Garg | - Director |
| Thiru Babu K Verghese | - Managing Director |
| Thiru M G Thirunavukkarasu | - Finance Director |

Registered Office

73 Armenian Street,
Chennai - 600 001.

Principal Office

"SPIC House", 88 Mount Road,
Guindy, Chennai - 600 032.

Telephone: 044-22350245

Telefax : 044-22352163

Telegram : "SOUTHPETRO"

E-mail : spiccorp@spic.co.in

Website : www.spicltd.com

Factories

Fertiliser : SPIC Nagar,
Tuticorin - 628 005.

Pharma : Cuddalore - 607 005.
Maraimalai Nagar - 603 209.

Biotech : Coimbatore - 641 101.
Porur, Chennai - 600 116.
Hosur - 635 110.

Auditors

Messers A F Ferguson & Co.,
Chartered Accountants,
5, First Street, Nandanam Extn.,
Nandanam, Chennai - 600 035.

Vice-President (Corporate Affairs) & Secretary

Thiru N Ramakrishnan

Bankers

Indian Bank
Allahabad Bank
Andhra Bank
Bank of Baroda
Bank of India
Canara Bank
Central Bank of India
Dena Bank
Indian Overseas Bank
Oriental Bank of Commerce
Punjab National Bank
Punjab & Sind Bank
State Bank of Bikaner & Jaipur
State Bank of India
State Bank of Patiala
State Bank of Travancore
Syndicate Bank
Union Bank of India
Tamilnad Mercantile Bank Limited
The Bank of Rajasthan Limited
The South Indian Bank Limited

SOUTHERN PETROCHEMICAL INDUSTRIES CORPORATION LIMITED

| CONTENTS | Page No. |
|---|-----------------|
| Overview | 3 |
| Notice | 6 |
| Directors' Report | 16 |
| Particulars of Employees | 24 |
| Management Discussion and Analysis Report | 25 |
| Corporate Governance Report | 34 |
| Auditors' Report | 45 |
| Balance Sheet | 48 |
| Profit and Loss Account | 49 |
| Schedules | 50 |
| Notes on Accounts | 58 |
| Cash Flow Statement | 71 |
| Consolidated Financial Statements | 75 |

IN PURSUIT OF DEFINED GROWTH

As a company that lives by the philosophy of nourishing growth in all its aspects, it is but natural that growth is a recurring theme in all activities undertaken by SPIC. But despite the identification of growth avenues and methods, growth *per se*, in a harsh year, is a difficult task. Yet SPIC has measured up to the challenge and has neither flinched nor digressed from its avowed path. In the time segment of a year, corporate plans meet with success only if they are seen as small steps onward a long journey. Direction is as important as speed. But results are not immediately apparent. Yet the efforts do not cease as the journey is eventually completed successfully in another time segment. The only condition is that the ultimate goal is not lost sight of, nor is the identified process given the go by.

The year past was characterised by many such small steps with potential leaps as the consequence. On the financial front was a small, yet significant, operational profit. This was a culmination of prudent production decisions, working capital and inventory management and cost optimisation.

For agriculture, the year 2002-03 was not favourable. A nation-wide drought, particularly severe in SPIC's command area, put the brakes on the Company's performance. Yet, the operational profit and the Company's increase in its market share of Urea were clear indicators of the Company's ability to perform in difficult times. As part of the process, major initiatives that were undertaken included one related to the human capital of the Company, that of recasting the organisational structure and introducing HR processes to align individual and corporate goals.

The first phase of this exercise involved looking at our organisation in its totality and developing a revised framework of roles and responsibilities for all positions in order to better align them with organisational goals. The emphasis has been on delayering for better empowerment of employees so that accurate information flows enabling better decision making.

In the second phase the role clarification of employees will be completed with relevant grading of positions followed by compensation restructuring being put in place.

SPIC has always done pioneering work in the area of Customer Relationship Management (CRM). This year the focus got sharper. A spate of CRM activities designed to identify and address the specific needs of our dealers and farmers marked the year. The range of activities had both conventional and innovative components. Building and leveraging on SPIC's already high brand equity, the Company represented itself to the farmers and dealers, particularly farmers, as a performance oriented, but just, organisation that secured for them their pride in agriculture. SPIC's Product Communications would go on to win awards, but the real satisfaction came when, with help from effective marketing, the message was applauded by the farmers. And there was a reiteration of the fact that SPIC was a staunch farmer loyalist.

