

## Southern Petrochemical Industries Corporation Limited

### Board of Directors

Dr. A C Muthiah	- Chairman
Thiru Ashwin C Muthiah	- Vice-Chairman
Thiru Rameshram Mishra, IAS	- Director
Thiru N Narayanan, IAS	- Director
Thiru P Baskaradoss, 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

### 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

### 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 : "SOUTH PETRO"  
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 Fraser & Ross  
Chartered Accountants,  
Nandanam, Chennai - 600 035.

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## **Southern Petrochemical Industries Corporation Limited**

<b>CONTENTS</b>	<b>Page No.</b>
Overview	3
Notice	6
Directors' Report	15
Management Discussion and Analysis Report	24
Corporate Governance Report	34
Auditors' Report	45
Balance Sheet	48
Profit and Loss Account	49
Schedules	50
Notes on Accounts	58
Cash Flow Statement	73
Consolidated Financial Statements	77

## ALIGNING PEOPLE AND PROCESSES TO PERFORMANCE

A company's overall performance is the sum total of the performance of its human, investment and image capital.

SPIC has always believed that its people are its most valuable asset. And in one of the most challenging years so far, SPIC's people have paved the way to the Company's renaissance.

The HR function in SPIC is not seen as a stand-alone function, insular to the Company's objectives. It has evolved as an important part of SPIC's business strategy. In a business environment where service differentiation increasingly determines the coordinates of success, the people strategy practised at SPIC has re-engendered the overall success of the Company. It has proved to be the first of the two strong pillars on which SPIC has started to re-emerge.

By making an HR matrix through creating an empowered workforce vertically and through conducting people management and development horizontally, SPIC has ensured that its people enrich the Company as much as the Company rewards them. This symbiosis is critical in the Company's enhanced performance, its appreciation and alignment with its employees.

SPIC's processes – production, production administration, marketing and accounting – have long been at the vanguard of industry standards. In this year of aligning people and processes to the Company's performance, the processes excelled and proved their dependability, becoming thereby, the second pillar on which SPIC could script its resurgence.

**O**n the production front, more Urea and DAP were produced than in 2002-03. A facility for another complex fertiliser – the 17:17:17 – was put up, adding to SPIC's already formidable product portfolio. Phosphoric Acid capacity was enhanced appreciably through a revamp of the existing plant. Highest ever per diem production of Sulphuric Acid, Aluminium Fluoride and DAP, followed by the highest per annum production of Aluminium Fluoride were recorded this year.

There were other achievements, related to production administration – the lowest energy consumption in the Urea plant since SPIC's inception, two million accident-free man-hours, record annual discharges of rock phosphate and sulphur and the decision to directly import naphtha by using Indian Oil Corporation's facilities.

The British National Safety Award of the British Safety Council, the re-certification of SPIC for the ISO 14000 Environment Management System and the certification for the ISO 9000-2000 Quality Management System are testimony to SPIC's commitment to the health, safety and environment aspects of business.

SPIC's marketing process has contributed immensely in the renewal of SPIC's growth. With the focus of all marketing activity on increasing contribution to the Company while maintaining a high level of motivation and customer orientation, SPIC ensured that its novel marketing initiatives and strategy helped in the better performance of the Company.

**M**arketing successes included the sustaining of Urea volumes and the increasing of DAP volumes. In a drought year, these achievements speak volubly of SPIC's brand equity, the attributes of its marketers and their dedicated efforts. Market share for both Urea and DAP went up – Urea's by about a per cent and DAP's by about three. Whatever was produced was sold. In effect, SPIC had the lowest inventory in more than a decade. With a full realisation of collectibles and SPIC's future production sold well into the next year, the success of the marketing process was complete.

The accounting process in SPIC has been observing the latest standards and seeks to reflect the state of the Company in lucid terms. SPIC follows all applicable standards, using the process to enhance the transparency of its operations.

The enhanced performance of the Company – whether it be the huge 97% reduction in losses, the steep increase in marketing contribution or the substantial savings on interest, energy or salary costs – are a reflection of its focused and informed alignment with SPIC's people and processes. It is only a matter of time that SPIC's good performance on all parameters becomes a permanent fixture of the future.

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# **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-FOURTH ANNUAL GENERAL MEETING** of the Members of Southern Petrochemical Industries Corporation Limited will be held on Wednesday, 29 September 2004 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 2004 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 place of Thiru S Rajagopal, who retires by rotation and, being eligible, offers himself for re-election.
3. To elect a Director in place of Thiru R V Gupta, who retires by rotation and, being eligible, offers himself for re-election.
4. To elect a Director in place of Thiru N Narayanan, IAS, who retires by rotation and, being eligible, offers himself for re-election.
5. To appoint Auditors and fix their remuneration. M/s. Fraser & Ross, the retiring Auditors are eligible for re-appointment.

### **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 P Baskaradoss, IAS, 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 other approvals, 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, read with Schedule XIII of the Companies Act, 1956, for the re-appointment of Thiru Babu K Verghese as Managing Director of the Company and for payment of remuneration/minimum remuneration by way of Salary, Special Allowance/Performance Award and other Perquisites to him as described below:

- I) Period:  
From 1 October 2004 to 30 September 2007.

- II) Remuneration:
  1. Salary:  
Rs.1,00,000/- 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 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.

The Board of Directors, however, 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 the Indian Income-tax Act/Rules or notifications 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 Babu K Verghese."

8. 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/other applicable laws, the Rules and Regulations thereunder, 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 (SEBI) 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 and in such manner and in such tranche(s), 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 for acceptance in the interest of the Company, consent of the Company be and is hereby accorded to the Board to issue and allot up to 2,00,00,000 (two crore) 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), for cash, at par, and on such further terms and conditions specified in the SEBI (Disclosure and Investor Protection) Guidelines, 2000 (as amended from time to time) [hereinafter referred to as "the SEBI Guidelines"] to (1) FICON Holdings Limited, Mauritius, and (2) ACM Educational Foundation, Chennai, on preferential allotment basis, without offering the same to any persons who at the date of offer are holders of equity shares of the Company, as set out in the explanatory statement to this resolution, and the said equity shares, upon allotment, shall rank *pari passu* with the existing equity shares of the Company in all respects."

"RESOLVED FURTHER THAT the Relevant Date for determining the issue price for the aforesaid preferential issue under the SEBI Guidelines shall be 30 August 2004."

"RESOLVED FURTHER THAT the Board be and is hereby authorized 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 do seek listing of the aforesaid equity shares at the National Stock Exchange of India, where the equity shares of the Company are listed."

"RESOLVED FURTHER THAT for the purpose of giving effect to this resolution, the Board be and is hereby authorized to agree to, and accept all such conditions, modifications and alterations, if any, as may be stipulated by SEBI/other bodies while according approval or consent to the issue and to take all such actions as may be necessary, proper or expedient, for the issue/allotment of the equity shares and to do all such acts, deeds, matters, things, in connection therewith and/or incidental thereto and to settle all issues that may arise in this regard, as the Board may in its absolute discretion deem fit, without being required to seek further consent or approval of the Members of the Company in general meeting or otherwise, and that the

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Members shall be deemed to have given their approval thereto expressly by the authority of this resolution."

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 provisions of Section 372A and other applicable provisions, if any, of the Companies Act, 1956 and such other approvals as may be required, approval of the Members be and is hereby accorded to the Board of Directors of the Company (hereinafter referred to as "the Board", which term shall include any Committee(s) which the Board has constituted or may hereafter constitute to exercise its powers including the powers conferred by this resolution), for investing a sum of Rs.20,00,00,000/- (Rupees twenty crores only) in the preference share capital of Tuticorin Alkali Chemicals and Fertilisers Limited (TAC), by subscription to 20,00,000 5% Redeemable Cumulative Preference Shares of Rs.100/- each, at par, by way of conversion of the promoter's contribution of Rs.20 crores granted earlier by the Company to TAC,

notwithstanding that such investment is in excess of the limit stipulated under the said Section 372A."

"RESOLVED FURTHER THAT the Board of Directors of the Company be and is hereby authorized to settle all or any matter arising out of or incidental to the proposed investment and to do all such acts, deeds, matters and things as are, in their absolute discretion, considered necessary, expedient or desirable to give effect to this resolution."

(By Order of the Board)

For **SOUTHERN PETROCHEMICAL INDUSTRIES CORPORATION LTD.**

Place : Chennai  
Date : 31 July 2004

**N RAMAKRISHNAN**  
*Secretary*

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#### NOTES:

1. **A MEMBER ENTITLED TO ATTEND AND VOTE AT THE MEETING IS ENTITLED TO APPOINT A PROXY TO ATTEND AND ON A POLL, TO VOTE INSTEAD OF HIMSELF AND THE PROXY NEED NOT BE A MEMBER OF THE COMPANY. THE INSTRUMENT APPOINTING THE PROXY TO BE VALID SHALL BE DEPOSITED AT THE REGISTERED / PRINCIPAL OFFICE OF THE COMPANY NOT LATER THAN FORTY-EIGHT HOURS BEFORE THE TIME FIXED FOR HOLDING THE MEETING.**
2. Explanatory Statement of material facts pursuant to Article 76 of the Articles of Association read with Section 173(2) of the Companies Act, 1956, for Item Nos. 6 to 9 of the Notice is annexed hereto.
3. The Register of Members and the Share Transfer Register of the Company will remain closed from Tuesday, 14 September 2004 to Wednesday, 29 September 2004 (both days inclusive).
4. Members/Proxies should bring the Attendance Slip duly filled in for attending the Meeting. For shares held in dematerialised form, the DP ID and Client ID numbers should be indicated in the Attendance Slip.
5. For shares held in physical form, any change in address/other details may be intimated immediately to the **Registrar and Transfer Agents viz., Cameo Corporate Services Limited, "Subramanian Building", 1 Club House Road, Chennai - 600 002** by quoting the Folio Number(s). For shares held in demat form, change in address/other details may be intimated directly to the Members' DP.
6. As per the requirements of Section 205A of the Companies Act, 1956, the Company has transferred unclaimed dividends up to 1993-94 to the General Revenue Account of the Central

Government and in respect of 1994-95 and 1995-96 to the Investor Education and Protection Fund constituted by the Central Government. In respect of the amounts remaining in the Unpaid Dividend Accounts for 1996-97 and thereafter, the Company would transfer the same, at the expiry of seven years, to the aforesaid Fund. Upon such transfer, a Member shall have no claim against the Fund or the Company regarding his unpaid dividend. **Members are therefore requested to promptly lodge their claims for unpaid dividend, if any, in respect of the years 1996-97 to 2000-01 with the Registrar and Transfer Agents or the Company.**

7. The Company's Equity Shares are listed at the National Stock Exchange. Annual listing fees has been paid to the said Exchange in time.
8. **MEMBERS HOLDING SHARES IN PHYSICAL FORM ARE ENCOURAGED TO NOMINATE A PERSON TO WHOM THEIR SHAREHOLDING IN THE COMPANY SHALL VEST IN THE EVENT OF DEMISE.** Nomination forms will be sent to the Members on request by the Registrars and Share Transfer Agents.

#### General

In respect of Item No.7 of the Agenda of the Notice, the details contained in the resolution along with the Explanatory Statement thereto may be treated as an abstract of the terms of re-appointment of Thiru Babu K Verghese as Managing Director, for circulation to the Members as required under Section 302 of the Companies Act, 1956. All material documents relating to the aforesaid items of the Agenda of the Notice are available for inspection by the Members at the Principal Office of the Company on any working day between 11.00 A.M. and 1.00 P.M. prior to the date of the Meeting.

**Annexure to Notice**  
**EXPLANATORY STATEMENT**

**PURSUANT TO SECTION 173(2) OF THE COMPANIES ACT, 1956, READ WITH  
ARTICLE 76 OF THE ARTICLES OF ASSOCIATION OF THE COMPANY**

The following Explanatory Statement sets out the material facts referred to in Item Nos. 6 to 9 of the Notice convening the 34<sup>th</sup> Annual General Meeting:

**Item No.6**

Thiru P Baskaradoss, IAS, was appointed an Additional Director of the Company by the Board of Directors at its Meeting held on 29 April 2004.

As per the provisions of Section 260 of the Companies Act, 1956, read with Article 106 of the Articles of Association of the Company, Thiru P Baskaradoss, IAS, will hold Office up to the date of this Annual General Meeting. Notice proposing his candidature for appointment as Director under Section 257 of the Companies Act, 1956, together with the requisite deposit has been received from a Member.

A brief resume of Thiru P Baskaradoss, IAS and details of his directorships are furnished in the Corporate Governance Report.

The Board commends the election of Thiru P Baskaradoss, IAS, as a Director of the Company for the approval of Members.

**Memorandum of Interest**

Except Thiruvargal P Baskaradoss, IAS, Rameshram Mishra, IAS, and N Narayanan, IAS, none of the Directors of the Company is interested in this resolution.

**Item No.7**

The Board of Directors of the Company, at its Meeting held on 31 July 2004, re-appointed Thiru Babu K Verghese as Managing

Director of the Company for a period of three years from 1 October 2004 to 30 September 2007.

The terms of his appointment, as detailed in Item No. 7 of the Notice, were considered and approved by the Board of Directors at its Meeting held on 31 July 2004, on the recommendation of the Remuneration Committee of the Board of Directors.

In terms of Articles 100(b) and 157 of the Articles of Association of the Company, Members' approval by way of Special Resolution is required for the appointment and payment of remuneration to the Director.

In this regard, as required under Part II, Section II of Schedule XIII to the Companies Act, 1956, the following information is furnished:

**I. GENERAL INFORMATION:**

**(1) NATURE OF INDUSTRY:**

The Company is primarily engaged in the manufacture/import and sale of Nitrogenous and Phosphatic fertilisers. It also has diversified business interests in engineering, biotech and pharmaceuticals.

**(2) DATE OR EXPECTED DATE OF COMMENCEMENT OF COMMERCIAL PRODUCTION:**

The commercial production of Urea, the main product of the Company, commenced on 22 June 1975.

**(3) FINANCIAL PERFORMANCE:**

The following are the results of the Company during the last five financial years, at a glance:

(Rs. in Thousands)

Financial parameters	1999-00	2000-01	2001-02	2002-03	2003-04
Turnover	2711,77,93	2293,49,40	1721,98,40	1638,80,27	150,83,653
Net Profit/(Loss) (as computed under Section 198/349)	51,02,80	(55,97,79)	(239,47,53)	(613,26,21)	(620,41,02)
Net Profit (as per Profit & Loss account)	28,37,26	15,87,34	(215,50,80)	(375,68,97)	(9,41,38)
Amount of Dividend paid (Equity)	10,56,57	8,80,48	Nil	Nil	Nil
Rate of Dividend declared in % (Equity)	12.00	10.00	Nil	Nil	Nil

(4) EXPORT PERFORMANCE, NET FOREIGN EXCHANGE EARNINGS AND COLLABORATIONS:

(i) EXPORT PERFORMANCE AND NET FOREIGN EXCHANGE EARNED:

During the financial year 2003-04, the Company's foreign exchange earnings on account of (i) exports on FOB basis was Rs.1435.65 lacs and (ii) Kuwait contract was Rs. 5475.51 lacs, aggregating Rs.6911.16 lakhs. The expenditure in foreign currency, including CIF value of imports, was Rs. 39743.30 lakhs. Fertiliser industry is import-intensive requiring regular imports of inputs like sulphur and rock phosphate since feed-stocks are not available in the Country.

(ii) FOREIGN INVESTMENTS OR COLLABORATORS, IF ANY:

The Company has promoted/invested in:

- (a) Indo-Jordan Chemicals Company Limited (IJC), a joint venture with the Jordan Phosphate Mines Company Limited, Jordan, for the manufacture of Phosphoric Acid required for manufacturing phosphatic fertiliser at Tuticorin. IJC was commissioned in 1997; and
- (b) SPIC Fertilizers and Chemicals FZE, a joint venture with Emirates Trading Agency, Dubai, is under implementation at the Jebel Ali Free Zone, Dubai, for the manufacture of 400,000 tonnes of Urea per annum.

II. INFORMATION ABOUT THE APPOINTEE:

(1) BACKGROUND DETAILS, RECOGNITION/AWARDS:

Thiru Babu K Verghese holds a B.Tech. Degree in Chemical Engineering. He has vast experience in India and abroad of more than 36 years in the fertiliser and petrochemical sectors.

Since 1972, he has been associated with the Company/other ventures promoted by the Company in various capacities. He was the Deputy Managing Director of the Company from 1 October 2001 and was elevated as Managing Director of the Company with effect from 1 April 2002. Prior to his appointment as Deputy Managing Director of the Company, he was the Deputy Chairman and the Managing Director of IJC, the prestigious JV Company in Jordan established for manufacture of Phosphoric Acid. He was chiefly instrumental in the early implementation and commissioning of IJC's Phosphoric Acid Complex. His able leadership also enabled the plant to achieve 100% capacity utilisation from the very first year of operations.

Prior to his tenure in IJC, he played a pivotal role in the implementation and commissioning of the Linear Alkyl Benzene (LAB) plant in Tamilnadu Petroproducts Limited, Chennai and facilitated achievement of 100% capacity utilisation from the very first year onwards.

Thiru Babu K Verghese played a key role in the implementation, commissioning and operation of the Company's Ammonia Plant at Tuticorin and its various supplementary schemes and development projects. Prior to handling the LAB project, he served on deputation in the Ammonia Plants of National Fertilisers Limited, both at Bhatinda and Panipat.

(2) PAST REMUNERATION:

Past remuneration details of the Appointee, approved by the Central Government by its letter no. 1/260/2001-CL.VII dated 19 February 2002, for the previous three financial years, from 2001-02 to 2003-04, drawn from the Company, are as under:

Salary (Rs.)	Perquisites (Rs.)	Special Allowance (Rs.)	Others (Specify) Contribution to provident and other funds (Rs.)	Total (Rs.)	% of net profits	Date from which paid
4,80,000	4,00,810	4,80,000	1,72,000	15,32,810	Nil	1.10.2001 to 31.3.2002
9,60,000	8,71,641	9,60,000	3,04,000	30,95,641	Nil	1.4.2002 to 31.3.2003
9,60,000	8,83,477	9,60,000	3,04,000	31,07,477	Nil	1.4.2003 to 31.3.2004

(3) JOB PROFILE AND SUITABILITY:

Thiru Babu K Verghese's pivotal role in the implementation, commissioning and management of the Company's prestigious phosphoric acid JV Company (Indo-Jordan Chemicals Limited, Jordan) and Linear Alkyl Benzene manufacturer (Tamilnadu Petroproducts Limited, Chennai) bear ample testimony to his technical and managerial capabilities. He has also been instrumental in the implementation and commissioning of the Company's Ammonia Plant at Tuticorin.

Under his able stewardship as Managing Director, the Company has been able to successfully weather adverse market

conditions, synergise its focus to its area of core competence and gear itself for a quick turnaround.

The continued leadership and contribution of Thiru Babu K Verghese are vital for the Company's turnaround and improvement in its operational/financial performance.

(4) REMUNERATION PROPOSED:

The remuneration proposed to be paid to Thiru Babu K Verghese, as approved by the Remuneration Committee of the Board of Directors at its Meeting held on 31 July 2004, would be as follows:

Salary (Rupees per month)	Special Allowance/Performance Award	Perquisites
Rs.1,00,000/-	Amount not exceeding annual Salary.	Shall be in addition to both Salary and Special Allowance/Performance Award, not exceeding annual Salary.

The remuneration aforesaid shall be the minimum remuneration payable to the Appointee.

(5) **COMPARATIVE REMUNERATION PROFILE WITH RESPECT TO INDUSTRY, SIZE OF THE COMPANY, PROFILE OF THE POSITION AND PERSON:**

The prevalent levels of remuneration in manufacturing industries, in general and the fertilizer industry, in particular, are higher. Taking into account the turnover of the Company, the academic background, qualifications and rich experience of Thiru Babu K Verghese, his invaluable contribution to the Company, his vital role in the turnaround, his present remuneration, the remuneration drawn by his predecessor, during the period July 1998 to March 2002, and comparable remuneration levels in the Country, the proposed remuneration to Thiru Babu K Verghese is reasonable.

(6) **PECUNIARY RELATIONSHIP, DIRECTLY OR INDIRECTLY, WITH THE COMPANY/RELATIONSHIP WITH THE MANAGERIAL PERSONNEL, IF ANY:**

Thiru Babu K Verghese has no pecuniary relationship, directly or indirectly, with the Company, or relationship with any of the managerial personnel of the Company, except to the extent of his shareholding in the Company's equity share capital.

III. **OTHER INFORMATION:**

(1) **REASONS FOR LOSS/INADEQUACY OF PROFIT, IF ANY:**

For the financial year 2003-04, the Company has made a net loss of Rs.9.41 crores.

The reasons for the loss are mainly on account of the following:

- The desired production levels could not be achieved in the phosphatic fertiliser segment due to limitations faced in procuring the required raw materials, on account of credit squeeze and Letter of Credit restrictions.
- The domestic Penicillin-G market faced intense competition during the year from imports of Chinese origin resulting in steep fall in prices to unprecedented levels. On this account, there was drastic fall in the realization levels to the extent of 44%, which had a major impact on the bottom line.

It may be noted that the net loss, as aforesaid, is substantially lower than the net loss of Rs.375.69 crores during the previous financial year. This reduction has been contributed by the following factors:

- a) Improvement in the performance of the Fertiliser, Biotechnology and SMO Divisions, as compared to the previous year.
- b) On implementation of the CDR programme, interest was accrued as per the CDR package.
- c) In the previous financial year, the Company had written off interest and exchange fluctuation on the Floating Rate Notes to the extent of Rs.116.28 crores.

- d) A sum of Rs. 105.73 crores being interest on advance against equity made to SPIC Petrochemicals Limited (SPIC Petro), charged off in the previous year was accrued in the current year on account of SPIC Petro allotting zero interest bonds for the entire quantum of interest of Rs.306.10 crores accrued by the Company. Against equity advance and inter-corporate deposits made by the Company, SPIC Petro, during the financial year 2003-04, allotted equity shares for a value of Rs.248 crores.

(2) **STEPS TAKEN TO IMPROVE THE PERFORMANCE OF THE COMPANY:**

In the emerging competitive scenario, there is a compelling need to improve the global competitiveness of the various businesses to handle the competitive forces and to secure the customer base. The implementation of WTO and the introduction of product patent regime have added further discussion to the complex business environment.

As part of long-term growth strategy, the Fertiliser business has been identified as the core area of operations. Consequently, the Company decided to hive off/dispose its business in other unrelated areas to consolidate its presence and emerge as a dominant player.

Accordingly, the Company hived off the Petroleum Division into a joint venture with Caltex Oil Corporation, USA and subsequently, fully divested its stake in the JV Company. It also spun off a portion of its Engineering and Service Division into a JV with Technip, Italy, a global major in engineering industry.

The Company disposed off its stake in SPIC PHI Seeds Ltd., in 2000-01, in favour of the overseas joint venture partner. As part of business restructuring and to handle the competition with better cost structure, the Company hived off its Heavy Chemical Division manufacturing Chlorine to Tamilnadu Petroproducts Limited, the sole producer of Epichlorohydrin in the Country, for which chlorine is the major raw material. The Company is in the process of identifying suitable partners/business options for hiving off the Pharmaceutical and Biotechnology operations to handle the competition due to imports, to get access into the international markets and to provide the required technological support for process upgradation.

A Management Committee of the Board of Directors was formed in July 2001 to accelerate the overhaul of the Company's business and focus on the core business. This Committee is assisting the Board of Directors of the Company in performing its duties very effectively, by a closer and more detailed examination of several areas of operations in a Management Supervisory Role and by reviewing and analysing authority in all spheres of activities like finance, marketing, technical, personnel, etc. This has yielded early results in quick identification of the thrust areas as well as to strengthen the Company's operations.

In the area of market development, the Company has intensified its efforts at introducing specific crop/product oriented approach in addition to continuous farmer services development programmes through its Agro Service Centres. On customer service, intensified approach is being made through a number of field training programmes as well as social programmes such as health camps, educational programmes, etc. Special programmes on surface water harvesting and storage for life saving irrigation are also being conducted. In addition, training programmes for progressive young farmers are organized to inculcate the modern techniques of agriculture for enhancing their productivity and income. As part of new initiatives under supply chain management, strong focus is also given to motivate the dealer network through many innovative programmes.

As part of financial restructuring, the Company has initiated several measures, which have started yielding results. The Company has successfully implemented the Corporate Debt Restructuring (CDR) programme with the support of the financial institutions and banks, which will help the Company to meet the various repayment obligations. The CDR has been implemented in the financial year 2003-04 with retrospective effect from 1 April 2002 and documentation has been completed with majority of the lenders. The CDR mechanism instituted by the Reserve Bank of India is for facilitating a timely and transparent system for restructuring corporate debts of viable corporate entities affected by internal and external factors.

The highlights of the package approved by the CDR Cell are:

- \* Restructuring of the loans with varying interest rates (4%-11% p.a.) and repayment tenors (5-12 years) including moratorium of 2-3 years and interest funding for two years beginning from the cut-off date, 1 April 2002.
- \* The cash credit facility from the working capital consortium to carry an interest rate of 6% for the two years-2002-03 & 2003-04 and 11% p.a. thereafter.

With the implementation of the CDR package, the Company would stand to benefit from the reduction in interest cost and suitable reschedulement of loans, thereby improving the financial health of the Company.

The Company has made substantial progress with regard to the restructuring of its USD 120 Million Floating Rate Notes (FRNs) raised in 1996 and restructured in 2001. The present restructuring, provides for an elongated redemption program starting from 2008 and concluding in 2016, would yield to the Company a total benefit of USD 52.65 Million, comprising of USD 51.39 Million towards reduction in debt and USD 1.26 Million towards saving in interest.

Further, the Company is working on several cost management initiatives. It has outsourced the logistics support for the distribution of fertilisers. Direct import of naphtha has been attempted to mitigate the risks involved in depending on the sole supply source for critical raw materials. The phosphoric acid plant has been revamped for higher production. With different raw material options, the phosphoric acid plant operations are optimized on a continuous basis. The same strategy is followed on phosphatics fertiliser plant also. Several cost initiatives are taken up in energy front to optimize the cost of production.

In addition, steps to leverage the brand equity/image of 'SPIC' as well as the strong distribution network are being evolved in consultation with reputed international business consultants.

The aforesaid measures have started yielding improvement in the performance and profitability of the Company and expected to improve significantly in the near future.

(3) **EXPECTED INCREASE IN PRODUCTIVITY AND PROFITS IN MEASURABLE TERMS:**

The savings expected on account of implementation of various energy conservation proposals, improvements in operations and optimization of captive power generation, manufacture of captive phosphoric acid with mix of 50% low grade rock, outsourcing of logistic services, and further control measures on overhead expenses would help address the critical concerns in handling competitive forces.

The five areas viz., debt restructuring, plant operations, cost control, marketing and divestment as identified by the Management are expected to substantially increase the productivity and profitability of the Company.

The Board commends the aforesaid Special Resolution for the approval of Members.

**Memorandum of Interest**

Except Thiru Babu K Verghese, none of the Directors of the Company is interested in this resolution.

**Item No.8**

In the Directors' Report forming part of the previous Annual Report, the Members were apprised on the finalization of the restructuring of its long-term debts, in consultation with the Industrial Development Bank of India under the Corporate Debt Restructuring (CDR) mechanism and the sanction of the CDR Cell vide its letter no.BY.CDR/659 dated 19 March 2003 for the Company's debt restructuring programme.

One of the terms and conditions stipulated by the CDR Cell was that the promoters of the Company should make an additional contribution to equity share capital to the extent of Rs.20 crores, at par.

During the financial year 2003-04, the CDR package was implemented with the completion of documentation with the majority of the lenders.

The Board of Directors, accordingly proposes to issue/allot equity shares of the aggregate value of Rs.20 crores, in one or more tranches, to FICON Holdings Limited, Mauritius and ACM Educational Foundation, Chennai, through whom the promoters viz., Dr. M A Chidambaram group have contributed the additional subscription, required to be brought in as per CDR package.

The proposed issue/allotment of equity shares on preferential basis to the proposed allottees will be governed by the provisions of the SEBI (Disclosure and Investor Protection) Guidelines, 2000 ("SEBI Guidelines"). The issue price of Rs.10/- per equity share viz., at par, is as per the requirement of the CDR Cell, in sanctioning the Company's CDR programme. As required under the SEBI Guidelines, the

equity shares to be issued/allotted would be subject to prescribed lock-in-period.

Further, issue/allotment of equity shares on preferential allotment as aforesaid is subject to approval by the Securities and Exchange Board of India and/or such other authorities as may be required.

Pursuant to the SEBI Guidelines, the following disclosures are made:

Objects of the issue through preferential offer:

The object of the issue is that the Promoters bring in long-term interest free capital to the Company in line with the stipulation of the Corporate Debt Restructuring Cell, in sanctioning the debt restructuring programme of the Company, under the Corporate

Debt Restructuring mechanism instituted by the Reserve Bank of India.

Price at which the allotment is proposed:

The allotment is proposed to be made at par, at Rs.10/- per equity share, as stipulated by the CDR Cell in approving the debt restructuring programme of the Company.

The intention of the promoters/directors/key management persons to subscribe to the offer:

The Promoters are arranging for this subscription, through the aforesaid two companies, in line with the condition imposed by the CDR Cell vide its letter No.By.CDR/659 dated 19 March 2003 for restructuring the long-term debt and providing interest relief on the working capital and term loans of the Company.

Shareholding pattern of the Company before (viz., as on 31 July 2004) and after the proposed issue of Equity Shares pursuant to the resolution:

Category of Shareholder	Before Preferential Issue (as on 31 July 2004)		Post Preferential Issue(*)	
	Equity Shares held	Percentage to paid-up capital	Equity Shares held	Percentage to paid-up capital
<b>A PROMOTERS</b>				
(i) Non-acquiring promoter: Tamilnadu Industrial Development Corporation Limited	8840000	10.04	8840000	8.18
(ii) Acquiring promoter: <b>Dr. M A Chidambaram Group</b>	<b>17616281</b>	<b>20.01</b>	<b>37616281</b>	<b>34.81</b>
1) FICON Holdings Limited	Nil	Nil	18080000	16.73
2) ACM Educational Foundation	120000	0.13	1920000	1.78
<b>SUB-TOTAL</b>	<b>26456281</b>	<b>30.05</b>	<b>46456281</b>	<b>42.99</b>
<b>B NON-PROMOTERS</b>				
1) The Bank of New York (as Depository for Global Depository Receipts)	18202300	20.67	18202300	16.85
2) Financial Institutions	6285966	7.14	6285966	5.82
3) Nationalized Banks	29415	0.03	29415	0.03
4) Mutual Funds	11500	0.01	11500	0.01
5) Foreign Institutional Investors	9200	0.01	9200	0.01
<b>SUB-TOTAL</b>	<b>24538381</b>	<b>27.86</b>	<b>24538381</b>	<b>22.72</b>
Others				
6) Foreign Companies	39800	0.05	39800	0.04
7) Non-resident Individuals	605229	0.69	606329	0.56
8) Public and others	36408009	41.35	36406909	33.69
<b>SUB-TOTAL</b>	<b>37053038</b>	<b>42.09</b>	<b>37053038</b>	<b>34.29</b>
<b>GRAND TOTAL</b>	<b>88047700</b>	<b>100.00</b>	<b>108047700</b>	<b>100.00</b>

(\*) Shareholding pattern as on 31 July 2004 used as the basis for projection of post preferential issue pattern of shareholding & issue price per equity share assumed at Rs.10 as stipulated under CDR programme.

Proposed time within which allotment will be completed:

The allotment of equity shares will be completed after receipt of approvals from SEBI/other authorities, as may be required.

Identity of the proposed allottees and the percentage of post preferential issue capital that may be held by them:

The proposed allottees are FICON Holdings Limited (an overseas corporate body, incorporated under the laws of Mauritius) and ACM Educational Foundation (company incorporated under the Companies Act, 1956). The post preferential issue capital that may be held by the said allottees is:

Sl. No.	Name of the proposed allottee	No. of equity shares of the face value of Rs.10/- each fully paid-up	% of post preferential issue paid-up capital
1	FICON Holdings Limited, Mauritius	1,80,80,000	16.73
2	ACM Educational Foundation, Chennai	19,20,000	1.78

Change in the Board of Directors:

There will be no change in the Board of Directors of the Company consequent to preferential allotment of equity shares to the aforementioned proposed allottees.

Change in control:

There will be no change in the management/control of the Company. The existing promoters/management will continue to be in control of the Company.

In terms of the proposed resolution, the Board is being empowered to issue/allot equity shares on private placement basis to the aforesaid subscribers, irrespective of whether the said subscribers are holders of equity shares of the Company or not, consent of the Members of the Company in general meeting is necessary, pursuant to Section 81(1A) of the Companies Act, 1956.

The proposed issue of equity shares on preferential basis to the aforesaid proposed allottees, in compliance with the condition of the CDR Cell, is in the interest of the Company and the Board commends this resolution for the approval of Members.

Memorandum of Interest

None of the Directors of the Company is interested in this resolution except Thiruvallargal Dr. A C Muthiah, Ashwin C Muthiah and Jawahar Vadivelu.

**Item No.9**

Pursuant to the approvals accorded earlier by the Board of Directors and the Members, the Company, as promoter, had advanced Rs.10 crores towards equity capital and Rs.10 crores as loan, aggregating Rs.20 crores to Messrs. Tuticorin Alkali Chemicals and Fertilisers Limited (TAC) for its capacity expansion.

TAC, in the process of restructuring its debts, has requested the Company, for conversion of the aforesaid Promoter's contribution of Rs.20 crores into 20,00,000 - 5% Redeemable Cumulative Preference Shares of Rs.100/- each (RCPS), aggregating Rs.20 crores, redeemable at the end of 20 years, the dividend being payable at the time of maturity or at the time of declaring dividend on equity shares, whichever is earlier.

The Board of Directors of the Company at its Meeting held on 29 April 2004 approved the conversion of the said promoters' contribution into RCPS.

Industrial Development Bank of India, the lead Financial Institution vide its letter HO. CFD-I.21.B.18(SPIC)/1742 dated 3 July 2004 has accorded its approval to the Company, for the aforesaid proposal, subject *inter alia* to dividend payment being made subordinate to Institutions/Banks' dues.

The Board commends the resolution for Members' approval.

Memorandum of Interest

None of the Directors of the Company is interested in this resolution except Thiruvallargal Dr. A C Muthiah, Ashwin C Muthiah and Jawahar Vadivelu.

(By Order of the Board)

For **SOUTHERN PETROCHEMICAL INDUSTRIES CORPORATION LTD.**

Place : Chennai  
Date : 31 July 2004

**N RAMAKRISHNAN**  
Secretary

## DIRECTORS' REPORT

Your Directors present their 34<sup>th</sup> Annual Report together with the audited statement of accounts for the year ended 31 March 2004.

### OPERATING RESULTS

(Rupees in crores)

	2003-2004	2002-2003
Sales & services	1488.89	1616.72
Other income	19.48	22.08
Turnover	1508.37	1638.80
Manufacturing & other costs	1427.58	1571.11
Operating profit	80.79	67.69
Interest	48.95	178.03
Interest on advance against equity to SPIC Petro	--	105.73
Interest and exchange fluctuation on FRN	--	116.28
Depreciation	41.25	43.34
Profit/(Loss) before tax	(9.41)	(375.69)
Provision for tax	--	--
Profit/(Loss) after tax	(9.41)	(375.69)

### AGRO-INPUTS

This segment comprises the Fertiliser Division and the Company's investments in Tuticorin Alkali Chemicals and Fertilisers Limited, Indo-Jordan Chemicals Company Limited and SPIC Fertilisers and Chemicals FZE, Dubai.

### FERTILISER DIVISION

The production performance of the Fertiliser complex at Tuticorin continued to be good during the year. The Urea plant produced 621078 MT compared to the previous year's production of 569281 MT. The Di-Ammonium Phosphate (DAP) plant also reported a better performance with 313062 MT against the previous year's production of 288348 MT. The Complex Fertiliser production, however, was only 11500 MT against the previous year's production of 52227 MT due to liquidity constraint.

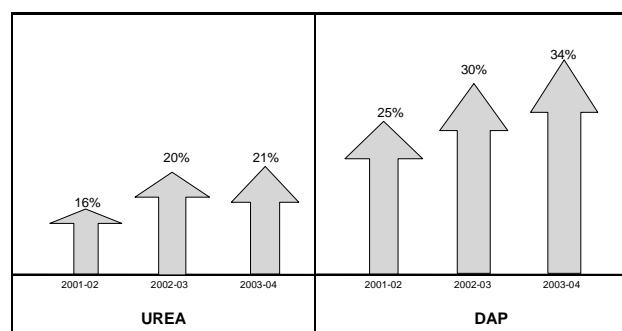
During the year, the Company commissioned the facility for manufacture of complex fertiliser (17:17:17). To improve the competitiveness in manufacturing, the phosphoric acid plant was revamped with the installation of Belt Filter and state-of-the art instrumentation control system. During the year, the Fertiliser Complex at Tuticorin made significant strides in the areas of safety, energy, logistics, maintenance, plant reliability and overall cost efficiencies. The salient feature was the milestone of lowest energy consumption in the Urea plant since its commissioning in 1975. During the year, towards a strategic long-term measure, naphtha was imported for the first time using the facilities of the Indian Oil Corporation.

With normal rainfall in the Country, foodgrain production rose to 212 million MT in 2003-04 from a low of 184 million MT in 2002-03. The sale of Urea at 19.46 million MT was higher by 4% compared to the previous year. Similarly, the sale of the other major fertiliser, DAP, at 5.48 million MT was higher by 1% compared to the previous year.

In spite of the normal monsoon, the situation in the southern states, particularly in Tamil Nadu and Karnataka, was not encouraging because of the shortfall in the south-west and north-east monsoon to the extent of 16% and 11% respectively. As a result, for the third consecutive year there was a 14% reduction in the principal crop coverage in Tamil Nadu and Karnataka. Consumption of Urea in the southern states marginally dropped while the consumption of DAP marginally increased.

Even in such a static market scenario, in the primary markets of the southern states, the Company could improve its market share for Urea from 20% to 21% and for DAP from 30% to 34% because of brand equity and customer preference.

### Company's Market Share in South India



### Sales Performance of Fertilisers (MT)

Product	2001-02	2002-03	2003-04
Urea	582320	642878	635727
Phosphatics	460127	342562	330355
Fert. grade gypsum	58530	54260	70365
<b>TOTAL</b>	<b>1100977</b>	<b>1039700</b>	<b>1036447</b>

**SPIC achieved an annual sale of over one million tonnes of fertilisers for the 24<sup>th</sup> year in succession.**

In spite of working capital constraints resulting in shrinkage of its product offerings, the Company could secure and maintain its customer base because of the farmers' loyalty to the Company's products. The Company has shown better marketing performance of its speciality products during the year as compared to the previous year. During the year the Company broad based its international market for aluminium fluoride by exporting to Dubai, Japan and Taiwan. The Company also achieved a market collection equivalent to 107% of the sales realisation thereby substantially reducing debtors' outstandings.

To offer value added services to the customers, intensified efforts were made by organising a number of field training programmes as well as social welfare programmes, such as health camps and other educational programmes. Also as water management is a critical issue, special programmes on surface water harvesting and storage were conducted. In addition, various meetings with progressive farmers were organised to familiarise them with the modern techniques of farming. The Company continued its focus on dealer motivation through innovative programmes.

### Government Fertiliser Policy

A new pricing policy for Urea manufacturing units was formulated by the Government which had come into effect from April 1, 2003. Under the new pricing policy, existing units are categorised into groups based on vintage and feedstock to assess the group-based concession. Your Company is placed under the pre 1992 Naphtha group. The new pricing policy is being implemented in three stages as follows:

Stage I 1 April 2003 to 31 March 2004

Stage II 1 April 2004 to 31 March 2006

Stage III 1 April 2006 onwards

In stage I, the weighted average retention price (RP) for each of the groups was determined. The retention price so determined for your Company based on the Group Pricing Policy has adversely affected the realisation on account of inclusion of certain units using cheaper inputs under the pre 1992 Naphtha group. During stage II, pre-set energy norms and modulated capital related charges (CRC) have been taken into consideration and this is not likely to have any adverse impact on your Company. The allocation of Urea under the Essential Commodities Act, 1955, has been restricted to 75 and 50 per cent of installed capacity in respect of each unit in Kharif 2003 and Rabi 2003-04, respectively as against 100% previously. The allocation of Urea for Kharif 2004 was maintained at 50 per cent of installed capacity. The modalities of stage-III would be implemented by the Department of Fertilisers after review of the implementation of Stage-I and Stage-II.

