

## DIRECTORS' REPORT

To

The Members,

**SOUTHERN MAGNESIUM AND CHEMICALS LIMITED,**

Your Directors hereby present the 33<sup>rd</sup> Annual Report of your Company together with the Audited Statement of Accounts and the Auditors' Report of your Company for the financial year ended, 31<sup>st</sup> March, 2019. The summarized financial results for the year ended 31<sup>st</sup> March, 2019 are as under:

**FINANCIAL REPORT / OPERATIONS:**

(Rs. In Lakhs)

Particulars	Current Year As on 31.03.2019	Previous Year As on 31.03.2018
<b>Net Sales / Income from Operations</b>	<b>441.89</b>	161.83
<b>Other income</b>	<b>4.54</b>	3.62
<b>Expenses</b>	<b>277.63</b>	241.68
<b>Exceptional items</b>	<b>0</b>	(33.30)
<b>Net Profit (+) / (Loss) before Tax for the Period</b>	<b>168.80</b>	(109.53)
<b>Tax Expenses/Deferred Tax</b>	<b>31.96</b>	1.71
<b>Net Profit (+) / (Loss) for the Period</b>	<b>136.84</b>	(107.82)

**REVIEW OF OPERATIONS:**

During the period revenue of the Company has increased to Rs.441.9 Lakhs as compared from Rs. 161.83 Lakhs of the previous year. The Company has made a profit of Rs.136.86 Lakhs in the current year against loss of Rs.107.81 lakhs in the previous year.

**DIRECTORS' RESPONSIBILITY STATEMENT**

The Board of Directors hereby confirms and declares that:

- (a) In the preparation of the annual accounts for the year ended 31<sup>st</sup> March 2019, the applicable accounting standards had been followed along with proper explanation relating to material departures;
- (b) The directors had selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year and of the statement of profit and loss of the Company for that period;
- (c) The directors had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
- (d) The directors had prepared the annual accounts for the year ended 31<sup>st</sup> March, 2019 on a going concern basis; and
- (e) The directors had laid down internal financial controls to be followed by the company and that such internal financial controls are adequate and were operating effectively.
- (f) The directors have devised proper systems to ensure compliance with the provisions of all applicable laws and that such systems were adequate and operating effectively.

**DISCLOSURES UNDER SECTION 134 OF THE COMPANIES ACT, 2013**

**1. State of affairs of the company:**

The Company deals in the business of Magnesium Metal and related goods. During the year, the Company has seen increase in terms of the Sale/profits which is reflected in the financial results of the Company.

**2. Amounts, if any, carried to reserves:**

The Board of Directors of your company has decided not to transfer any amount to the Reserves for the year under review.

**3. Dividend:**

The Company has not declared any dividend during the year under review.

**4. Inter - Corporate deposits:**

(i) The details relating to deposits are as follows: The Company has Inter Corporate Deposits, the details of which are given below.

(a) Accepted during the year - Nil

(b) Remained unpaid or unclaimed as at the end of the year – Nil

(c) Whether there has been any default in repayment of deposits or payment of interest thereon during the year and if so, number of such cases and the total amount involved at the beginning of the year; - Nil

Maximum outstanding during the year; Rs. 29, 80,000/-

Outstanding at the end of the year; - Rs. 26, 55,000/-

(ii) The details of deposits which are not in compliance with the requirements of the Act- Nil

**5. Deposits**

The Company has not accepted any deposits covered under Chapter V of the Companies Act, 2013.

**6. Number of meetings of the Board**

Secretarial Standards as applicable have been complied with. Further, 5 (five) meetings of the board were held during the year as per the details given below:

S. No.	Date of meeting	Total No. of Directors on the Date of Meeting	No. of Directors attended	% of Attendance
1.	29.05.2018	6	6	100
2.	14.08.2018	6	5	83.33
3.	29.09.2018	6	5	83.33
4.	13.11.2018	6	5	83.33
5.	06.02.2019	6	5	83.33

**7. Material changes and commitments, if, any, affecting the financial position of the company which have occurred between the end of financial year of the company to which the financial statements relate and the date of the report:**

There are no material changes and commitments affecting the financial position of the Company occurred between the end of the financial year to which these financial statements relate on the date of this report.

**8. Board Evaluation:**

The board of directors has carried out an annual evaluation of its own performance, Board Committees and individual directors pursuant to the provisions of the Act and the corporate governance requirements to the extent applicable as prescribed by Securities and Exchange Board of India ("SEBI").

The performance of the Board was evaluated by the Board after seeking inputs from all the directors on the basis of the criteria such as the Board composition and structure, effectiveness of board processes, information and functioning, etc.

The performance of the committees was evaluated by the board after seeking inputs from the committee members on the basis of the criteria such as the composition of committees, effectiveness of committee meetings, etc.