These were the building blocks on which the creeper of growth moved upward. As mentioned earlier, the first steps towards a goal show only the signs, not the result. Those signs are positive and encouraging, realising SPIC's commitment to the process of growth through well-planned and defined efforts. The pursuit of defined growth marked the year that was 2002-03.

SOUTHERN PETROCHEMICAL INDUSTRIES CORPORATION LIMITED

Registered Office: 73 Armenian Street, Chennai - 600 001.

Principal Office: SPIC House, 88 Mount Road, Guindy, Chennai - 600 032.

NOTICE

NOTICE is hereby given that the **THIRTY-THIRD ANNUAL GENERAL MEETING** of the Members of Southern Petrochemical Industries Corporation Limited will be held on Monday, 22 September 2003 at 3.00 P.M. at Rajah Annamalai Hall, Chennai 600 108, to transact the following business:

ORDINARY BUSINESS

1. To receive, consider and adopt the audited Balance Sheet of the Company as at 31 March 2003 and the Profit and Loss Account for the year ended on that date and the Reports of the Directors and Auditors.
2. To elect a Director in the place of Thiru S Venkitaramanan, who retires by rotation and, being eligible, offers himself for re-election.
3. To elect a Director in the place of Thiru M G Thirunavukkarasu, who retires by rotation and, being eligible, offers himself for re-election.
4. To elect a Director in the place of Thiru N R Krishnan, who retires by rotation and, being eligible, offers himself for re-election.
5. To appoint the Auditors and fix their remuneration.

SPECIAL BUSINESS

6. To consider and, if thought fit, to pass, with or without modification, the following resolution as an **ORDINARY RESOLUTION**:

"RESOLVED THAT Thiru Jawahar Vadivelu, whose period of Office shall be liable to determination by retirement of Directors by rotation, be and is hereby appointed a Director of the Company."

7. To consider and, if thought fit, to pass, with or without modification, the following resolution as a **SPECIAL RESOLUTION**:

"RESOLVED THAT subject to the approval of the Central Government, Financial Institutions and such other authorities, as may be necessary, sanction of the Company be and is hereby accorded in terms of Sections 198, 269, 309, 311 and other applicable provisions, if any, of the Companies Act, 1956 read with Schedule XIII to the Companies Act, 1956, for the re-appointment of Dr. A C Muthiah as the Chairman (Managing Director) and for payment of remuneration/minimum remuneration by way of Salary, Special Allowance and other perquisites as described below:

I) Period:

From 1 October 2003 to 30 September 2006.

II) Remuneration:

1. Salary:
Rs.2,00,000/- per month.
2. Special Allowance:
Rs.2,00,000/- per month.
3. Perquisites:
Perquisites shall be allowed in addition to both Salary and Special Allowance. However, it shall be restricted to an amount equal to the annual Salary.

Perquisites are presently classified as follows:

- i) Housing/House Rent Allowance:
The expenditure incurred by the Company will be subject to a ceiling of 60 per cent of the Salary.
- ii) Gas, Electricity, Water and Furnishing:
The expenditure incurred by the Company on gas, electricity, water and furnishing shall be valued as per the Income-tax Rules, 1962.
- iii) Medical Reimbursement:
Expenses incurred for the appointee and his family.
- iv) Leave and Leave Travel Allowance:
Leave as per the rules of the Company including encashment of leave. Leave Travel Allowance once in a year incurred in accordance with the rules of the Company.
- v) Club Fees:
Fees of Clubs subject to a maximum of two Clubs.
- vi) Insurance:
Insurance coverage to the appointee in accordance with the rules of the Company.

For the purpose of calculating the above ceiling, perquisites will be evaluated as per Income-tax Rules, wherever applicable. In the absence of any such rule, perquisites shall be evaluated at actuals.

However, the Board of Directors will have the liberty to refix individual ceilings under each of the above heads so as not to exceed the limit of annual Salary or to allow any other perquisite as may be permitted by the Government of India.