The Tariff Commission report on DAP, announced by the Government of India, resulted in lower concessions as compared to concessions under the earlier scheme.

The Company is committed to the cause of environment and quality and strives relentlessly to maintain the highest standards. During the year, M/s. Det Norske Veritas, Netherlands:

- (i) carried out the re-certification audit for ISO 14001 during April 2003 on the Environment Management System followed in the Company; and
- (ii) audited the Quality Management System of the Fertiliser division under ISO 9001-2000 and certified the same.

### Safety

The Company received the "National Safety Award" from British Safety Council, United Kingdom, for its safety performance during the year 2003.

### TUTICORIN ALKALI CHEMICALS AND FERTILISERS LIMITED (TAC)

During the year ended 30<sup>th</sup> September 2003, TAC's financial performance was directionally better than the previous year, despite shut down of the plants for 63 days, due to non-availability of carbon di-oxide. TAC achieved a production of 87007 MT (92448 MT) of soda ash and 78997 MT (85173 MT) of ammonium chloride during the financial year ended 30<sup>th</sup> September 2003. TAC has also produced 7460 MT (7418 MT) of sodium bicarbonate, 6871 MT (6413 MT) of ammonium chloride (technical and pure grades), 68780 ltrs. (59120 ltrs.) of liquid pesticides and 13465 ltrs. (4900 ltrs.) of biocides during the year.

To tide over the difficult situation, TAC had launched a series of initiatives aimed at curtailing cost and improving profitability. Long-term tie-up for sale of soda ash has been entered into with Saint Gobain Glass India Ltd., Hindustan Lever Ltd., and Henkel SPIC India Ltd. During the year, TAC commenced export of ammonium chloride (fertiliser grade-FG) to Malaysia, exporting about 14000 MT. This company has made a break-through in the usage of

ammonium chloride (FG) for manufacture of complex fertiliser (20:20) with the quality of the product being well received in the market.

TAC has also achieved reduction in the rate of interest on working capital. It is approaching the financial institutions for restructuring of the term loans. The Quality Management System was upgraded to ISO 9001:2000 and the Environment Management System recertified for ISO 14001:1996 by M/s. Det Norske Veritas, Netherlands.

There is a proposal for setting up a biomass based co-generation power plant, aimed at achieving lower cost of production of both power and steam. In order to avoid plant stoppages on account of non availability of ammonia and carbon di-oxide, TAC is exploring the option of installation of small size ammonia plant.

TAC through its R&D efforts, has successfully developed a process, for the manufacture of ammonium bicarbonate, a value-added product, extensively used in the confectionery industry.

In addition, TAC has developed a process, for the manufacture of Sodium Percarbonate in a laboratory scale, and a pilot plant is set up to manufacture the product very soon. It may be noted that TAC is the first company in India to develop this product, which will be a good substitute for Sodium Perborate, as a bleaching agent in the detergent industry. World over, leading detergent manufacturers are switching from Sodium Perborate to Sodium Percarbonate, since the latter product is eco-friendly, energy efficient and cost effective.

### INDO-JORDAN CHEMICALS COMPANY LTD., JORDAN (IJC)

IJC, in the financial year 2003, achieved 103% of capacity utilisation with a production of 231,849 MT of phosphoric acid. The diversified marketing policy adopted by this company was continued smoothly for the second full year achieving a sale of 237,705 MT. On the financial front, IJC prepaid its high-cost term loans availed from International Finance Corporation (IFC) and other Lenders and substituted these loans with low cost loans from local and regional banks. Despite the good performance in terms of production and sales, an abnormal increase in sulphur prices in the international market without commensurate increase in product prices, had an adverse impact on IJC's profits. IJC is one among the very few stand alone phosphoric acid units in the world making profits. The net profit for the year 2003 was USD 4.087 million as against the net profit of USD 10.297 million in 2002.

OPERATING RESULTS-2003	AMOUNT IN MILLION JD	AMOUNT IN MILLION USD
Turnover and other income	47.428	66.989
Cost of sales	32.780	46.300
Financing charges	2.075	2.931
Other expenses	3.824	5.401
Profit before depreciation	8.749	12.357
Depreciation	5.855	8.270
Profit before tax	2.894	4.087
Provision for tax	-	-
Profit after tax	2.894	4.087

**SPIC FERTILIZERS AND CHEMICALS FZE, DUBAI (SFC)**

The Gas Agreement executed between the Government of Dubai and Dolphin Energy Ltd (DEL), Abu Dhabi for supply of additional gas to Dubai is further delayed. Consequently, SFC is unable to sign the gas sales and purchase agreement with the Government of Dubai for supply of gas to the project. SFC has made representations to the Crown Prince of Dubai on this matter and a positive solution is expected shortly. In the meantime, based on the company's initiative, DEL is willing to supply gas from Oman, by the end of 2005 and the proposal is pending before the Government of Dubai for a final decision. This option has also been brought to the notice of the Crown Prince of Dubai for an early solution. Once the gas agreement is signed with the Government of Dubai, SFC would be in a position to complete the project within 18 to 20 months. Simultaneously, efforts are also being made to identify any other feasible location, where gas is readily available at lower cost, for early implementation of the project.

**MITOCON BIOTEC**

This Division comprises the Pharmaceutical Biotech and Agro Biotech activities of the Company.

**PHARMACEUTICAL BIOTEC**

This business unit is improving its record in production of Penicillin-G. During the year, the production achieved was 1839 MMU against 1600 MMU in 2002-03. Penicillin-G also registered a record sale of 1820 MMU (including export of 209 MMU) against 1607 MMU last year.

The domestic Penicillin-G industry, however, faced intense competition during the year because of economically unsustainable imports of Chinese origin resulting in crash in prices of Penicillin-G. The unit suffered a fall in price realisation to the extent of about 44% compared to the previous year. This impact was, however, contained to a great extent with improved productivity and implementation of energy conservation measures.

**AGRO BIOTEC**

A turnkey project for neem-based biopesticide plant was commissioned in Malaysia, by the Division.

Dealers have been appointed for marketing poultry and leather enzymes, the Division's products, in Indonesia and Malaysia and the first order was executed.

In Tissue Culture, the focus was on Banana and Gerbera plants. The initiatives taken during the year in production and marketing would maximise earnings in the ensuing year.

Two new hybrids in Corn and one new hybrid in Sunflower were launched during the year. One hybrid Bajra developed by the Breeding Research team has been commercialised.

**CHEMICALS AND PETROCHEMICALS**

This segment comprises the Company's investments in Tamilnadu Petroproducts Limited, Manali Petrochemical Limited, Ind-Ital Chemicals Limited and SPIC Petrochemicals Limited.

**TAMILNADU PETROPRODUCTS LIMITED (TPL)**

While Linear Alkyl Benzene (LAB) plant achieved a capacity utilization of 106%, the Epichloro Hydrin (ECH) and Caustic Soda Plants recorded 94% and 106% of capacity utilization respectively. ECH sales touched a new record during the year; however, the continued volatility of oil prices had an adverse impact on the prices of key raw materials and fuel.

On the product side, the reduction of customs duty and abolition of special additional duty by Government of India had softened prices and put margins under pressure. With hike in input prices

on the one side, and lower margins on the other side, TPL embarked upon various cost saving measures in order to maintain the overall profitability.

TPL's sales turnover (net of excise duty) in the year ended 2003-04 was Rs.662 crores, earning a gross profit of Rs.120.46 crores. The Board of Directors of TPL have recommended payment of dividend @ 12.5% on the equity share capital.

Since power constitutes a major input for the Chlor Alkali Division (CAD), the Company's strategy of commissioning the captive power plant (CPP) during 2002-03 has resulted in substantial benefits to the Company.

During the year, TPL also tapped the export market for LAB by exporting 14,523 MT to the Middle East, Far East and Europe. It also exported significant quantities of ECH to the Middle East for the second year in succession. The total value of foreign exchange earnings through exports during the current year was around Rs.52.36 crores.

The expansion project of LAB unit for increasing annual capacity to the international norm of 120000 MT from 100000 MT is progressing well and it is expected to be completed by December 2004.

**MANALI PETROCHEMICAL LIMITED (MPL)**

Turnover for the year improved by an impressive 18% to achieve Rs.265 crores from the previous year's turnover of Rs.225 crores. Capacity utilisation improved to 104%, 101% and 99.3% in propylene oxide, propylene glycol and polyol plants respectively. The system grade polyol products also recorded higher sales, with an impressive margin in the automotive sector. Provisional anti dumping duty has been levied in the current year for imports of flexible slabstock polyol into India from China, Korea, Taiwan and Brazil, in addition to such duty already in place for imports from the EU, the USA, Singapore and Japan.

The market is expected to improve further in the ensuing financial year with better price and higher capacity utilisation levels for the plants. MPL expects to improve its niche market in oil field chemicals, in addition to stabilising its existing business in system grade polyols. MPL is also pushing schemes continuously to improve capacity utilisation by importing propylene oxide and also to reduce operating costs by going in for a biomass based captive power plant.

**IND-ITAL CHEMICALS LIMITED (IND-ITAL)**

IND-ITAL produced 1058 MT of synthetic resins as against 1601 MT last year, and sales was 1060 MT as against 1605 MT in the previous year. Sales turnover, however, declined substantially due to loss of sale opportunity to a major customer who had during the year commissioned its own resin plant. Increase in price of raw materials together with reduction in sales turnover resulted to a loss of Rs.6.02 lakhs in the year ended March, 2004.

Potential for growth of IND-ITAL appears to be strong and business plans to increase the sales volume by focusing on new customer development and by vigorously implementing new growth opportunities are under consideration. Action is being taken to improve the production process that would strengthen the competitive edge and improve the bottom line of the company during the year. The automotive boom in India is expected to support the demand for IND-ITAL's products.

**SPIC PETROCHEMICALS LIMITED (SPIC Petro)**

In view of the pending litigation between Chennai Petroleum Corporation Limited (CPCL) and the Company and the consequent interim injunction granted by the Madras High Court in 1997 on implementation of the project, there has been a temporary suspension of activities. The draft Memorandum of Settlement (MoS) between CPCL and SPIC, which has been approved by the Ministry of

Petroleum and Natural Gas, Government of India, in March 2001, is awaiting execution.

SPIC Petro, has been discussing with financial institutions and banks, which had funded the project, for resolving the financial issues through restructuring of the loans, sanction of reliefs and concessions and grant of further financial assistance. The Lenders formed a committee comprising representatives of IDBI, ICICI, SBI and Dena Bank to review the project and re-appraise its viability.

The Lenders Committee appointed the Tata Consulting Engineers Limited (TCE) as Lenders' Engineer to assess the revised project cost and the viability of the project. TCE has completed its study and submitted its report to IDBI in August 2002. In January 2003, ICICI Bank Limited filed an application before the Debt Recovery Tribunal for appointment of a Receiver with a direction to get the property valued for sale. The Tribunal granted the interim relief. The appeals of SPIC Petro and of the Company before the Debt Recovery Appellate Tribunal were dismissed. SPIC Petro and the Company filed Writ Petitions before the Bombay High Court for staying the orders of the Tribunal and of the Appellate Tribunal. The Bombay High Court adjourned the Petitions with a direction that SPIC Petro will neither be dispossessed from the property, nor will the property be sold. The High Court further directed IDBI to make available TCE's report to the Court, to SPIC Petro and to the Company. SPIC Petro was directed to submit a report as to the possibilities of revival and how the necessary finance will be raised and its liabilities cleared. SPIC Petro submitted the revival report and ICICI Bank subsequently submitted its observations.

Meanwhile, IDBI requested TCE to revalidate its report. SPIC Petro furnished the information sought for by IDBI in this regard. TCE has submitted its draft report to IDBI in February 2004. It has observed that the assets are intact and there is no impairment. The report, after scrutiny by IDBI, is under finalisation. SPIC Petro also submitted a revival strategy to IDBI and the strategy is now under consideration. IDBI is expected to convene a Lenders' meeting very shortly. In view of the above developments, the Company is hopeful that the project will be implemented soon.

Since the viability of the project prima facie has been confirmed by the independent consultant, the Company is actively pursuing identification of a Joint Venture partner.

In March 2004, SPIC Petro allotted equity shares for a value of Rs. 248 crores to the Company and for a value of Rs. 5.75 crores to SPIC Holdings and Investments Limited. By virtue of these allotments, SPIC Petro has now become a subsidiary of the Company.

## **SERVICES**

This segment consists of activities carried out by SPIC - SMO and joint venture companies viz., Gulf SPIC General Trading & Contracting Company W.L.L., Kuwait, Technip India Limited, SPIC JEL Engineering & Construction Limited.

### **SPIC-SMO**

During the year, SPIC-SMO achieved a turnover of Rs.57 crores and executed several contracts involving operation and maintenance, turnaround maintenance, inspection maintenance and repair (IMR) services, extra high voltage transmission lines, railway electrification contracts and rural electrification works for power system improvement. SPIC-SMO has also executed contracts abroad.

SPIC-SMO is executing two major transmission line construction contracts for Power Grid Corporation of India Limited (PGCIL) in Andhra Pradesh, covering around 509 kms with a total contract value of Rs. 72 crores.

During the year 2003-04, SPIC-SMO bagged three prestigious orders from PGCIL for construction of a 400kV transmission line valuing

Rs. 77.72 crores with a total route length of 272 kms. SPIC-SMO is also favourably placed in one more tender as the lowest bidder in the Vindhychal – Pratabpur 400 kV single circuit transmission line covering 140 Kms.

The Indian Government's focus on the strengthening of power system and sub-transmission systems and the accelerated power development reforms programme points to greater business opportunities in transmission line construction for the next 10 years and SPIC-SMO is geared to enhance its market share in the transmission and distribution industry.

Railway electrification work for a value of Rs.2.65 crores for supply, erection, testing and commissioning of 25 kV traction switching stations with all associated power supply installations, including feeding lines at Chennai - Egmore, Guindy and Tambaram Stations of Chennai division of Southern Railway has been completed and commissioned successfully. The other project for a value Rs. 1.55 Crores for design, supply, erection, testing & commissioning of 25 kV, 50Hz single phase traction OHE in Lucknow Goods Yard was completed and commissioned. The Division has also received an order from Southern Railway for design, supply, erection, testing and commissioning of overhead equipment between Korukkupet and Attipatu for a value of Rs.5.94 crores. This project is scheduled for completion in 2004-05.

SPIC-SMO's Operation and Maintenance Service group in Vashi, Navi Mumbai achieved a turnover of Rs. 5.05 crores. Expertise of SPIC-SMO in operation and maintenance services is well recognised in chemical / petrochemical projects in India and abroad. The Operation & Maintenance Service group has identified and provided major thrust in areas like turnaround maintenance, turbo machinery overhauling, and rotary equipment IMR Services. SPIC-SMO in association with EMCO, Abu Dhabi successfully completed refinery turnaround maintenance contract in Takreer Refinery in Abu Dhabi. SPIC-SMO also bagged an order from PETROFAC, ABB Lummus JV Ohanet site, Algeria for specialised technical services.

### **KUWAIT OPERATIONS**

The Company is currently executing a five year maintenance contract for Kuwait National Petroleum Company, Kuwait, for the second term from 1999 and the contract is expected to be completed in October 2004. The Company's team has for the third consecutive year won the Refinery General Managers' Rolling Trophy for Free of Fire Accidents in the Refinery.

### **GULF SPIC GENERAL TRADING & CONTRACTING COMPANY W.L.L., KUWAIT (GULF SPIC)**

Gulf SPIC has bagged a contract from Technip, Italy for civil, mechanical, electrical and instrumentation works to be part of Vacuum Re-run Revamp Project for KNPC, Kuwait, for a value of US\$ 5.30 million.

Gulf SPIC also successfully completed three other major projects worth over US\$ 2.20 million which include Electrolyser Revamp project for AIP, revamp of H2 Treatment Unit in KNPC MAB Refinery and Conversion of Tanks for KNPC Shuaiba Refinery, with safety awards and appreciation letters from the clients.

For the calendar year 2003 Gulf SPIC achieved a turnover of US\$ 7.50 million and a profit of US\$ 0.72 million compared to the previous year figures of US\$ 5.87 million and US\$ 0.42 million respectively. Gulf SPIC executed various design, construction and maintenance works for KNPC, PIC, Hyundai, SK Engg, Cegelec, etc., in Kuwait as well as for GPIC in Bahrain.

Gulf SPIC is currently consolidating its activities and is in the process of making consortiums / tie-ups and registering with International E.P.C Companies to achieve higher growth and prospects.

### **TECHNIP INDIA LIMITED (TPIL)**

For the financial year 2003-04, TPIL achieved a turnover of Rs.40.45 crores and a net profit of Rs.7.28 crores. During the year, TPIL successfully completed the detailed design engineering work for 2 x 2350 TPD Urea and related Offsites & Utilities plants of OMIFCO project in Oman, the world's largest Ethylene plant for JAM Petrochemicals in Iran and a state-of-the art Sulphur Recovery Unit in the Middle East.

During the year, TPIL was awarded a lumpsum turnkey contract for execution of a Dew Point Control Unit at Hazira in Gujarat for Niko Resources Limited. The project is progressing well and scheduled for completion in September 2004. On the pure engineering front, a Distillate Hydrocracker Unit, a Diesel Hydrotreater Unit, a Gas to Liquid facility and a Polyethylene unit are being engineered for various clients in Europe, Middle East and South Africa. In addition, TPIL has been selected by one of the World's largest petrochemical major to do engineering work for its projects world wide.

With business moving towards offshore area internationally, TPIL has taken steps to train its personnel and position itself in this lucrative market. The first job in this area pertains to an offshore platform work in West Africa, which is currently being done. With a good work-order in place and steps being taken for consolidation of position in both the onshore and offshore markets, the next couple of years hold good promise for TPIL.

### **SPIC JEL ENGINEERING & CONSTRUCTION LIMITED (SJCL)**

During the financial year 2003-04, SPIC JEL Engineering & Construction Limited (SJCL) has completed major projects, including Hydro Cracker/MEROX Unit at CPCL Refinery in Chennai and structural erection works for Dubai Aluminium Company at Dubai. SJCL has secured prestigious orders like erection of heaters at Indian Oil Corporation Limited (IOCL), Mathura Refinery, IOCL, Panipat Refinery and mechanical works for Arzew Desalination and Power Plant at Algeria and Arman Cement Plant at Yemen.

In the Fabrication Division, SJCL has executed export job worth Rs.4 crores. SJCL has also entered into civil field and they are looking for a big growth in the civil construction jobs. With the buoyancy in construction activities, SJCL hopes to register a considerable growth in the coming financial year.

### **OTHER INVESTMENTS / INTERESTS**

#### **SPEL SEMICONDUCTOR LIMITED (SPEL)**

The global semiconductor industry has shown impressive growth. IC unit volume increased to 90 billion units in 2003 from 79 billion units in 2002 registering an impressive 14.9% increase. Based on expected world-wide economic growth, IC units should grow nearly 18 percent in 2004 to about 106 billion units and further to 149 billion units in 2008 at a compounded annual growth rate (CAGR) of 10.6%.

SPEL has tremendous potential to increase its market share considering the large size of the IC packaging market. The global IC packaging industry has shown impressive growth in the year 2003 as contractors world-wide assembled a total of 24.1 billion ICs in 2003. This was an increase of 28% compared to 2002.

Against the above backdrop, SPEL assembled about 72 million units in 2003-04 as against 41 million in 2002-03. The turnover rose from Rs.53 crores in 2002-03 to Rs. 82 crores in 2003-04. The increase in volume and revenue over the previous year has been 76 per cent and 55 per cent respectively. The Company has been increasing its market share steadily and in this direction it has taken the following steps:

- \* The company is in the process of establishing an assembly facility for the Small Outline Transistor (SOT 23 Packages), which has a growing demand in the world market.
- \* The company is also exploring the possibilities of introducing the Quad-Flat-No-lead package type with various pin counts.

With the various initiatives taken, the Company is poised for a steady growth in the financial year 2004-05.

### **SPIC HOLDINGS AND INVESTMENTS LIMITED**

The Company disposed of some of its investments during the current year to facilitate full and final settlement of the loan availed of from ICICI Bank Ltd. The net loss for the year was Rs.47.20 lacs.

### **FINANCE**

Pursuant to the approval received in the previous financial year for the Corporate Debt Restructuring (CDR) package from the CDR Cell, the Company received, during the year under review, consent of more than 95% of its lenders. After completion of documentation with majority of the lenders, the CDR package, which provides for reduction in rate of interest and rescheduling of loans, was implemented retrospectively, with effect from 1 April 2002.

### **DIVIDEND**

In view of the loss during the year, and the unabsorbed loss of previous years, it has not been possible for your Directors to recommend dividend on the preference and equity share capital for the financial year 2003-04.

### **SUBSIDIARY COMPANIES**

During the year, SPIC Petrochemicals Limited became a wholly-owned subsidiary of the Company.

In terms of the approval granted by the Central Government under Section 212(8) of the Companies Act, 1956, copies of the Balance Sheet, Profit and Loss Account, Report of the Board of Directors, Report of the Auditors and other related information of the subsidiary companies have not been attached with the Balance Sheet of the Company. The Company will make available these documents/details of information upon request by any Member of the Company interested in obtaining the same at any point of time. The Consolidated Financial Statements presented by the Company pursuant to Accounting Standard AS-21 issued by the Institute of Chartered Accountants of India, includes the financial information of its subsidiaries.

The annual accounts of the subsidiary companies and the related information will be made available to the investors of the holding and subsidiary companies seeking such information. The annual accounts of the subsidiary companies will also be kept for inspection by any investor at the Registered/Principal Office of the Company and that of the subsidiary company concerned.

### **PUBLIC DEPOSITS**

As on 31 March 2004, the outstanding public deposits aggregated Rs.17.96 crores and the overdue unclaimed deposits covering 1,043 depositors amounted to Rs.2.56 crores.

### **HUMAN RESOURCE DEVELOPMENT**

The significant role of the human capital, particularly in the current competitive scenario cannot be overstated.

In order to create better accountability and ensure clear demarcation of responsibility among employees, evaluation of all the positions in the organisation was done through a scientific methodology and a Role Clarity Document (RCD) delineating the Areas of Responsibility for every position was drawn during the year.

A de-layering exercise was also done to reduce the layers of management resulting in clearer authority levels and quicker response.

With a view to identifying and rewarding exceptional performance, a revised Performance Management System was implemented in the organisation. 'Stretch goals' are set for each employee by way of Key Result Areas (KRA) to ensure optimal talent utilisation and to imbibe a performance culture in the organisation. Also introduction of an internal customer satisfaction component is designed to sensitise the workforce towards internal and external customer service orientation.

In addition to measuring and managing technical competence of employees, managerial effectiveness is also assessed. For this purpose, a set of Performance Effective Dimensions have been chalked out for each position which aids in identifying the dimensions driving superior performance among achievers.

#### **Training and Development**

The Company has always laid emphasis on training initiatives for employees. In order to enable the employees equip themselves to face business competition, training is imparted in a structured and methodical manner. Once the positional requirements are fixed and the Performance Effective Dimensions are assessed through assessment centres, the gaps in competencies are analysed to design specialised training and development plans for individual employees.

#### **CORPORATE GOVERNANCE**

A Report on Corporate Governance forms part of this Report. The Management Discussion & Analysis Report and the Certificate of the Statutory Auditors, M/s. Fraser & Ross, confirming compliance with Clause 49 of the Listing Agreement relating to Corporate Governance, are also annexed to the Report.

#### **DELISTING OF COMPANY'S EQUITY SHARES FROM SOME STOCK EXCHANGES**

Pursuant to the special resolution passed by the Members at the 33<sup>rd</sup> Annual General Meeting held on 22 September 2003 according consent for delisting of equity shares of the Company from eight Stock Exchanges, delisting approvals have been received from six Stock Exchanges viz. Ahmedabad, Bangalore, Cochin, Delhi, Hyderabad and Madras Stock Exchanges. Approval is awaited from the Stock Exchanges of Mumbai and Kolkata. The equity shares of your Company continue to be listed on the National Stock Exchange.

#### **AUDIT COMMITTEE**

The Company has an Audit Committee of the Board of Directors, the composition, role, functions and powers of which are in accordance with the requirements of the Companies Act, 1956 and Clause 49 of the Listing Agreement. The Committee consists of Thiruvallalgaral Dr. K U Mada (Chairman), P Baskaradoss, IAS, N Narayanan, IAS, N R Krishnan and Dr. P L Sanjeev Reddy.

#### **DIRECTORS' RESPONSIBILITY STATEMENT**

In accordance with the requirements of Section 217(2AA) of the Companies Act, 1956, the Directors of the Company declare that:

- (i) in the preparation of the annual accounts, the applicable accounting standards had been followed along with proper explanation relating to material departures;
- (ii) the Directors had 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 as at 31 March 2004 and of the loss of the Company for the year ended on that date;

- (iii) the Directors had 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; and
- (iv) the Directors had prepared the annual accounts on a "going concern" basis.

#### **AUDITORS**

The Company's Auditors, M/s Fraser and Ross, Chartered Accountants, retire at the conclusion of the ensuing Annual General Meeting and are eligible for re-appointment.

As regards the observation of the Auditors in para 4(vi) of their report, the Notes on Accounts No. B-5 give the current status of SPIC Petrochemicals Limited. The Company is in the process of identifying a strategic partner to invest in the project and on execution of the Memorandum of Settlement, settle the compensation to Chennai Petroleum Corporation Limited and seek vacation of the stay by the Madras High Court. The project will be implemented on resolving all the issues.

As regards the observation of the Auditors in para 4(vii) of their report, the Notes on Accounts No. B-6 provide the reasons for optimism in the recovery of such amounts from the promoted companies. In view of the long-term involvement with these companies, the Directors are of the view that no provision is required to be made for the above investments, loans, advance against equity, guarantees, interest and other recoverables aggregating Rs.24900.16 lacs. Moreover, two companies have improved their operating performance and have reported net profits during the year ended 31 March 2004.

As regards the observation of the Auditors in para 4(viii) of their report, the Notes on Accounts No. B-8 provide the reasons for reworking the subsidy entitlement for the period from 1.7.1997 to 31.3.2002. The Company has been advised that some of the policy parameters with regard to reassessment of plant capacities, withdrawal of vintage allowance and increase in normative levels of capacity utilisation cannot be amended retrospectively. The Company's endeavour is to get the subsidy outstanding from the Government of India, in a phased manner, by impressing upon the Government the merits of the various issues involved.

As regards the observation of the Auditors in para 4(ix) of their report, the Notes on Accounts No. B-9 provide the basis for the claims with the Government of India. The claims are being followed up with the Government of India and the Company is hopeful of realising the amounts in due course.

As regards the observation of the Auditors in para 4(x) of their report, the Notes on Accounts No. B-11 provide the scope for recovery of such amounts. Efforts are being made to recover these amounts and the Company is of the view that no loss will arise on this account.

As regards the observation of the Auditors in para 4(xi) of their report, the Notes on Accounts No. B-12 provide the current status of the Corporate Debt Restructuring (CDR) programme. With majority of the lenders having given their consent, the restructuring of the Debt Portfolio under the CDR has been implemented during the year. The Company is hopeful that the remaining two lenders would give consent for the reduction in interest rate.

#### **DIRECTORS**

Thiruvallalgaral S Rajagopal, R V Gupta and N Narayanan, IAS, retire by rotation at the ensuing Annual General Meeting and being eligible, offer themselves for re-election as Directors.

Tamilnadu Industrial Development Corporation Limited (TIDCO) withdrew its nomination of Thiru K Skandan, IAS, effective 22 September 2003. TIDCO also withdrew the nomination of Thiru T S Sridhar, IAS and in his place nominated Dr. R Kannan, IAS, with effect from 24 January 2004. TIDCO re-classified the nomination of Thiru P Baskaradoss, IAS, who was earlier nominated as a non-rotational Director, with effect from 29 April 2004, as a Director liable to retire by rotation, in place of Dr. R Kannan, IAS, with effect from 31 July 2004.

TIDCO nominated Thiru Rameshram Mishra, IAS, as a non-rotational Director in place of Thiru Arun Ramanathan, IAS, with effect from 31 July 2004.

The Board places on record its appreciation for the invaluable service rendered by Thiruvalargal K Skandan, IAS, T S Sridhar, IAS, Arun Ramanathan, IAS and Dr. R Kannan, IAS, during their tenure as Directors of the Company.

In accordance with Clause 49 of the Listing Agreement, particulars relating to the Directors seeking re-election/appointment at the ensuing Annual General Meeting are furnished in the Corporate Governance Report.

#### **CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION, FOREIGN EXCHANGE EARNINGS AND OUTGO**

In terms of Section 217(1)(e) of the Companies Act, 1956, information relating to conservation of energy, technology absorption and foreign exchange earnings and outgo is set out in the Annexure, forming part of this report.

#### **PARTICULARS OF EMPLOYEES**

A statement giving the particulars, as required under Section 217 (2A) of the Companies Act, 1956 and the rules framed thereunder, is attached and forms part of this Report.

#### **ACKNOWLEDGEMENT**

Your Company is grateful for the co-operation and continued support extended by the Department of Fertilisers, Ministry of Agriculture and other Departments in the Central Government, Government of Tamil Nadu, other State Governments, Tamil Nadu Industrial Development Corporation Limited, Tamil Nadu Electricity Board, Reserve Bank of India, Financial Institutions, Foreign Institutional Investors, Banks and Insurance companies. The Directors appreciate the dedicated and sincere services rendered by all employees of your Company. The Company's endeavour would be to be worthy of the confidence reposed in it by its stakeholders.

On behalf of the Board

Place : Chennai  
Date : 31.07.2004

**Dr. A C MUTHIAH**  
Chairman

#### **ANNEXURE TO DIRECTORS' REPORT**

Particulars required under the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules 1988, for the year ended 31 March 2004.

##### **A. Conservation of Energy**

An Energy Audit group consisting of senior executives is concentrating on various energy saving measures. This group identifies potential areas, undertakes detailed study and makes suitable recommendations for implementation. Efforts are continuously being taken to reduce the energy consumption of the plants. Some of the activities implemented during the year are:

- ❖ Urea plant off gas absorber system operation was optimised in order to reduce the ammonia concentration in Urea solution at the outlet of gas separator. In addition to this, Urea 45 kg/cm<sup>2</sup>g steam header orifice was replaced with Annubar to reduce the pressure drop. Also, captive power plant to Urea steam flow meter beta ratio was increased. All these measures helped to reduce Ammonia loss from Urea plant.

- ❖ The Ammonia Syn gas compressor bypass cooler cooling water return is routed to the synthesis gas compressor turbine surface condenser, which has resulted in reduced cooling water circulation and thereby savings in steam.
- ❖ Separate cooling water circuit was established for the direct contact cooler in the carbon di-oxide removal section of ammonia plant. This has reduced the treatment cost of cooling water and also reduced the main plant cooling water-pumping cost.
- ❖ The power factor was improved by installing capacity banks at various locations in the electric power distribution system. The Company has earned incentive from the Tamil Nadu Electricity Board for operating almost close to the unity power factor.

##### **B. Technology Absorption**

As given in Form 'B' , attached hereto.

##### **C. Foreign Exchange Earnings and Outgo**

Foreign Exchange Earnings	Rs.	6911.16	lacs
Foreign Exchange Outgo	Rs.	39743.30	lacs

**FORM A (See Rule 2)**

**FORM FOR DISCLOSURE OF PARTICULARS WITH RESPECT TO CONSERVATION OF ENERGY**

			Current year 31 March 2004	Previous year 31 March 2003
<b>A) Power and Fuel Consumption</b>				
1) Electricity:				
a)	Purchased			
	Unit	MWH	89462	49409
	Total amount	Rs. in lacs	4124.68	2939.57
	Rate per unit	Rs./KWH	4.61	5.95
b)	Own Generation			
i)	through Diesel Generator			
	Unit	MWH	38856	36747
	Unit per litre of diesel oil	KWH/litre	3.99	3.86
	Cost per unit	Rs./KWH	3.15	3.34
ii)	through steam turbine/generator			
	Unit	MWH	55388	94782
	Cost per unit	Rs./KWH	3.88	4.31
2) Coal (Specify quantity & where used)				
	Quantity	-	-	-
	Total cost	-	-	-
	Average rate	-	-	-
3) Furnace Oil – LSHS				
	Quantity	MT in lacs	1.52	1.63
	Total cost	Rs. in lacs	18929.17	20489.84
	Average rate	Rs. per MT	12480.19	12540.64
			Current year 31 March 2004	Previous year 31 March 2003
<b>B) Consumption per MT of production (Energy intensive products only)</b>				
Ammonia	Production	MT	363015	332379
	Electricity	KWH	49	60
	Fuel oil	MT	0.243	0.257
Urea	Production	MT	621078	569281
	Electricity	KWH	123	130
	Fuel oil	MT	0.065	0.069
DAP	Production	MT	313062	288348
	Electricity	KWH	44	47
	Fuel oil	MT	0.004	0.004
Complex (20:20)	Production	MT	8727	52227
	Electricity	KWH	131	58
	Fuel oil	MT	0.014	0.014
Penicillin – G	Production	MMU	1839	1600
	Electricity	KWH	22628	24135
	Fuel Oil	MT	2.27	2.87

**FORM B (See Rule 2)**

**I. SPECIFIC AREAS IN WHICH R&D IS CARRIED OUT BY THE COMPANY**

R&D activities carried out in the areas of active pharmaceutical ingredients, drug intermediates and herbal drugs apart from continuous strain improvement and process technology improvements, to achieve increased productivity in the production of Penicillin-G.

**II. BENEFITS DERIVED AS A RESULT OF THE ABOVE R&D WORK**

- 1) A laboratory process has been developed for the preparation of Raloxifene HCL. Scale up at pilot plant level is in progress.
- 2) Process for the preparation of t-butyl carbamate, alpha-D, Isopropyl thiogalacto pyranoside and 5-Dodecinoic acid methyl ester has been developed.

**III. FUTURE PLAN OF ACTION**

Efforts will be continued on speciality products and process-related technologies.

Efforts will continue in the main areas of development of off-patent products and improvement of existing products and processes so as to reduce costs where possible.

**IV Expenditure on Research and Development : 2003-04.**

(Rupees in lacs)

a. Capital expenditure	71.17
b. Revenue expenditure	<u>261.43</u>
c. Total	<u>332.60</u>
d. Total R & D expenditure as a percentage of total turnover	0.22 per cent

**TECHNOLOGY ABSORPTION, ADAPTATION AND INNOVATION**

Technology imported	Year of import	Has technology been fully absorbed	Benefit derived
1 Modernisation of Reformer and Convection section of Ammonia Plant	1998	Yes	Reliability improvement
2. Dual activated Dual pressure Glycine based carbon di-oxide removal system for Ammonia Plant	1998	Yes	Pollution control
3. New Strain from M/s PanLab, Taiwan, for the production of Penicillin -G	2000	Yes	Productivity enhancement

Statement showing the particulars of Employees of the Company, as required under Section 217(2A) of the Companies Act 1956, read with the Companies (Particulars of Employees) Rules, 1975 and forming part of the report of the Board of Directors for the year ended 31 March 2004

Name	Designation and Nature of Duties	Age	Qualification	Experi-ence	Last Employment	Date of Commencement of Employment	Gross Remuneration (Rupees)
Thiruvallargal Muthiah, Dr. A C	Chairman	63	B.E. (Mech), Management Studies, University of Detroit, USA	34	Executive Vice-President (Admn & Personnel)	01 10 1983	4725483
Babu K Verghese	Managing Director	60	B.Tech. (Chem).	36	Managing Director, Indo-Jordan Chemicals Company Ltd.	01 10 2001	3067477
Thirunavukkarasu M.G	Finance Director	55	B.Com., A.C.A., A.I.C.W.A., A.C.S	33	Director, U B Petropducts Ltd	27 12 1995	2421152
Ramanujam, Dr.P.	Director Mitocon Biotech	56	M.Pharm., Ph.D., PGDBM.	29	Managing Director, Ranbaxy Lilly Co Ltd.,	03 11 1997	2515395

The nature of employment in all cases is contractual.

Gross remuneration excludes contribution to gratuity fund made during the period as the contribution has been made covering all the employees to approved gratuity fund, based on actuarial valuation.

None of the above employees is related to any of the Directors of the Company, except Dr.A.C. Muthiah, who is related to Thiru Ashwin C.Muthiah, Vice Chairman and Thiru Jawahar Vadivelu, Director of the Company.

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## MANAGEMENT DISCUSSION AND ANALYSIS REPORT

### FERTILISER BUSINESS

#### INTRODUCTION

The importance of the fertiliser sector in India need hardly be emphasised as it provides a vital input for the growth agriculture for attainment of self-sufficiency in food production. The fertiliser sector would cover not merely the manufacture of fertilisers but also the activities in the agriculture sector linked with the production and distribution of fertilisers.

The process of reforms in the fertiliser sector in India has gathered momentum with the Government of India laying down the overall policy framework for its various segments. Sweeping changes are also taking place in other sectors with which fertiliser industry has linkages. The petroleum sector has been largely deregulated while deregulation of the natural gas sector appears to be on the anvil. The agriculture sector is also expected to be liberated from controls. The above changes herald the dawn of a new era for the fertiliser industry. The industry will, therefore, have to galvanise itself to cope with the challenges of the new era. It will have to work out strategies for ensuring its growth in an environment wherein, it will have to effectively face external competition and at the same time perform its due role for continued national self-efficiency in food production and supply. This would mean that while adjusting to the new paradigm, it has to be ever conscious of the need of our farmers for plant nutrients of the right quality, quantity and at the right time. As the fertiliser industry's growth and the Indian farmer's property are inextricably intertwined, its socio-economic role in the national scene cannot be overstated. The industry will also, simultaneously, have to cope with the challenges thrown up by the current round of negotiations at the WTO.

#### ECONOMIC SCENE 2003-04

The economy is in a mode of buoyancy with a growth of 8.1 per cent during 2003-04. It is in a resilient mode in terms of growth, inflation and balance of payments. This combination offers ample scope for consolidation of the growth momentum with continued macro economic stability. Industrial and service sector also assisted the GDP growth along with agricultural recovery of 9.1 per cent.

The year also marked continued relative stability of prices. Inflation was 4.6 per cent at the end of March 2004, compared to 5.5 per cent (average) for the year.

A strong balance of payments position in recent years has resulted in foreign exchange reserves reaching USD 119.3 billion by May 2004. The focus of monetary policy during the period was on dealing with this surge in reserves.

A good monsoon helped to increase the level of food grains production from 174.2 million tonnes in 2002-03 to 212 million tonnes in 2003-04, with increase in the production of both cereals and pulses. The prospects of agricultural production in 2004-05 are considered bright with the forecast of a normal monsoon.

Overall growth in the industrial sector improved from 5.7 per cent in 2002-03 to 6.9 per cent in 2003-04. Electricity and Manufacturing sectors significantly contributed to this growth.

Industry needs to grow rapidly not only to boost the overall growth rate of the economy but also to generate gainful employment for

the jobless, who are projected to add to the labour force by 2 per cent per annum.

One of the critical challenges confronting the Indian economic policy has been devising strategies for sustained industrial growth in excess of 10 per cent per annum to move to double digit growth.

The Government has decided to augment public investment in agriculture, particularly in rural infrastructure, irrigation and agricultural research and development. This is to reverse the declining trend in capital formation in agriculture. The Central Government is also conscious that the excess agricultural labour need to be absorbed in other sectors notably Industry. Agro-processing is an area for such shift.

#### MONSOON AND AGRICULTURAL PRODUCTION

After an extreme monsoon aberration in 2002-03, the monsoon during 2003-04 was better and 33 out of 36 meteorological divisions in the Country received normal to above-normal rainfall and seventy-five per cent of the total districts received normal or above-normal rainfall. Excellent south-west monsoon resulted in an extremely good moisture level at the start of Rabi 2003. This is in sharp contrast to 2002 when 21 sub-divisions received deficient rainfall and only 15 sub-divisions received normal or above normal rainfall.