The Board and the Nomination and Remuneration Committee (“NRC”) reviewed the performance of the individual directors on the basis of the criteria such as the contribution of the individual director to the board and committee meetings like preparedness of the issues to be discussed, meaningful and constructive contribution and inputs in meetings, etc.

In a separate meeting of Independent Directors, performance of Non- Independent directors, performance of the Board as a whole taking into account the views of Executive Directors and Non-Executive Directors was considered. The same was discussed in the board meeting that followed the meeting of the Independent Directors, at which the performance of Board, its committee and individual directors was also discussed.

## **9. Policy on Directors’ appointment and remuneration and others details:**

The company’s policy on Directors appointment and remuneration and other matters provided in section 178 of the Companies Act are as under:

### **NOMINATION AND REMUNERATION POLICY OF SOUTHERN MAGNESIUM AND CHEMICALS LIMITED**

#### **INTRODUCTION**

The Remuneration Policy of Southern Magnesium and Chemicals Limited (the “Company”) is aligned with the compensation philosophy of its competitors which is to pay competitively and reward performance. To achieve this philosophy, total compensation is based on employee’s role, market value of job and employees contributions.

This Policy is designed to attract, motivate, and retain talent by creating a congenial work environment, encouraging initiatives, personal growth and team work, and inculcating a sense of belonging and involvement, besides offering appropriate remuneration packages and retirement benefits.

The policy reflects the Company’s objectives for good corporate governance as well as sustained long term value creation for shareholders.

This Remuneration Policy applies to Directors and senior management including its Key Managerial Personnel (KMP) of the Company.

## **1. DEFINITIONS**

**Act** means the Companies Act, 2013 and Rules framed there under, as amended from time to time.

**“Board”** means Board of Directors of the Company.

**“Committee”** means Nomination and Remuneration Committee constituted by the Board

**“Directors”** mean Directors of the Company.

**“Key Managerial Personnel”** means

Chief Executive Officer or the Managing Director or Manager

Whole-time director;

Chief Financial Officer;

Company Secretary; and such other officer as may be prescribed by the Companies Act, 2013.

“**Executive Directors**” mean Managing Director/ Joint Managing Director and Whole Time Director, if any.

“**Senior Management**” means personnel of the company who are members of senior leadership typically vice presidents or equivalent and higher position levels.

## **2. GUIDING PRINCIPLE**

The guiding principle is that the remuneration and the other terms of employment should effectively help in attracting and retaining talented employees.

While designing remuneration packages, industry’s best practices, cost of living and potential of employees are also taken into consideration.

## **3. POLICY RELATING TO THE REMUNERATION FOR THE WHOLE-TIME DIRECTOR, KMP AND SENIOR MANAGEMENT PERSONNEL**

### **3.1. General:**

- a) The remuneration package of KMP will be determined by the Committee and recommended to Board for approval. In addition, the approval of the shareholders of the Company and Central Government, wherever required, will be obtained for the remuneration package of Executive Directors. The remuneration package of other senior management personnel will be recommended by Managing Director and Jt. Managing Director and be submitted to Committee for approval.
  - b) The remuneration package of Executive Directors shall be in accordance with the percentage / slabs / conditions laid down in the Act.
  - c) Increments to the existing remuneration package of Executive Directors may be recommended by the Committee to the Board which should be within the slabs approved by the Shareholders.
- 3.2. Where any insurance is taken by the Company on behalf of its Directors, Executive Directors, Whole-time Director, Chief Executive Officer, Chief Financial Officer, the Company Secretary and any other employees for indemnifying them against any liability, the premium paid on such insurance shall not be treated as part of the remuneration payable to such personnel.

## **4. REMUNERATION TO EXECUTIVE DIRECTORS KMP AND SENIOR MANAGEMENT PERSONNEL:**

### **4.1.1. Pay and Allowances:**

The Executive Directors, KMP and Senior Management Personnel shall be eligible for a monthly remuneration as may be approved by the Committee or Board on the recommendation of the Committee. The remuneration comprises of basic pay and allowances in addition to perquisites such as contribution to Provident Fund, Gratuity, group life insurance, group medical insurance etc.

#### **4.1.1.1. Minimum Remuneration:**

If, in any financial year, the Company has no profits or its profits are inadequate, the Company shall pay remuneration to its Executive Directors in accordance with the provisions of Schedule V of the Act and if it is not able to comply with such provisions, with the previous approval of the Central Government.

**4.1.1.2. Provisions for excess remuneration:**

If any Whole-time Director draws or receives, directly or indirectly by way of remuneration any such sums in excess of the limits prescribed under the Act or without the sanction of the Central Government, where required, he / she shall refund such sums to the Company and until such sum is refunded, hold it in trust for the Company. The Company shall not waive recovery of such sum refundable to it unless permitted by the Central Government.

**5. Remuneration to Independent Directors:****5.1. Remuneration/Commission:**

The remuneration/commission shall be fixed as per the slabs and conditions mentioned in the Act.