Other payments and provisions which shall not be included in the computation of the ceiling on remuneration:

- i) Contribution towards Provident Fund and Superannuation Fund:

Contribution towards Provident Fund will be subject to a ceiling of 12.5 per cent of the Salary. Contribution to pension/superannuation/annuity fund together with

contribution to Provident Fund shall not exceed 27.5 per cent of the Salary. Contributions to Provident Fund and pension/superannuation/annuity fund to the extent of limit prescribed under Income-tax Act/Rules, 1962 or notification issued thereunder from time to time will not be included in the computation of the ceiling on perquisites to the extent these either singly or put together are not taxable under the Income-tax Act/Rules/Notifications.

ii) Gratuity:

Gratuity payable shall not exceed one half month's Salary for each completed year of service.

iii) Leave Encashment:

Encashment of leave at the end of the tenure, as per the rules of the Company.

iv) Car:

Provision of Company's car for business and personal use.

v) Telephone:

Provision of telephone at residence.

4. Reimbursement of Expenses:

i) Entertainment Expenses:

Reimbursement of entertainment expenses actually and properly incurred for the business of the Company subject to a reasonable ceiling as may be fixed from time to time by the Board.

ii) Travelling Expenses:

Reimbursement of travelling expenses actually and properly incurred for the business of the Company subject to a reasonable ceiling as may be fixed from time to time by the Board.

5. Minimum Remuneration:

The remuneration aforesaid shall be the minimum remuneration payable to Dr. A C Muthiah."

8. To consider and, if thought fit, to pass, with or without modification, the following resolution as a SPECIAL RESOLUTION:

"RESOLVED THAT subject to the approval of the Central Government, Financial Institutions and such other authorities, as may be necessary, sanction of the Company be and is hereby accorded in terms of Sections 198, 269, 309, 311 and other applicable provisions, if any, of the Companies Act, 1956 read with Schedule XIII to the Companies Act, 1956, for the re-appointment of Thiru M G Thirunavukkarasu, as the Finance Director of the Company, and for payment of remuneration/ minimum remuneration by way of Salary, Special Allowance/ Performance Award and other perquisites as described below:

i) Period:

From 1 July 2003 to 30 June 2006.

ii) Remuneration:

1. Salary:

Rs.70,000/- per month.

2. Special Allowance/Performance Award, which shall be restricted to an amount equal to the annual Salary.

3. Perquisites:

Perquisites shall be allowed in addition to both Salary and Special Allowance/Performance Award. However, it shall be restricted to an amount equal to the annual Salary.

Perquisites are presently classified as follows:

i) Housing/House Rent Allowance:

The expenditure incurred by the Company will be subject to a ceiling of 60 per cent of the Salary.

ii) Gas, Electricity, Water and Furnishing:

The expenditure incurred by the Company on gas, electricity, water and furnishing shall be valued as per the Income-tax Rules, 1962.

iii) Medical Reimbursement:

Expenses incurred for the appointee and his family.

iv) Leave and Leave Travel Allowance:

Leave as per the rules of the Company including encashment of leave. Leave Travel Allowance once in a year in accordance with the rules of the Company.

v) Club Fees:

Fees of clubs subject to a maximum of two clubs.

vi) Insurance:

Insurance coverage to the appointee in accordance with the rules of the Company.

For the purpose of calculating the above ceiling, perquisites will be evaluated as per Income-tax Rules, wherever applicable. In the absence of any such rule, perquisites shall be evaluated at actuals.

However, the Board of Directors will have the liberty to refix individual ceilings under each of the above heads so as not to exceed the limit of annual Salary or to allow any other perquisite as may be permitted by the Government of India.

Other Payments and provisions which shall not be included in the computation of the ceiling on remuneration:

i) Contribution towards Provident Fund and Superannuation Fund:

Contribution towards Provident Fund will be subject to a ceiling of 12.5 per cent of the Salary. Contribution to pension/superannuation/annuity fund together with contribution to Provident Fund shall not exceed 27.5 per cent of the Salary. Contributions to Provident Fund and pension/superannuation/annuity fund to the extent of limit prescribed under Income-tax Act/Rules, 1962 or notification issued thereunder from time to time will not be included in the computation of the ceiling on perquisites to the extent these either singly

or put together are not taxable under the Income-tax Act/Rules/Notifications.

ii) Gratuity:

Gratuity payable shall not exceed one half month's Salary for each completed year of service.

iii) Leave Encashment:

Encashment of leave at the end of the tenure, as per the rules of the Company.

iv) Car:

Provision of Company's car for business and personal use.

v) Telephone:

Provision of telephone at residence.