During 2002-03, foodgrains production had declined by about 18% to 174 million tonnes on account of drought, floods and adverse agro-climatic conditions in some areas of the Country. Buoyed by good monsoon of 2003, the advance estimates of Government of India indicate foodgrains production of 212 million tonnes, an increase of about 22%.

According to the Long Range Forecast of rainfall for the year 2004 south-west monsoon season (June-September), made by the Indian Meteorological Department (IMD), overall rainfall for the Country is likely to be 100% of the long period average. The cumulative rainfall in the pre-monsoon period March-May 2004 at 16.2 cms was 125% of the normal rainfall.

#### AGRI SECTOR: CENTRESTAGE OF INDIAN ECONOMY

The agriculture sector continues to occupy the centrestage of the Indian economic landscape despite the fact that its share in India's gross domestic product has reduced from 59% in the 50's to 23% currently. The fortunes of the Indian economy are critically dependent on the performance of the agriculture sector if agriculture performs well, the economy turns buoyant and vice-versa. During 2002-03, the agriculture and allied sectors registered a negative growth of 3.1% (this was preceded by a steep decline in foodgrains production by about 14%). As a result, despite the industrial and the services sector having not been affected otherwise, the overall growth of GDP was only 4.4%. In sharp contrast, during the current year, a GDP growth of over 7% is expected on the basis of good agricultural performance.

Agriculture has a dominant role to play in the Indian economy not only in providing food to the population, but also in generating a substantial part of the national income and demand for industrial products as also for creating employment opportunities. A review of the performance of the Indian economy reveals that whenever

agriculture and related sectors have not performed well, the growth of the national income has retarded. It is in this context, that it becomes all the more essential that the development of the fertiliser industry in India should be in line with our goals for agriculture.

The Tenth Five Year Plan document very rightly includes fertilisers as a tool to achieve the objectives laid out for the agricultural sector. The document recognizes the application of N, P & K fertilisers as well as micronutrients. The document also lays emphasis on the need to improve the organic content of the soil, improve fertiliser usage efficiency, increase fertiliser consumption especially in states where it is low by providing adequate marketing infrastructure, besides encouraging their balanced use in comparatively high consumption areas.

#### FERTILISER CONSUMPTION

Even though India ranks FOURTH globally in food grain production with a production of 212 million MT, in terms of per capita food grain production and average yield per hectare, its performance calls for greater improvement.

Fertiliser consumption increased by more than three times from 5.5 million tonnes in 1980-81 to 18.07 million tonnes in 1999-2000. However, the growth of the fertiliser consumption has been erratic for the last three/four years. Due to poor monsoon, the consumption of fertiliser was lower at 16.09 million tonnes in 2002-03 compared to 17.36 million tonnes in 2001-02. The consumption bounced back to 17.47 million tonnes in 2003-04, a good monsoon year, although it still remained below the 1999-2000 level as seen below:

#### CONSUMPTION OF FERTILISER IN NUTRIENT TERMS ( Figs. In '000 MT)

	1999-2000	2000-01	2001-02	2002-03	2003-04*
NITROGEN	11592	10920	11310	10474	11324
PHOSPHATIC	4799	4215	4382	4019	4402
POTASSIC	1678	1567	1667	1601	1748
TOTAL	18069	16702	17360	16094	17474
% INCREASE	<b>7.57</b>	<b>-7.57</b>	<b>3.94</b>	<b>-7.29</b>	<b>8.57</b>

\* - Estimated

(Source: Ministry of Agriculture)

There was a fall in per capita consumption of fertiliser from 90.12 kg/hectare in 2001-02 to 84.82 kg/hectare in 2002-03. There is a great deal of variability in per capita consumption of fertiliser; it varies from 174.99 kg/hectare in Punjab to 28.54 kg/hectare in Rajasthan.

During the current year, the level of fertiliser consumption has not picked up. It is high time that a National Project based on primary research at farmer level onwards is undertaken to identify the reasons for stagnation in fertiliser consumption and consequently agriculture production, and to suggest ways and means for accelerated growth of farm income.

With the limited agricultural cropped area of 190 million hectares, enhancing food grain production is possible only by means of increasing the fertiliser consumption to a level of 115 kg/Ha from the present level of 85 kg/Ha . India also lags behind in terms of balanced fertiliser use, with the entire thrust on N (Urea), ignoring the importance of P(DAP) and K (MOP) for crop yield and strength. While the world ratio of N : P : K is 4 : 1.5 : 1 the ratio in India is 7 : 2.5 : 1. The ideal ratio for the Country would be 4 : 2 : 1.

#### FERTILISER AVAILABILITY

The fertiliser production, nitrogenous as well as phosphatic, has been almost stagnant during the last four years as shown below:

( '000 tonnes of nutrients)

YEAR	PRODUCTION			IMPORTS	AVAILABILITY
	NITROGEN	PHOSPHATE	TOTAL		
2000-01	10962	3743	14705	2090	16795
2001-02	10768	3860	14628	2398	17026
2002-03	10562	3904	14466	1757	16223
2003-04	10632	3568	14200	2018	16218

(Source : Ministry of Chemicals & Fertilisers)

Domestic production in 2003-04 was marginally less than in 2002-03. However, with higher imports, the total availability of fertiliser in 2003-04 was of the same order.

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## FEEDSTOCK AVAILABILITY

### Gas Requirement for Fertiliser Industry

The fertiliser sector accounts for approximately 27% of natural gas consumption in the Country. Preference of Natural Gas / Liquefied Natural Gas over other feedstock for manufacturing Urea is on account of high performance efficiency, ease of operation and lower capital and operating costs. For 2006-07 estimates of fertiliser sector's requirement, on the basis of conversion from naphtha to natural gas, was placed at 46.03 mmscmd as against the current supply of 7955 mmscmd in 2002-03. The shortfall in the existing supply to gas based fertiliser units is estimated at about 10.7 mmscmd. The equivalent gas requirements of existing naphtha based plants have been estimated to be around 14.5 mmscmd.

### New Gas Discovery

A landmark development that could have a far reaching impact on the domestic energy scenario is the discovery of huge gas reserves in the offshore Krishna-Godavari basin. According to initial estimates, the total reserves are of the order of 7 trillion cubic ft., of which 5 trillion cubic ft., are commercially exploitable. From the reserves, 40 mmscmd of gas is expected to be available to users by 2006.

### LNG Scenario

Imported liquefied natural gas (LNG) will be another source to supplement the gas requirements. A project to set up LNG receiving and regasification facilities at Dahej is under implementation by Petronet LNG. The project is being implemented in two phases with Phase-I capacity of 2.5 MMT of LNG/annum likely to be operational by the end of 2004. Phase-II envisages another 2.5 MMT capacity 2-3 years after Phase-I. At full capacity, the project will be able to supply about 18 mmscmd of gas. Another project which has made good progress is by Shell at Hazira having a capacity of 3 MMT/annum. The supply of gas from this terminal is expected to commence in early 2005.

### Implications of Gas Shortage

If the increased availability of gas can help in meeting full requirements of feedstock and fuel at 100% capacity utilisation, this would also facilitate smooth operation of the New Pricing Scheme. As mentioned earlier, at present, due to inadequate supply of gas and resultant shortfall in availability in varying degrees to various plants, the extent of gas to other fuel ratio also varies significantly for plants in the same group. This leads to problems in determination of the concession under the scheme of averaging. This problem will be automatically taken care if the full requirements of energy are met entirely from supplies of gas.

## Gas Availability to Complex Manufacturers

The increase in availability of domestic gas will also help the complex manufacturing units in reducing the cost of ammonia and in turn the production cost of complex fertilisers. At present, there are a number of plants that use costly ammonia manufactured from high cost naphtha, fuel oil/LSHS and they are entitled to concession at a higher rate under the two part concession scheme for complex fertilisers in vogue from 1.4.2002. The availability of cheaper gas will induce them to switch over from naphtha/fuel oil to gas, thereby reducing the production cost and help in maintaining their viability.

### Need for Export Parity Price of Gas

Considering the fact that the prices of liquid hydrocarbons move in tandem with the international price of crude oil which is prone to wide fluctuations, their prices will continue to show a high degree of volatility in the future also. Against this backdrop, it will be necessary to reduce dependence on liquid hydrocarbons to facilitate stable and low production cost.

Under the circumstances, the rational method of pricing these liquid hydrocarbons would be to fix them on the basis of export parity price i.e. on the basis of the price that oil companies are expected to realise from exports instead of selling them to the domestic fertiliser companies.

### Need for Feedstock Price Parity

After the advent of gas based plants in the Country, units with liquid feed stock were pushed behind in the pretext of higher cost of production even though in reality there is a severe discrimination against the liquid feed stock in terms of the pricing structure for the energy. The energy cost of liquid feed stock such as Naphtha has gone up by 140% during the last 8-10 years (From Rs.712/Mkcal to Rs.1714/Mkcal) as against a nominal increase of 16% (from Rs.342/Mkcal to Rs.400/Mkcal) in the case of Natural Gas.

## NATURAL GAS PRICES : A COMPARISON

As mentioned earlier, one of the key factors for higher cost of production and consequently higher subsidy bill is very high cost of energy in India as compared to other countries in the world and more specifically the Urea exporting countries. Gas is the main feedstock in all the Urea exporting countries and is available at very competitive rates. For instance, price of gas in most of the Middle East countries is below USD 1/MMBTU, in Russia it is about USD 1.02/ MMBTU. The price of gas for Oman India Fertiliser Company (OMIFCO) project in Oman is only 77 cents/ MMBTU. As against this, price of gas in India is USD 2.2/ MMBTU at landfall point and USD 2.8/ MMBTU along HBJ pipeline. The price of naphtha is about USD 8/ MMBTU and that of fuel oil is about USD 6.5/ MMBTU. This clearly explains the handicap of

the Indian fertiliser industry as compared with other countries, which export Urea at lower rates when the international demand is low. Even these countries export Urea at exorbitant prices when the demand-supply situation is tight in the international market.

The feedstock, namely the natural gas, for the OMIFCO is available at a very low price. In spite of that, the Government of India has agreed for a pricing formula by which the landed cost of the Urea from the OMIFCO unit is expected to be higher than the international market price.

Suitable gas pricing along with reasonable duty protection is key to long-term competitiveness of nitrogenous players. Clarity on gas pricing would also accelerate the conversion of naphtha-based plants to gas based plants thus lowering the subsidy burden on exchequer.

#### **GLOBAL COMPETITIVENESS OF INDIAN FERTILISER INDUSTRY**

The Indian fertiliser industry has kept pace with the latest developments in the field. As a matter of fact, the Indian fertiliser sector is one among the few industries in the Country, which is the best in the World in terms of operational efficiency. According to the study conducted by National Productivity Council (NPC) a few years ago, energy consumption per tonne of finished product was found to be the lowest for Indian gas based fertiliser plants as compared to the plants in the USA, the UK and Italy.

Even in a recent study by a committee under the Chairmanship of Shri A.V. Gokak, former Government of India Secretary (Fertilisers), which submitted its report in May 2003, it was found that energy consumption in Indian fertiliser plants was one of the lowest in the World. The committee made a comparative study of energy consumption in ammonia-Urea plants of the three largest fertiliser producers in the World viz. the USA, China and India and found that specific energy consumption of gas-based plants per tonne of ammonia was lower for India compared to the USA and China. Even in the case of naphtha-based plants, energy consumption per tonne of ammonia was lower in India compared to China. Similarly, Indian industry is capable of setting up fertiliser projects at capital costs substantially lower than other countries in the World as borne out by a comparison of the capital costs of recently executed Overseas and Indian projects. Indian industry has also established a track record of setting up fertiliser projects within a time schedule which is comparable to the best in the world. In short, the Indian industry is comparable to the best in the World in terms of all operational and managerial parameters. It is a strange paradox that despite this level of excellence, the financial performance of the industry is much below the performance of other sectors of the economy. This sector has not attracted any foreign direct investment ever since the economy was opened up more than a decade ago.

One of the key factors for higher cost of production and consequently higher subsidy bill is the exorbitant cost of energy in India as compared to other countries in the world and more specifically the Urea exporting countries.

#### **SUBSIDY ISSUE**

To encourage balanced fertiliser use and make fertiliser available to farmers at affordable prices, the central Government determines and notifies the selling price of Urea and decontrolled P & K fertilisers, such as the DAP, Muriate of Potash (MOP) and complexes. Since the selling prices of fertiliser is less than the cost of production, the difference between the selling price and the cost of production as assessed by the Government is borne as subsidy. For 2003-04, the Government initially proposed an increase in the selling price of Urea by Rs.240/Ton, DAP by Rs.200/Ton, all other complex fertilisers by Rs.200/Ton each and MOP by Rs.200/Ton. However, on 11.3.2003, it announced a roll-back of the price increases. Subsidy on Urea in 2003-04 is estimated to be at Rs 8521 crs. and that on decontrolled phosphatic and potassic fertilisers at Rs 4046 crs., resulting in the total subsidy burden order of Rs12567 crs. in 2003-04.

The industry does not gain anything by acting as a conduit for channelling the subsidy to the farmers under the concession scheme. The Government of India may adopt any alternative mechanism for subsidising farmers, as it deems fit.

High discrimination in the input pricing of energy for the liquid feed stock as fixed by the Public Sector oil companies has been the main cause for burgeoning fertiliser subsidy.

The gross subsidy of Urea has gone to Rs.8500 Cr. from Rs.4000 Cr. in a span of 10 years. More than 75% of this increase is essentially on account of the energy cost escalation.

It is to be understood that the major portion of the subsidy routed through fertiliser industry is nothing but an intra-economy transfer in that the subsidy given to the industry goes back to the oil companies in the form of feed stock price, which has no comparison to the international price of energy.

A feeling is gaining ground in the industry that the government, in its zeal to reduce fertiliser subsidy burden, has taken some harsh measures which will have long-term impact on health of the Indian fertiliser industry and in turn availability of domestic fertilisers in the country. It may not be out of place to highlight here that the short- period-era of cheaper imported Urea, which perhaps influenced the thinking of some of the policy makers, is already behind us and once again imported Urea is more expensive than the weighted average cost of domestic Urea. If this is the situation when India is not importing, one should think of the price levels if we have to approach the foreign markets for meeting our Urea needs. The international price situation should be viewed only from a long term perspective in the background of strategic national interests.

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As responsible corporate citizens, the industry fully shares the concern of the Government towards the fertiliser subsidy bill. However, in order to address this problem squarely, one has to look at the root causes of increases in subsidy rather than tightening the pricing norms for the industry.

Another area which increases the subsidy burden is imposition of various taxes and duties on the inputs used in its manufacture. Levy of taxes and duties on the inputs used in the fertiliser manufacture only increases the cost of production, which in turn requires higher subsidy outgo. In view of the above, the customs duty currently levied on rock phosphate, sulphur, ammonia, phosphoric acid, project imports and spares used for fertiliser projects should be withdrawn or alternatively a provision for duty-drawback could be provided. Similarly, capital goods and spares supplied for fertiliser projects should also be exempt from excise duty. In order to reduce the cost of imported LNG, either the customs duty should be withdrawn or the benefit of duty drawback should be made available. Keeping in view the investment needs during the 10th Plan both for grass root projects as well as for modernization/expansion, the facility of Deemed Export Benefit (DEB) to indigenous capital goods for fertiliser projects should be allowed in the 10th Plan as well. DEB assumes special importance for conversion of naphtha/fuel oil based plants into gas/LNG. The Government may also think of giving one time capital support for such conversion.

#### **POLICY IMPACT UREA**

Given the importance of fertiliser pricing and subsidization for the growth and viability of the fertiliser industry and agriculture, the need for streamlining the subsidy to Urea units has been on the agenda of the Government for a long time.

#### **IMPACT OF RETROSPECTIVE REVISION OF POLICY**

The reassessment of the capacity of 16 units on an interim basis from 1.4.2000, interim revision in consumption norms for 13 plants from 1.4.2000 followed by further adverse changes in the policy parameters for the 7th and the 8th pricing have made a serious dent on the earning capacity of the majority of the units. Besides, the retrospective application of these adverse changes in the policy parameters have led to serious liquidity problems for a number of manufacturers.

#### **IMPLEMENTATION OF GCS**

Government of India notified the Group Concession Scheme (GCS), which marked the industry migrating to group-based concessions from unit-specific retention price scheme (RPS). Stage-1 of GCS commenced from 1 April 2003. The impact of GCS was largely on expected lines with a premium being placed on energy efficiency. As a result, the plants, which are not energy efficient, suffered and some of them have shut down.

#### **FOCUS ON ENERGY EFFICIENCY**

Tightening of energy consumption norms by the Government is likely to affect all the Urea manufacturing units with the efficient players likely to be affected the least. A number of units have embarked on energy conservation measures; this would further reduce the energy consumption of these players. The emphasis on energy-efficiency will gain more urgency as units strive to achieve operational excellence by benchmarking their costs and processes against international norms. Profitability of such units will improve on account of gains from energy efficiency.

#### **POLICY ON ECA ALLOCATION**

A beginning has been made in the realm of decontrol and liberalization by restricting allocation of Urea under the Essential Commodities Act to 75 per cent of the reassessed capacity of each unit in Kharif 2003 and 50 per cent of the capacity in Rabi 2003-04. The Urea units will be free to sell the remaining Urea at the designated Maximum Retail Price (MRP) to the farmers.

This should help the manufacturers to consolidate the consumption of fertilisers in the vicinity of their plants, thereby effect savings in freight. This may, however, create certain regional surplus while the other regions face deficits. With Government committed to completely decontrol distribution of Urea, these imbalances may exacerbate as manufacturers strive to increase their market share in the vicinity of their manufacturing plant.

#### **TOTAL DECONTROL : NEED FOR CAUTIOUS APPROACH**

It must, at the same time, be necessary to ensure that the transition to the era of total decontrol would have to be achieved in a phased manner so that there are no economic problems during the period of transition. Total decontrol may imply a high rise in the price of fertilisers which the farmers, especially the small and marginal, may not be in a position to afford. One of the aims of total decontrol is to contain the burden of subsidy. In the anxiety to reduce the burden of subsidy, however, one cannot afford to ignore the socio-economic aspects of the problem. About 70% of the fertilisers are being used in 100 out of 426 districts, chiefly on irrigated cereal crops, sugarcane and cotton.

#### **STRATEGIES UNDER DECONTROL**

Companies with little to offer by way of product differentiation would have to look into providing farmers integrated farming solutions in a decontrolled situation.

Product profile on a long-term basis may see companies trying to manufacture value added products like neem-coated Urea, granulated Urea, etc., as also offering complete range of agri-inputs. Neem-coated Urea, besides its better physical quality, has also been found to give considerable yield advantage in

paddy and other crops. Granulated Urea is expected to increase the efficiency of use of fertiliser.

#### WHAT SHOULD BE THE GOVERNMENT'S ROLE

In the emerging scenario, Government should perform the following role:

- a. Monitor the trends in the consumption of fertilisers to ensure that no imbalance develops in nutrient consumption.
- b. Monitor the prices of fertilisers both with a view to ensuring their balanced consumption and assessing the impact of prices on the economics of the farmers.
- c. Monitor the availability of fertilisers specially in hilly and inaccessible areas and the north eastern region and the state of Jammu & Kashmir.

#### POLICY IMPACT : DAP

The manufacturers of DAP also suffer due to adverse policy environment. This fact has been observed even by the Tariff Commission (TC) in its report which found that the DAP manufacturing companies are suffering from losses since 2000-01.

With regard to the pricing policy of phosphatic fertilisers, the concept of computing concession on the basis of the import prices of ammonia and phosphoric acid that prevailed in the previous quarter has put the units in a great disadvantage in the wake of increasing trend of input prices. To add further strain to the industry, Government of India follows the method of announcing a base concession rate every quarter, on interim basis and announcing the final concession rate after a lapse of 4 to 6 months, in addition to holding 15% of the concession amount for the certification of the State Government which again takes further 6 to 9 months. The above measures have severe impact on the health and growth of the phosphatic fertiliser industry.

During the year, manufacturers of phosphatic fertilisers as well as complex fertilisers had to contend with the Government replacing the single ad-hoc concession with group-based concession schemes. Government has notified in January 2004 a new concession scheme for DAP Phosphatic fertiliser manufacturers, on the basis of TC recommendations, under which they are classified into two groups viz. Group-1 consisting of plants using captive phosphoric acid and Group-2 consisting of plants using imported phosphoric acid. Similarly, complex fertiliser manufacturers are divided into two groups viz. Group-1 plants using either imported ammonia or domestic ammonia made from gas and Group-2 plants based on domestic ammonia made from naphtha, fuel oil/LSHS. The scheme for complex manufacturers was notified with retrospective effect from 1 April 2002 thereby affecting the profitability of most of the manufacturers.

For working out the concession rate under each Group, the TC examined the cost structure of all the DAP manufacturing units and computed the normative production cost of each using stringent norms for capacity utilisation, consumption of raw materials/inputs and other costs.

The new policy for complex fertilisers based on TC recommendations was implemented from 1.4.2002. The policy does not capture the heterogeneity of Group-I in which the manufacturing units use three different routes for procuring/fixing nitrogen in the complex fertilisers viz (i) based on imported ammonia; (ii) using ammonia-based on domestic gas; and (iii) plants fixing nitrogen primarily from Urea. This has led to significant under-recovery of cost particularly for plants fixing nitrogen from Urea and those using ammonia based on gas. The implementation of the new policy has led to significant erosion in profitability of several complex-manufacturing units.

The industry welcomes that the free market forces determine the profitability of its manufacturing units. As in the case of Urea in the phosphatic sector also, the industry does not gain anything by acting as a conduit for channeling the subsidy to the farmers under the concession scheme. The Government of India may adopt any alternative mechanism for subsidising farmers, as it deems fit.

#### NEW POLICY INITIATIVES

For bridging the gap between the demand and supply of Urea in the medium term, Government has formulated a policy for new units and expansion of existing Urea units, debottlenecking leading to higher capacity and conversion of existing costlier feedstock units to gas/LNG based units. The new policy is expected to encourage private investment in Urea plants.

Equally important is the firming up of policy for conversion of existing non-gas based Urea units to Natural Gas(NG)/LNG, which are clean, efficient and cost-effective sources of energy. While at present natural gas based plants account for more than 60% of Urea capacity, balance capacity is based on naphtha, fuel oil and low sulphur heavy stock (LSHS) as feedstock. Switchover of non-gas based Urea plants to NG/LNG will result in substantial savings in subsidy on account of reduced cost of feedstock and resultant energy savings.

Government is in the process of facilitating such switch over of existing non gas based Urea units to NG/LNG. The exact time schedule for such conversion will depend on the additional availability of NG through new gas fields and imported LNG and the delivered price of NG/LNG. In the first instance, those naphtha based units, which are in the vicinity of the HBJ pipeline, will be converted to NG/LNG.

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## CONCLUSION

The Indian fertiliser industry is in the midst of a paradigm shift with premium being placed on operational efficiency. New marketing initiatives are expected from companies striving to protect their declining margins. Fertiliser marketing will witness a shift from being a distribution-driven model to becoming increasingly customer oriented. The fertiliser industry will witness replacement of high-cost debt with lower-cost debt. EBIDTA margins of Urea units may be marginally lower in FY05 on account of changes in energy consumption norms and capital related charges.

Over the long term, units with flexibility in production for using different feedstock, having a wide product range and focus on operational efficiencies would be better placed.

Majority of the Urea-manufacturing units are seriously affected under the New Pricing Scheme introduced from April 1, 2003. The units will be particularly severely affected in Stage-II when, apart from reduction in the CRC for as many as 12 units, energy consumption norms will also be tightened.

With regard to Urea pricing, focus needs to be given again on the recommendations of Dr. Hanumantha Rao Committee as well as ERC so that a Normative Referral Price (NRP) with a bench

mark within the industry can be considered. Similarly for new capacities, the concept of Long Run Average Costing (LARC) can be suitably considered.

The need of the hour is to analyse the problems faced by the industry and provide a conducive policy environment, which will ensure the viability of the units and allow them to earn a reasonable rate of return. It is imperative not only to maintain the viability of existing capacities but also to create favourable policies which will lead to fresh investment and creation of additional capacities, especially in the Nitrogen sector. The industry has an obligation towards its investors and shareholders to give them a reasonable rate of return which is not lower than what they would have got, had they invested in other free sectors of the economy.

The indigenous fertiliser manufacturers have a role to play in promoting balanced use of fertilisers. They need to play much extended role in soil testing. Farmers need to be educated with the viable production and economic choice in terms of agricultural inputs. Promoting an Integrated Plant Nutrient Management System, which encompasses the use of Bio-fertilisers, micronutrients, organic manure, chemical fertilisers and lays emphasis on soil health and quality control, is essential. It may be appropriate here to suggest to the policy makers that a balanced kit of nutrients is the long pending need of the soil and hence if need be, its use must be promoted by a scheme of incentives and disincentives.

## PHARMA BUSINESS

### INTRODUCTION

The pharmaceutical industry has been identified as one of the most important knowledge based industries in which India has a competitive advantage. A highly organized sector, the Indian Pharma Industry is estimated to be worth \$ 4.5 billion, growing at about 8% to 9% annually. It ranks very high among the third world and is one of the largest and most advanced among the developing countries. From simple headache pills to sophisticated antibiotics and complex cardiac compounds, almost every type of medicine is now made indigenously. Indian Pharma Industry boasts of quality producers and many units are approved by regulatory authorities in USA and UK.

The Indian pharmaceutical industry is in the front rank of India's science based industries with wide ranging capabilities in the complex field of drug manufacture and technology. The Indian pharma industry is estimated to be worth \$ 4.8 billion, growing at about 8% annually. It ranks very high in the third world, in terms of technology, quality and range of medicines manufactured. The Indian pharmaceutical sector is highly fragmented with more than 20000 registered units. It has expanded drastically in the last two decades. The leading 250 pharmaceutical companies control 70% of the market with the market leader holding nearly 7% of the market share. The pharmaceutical industry in India meets around 70% of the Country's demand for bulk drugs, drug intermediates, pharmaceutical formulations, chemicals, tablets, capsules, orals and injectibles.

India with 16% of the World population has only 1% of the world health investment. The per capita spend on drugs at 4 USD is among the lowest in the world, lower than even countries like China and Pakistan where the spend is around 7 USD. The problem is compounded by the health insurance sector being in an infancy stage. Yet, according to a recent McKinsey report the pharmaceutical industry has the potential to grow to around 25 Billion USD by 2010 from 5 billion USD at present and become a key driver in the knowledge economy together with IT. To achieve this growth, key enabling factors such as a World class patent regime and an environment that fosters innovation and entrepreneurship are required to be put in place.

### INDIAN PHARMA INDUSTRY STRUCTURE & PERFORMANCE

The Indian pharmaceutical market continues to be highly competitive and fragmented with about 24,000 players. The size of the Indian market was estimated to be at US\$ 4.8 billion in 2003 having grown 5.1% over last year. The Indian pharmaceutical market is ranked 12<sup>th</sup> World-wide. Around 300 firms in the industry are in the organized sector, 15000 being in the small scale sector and the rest being small without any economies of scale. The total Indian production constitutes a little over 1% of the world market in value terms and 8% in volume terms. India manufactures over 400 bulk drugs and around 60000 formulations being distributed through a network of 500000 chemists all over the Country.

Overall size of the domestic formulations market is around Rs 160 billion and it is growing at 10%. More than 85% of the formulations produced in the Country are sold in the domestic market.

#### **STRENGTHS OF THE INDUSTRY**

The Indian manufacturers are free to produce any drug approved by the drug control authority. They are technologically strong and totally self-reliant. The industry in India has low costs of production, low R&D costs, innovative scientific manpower, strength of national laboratories and an increasing balance of trade. The strengths of the Indian pharma industry are:

- New and speedy product launches
- Wide therapeutic coverage
- Strong sales and distribution network
- Strong brand equity
- Export presence
- Low costs and economies of scale
- Internationally approved manufacturing facilities
- Strong captive research and
- Marketing alliances with international players.

#### **CHALLENGES**

The major challenges faced by the industry are

- To prepare for a product patent regime, which calls for development of new drugs through indigenous research and in licensing / collaborative efforts.

With increasing globalization, Indian companies will also face increased risk of product liability, regulatory issues and patent litigation.

#### **GROWTH OPPORTUNITIES**

The major opportunities available to the Indian manufacturers are :

- With a number of products going off-patent the world over, the international market is likely to become bigger than before.
- Indian companies have twin advantages of cost effective manufacturing facilities and availability of skilled scientists. The cost of new molecule development here is a tenth of the cost incurred in the USA.
- The domestic market holds out considerable opportunities as well. The per capital consumption in India is among the lowest in the World. Reactive care is evolving towards preventive care. Change in lifestyles-sedentary work culture, poor diet, stress in daily living-have translated into increasing incidence of newer kind of diseases.

Growth opportunities in the global market are expected to be in the areas of research and development and exports of bulk drugs and generics. Increasing access to drugs for the masses and treating the increasing incidence of life-style diseases are likely to be areas of growth in the domestic market.

Costs of clinical trials in the USA and Europe have sky-rocketed, and recruiting qualified, therapy-naive patients, that is patients who have not received any prior treatment, can be extremely time consuming and delay in completion of these trials for months or even years. Many health care companies, both large and small, find doing clinical trials in India an attractive option.

Completing clinical drug trials and product development in India could be up to 75% faster. According to Rabo India Finance, although the average costs of doing Phase I, II and III trials in the US are \$20, \$50 and \$100 million respectively, in India they are 50-60% of it.

The other option available for Indian companies is contract research. With strong analytical skills that Indians possess and their proven chemistry capabilities, contract research can be a viable option for Indian companies. Also, these companies, which have a good bulk drug manufacturing facilities, can benefit by manufacturing the same drug once it comes out of clinical trials into the market as it would be easy for them to get bulk orders since they will be associated with the project since inspection.

After 2005, there will be a wide scope for the Indian pharmaceutical industries in the world market. The players who have their own strong R&D activities as well as significant domestic and international business will have an edge over others. A few companies have already shifted their focus and taken active measures for innovation of medicines since 1994, when India signed for WTO.

The US generic market is considered to provide golden opportunities for the Indian companies. The market is very large and is estimated to be about US\$16 billion. However, the investments required are very large. It takes US\$0.5mn for one Abbreviated New Drugs Application (ANDA) and it takes 22 months before a product is approved.

#### **OUTLOOK**

The industry expects the internationally accepted Intellectual Property Rights to be fully in place by the year-end. This will instil confidence in the international community and is likely to yield more opportunities for players in the pharmaceutical industry. Grant of exclusive marketing rights to domestic and multinational companies is a step in the right direction.

These developments together with the health insurance sector making an entry into the Country is expected to benefit the industry throwing up opportunities in the areas of clinical trials, drug discovery, chemical synthesis, technical services and bioinformatics.

Initiatives taken by the pharmaceuticals business to increase penetration in Tier 2 and Tier 3 markets in six states have yielded encouraging results. The proposed extension to more states is expected to improve performance of this business. The outlook for the global generic drug industry continues to be extremely positive. This can be attributed to consumers' desire for quality and cheaper drugs. Around US\$ 30 billion of branded pharmaceuticals would come off patent protection over the next few years.

#### **PRODUCT PATENT REGIME**

Currently the pharma sector is governed by the Indian Patent Act (IPA), 1970 (enforced in 1972), which did not allow product patent on medicines, agricultural products, and atomic energy. Process patents, which are recognized in India and many other developing countries at present, will have to make way for product patents. The major differences between process patents and product patents are, according to the process patent regime, that a patented product can be made with a different process and can be sold in the market. Here, the process, and not the product, is patented.

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World-wide, the pharmaceutical industry operates in two categories, namely, innovative and generic companies. Generic companies are adaptive in nature and permit copying of medicines only after the patent expires or for unpatented drugs. Due to lack of any patent regulations, the Indian pharma industry has remained largely a generic market with the share of patented products being quite small.

India became a signatory to the GATT in 1994 and therefore a signatory to the TRIPS under the TRIPS agreement. The Country is now under compulsion to introduce a product patent regime by 2005 after a transition period of ten years. India should shift process patent to product patent from January 1, 2005 onwards.

Indian players have a strong infrastructure facilities to manufacture generic drugs, such as bulk drug manufacturing base, low manufacturing and capital costs, skilled man-power, optimal use of process research skills, focus on exports and niche therapeutic area. Above all, many Indian players have good manufacturing practices approved by US-FDA. Hence, the Indian pharmaceutical companies will definitely flourish in the national and international generic markets even after the introduction of the product patent.

For the last three decades, generic drugs consistently account for 70% to 80% of the total sales. The remaining 20% to 30% of drugs are based on research. The generic market will increase to 90% in the period 2005-10 after the introduction of product patent in 2005 and it will fall from 90% to 75% of the pharmaceutical market in 2015.

#### **POST 2005**

India should shift process patent to product patent from January 1, 2005 onwards. The biggest change in the post-2005 scenario will be the unprecedented number of drugs going off patent. Between 2005 and 2010, patents will expire in respect of many widely used drugs. This basically implies a huge potential in the national and international markets.

Companies with strong R&D focus to deliver better value to consumers and innovative cost efficiency would survive and become even stronger. Companies "surfing the generic wave" and having a wider product profile would continue with some thrust on exports. But because of thin margins, it would not be possible for them to survive on generics alone and they also will have to turn themselves into "research-oriented organizations".

R&D and building their own presence through strong marketing network are critical to the success in the pharma industry after the year 2005.

#### **PEN-G SCENARIO**

As soon as the Indian Government removed Pen-G from the "negative list" and moved it to OGL for imports, the Chinese firms began cutting prices making it impossible for Indian companies to compete.

China slashed its price from \$10 per BU in April 2003 to \$5 per BU in June 2003 and there was surge in imports from China, according to Indian Pen-G Manufacturers Association. The total accumulated losses of the domestic Pen-G industry is estimated to be over Rs. 500 crore.

In the last three quarters, imports of Pen-G under Advance Licence Scheme have increased dramatically while exports under export obligation have not risen sharply, which categorically proves that imported Pen-G is finding its way into the domestic market; thereby reducing the offtake of Pen-G in the domestic market.

#### **RISKS & CONCERNS THE MANAGEMENT PERCEIVE**

For a fertiliser company the significant risk factors are the monsoon, state of the economy and agricultural income.

As India is one of the large producers/consumers of fertilisers, there is an urgent need to have a Long-Term Fertiliser Policy that will address all the stakeholders of the industry. The policy should address the existing manufacturing base which meets nearly 100 percent of nitrogenous fertiliser requirement and more than 90 percent of phosphatic fertiliser requirement.

Availability and competitiveness of feedstock to meet the threats posed by temporary cheap imports is another issue of concern. Any move by the Government to resort to large scale imports will adversely impact the viability of the domestic industry.

There has been continuous competition from the Chinese pharma industry. New capacities and expansion of existing manufacturers may lead to surplus supply position of Penicillin-G in the global market.

#### **INTERNAL CONTROL SYSTEMS & THEIR ADEQUACY**

The Company has an adequate and satisfactory independent internal control system in place monitored by the Internal Audit Department. The Internal Audit Department is staffed with qualified and experienced personnel, who undertake reviews, on a regular basis, of all controls at different locations of the Company. The Audit Committee of Directors, comprising wholly of independent, non-executive Directors, reviews the Company's financial and risk management policies.

#### **FINANCIAL PERFORMANCE**

During the year, the Company has followed the relevant Accounting standards.

No provision has been made in the accounts for the accumulated net deferred tax liability up to 31 March, 2001 amounting to Rs.11389 lacs as an interim stay of clause 33 of Accounting Standard 22 - 'Accounting for taxes on income' - has been obtained from the Madras High court. Clause 33 of the above standard provides that the net deferred tax liability accumulated up to 31 March, 2001 should be provided for, with a corresponding charge to revenue reserves. On a transfer petition filed by the Institute of Chartered Accountants of India before the Supreme Court of India, the Honourable Court directed that all similar petitions filed in different High Courts be transferred to the Calcutta High Court. The petition is yet to be disposed of by the Calcutta High Court.

The deferred tax asset / (liability) as at 31 March 2004 and 31 March 2003 is as follows:

	As at 31 March 2004	(Rupees in lacs) As at 31 March 2003
Depreciation	10844.72	10468.68
Subsidy	14048.16	13886.14
Others	-	43.05
<b>Deferred tax liability</b>	<b>24892.88</b>	<b>24397.87</b>
Provision for doubtful debts	887.33	263.60
Carry forward business Losses	14642.87	15139.97
Unabsorbed depreciation	19208.90	16901.79
Others	54.94	118.03
<b>Deferred tax asset</b>	<b>34794.04</b>	<b>32423.39</b>
<b>Net deferred tax asset / (liability)</b>	<b>9901.16</b>	<b>8025.52</b>

The following statements cover Financial Performance Review which are attached to this report.

#### FINANCIAL SUMMARY

The summarised Profit and Loss Account of the Company is as follows:

	2004	(Rupees in crores) 2003
<b>For the Year ended 31 March</b>		
<b>Sales and Services</b>	<b>1488.89</b>	1616.72
Other income	19.48	22.08
<b>Total Income (A)</b>	<b>1508.37</b>	1638.80
Manufacturing and other expenses	1427.58	1571.11
Operating profit	80.79	67.69
Interest	48.95	178.03
Interest on advance against equity to SPIC Petro	--	105.73
Interest and exchange fluctuation on FRN	--	116.28
Depreciation	41.25	43.34
<b>Total Expenditure (B)</b>	<b>1517.77</b>	2014.49
<b>Profit before Taxation (A-B)</b>	<b>(9.41)</b>	(375.69)
<b>Provision for Taxation</b>	--	--
<b>PROFIT AFTER TAXATION</b>	<b>(9.41)</b>	(375.69)

#### INDUSTRIAL RELATIONS

The Company considers the human resource as its most important asset and constantly endeavours to nurture, groom and retain talent to meet the current and future needs of the business. The Company currently has 2,500 employees. The Company strongly believes in development of employees through training. Industrial relations are cordial.

#### CAUTION

This report is based on the experience and information available to the Company in its businesses and assumptions in regard to domestic and global economic conditions and Government and regulatory policies. The performance of the Company is dependent on these factors. It may be materially influenced by the macro environment changes which may be beyond the Company's control, affecting the views expressed in or perceived in this report.

#### LOANS & ADVANCES IN THE NATURE OF LOANS TO SUBSIDIARIES & ASSOCIATES

(Rs. lacs)

Sl.No.	Name of the Company		As at 31 March 2004	Maximum Balance during the year
1	Manali Petrochemical Limited Associate		10	10
2	SPEL Semiconductor Limited Associate		3680	3680
3	Tuticorin Alkali Chemicals & Fertilisers Limited Associate		1211	1211

## CORPORATE GOVERNANCE REPORT

### 1. Company's philosophy on Code of Corporate Governance:

As a responsible corporate citizen, your Company is conscious that a business run on principles of fairness, transparency and accountability aids in fostering a healthy relationship with all stakeholders.

In its abiding commitment to adopt and follow the best practices of governance, your Company has been proactive to the changes introduced by SEBI for promoting a responsive and responsible business culture, through the Corporate Governance Code. Your Company would endeavour to constantly upgrade management practices for an ideal corporate governance.

This Report covers the Corporate Governance aspects in your Company for the financial year ended 31 March 2004.

### 2. Board of Directors:

On 31 March 2004, the Board of Directors of the Company comprised of 17 Members.

The Board of Directors is responsible for the business of the Company and meets regularly for discharging its role.

During the financial year 2003-04 viz., from 1 April 2003 to 31 March 2004, 6 Board Meetings were held on the following dates:

Date of the Board Meeting	Strength of the Board	No. of Directors present
30.04.2003	17	14
26.06.2003	18	16
29.07.2003	18	14
22.09.2003	17	13
22.10.2003	17	16
24.01.2004	17	15

Particulars of the Board's composition, Directors' attendance at Board Meetings and at the previous Annual General Meeting, and number of other Directorships and Board-Committee memberships held as on 31 March 2004, are given below:

Sl. No.	Name of the Director, Designation and Category	Attendance at Board Meetings (Held : 6)	Attendance at previous AGM on 22 September 2003	No. of other Directorships (*)	Number of other Board-Committee positions (@)	
					As Chairman	As Member
1	Thiruvallargal Dr. A C Muthiah Chairman (Managing Director) Executive	6	Yes	8(6)	-	-
2	Ashwin C Muthiah Vice-Chairman Non-Executive Non-Independent	6	Yes	11(4)	1	2
3	Arun Ramanathan, IAS TIDCO Nominee Non-Executive Independent	4	No	11(5)	-	3
4	N Narayanan, IAS TIDCO Nominee Non-Executive Independent	-	No	10	-	-
5	Dr. R Kannan, IAS TIDCO Nominee Non-Executive Independent (from 24.1.2004)	1	Not Applicable	2	-	-

Sl. No.	Name of the Director, Designation and Category	Attendance at Board Meetings (Held : 6)	Attendance at previous AGM on 22 September 2003	No. of other Directorships (*)	Number of other Board-Committee positions (@)	
					As Chairman	As Member
6	Dr. K U Mada Non-Executive Independent	6	Yes	5(1)	2	5
7	N R Krishnan Non-Executive Independent	6	Yes	5	1	3
8	S Venkitaramanan Non-Executive Non-Independent	5	Yes	6(3)	-	3
9	S Rajagopal Non-Executive Non-Independent	6	Yes	4(1)	1	2
10	R V Gupta Non-Executive Non-Independent	5	Yes	6	3	4
11	Jawahar Vadivelu Non-Executive Non-Independent (from 30.4.2003)	5	Yes	2(1)	-	-
12	Dr. P L Sanjeev Reddy <i>IDBI Nominee</i> Non-Executive Independent	6	Yes	2	-	1
13	V R Mehta UTI Asset Management Co. Pvt. Ltd. Nominee Non-Executive Independent (from 30.4.2003)	5	Yes	7	3	6
14	P C Ghosh <i>GIC Nominee</i> Non-Executive Independent	3	No	9(4)	-	-
15	J M Garg Nominee Director representing Working Capital Consortium Non-Executive Independent	5	Yes	1	-	-
16	Babu K Verghese Managing Director Executive	6	Yes	3	-	-
17	M G Thirunavukkarasu Finance Director Executive	6	Yes	4	1	1
18	K Skandan, IAS TIDCO Nominee Non-Executive Independent (up to 22.9.2003)	3	Not Applicable	14(4)	-	2
19	T S Sridhar, IAS TIDCO Nominee Non-Executive Independent (up to 24.1.2004)	4	Yes	2	-	-

(\*) includes directorships held in public limited companies only. Directorships held in private companies, foreign companies and companies registered under Section 25 of the Companies Act, 1956 are excluded. Figures mentioned in brackets indicate the number of companies in which the Director is also the Chairman.

(@) includes only positions held in Audit Committee, Shareholders'/Investors' Grievance Committee and Remuneration Committee of the Board of Directors.

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None of the Directors of the Company is the Chairman of more than five Board-Committees or a Member of more than ten Board-Committees as stipulated under Clause 49 (Corporate Governance) of the Listing Agreement.

As required under the Companies Act, 1956, two-thirds of the Board of Directors is subject to retirement by rotation. One-third of such Directors retire from Office at each Annual General Meeting and are eligible for re-election/appointment [The Chairman of the Company and the nominees of Banks and Financial Institutions are not liable to retire by rotation].

At the ensuing 34<sup>th</sup> Annual General Meeting, Thiruvallargal S Rajagopal, R V Gupta and N Narayanan, IAS, retire by rotation and being eligible offer themselves for re-election.

Thiru P Baskaradoss, IAS, Non-Executive Independent Director, liable to retire by rotation, appointed at the Board Meeting held on 29 April 2004, will hold office up to the ensuing 34<sup>th</sup> Annual General Meeting and his election as a Director also forms part of the Agenda for the said Meeting.

The resume in brief/other details of the Directors, whose re-election/appointment are for the consideration of the Members at the ensuing 34<sup>th</sup> Annual General Meeting, are furnished hereunder:

#### **Thiru S Rajagopal**

Thiru S Rajagopal, aged 64 years, is an experienced banker. He was appointed a Director of the Company on 15 April 2002. He has vast experience in the banking industry and has held offices of the Chairman and Managing Director of Bank of India and Indian Bank. He was also the Managing Director of State Bank of Indore.

Thiru Rajagopal holds directorships in the following public companies, namely, Srei International Finance Ltd., GMR Energy Ltd., Sri Chamundeswari Sugars Ltd., and National Trust Housing Finance Ltd., and in the following private companies, namely, Capstone I T Technologies (P) Ltd., GMR Tambaram-Tindivanam Express Ways (P) Ltd., GMR Tuni Anapalli Express Ways (P) Ltd., and SPR Sugars (Private) Ltd.

Thiru Rajagopal also holds positions in various Board-Committees; as the Chairman of the Audit Committee of National Trust Housing Finance Ltd., and as a Member of the Audit Committees of Srei International Finance Ltd., and GMR Energy Ltd.

#### **Thiru R V Gupta**

Thiru R V Gupta, aged 66 years, was a Member of the Indian Administrative Service. He has served the Central Government in various capacities. He was formerly Deputy Governor of the Reserve Bank of India (1995-97). He was also the nominee Director of the Unit Trust of India on the Company's Board from 27 April 1998 to 15 April 2002. He was appointed a Director of the Company on 15 April 2002.

Thiru Gupta is a Director of Industrial Development Bank of India. He also holds directorships in the following public companies, namely, Delhi Safe Deposit Co., Ltd., DCM Precision Engineering Ltd., Seshasayee Paper and Boards Ltd., Mawana Sugars Ltd., and Goodyear India Ltd., and in the following private companies, namely, Ambit Corporate Financial (Pvt.) Ltd. and GW Capital Pvt. Ltd.

Thiru Gupta holds positions in various Board-Committees; as the Chairman of the Audit Committees of DCM Precision Engineering Ltd., SIEL Sugar Ltd., and Goodyear India Ltd., and as a Member of the Audit Committee of Seshasayee Paper and Boards Ltd., Shareholders' Grievance Committee of Goodyear India Ltd., and Remuneration Committees of DCM Precision Engineering Ltd., and Mawana Sugars Ltd.

#### **Thiru N Narayanan, IAS**

Thiru N Narayanan, IAS, aged 56 years, is a Member of the Indian Administrative Service. He is one of the nominees of TIDCO on the Board of Directors of the Company. He is presently the Development Commissioner and Principal Secretary, Finance Department, Government of Tamilnadu. He was appointed a Director on 28 June 2002.

Thiru Narayanan holds directorships in the following public companies namely, Tamilnadu Industrial Development Corporation Ltd., Tamilnadu Urban Infrastructure Trustee Company Ltd., Tamilnadu Urban Infrastructure Financial Services Ltd., Tamilnadu State Marketing Corporation Ltd., Tamilnadu Spirit Corporation Ltd., Tamilnadu Newsprint and Paper Ltd., New Tirupur Area Development Corporation Ltd., Tamilnadu Industrial Investment Corporation Ltd., Tamilnadu Road Development Company Ltd., and Tamilnadu Minorities Economic Development Corporation Ltd.

Thiru Narayanan is also a Member of the Audit Committee of the Company.

**Thiru P Baskaradoss, IAS**

Thiru P Baskaradoss, IAS, aged 59 years, is a Member of the Indian Administrative Service. He is one of the nominees of TIDCO on the Board of Directors of the Company. He is presently the Agricultural Production Commissioner and Secretary, Agriculture Department, Government of Tamilnadu. He was appointed a Director on 29 April 2004.

Thiru P Baskaradoss, IAS, holds directorships in the following public companies namely, Tamilnadu Agro Industries Development Corporation Limited and Tamilnadu Civil Supplies Corporation Limited.

**3. Audit Committee:**

The Audit Committee of the Board of Directors was constituted in 1986.

The terms of reference of the Audit Committee, in brief, are as under:

- a) To oversee the Company's financial reporting process;
- b) To review the adequacy of the internal control systems;
- c) To review with the Management, the quarterly, half-yearly and annual financial statements before submission to the Board of Directors;
- d) To review the adequacy of the internal audit function, reporting structure coverage and frequency of internal audit;
- e) To review the findings of any internal investigations by the internal auditors and report the matter to the Board of Directors;
- f) To review the Company's financial and risk management policies; &
- g) To discuss with the external Auditors periodically about the nature and scope of Audit.

The Committee met four times during the financial year 2003-04 on the following dates i.e., on 26 June 2003, 29 July 2003, 22 October 2003 and 24 January 2004.

The Committee comprises entirely of non-executive independent directors. The composition and the attendance of each Member at the Committee's Meetings are as follows:

Sl. No.	Name of the Director	Designation	No. of Meetings attended
1	Thiruvalargal Dr. K U Mada	Chairman	4
2	Dr. P L Sanjeev Reddy	Member	4
3	N R Krishnan	Member	4
4	Arun Ramanathan, IAS	Member	3
5	N Narayanan, IAS	Member	-

The Statutory Auditors, the Internal Auditor (Head-Management Assurance Group), the Vice-Chairman and the Executive Directors are invited to participate in Meetings of the Audit Committee.

Thiru N Ramakrishnan, Company Secretary is the Secretary of the Committee.

**4. Management Committee:**

The Management Committee, constituted by the Board of Directors in July 2001, oversees areas of operations of the Company in a management supervisory role and as a reviewing authority.

Thiru Ashwin C Muthiah is the Chairman of the Management Committee. The other Members of the Committee are the Executive Directors of the Company.

The Committee met twelve times during the financial year 2003-04 on 30 April 2003, 10 May 2003, 26 June 2003, 28 July 2003, 1 September 2003, 22 September 2003, 22 October 2003, 11 November 2003, 10 December 2003, 24 January 2004, 19 February 2004 and 22 March 2004.

The composition of the Committee and the attendance of each Member at its Meetings are as follows:

Sl. No.	Name of the Director	Designation	No. of Meetings attended	Category
1	Thiruvallargal Ashwin C Muthiah	Chairman	12	Non-Executive Non-Independent
2	Babu K Verghese	Member	12	Executive
3	M G Thirunavukkarasu	Member	12	Executive

**5. Finance Committee:**

The Finance Committee of the Board of Directors is delegated/empowered by the Board of Directors to borrow term loan/medium term loan/working capital, debentures or inter-corporate deposits, etc., up to the limit specified by the Board, to meet the fund requirements of the Company for normal capital/project expenditure besides working capital purposes.

The Finance Committee meets as and when business requirements warrant. During 2003-04, the Committee met once, on 1 August 2003.

The composition of the Committee and the attendance of each Member at its Meeting are as follows:

Sl. No.	Name of the Director	Designation	Attendance at Meeting	Category
1	Thiruvallargal Dr. A C Muthiah	Chairman	No	Executive
2	Ashwin C Muthiah	Member	Yes	Non-Executive Non-Independent
3	M G Thirunavukkarasu	Member	Yes	Executive

**6. Remuneration Committee:**

Remuneration of Executive (Whole-time) Directors is fixed by the Board of Directors, based on recommendations of the Remuneration Committee of the Board of Directors. The remuneration of the Executive (Whole-time) Directors is recommended and fixed taking into consideration the qualification and functional experience of the individuals and the prevailing remuneration trends in the fertilizer industry. The Committee was constituted in April 2003. During 2003-04, the Committee met once, on 26 June 2003.

The composition of the Committee and the attendance of each Member at the Meeting are as follows:

Sl. No.	Name of the Director	Designation	Attendance at Meeting	Category
1	Thiruvallargal Dr. K U Mada	Chairman	Yes	Non-Executive Independent
2	Ashwin C Muthiah	Member	Yes	Non-Executive Non-Independent
3	N R Krishnan	Member	Yes	Non-Executive Independent
4	P C Ghosh	Member	No	Non-Executive Independent

The details of remuneration paid/payable to the Directors during the financial year 2003-04, are as under:

Name of the Director	Salary & Perquisites (*) (Rs.)	Special Allowance (Rs.)	Sitting Fees (Rs.)
Thiruvallargal			
Dr. A C Muthiah, Chairman (Managing Director)	3225483	1500000	—
Babu K Verghese, Managing Director	2107477	960000	—
M G Thirunavukkarasu, Finance Director	1641152	780000	—
Ashwin C Muthiah	—	—	35000
Dr. K U Mada	—	—	55000
N R Krishnan	—	—	70000
R V Gupta	—	—	25000
S Venkitaramanan	—	—	25000
P C Ghosh ##	—	—	15000
Jawahar Vadivelu	—	—	25000
V R Mehta	—	—	25000
Dr. R Kannan, IAS ##	—	—	5000
Dr. P L Sanjeev Reddy	—	—	50000
Arun Ramanathan, IAS ##	—	—	50000
S Rajagopal	—	—	30000
T S Sridhar, IAS ##	—	—	20000
N Narayanan, IAS ##	—	—	—
K Skandan, IAS ##	—	—	15000

(\*) includes Company's contribution to provident/superannuation fund and leave encashment.

## Sitting fees paid to the financial institutions which the Directors represent as Nominees on the Board of the Company.

Notes:

1. Details of period of appointment and notice period of the Whole-time Directors are as below:

Name of the Director	Period of Appointment		Notice Period (in months)
	From	To	
Thiruvallargal			
Dr. A C Muthiah	1.10.2003	30.9.2006	3
Babu K Verghese	1.10.2001	30.9.2004	3
M G Thirunavukkarasu	1.7.2003	30.6.2006	3

2. The components of remuneration as above are fixed. There is no performance-linked incentive.

3. The Company does not have a scheme for grant of stock options either to the Directors or to the employees.

4. The other Directors are not paid any remuneration other than sitting fees for attending meetings of the Board/its Committees.

**7. Shareholders'/Investors' Grievance Committee:**

A Share and Debenture Committee of the Board of Directors had been functioning since 1972. The Committee was reconstituted in March 2001 and named as the "Shareholders'/Investors' Grievance Committee", with redefined terms of reference and responsibilities covering redressal of investor complaints besides the share transfer related functions.

The Shareholders'/Investors' Grievance Committee is headed by Thiru N R Krishnan, a Non-Executive Independent Director. The Committee met three times during the financial year, 2003-04 on 11 April 2003, 15 September 2003 and 8 January 2004.

The composition of the Committee and attendance of each Member at its Meetings are given as under :

Sl. No.	Name of the Director	Designation	Meetings attended	Category
1	Thiruvallargal N R Krishnan	Chairman	3	Non-Executive Independent
2	M G Thirunavukkarasu	Member	2	Executive
3	Arun Ramanathan, IAS	Member	3	Non-Executive Independent

There was no investor complaint pending redressal at the beginning of the financial year 2003-04. During the financial year 2003-04, 5 complaints were received from the investors (1 relating to non-receipt of dividend warrant, 2 relating to non-receipt of share certificates and 2 miscellaneous complaints). All the 5 complaints were replied/redressed to the satisfaction of the investors. The queries and grievances of the investors are attended / replied / redressed promptly, as and when received.

As on 31 March 2004, there were no pending issues other than those pending before the Court.

There were no share transfers pending registration as on 31 March 2004.

Thiru N Ramakrishnan, Secretary, is the Compliance Officer of the Company.

#### 8. Annual General Meetings:

The details of Annual General Meetings held during the last three years are as under:

Year	Day, date & time	Venue
2000-2001	Thursday, 23 August 2001 10.00 A.M.	Kamaraj Arangam 492 Anna Salai, Teynampet, Chennai - 600 006.
2001-2002	Monday, 26 August 2002 3.00 P.M.	- - do - -
2002-2003	Monday, 22 September 2003 3.00 P.M.	Rajah Annamalai Hall Chennai 600 108.

No special resolutions have been put through postal ballot.

#### 9. Disclosures:

- During the financial year 2003-04, there was no materially significant related party transaction i.e., transactions of the Company of material nature, with its promoters, the Directors, or the Management, their subsidiaries or relatives etc., having potential conflict with the interests of the Company at large.
- There is no instance of non-compliance by the Company, penalties, strictures imposed on the Company by the Stock Exchanges or SEBI or any Statutory Authority on any matter related to capital markets during the last three years.
- There was no pecuniary relationship or transactions of the Non-Executive Directors vis-à-vis the Company during the financial year 2003-04.

#### 10. Means of Communication:

The quarterly, half-yearly and annual financial results of the Company are forwarded to the National Stock Exchange immediately upon approval by the Board of Directors and are published in leading financial/non-financial newspapers in English and Tamil (regional language). Normally, the results are published in "The Business Line" (English) and in "Makkal Kural" (Tamil). The financial results and official press releases are displayed on the Company's website, [www.spicltd.com](http://www.spicltd.com).

In accordance with Listing Agreement requirements, data pertaining to shareholding pattern, quarterly financial results etc., are displayed in the Electronic Data Information Filing and Retrieval (EDIFAR) website of SEBI [<http://sebidifar.nic.in>]

Financial results, apart from publication in newspapers, are not sent individually to the shareholders. During the year under review, no presentations were made to the institutional investors or analysts.

The Management Discussion and Analysis Report forms part of the Directors' Report.

#### 11. General Shareholders' Information:

Date of Annual General Meeting & Time : Wednesday, 29 September 2004 at 3.00 P.M.

Venue : Rajah Annamalai Hall, Chennai 600 108

Dates of Book Closure : Tuesday, 14 September 2004 to Wednesday, 29 September 2004  
(both days inclusive)

Listing on Stock Exchanges :

The equity shares of the Company are listed on the National Stock Exchange of India Ltd., Mumbai – 400 051 (NSE) [Stock Symbol/Code: SPIC].

The Global Depository Receipts (GDRs) of the Company are listed at Societe de la Bourse de Luxembourg, Luxembourg.

Pursuant to the special resolution passed by the Members at the 33<sup>rd</sup> Annual General Meeting held on 22 September 2003, approving voluntary delisting of equity shares of the Company from eight Stock Exchanges, delisting approval has been received, on the Company's application, from six Stock Exchanges viz., Ahmedabad, Bangalore, Cochin, Delhi, Hyderabad and Madras Stock Exchanges. Approval for delisting is awaited from Bombay and Calcutta Stock Exchanges.

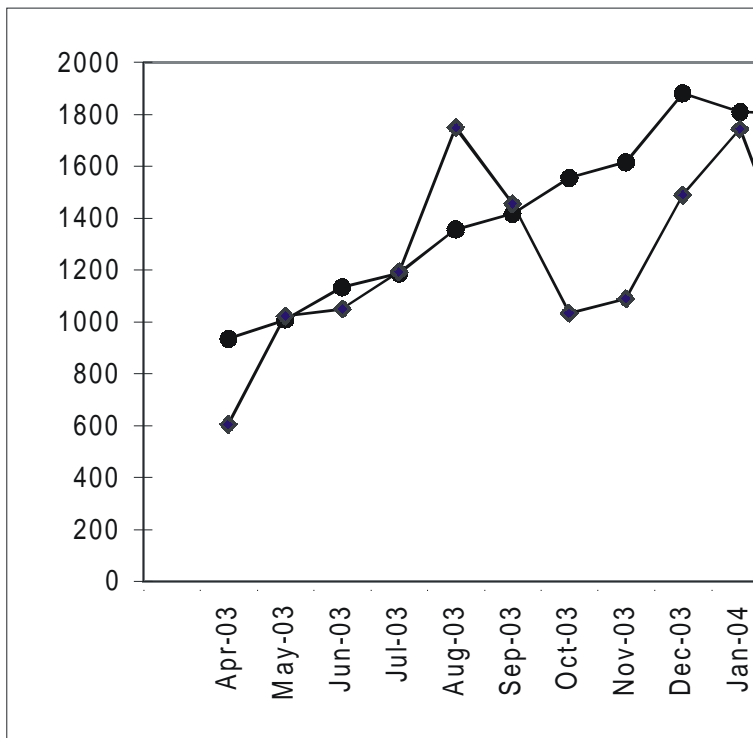
The Company paid the listing fees for the financial year 2003-04 to all the Stock Exchanges in time.

#### Market/Share Price Data:

(in Rs. Ps.)

MONTH	Bombay Stock Exchange		National Stock Exchange	
	HIGH	LOW	HIGH	LOW
April 2003	5.45	4.45	5.45	4.30
May 2003	8.50	4.90	9.20	4.90
June 2003	9.45	7.10	9.45	7.00
July 2003	10.60	7.50	10.75	7.50
Aug 2003	15.65	7.95	15.75	7.00
Sept 2003	13.40	8.52	13.10	8.60
Oct 2003	9.29	7.01	9.30	7.10
Nov 2003	10.04	7.60	9.80	7.50
Dec 2003	13.25	9.05	13.40	9.25
Jan 2004	15.90	10.05	15.70	10.05
Feb 2004	10.79	8.00	10.50	8.00
Mar 2004	8.98	6.24	8.90	6.25

**Performance of SPIC's equity shares vis-à-vis the NSE Index:**



(High)

**Registrar and Transfer Agents:**

Cameo Corporate Services Ltd.  
"Subramanian Building"  
1 Club House Road  
Chennai - 600 002.

Tel : 044 - 28460390 / 28460495 / 28460084  
Fax : 044 - 28460129  
E-mail : cameo@cameoindia.com

**Share Transfer System:**

Presently, the share transfer documents received by the Company / Registrar and Transfer Agents in physical form are processed, approved and dispatched within a period of 5 to 15 days from the date of receipt, provided the documents received are complete and the shares under transfer are not under dispute.

For expeditious processing of share transfers, the Board of Directors of the Company has authorized the Whole-time Director and the Secretary, to decide on various issues like transfers/transmission of securities in physical form, change in status of security holders and confirmation of dematerialization.

Demat International Securities Identification Number (ISIN) for equity shares is INE147A01011 [with National Securities Depository Limited and Central Depository Services (India) Limited].

Distribution of shareholding and shareholding pattern as on 31 March 2004 are as under:

**(a) Distribution of Shareholding:**

Sl. No.	Range	No. of Shares held	Percentage to paid-up capital	No. of Members	Percentage to total Members
1	Up to 500	11274458	12.80	71827	86.30
2	501 - 1000	5075422	5.76	6202	7.45
3	1001 - 2000	4416236	5.02	2856	3.43
4	2001 - 3000	2342019	2.66	901	1.08
5	3001 - 4000	1325596	1.51	367	0.44
6	4001 - 5000	1621216	1.84	341	0.41
7	5001 - 10000	3142065	3.57	430	0.52
9	10001 and above	58850688	66.84	310	0.37
	<b>Total</b>	<b>88047700</b>	<b>100.00</b>	<b>83234</b>	<b>100.00</b>

**(b) Shareholding Pattern:**

Particulars	Equity Shares held	Percentage to paid-up capital
Promoters:		
(a) TIDCO	8840000	10.04
(b) Dr. M A Chidambaram Group	17616281	20.01
The Bank of New York (as Depository for Global Depository Receipts)	18202600	20.67
Foreign Companies	39800	0.04
Non-resident Individuals	533929	0.61
Mutual Funds	11500	0.01
Foreign Institutional Investors	34200	0.04
Financial Institutions	6683469	7.59
Nationalised Banks	30815	0.04
Public and others	36055106	40.95
<b>Total</b>	<b>88047700</b>	<b>100.00</b>

**Liquidity:**

The Company's equity shares are regularly traded on the National Stock Exchange in the compulsory demat form.

- Outstanding GDRs / ADRs / Warrants : 3640520 GDRs equivalent to 18202600 equity shares, convertible at the option of the GDR or any convertible instruments, holders. The equity shares are held by The Bank of New York, as Depository for the GDRs, conversion date and likely impact on equity. as shown in the Shareholding Pattern above.

**Dematerialisation of Shares:**

The Company's equity shares are in the compulsory demat segment and are available for trading in the depository systems of National Securities Depository Limited and Central Depositories Services (India) Limited.

As on 31 March 2004, 58615156 equity shares, constituting 66.57 per cent of the paid-up capital of the Company, stood dematerialized.

**Plant location:**

- Fertiliser : SPIC Nagar, Tuticorin 628 005.
- Pharma : (i) Penicillin - G Plant  
Plot No.C/14216, SIPCOT Industrial Complex, Kudikadu Village, Cuddalore 607 005  
(ii) Formulations Plant, Plot No.5, NH-7, Maraimalai Nagar, Chennai 603 209  
(iii) Bulk Drugs Plant, Plot No.3&4, NH-7, Maraimalai Nagar, Chennai 603 209
- Biotech : (i) Agro Biotech Centre  
Chitrai Chavadi, Pooluvapatti Post, Siruvani Road, Coimbatore 641 101  
(ii) Bioproducts Agro Industrial Complex  
Chettiar Agaram Road, Porur, Chennai 600 116  
(iii) Seed Conditioning Plant  
Kelamangalam Road, Mathigiri, Cattle Farm Post, Hosur 635 110, Dharmapuri District
- Address for Correspondence** : Secretarial Department  
Southern Petrochemical Industries Corporation Ltd.  
"SPIC HOUSE"  
88 Mount Road, Guindy, Chennai 600 032  
Phone No. 044 - 22350245  
Fax No. 044 - 2235 0703 / 2235 2163 E-mail: sectrl.dep@spic.co.in

**Financial Calendar for 2004-05**

(tentative)

**Reporting of results for :**

<b>First Quarter</b> (Apr-June 2004)	:	July 2004
<b>Second Quarter</b> (July-Sept 2004)	:	October 2004
<b>Third Quarter</b> (Oct-Dec 2004)	:	January 2005
<b>Fourth Quarter</b> (Jan-Mar 2005) & for the year ending 31 March 2005	:	June 2005
<b>35<sup>th</sup> Annual General Meeting</b>	:	September 2005

**AUDITOR'S CERTIFICATE ON CORPORATE GOVERNANCE****To the Members of Southern Petrochemical Industries Corporation Limited**

We have examined the compliance of conditions of Corporate Governance by Southern Petrochemical Industries Corporation Limited, for the year ended on 31 March 2004, as stipulated in Clause 49 of the Listing Agreement of the said Company, with Stock Exchanges in India.

The compliance of conditions of Corporate Governance is the responsibility of the Management. Our examination was limited to procedures and implementation thereof adopted by the Company for ensuring compliance of the conditions of Corporate Governance. It is neither an audit nor an expression of opinion on the financial statements of the Company.

In our opinion and to the best of our information and according to explanations given to us, and the representation made by the Directors and the Management, we certify that the Company has complied with the conditions of Corporate Governance as stipulated in the above-mentioned Listing Agreement.

We state that no investor grievance is pending for a period exceeding one month against the Company, as per the information furnished by the Registrars and Share Transfer Agents taken on record by the Shareholders'/Investors' Grievance Committee.

We further state that such compliance is neither an assurance as to the future viability of the Company nor the efficiency or effectiveness with which the Management has conducted the affairs of the Company.

Place : Chennai  
Date : 31 July 2004

**For FRASER & ROSS**  
Chartered Accountants  
**M K ANANTHANARAYANAN**  
Partner

## AUDITORS' REPORT TO THE MEMBERS OF SOUTHERN PETROCHEMICAL INDUSTRIES CORPORATION LIMITED

We have audited the attached balance sheet of **Southern Petrochemical Industries Corporation Limited** as at **31 March 2004**, the profit and loss account and also the cash flow statement for the year ended on that date annexed thereto. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the auditing standards generally accepted in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As required by the Companies (Auditor's Report) Order, 2003 issued by the Central Government of India in terms of sub-section (4A) of section 227 of the Companies Act, 1956, we enclose in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the said Order.

Further to our comments in the Annexure referred to above, we report that:

- i) We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purposes of our audit;
- ii) In our opinion, proper books of account as required by law have been kept by the Company so far as appears from our examination of those books;
- iii) The balance sheet, profit and loss account and cash flow statement dealt with by this report are in agreement with the books of account;
- iv) In our opinion, read with Note B-19, which refers to an interim stay of the operation of Clause 33 of Accounting Standard 22, obtained from the Madras High Court, the balance sheet, profit and loss account and cash flow statement dealt with by this report comply with the accounting standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956;
- v) On the basis of written representations received from the directors, as on 31 March 2004, and taken on record by the Board of Directors, we report that none of the directors is disqualified as on 31 March 2004 from being appointed as a director in terms of clause (g) of sub-section (1) of section 274 of the Companies Act, 1956.
- vi) *As stated in Note B-5, advance of Rs.24800.00 lacs given to SPIC Petrochemicals Limited in earlier years against equity has been converted during the year into investments in equity shares of that Company. The Company has also accrued the interest on advances till 31 March 2002,*

*amounting to Rs.30609.63 lacs (including Rs.10573.31 lacs recognised during the year) against which the Company has issued Zero bonds repayable in ten equal half yearly instalments commencing after total repayment of the term loans to the lenders or 12 years from the commencement of commercial production whichever is earlier. Apart from the above, contract in progress (net of progress payments received) and other receivable include Rs.214.13 lacs receivable from that company. In view of the delay in the implementation of the project we are unable to express an opinion on the amount of provision that may be required for the ultimate shortfall in realisation of these assets.*

- vii) *Attention is invited to Note B-6, which sets out the position regarding investments of Rs.7644.90 lacs, loans of Rs.4900.80 lacs, advance against equity of Rs.1000.00 lacs, Guarantees of Rs.1825.00 lacs, interest and other receivables of Rs.9529.46 lacs due from certain promoted companies for which no provision has been made in the accounts. In view of the poor operating performance of these companies, in our opinion, the possibility of full recovery is remote. The estimate of the loss has not been made by the Company. We are unable to express an opinion on the amount of provision that may be required against the above investments, loans, advance against equity, guarantees, interest and other receivables aggregating to Rs.24900.16 lacs.*
- viii) *As stated in Note B-8 consequent to the change in the policy parameters for the 7<sup>th</sup> and 8<sup>th</sup> pricing periods there was a revision in the retention price of urea. The Company has taken a view that some of the policy parameters cannot be amended retrospectively and has reworked the subsidy disregarding these amendments to the policy parameters as well as other disallowances made by the Government in its computation of retention price. As per these reworkings the Company has retained the subsidy of Rs.36954.74 lacs accrued in the books upto 31 March 2002 over and above the subsidy already granted by the Government.*  
*Pending making the claim and the uncertainty involved in its acceptance by the Government, we are unable to express an opinion on the recoverability of the above referred subsidy of Rs.36954.74 lacs.*
- ix) *As stated in Note B-9 the Company has preferred claims with the Government towards inventory carrying costs etc., amounting to Rs.3586.97 lacs which are outstanding for a considerable period of time. We are unable to express an opinion on the recoverability of the above amounts.*
- x) *As stated in Note B-11 inter-corporate deposits amounting to Rs.675.00 lacs given to four companies in 1999 are yet to be recovered with interest and Rs.1156.79 lacs (net of provision) is due from a Company which is in financial difficulties. We are unable to express an opinion on the recoverability of the above amounts.*

- xii) *Attention is invited to Note B-12, regarding interest relief of Rs.1827.88 lacs (including Rs.943.90 lacs for the year) availed from two lenders who are yet to confirm their consent for the reduction in interest rate. Pending consent from the said lenders we are unable to express an opinion on this matter.*
- xii) *Subject to our comments in paragraphs vi to xi above, the effect of which could not be determined, in our opinion and to the best of our information and according to the explanations given to us, the said accounts give the information required by the Companies Act, 1956, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:*

- (a) in the case of the balance sheet, of the state of affairs of the Company as at 31 March 2004;
- (b) in the case of the profit and loss account, of the loss for the year ended on that date; and
- (c) in the case of the cash flow statement, of the cash flows for the year ended on that date.

**For FRASER & ROSS**  
**M K ANANTHANARAYANAN**

*Partner*

Place: Chennai

*Chartered Accountants*

Date: 31 July 2004.

Membership No: 19521

### **ANNEXURE REFERRED TO IN PARAGRAPH 3 OF OUR REPORT OF EVEN DATE**

- i. a. The Company has maintained records showing particulars, including quantitative details and situation of fixed assets.
- b. All the assets have not been physically verified by the management during the year but there is a regular programme of verification which, in our opinion, is reasonable having regard to the size of the Company and nature of its assets. No material discrepancies were noticed on such verification.
- c. During the year the Company has not sold/disposed off substantial part of fixed assets.
- ii. a. The inventory has been physically verified during the year by the management. In our opinion, the frequency of verification is reasonable.
- b. The procedures of physical verification of inventories followed by the management are reasonable and adequate in relation to the size of the Company and the nature of its business.
- c. The Company is maintaining proper records of inventory. The discrepancies noticed on verification between the physical stocks and the book records were not material.
- iii. a. The Company had taken loan from financial institutions / banks covered in the register maintained under section 301 of the Companies Act, 1956. The maximum amount involved during the year was Rs.47389.86 lacs and the year-end balance of loans taken from such parties was Rs.47295.18 lacs. There are 4 companies covered in the register maintained under section 301 of the Companies Act, 1956, to which the company has granted loans. The maximum amount involved during the year was Rs.35510.43 lacs and the year-end balance of loans granted to such parties was Rs.4900.80 lacs.
- b. In our opinion, the rate of interest and other terms and conditions on which loans have been taken from financial institutions / banks listed in the register maintained under section 301 of the Companies Act, 1956, are not, prejudicial

- to the interest of the Company. With respect to loans granted by the Company to companies covered in the said register the Company has not accrued any interest for the year.
- c. On implementation of the Corporate Debt Restructuring Scheme the repayment terms have been redefined and the Company is in compliance with the terms specified in the CDR Scheme. With regard to the loans granted by the Company we are informed that the loans other than bonds issued to the Company, do not have any stipulation for the payment of principal and interest and no recoveries have been made during the year.
- d. There is no overdue amount of loans taken from or granted to companies, firms or other parties listed in the register maintained under section 301 of the Companies Act, 1956.
- iv. In our opinion and according to the information and explanations given to us and having regard to the explanations that some of the items purchased / sold of a special nature for which comparative quotations / prices are not available, there are adequate internal control procedures commensurate with the size of the Company and the nature of its business with regard to purchases of inventory, fixed assets and with regard to the sale of goods. During the course of our audit, we have not observed any continuing failure to correct major weakness in the internal controls.
- v. a. According to the information and explanations given to us, we are of the opinion that the transactions that need to be entered into the register maintained under Section 301 of the Companies Act, 1956, have been so entered.
- b. In our opinion and according to the information and explanations given to us, and having regard to our comments in para (iv) above, where transactions made with different parties, the transactions made in pursuance of contracts or arrangements entered in the register maintained under Section 301 of the Companies Act, 1956 and exceeding the value of rupees five lacs in respect of any party during the year have been made at prices which are reasonable having regard to prevailing market prices at the relevant time.

- vi. In our opinion and according to the information and explanations given to us, the Company has complied with the provisions of sections 58A and 58AA of the Companies Act, 1956 and the Companies (Acceptance of Deposits) Rules, 1975 with regard to the deposits accepted from the public. However during the year the Company has accepted / renewed deposits from various depositors aggregating to Rs.232.32 lacs though it has not invited deposits from public consequent to the notification dated 28 November 2001. No order has been passed by the Company Law Board.
- vii. In our opinion, the Company has an internal audit system commensurate with the size and the nature of its business.
- viii. We have broadly reviewed the books of account relating to materials, labour and other items of cost maintained by the Company pursuant to the Rules made by the Central Government for the maintenance of cost records under Section 209(1)(d) of the Companies Act, 1956, in respect of Fertilisers, Sulphuric acid, Penicillin - G, Bulk drugs and formulations and we are of the opinion that *prima facie* the prescribed accounts and records have been made and maintained.
- ix. a. The Company is regular in depositing with appropriate authorities undisputed statutory dues, including Provident Fund, Investor Education and Protection Fund, Employees' State Insurance, Income-tax, Sales-tax, Wealth Tax, Custom Duty, Excise Duty, Cess and any other material statutory dues applicable to it. However matured deposits amounting to Rs.1.83 lacs pending unclaimed for over 7 years as on 31 March 2004 has been since remitted to the Government.
- b. According to the information and explanations given to us, no undisputed amounts payable in respect of income tax, wealth tax, sales tax, customs duty, excise duty, cess and other statutory dues were in arrears, as at 31 March 2004 for a period more than 6 months from the date they became payable except an amount of Rs.7.85 lacs representing professional tax dues to the local authorities.
- c. According to the information and explanations given to us there are no dues of income tax, wealth tax, sales tax, customs duty, excise duty and cess which have not been deposited on account of any dispute except for the dues referred to in Note B-2 (e) of Schedule 15 to the accounts.
- x. In our opinion, the accumulated losses of the Company is more than fifty percent of its networth. The Company has not incurred cash losses during the financial year. However, the Company has incurred cash losses in the immediately preceding financial year.
- xi. In our opinion and according to the information and explanations given to us, read with Note B-12, which refers to the Corporate Debt Restructuring Scheme, the Company has not defaulted in repayment of dues to financial institutions, banks and debenture holders.
- xii. The Company has not granted any loans and advances on the basis of security by way of pledge of shares, debentures and other securities.
- xiii. In our opinion, the Company is not a chit fund or nidhi / mutual benefit fund / society. Therefore, the provisions of clause 4 (xiii) of the Companies (Auditor's Report) Order, 2003 are not applicable to the Company.
- xiv. In our opinion, the Company is not dealing in or trading in shares, securities, debentures and other investments. Accordingly, the provisions of clause 4 (xiv) of the Companies (Auditor's Report) Order, 2003 are not applicable to the Company.
- xv. In our opinion and according to the information and explanations given to us, the Company has not, during the year, given any guarantee for loans taken by others from banks or institutions. In respect of guarantees issued by the Company in earlier years and remaining enforceable towards loans taken by others from banks and financial institutions, the terms and conditions of the guarantees, are not *prima facie* prejudicial to the interests of the Company except that the said guarantees are not covered by any security.
- xvi. According to the information and explanations given to us, during the year on implementation of Corporate Debt Restructuring Package the Company has converted the interest accrued and due on certain loans as funded interest term loan. Other than this the Company has not availed any term loan during the year.
- xvii. According to the cash flow statement and other records examined by us and the information and explanations given to us, on an overall basis, funds raised on short term basis have, *prima facie*, not been used during the year for long term investment and vice versa.
- xviii. According to the information and explanations given to us, the Company has not made preferential allotment of shares to parties and companies covered in the Register maintained under Section 301 of the Companies Act, 1956.
- xix. The Company has not issued any debentures during the year. However, the Company has created security in respect of debentures issued in earlier years.
- xx. The Company has not raised money by public issues during the year.
- xxi. To the best of our knowledge and belief and according to the information and explanations given to us, no fraud on or by the Company was noticed or reported during the year.

**For FRASER & ROSS**  
**M K ANANTHANARAYANAN**  
*Partner*

Place: Chennai  
Date: 31 July 2004.