4. Reimbursement of Expenses:

i) Entertainment Expenses:

Reimbursement of entertainment expenses actually and properly incurred for the business of the Company subject to a reasonable ceiling as may be fixed from time to time by the Board.

ii) Travelling Expenses:

Reimbursement of travelling expenses actually and properly incurred for the business of the Company subject to a reasonable ceiling as may be fixed from time to time by the Board.

5. Minimum Remuneration:

The remuneration aforesaid shall be the minimum remuneration payable to Thiru M G Thirunavukkarasu."

9. To consider and, if thought fit, to pass, with or without modification, the following resolution as a SPECIAL RESOLUTION:

"RESOLVED THAT pursuant to the condition stipulated by the Corporate Debt Restructuring Cell in its letter no.BY.CDR/659 dated 19 March 2003 requiring additional contribution to the Company's equity share capital, at par, by the promoters of the Company, and in accordance with the provisions of Section 81(1A) and other applicable provisions, if any, of the Companies Act, 1956 (including any amendment to or re-enactment thereof) and the Memorandum and Articles of Association of the Company and subject to such approvals, as may be necessary, from the Securities and Exchange Board of India, the Reserve Bank of India and other bodies/authorities, and subject to such conditions as may be prescribed by them while granting such approvals and subject to such terms, conditions and alterations which the Board of Directors of the Company (hereinafter referred to as the "Board", which term shall be deemed to include any Committee which the Board may have constituted or hereafter constitute to exercise its powers including the powers conferred by this resolution) may in its absolute discretion think fit in the interest of the Company, consent of the Company be and is hereby accorded to the Board to issue, offer and allot 2,00,00,000 equity shares of the face value of Rs.10/- each of

the aggregate nominal value of Rs.20,00,00,000/- (Rupees twenty crores only), at par, in one or more private offerings, to investors [whether individuals and/or incorporated bodies in any combination thereof], (hereinafter referred to as the "Promoter-Individual(s)" or "Promoter-Company/ies") whether such Promoter-Individual(s) or Promoter-Company/ies is/are the holders of the equity shares of the Company or not, on such terms and conditions and in such tranche(s) as may be decided by the Board in its absolute discretion."

"RESOLVED FURTHER THAT the Board be and is hereby authorised to do all such acts, deeds, matters and things and execute such documents, instruments and writings as it may in its absolute discretion deem necessary or desirable for giving effect to the above resolution."

"RESOLVED FURTHER THAT the Board be and is hereby authorised to settle all issues that may arise in this regard, as it may in its absolute discretion deem fit, without being required to seek any further consent or approval of the Members of the Company in general meeting or otherwise, and that the Members of the Company shall be deemed to have given their approval thereto expressly by the authority of this resolution."

10. To consider and, if thought fit, to pass, with or without modification, the following resolution as a SPECIAL RESOLUTION:

"RESOLVED THAT subject to the provisions of the Companies Act, 1956, the Securities Contracts (Regulation) Act, 1956, the Securities and Exchange Board of India (Delisting of Securities) Guidelines, 2003 or any amendment thereof, and subject to such approvals, permissions and sanctions as may be necessary and subject to such conditions and modifications as may be prescribed by any authority, while granting such approvals, which may be agreed to by the Board of Directors, consent of the Company be and is hereby accorded to the Board of Directors (which term shall be deemed to include any Committee thereof for the time being exercising the powers conferred on the Board of Directors by this resolution) to delist the equity shares of the Company from the following Stock Exchanges, viz.:

1. The Stock Exchange, Ahmedabad;
2. Bangalore Stock Exchange Limited, Bangalore;
3. Cochin Stock Exchange Limited, Cochin;
4. The Calcutta Stock Exchange Association Limited, Kolkata;
5. The Delhi Stock Exchange Association Limited, New Delhi;
6. The Hyderabad Stock Exchange Limited, Hyderabad;
7. Madras Stock Exchange Limited, Chennai; and
8. The Stock Exchange, Mumbai."

(By Order of the Board)

For SOUTHERN PETROCHEMICAL INDUSTRIES CORPORATION LTD.

Place : Chennai
Date : 29 July 2003

N RAMAKRISHNAN
Secretary