*Chartered Accountants*  
Membership No: 19521

**BALANCE SHEET AS AT 31 MARCH 2004**

	Schedule	As at 31 March 2004	(Rupees in lacs) As at 31 March 2003
<b>SOURCES OF FUNDS</b>			
Shareholders' funds:			
Share capital	1	<b>10054.77</b>	10054.77
Share capital advance		<b>1960.49</b>	--
Reserves and Surplus	2	<b>105749.73</b>	102515.70
		<b>117764.99</b>	112570.47
Loan funds:			
Secured	3	<b>168581.43</b>	163245.14
Unsecured	4	<b>62500.29</b>	68316.42
		<b>231081.72</b>	231561.56
<b>TOTAL</b>		<b>348846.71</b>	344132.03
<b>APPLICATION OF FUNDS</b>			
Fixed assets:	5		
Gross block		<b>252731.38</b>	243280.83
Less : Depreciation		<b>118865.80</b>	108940.64
Net block		<b>133865.58</b>	134340.19
Capital work-in-progress / advances		<b>2350.53</b>	3045.00
		<b>136216.11</b>	137385.19
Investments	6	<b>94910.55</b>	39571.41
Current assets, loans and advances:			
Inventories	7	<b>15240.38</b>	13182.87
Sundry debtors	8	<b>18848.39</b>	22099.46
Cash and bank balances	9	<b>2862.87</b>	2459.30
Loans and advances	10	<b>104881.16</b>	152424.60
		<b>141832.80</b>	190166.23
Less : Current liabilities and provisions	11		
Liabilities		<b>58148.26</b>	56312.39
Provisions		<b>7.54</b>	8.54
		<b>58155.80</b>	56320.93
Net current assets		<b>83677.00</b>	133845.30
Miscellaneous expenditure (Note B-13) (to the extent not written off or adjusted)		<b>518.06</b>	746.52
Profit and loss account		<b>33524.99</b>	32583.61
<b>TOTAL</b>		<b>348846.71</b>	344132.03
Notes on accounts	15		

Per our report attached

For **FRASER & ROSS**  
*Chartered Accountants***M K ANANTHANARAYANAN**  
*Partner*Place: Chennai  
Date : 31 July 2004**Dr A C MUTHIAH**  
*Chairman***BABU K VERGHESE**  
*Managing Director***M G THIRUNAVUKKARASU**  
*Finance Director***N RAMAKRISHNAN**  
*Secretary*

**PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 MARCH 2004**

(Rupees in lacs)  
Year ended  
31 March 2003

	Schedule	Year ended 31 March 2004	Year ended 31 March 2003
<b>INCOME</b>			
Sales and services		<b>150281.34</b>	163345.03
Less: Excise duty		<u>1392.14</u>	<u>1672.78</u>
		<b>148889.20</b>	161672.25
Other income	12	<u>1947.33</u>	<u>2208.02</u>
<b>TOTAL INCOME</b>		<u><b>150836.53</b></u>	<u>163880.27</u>
<b>EXPENDITURE</b>			
Purchase of finished goods		<b>826.21</b>	815.22
Manufacturing and other expenses	13	<b>141932.21</b>	156296.05
Interest and financial charges (net)	14	<b>4894.91</b>	17802.68
Interest and exchange fluctuation on FRN		--	11627.84
Interest on advance against equity to SPIC Petro		--	10573.31
Depreciation for the year		<b>7829.93</b>	6990.36
Less : Credit for amount withdrawn from revaluation reserve [Note B-3(f)]		<u>3705.35</u>	<u>2656.22</u>
		<b>4124.58</b>	4334.14
<b>TOTAL EXPENDITURE</b>		<u><b>151777.91</b></u>	<u>201449.24</u>
<b>(Loss) for the year</b>		<b>(941.38)</b>	(37568.97)
Loss brought forward from the previous year		<b>(32583.61)</b>	--
Transferred from general reserve		--	4985.36
Balance loss carried to balance sheet		<u><b>(33524.99)</b></u>	<u>(32583.61)</u>
Basic and diluted earnings per share of Rs. 10 each		<b>(1.26)</b>	(42.93)
Notes on accounts	15		

Per our report attached

**For FRASER & ROSS**  
*Chartered Accountants*

**M K ANANTHANARAYANAN**  
*Partner*

Place: Chennai  
Date : 31 July 2004

**Dr A C MUTHIAH**  
*Chairman*

**BABU K VERGHESE**  
*Managing Director*

**M G THIRUNAVUKKARASU**  
*Finance Director*

**N RAMAKRISHNAN**  
*Secretary*

**SCHEDULE 1**

(Rupees in lacs)

	As at 31 March 2004	As at 31 March 2003
<b>SHARE CAPITAL</b>		
<b>Authorised:</b>		
19,10,00,000 (19,10,00,000) Equity shares of Rs.10 each	<b>19100.00</b>	19100.00
1,09,00,000 (1,09,00,000) Redeemable cumulative preference shares of Rs.100 each	<b>10900.00</b>	10900.00
	<u><b>30000.00</b></u>	<u>30000.00</u>
<b>Issued, subscribed and paid up:</b>		
8,80,47,700 (8,80,47,700) Equity shares of Rs.10 each	<b>8804.77</b>	8804.77
3,00,000 (3,00,000) 14.50% Redeemable cumulative non-convertible preference shares of Rs.100 each	<b>300.00</b>	300.00
8,50,000 (8,50,000) 11.50% Redeemable cumulative non-convertible preference shares of Rs.100 each	<b>850.00</b>	850.00
1,00,000 (1,00,000) 10.00% Redeemable cumulative non-convertible preference shares of Rs.100 each	<b>100.00</b>	100.00
	<u><b>10054.77</b></u>	<u>10054.77</u>

**1. Equity shares:**

1,70,00,000 Equity shares were allotted as fully paid up bonus shares, by capitalisation of Rs.1700 lacs, from General Reserve.

**2. Preference shares:**

- (a) 14.50 per cent Redeemable cumulative non-convertible preference shares of Rs. 300 lacs issued on private placement basis, redeemable at par after the expiry of 60 months from the date(s) of allotment, have fallen due for redemption during the year 2001-02.
- (b) 11.50 per cent Redeemable cumulative non-convertible preference shares of Rs. 850 lacs issued on private placement basis, redeemable at par after the expiry of 36 months from the date(s) of allotment, have fallen due for redemption during the year 2002-03.
- (c) 10.00 per cent Redeemable cumulative non-convertible preference shares of Rs. 100 lacs issued on private placement basis, redeemable at par after the expiry of 36 months from the date(s) of allotment have fallen due for redemption during the year.

**SCHEDULE 2**

(Rupees in lacs)

	As at 31 March 2003	Additions	Deductions	As at 31 March 2004
<b>RESERVES AND SURPLUS</b>				
Share Premium Account	13322.35	--	--	<b>13322.35</b>
Debenture Redemption Reserve	3800.00	--	--	<b>3800.00</b>
Revaluation Reserve Account [Note B-3]	78893.35	<b>6940.24</b>	<b>3706.21</b>	<b>82127.38</b>
Capital Redemption Reserve	6500.00	--	--	<b>6500.00</b>
	<u>102515.70</u>	<u><b>6940.24</b></u>	<u><b>3706.21</b></u>	<u><b>105749.73</b></u>

**SCHEDULE 3**

(Rupees in lacs)

	As at 31 March 2004	As at 31 March 2003
<b>SECURED LOANS</b>		
<b>(Including interest accrued and due)</b>		
I. Privately placed non-convertible debentures :		
(i) Series VII	6592.65	6514.03
(ii) Series VIII	90.64	112.87
(iii) Series XIII	12444.75	11555.04
II. Loans :		
(a) From banks		
(i) Term loans	83868.12	73126.50
(ii) Working capital loans and cash credit facilities	29977.02	38606.35
(b) From financial institutions		
Term loans	35536.50	33215.29
(c) Long term Loans and advances from others	71.75	115.06
<b>Total</b>	<b><u>168581.43</u></b>	<b><u>163245.14</u></b>

**Notes:**

- With the implementation of the Corporate Debt Restructuring scheme, the loans and debentures have been realigned and the secured loans as above except those described under paragraph 2 below, are secured / to be secured by a *pari-passu* charge, by way of joint equitable mortgage, on immovable and movable properties of the Company, both present and future, hypothecation of inventories and all present and future book debts of the Company including Government subsidies, pledge of Company's investments in equity of other companies identified for divestment, Personal Guarantee of two Director(s) and by pledge of shareholding of the private promoters in the Company. Documentation to give effect to the aforesaid re-alignment is to be executed.
- Term loans aggregating Rs.773.68 lacs (Previous year Rs.3238.30 lacs) included under item II(a)(i), availed from foreign banks are secured by guarantee issued by a nationalised Bank.
- i) Series VII privately placed non-convertible debentures (Face value Rs.4500 lacs) in item I (i) are redeemable, at par, as follows:

Year	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
Rs. in lacs	225	225	225	225	225	450	1125	900	900

- ii) Series XIII privately placed non-convertible debentures (Face value Rs.10000 lacs) in Item I (iii) are redeemable, at par, as follows:

Year	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
Rs. in lacs	875	1375	1750	1875	2250	1875

**SCHEDULE 4**
**UNSECURED LOANS**

(a) Floating rate notes	52068.00	56988.00
(b) Fixed deposits	1540.42	2756.87
(c) From Financial Institutions		
Term Loan	3121.87	2801.55
Others	5770.00	5770.00
<b>Total</b>	<b><u>62500.29</u></b>	<b><u>68316.42</u></b>



**INVESTMENTS (Contd.)**

	As at 31 March 2004	(Rupees in lacs) As at 31 March 2003
SPIC Petrochemicals Limited (Face value Rs.30609.63 lacs) (Acquired during the year)	<b>30609.63</b>	-
<b>c) Mutual Funds</b>		
In units of Unit Trust of India 2829 Bonds of Rs. 100 each (25020 Units Rs.10 each)	<b>3.36</b>	3.36
In GIC Fortune-94 units of GIC Mutual Fund 12626 (12626) units of Rs.10 each	<b>1.00</b>	1.00
<b>d) In shares (fully paid)</b>		
25 (25) shares of Rs.5 each in Kodaikanal Co-operative Stores Limited costing Rs.125 (Rs.125)	--	--
15 (15) shares of Rs.50 each in Cuffe Castle Co-operative Housing Society Limited costing Rs.750 (Rs.750)	<b>0.01</b>	0.01
Chennai Willingdon Corporate Foundation 50 (50) Equity shares of Rs.10 each costing Rs.450 (Rs.450)	--	--
<b>II. TRADE (AT COST) - LONG TERM</b>		
(Fully paid Equity shares, unless otherwise stated)		
<b>a) In Subsidiary Companies - Unquoted</b>		
Indo-Jordan Chemicals Company Limited 23163000 (23163000) Equity shares of JD 1 each	<b>13747.68</b>	13747.68
SPIC Holdings and Investments Limited 30000000 (30000000) Equity shares of Rs. 10 each	<b>3000.00</b>	3000.00
Ind-Ital Chemicals Limited 88815 (88815) Equity shares of Rs. 100 each	<b>232.67</b>	232.67
Gulf SPIC Bahrain EC, Bahrain 29700 (29700) Equity shares of BD 1 each	<b>33.38</b>	33.38
SPIC Fertilizers and Chemicals Limited, Mauritius 32640000 (32640000) Equity shares of USD 1 each	<b>11807.40</b>	11807.40
SPIC Petrochemicals Limited - (Allotted during the year) 248000009 (Nil) Equity shares of Rs.10 each	<b>24800.00</b>	--
SPIC Biotechnologies Limited 50000 (50000) Equity shares of Rs. 10 each	<b>5.00</b>	5.00
<b>b) Others Unquoted</b>		
Gulf SPIC General Trading & Contracting Co. WLL., Kuwait 49 (49) Equity shares of KD 2500 each	<b>171.46</b>	171.46
Technip India Limited 1450000 (1450000) Equity shares of Rs. 10 each	<b>145.00</b>	145.00
Industries Chimiques Du Senegal (ICS) Senegal, West Africa 147097 (147097) Equity shares of 10000 CFA.F each	<b>443.43</b>	443.43
SPIC JEL Engineering Construction Limited 900000 (900000) Equity shares of Rs. 10 each	<b>146.16</b>	146.16

**INVESTMENTS (Contd.)**

(Rupees in lacs)

	<b>As at 31 March 2004</b>	As at 31 March 2003
Biotech Consortium India Limited 250000 (250000) Equity shares of Rs. 10 each	<b>25.00</b>	25.00
Cuddalore SIPCOT Industries Common Utilities Limited 15915 (15915) equity shares of Rs. 100 each	<b>15.92</b>	15.92
<b>c) Others Quoted</b>		
Tuticorin Alkali Chemicals and Fertilisers Limited 6680113 (6680113) Equity shares of Rs. 10 each	<b>1935.67</b>	1935.67
South India Corporation (Agencies) Limited 266667 (266667) Equity shares of Rs. 10 each	<b>80.00</b>	80.00
Tamilnadu Petroproducts Limited 15234375 (15234375) Equity shares of Rs. 10 each	<b>1980.47</b>	1980.47
SPEL Semiconductor Limited 10551994 (10551994) Equity shares of Rs. 10 each	<b>1224.91</b>	1224.91
Manali Petrochemical Limited 43910702 (43910702) Equity shares of Rs. 10 each	<b>4484.32</b>	4484.32
ICICI Bank Limited 383 (383) Equity shares of Rs. 10 each	<b>0.20</b>	0.20
State Bank of Bikaner and Jaipur 345 (345) shares of Rs. 100 each	<b>1.85</b>	1.85
	<b>94910.55</b>	39571.41
Aggregate value of unquoted investments	<b>85203.14</b>	29863.99
Aggregate value of quoted investments	<b>9707.41</b>	9707.42
Market value of quoted investments	<b>5998.01</b>	4251.08

**SCHEDULE 7****INVENTORIES**

Stores and spares	<b>6131.20</b>	5495.03
Raw materials	<b>5382.23</b>	2824.30
Work-in-process	<b>846.11</b>	839.05
Contracts-in-progress	<b>1043.88</b>	1413.54
Less : progress payments received	<b>267.97</b>	538.39
	<b>775.91</b>	875.15
Finished goods	<b>2104.93</b>	3149.34
	<b>15240.38</b>	13182.87

**SCHEDULE 8**

(Rupees in lacs)

	As at 31 March 2004	As at 31 March 2003
<b>SUNDRY DEBTORS</b>		
<b>Unsecured :</b>		
Debts outstanding for a period exceeding six months:		
Considered good*	5971.79	7043.15
Considered doubtful	1067.41	980.93
	<u>7039.20</u>	<u>8024.08</u>
<b>Other debts:</b>		
Considered good*	12876.60	15056.31
	<u>19915.80</u>	<u>23080.39</u>
Less : Provision for doubtful debts	1067.41	980.93
	<u>18848.39</u>	<u>22099.46</u>

\* Includes Rs.362.62 lacs in Debts exceeding six months (Previous year Rs.122.29 lacs) and Rs.276.03 lacs in Other debts (Previous year Rs.195.02 lacs) on retentions on account of Contracts-in-progress.

**SCHEDULE 9**
**CASH AND BANK BALANCES**

Cash and cheques on hand	22.26	13.05
Bank Balances		
With scheduled banks :		
In current accounts	263.61	310.52
In fixed deposits	2568.63	2133.62
With other banks :		
In current accounts		
- The Gulf Bank, Kuwait (1)	--	0.14
- Burgan Bank, Kuwait (2)	--	0.45
- National Bank of Kuwait (3)	1.04	--
- Commercial Bank of Kuwait (4)	1.06	--
- Bank of Baroda, London (5)	6.27	1.52
	<u>2862.87</u>	<u>2459.30</u>

**Maximum Balance at any time during the year**

	Current Year	Previous Year
(1)	Rs. 0.14 lacs	(Rs. 5.36 lacs)
(2)	Rs. 0.45 lacs	(Rs. 39.78 lacs)
(3)	Rs. 181.02 lacs	(Rs. Nil)
(4)	Rs. 1.44 lacs	(Rs. Nil)
(5)	Rs. 6.42 lacs	(Rs. 10.68 lacs)

**SCHEDULE 10**

(Rupees in lacs)

	<b>As at 31 March 2004</b>	<b>As at 31 March 2003</b>
<b>LOANS AND ADVANCES</b>		
Advances to / recoverable from subsidiary companies	<b>10010.64</b>	9908.56
Advance recoverable in cash or in kind or for value to be received:		
Secured-Considered good	<b>387.36*</b>	197.18*
Unsecured:		
Considered good	<b>92565.82</b>	<b>140692.18</b>
Considered doubtful	<b>1604.85</b>	<b>1.24</b>
	<b>94170.67</b>	<b>140693.42</b>
Less : Provision for doubtful advances	<b>1604.85</b>	<b>1.24</b>
	<b>92565.82</b>	<b>140692.18</b>
Income-tax payments less provision	<b>1754.59</b>	<b>1481.77</b>
Balance with Customs, Port Trust and Central Excise on current accounts	<b>162.75</b>	<b>144.91</b>
	<b>104881.16</b>	<b>152424.60</b>

\* Represents employees' loans which is disclosed net of loans of Rs. 236.16 lacs (Previous year Rs. 662.80 lacs) received from Housing Finance companies. The said loans received are secured by equitable mortgage of employees' properties who have availed loans under the scheme.

**SCHEDULE 11****CURRENT LIABILITIES AND PROVISIONS****CURRENT LIABILITIES:**

Sundry creditors		
- total outstanding dues to small scale industrial undertakings	<b>14.38</b>	30.32
- Subsidiary companies	<b>363.43</b>	373.73
- others	<b>54122.64</b>	54534.63
Unclaimed dividends*	<b>108.04</b>	129.00
Unclaimed deposits*	<b>255.87</b>	141.91
Interest accrued but not due on loans	<b>3283.90</b>	1102.80
	<b>58148.26</b>	56312.39
<b>PROVISIONS:</b>		
Gratuity	<b>7.54</b>	8.54
	<b>58155.80</b>	56320.93

\*No amounts are due and outstanding to be credited to the Investor Education and Protection Fund in respect of Unclaimed dividends. Out of Unclaimed deposits, an amount of Rs.1.83 lacs is due and outstanding to be credited to the Investor Education and Protection Fund and has since been remitted.

**SCHEDULE 12  
OTHER INCOME**

	<b>Year ended 31 March 2004</b>	<b>Year ended 31 March 2003</b>
Dividends from trade investments	<b>205.08</b>	<b>445.25</b>
Dividends from subsidiary companies	<b>8.88</b>	<b>8.88</b>
Interest from non-trade investments (Tax deducted at source Rs.0.10 lacs; Previous year Rs. 0.24 lacs)	<b>4.74</b>	<b>1.96</b>
Miscellaneous	<b>1728.63</b>	<b>1751.93</b>
	<b>1947.33</b>	<b>2208.02</b>

**SCHEDULE 13**

(Rupees in lacs)

	Year ended 31 March 2004	Year ended 31 March 2003
<b>MANUFACTURING AND OTHER EXPENSES</b>		
Raw materials consumed		
Opening stock	2824.30	4912.44
Add: Purchases	81821.61	66824.04
	<u>84645.91</u>	<u>71736.48</u>
Less : raw materials sold at cost	2372.86	1202.52
	<u>82273.05</u>	<u>70533.96</u>
Less: Closing stock	5382.23	2824.30
	<u>76890.82</u>	<u>67709.66</u>
Raw materials consumed	76890.82	67709.66
Stores and spares consumed	780.54	950.70
Power, fuel and water charges	25450.39	25510.26
Sales promotion expenses	391.79	351.50
Salaries, wages and bonus	7155.16	7598.51
Contribution to gratuity and superannuation funds	577.27	997.16
Contribution to provident and other funds	294.55	286.85
Staff welfare expenses	748.18	609.67
Rent	1173.89	1010.70
Rates and taxes	72.39	137.60
Excise duty	105.70	78.24
Insurance	1061.44	1099.57
Repairs to:		
Plant and machinery	1214.10	1436.01
Buildings	407.64	506.04
Others	377.61	1226.27
	<u>1999.35</u>	<u>3168.32</u>
Rebates and discounts	4935.52	5753.86
Packing, transportation and handling	9715.76	8904.77
Provision for doubtful debts and advances (net)	1690.09	10.06
Turnover tax	977.19	996.82
Loss on sale / Retirement of assets (net)	162.75	262.42
Supply of materials and equipment for construction contracts	3435.09	2592.08
Sub-contractors payments	1585.60	1480.99
Miscellaneous expenses	1321.73	5286.01
Opening Stock		
Finished goods	3149.34	9825.86
Work-in-process (including Contracts in progress)	2252.59	17076.37
	<u>5401.93</u>	<u>26902.23</u>
Closing Stock		
Finished goods	2104.93	3149.34
Work-in-process (including Contracts in progress)	1889.99	2252.59
	<u>3994.92</u>	<u>5401.93</u>
	<u>1407.01</u>	<u>21500.30</u>
	<u>141932.21</u>	<u>156296.05</u>

**SCHEDULE 14**

(Rupees in lacs)

	<b>Year ended 31 March 2004</b>	Year ended 31 March 2003
<b>INTEREST AND FINANCIAL CHARGES</b>		
On debentures	<b>1573.00</b>	1502.43
On other fixed interest bearing Loans	<b>9954.71</b>	11318.05
On others	<b>4138.32</b>	5122.16
	<b>15666.03</b>	17942.64
<i>Less :</i> Interest on advances to companies	<b>10573.31</b>	--
Interest on deposits, book debts, loans and others (Tax deducted at source on interest received Rs.20.41 lacs; Previous year Rs.Nil)	<b>197.81</b>	139.96
	<b>10771.12</b>	139.96
	<b>4894.91</b>	17802.68

**SCHEDULE 15****NOTES ON ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2004****A. SIGNIFICANT ACCOUNTING POLICIES****(i) Basis of accounting**

The financial statements are prepared under historical cost convention except revaluation of certain fixed assets and on accrual basis of accounting

**(ii) Fixed Assets and Depreciation**

Fixed Assets including intangible assets are capitalised at acquisition cost, including directly attributable cost of bringing the assets to its working condition for the intended use.

Certain assets have been revalued as on 1.1.1985, 31.3.1996, 31.3.1999, 31.3.2000, 1.4.2002 and 1.4.2003 and the resultant surplus has been added to the cost of the assets with a corresponding credit to Revaluation Reserve Account.

Depreciation on fixed assets is provided on Straight Line Method (SLM) in accordance with and in the manner prescribed in Schedule XIV to the Companies Act, 1956. In respect of assets acquired prior to 1 April 1993 where depreciation was provided on SLM as per section 205 (2) (b) of the Companies Act 1956 at rates which were higher than Schedule XIV rates, depreciation on the unamortised depreciable amount is provided over the residual life of the respective fixed assets.

Where carrying value of an asset has undergone subsequent changes on account of exchange fluctuation, the depreciation on the revised unamortised depreciable amount is provided prospectively over the residual useful life of the assets.

Intangible Assets are amortised over the estimated useful life of the asset.

The charge over and above the depreciation calculated on the original cost of the revalued asset is transferred from fixed assets Revaluation Reserve to the Profit and Loss Account.

**(iii) Investments**

Long term investments are valued at cost. Provision for diminution in the value of long term investments is made, only if such decline is other than temporary in nature, in the opinion of the management.

**(iv) Inventories**

Inventories are valued at lower of cost and net realisable value except stores, spares and loose tools, which are valued at cost and/or below cost. The method of determining cost of various categories of inventories of various divisions is as follows:

Stores, spares and raw materials - Monthly weighted average method/first in first out method/annual average method

Loose tools - Valued at cost which is depreciated over a period of three to eight years on straight line method

Work-in-Process and finished goods - Average cost of last quarter's production/ average annual cost, computed on full absorption costing method

(v) **Revenue Recognition**

- (a) Revenue in respect of sale of products and scrap is recognised at the point of despatch to customers from plants and warehouses.
- (b) Under the retention pricing scheme, the Government of India reimburses the fertiliser industry, the difference between the retention price based on the cost of production and selling price (realised from the farmers) as fixed by the Government from time to time, in the form of a subsidy. This has been accounted as income on the basis of movement of fertiliser from the factory as per the procedure prescribed by the Government and not on the basis of ultimate sales. In the case of increase in input costs / expenses for which retention price is yet to be announced, the Company makes a reasonable estimate of incremental amount due and accrues the same as income for the year.
- (c) Income on long-term contracts is recognised on percentage completion method.
- (d) Dividend income on investments is accounted for, when the right to receive the payment is established

(vi) **Foreign Currency Transactions**

(a) *Indian operations*

Foreign currency transactions are recorded in the books by applying the exchange rate as on the date of the transaction. Foreign currency liabilities, arising on account of acquisition of assets, are converted at the exchange rate prevailing on the last working day of the accounting year or forward contract rates, as applicable, and the exchange difference is adjusted to the cost of assets. Investments in foreign currency are reported using the exchange rate at the date of the transaction.

Other foreign currency assets and liabilities are converted at the exchange rate prevailing on the last working day of the accounting year or forward contract rates, as applicable, and the exchange difference is adjusted to the Profit and Loss account except in case of forward contracts, where the difference between forward rate and exchange rate at the date of the transaction is recognised in the Profit and Loss Account over the life of the contract.

(b) *Overseas operations*

Fixed assets are recorded at the rates of exchange prevailing on the date of acquisition of such assets. Monetary assets and liabilities are translated at the exchange rate prevailing on the last day of the accounting year and difference in exchange is recognised as a charge in the Profit and Loss Account. All the revenue transactions are translated at the monthly average rates.

(vii) **Retirement Benefits**

Fixed contribution to Provident Fund, Employees State Insurance and Superannuation Fund in respect of Officers who are covered under Defined Contribution Scheme made on monthly basis are absorbed in the accounts.

Contribution to Superannuation Fund in respect of Staff under Defined Benefit Scheme made based on actuarial valuation as at the end of the financial year is charged to Profit and Loss Account.

Liability for gratuity and leave encashment to employees determined on actuarial valuation as at the end of the financial year are absorbed in the accounts

Liability under voluntary retirement scheme is charged to the profit and loss account over a period of five years from the accounting year in which the liability is incurred.

(viii) **Research and Development Expenditure**

Revenue expenditure on Research and Development is charged to the Profit and Loss account and Capital expenditure is included in fixed assets under appropriate heads.

(ix) **Premium payable on redemption of debentures**

Premium payable on redemption of debentures is accounted for in the year of redemption of debentures.

(x) **Share and Debenture issue expenses**

Issue expenses are adjusted directly to share premium account.

(xi) **Borrowing costs**

Borrowing costs incurred after 1 April 2000 that are attributable to the acquisition of qualifying assets are capitalised as part of the cost of such assets. All other borrowing costs are charged to revenue.

(xii) **Segment Reporting**

The accounting policies adopted for segment reporting are in line with the accounting policies of the Company.

- a) Revenue and expenses have been identified to segments on the basis of their relationship to the operating activities of the segment. Revenue and expenses, which relate to the enterprise as a whole and are not allocable to segments on a reasonable basis, have been included under unallocable corporate expenses.
- b) Investments, advance towards investments and other advances which are not allocable to segments are excluded from segment capital employed.

**B. NOTES ON ACCOUNTS**

1. (a) Estimated amount of contracts remaining to be executed on capital account and not provided for (net of advances) Rs. 450.73 lacs (Previous year Rs.533.97 lacs).

- (b) Cumulative amount of Preference Dividend and dividend tax thereon not provided for the period up to 31 March 2004 is Rs. 843.58 lacs (Previous year Rs. 672.95 lacs).

2. **Contingent Liabilities**

- (a) Bills and Cheques discounted Rs. 829.55 lacs (Previous year Rs.883.34 lacs)  
 (b) Claims not acknowledged as debts Rs.2339.66 lacs (Previous year Rs. 5391.37 lacs)  
 (c) Guarantees/Security given to banks/financial institutions on behalf of other companies Rs. 6720 lacs (Previous year Rs. 6720 lacs).  
 (d) Bank Guarantees outstanding Rs. 889.88 lacs (Previous year Rs.750 lacs)  
 (e) No provision is considered necessary for the following disputed Income Tax, Sales Tax, Excise duty, Service tax and Electricity tax which are under various stages of appeal proceedings. The Company has been advised that there are reasonable chances of successful outcome of the appeals.

Name of the Statute	Nature of the Dues	Period to which the amount relates	Amount (Rs. in Lacs)	Forum where Pending
<b>Direct Taxes</b> Income Tax Act,1961	Income Tax	1996-97 to 2000-01	2413.21	Commissioner of Income Tax (Appeals), Income Tax Appellate Tribunal
<b>Indirect Taxes</b> Central Excise Act,1944	Excise duty	1996-97,1998-99, 2000-01	60.28	Commissioner of Central Excise (Appeals) / Customs, Excise and Service Tax Appellate Tribunal
	Service Tax	1997-98 to 2001-02	144.48	Commissioner of Central Excise (Appeals) / Customs, Excise & Service Tax Appellate Tribunal / High Court
Sales Tax Act under various State enactments	Local Sales Tax	1996-97 to 2001-02	107.39	Deputy Commissioner (Appeals) / Sales Tax Appellate Tribunal
Central Sales Tax Act,1956	Central Sales Tax	1995-96 to 2001-02	93.29	Deputy Commissioner (Appeals) / Sales Tax Appellate Tribunal
Tamilnadu Electricity (Taxation on Consumption) Act,1962	Electricity Tax	1985-86 to 1993-94	1050.54	Madras High Court
<b>TOTAL</b>			<b>3869.19</b>	

Out of the above amount, an amount of Rs. 2013.81 lacs has been deposited under protest / adjusted by relevant authorities.

3. (a) Fixed assets (other than furniture and fittings, office equipment, vehicles, ships, and certain buildings and plant and machinery) have been revalued as on 31.3.1996 on the basis of 'Existing Use Value' by independent professional valuers. The resultant surplus on such revaluation over the written down value of these assets amounting to Rs.36659.06 lacs has been credited to Revaluation Reserve.  
 (b) Land, buildings and plant and machinery relating to Pharmaceuticals and Biotechnology Divisions have been revalued as on 31.3.1999, on the basis of 'Existing Use Value' by independent professional valuers. The resultant surplus on such revaluation over the written down value of these assets amounting to Rs.5412.77 lacs has been credited to Revaluation Reserve.  
 (c) Fixed assets (other than furniture and fittings, office equipment and vehicles) of the Tuticorin Plant have been revalued as on 31.3.2000 on the basis of 'Existing Use Value' by independent professional valuers. The resultant surplus on such revaluation over the written down value of these assets amounting to Rs.30905.38 lacs has been credited to Revaluation Reserve.  
 (d) Fixed assets (other than furniture and fittings, office equipment and vehicles) of the Tuticorin Plant have been revalued as on 1.4.2002 on the basis of 'Existing Use Value' by independent professional valuers. The resultant surplus on such revaluation over the written down value of these assets amounting to Rs.35086.61 lacs has been credited to Revaluation Reserve.  
 (e) Land and buildings, Plant and machinery, Compound wall and Roads relating to Pharmaceuticals and Biotechnology Divisions have been revalued as on 1.4.2003, on the basis of 'Existing Use Value' by independent professional valuers. The resultant surplus on such revaluation over the written down value of these assets amounting to Rs.6940.24 lacs has been credited to Revaluation Reserve.  
 (f) The depreciation charge for the year shown in the Profit and Loss Account is after deducting an amount of Rs.3705.35 lacs (Previous year Rs. 2656.22 lacs) representing the extra depreciation arising on revaluation of fixed assets withdrawn from Revaluation Reserve.

- (g) Also, deducted from the Revaluation Reserve is an amount of Rs. 0.86 lacs (Previous year Rs.1613.22 lacs) in respect of certain adjustments for deletion of revalued assets.
4. Capital work in progress/ advances include a sum of Rs.2091.04 lacs (Previous Year Rs.2091.04 lacs) being advances paid to MCC Finance Limited for purchase of certain immovable properties. The Company entered into sale agreements for these properties with MCC Finance Limited and the execution and registration of sale deeds are pending. The Administrator/Provisional Liquidator of MCC Finance Limited filed a petition before the Company Court at Chennai seeking a direction that the sale agreements entered into between the Company and MCC Finance Limited be declared null and void. The said petition was allowed by the Single Judge on 18.6.2003. The Company has filed an appeal against the Order before the Division Bench of the Madras High Court. The Division Bench admitted the appeal and ordered status quo be maintained, pending disposal of the appeal.
5. The Company promoted SPIC Petrochemicals Limited (SPIC Petro) in 1994-95 for the manufacture of Polyester Filament Yarn (Capacity:80000 TPA) and Purified Terephthalic Acid (Capacity:315000 TPA). As per the agreement dated 3 March 2004 between SPIC Petro and the Company. SPIC Petro has agreed to an interest claim of Rs.30609.63 lacs on the Advances against Equity and Inter-Corporate Deposits made by the Company. Out of Rs.30609.63 lacs, Rs.20036.32 lacs has been accrued in the earlier years and Rs.10573.31 lacs during the current year. During the year, SPIC Petro has allotted equity shares of the face value of Rs.24800.00 lacs against the Advances against Equity and Inter-Corporate Deposits made by the Company and Zero Interest Bonds of the face value of Rs.30609.63 lacs against the agreed interest compensation. Balance recoverable from SPIC Petro as at 31 March 2004 is Rs.82.39 lacs (Previous year Rs.44872.43 lacs). Contracts in progress net of payments received includes Rs.131.74 lacs towards projects, being executed by the Company for SPIC Petro.

In view of the pending litigation between Chennai Petroleum Corporation Limited (CPCL) and the Company and the consequent interim injunction granted by the Madras High Court in 1997 to stop implementation of activities, there has been a temporary suspension of activities. The draft Memorandum of Settlement (MoS) between CPCL and the Company which was approved by the Ministry of Petroleum and Natural Gas in March 2001 is awaiting formal execution. The Company initiated discussions with Financial Institutions and Banks for resolving the financial issues through re-structuring of all the loans, grant of reliefs and concessions and further financial assistance. A high level meeting with the Financial Institutions and Banks, who have funded this project, was held at Mumbai in June 2001. The Lenders have formed a committee comprising representatives from IDBI, ICICI, SBI and Dena Bank to review the project and re-appraise the viability of the project. The Lenders Committee appointed Tata Consulting Engineers Limited (TCE) as Lenders' Engineer to assess the revised project cost and the viability of the project. TCE have completed their study and submitted their report to IDBI in August 2002 and IDBI had requested TCE to do an update of the report by December 2003 and the revalidation was completed by February 2004.

In January 2003, ICICI Bank Limited, filed an application before the Debt Recovery Tribunal for appointment of a Receiver in respect of properties of SPIC Petro. The Tribunal, on 14 February 2003, granted interim relief by way of appointment of a Receiver with a direction to get the property valued for sale. The appeals of SPIC Petro and that of the Company before the Debt Recovery Appellate Tribunal were dismissed on 10 March 2003. Aggrieved by this, SPIC Petro and the Company filed Writ Petitions before the Bombay High Court for staying the orders of the Tribunal and of the Appellate Tribunal.

The Bombay High Court, on 17 April 2003, adjourned the Petitions with a direction that SPIC Petro will neither be dispossessed from the property, nor will the property be sold as directed by the Tribunal. The High Court further directed IDBI to make available TCE's report to the Court, to SPIC Petro and to the Company. SPIC Petro was also required to submit a report as to the possibilities of revival and how the necessary finance will be raised and its liabilities cleared.

Pursuant to the directions of the Court, SPIC Petro submitted the revival report on 30 June 2003 to which the ICICI Bank has filed its observations. The matter is pending before the Hon'ble Bombay High Court.

Meanwhile, SPIC Petro also submitted a revival strategy to IDBI and the strategy is under their active consideration. As per the strategy, the project is to be implemented in three phases viz. Phase I – Partially Oriented Yarn (65000 TPA), Phase II – increasing Partially Oriented Yarn capacity to 80000 TPA and putting up Texturising plant and Phase III – Purified Terephthalic Acid (315000 TPA). TCE in their draft report submitted to IDBI on February 2004 has concurred with the phased implementation of the project and they have stated that both Phase I and the integrated projects are viable and has recommended to the Financial Institutions and Banks to provide funds required for the first phase and early implementation of the project. They have also observed that the assets are intact and there is no impairment. IDBI has proposed to convene a Lenders meeting shortly to discuss the above proposals of SPIC Petro and the recommendations of TCE.

In view of the above development, SPIC Petro is hopeful of early implementation of the project. As the viability of the project has since been confirmed by Independent Professional Consultants, the Company is actively pursuing to identify a strategic partner to invest in the project and on execution of the Memorandum of Settlement, settle the compensation payable to CPCL.

6. The Company has made investments of Rs.7644.90 lacs (Previous year Rs.7644.90 lacs) in equity, granted loans amounting to Rs.4900.80 lacs (Previous year Rs.4900.80 lacs) and advance against equity of Rs.1000 lacs (Previous year Rs.1000 lacs), extended guarantees for Rs.1825 lacs (Previous year Rs.1825 lacs), and Rs.9529.46 lacs (Previous year Rs.9045.30 lacs) is due towards interest and other recoverables in respect of three promoted companies viz. Tuticorin Alkali Chemicals & Fertilisers Limited (TAC), SPEL Semiconductor Limited (SPEL) and Manali Petrochemical Limited (MPL). The market value of the investments as on 31 March 2004 is Rs.2434.12 lacs (Previous year Rs.1278.22 lacs). In view of the long term involvement with these companies, the management is of the view that no provision is required to be made for the diminution in value of above investments, loans, advance against equity, guarantees, interest and other recoverables aggregating to Rs.24900.16 lacs (Previous year Rs.24416.00 lacs).

7. The Company has given an undertaking to the financial institutions for non-disposal of its shareholdings in Tuticorin Alkali Chemicals and Fertilisers Limited and SPEL Semiconductor Limited without their prior approval.
8. The Government of India vide their letter dated 4.6.2002 announced the urea pricing policy parameters for the 7<sup>th</sup> and 8<sup>th</sup> pricing periods from 1.7.1997 to 31.3.2003. The Company received a circular dated 12.8.2002 on the basis of the above letter revising the retention price of urea with retrospective effect for the pricing period referred above. These policy parameters have made significant changes with regard to reassessment of plant capacities, withdrawal of vintage allowance, increase in normative levels of capacity utilization and updating the consumption norms.
- The Company is of the view that some of the policy parameters with regard to reassessment of plant capacities, withdrawal of vintage allowance, increase in normative levels of capacity utilization cannot be amended retrospectively. The Company has therefore reworked the subsidy entitlement for the period from 1.7.1997 to 31.3.2002 as per the notified policy disregarding the disputed parameters and other disallowances made by the Government in working out the retention price. These workings have resulted in the Company retaining as claims receivable subsidy of Rs. 36954.74 lacs (Previous year Rs. 36954.74 lacs) already accrued in the books for the period 1.7.1997 to 31.3.2002. The Company is in the process of representing to the Government and intends to take up the above issues in a phased manner and is hopeful of succeeding and recovering the said amount.
9. In past years the Company was acting as handling agents for fertilisers imported by Agri India which is a department of the Government of India for importing fertilisers. The Company has claimed inventory carrying costs, freight concession and price differential on imported fertilisers consequent to decontrol of price of Di-Ammonium Phosphate (DAP) in August 1992 and also for carrying higher inventory due to bunching of vessels when imports were made. The total claims of Rs.3586.97 lacs (Previous Year Rs.3625.68 lacs) which is outstanding for a considerable period of time are being followed up with Agri India and the Company expects to realise the amounts in due course.
10. Loans and advances include advances given to three companies amounting to Rs. 10810.71 lacs (Previous year - four companies - Rs.41012.48 lacs) to be adjusted against equity shares to be issued by these companies.
11. (a) The Company had placed inter-corporate deposits with four companies amounting to Rs.675 lacs during 1999 from whom neither principal nor interest has been received. Efforts are being made to recover these amounts and the management is of the view that no Loss will arise on this account.
- (b) An amount of Rs.1156.79 lacs, net of provisions (Previous year: Rs.2760.40 lacs) is due from a Company towards ship hire charges, sale of ship and other recoverables. This Company is in financial difficulties. Efforts are being made to recover these amounts from the Guarantor Company and the management is of the view that no Loss will arise on this account.
12. The restructuring of the Debt Portfolio under the Corporate Debt Restructuring Mechanism (CDR) has been implemented during the year. Consequent to this, interest relief availed from various Banks and Financial Institutions under the CDR Scheme or otherwise includes Rs.1827.88 lacs (including Rs.943.90 lacs for the year) availed from two lenders who are yet to confirm their consent for reduction in the interest rate. The balances of loans / interest accrued to some of the lenders are also subject to confirmation.
13. Miscellaneous expenditure, to the extent not written off or adjusted, represents Rs.518.06 lacs (Previous year Rs. 746.52 lacs) being amounts paid/payable under Company's voluntary retirement scheme for employees amortized over a period of five years from the accounting year in which the liability was incurred.
14. (a) Research and Development expenses incurred on revenue account is Rs.261.43 lacs (Previous year Rs. 455.89 lacs).
- (b) Exchange variation (net) credited under appropriate heads to the Profit and Loss Account is Rs.4760.40 lacs (Previous year debited Rs. 387.47 lacs) which includes exchange gain of Rs.3159.65 lacs on restatement of loans credited to Miscellaneous expenses.
15. **Managerial Remuneration**

	<b>Year ended</b>	(Rupees in lacs)
	<b>31 March 2004</b>	Year ended 31 March 2003
Salaries	<b>32.40</b>	36.60
Contribution to Provident and other funds	<b>10.29</b>	11.64
Perquisites	<b>28.43</b>	37.84
Special Allowance *	<b>32.40</b>	90.60
Directors' sitting fees	<b>4.45</b>	3.55
<b>TOTAL</b>	<b><u>107.97</u></b>	<u>180.23</u>

\* includes Rs. Nil (Previous year Rs 54 lacs) in respect of earlier years.

The appointment and remuneration of a former Director for the period 30 July 1990 to 26 September 1990, aggregating to Rs.19206.90 paid during earlier years, is subject to approval of the shareholders and the Central Government.

16. **Auditors' Remuneration**

	<b>Year ended</b>	(Rupees in lacs)
	<b>31 March 2004</b>	Year ended
		31 March 2003
Audit fees	<b>18.00</b>	18.00
Fees for other services	<b>2.71</b>	10.07
Reimbursement of expenses / levies	<b>1.12</b>	2.43

17. The information required by paras 3 and 4 of Part II of Schedule VI to the Companies Act, 1956 is as under:

I. **CAPACITY, PRODUCTION, PURCHASES, SALES, CONSUMPTION AND STOCKS:**

Quantitative information in respect of goods manufactured/purchased

(a) **LICENSED CAPACITY, INSTALLED CAPACITY AND ACTUAL PRODUCTION:**

PRODUCTS *	LICENSED CAPACITY (Metric Tonnes)	INSTALLED*** CAPACITY (Metric Tonnes)	ACTUAL PRODUCTION (Metric Tonnes)
Ammonia	<b>352000</b> (352000)	<b>352000</b> (352000)	<b>363015</b> (332379)
Urea	**	<b>512000</b> (512000)	<b>621078</b> (569281)
Complex Fertilisers (DAP & NPK) in terms of P <sub>2</sub> O <sub>5</sub> (Phosphorus Pentoxide)	**	<b>278800</b> (278800)	<b>146227</b> (143085)
Aluminium Fluoride	<b>2560</b> (2560)	<b>2560</b> (2560)	<b>4008</b> (3656)
Sulphuric Acid	<b>150000</b> (150000)	<b>150000</b> (150000)	<b>157325</b> (173151)
Phosphoric Acid	<b>52800</b> (52800)	<b>52800</b> (52800)	<b>50080</b> (49395)
Pencillin-G (MMU)	**	<b>1000</b> (1000)	<b>1839</b> (1600)

\* Includes products for Captive Consumption

\*\* These products are delicensed

\*\*\* As certified by the Management, but not verified by Auditors, being a technical matter.

(b) **PURCHASE OF FINISHED GOODS**

Particulars	Year ended 31 March 2004		Year ended 31 March 2003	
	Quantity (Metric Tonnes)	Value (Rupees in lacs)	Quantity (Metric Tonnes)	Value (Rupees in lacs)
Muriate of Potash	<b>1177</b>	<b>48.95</b>	--	--
Cytozyme (Litres)	<b>139990</b>	<b>360.85</b>	124240	321.12
Cytozyme (Kilograms)	<b>205280</b>	<b>50.41</b>	155800	38.28
Others		<b>366.00</b>		455.82
		<b>826.21</b>	--	815.22

**(c) SALES AND SERVICES**

Particulars	Year ended 31 March 2004		Year ended 31 March 2003	
	Quantity (Metric Tonnes)	Value (Rupees in lacs)	Quantity (Metric Tonnes)	Value (Rupees in lacs)
Urea	635727	30705.60	642878	31051.00
Di-Ammonium Phosphate	316096	39740.31	290038	33822.79
Muriate of Potash	1177	49.07	41358	2895.56
Aluminium Fluoride	3045	1083.87	2014	742.62
20:20:00	11871	1063.33	52524	4258.16
Gypsum	457850	520.35	488993	507.00
Penicillin - G (MMU)	1820	8303.42	1607	11174.58
Cytozyme (Litres)	134898	579.92	126805	543.24
Cytozyme (Kilograms)	195340	80.33	158490	64.21
Pesticides (Litres)	24919	67.26	23335	61.28
17:17:17	2380	234.16	--	--
Others		3497.89		3097.80
Fertiliser and Transport Subsidy		53158.44		49427.98
		139083.95		137646.22
	(Rupees in lacs)		(Rupees in lacs)	
Income from Contracts	11197.39		25699.09	
Less: Internal Billing	--		0.28	
		11197.39		25698.81
		150281.34		163345.03

**(d) RAW MATERIALS CONSUMED**

Particulars	Year ended 31 March 2004		Year ended 31 March 2003	
	Quantity (Metric Tonnes)	Value (Rupees in lacs)	Quantity (Metric Tonnes)	Value (Rupees in lacs)
Naphtha	270611	41356.02	251213	35355.71
Rock Phosphate	172428	5399.76	165065	5037.38
Sulphur	52146	2219.34	57180	1832.42
Aluminium Hydroxide	4559	417.43	4282	398.66
Ammonia	74672	8794.90	77520	6312.17
Phosphoric Acid	96091	15100.56	96601	15793.95
Phenyl Acetic Acid	429	437.57	446	454.17
Butyl Acetate	384	184.68	340	149.69
Cane Sugar	8073	990.73	7477	944.29
Demulsifier	44	62.68	36	56.13
Cotton Seed Meal	1486	317.22	1383	293.02
Others	--	1609.93	--	1082.07
Total		76890.82		67709.66

**(e) STOCK PARTICULARS OF FINISHED GOODS (INCLUDING TRADED GOODS)**  
(Previous year's figures are given in brackets)

Particulars	OPENING STOCK		CLOSING STOCK	
	Quantity (Metric Tonnes)	Value (Rupees in lacs)	Quantity (Metric Tonnes)	Value (Rupees in lacs)
<b>Urea</b>	<b>29237</b> (103097)	<b>1359.53</b> (4895.78)	<b>13709</b> (29237)	<b>553.37</b> (1359.53)
<b>Di-Ammonium Phosphate</b>	<b>3500</b> (7187)	<b>406.59</b> (737.26)	<b>367</b> (3500)	<b>45.60</b> (406.59)
<b>Complex Fertiliser (NPK 20 : 20 : 00)</b>	<b>3199</b> (3533)	<b>254.74</b> (271.12)	<b>10</b> (3199)	<b>0.90</b> (254.74)
<b>Complex Fertiliser (NPK 17 : 17 : 17)</b>	— (—)	— (—)	<b>402</b> (—)	<b>37.30</b> (—)
<b>Muriate of Potash (MOP)</b>	<b>1</b> (41504)	<b>0.06</b> (2876.00)	— (1)	— (0.06)
<b>Aluminium Fluoride</b>	<b>1697</b> (29)	<b>439.67</b> (8.04)	<b>2660</b> (1697)	<b>661.64</b> (439.67)
<b>Gypsum</b>	<b>250530.70</b> (235871)	<b>163.30</b> (227.95)	<b>263558</b> (250530.70)	<b>199.09</b> (163.30)
<b>Cytozyme (Litres)</b>	<b>15983.84</b> (18553)	<b>41.31</b> (47.66)	<b>21035</b> (15983.84)	<b>54.22</b> (41.31)
<b>Cytozyme (Kilograms)</b>	<b>12600</b> (15290)	<b>3.10</b> (3.75)	<b>22540</b> (12600)	<b>5.53</b> (3.10)
<b>Pesticides (Litres)</b>	<b>2719.50</b> (9498)	<b>4.92</b> (21.35)	<b>4300</b> (2719.50)	<b>7.78</b> (4.92)
<b>Pesticides (Kilograms)</b>	— (3232)	— (2.02)	— (—)	— (—)
<b>Penicillin-G (MMU)</b>	<b>30.28</b> (38)	<b>146.54</b> (214.47)	<b>44.85</b> (30.28)	<b>178.05</b> (146.54)
<b>Others</b>		<b>329.58</b> (520.46)		<b>361.45</b> (329.58)
		<b>3149.34</b> (9825.86)		<b>2104.93</b> (3149.34)

(Rupees in lacs)

**II. EXPENDITURE IN FOREIGN CURRENCY**

Interest  
Others

**Year ended**  
**31 March 2004**  
**1502.91**  
**5286.02**

**Year ended**  
**31 March 2003**  
**2120.03**  
**5388.16**

**III. EARNINGS IN FOREIGN EXCHANGE**

Export on FOB basis  
Kuwait contract

**1435.65**  
**5475.51**

**1342.50**  
**18738.11**

	Year ended 31 March 2004	(Rupees in lacs) Year ended 31 March 2003
<b>IV. CIF VALUE OF IMPORTS</b>		
Raw Materials	27327.14	21214.16
Furnace oil	4577.34	1717.20
Components and spare parts	788.91	157.09
Capital goods	260.98	91.33

**V. VALUE OF RAW MATERIALS, COMPONENTS AND SPARE PARTS CONSUMED**

	Year ended 31 March 2004				Year ended 31 March 2003			
	Raw Materials		Components & Spare parts		Raw Materials		Components & Spare parts	
	Percentage to total consumption	Value (Rupees in lacs)	Percentage to total consumption	Value* (Rupees in lacs)	Percentage to total consumption	Value (Rupees in lacs)	Percentage to total consumption	Value* (Rupees in lacs)
Imported	32.74	25175.23	15.49	126.86	33.68	22801.40	21.88	247.01
Indigenous	67.26	51715.59	84.51	692.25	66.32	44908.26	78.12	881.76

\* includes Spares consumed included under Repairs and Maintenance : Rs. 38.57 lacs (Previous year Rs. 178.07 lacs)

18. The identification of suppliers as Small Scale Industrial Undertaking (SSIs) has been done on the basis of information to the extent provided by the suppliers to the company and relied upon by the auditors. The dues to Southern Bags & Chemicals Pvt. Ltd, a SSI Unit is outstanding for more than 30 days as on 31 March 2004.
19. No provision has been made in these accounts for the accumulated net deferred tax liability upto 31 March 2001 amounting to Rs.11389 lacs as an interim stay of clause 33 of Accounting Standard 22 -'Accounting for taxes on income' - has been obtained from the Madras High Court. Clause 33 of the above standard provides that the net deferred tax liability accumulated up to 31 March 2001 should be provided for, with a corresponding charge to revenue reserves. On a transfer petition filed by the Institute of Chartered Accountants of India before the Supreme Court of India, the Honourable Court directed that all similar petitions filed in different High Courts be transferred to the Calcutta High Court. The petition is yet to be disposed by the Calcutta High Court.

The deferred tax asset / (liability) as at 31 March 2004 and 31 March 2003 is as follows:

	As at 31 March 2004	(Rupees in lacs) As at 31 March 2003
Depreciation	10844.72	10468.68
Subsidy	14048.16	13886.14
Others	-	43.05
<b>Deferred tax liability</b>	<b>24892.88</b>	<b>24397.87</b>
Provision for doubtful debts	887.33	263.60
Carry forward business Losses	14642.87	15139.97
Unabsorbed depreciation	19208.90	16901.79
Others	54.94	118.03
<b>Deferred tax asset</b>	<b>34794.04</b>	<b>32423.39</b>
<b>Net deferred tax asset / (liability)</b>	<b>9901.16</b>	<b>8025.52</b>

**20. SEGMENT REPORTING**

Primary segment information (Business segments)

(Rs. in lacs)

Particulars	Agro Inputs	Bulk drugs and Formulations	Others	Total
<b>Segment Revenue</b>				
Sales to external customers	<b>127599.66</b> (123564.94)	<b>8697.62</b> (10696.13)	<b>12591.92</b> (27394.52)	<b>148889.20</b> (161655.59)
Other Income	<b>500.48</b> (379.59)	<b>253.72</b> (199.02)	<b>395.63</b> (438.26)	<b>1149.83</b> (1016.87)
Unallocated Income				<b>797.50</b> (1207.81)
Inter segment revenue			- (0.28)	- (0.28)
<b>Total Revenue</b>	<b>128100.14</b> (123944.53)	<b>8951.34</b> (10895.15)	<b>12987.55</b> (27833.06)	<b>150836.53</b> (163880.55)
Elimination of inter segment sales			- (0.28)	- (0.28)
<b>Total Net Revenue</b>	<b>128100.14</b> (123944.53)	<b>8951.34</b> (10895.15)	<b>12987.55</b> (27832.78)	<b>150836.53</b> (163880.27)
<b>Segment Results</b>	<b>5507.74</b> (3957.88)	<b>(373.92)</b> (1895.59)	<b>669.90</b> (46.59)	<b>5803.72</b> (5900.06)
Unallocated expenses net of Unallocated income				<b>1850.19</b> (7332.55)
<b>Profit / (Loss) before interest etc., and taxation</b>				<b>3953.53</b> (-1432.49)
Interest expenses (net) not allocable to segments				<b>4894.91</b> (36136.48)
<b>(Loss) before taxation</b>				<b>(941.38)</b> (-37568.97)
Income taxes				- (-)
<b>(Loss) after taxation</b>				<b>(941.38)</b> (-37568.97)
<b>Other information</b>				
Segment Assets	<b>127143.96</b> (131863.79)	<b>18097.97</b> (19360.36)	<b>10896.23</b> (11940.40)	<b>156138.16</b> (163164.55)
Unallocated Corporate Assets				<b>135211.99</b> (125811.45)
<b>Total Assets</b>				<b>291350.15</b> (288976.00)

## 20. Segment Reporting (Continued)

(Rupees in lacs)

Particulars	Agro Inputs	Bulk drugs and Formulations	Others	Total
Segment Liabilities	<b>48812.05</b> (49097.76)	<b>697.27</b> (815.65)	<b>3654.82</b> (3443.31)	<b>53164.14</b> (53356.72)
Unallocated Corporate Liabilities				<b>236073.38</b> (234525.77)
<b>Total Liabilities</b>				<b>289237.52</b> (287882.49)
Capital expenditure	<b>1188.30</b> (435.39)	<b>488.18</b> (592.14)	<b>20.45</b> (9.32)	- -
Depreciation	<b>2447.75</b> (2512.91)	<b>1280.00</b> (1229.44)	<b>238.29</b> (346.05)	- -
Non-cash expenditure other than depreciation	<b>339.37</b> (145.08)	<b>5.27</b> (-47.37)	<b>16.77</b> (1049.32)	- -

**Secondary segment information (Geographical Segments)**

	Segment Revenue	Carrying amount of segment assets	Capital Expenditure
Within India	<b>143127.87</b> (142592.13)	<b>153958.80</b> (285605.62)	<b>1696.93</b> (1032.13)
Outside India	<b>6911.16</b> (20080.61)	<b>2179.36</b> (3370.38)	- (4.72)
<b>Total</b>	<b>150039.03</b> (162672.74)	<b>156138.16</b> (163164.55)	<b>1696.93</b> (1036.85)

**NOTES:****(a) Business segments**

The business segment has been considered as the primary segment for disclosure. The products included in each of the business segments are as follows:

- (i) Agro inputs - includes fertilisers.
- (ii) Bulk drugs and formulations - includes Penicillin - G and formulations.
- (iii) Others - includes maintenance contracts, tissue culture and floriculture.

Revenues and expenses, which relate to the enterprise as a whole and are not allocable to segments on a reasonable basis, have been included under "Unallocated expenditure net of unallocated income".

Unallocated corporate assets and unallocated corporate liabilities include the assets and liabilities which are not directly attributable to segments.

**(b) Geographical segments**

The geographical segments considered for disclosure are as follows:

- Sales within India includes sales to customers located within India
- Sales outside India includes sales to customers located outside India.

21. Related party disclosure under Accounting Standard - 18

i) The list of related parties as identified by the management are as under:

Subsidiaries	<ol style="list-style-type: none"> <li>1) SPIC Holdings and Investments Limited</li> <li>2) Orchard Microsystems Limited</li> <li>3) Mitocon Biotec Limited</li> <li>4) SPIC Biotechnologies Limited</li> <li>5) Ind-Ital Chemicals Limited</li> <li>6) Gulf SPIC Bahrain EC</li> <li>7) Proactive Decisions Limited</li> <li>8) SPIC Petrochemicals Limited</li> </ol>
Associates	<ol style="list-style-type: none"> <li>1) Tuticorin Alkali Chemicals &amp; Fertilisers Limited</li> <li>2) SPEL Semiconductor Limited</li> <li>3) Manali Petrochemical Limited</li> </ol>
Joint ventures	<ol style="list-style-type: none"> <li>1) Indo-Jordan Chemicals Co. Limited (Subsidiary company)</li> <li>2) Tamilnadu Petroproducts Limited</li> <li>3) Technip India Limited</li> <li>4) SPIC JEL Engineering Construction Limited</li> <li>5) Gulf SPIC General Trading &amp; Contracting Co., WLL, Kuwait</li> <li>6) SPIC Fertilisers and Chemicals Limited, Mauritius (Subsidiary company)</li> <li>7) SPIC Fertilisers and Chemicals FZE, Dubai (Subsidiary company)</li> </ol>
Key management personnel of the company	<ol style="list-style-type: none"> <li>1) Dr. A. C. Muthiah</li> <li>2) Thiru Ashwin C. Muthiah</li> <li>3) Thiru Babu K. Verghese</li> <li>4) Thiru M.G. Thirunavukkarasu</li> </ol>
Relatives of key management personnel of the company (with whom there were transactions during the year 2003-04)	<ol style="list-style-type: none"> <li>1) Thirumathi Devaki Muthiah</li> <li>2) Thirumathi Gomathy Thirunavukkarasu</li> </ol>
Enterprise owned by / over which Key Management Personnel is able to exercise significant influence	<ol style="list-style-type: none"> <li>1) Sri Karpaka Vinayagar Agencies</li> <li>2) Prestige Agencies</li> <li>3) Crescent Agencies</li> <li>4) South India Investment Associates</li> <li>5) SPIC Aromatics and Chemical Corporation Limited</li> <li>6) Matsu Enterprises (P) Limited</li> <li>7) Kandanchira Investments (P) Limited</li> </ol>

ii) The following transactions were carried out with the related parties:

(Rupees in lacs)

Sl. No.	Particulars	Subsidiaries	Associates	Joint Ventures	Key Management Personnel (KMP)	Relatives of KMP	Enterprise owned by / over which KMP is able to exercise significant influence
<b>A</b>	<b>Balance outstanding as at 31.03.2004</b>						
	(a) Receivable	<b>315.42</b> (232.41)	<b>9530.06</b> (9045.38)	<b>2996.14</b> (3273.36)			- (22107.17)
	(b) Payable	<b>363.43</b> (373.73)	<b>2.44</b> (-)	<b>425.13</b> (596.89)			
	(c) Advance against Equity		<b>1000.00</b> (1000.00)	<b>8260.14</b> (8259.87)			- (15079.12)
	(d) Inter Corporate Deposits/ Loans given		<b>4900.80</b> (4900.80)				- (9756.99)
	(e) Progress payments received	<b>261.12</b> (261.12)		<b>6.85</b> (6.85)			
<b>B</b>	<b>Transactions during the year:</b>						
1	Investments	<b>55409.63</b> (4.99)		- (171.46)			
2	Inter corporate deposits						- (1704.25)
3	Advances given for running expenses	<b>46.62</b> (11.20)					
4	Sale of goods	<b>0.03</b> (0.07)	- (4.72)	<b>11.37</b> (24.25)			
5	Raw materials sold at cost		<b>799.34</b> (-)				
6	Income from services rendered	- (98.33)	<b>513.39</b> (513.55)	<b>635.85</b> (842.39)			- (0.33)
7	Reimbursement of expenses (Receipts)	<b>13.82</b> (-)	<b>0.75</b> (-)	<b>34.65</b> (-)			
8	Sale of fixed assets			<b>0.03</b> (0.59)			
9	Interest accrued on Loans / ICDs	<b>10573.30</b> (-)	- (19.85)				
10	Income from Rentals		<b>0.53</b> (-)	<b>186.57</b> (0.61)			
11	Service / Consultancy charges	<b>1.50</b> (-)	<b>3.91</b> (4.20)	<b>19.84</b> (1.73)			
12	Sub-contractor payments			- (402.76)			
13	Managerial remuneration				<b>103.52</b> (176.68)		
14	Rent Paid		<b>1.13</b> (1.13)		<b>6.36</b> (9.84)	<b>6.00</b> (-)	
15	Sitting Fees				<b>0.35</b> (0.30)		
16	Dividend Received	<b>8.88</b> (8.88)		<b>204.88</b> (445.11)			
17	Purchase of goods		<b>63.57</b> (76.41)	<b>44.95</b> (1628.84)			

	Year ended 31 March 2004	Year ended 31 March 2003
22. <b>Earnings per share :</b>		
Profit/(Loss) for the year after preference dividend (Rs. in lacs)	(1112.01)	(37797.48)
Number of shares used in computing earnings per share	88047700	88047700
Earnings/(Loss) per share – basic and diluted (in Rupees)	(1.26)	(42.93)
Face value per share(in Rupees)	10	10

23. **Joint Venture Disclosures:**

1) Jointly controlled entities:

Sl. No.	Name	Country of Incorporation	Percentage of ownership interest
1)	Indo-Jordan Chemicals Company Limited	Jordan	52.17
2)	Tamilnadu Petroproducts Limited	India	16.93
3)	Technip India Limited	India	50.00
4)	SPIC JEL Engineering Construction Limited	India	47.57
5)	Gulf SPIC General Trading & Contracting Company WLL.	Kuwait	49.00
6)	SPIC Fertilisers and Chemicals Limited	Mauritius	83.54
7)	SPIC Fertilisers and Chemicals FZE.	Dubai	83.54

2) Interest in the assets, liabilities, income and expenses with respect to Jointly controlled entities: (Rs. in lacs)

(A) Assets:	<u>2003-2004</u>	<u>2002-2003</u>
1) Fixed assets ( Net block)	<b>31817.55</b>	33982.65
Capital work in progress / advances	<b>43614.32</b>	41510.84
Pre-operating expenses pending allocation	<b>648.35</b>	-
Investments	<b>940.03</b>	1042.34
2) Current Assets, Loans and advances		
Inventories	<b>3846.75</b>	4067.23
Sundry debtors	<b>6816.65</b>	6528.49
Cash and bank balances	<b>5883.53</b>	5412.72
Loans and advances	<b>3024.35</b>	3327.87
Miscellaneous expenditure (to the extent not written off / adjusted)	<b>360.86</b>	-
(B) Liabilities:		
i) Loan Funds:		
Secured Loans	<b>15032.05</b>	16129.22
Unsecured Loans	<b>3154.89</b>	4961.10
ii) Current Liabilities and Provisions:		
Liabilities	<b>34042.84</b>	33628.57
Provisions	<b>49.96</b>	16.62
Deferred tax liability (net)	<b>1733.92</b>	1820.85
(C) Income:		
i) Sales and Services (Gross)	<b>35528.50</b>	33503.81
ii) Other Income	<b>158.73</b>	117.17
(D) Expenditure:		
i) Purchase of finished goods	<b>105.79</b>	407.93
ii) Manufacturing and other expenses	<b>27422.48</b>	25547.62
iii) Interest and finance charges (net of interest income of Rs. 119.50 lacs)	<b>1538.35</b>	1900.60
iv) Depreciation	<b>2568.34</b>	2890.88
v) Provision for taxation – Current Tax	<b>361.47</b>	173.77
Deferred Tax	<b>22.83</b>	110.08
(E) Others:		
i) Bills and cheques discounted	<b>113.16</b>	138.97
ii) Claims against company not acknowledged as debt	<b>601.20</b>	99.26
iii) Capital Commitments	<b>20630.40</b>	22732.91
iv) Guarantees	<b>976.56</b>	1062.46
v) Disputed Tax	<b>17.31</b>	-

24. (a) Previous year's figures have been regrouped/recast, wherever necessary, to conform to the classification of the current year.  
 (b) Previous Year's figures are given in brackets.

25. BALANCE SHEET ABSTRACT AND COMPANY'S GENERAL BUSINESS PROFILE

I. Registration Details	Registration No.	<input type="text" value=""/> <input type="text" value=""/> <input type="text" value=""/> <input type="text" value=""/> <input type="text" value="0"/> <input type="text" value="5"/> <input type="text" value="7"/> <input type="text" value="7"/> <input type="text" value="8"/>	State Code	<input type="text" value="1"/> <input type="text" value="8"/>	
	Balance Sheet Date	<input type="text" value="3"/> <input type="text" value="1"/> <input type="text" value="0"/> <input type="text" value="3"/> <input type="text" value="2"/> <input type="text" value="0"/> <input type="text" value="0"/> <input type="text" value="4"/>			
II. Capital Raised during the year (Amount in Rs.Thousands)	Public Issue	<input type="text" value=""/> <input type="text" value=""/> <input type="text" value=""/> <input type="text" value=""/> <input type="text" value=""/> <input type="text" value="N"/> <input type="text" value="I"/> <input type="text" value="L"/>			
	Rights Issue	<input type="text" value=""/> <input type="text" value=""/> <input type="text" value=""/> <input type="text" value=""/> <input type="text" value=""/> <input type="text" value="N"/> <input type="text" value="I"/> <input type="text" value="L"/>			
	Bonus Issue	<input type="text" value=""/> <input type="text" value=""/> <input type="text" value=""/> <input type="text" value=""/> <input type="text" value=""/> <input type="text" value="N"/> <input type="text" value="I"/> <input type="text" value="L"/>			
	Private placement	<input type="text" value=""/> <input type="text" value=""/> <input type="text" value=""/> <input type="text" value=""/> <input type="text" value=""/> <input type="text" value="N"/> <input type="text" value="I"/> <input type="text" value="L"/>			
III. Position of Mobilisation and deployment of funds. (Amount in Rs.Thousands) Sources of Funds	Total Liabilities	<input type="text" value=""/> <input type="text" value="4"/> <input type="text" value="0"/> <input type="text" value="7"/> <input type="text" value="0"/> <input type="text" value="0"/> <input type="text" value="2"/> <input type="text" value="5"/> <input type="text" value="1"/>			
	Total Assets	<input type="text" value=""/> <input type="text" value="4"/> <input type="text" value="0"/> <input type="text" value="7"/> <input type="text" value="0"/> <input type="text" value="0"/> <input type="text" value="2"/> <input type="text" value="5"/> <input type="text" value="1"/>			
	Paid-Up-Capital	<input type="text" value=""/> <input type="text" value=""/> <input type="text" value="1"/> <input type="text" value="2"/> <input type="text" value="0"/> <input type="text" value="1"/> <input type="text" value="5"/> <input type="text" value="2"/> <input type="text" value="6"/>			
	Reserves & Surplus	<input type="text" value=""/> <input type="text" value="1"/> <input type="text" value="0"/> <input type="text" value="5"/> <input type="text" value="7"/> <input type="text" value="4"/> <input type="text" value="9"/> <input type="text" value="7"/> <input type="text" value="3"/>			
	Secured Loans	<input type="text" value=""/> <input type="text" value=""/> <input type="text" value="1"/> <input type="text" value="6"/> <input type="text" value="8"/> <input type="text" value="5"/> <input type="text" value="8"/> <input type="text" value="1"/> <input type="text" value="4"/> <input type="text" value="3"/>			
	Unsecured Loans	<input type="text" value=""/> <input type="text" value=""/> <input type="text" value="6"/> <input type="text" value="2"/> <input type="text" value="5"/> <input type="text" value="0"/> <input type="text" value="0"/> <input type="text" value="2"/> <input type="text" value="9"/>			
	Application of Funds	Net Fixed Assets	<input type="text" value=""/> <input type="text" value="1"/> <input type="text" value="3"/> <input type="text" value="6"/> <input type="text" value="2"/> <input type="text" value="1"/> <input type="text" value="6"/> <input type="text" value="1"/> <input type="text" value="1"/>		
		Investments	<input type="text" value=""/> <input type="text" value=""/> <input type="text" value="9"/> <input type="text" value="4"/> <input type="text" value="9"/> <input type="text" value="1"/> <input type="text" value="0"/> <input type="text" value="5"/> <input type="text" value="5"/>		
		Net Current Assets	<input type="text" value=""/> <input type="text" value=""/> <input type="text" value="8"/> <input type="text" value="3"/> <input type="text" value="6"/> <input type="text" value="7"/> <input type="text" value="7"/> <input type="text" value="0"/> <input type="text" value="0"/>		
		Miscellaneous Expenditure	<input type="text" value=""/> <input type="text" value=""/> <input type="text" value=""/> <input type="text" value=""/> <input type="text" value="5"/> <input type="text" value="1"/> <input type="text" value="8"/> <input type="text" value="0"/> <input type="text" value="6"/>		
	Accumulated Losses	<input type="text" value=""/> <input type="text" value=""/> <input type="text" value="3"/> <input type="text" value="3"/> <input type="text" value="5"/> <input type="text" value="2"/> <input type="text" value="4"/> <input type="text" value="9"/> <input type="text" value="9"/>			
IV. Performance of Company (Amount in Rs.Thousands)	Turnover	<input type="text" value=""/> <input type="text" value="1"/> <input type="text" value="5"/> <input type="text" value="0"/> <input type="text" value="8"/> <input type="text" value="3"/> <input type="text" value="6"/> <input type="text" value="5"/> <input type="text" value="3"/>			
	Total Expenditure	<input type="text" value=""/> <input type="text" value="1"/> <input type="text" value="5"/> <input type="text" value="1"/> <input type="text" value="7"/> <input type="text" value="7"/> <input type="text" value="7"/> <input type="text" value="9"/> <input type="text" value="1"/>	+	-	
	Profit/(Loss) Before Tax	<input type="text" value=""/> <input type="text" value=""/> <input type="text" value=""/> <input type="text" value=""/> <input type="text" value="9"/> <input type="text" value="4"/> <input type="text" value="1"/> <input type="text" value="3"/> <input type="text" value="8"/>	<input type="text" value=""/>	<input checked="" type="checkbox"/>	
	Profit/(Loss) After Tax	<input type="text" value=""/> <input type="text" value=""/> <input type="text" value=""/> <input type="text" value=""/> <input type="text" value="9"/> <input type="text" value="4"/> <input type="text" value="1"/> <input type="text" value="3"/> <input type="text" value="8"/>	<input type="text" value=""/>	<input checked="" type="checkbox"/>	
	Earnings per share in Rupees	<input type="text" value=""/> <input type="text" value=""/> <input type="text" value=""/> <input type="text" value=""/> <input type="text" value="1"/> <input type="text" value="."/> <input type="text" value="2"/> <input type="text" value="6"/>	<input type="text" value=""/>	<input checked="" type="checkbox"/>	
	Dividend Rate %	<input type="text" value=""/> <input type="text" value=""/> <input type="text" value=""/> <input type="text" value=""/> <input type="text" value=""/> <input type="text" value="N"/> <input type="text" value="I"/> <input type="text" value="L"/>			
V. Generic Names of Three Principal Products/Services (As per monetary terms)	Item Code No.	<input type="text" value=""/> <input type="text" value=""/> <input type="text" value="3"/> <input type="text" value="1"/> <input type="text" value="0"/> <input type="text" value="2"/> <input type="text" value="1"/> <input type="text" value="0"/>			
	Product Description	<input type="text" value=""/> <input type="text" value=""/> <input type="text" value=""/> <input type="text" value=""/> <input type="text" value=""/> <input type="text" value="U"/> <input type="text" value="R"/> <input type="text" value="E"/> <input type="text" value="A"/>			
	Item Code No.	<input type="text" value=""/> <input type="text" value=""/> <input type="text" value="3"/> <input type="text" value="1"/> <input type="text" value="0"/> <input type="text" value="5"/> <input type="text" value="3"/> <input type="text" value="0"/>			
	Product Description	<input type="text" value="D"/> <input type="text" value="I"/> <input type="text" value="-"/> <input type="text" value="A"/> <input type="text" value="M"/> <input type="text" value="M"/> <input type="text" value="O"/> <input type="text" value="N"/> <input type="text" value="I"/> <input type="text" value="U"/> <input type="text" value="M"/>			
		<input type="text" value="P"/> <input type="text" value="H"/> <input type="text" value="O"/> <input type="text" value="S"/> <input type="text" value="P"/> <input type="text" value="H"/> <input type="text" value="A"/> <input type="text" value="T"/> <input type="text" value="E"/>			
	Item Code No.	<input type="text" value=""/> <input type="text" value=""/> <input type="text" value="2"/> <input type="text" value="9"/> <input type="text" value="4"/> <input type="text" value="1"/> <input type="text" value="1"/> <input type="text" value="0"/>			
Product Description	<input type="text" value="P"/> <input type="text" value="E"/> <input type="text" value="N"/> <input type="text" value="I"/> <input type="text" value="C"/> <input type="text" value="I"/> <input type="text" value="L"/> <input type="text" value="L"/> <input type="text" value="I"/> <input type="text" value="N"/> <input type="text" value="-"/> <input type="text" value="G"/>				

Dr A C MUTHIAH  
Chairman

BABU K VERGHESE  
Managing Director  
M G THIRUNAVUKKARASU  
Finance Director  
N RAMAKRISHNAN  
Secretary

Place : Chennai  
Date : 31 July 2004

**CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 2004**

	Year ended 31 March 2004	(Rupees in lacs) Year ended 31 March 2003
<b>A. CASH FLOW FROM OPERATING ACTIVITIES:</b>		
<b>(Loss) for the year</b>	<b>(941.38)</b>	<b>(37568.97)</b>
Adjustment for :		
Depreciation	4124.58	4334.14
Loss on sale of assets	162.75	262.42
(Increase)/Decrease in Miscellaneous expenditure	412.15	1120.95
Provision for doubtful debts and advances	1690.09	10.06
Exchange difference	(4507.76)	387.47
Interest and financial charges	15666.03	17942.64
Interest and exchange fluctuation on FRN	-	11627.84
Income from investments	(218.70)	(456.09)
Interest income	<u>(10771.12)</u>	<u>(139.96)</u>
	<b>6558.02</b>	<b>35089.47</b>
Operating profit before working capital changes	<b>5616.64</b>	<b>(2479.50)</b>
Adjustments for :		
(Increase)/Decrease in sundry debtors	3100.53	1933.74
(Increase)/Decrease in inventories	(2057.51)	10018.00
(Increase)/Decrease in loans and advances	1376.33	3484.18
Increase/(Decrease) in current liabilities and provisions	<u>972.93</u>	<u>(2813.50)</u>
	<b>3392.28</b>	<b>12622.42</b>
Cash generated from operations	<b>9008.92</b>	<b>10142.92</b>
Direct taxes	<b>(272.82)</b>	<b>(265.91)</b>
Payments under Voluntary retirement scheme	<b>(183.69)</b>	<b>-</b>
<b>NET CASH FROM OPERATING ACTIVITIES</b>	<b><u>8552.41</u></b>	<b><u>9877.01</u></b>
<b>B. CASH FLOW FROM INVESTING ACTIVITIES :</b>		
Deletions/(Additions) to fixed assets, including capital work-in-progress/ advances	<b>(1757.66)</b>	454.93
Proceeds from sale of fixed assets	113.10	812.20
Payments on account of investments and advances to be adjusted against equity	-	(212.40)
Loans / advances to other companies	-	(1504.25)
Income from investments	218.70	456.09
Proceeds from sale of investments	70.49	30.08
Interest income	<u>197.81</u>	<u>139.96</u>
	<b>(1157.56)</b>	<b>176.61</b>
<b>NET CASH FROM INVESTING ACTIVITIES</b>	<b><u>(1157.56)</u></b>	<b><u>176.61</u></b>

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**CASH FLOW STATEMENT (Contd.)**

	Year ended 31 March 2004	(Rupees in lacs) Year ended 31 March 2003
<b>C. CASH FLOW FROM FINANCING ACTIVITIES :</b>		
Repayment of borrowings	(1631.64)	(6641.71)
Proceeds from borrowings	6185.76	11003.57
Share capital advance	1960.49	-
Dividend paid	(20.96)	-
Interest and financial charges paid	<u>(13484.93)</u>	<u>(14001.54)</u>
	<u>(6991.28)</u>	<u>(9639.68)</u>
<b>NET CASH USED IN FINANCING ACTIVITIES</b>	<b>(6991.28)</b>	<b>(9639.68)</b>
<b>NET CASH FLOWS DURING THE YEAR (A+B+C)</b>	<b>403.57</b>	<b>413.94</b>
<b>Cash and cash equivalents (opening balance)</b>	<b>2459.30</b>	<b>2045.36</b>
<b>Cash and cash equivalents (closing balance)</b>	<b>2862.87</b>	<b>2459.30</b>

**Disclosure of non cash transactions**

Investments made during the year consist of

Advances made and interest accrued in earlier years	44836.32
Interest accrued during the year	10573.31
Total investments made	55409.63
Exchange gain on restatement of liability credited to fixed assets	1760.35

For and on behalf of the Board

**BABU K VERGHESE**  
*Managing Director*Place : Chennai  
Date : 31 July 2004**M G THIRUNAVUKKARASU**  
*Finance Director*

Per our report attached

**For FRASER & ROSS**  
*Chartered Accountants*Place : Chennai  
Date : 31 July 2004**M K ANANTHANARAYANAN**  
*Partner*

**STATEMENT REGARDING SUBSIDIARY COMPANIES PURSUANT TO SECTION 212 OF THE COMPANIES ACT, 1956**

a. Name of Subsidiary Company	SPIC Petrochemicals Limited	Indo - Jordan Chemicals Company Limited	SPIC Fertilizers and Chemicals Limited (SFCL) Mauritius	SPIC Fertilizers and Chemicals FZE (Subsidiary of SFCL, Mauritius)	Ind-Ital Chemicals Limited	SPIC Holdings and Investments Limited	Gulf SPIC Bahrain EC	SPIC Biotechnologies Limited
b. Financial year of the Subsidiary Company ended on	31 March 2004	31 December 2003	31 March 2004	31 March 2004	31 March 2004	31 March 2004	31 December 2003	31 March 2004
c. Holding Company's interest:								
(i) No. of Equity Shares	253750009	23163000	32640000	1	126873	30000000	29700	50000
Face Value	Rs. 10	One Jordanian Dinar	One USD	One Million Arab Emirate Dinar	Rs. 100	Rs. 10	One Bahraini Dinar	Rs. 10
Paid up Value	Rs. 2537500090	JD 23163000	USD 32640000	AED 1000000	Rs. 12687300	Rs. 300000000	BD 29700	Rs. 500000
(ii) Extent of Holding	100 per cent #	52.17 per cent	83.54 per cent	83.54 per cent	100 per cent @	100 per cent	99 per cent	100 per cent
d. Net aggregate amount of Subsidiary's profits/(losses) not dealt with in the Holding Company's accounts:								
(i) for subsidiary's financial year	NIL.	JD 1509618	(USD 7143)	NIL.	(Rs. 503534)	(Rs. 4720343)	(BD 1923)	NIL
(ii) for its previous financial years	NIL.	JD 12515671	(USD 23383)	NIL.	(Rs. 3794066)	(Rs. 94768909)	(BD 8494)	NIL
e. Net aggregate amount of subsidiary's profits/(losses) dealt with in the Holding Company's accounts:								
(i) for subsidiary's financial year	NIL.	NIL.	NIL.	NIL.	Rs. 1268730	NIL.	NIL.	NIL.
(ii) for its previous financial year	NIL.	JD 3937880	NIL.	NIL.	Rs. 3425571	NIL.	NIL.	NIL.
f. Changes in the interest of the Holding Company between the end of the subsidiary's financial year ended 31 December 2003 and 31 March 2004								
(i) Holding Company's interest as on 31 March 2004	Not Applicable	—	Not Applicable	Not Applicable	Not Applicable	Not Applicable	—	Not Applicable
Number of Equity Shares								
Face Value								
Paid up value								
(ii) Extent of Shareholding								
g. Material changes between the end of the subsidiary's financial year ended 31 December 2003 and 31 March 2004 in respect of:	Not Applicable	Increase / (Decrease)	Not applicable	Not applicable	Not applicable	Not applicable	—	Not applicable
(i) Subsidiary's Fixed Assets		JD 157016						
(ii) Subsidiary's Investments		Nil.						
(iii) Monies lent by subsidiary		Nil.						
(iv) Monies borrowed by the subsidiary, other than for meeting current liabilities		Nil.						
@	70 per cent of equity share capital is directly held by the Company and the remaining 30 per cent of equity share capital is held through its wholly owned subsidiary company SPIC Holdings and Investments Limited.							
#	97.73 per cent of equity share capital is directly held by the Company and the remaining 2.27 percent of equity share capital is held through its wholly owned subsidiary company SPIC Holdings and Investments Limited.							

**Dr A C MUTHIAH**  
Chairman

**BABU K VERGHESE**  
Managing Director

**M G THIRUNAVUKKARASU**  
Finance Director

**N RAMAKRISHNAN**  
Secretary

Place : Chennai  
Date : 31 July 2004

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NOTES

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CONSOLIDATED FINANCIAL STATEMENTS  
OF  
SOUTHERN PETROCHEMICAL INDUSTRIES  
CORPORATION LIMITED

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## **AUDITORS' REPORT TO THE BOARD OF DIRECTORS OF SOUTHERN PETROCHEMICAL INDUSTRIES CORPORATION LIMITED ON THE CONSOLIDATED FINANCIAL STATEMENTS OF THE COMPANY, ITS SUBSIDIARIES, JOINT VENTURES AND ASSOCIATES**

We have audited the attached Consolidated Balance Sheet of Southern Petrochemical Industries Corporation Limited (the company), its subsidiaries, joint ventures and associates as at 31 March 2004, and also the consolidated Profit and Loss Account and the consolidated cash flow statement for the year ended on that date annexed thereto. These financial statements are the responsibility of Southern Petrochemical Industries Corporation Limited's management and have been prepared by the management on the basis of separate financial statements and other financial information regarding components. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the auditing standards generally accepted in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

We did not audit the financial statements of subsidiaries, joint ventures whose financial reflects total assets of Rs.458887.98 lacs as at 31 March 2004, total revenues of Rs.112416.16 lacs and cash flows amounting to Rs.2787.42 lacs for the year then ended. These financial statements and other financial information have been audited by other auditors whose reports have been furnished to us, and our opinion is based solely on the report of the other auditors.

We report that the consolidated financial statements have been prepared by Southern Petrochemical Industries Corporation Limited's management in accordance with the requirements of Accounting Standard (AS) 21, Consolidated Financial Statements, Accounting Standard (AS) 23, Accounting for Investments in Associates in Consolidated Financial Statements, and Accounting Standard (AS) 27, Financial Reporting of interests in Joint Ventures, issued by the Institute of Chartered Accountants of India.

- i) *Attention is invited to Note C-19, which refers to an interim stay of the operation of Clause 33 of Accounting Standard 22, obtained from the Madras High Court.*
- ii) *Attention is invited to Note No. C- 5 regarding the progress in implementation of the project by the subsidiary Company SPIC Petrochemicals Limited (SPIC Petro). Though there is delay in implementation of the project, the management does not anticipate any significant loss on implementation of the project, in respect of which we are unable to express an opinion. Further as stated in Note C-17 SPIC Petro has accrued interest on its borrowings at agreed / contracted rates. The balance of secured loans and accrued interest thereon have not been confirmed by the lenders. Adjustments, if any, which may arise upon confirmation, is unascertainable at this stage and not provided for.*
- iii) *Attention is invited to Note C-6, which sets out the position regarding investments of Rs.3117.51 lacs, loans of Rs.5035.80 lacs, advance against equity of Rs.1000.00 lacs, Guarantees of Rs.1825.00 lacs, interest and other receivables of Rs.9529.46 lacs due from certain promoted companies for which no provision has been made in the accounts. In view of the poor operating performance of these companies, in our opinion, the possibility of full recovery is remote. The estimate of the loss has not been made by the Company. We are unable to express an opinion on the amount of provision that may be required against the above investments, loans, advance against equity, guarantees, interest and other receivables aggregating to Rs.20507.77 lacs.*
- iv) *As stated in Note C-8 consequent to the change in the policy parameters for the 7th and 8th pricing periods there was a revision in the retention price of urea. The Company has taken a view that some of the policy parameters cannot be amended retrospectively and has reworked the subsidy disregarding these amendments to the policy parameters as well as other disallowances made by the Government in its computation of retention price. As per these reworkings the Company has retained the subsidy of Rs.36954.74 lacs accrued in the books upto 31 March 2002 over and above the subsidy already granted by the Government.*  
*Pending making the claim and the uncertainty involved in its acceptance by the Government, we are unable to express an opinion on the recoverability of the above referred subsidy of Rs.36954.74 lacs.*
- v) *As stated in Note C-9 the Company has preferred claims with the Government towards inventory carrying costs etc., amounting to Rs.3586.97 lacs which are outstanding for a considerable period of time. We are unable to express an opinion on the recoverability of the above amounts.*

- vi) As stated in Note C-11 inter-corporate deposits amounting to Rs.675 lacs given to four companies in 1999 are yet to be recovered with interest and Rs.1156.79 lacs (net of provision) is due from a Company which is in financial difficulties. We are unable to express an opinion on the recoverability of the above amounts.
- vii) Attention is invited to Note C-12, regarding interest relief of Rs.1827.88 lacs (including Rs.943.90 lacs for the year) availed from two lenders who are yet to confirm their consent for the reduction in interest rate. Pending consent from the said lenders we are unable to express an opinion on this matter.
- viii) As stated in Note C-14 regarding Indo-Jordan Chemicals Company Limited, an insurance claim for Rs.1067.47 lacs (proportionate share in joint venture) was referred to an arbitration in 1998 and the arbitration proceedings are in progress. We are unable to express an opinion on the amount of provision that may be required against the above claim.

Based on our audit and on consideration of reports of other auditors on separate financial statements and on the other financial information of the components, and to the best of our information and according to the explanation given to us, *subject to our comments in paragraphs (i) to (viii) above, the effect of which could not be determined*, we are of the opinion that the attached consolidated financial statements give a true and fair view in conformity with the accounting principles generally accepted in India:

- (a) in the case of Consolidated Balance Sheet, of the state of affairs of Southern Petrochemical Industries Corporation Limited, its subsidiaries, Joint Ventures and Associates as at 31 March 2004;
- (b) in the case of Consolidated Profit and Loss Account, of the profit for the year ended on that date; and
- (c) in the case of Consolidated Cash Flow Statement, of the cash flows for the year ended on that date.

**For FRASER & ROSS**  
**M K ANANTHANARAYANAN**  
*Partner*

*Chartered Accountants*  
Membership No: 19521

Place: Chennai  
Date: 31 July 2004.

## CONSOLIDATED BALANCE SHEET AS AT 31 MARCH 2004

	Schedule	As at 31 March 2004	(Rupees in lacs) As at 31 March 2003
<b>SOURCES OF FUNDS</b>			
Shareholders' funds:			
Share capital	1	10054.77	10054.77
Share capital advance	2	3006.07	867.24
Reserves and surplus	3	<u>112751.68</u>	<u>107338.23</u>
		<b>125812.52</b>	118260.24
Minority interests		<b>46.57</b>	53.77
Loan funds:			
Secured	4	339447.23	179628.11
Unsecured	5	<u>66223.72</u>	<u>73889.88</u>
		<b>405670.95</b>	253517.99
Deferred tax liability (Net) (Note C-19)	6	<u>1739.43</u>	<u>1827.35</u>
<b>TOTAL</b>		<b><u>533269.47</u></b>	<b><u>373659.35</u></b>
<b>APPLICATION OF FUNDS</b>			
Fixed assets:	7		
Gross block		309868.83	298822.48
Less: Depreciation		<u>142679.11</u>	<u>129919.69</u>
Net block		<b>167189.72</b>	168902.79
Capital work-in-progress / advances		<u>121607.62</u>	<u>44556.33</u>
		<b>288797.34</b>	213459.12
Pre-operative expenditure pending allocation	8	<b>154021.10</b>	-
Investments	9	<b>5068.67</b>	5333.18
Current assets, loans and advances:			
Inventories	10	19208.78	17372.29
Sundry debtors	11	25770.52	28930.52
Cash and bank balances	12	8920.28	7892.40
Loans and advances	13	<u>109180.72</u>	<u>157604.79</u>
		<b>163080.30</b>	<u>211800.00</u>
Less: Current liabilities and provisions	14		
Liabilities		110516.60	89766.65
Provisions		<u>101.32</u>	<u>25.16</u>
		<b>110617.92</b>	<u>89791.81</u>
Net current assets		<b>52462.38</b>	122008.19
Miscellaneous expenditure (Note C-13) (to the extent not written off or adjusted)	15	<b>1207.64</b>	777.26
Profit and loss account		<b>31712.34</b>	32081.60
<b>TOTAL</b>		<b><u>533269.47</u></b>	<b><u>373659.35</u></b>
Notes on accounts	22		Per our report attached
<b>Dr A C MUTHIAH</b> <i>Chairman</i>	<b>BABU K VERGHESE</b> <i>Managing Director</i>	<b>For FRASER &amp; ROSS</b> <i>Chartered Accountants</i>	
	<b>M G THIRUNAVUKKARASU</b> <i>Finance Director</i>		
Place : Chennai	<b>N RAMAKRISHNAN</b> <i>Secretary</i>	<b>M K ANANTHANARAYANAN</b> <i>Partner</i>	
Date : 31 July 2004			

## CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 MARCH 2004

	Schedule	Year ended 31 March 2004	(Rupees in lacs) Year ended 31 March 2003
<b>INCOME</b>			
Net Sales and services	16	183587.30	194759.02
Other income	17	1900.42	2324.66
<b>TOTAL INCOME</b>		<b>185487.72</b>	<b>197083.68</b>
<b>EXPENDITURE</b>			
Purchase of finished goods	18	931.96	1223.09
Manufacturing and other expenses	19	170162.05	182057.76
Interest and financial charges (net)	20	6436.29	19791.93
Interest and exchange fluctuation on FRN		-	11627.84
Interest on advance against equity to SPIC Petro		-	10573.31
Depreciation for the year	10752.49		9928.68
Less: Credit for amount withdrawn from revaluation reserve [Refer Note C-3(h)]	4017.03		2969.58
		<b>6735.46</b>	<b>6959.10</b>
<b>TOTAL EXPENDITURE</b>		<b>184265.76</b>	<b>232233.03</b>
<b>PROFIT / (LOSS) BEFORE TAXATION</b>		<b>1221.96</b>	<b>(35149.35)</b>
Provision for taxation	21	383.31	300.85
<b>PROFIT / (LOSS) AFTER TAXATION</b>		<b>838.65</b>	<b>(35450.20)</b>
Share of Profit/(Loss) of Associates for the year (Net)		49.46	(468.45)
Profit / (Loss) before minority interests		888.11	(35918.65)
Profit / (Loss) applicable to minority interests		(7.20)	(6.12)
<b>Net Profit / (Loss) for the year</b>		<b>895.31</b>	<b>(35912.53)</b>
Profit / (Loss) brought forward		(32081.60)	-
Transfer from General Reserve		-	1370.70
Accumulated losses of associates on initial adoption		-	(2699.09)
Balance of revenue reserves of joint ventures on initial adoption		-	5159.32
Proportionate share in adjustment to carrying amounts of Intangible assets in a Joint venture		(196.18)	-
<b>APPROPRIATIONS</b>			
Proportionate share of appropriation to Specific Reserves by Joint Ventures		(302.58)	-
Dividend tax on dividends paid by a subsidiary and Joint Ventures		(27.29)	-
Balance (Loss) carried to balance sheet		(31712.34)	(32081.60)
Basic earnings per share of Rs.10 each		0.82	(41.05)
Diluted earnings per share of Rs.10 each		0.67	(41.05)
Notes on accounts	22		

Per our report attached

**Dr A C MUTHIAH**  
Chairman

**BABU K VERGHESE**  
Managing Director

**For FRASER & ROSS**  
Chartered Accountants

**M G THIRUNAVUKKARASU**  
Finance Director

Place : Chennai  
Date : 31 July 2004

**N RAMAKRISHNAN**  
Secretary

**M K ANANTHANARAYANAN**  
Partner

**SCHEDULE 1**

(Rupees in lacs)

	<b>As at 31 March 2004</b>	<b>As at 31 March 2003</b>
<b>SHARE CAPITAL</b>		
<b>Authorised Capital</b>		
19,10,00,000 (19,10,00,000) Equity shares of Rs.10 each	<b>19100.00</b>	19100.00
1,09,00,000 (1,09,00,000) Redeemable cumulative preference shares of Rs.100 each	<b>10900.00</b>	10900.00
	<b><u>30000.00</u></b>	<b><u>30000.00</u></b>
<b>Issued, subscribed and paid up:</b>		
8,80,47,700 (8,80,47,700) Equity shares of Rs.10 each	<b>8804.77</b>	8804.77
3,00,000 (3,00,000) 14.50% Redeemable cumulative non-convertible preference shares of Rs.100 each	<b>300.00</b>	300.00
8,50,000 (8,50,000) 11.50% Redeemable cumulative non-convertible preference shares of Rs.100 each	<b>850.00</b>	850.00
1,00,000 (1,00,000) 10.00% Redeemable cumulative non-convertible preference shares of Rs.100 each	<b>100.00</b>	100.00
	<b><u>10054.77</u></b>	<b><u>10054.77</u></b>

## 1. Equity shares:

1,70,00,000 Equity Shares were allotted as fully paid up bonus shares, by capitalisation of Rs.1700 lacs, from General Reserve.

## 2. Preference shares:

- (a) 14.50 % Redeemable cumulative non-convertible preference shares of Rs.300 lacs issued on private placement basis, redeemable at par after the expiry of 60 months from the date(s) of allotment, have fallen due for redemption during the year 2001-02.
- (b) 11.50 % Redeemable cumulative non-convertible preference shares of Rs.850 lacs issued on private placement basis, redeemable at par after the expiry of 36 months from the date(s) of allotment, have fallen due for redemption during the year 2002-03.
- (c) 10.00 % Redeemable cumulative non-convertible preference shares of Rs.100 lacs issued on private placement basis, redeemable at par after the expiry of 36 months from the date(s) of allotment, have fallen due for redemption during the year.

(Rupees in lacs)

**SCHEDULE 2****SHARE CAPITAL ADVANCE**

	<b>As at 31 March 2004</b>	<b>As at 31 March 2003</b>
Share Capital Advance	<b>1960.57</b>	-
Proportionate share in Joint Ventures	<b>1045.50</b>	867.24
Grand Total	<b><u>3006.07</u></b>	<b><u>867.24</u></b>

**SCHEDULE 3  
RESERVES AND SURPLUS**

	As at 31 March 2003	Adjustments	Additions	Deductions	(Rupees In Lacs) As at 31 March 2004
Securities Premium Account	13322.35	-	-	-	<b>13322.35</b>
Debenture Redemption Reserve	3800.00	-	-	-	<b>3800.00</b>
Revaluation Reserve (Note C-3)	80502.96	<b>(1426.18)</b>	<b>6940.24</b>	<b>3708.15</b>	<b>82308.87</b>
Capital Reserve	-	-	<b>97.24</b>	-	<b>97.24</b>
Capital Redemption Reserve	6500.00	-	-	-	<b>6500.00</b>
Statutory Reserve	41.34	-	-	-	<b>41.34</b>
Proportionate share in Joint Ventures					
- Revaluation Reserve	-	<b>1426.18</b>	-	<b>309.74</b>	<b>1116.44</b>
- Securities Premium Account	894.90	-	-	-	<b>894.90</b>
- Debenture Redemption Reserve	541.84	-	<b>135.46</b>	-	<b>677.30</b>
- Capital Reserve	7.15	-	-	-	<b>7.15</b>
- Statutory Reserve	1079.92	-	<b>117.12</b>	-	<b>1197.04</b>
- Export Project Reserve	129.00	-	<b>50.00</b>	-	<b>179.00</b>
- Foreign Project Reserve	98.55	-	-	-	<b>98.55</b>
- Foreign Currency Translation Reserve	420.22	-	<b>2091.28</b>	-	<b>2511.50</b>
<b>Total Reserves</b>	<b>107338.23</b>	<b>-</b>	<b>9431.34</b>	<b>4017.89</b>	<b>112751.68</b>

**SCHEDULE 4**

	As at 31 March 2004	(Rupees in lacs) As at 31 March 2003
<b>SECURED LOANS</b>		
I. Privately placed non-convertible debentures:		
(i) Series VII	<b>6592.65</b>	6514.03
(ii) Series VIII	<b>90.64</b>	112.87
(iii) Series XIII	<b>12444.75</b>	11555.04
II. Loans		
(a) From Banks		
(i) Term loans	<b>161259.59</b>	73325.15
(ii) Working capital loans and Cash Credit facilities	<b>29977.02</b>	38661.45
(b) From Financial Institutions		
Term loans	<b>113978.78</b>	33215.29
(c) Long term loans & advances from others	<b>71.75</b>	115.06
<b>Total</b>	<b>324415.18</b>	163498.89
Proportionate share in Joint Ventures	<b>15032.05</b>	16129.22
<b>Grand Total</b>	<b>339447.23</b>	179628.11

**Notes:**

1. With the implementation of the Corporate Debt Restructuring scheme by the Parent Company, the loans and debentures have been realigned and the secured loans as above except those described under paragraph 3 below, are secured / to be secured by a *pari passu* charge, by way of joint equitable mortgage, on immovable and movable properties of the Company, both present and future, hypothecation of inventories and all present and future book debts of the Company including Government subsidies, pledge of Company's investments in equity of other companies identified for divestment, Personal Guarantee of two Director(s) and by pledge of shareholding of the private promoters in the Company. Documentation to give effect to the aforesaid re-alignment is to be executed.
2. (i) Series VII privately placed non-convertible debentures (Face value Rs. 4500 lacs) in item I (i) are redeemable, at par, as follows:

Year	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
Rs. in lacs	225	225	225	225	225	450	1125	900	900

- (ii) Series XIII privately placed non-convertible debentures (Face value Rs.10000 lacs) in item I (iii) are redeemable at par, as follows:

Year	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
Rs. in lacs	875	1375	1750	1875	2250	1875

3. Term loans aggregating Rs.773.68 lacs (Previous year Rs.3238.30 lacs) included under item II (a) (i), availed from foreign banks are secured by guarantee issued by a Nationalised Bank.
4. Loans from Financial Institutions and Banks includes Rs.155833.73 lacs are secured / to be secured by *pari passu* first charge of all the immovable and movable properties of SPIC Petrochemicals Ltd., both present and future (subject to prior charges to be created on specified movables in favour of the bankers for meeting the working capital requirements). This include Foreign currency term loans from a Financial Institution that is guaranteed by two Indian Financial Institutions, which guarantee is secured by charges specified above.
5. Proportionate share in Secured loans of Joint Ventures are secured by movable and immovable properties and current assets of the respective Joint Venture companies.

**SCHEDULE 5**

(Rupees in lacs)

	<b>As at 31 March 2004</b>	As at 31 March 2003
<b>UNSECURED LOANS</b>		
(a) Floating Rate Notes	<b>52068.00</b>	56988.00
(b) Fixed deposits	<b>1540.42</b>	2756.87
(c) From Financial Institution		
- Term loans	<b>3121.91</b>	2801.55
- Others	<b>5770.00</b>	5770.00
(d) From other than banks	<b>568.50</b>	610.95
(e) Long-term loans and advances from others	<b>--</b>	1.41
Total	<b>63068.83</b>	68928.78
Proportionate share in Joint Ventures	<b>3154.89</b>	4961.10
Grand Total	<b>66223.72</b>	73889.88

## SCHEDULE 6

(Rupees in lacs)

	As at 31 March 2004	As at 31 March 2003
<b>DEFERRED TAX LIABILITY (NET)</b>		
Deferred Tax Liability		
Depreciation	6.75	7.74
Deferred Tax Assets		
Disallowances u/s 43B	<u>(1.24)</u>	<u>(1.24)</u>
Net Deferred Tax Liability	<u>5.51</u>	<u>6.50</u>
(in respect of subsidiaries)		
Proportionate share in Joint Ventures	<u>1733.92</u>	<u>1820.85</u>
Total	<u>1739.43</u>	<u>1827.35</u>

## SCHEDULE 7

### FIXED ASSETS

Description	COST OR VALUATION				DEPRECIATION					NET BOOK VALUE		
	As at 31 March 2003	Revaluation uplift	**Additions/ Adjustments	Deductions/ Adjustments	As at 31 March 2004	As at 31 March 2003	Revaluation uplift	For the Year	**Deductions/ Adjustments	As at 31 March 2004	As at 31 March 2004	As at 31 March 2003
Freehold land and development	7882.17	361.81	94.16	64.23	8273.91	-	-	-	-	-	8273.91	7882.17
Leasehold land	129.93	19.43	-	1.42	147.94	-	-	-	-	-	147.94	129.93
Buildings and Sanitary fittings	33650.98	428.72	728.78	204.04	34604.44	10843.56	89.08	600.35	(100.44)	11633.43	22971.01	22807.42
Plant and machinery	188071.62	8253.89	2228.37	1444.75	197109.13	91469.30	2058.44	6575.01	(111.53)	100214.28	96894.85	96602.32
Electrical fittings and water supply installations	6918.79	18.27	10.42	42.13	6905.35	3578.15	-	246.89	0.53	3824.51	3080.84	3340.64
Furniture, fixtures, office and other equipment	5142.90	-	365.59	73.08	5435.41	2632.44	-	330.96	(140.16)	3103.56	2331.85	2510.46
Roads	1093.18	17.97	-	-	1111.15	241.12	12.32	25.85	-	279.29	831.86	852.06
Railway sidings	526.93	-	-	34.63	492.30	127.49	-	17.40	-	144.89	347.41	399.44
Vehicles	963.41	-	97.75	48.37	1012.79	567.71	-	89.83	7.80	649.74	363.05	395.70
Technical Know-how	-	-	161.81	-	161.81	-	-	32.36	-	32.36	129.45	-
<b>TOTAL</b>	<b>244379.91</b>	<b>9100.09</b>	<b>3686.88</b>	<b>1912.65</b>	<b>255254.23</b>	<b>109459.77</b>	<b>2159.84</b>	<b>7918.65</b>	<b>(343.80)</b>	<b>119882.06</b>	<b>135372.17</b>	<b>134920.14</b>
Capital work-in-progress / advances											77993.30	3045.49
<b>Total (a)</b>	<b>244379.91</b>	<b>9100.09</b>	<b>3686.88</b>	<b>1912.65</b>	<b>255254.23</b>	<b>109459.77</b>	<b>2159.84</b>	<b>7918.65</b>	<b>(343.80)</b>	<b>119882.06</b>	<b>213365.47</b>	<b>137965.63</b>
Proportionate share in Joint Ventures												
Fixed Assets	54442.57	-	1041.43	869.40	54614.60	20459.92	-	2880.96	543.83	22797.05	31817.55	33982.65
Capital work-in-progress / advances											43614.32	41510.84
<b>Total (b)</b>	<b>54442.57</b>	<b>-</b>	<b>1041.43</b>	<b>869.40</b>	<b>54614.60</b>	<b>20459.92</b>	<b>-</b>	<b>2880.96</b>	<b>543.83</b>	<b>22797.05</b>	<b>75431.87</b>	<b>75493.49</b>
<b>Grand Total (a+b)</b>	<b>298822.48</b>	<b>9100.09</b>	<b>4728.31</b>	<b>2782.05</b>	<b>309868.83</b>	<b>129919.69</b>	<b>2159.84</b>	<b>10799.61*</b>	<b>200.03</b>	<b>142679.11</b>	<b>288797.34</b>	<b>213459.12</b>
Previous year	291505.11	22057.46	56052.32	70792.41	298822.48	134393.85	(13029.15)	9928.68	1373.69	129919.69		

\* Depreciation for the year includes Rs.44.24 lacs debited to Pre-operative expenditure pending allocation in respect of a subsidiary and Rs.2.88 lacs debited to Contracts Work in progress in respect of a Joint Venture.

\*\* Additions / Adjustments in Gross Block and Deduction / Adjustments in Depreciation include Assets and their accumulated depreciation of SPIC Petrochemicals Limited which became a subsidiary during the year.

**SCHEDULE 8**

(Rupees in lacs)

	As at 31 March 2004	As at 31 March 2003
<b>PRE-OPERATIVE EXPENDITURE PENDING ALLOCATION</b>		
Pre-operative expenditure pending allocation	153372.75	-
Proportionate share in Joint Ventures	648.35	-
Grand Total	<u>154021.10</u>	<u>-</u>

**SCHEDULE 9****INVESTMENTS - Long Term**a) Trade(i) Quoted

Equity shares - Associates	3117.51	3068.04
Equity shares - Others	82.05	82.05

(ii) Unquoted

Equity shares - Others	484.35	484.35
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b) Non Trade(i) Quoted

Equity shares - Others	166.08	302.26
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(ii) Unquoted

Equity shares - Associates	-	0.50
Equity shares - Others	258.25	257.75
Units	4.36	4.36
Others	16.04	91.53

Total	<u>4128.64</u>	<u>4290.84</u>
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Proportionate share in Joint Ventures	<u>940.03</u>	<u>1042.34</u>
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Grand Total	<u>5068.67</u>	<u>5333.18</u>
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**SCHEDULE 10****INVENTORIES**

Stores and spares	6135.55	5499.17
Raw material	5392.36	2848.40
Work-in-process	951.09	930.10
Contracts-in-progress	1043.88	1413.54
Less : Progress payments received	<u>267.97</u>	<u>538.39</u>
	775.91	875.15
Finished goods	<u>2107.12</u>	<u>3152.24</u>
Total	<u>15362.03</u>	<u>13305.06</u>
Proportionate share in Joint Ventures	<u>3846.75</u>	<u>4067.23</u>
Grand Total	<u>19208.78</u>	<u>17372.29</u>

## SCHEDULE 11

(Rupees in lacs)

<b>SUNDRY DEBTORS</b>	<b>As at 31 March 2004</b>	<b>As at 31 March 2003</b>
<b>Unsecured :</b>		
Debts outstanding for a period exceeding six months:		
Considered good	5971.79	7047.64
Considered doubtful	1069.07	980.93
	<b>7040.86</b>	<b>8028.57</b>
<b>Other debts:</b>		
Considered good	12982.08	15354.39
	<b>20022.94</b>	<b>23382.96</b>
<i>Less : Provision for doubtful debts</i>	<b>1069.07</b>	<b>980.93</b>
Total	<b>18953.87</b>	<b>22402.03</b>
Proportionate share in Joint Ventures	<b>6816.65</b>	<b>6528.49</b>
Grand Total	<b>25770.52</b>	<b>28930.52</b>

## SCHEDULE 12

### CASH AND BANK BALANCES

Cash and cheques on hand	32.46	23.49
With scheduled banks :		
In current accounts	319.51	314.08
In fixed deposits	2582.17	2136.22
In margin deposits	94.24	3.78
With other banks :		
In current accounts	8.37	2.11
Total	<b>3036.75</b>	<b>2479.68</b>
Proportionate share in Joint Ventures	<b>5883.53</b>	<b>5412.72</b>
Grand Total	<b>8920.28</b>	<b>7892.40</b>

**SCHEDULE 13**

(Rupees in lacs)

	<b>As at</b>	<b>As at</b>
	<b>31 March 2004</b>	<b>31 March 2003</b>
<b>LOANS AND ADVANCES</b>		
Advances recoverable in cash or in kind or for value to be received		
Secured-Considered good	<b>387.36 *</b>	197.18 *
Unsecured:		
Considered good	<b>103827.86</b>	152455.17
Considered doubtful	<b>1604.85</b>	1.24
	<b>105432.71</b>	152456.41
Less: Provision for doubtful advances	<b>1604.85</b>	1.24
	<b>103827.86</b>	152455.17
Income-tax payments less provision	<b>1763.32</b>	1474.73
Balance with Customs, Port Trust and Central Excise on current accounts	<b>177.83</b>	149.84
Total	<b>106156.37</b>	154276.92
Proportionate share in Joint Ventures	<b>3024.35</b>	3327.87
Grand Total	<b>109180.72</b>	157604.79

\* Represents employees' loans which is disclosed net of loans of Rs.236.16 lacs (Previous year Rs.622.80 lacs) received from Housing Finance companies. The said loans received are secured by equitable mortgage of employees' properties who have availed loans under the scheme.

**SCHEDULE 14****CURRENT LIABILITIES AND PROVISIONS****CURRENT LIABILITIES :**

Sundry creditors		
- dues to small scale industrial undertakings	<b>334.69</b>	31.48
- others	<b>71761.02</b>	54715.14
Unclaimed dividends	<b>108.04</b>	129.00
Unclaimed deposits	<b>255.87</b>	141.91
Interest accrued but not due on loans	<b>4014.14</b>	1120.55
Total	<b>76473.76</b>	56138.08
Proportionate share in Joint Ventures	<b>34042.84</b>	33628.57
Total	<b>110516.60</b>	89766.65
<b>PROVISIONS:</b>		
Gratuity and other retirement benefits	<b>51.36</b>	8.54
Total	<b>51.36</b>	8.54
Proportionate share in Joint Ventures	<b>49.96</b>	16.62
Total	<b>101.32</b>	25.16
<b>Grand Total</b>	<b>110617.92</b>	89791.81



**SCHEDULE 19**

(Rupees in lacs)

	Year ended 31 March 2004		Year ended 31 March 2003
<b>MANUFACTURING AND OTHER EXPENSES</b>			
Raw materials consumed			
Opening stock	2848.40		4968.10
Add: Purchases	<u>82371.20</u>		<u>67542.22</u>
	85219.60		72510.32
Less: Raw materials sold at cost	<u>2372.86</u>		<u>1202.52</u>
	82846.74		71307.80
Less: Closing stock	<u>5392.36</u>		<u>2848.40</u>
Raw materials consumed	77454.38		68459.40
Stores and spares consumed	791.84		966.39
Power, fuel and water charges	25490.40		25561.11
Sales promotion expenses	391.79		351.50
Salaries, wages and bonus	7224.82		7688.24
Contribution to gratuity and superannuation funds	577.27		997.16
Contribution to provident and other funds	301.96		294.26
Staff welfare expenses	759.97		621.32
Rent	1174.66		1011.49
Rates and taxes	75.49		140.89
Excise duty	105.70		78.25
Insurance	1063.04		1101.62
Repairs to:			
Plant and machinery	1220.07		1444.85
Buildings	407.65		506.05
Others	<u>379.72</u>		<u>1228.54</u>
	2007.44		3179.44
Rebates and discounts	4935.52		5767.18
Packing, transportation and handling	9724.36		8904.77
Provision for doubtful debts and advances (net)	1691.75		10.06
Turnover tax	977.19		996.82
Loss on sale of assets (net)	162.58		262.27
Loss on sale of investments	34.77		674.65
Supply of materials and equipment for construction contracts	3435.09		2592.08
Sub-contractors payments	1585.60		1480.99
Miscellaneous expenses	1380.15		5383.10
(Increase) / Decrease in work in progress and finished goods			
<b>Opening Stock</b>			
Finished goods	3152.24		9775.26
Work-in-process (including Contracts in progress)	<u>2343.64</u>		<u>17202.02</u>
	5495.88		26977.28
<b>Less : Closing Stock</b>			
Finished goods	2107.11		3152.24
Work-in-process (including Contracts in progress)	<u>1994.97</u>		<u>2343.64</u>
	4102.08		5495.88
	1393.80		21481.40
Total	<u>142739.57</u>		<u>158004.39</u>
Proportionate share in Joint Ventures	27422.48		24053.37
Grand Total	<u>170162.05</u>		<u>182057.76</u>

**SCHEDULE 20**

<b>INTEREST AND FINANCIAL CHARGES (Net)</b>	<b>Year ended 31 March 2004</b>	<b>(Rupees in lacs) Year ended 31 March 2003</b>
On debentures	<b>1573.00</b>	1502.43
On other fixed interest bearing loans	<b>9961.51</b>	11415.67
On others	<b>4138.97</b>	5122.64
Total	<b>15673.48</b>	18040.74
<i>Less:</i>		
Interest on advances to companies	<b>(10573.31)</b>	-
Interest on deposits, book debts, loans and others	<b>(202.23)</b>	(149.40)
	<b>4897.94</b>	17891.34
Proportionate share in Joint Ventures (Net of Interest Capitalised Rs.29.19 lacs)	<b>1538.35</b>	1900.59
Grand Total	<b>6436.29</b>	19791.93

**SCHEDULE 21**

**PROVISION FOR TAXATION**

Current tax	-	17.50
Deferred tax	<b>(0.99)</b>	(0.50)
Total	<b>(0.99)</b>	17.00
Proportionate share in Joint Ventures:		
Current tax	<b>361.47</b>	173.77
Deferred tax	<b>22.83</b>	110.08
Grand Total	<b>383.31</b>	300.85

**SCHEDULE 22**

**NOTES ON THE CONSOLIDATED ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2004**

**(A) BASIS OF CONSOLIDATION:**

The Consolidated Financial Statements comprises of financial statements of Southern Petrochemical Industries Corporation Limited (the Company), its subsidiary companies, joint ventures and associates. These Consolidated Financial Statements have been prepared in accordance with AS-21 "Consolidated Financial Statements", AS-23, "Accounting for Investments in Associates in Consolidated Financial Statements" and AS-27, "Financial Reporting of Interests in Joint Ventures", issued by the Institute of Chartered Accountants of India.

1. (i) The subsidiary companies considered in these consolidated financial statements are:

Name	Country of incorporation	Percentage of ownership interest as at 31 March 2004	Percentage of ownership interest as at 31 March 2003
SPIC Holdings and Investments Limited	India	100.00	100.00
Orchard Microsystems Limited (a 80.50% subsidiary of SPIC Holdings and Investments Limited)	India	80.50	80.50
Mitocon Biotech Limited (a 99.86% subsidiary of SPIC Holdings and Investments Limited)	India	99.86	99.86
SPIC Biotechnologies Limited	India	100.00	100.00
Ind-Ital Chemicals Limited (a 70% subsidiary of the Company and 30% holding by SPIC Holdings and Investments Limited)	India	100.00	100.00
Gulf SPIC Bahrain EC	Bahrain	99.00	99.00
Proactive Decisions Limited (a 57.14% subsidiary of SPIC Holdings and Investments Limited)	India	57.14	57.14
SPIC Petrochemicals Limited* (a 97.73% subsidiary of the Company and 2.27% holding by SPIC Holdings and Investments Limited)	India	100.00	-

\* SPIC Petrochemicals Limited became a subsidiary during the year.

(ii) The financial statements of all the subsidiaries other than for Gulf SPIC Bahrain EC are drawn upto 31 March 2004, while that of Gulf SPIC Bahrain EC is upto 31 December 2003.

2. **Interests in Joint Ventures:**

(i) The Group's interests in jointly controlled entities are:

Name	Country of incorporation	Percentage of ownership interest as at 31 March 2004	Percentage of ownership interest as at 31 March 2003
Indo - Jordan Chemicals Company Limited	Jordan	52.17	52.17
Tamilnadu Petroproducts Limited	India	16.93	16.93
Technip India Limited	India	50.00	50.00
SPIC JEL Engineering Construction Limited (30% holding by the Company and 17.57% holding by SPIC Holdings and Investments Limited)	India	47.57	47.57
Gulf SPIC General Trading & Contracting Co, WLL	Kuwait	49.00	49.00
SPIC Fertilizers and Chemicals Limited	Mauritius	83.54	83.54
SPIC Fertilizers and Chemicals FZE (a 100% subsidiary of SPIC Fertilizers and Chemicals Limited, Mauritius)	Dubai	83.54	83.54

(ii) The financial statements of the Joint Ventures other than for Indo Jordan Chemicals Company limited and Gulf SPIC General Trading & Contracting Co, WLL, are drawn upto 31 March 2004 while for Indo Jordan Chemicals Company limited and Gulf SPIC General Trading & Contracting Co, WLL, are upto 31 December 2003.

(iii) The Financial statements of Indo Jordan Chemicals Company Limited, SPIC Fertilizers & Chemicals Limited and SPIC Fertilizers & Chemicals FZE, which are subsidiaries that are also joint ventures have been consolidated under proportionate consolidation as laid down in AS 27 – "Financial reporting of interests in Joint ventures".

3. **Investments in Associates**

(i) The Group's associates are

Name	Country of incorporation	Percentage of ownership interest as at 31 March 2004	Percentage of ownership interest as at 31 March 2003
Tuticorin Alkali Chemicals and Fertilisers Limited	India	46.93	46.93
SPEL Semiconductor Limited	India	34.97	34.97
Manali Petrochemical Limited	India	38.29	38.29

- (ii) SPIC Electric Power Corporation (Private) Limited, an associate in the previous year has ceased to be so during the current year. As per the provisions of Accounting Standard - 23 "Accounting for Investments in Associates in Consolidated Financial Statements", the use of Equity method has been discontinued and the investment is accounted for in accordance with Accounting Standard - 13 "Accounting for Investments", the carrying amount as at 31 March 2003 being regarded as cost.
- (iii) The financial statements of the associates other than Tuticorin Alkali Chemicals and Fertilisers Limited are drawn upto 31 March 2004 while that of Tuticorin Alkali Chemicals and Fertilisers Limited, has been drawn upto 30 September 2003.
- 4. Consistency in adoption of accounting policies among all group companies is ensured to the extent practicable.
- 5. These consolidated financial statements are based, in so far as they relate to amounts included in respect of subsidiaries, associates and joint ventures, on the audited financial statements of each of the entities.
- 6. The excess cost of holding Company on its investments in subsidiaries and associates over its portion of equity at the dates on which investments were made are not recognised as goodwill, considering the operating performance of those companies.

**B. SIGNIFICANT ACCOUNTING POLICIES:**

**(i) Basis of accounting**

The financial statements are prepared under historical cost convention except revaluation of certain fixed assets and on accrual basis of accounting.

**(ii) Fixed Assets and Depreciation**

Fixed Assets including intangible assets are capitalised at acquisition cost, including directly attributable cost of bringing the assets to its working condition for the intended use.

Certain assets have been revalued as on 1.1.1985, 1.6.1987, 30.9.1992, 31.3.1996, 31.3.1999, 31.3.2000, 1.4.2002 and 1.4.2003 and the resultant surplus has been added to the cost of the assets with a corresponding credit to Revaluation Reserve Account.

Depreciation on fixed assets of entities in India are provided on Straight Line Method (SLM), except in the case of Technip India Ltd, which provides depreciation on Written Down Value basis (WDV), in accordance with Schedule XIV to the Companies Act, 1956. The difference between the SLM and WDV basis in respect of Technip India Ltd is not significant. In respect of assets acquired prior to 1 April 1993 where depreciation was provided on SLM as per section 205 (2) (b) of the Companies Act 1956 at rates which were higher than Schedule XIV rates, depreciation on the unamortised depreciable amount is provided over the residual life of the respective fixed assets.

In respect to assets of companies located outside India, depreciation is provided on Straight line basis over its useful life as estimated by the respective companies.

Where carrying value of an asset has undergone subsequent changes on account of exchange fluctuation, the depreciation on the revised unamortised depreciable amount is provided prospectively over the residual useful life of the assets.

Intangible Assets are amortised over the estimated useful life of the asset.

The charge over and above the depreciation calculated on the original cost of the revalued asset is transferred from Fixed Assets Revaluation Reserve to the Profit and Loss Account.

**(ii) Investments**

Long term investments are valued at cost. Provision for diminution in the value of Long term Investments is made, only if such decline is other than temporary in nature, in the opinion of the management. Investments in Associates are accounted for under equity method in accordance with Accounting Standard – 23 "Accounting for Investments in Associates in Consolidated Financial Statements".

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**(iv) Inventories**

Inventories are valued at lower of cost and net realisable value except stores, spares and loose tools, which are valued at cost and / or below cost. The method of determining cost of various categories of inventories is as follows:

Stores, spares and raw materials	-	Monthly weighted average method/first in first out method/annual average method
Loose tools	-	Valued at cost which is depreciated over a period of three to eight years on straight line method
Work-in-Process and finished goods	-	Average cost of last quarter's production/average annual cost, computed on full absorption costing method

**(v) Revenue Recognition**

- (a) Revenue in respect of sale of products and scrap is recognised at the point of despatch to customers from plants and warehouses.
- (b) Under the retention pricing scheme, the Government of India reimburses the fertiliser industry, the difference between the retention price based on the cost of production and selling price (realised from the farmers) as fixed by the Government from time to time, in the form of a subsidy. This has been accounted as income on the basis of movement of fertiliser from the factory as per the procedure prescribed by the Government and not on the basis of ultimate sales. In the case of increase in input costs / expenses for which retention price is yet to be announced, the Company makes a reasonable estimate of incremental amount due and accrues the same as income for the year.
- (c) Income on long-term contracts is recognised on percentage completion method. In Technip India Limited, a joint venture Company, for contracts entered before 1 April 2003, revenue is recognised as and when projects get completed or substantially completed. For contracts entered after 1 April 2003, revenues from Fixed price and Cost plus contracts are recognised on the percentage completion method, on the progress as reached upto the reporting date, in the manner laid down in the contract and also as certified by the clients.
- (d) Dividend income on Investments is accounted for, when the right to receive the payment is established.

**(vi) Foreign Currency Transactions**

**(a) Indian operations**

Foreign currency transactions are recorded in the books by applying the exchange rate as on the date of the transaction.

Foreign currency liabilities, arising on account of acquisition of assets, are converted at the exchange rate prevailing on the last working day of the accounting year or forward contract rates, as applicable, and the exchange difference is adjusted to the cost of assets. Investments in foreign currency are reported using the exchange rate at the date of the transaction. Other foreign currency assets and liabilities are converted at the exchange rate prevailing on the last working day of the accounting year or forward contract rates, as applicable, and the exchange difference is adjusted to the Profit and Loss Account except in case of forward contracts, where the difference between forward rate and exchange rate at the date of the transaction is recognised in the Profit and Loss Account over the life of the contract.

**(b) Overseas operations**

Fixed assets are recorded at the rates of exchange prevailing on the date of acquisition of such assets. Monetary assets and liabilities are translated at the exchange rate prevailing on the last day of the accounting year and difference in exchange is recognised as a charge in the Profit and Loss Account. All the revenue transactions are translated at the average rates.

**(vii) Retirement Benefits**

Fixed contribution to Provident Fund, Employees State Insurance and Superannuation Fund in respect of Officers who are covered under Defined Contribution Scheme made on monthly basis are absorbed in the accounts.

Contribution to Superannuation Fund in respect of Staff under Defined Benefit Scheme made based on actuarial valuation as at the end of the financial year is charged to Profit and Loss Account.

Liability for gratuity and leave encashment to employees determined on actuarial valuation as at the end of the financial year are absorbed in the accounts.

Liability under voluntary retirement scheme is charged to the Profit and Loss Account over a period of five years from the accounting year in which the liability is incurred.

**(viii) Research and Development Expenditure**

Revenue expenditure on Research and Development is charged to the Profit and Loss Account and Capital expenditure is included in fixed assets under appropriate heads.

**(ix) Premium payable on redemption of debentures**

Premium payable on redemption of debentures is accounted for in the year of redemption of debentures.

**(x) Share and Debenture issue expenses**

Issue expenses are adjusted directly to share premium account.

**(xi) Borrowing costs**

Borrowing costs incurred after 1 April 2000 that are attributable to the acquisition of qualifying assets are capitalised as part of the cost of such assets. All other borrowing costs are charged to revenue.

**(xii) Deferred Charges - Net**

In respect of a joint venture, Indo Jordan Chemicals Company Limited, amount incurred to facilitate new borrowings from Export & Finance Bank, as security and facility agent and to repay the previous long-term loans, has been amortised over the period of the new borrowings, which is four years.

**(xiii) Segment Reporting**

The accounting policies adopted for segment reporting are in line with the accounting policies of the Company.

- a. Revenue and expenses have been identified to segments on the basis of their relationship to the operating activities of the segment. Revenue and expenses, which relate to the enterprise as a whole and are not allocable to segments on a reasonable basis, have been included under unallocable corporate expenses.
- b. Investments, advance towards investments and other advances which are not allocable to segments are excluded from segment capital employed.

**(xiv) Taxes on Income**

Current tax is determined as the amount of tax payable in respect of taxable income for the period.

Deferred tax in respect of subsidiaries and joint ventures is recognised, on timing difference between taxable income and accounting income that originate in one period and are capable of reversal in one or more subsequent periods. Deferred tax assets are not recognised on unabsorbed depreciation and carry forward of losses unless there is virtual certainty that sufficient future taxable income will be available against which such deferred tax assets can be realised. (Refer Note.19)

**C: NOTES ON ACCOUNTS**

1. (a) Estimated amount of contracts remaining to be executed on capital account and not provided for (net of advances) Rs.119581.15 lacs (Previous year Rs.23315.88 lacs) [including share of Joint ventures Rs.20630.40 lacs (Previous year Rs.22732.91 lacs)].

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- (b) Cumulative amount of Preference Dividend and dividend tax thereon not provided for by the Company upto 31 March 2004 is Rs.843.58 lacs (Previous year Rs.672.95 lacs).
2. Contingent Liabilities
- (a) Bills and Cheques discounted Rs.942.71 lacs (Previous year Rs.1022.31 lacs) [including share of Joint ventures Rs.113.16 lacs (Previous year Rs.138.97 lacs)].
- (b) Claims not acknowledged as debts Rs.10318.19 lacs (Previous year Rs.3602.68 lacs) [including share of Joint ventures Rs.601.20 lacs (Previous year Rs.99.26 lacs)].
- (c) Guarantees / Security given to banks/financial institutions on behalf of other companies Rs.7699.98 lacs (Previous year Rs.7794.41 lacs) [including share of Joint ventures Rs.976.56 lacs (Previous year Rs.1062.46 lacs)].
- (d) Bank Guarantees outstanding Rs.889 lacs (Previous year: Rs.750 lacs)
- (e) No provision is considered necessary for the disputed taxes aggregating to Rs. 3886.63 lacs, which are under various stages of appeal proceedings. Out of the above amount, an amount of Rs. 2013.81 lacs has been deposited under protest / adjusted by relevant authorities. The Company has been advised that there are reasonable chances of successful outcome of the appeals.
3. (a) Fixed assets (other than furniture and fittings, office equipment, vehicles, ships, and certain buildings and plant and machinery) of the Company have been revalued as on 31.3.1996 on the basis of 'Existing Use Value' by independent professional valuers. The resultant surplus on such revaluation over the written down value of these assets amounting to Rs.36659.06 lacs has been credited to Revaluation Reserve.
- (b) Land, buildings and plant and machinery relating to Pharmaceuticals and Biotechnology Divisions of the Company have been revalued as on 31.3.1999, on the basis of 'Existing Use Value' by independent professional valuers. The resultant surplus on such revaluation over the written down value of these assets amounting to Rs.5412.77 lacs has been credited to Revaluation Reserve.
- (c) Fixed assets (other than furniture and fittings, office equipments and vehicles) of the Tuticorin Plant of the Company have been revalued as on 31.3.2000 on the basis of 'Existing Use Value' by independent professional valuers. The resultant surplus on such revaluation over the written down value of these assets amounting to Rs.30905.38 lacs has been credited to Revaluation Reserve.
- (d) Fixed assets (other than furniture and fittings, office equipments and vehicles) of the Tuticorin Plant of the Company have been revalued as on 1.4.2002 on the basis of 'Existing Use Value' by independent professional valuers. The resultant surplus on such revaluation over the written down value of these assets amounting to Rs.35086.61 lacs has been credited to Revaluation Reserve.
- (e) Land and buildings, Plant and machinery, Compound wall and Roads relating to Pharmaceuticals and Biotechnology Divisions of the Company have been revalued as on 1.4.2003, on the basis of 'Existing Use Value', by independent professional valuers. The resultant surplus on such revaluation over the written down value of these assets amounting to Rs.6940.24 lacs has been credited to Revaluation Reserve.
- (f) Fixed assets of Ind-Ital Chemicals Limited (a 100% subsidiary) have been revalued on 1.6.1987 and 30.9.1992 on the basis of technical valuation reports. The resultant surplus on revaluation over the written down value of these assets amounting to Rs.111.89 lacs and Rs.264.89 lacs respectively has been credited to Revaluation Reserve on the respective dates given above.
- (g) Fixed assets (other than furniture and fixtures, office and other equipment, vehicles, ships-barges, certain land and plant and machinery) of Tamilnadu Petroproducts Limited have been revalued on 31.3.1996 on the basis of 'Existing Use Value' by professional valuers. The resultant surplus on such revaluation over the written down value of these assets amounting to Rs.21409.20 lacs has been credited to Revaluation Reserve as on 31.3.1996. As on 31.3.2004 the Group's proportionate share in the Revaluation Reserve is Rs.1116.45 lacs.

- (h) The depreciation charge for the year shown in the Profit and Loss Account is after deducting an amount of Rs.4017.03 lacs (Previous year Rs.2969.58 lacs) [including Rs.309.74 lacs (Previous year Rs.309.74 lacs) in respect of joint venture] representing the extra depreciation arising on revaluation of fixed assets withdrawn from Revaluation Reserve.
- (i) Also, deducted from the Revaluation Reserve is an amount of Rs. 0.86 lacs (Previous year Rs.1613.22 lacs) in respect of certain adjustments for deletion of revalued assets.
4. Capital work in progress/ advances include a sum of Rs.2091.04 lacs (Previous year Rs.2091.04 lacs) being advances paid to MCC Finance Limited for purchase of certain immovable properties. The Company entered into sale agreements for these properties with MCC Finance Limited and the execution and registration of sale deeds are pending. The Administrator/Provisional Liquidator of MCC Finance Limited filed a petition before the Company Court at Chennai seeking a direction that the sale agreements entered into between the Company and MCC Finance Limited be declared null and void. The said petition was allowed by the Single Judge on 18.6.2003. The Company filed an appeal against the Order before the Division Bench of the Madras High Court. The Division Bench admitted the appeal and ordered status quo be maintained, pending disposal of the appeal.
5. The Company promoted SPIC Petrochemicals Limited (SPIC Petro) in 1994-95 for the manufacture of Polyester Filament Yarn (Capacity: 80000 TPA) and Purified Terephthalic Acid (Capacity:315000 TPA). SPIC Petro became a wholly owned subsidiary during the year. The Consolidated Financial Statements include net fixed assets (including capital work-in-progress) amounting to Rs.76612.47 lacs and pre-operative expenditure pending allocation amounting to Rs.153372.84 lacs relating to SPIC Petro.

In view of the pending litigation between Chennai Petroleum Corporation Limited (CPCL) and the Company and the consequent interim injunction granted by the Madras High Court in 1997 to stop implementation of activities, there has been a temporary suspension of activities.

The draft Memorandum of Settlement (MoS) between CPCL and the Company, which was approved by the Ministry of Petroleum and Natural Gas in March 2001, is awaiting formal execution. The Company initiated discussions with Financial Institutions and Banks for resolving the financial issues through re-structuring of all the loans, grant of reliefs and concessions and further financial assistance. A high level meeting with the Financial Institutions and Banks, who have funded this project, was held at Mumbai in June 2001. The Lenders have formed a committee comprising representatives from IDBI, ICICI, SBI and Dena Bank to review the project and re-appraise the viability of the project.

The Lenders Committee appointed Tata Consulting Engineers Limited (TCE) as Lenders' Engineer to assess the revised project cost and the viability of the project. TCE have completed their study and submitted their report to IDBI in August 2002 and IDBI had requested TCE to do an update of the report by December 2003 and the revalidation was completed by February 2004.

In January 2003, ICICI Bank Limited, filed an application before the Debt Recovery Tribunal for appointment of a Receiver in respect of properties of SPIC Petro. The Tribunal, on 14 February 2003, granted interim relief by way of appointment of a Receiver with a direction to get the property valued for sale. The appeals of SPIC Petro and that of the Company before the Debt Recovery Appellate Tribunal were dismissed on 10 March 2003. Aggrieved by this, SPIC Petro and the Company filed Writ Petitions before the Bombay High Court for staying the orders of the Tribunal and of the Appellate Tribunal.

The Bombay High Court, on 17 April 2003, adjourned the Petitions with a direction that SPIC Petro will neither be dispossessed from the property, nor will the property be sold as directed by the Tribunal. The High Court further directed IDBI to make available TCE's report to the Court, to SPIC Petro and to the Company. SPIC Petro was also required to submit a report as to the possibilities of revival and how the necessary finance will be raised and its liabilities cleared.

Pursuant to the directions of the Court, SPIC Petro submitted the revival report on 30 June 2003 to which the ICICI Bank has filed its observations. The matter is pending before the Hon'ble Bombay High Court.

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Meanwhile, SPIC Petro also submitted a revival strategy to IDBI and the strategy is under their active consideration. As per the strategy, the project is to be implemented in three phases viz. Phase I – Partially Oriented Yarn (65000 TPA), Phase II – increasing Partially Oriented Yarn capacity to 80000 TPA and putting up Texturising plant and Phase III – Purified Terephthalic Acid (315000 TPA).

TCE in their draft report submitted to IDBI on February 2004 has concurred with the phased implementation of the project and they have stated that both Phase I and the integrated projects are viable and has recommended to the Financial Institutions and Banks to provide funds required for the first phase and early implementation of the project. They have also observed that the assets are intact and there is no impairment. IDBI has proposed to convene a Lenders meeting shortly to discuss the above proposals of SPIC Petro and the recommendations of TCE.

In view of the above development, SPIC Petro is hopeful of early implementation of the project. As the viability of the project has since been confirmed by Independent Professional Consultants, the Company is actively pursuing to identify a strategic partner to invest in the project and on execution of the Memorandum of Settlement, settle the compensation payable to CPCL.

In light of the above, the management does not anticipate any significant loss in this regard.

6. The Company has made investments of Rs.3117.51 lacs (Previous year Rs.3068.04 lacs) in equity in respect of three associate companies. The Company and its subsidiary have granted loans amounting to Rs. 5035.80 lacs (Previous year Rs.5176.50 lacs) and advance against equity of Rs.1000.00 lacs (Previous year Rs.1000.00 lacs), extended guarantees for Rs. 1825.00 lacs (Previous year Rs.1825.00 lacs) and Rs.9529.46 lacs (Previous year Rs.9045.30 lacs) is due towards interest and other recoverables in respect of three associate companies viz. Tuticorin Alkali Chemicals and Fertilisers Limited (TAC), SPEL Semiconductor Limited (SPEL) and Manali Petrochemical Limited (MPL). The market value of investments is Rs.2434.12 lacs (Previous year Rs.1278.22 lacs) as on 31 March 2004. In view of the long term involvement with these companies, the management is of the view that no provision is required to be made for the diminution in value of the above investments, loans, advance against equity, interest and other recoverables and guarantees aggregating to Rs.20507.77 lacs (Previous year Rs.20114.84 lacs).
7. The Company has given an undertaking to the financial institutions for non-disposal of its shareholdings in Tuticorin Alkali Chemicals and Fertilisers Limited and SPEL Semiconductor Limited without their prior approval.
8. The Government of India vide their letter dated 4.6.2002 announced the urea pricing policy parameters for the 7<sup>th</sup> and 8<sup>th</sup> pricing periods from 1.7.1997 to 31.3.2003. The Company received a circular dated 12.8.2002 on the basis of the above letter revising the retention price of urea with retrospective effect for the pricing period referred above. These policy parameters have made significant changes with regard to reassessment of plant capacities, withdrawal of vintage allowance, increase in normative levels of capacity utilization and updating the consumption norms.

The Company is of the view that some of the policy parameters with regard to reassessment of plant capacities, withdrawal of vintage allowance, increase in normative levels of capacity utilization cannot be amended retrospectively. The Company has therefore reworked the subsidy entitlement for the period from 1.7.1997 to 31.3.2002 as per the notified policy disregarding the disputed parameters and other disallowances made by the Government in working out the retention price. These workings have resulted in the Company retaining as claims receivable subsidy of Rs.36954.74 lacs (Previous year Rs.36954.74 lacs) already accrued in the books for the period 1.7.1997 to 31.3.2002.

The Company is in the process of representing to the Government and intends to take up the above issues in a phased manner and is hopeful of succeeding and recovering the said amount.

9. In past years the Company was acting as handling agents for fertilisers imported by Agri India which is a department of the Government of India for importing fertilisers. The Company has claimed inventory carrying costs, freight concession and price differential on imported fertilisers consequent to decontrol of price of Di-Ammonium Phosphate (DAP) in August 1992 and also for carrying higher inventory due to bunching of vessels when imports were made. The total claims of Rs.3586.97 lacs (Previous year Rs.3625.68 lacs) which is outstanding for a considerable period of time are being followed up with Agri India and the Company expects to realise the amounts in due course.
10. Loans and advances include advances given to three companies amounting to Rs.10810.71 lacs (Previous year - four companies - Rs.41012.48 lacs) to be adjusted against equity shares to be issued by these companies.
11. (a) The Company had placed Inter Corporate Deposits with four companies amounting to Rs.675 lacs during 1999 from whom neither principal nor interest has been received.
- Efforts are being made to recover these amounts and the management is of the view that no loss will arise on this account.
- (b) An amount of Rs.1156.79 lacs, net of provisions (Previous year: Rs.2760.40 lacs) is due from a Company towards ship hire charges, sale of ship and other recoverables. This Company is in financial difficulties.
- Efforts are being made to recover these amounts from the Guarantor Company and the management is of the view that no loss will arise on this account.
12. The restructuring of the Debt Portfolio under the Corporate Debt Restructuring Mechanism (CDR) has been implemented during the year. Consequent to this, interest relief availed from various banks and financial institutions under the CDR Scheme or otherwise includes Rs.1827.88 lacs (including Rs.943.90 lacs for the year) availed from two lenders who are yet to confirm their consent for reduction in the interest rate. The balances of loans / interest accrued to some of the lenders are also subject to confirmation.
13. Miscellaneous expenditure, to the extent not written off or adjusted, represents:
- a) Rs.518.06 lacs (Previous year Rs.746.52 lacs) being amounts paid/payable under Company's voluntary retirement scheme for employees amortized over a period of five years from the accounting year in which the liability was incurred.
- b) Rs. 328.72 lacs (Previous year Rs.30.74 lacs) being expenditure incurred by subsidiaries and are being / to be amortised.
14. In respect of Indo-Jordan Chemicals Company Limited (IJC) a joint venture Company, there is an insurance claim receivable which is mainly related to the reactor roof rubber lining failure that resulted in shutdown of the plant for 49 days during November and December 1997. IJC filed a claim with the insurer for a total amount of US\$ 4689407, equivalent to Rs.2034.73 lacs (Previous year Rs.2226.53 lacs) [Group's share Rs.1067.47 lacs (Previous year Rs.1161.58 lacs)] as on 31 March 2004, being the cost of the repair of US\$ 562713 and the consequential loss of profit of US\$ 4126694.
- The insurer refused the claim on the grounds that the lining failure was progressive in nature and the erection contractors were responsible for the failure. Since the lining failure was sudden and premature and the contractor was not responsible either by contract or by law, as per the provisions of the insurance policy, IJC filed a legal suit in December 1998 against the insurer, in the Court of Law in Amman, Jordan. To facilitate an early settlement, at the insistence of the insurer and on the recommendation of IJC's legal counsel, the case was referred to an arbitration panel. The arbitration proceedings are in progress.
15. The auditor of SPIC Fertilisers and Chemicals Limited, Mauritius, a joint venture Company, has drawn attention, without qualifying his opinion on the assumption that the financial statements of the entity have been prepared on going concern basis, the validity of which depends upon future funding available.

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16. (a) SPIC Fertilisers and Chemicals FZE, Dubai, a joint venture, is in the process of developing a facility to manufacture ammonia / urea fertilisers in the Jebel Ali Free Zone. A plot of 240000 Sq.mts. has been leased from the Free Zone Authority for fifteen years with renewable option for a similar period.

The plant, after necessary modifications and refurbishment, will have the following production capacities using natural gas as the feed stock:

Ammonia                685 Metric Tonnes per day.

Urea                    1200 Metric Tonnes per day.

While ammonia (intermediary product) would be consumed in the manufacturing process, the end product, urea, will be marketed in the Indian sub-continent at competitive prices through a buy back arrangement with the Company. The estimated project cost is around US\$ 190 million.

After securing a letter of commitment from Dubai Supply Authority for the supply of Natural Gas to the project, SFC is in the process of entering into a detailed Gas Sales and Purchase Agreement (GSPA) with the Government of Dubai, in order to initiate action for the syndication of the loan. A lead bank from UK has given the in-principle acceptance to syndicate the loan for the project.

It is estimated that the mechanical completion of the project would be achieved by the third quarter of 2005 and the plant would be commissioned by the fourth quarter of 2005.

- (b) Included in project creditors and retention payable of SPIC Fertilisers and Chemicals FZE, Dubai, a joint venture, is an amount payable to M/s.Essa Engineering and Marine Services LLC, Ajman. A legal case was filed by M/s.Essa Engineering and Marine Services LLC, Ajman against the establishment in Dubai Courts under case No. 801/2002. The Dubai Court of First Instance has directed the establishment to pay an amount of US\$ 471964. The entire liability upto 31 March 2004 has been fully provided. The establishment has now filed an appeal against the above judgement in the Dubai Court of Appeals and the appeal case is pending as of 31 March 2004. Also included in project creditors and retention payable is an amount of AED 1468233 payable to M/s. Al Hamad Contracting. A legal case was filed by M/s.Al Hamad Contracting against the establishment claiming an amount of AED 3647974 in Dubai Courts under Case No. 186/2003. Dubai Court has appointed an expert to study the case. The expert has not submitted his report and the case is pending before the Court as of 31 March 2004.
17. In respect of SPIC Petrochemicals Limited (SPIC Petro), a subsidiary Company, confirmation of balances have not been received from certain financial institutions / banks, creditors, contractors and in respect of other assets and liabilities. Pending receipt of confirmations, SPIC Petro has provided interest on loans availed at the contracted / agreed rates. Adjustments, if any, which may arise upon confirmation, is unascertainable at this stage and not accounted for.
18. A subsidiary company, SPIC Holdings & Investments Ltd., has not provided interest on inter corporate deposit since the Company has sought interest waiver which is under the active consideration of the lender.
19. (a) No provision has been made in the accounts of the holding company for the accumulated net deferred tax liability upto 31 March 2001 of the Company amounting to Rs.11389 lacs as an interim stay of clause 33 of Accounting Standard 22 - "Accounting for taxes on income" has been obtained from the Madras High court. Clause 33 of the above standard provides that the net deferred tax liability accumulated up to 31 March 2001 should be provided for, with a corresponding charge to revenue reserves. On a transfer petition filed by the Institute of Chartered Accountants of India before the Supreme Court of India, the Honourable Court directed that all similar petitions filed in different High Courts be transferred to the Calcutta High Court. The petition is yet to be disposed by the Calcutta High Court.

The net deferred tax asset / (liability) of the Company as at 31 March 2004 and 31 March 2003 is as follows:

	As at 31 March 2004	(Rs. in lacs) As at 31 March 2003
Depreciation	10844.72	10468.68
Subsidy	14048.16	13886.14
Others	-	43.05
<b>Deferred tax liability</b>	<b>24892.88</b>	<b>24397.87</b>
Provision for doubtful debts	887.33	263.60
Carry forward business losses	14642.87	15139.97
Unabsorbed depreciation	19208.90	16901.79
Others	54.94	118.03
<b>Deferred tax asset</b>	<b>34794.04</b>	<b>32423.39</b>
<b>Net deferred tax asset / (liability)</b>	<b>9901.16</b>	<b>8025.52</b>

(b) The subsidiaries and joint venture companies in India have complied with the Standard and recognised deferred taxes, subject to prudence.

## 20. Related party disclosures under Accounting Standard - 18

(i) The list of related parties as identified by the management are as under:

Associates	1.	Tuticorin Alkali Chemicals and Fertilisers Limited
	2.	SPEL Semiconductor Limited
	3.	Manali Petrochemical Limited
Joint ventures	1.	Indo-Jordan Chemicals Company Limited
	2.	Tamilnadu Petroproducts Limited
	3.	Technip India Limited
	4.	SPIC JEL Engineering Construction Limited
	5.	Gulf SPIC General Trading & Contracting Company WLL, Kuwait
	6.	SPIC Fertilisers and Chemicals Limited, Mauritius
	7.	SPIC Fertilisers and Chemicals FZE, Dubai
Key Management Personnel of the Company	1.	Dr. A C Muthiah
	2.	Thiru. Ashwin C Muthiah
	3.	Thiru Babu K Verghese
	4.	Thiru M G Thirunavukkarasu
Relatives of Key Management Personnel of the Company (with whom there were transactions during the year 2003-04)	1.	Thirumati Devaki Muthiah
	2.	Thirumati Gomathy Thirunavukkarasu
Enterprises owned by / over which Key Management Personnel is able to exercise significant influence	1.	Sri Karpaka Vinayagar Agencies
	2.	Prestige Agencies
	3.	Crescent Agencies
	4.	South India Investment Associates
	5.	SPIC Aromatics and Chemical Corporation Limited
	6.	Matsu Enterprises (P) Limited
	7.	Kadanchira Investments (P) Limited

ii) The following transactions were carried out with the related parties:

(Rupees in lacs)

Sl. No.	Particulars	Associates	Joint Ventures	Key Management Personnel (KMP)	Relatives of KMP	Enterprise owned by / over which KMP is able to exercise significant influence
<b>A</b>	<b>Balance outstanding as at 31 March 2004:</b>					
	(a) Receivable	<b>9530.06</b> (9045.38)	<b>2996.14</b> (3273.36)			- (22107.17)
	(b) Payable	<b>5.19</b> (-)	<b>425.13</b> (596.89)			
	(c) Advance against Equity	<b>1000.00</b> (1000.00)	<b>8260.14</b> (8259.87)			- (15079.12)
	(d) Inter Corporate Deposits / Loans given	<b>5035.80</b> (5085.30)	- (40.00)			- (9756.99)
	(e) Progress payments received (Cr.)		<b>6.85</b> (6.85)			
<b>B</b>	<b>Transactions during the year:</b>					
1	Investments	- (0.50)	- (171.46)			
2	Inter corporate deposits made		- (40.00)			- (1704.25)
3	Inter corporate deposits received back		<b>40.00</b> (-)			
4	Sale of goods	- (13.37)	<b>11.37</b> (24.25)			
5	Raw materials sold at cost	<b>799.34</b> (-)				
6	Income from services rendered	<b>514.26</b> (514.95)	<b>635.85</b> (842.39)			- (0.33)
7	Reimbursement of expenses (Receipts)	<b>0.75</b> (-)	<b>34.65</b> (-)			
8	Sale of fixed assets		<b>0.03</b> (0.59)			
9	Interest accrued on Loans / ICDs	- (22.69)	<b>2.07</b> (2.02)			
10	Income from Rentals	<b>0.53</b> (-)	<b>186.57</b> (0.61)			
11	Service / Consultancy charges	<b>7.06</b> (19.28)	<b>19.84</b> (1.73)			
12	Sub-contractor payments		- (402.76)			
13	Managerial remuneration			<b>103.52</b> (176.68)		
14	Rent Paid	<b>1.13</b> (1.13)		<b>6.36</b> (9.84)	<b>6.00</b> (-)	
15	Sitting Fees			<b>0.35</b> (0.30)		
16	Dividend Received		- (445.11)			
17	Purchase of goods	<b>67.66</b> (78.07)	<b>45.12</b> (1629.05)			

**21. Segment Reporting**
**Primary segment information (Business segments)**

(Rupees in lacs)

Particulars	Agro inputs	Bulk drugs and Formulations	Petrochemicals	Others	Consolidated
<b>Segment revenue</b>					
Sales to external customers	144068.63 (140495.68)	8697.62 (10696.13)	-	30821.05 (43567.21)	183587.30 (194759.02)
Other Income	537.55 (411.89)	253.72 (199.02)	-	520.12 (501.29)	1311.39 (1112.20)
Unallocated Income					589.03 (1212.46)
Inter segment revenue	-	-	-	-	-
	-	-	-	(0.28)	(0.28)
<b>Total Revenue</b>	144606.18 (140907.57)	8951.34 (10895.15)	-	31341.17 (44068.78)	185487.72 (197083.96)
Elimination of inter segment sales	-	-	-	-	-
	-	-	-	(0.28)	(0.28)
<b>Total Net Revenue</b>	144606.18 (140907.57)	8951.34 (10895.15)	-	31341.17 (44068.50)	185487.72 (197083.68)
<b>Segment Results</b>	7591.40 (7520.00)	(373.92) (1895.58)	-	2746.92 (1542.15)	9964.40 (10957.73)
Unallocated expenses net of Unallocated income					2306.15 (26315.15)
<b>Profit / (Loss) before interest etc., and taxation</b>					7658.25 (-15357.42)
Interest expenses (net) not allocable to segments					6436.29 (19791.93)
<b>Profit / (Loss) before taxation</b>					1221.96 (-35149.35)
Income taxes					383.31 (300.85)
<b>Profit / (Loss) after taxation before share of results of associates</b>					838.65 (-35450.20)
Share of Profit / (Loss) of associates					49.46 (-468.45)
<b>Profit / (Loss) after taxation before minority interests</b>					888.11 (-35918.65)
Less: Profit / (Loss) applicable to minority interests					(7.20) (-6.12)
<b>Net Profit / (Loss) for the year</b>					895.31 (-35912.53)
<b>Other information</b>					
Segment Assets	201976.31 (205766.90)	18097.97 (19360.36)	230524.09 (-)	33967.19 (32913.46)	484565.56 (258040.72)
Unallocated Corporate Assets					44184.18 (92825.88)
<b>Total Assets</b>					528749.74 (350866.60)
Segment Liabilities	78711.06 (53110.09)	697.27 (815.66)	18700.64 (-)	8101.37 (6977.78)	106210.34 (60903.53)
Unallocated Corporate Liabilities					411864.53 (284287.39)
<b>Total Liabilities</b>					518074.87 (345190.92)
<b>Capital expenditure</b>	1327.27 (674.79)	488.18 (984.12)	-	1946.63 (757.16)	-
<b>Depreciation</b>	4087.06 (4180.58)	1280.00 (1229.44)	-	1209.86 (1303.28)	-
<b>Non-cash expenditure other than depreciation</b>	339.37 (54.05)	5.27 (-)	-	18.43 (71.16)	-

**SECONDARY SEGMENT INFORMATION (GEOGRAPHICAL SEGMENTS)**

(Rupees in lacs)

	Segment Revenue	Carrying amount of segment assets	Capital expenditure
Within India	156094.50 (155169.35)	403648.57 (218740.36)	3556.32 (2169.73)
Outside India	28804.19 (40701.87)	80916.99 (39300.36)	205.76 (246.34)
<b>Total</b>	<b>184898.69</b> (195871.22)	<b>484565.56</b> (258040.72)	<b>3762.08</b> (2416.07)

**NOTES:**
**(a) Business segments**

The business segment has been considered as the primary segment for disclosure.

The products included in each of the business segments are as follows:

- (i) Agro inputs - includes fertilisers and phosphoric acid.
- (ii) Bulk drugs and formulations - includes Penicillin - G and formulations.
- (iii) Petrochemicals - includes Polyester Filament Yarn and Purified Terephthalic Acid.
- (iv) Others - includes maintenance contracts, tissue culture and floriculture, synthetic resins, investments, Information Technology Services, Chemicals and Engineering Services.

Revenues and expenses, which relates to the enterprise as a whole and are not allocable to segments on a reasonable basis, have been included under "Unallocated expenditure net of unallocated income".

**(b) Geographical segments**

The geographical segments considered for disclosure are as follows:

- **Sales within India** includes sales to customers located within India
- **Sales outside India** includes sales to customers located outside India.

	Year ended 31 March 2004	Year ended 31 March 2003
22. <b>Earnings Per Share :</b>		
Face value per share ( in Rupees)	10	10
Profit / (Loss) after Taxation and Preference dividend ( Rs. in lacs)	724.68	(36141.04)
<b>Basic</b>		
Number of shares outstanding	88047700	88047700
Earnings / (Loss) per share (in Rupees)	0.82	(41.05)
<b>Diluted</b>		
Advance towards Share Capital (Potential equity shares at par)	19604865	-
Total shares outstanding (including dilution)	107652565	88047700
Earnings / (Loss) per share (in Rupees)	0.67	(41.05)

23. (a) Previous year's figures have been regrouped / recast, wherever necessary, to conform to the classification of the current year.

(b) Previous year's figures are given in brackets.

**CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 2004**

(Rupees in lacs)

	Year ended 31 March 2004	Year ended 31 March 2003
<b>A. CASH FLOW FROM OPERATING ACTIVITIES:</b>		
<b>Net Profit / (Loss) before tax</b>	<b>1221.96</b>	<b>(35149.35)</b>
Adjustment for :		
Depreciation	6735.46	6959.10
(Profit)/loss on sale of assets	162.77	269.52
Loss on sale of investments	48.84	674.65
Miscellaneous Expenditure written off	418.88	1127.01
Exchange fluctuation	(4516.55)	415.58
Provision for diminution in value of investments	16.93	50.79
Provision for Doubtful debts and advances	1711.41	10.06
Interest and financial charges	17331.34	20037.96
Interest and exchange fluctuation on FRN	-	11627.84
Income from investments	(13.62)	(470.03)
Interest income	(10865.85)	(246.03)
	<u>11029.61</u>	<u>40456.45</u>
Operating profit before working capital changes	<b>12251.57</b>	<b>5307.10</b>
Adjustments for :		
(Increase)/Decrease in sundry debtors	2986.21	3992.72
(Increase)/Decrease in inventories	(1836.49)	10199.52
(Increase)/Decrease in loans and advances	1835.69	2945.94
Increase/(Decrease) in current liabilities and provisions	1077.37	(5152.44)
	<u>4062.78</u>	<u>11985.74</u>
Cash generated from operations	<b>16314.35</b>	<b>17292.84</b>
Direct taxes	(873.62)	(556.61)
Voluntary Retirement Scheme / Miscellaneous Expenditure Payments	(543.80)	-
<b>NET CASH FROM OPERATING ACTIVITIES</b>	<u><b>14896.93</b></u>	<u><b>16736.23</b></u>
<b>B. CASH FLOW FROM INVESTING ACTIVITIES :</b>		
Additions to fixed assets, including capital work-in-progress/ advances and adjustments for exchange fluctuation	(4851.39)	(1337.73)
Proceeds from sale of fixed assets	119.18	836.67
Payments on account of investments and advances to be adjusted against equity	32.17	(225.40)
Loans and advances to other companies	-	(1667.90)
Income from investments	13.62	470.03
Proceeds from sale of investments	243.11	301.92
Interest income	301.73	246.03
	<u>(4141.58)</u>	<u>(1376.38)</u>
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<u><b>(4141.58)</b></u>	<u><b>(1376.38)</b></u>

	Year ended 31 March 2004	(Rupees in lacs) Year ended 31 March 2003
<b>CONSOLIDATED CASH FLOW STATEMENT (Contd.)</b>		
<b>C. CASH FLOW FROM FINANCING ACTIVITIES :</b>		
Proceeds from borrowings	9759.95	14730.45
Repayment of borrowings	(8309.58)	(12725.01)
Share Capital advance	1960.53	-
Translation Difference arising on consolidation	2091.28	477.21
Exchange Fluctuation	-	(28.11)
Dividend paid	(22.64)	-
Dividend tax paid	(27.29)	-
Interest and financial charges paid	(15214.98)	(16144.58)
	<u>(9762.73)</u>	<u>(13690.04)</u>
<b>NET CASH USED IN FINANCING ACTIVITIES</b>	<b>(9762.73)</b>	<b>(13690.04)</b>
<b>NET CASH FLOWS DURING THE YEAR (A+B+C)</b>	<b>992.62</b>	<b>1669.81</b>
<b>Cash and cash equivalents (opening balance)</b>	<b>7892.40</b>	<b>5947.95</b>
<b>Cash and cash equivalents on initial adoption of Subsidiary (Previous year : Joint Venture)</b>	<b>35.26</b>	<b>274.64</b>
<b>Cash and cash equivalents (closing balance)</b>	<b>8920.28</b>	<b>7892.40</b>
<b>Disclosure of non-cash transactions</b>		
Acquisition of Subsidiary by conversion of		
Advances made and interest accrued in earlier years	44836.32	
Interest accrued during the year	10573.31	
Total	55409.63	
Exchange gain on restatement of liability credited to fixed assets	1760.35	

		Per our report attached
<b>Dr A C MUTHIAH</b> <i>Chairman</i>	<b>BABU K VERGHESE</b> <i>Managing Director</i>	<b>For FRASER &amp; ROSS</b> <i>Chartered Accountants</i>
	<b>M G THIRUNAVUKKARASU</b> <i>Finance Director</i>	<b>M K ANANTHANARAYANAN</b> <i>Partner</i>
Place : Chennai	<b>N RAMAKRISHNAN</b> <i>Secretary</i>	
Date : 31 July 2004		

Information disclosed in accordance with the Government of India, Department of Company Affairs, Order No.47/24/2004 - CL- III dated 2nd August 2004

Particulars	SPIC Petrochemicals Limited	Indo-Jordan Chemicals Company Limited, Jordan		SPC Ferrocenes and Chemicals Limited (SPCL), Mauritius		SPC Ferrocenes and Chemicals FZE, Dubai (subsidiary of SPCL, Mauritius)		Industrial Chemicals Limited	SPIC Holdings and Investments Limited	Orchard Microsystems Limited	Proactive Decisions Limited	Miloco Biotech Limited	Gulf SPIC Bahrain EC, Bahrain		SPIC Biotechnologies Limited
	31 March 2004	31 December 2003	31 March 2004	31 March 2004	31 March 2004	31 March 2004	31 March 2004	31 March 2004	31 March 2004	31 March 2004	31 March 2004	31 March 2004	31 December 2003	31 March 2004	
	Rupees in Lacs	Amount in JD	Rupees in Lacs*	Amount in USD	Rupees in Lacs*	Amount in AED	Rupees in Lacs*	Rupees in Lacs	Rupees in Lacs	Rupees in Lacs	Rupees in Lacs	Rupees in Lacs	Amount in BD	Rupees in Lacs*	Rupees in Lacs
Capital	25380.50	44401000	28523.15	39073395	16253.94	1000700	118.35	125.87	3000.00	326.2*	3.01	3.01	30003.00	36.29	5.50
Reserves	-	2688498*	1725.11	-	-	-	-	336.83	138.56	-	-	-	-	-	-
Total Assets	230524.09	113628787	73097.40	39074322	16254.25	4330152.5	51132.25	581.32	3667.30	326.35	66.56	3.73	41433.00	30.12	235.63
Total Liabilities	230524.09	113628787	73097.40	39074322	16254.25	4330152.5	51132.25	581.32	3667.30	326.35	66.56	3.73	41433.00	30.12	235.63
Investments	-	-	-	-	-	-	-	-	643.49	-	-	-	-	-	-
Turnover	-	47587375	30677.29	-	-	-	-	755.26	8.57	0.57	-	-	-	-	-
Profit/(Loss) before Tax	-	2389777	1861.67	-	-	-	-	(6.02)	(47.20)	(36.73)	-	-	(1942.00)	(2.35)	-
Provision for taxation	-	-	-	-	-	-	-	(0.79)	-	-	-	-	-	-	-
Profit/(Loss) after tax	-	2389777	1861.67	-	-	-	-	(5.23)	(47.20)	(36.73)	-	-	(1942.00)	(2.35)	-
Proposed dividend	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

\*Translated at exchange rate prevailing as on the date of Balance Sheet, of the respective companies.

1USD (US Dollar) = Rs.43.39; 1 JD (Jordanian Dinar) = Rs.64.33; 1 AED (Arab Emirate Dinar) = Rs.11.81; 1 BD (Bahraini Dinar) = Rs.120.98

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(PLEASE FILL IN WITH BALL PEN ONLY)



**SOUTHERN PETROCHEMICAL INDUSTRIES CORPORATION LIMITED**

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

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

**ATTENDANCE SLIP**

Please bring this attendance slip and hand it over at the entrance of "RAJAH ANNAMALAI HALL", Chennai - 600 108.

Name & Address of the Shareholder :

.....  
.....  
.....  
.....  
.....

Folio No.

DP. ID\*

Client ID\*

\* Applicable to investors holding shares in electronic form.

I hereby record my presence at the **34<sup>th</sup> Annual General Meeting** of the Company at "RAJAH ANNAMALAI HALL", Chennai - 600 108 on **Wednesday, the 29 September 2004 at 3.00 P.M.**

Signature of the Member or Proxy

Shares Held

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**SOUTHERN PETROCHEMICAL INDUSTRIES CORPORATION LIMITED**

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

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

**PROXY**

I / We .....  
..... of .....  
in the district of ..... being a Member(s) of the above  
named Company hereby appoint Thiru .....  
of ..... in the District of .....  
or failing him Thiru .....  
of ..... in the District of .....  
as my / our proxy to vote for me / us on my / our behalf at the **34<sup>th</sup> Annual General Meeting** of the Company  
to be held on **Wednesday, the 29 September 2004 at 3.00 P.M.** and at any adjournment thereof.

Signed this ..... day of ..... 2004.

Folio No.

DP. ID

Client ID

Affix  
15 Paise  
Revenue  
Stamp

Notes : 1. The Proxy to be valid should be deposited at the Principal / Registered Office of the Company not later than 3.00 P.M. on 27 September 2004.  
2. The Proxy should be executed on 15 Paise Revenue Stamp.