**a) Sitting Fees:**

Independent Director may receive remuneration by way of fees for attending meetings of Board or Committee thereof. Provided that the amount of such fees shall not exceed the amount fixed by the Board from time to time.

**b) Commission:**

Commission may be paid within the monetary limit approved by shareholders, subject to the limit not exceeding 1% of the profits of the Company computed as per the applicable provisions of the Act.

**c) Stock Options:**

An Independent Director shall not be entitled to any stock options of the Company.

**d) Expenses for attending meetings**

The expenses incurred by the Independent Directors for attending the meetings of Board of Directors and Committees of the Board shall be reimbursed by the Company or alternatively the Company may provide air tickets, lodging facility and conveyance to the Independent Directors.

**6. Disclosure of information**

Information on the total remuneration of members of the Company's Board of Directors, Whole time Directors and KMP/senior management personnel may be disclosed in the Company's annual financial statements/ Annual Report as per statutory requirements.

**7. Application of the Remuneration Policy**

This Remuneration Policy shall continue to guide all future employment of Directors, Company's Senior Management including Key Managerial Personnel.

**8. Performance evaluation criteria for Independent Directors:**

The Board of Directors evaluates the performance of independent directors on yearly basis.

**a. All pecuniary relationship or transactions of the non-executive directors**

The Company has paid Rs. 2000/- as fees for attending Board meetings to Mr. Eshwariah Kaparthi (Non-Executive- Independent Director) during the financial year ended on March 31, 2019.

**9. Disclosure with respect to remuneration:**

No other element of remuneration package is paid to the Non-Executive Directors except payment of sitting fees to the Independent Non Executive Director as disclosed above.

The Company did not issue any stock options during the year.

**10. Audit Committee:**

The Composition of Audit Committee as on March 31, 2019 is as follows:

Name	Category	Designation
Mr. G. Raghavendra Rao	Independent Non- Executive Director	Chairperson
Mr. V. S. S. Prakash	Independent Non- Executive Director	Member
Mr. K. Eshwaraih	Independent Non- Executive Director	Member
Mr. N. Rajender Prasad	Executive Director	Member

Four meetings of the committee were held during the year as per the details given below:

S. No.	Date of meeting	Total No. of Directors on the Date of Meeting	No. of Directors attended	% of Attendance
1.	29.05.2018	4	4	100
2.	14.08.2018	4	4	100
3.	13.11.2018	4	4	100
4.	06.02.2019	4	3	75

All members of Audit Committee are financially literate and have accounting and related financial management expertise.

**11. Stakeholder Relationship Committee:**

The Composition of **Stakeholder relationship committee** as on March 31, 2019 is as follows:

Name	Category	Designation
Mr. G. Raghavendra Rao	Independent Non- Executive Director	Chairperson
Mr. V. S. S. Prakash	Independent Non- Executive Director	Member
Mr. K. Eshwaraih	Independent Non- Executive Director	Member
Mr. N. Rajender Prasad	Executive Director	Member

One Meeting of the committee was held during the year on 14.08.2018 which was attended by all committee members.

**12. Nomination and remuneration Committee:**

The Composition of Nomination and remuneration Committee as on March 31, 2019 is as follows:

Name	Category	Designation
Mr. G. Raghavendra Rao	Independent Non- Executive Director	Chairperson
Mr. V. S. S. Prakash	Independent Non- Executive Director	Member
Mr. K. Eshwaraih	Independent Non- Executive Director	Member
Mr. N. Rajender Prasad	Executive Director	Member

Two meetings of the committee were held during the year as per the details given below:

S. No.	Date of meeting	Total No. of Directors on the Date of Meeting	No. of Directors attended	% of Attendance
1.	19.09.2018	4	4	100
2.	06.02.2019	4	3	75

**13. Internal Financial Control Systems and their Adequacy**

The details in respect of internal financial control and their adequacy are included in the Management Discussion and Analysis which forms part of this report.

**14. Declaration by Independent Directors:**

The Company has received necessary declaration from each Independent Directors under Section 149(7) of the Companies Act, 2013, that they meets criteria of Independence laid down in Section 149(6) of the Companies Act, 2013 and Regulation 16 (1) (b) of the Listing Regulations and have complied with the Code for Independent Directors prescribed in Schedule IV to the Companies Act, 2013.

**15. Risk Management:**

The Board of the company regularly reviewed and has adopted measures to frame, implement and monitor the risk management plan for the company. The Board is responsible for reviewing the risk management plan and ensuring its effectiveness. The audit committee has additional oversight in the area of financial risks and controls. Major risk indentified, if any, by the business functions are systematically addressed through mitigating actions on a continuing basis.

**16. Particulars of Loans, Guarantees or Investments under Section 186 of the Companies Act, 2013:**

There were no loans, guarantees or investments made by the Company under Section 186 of the Companies Act, 2013 during the year under review.

**17. Particulars of contracts or arrangements made with related parties:**

No transactions/contracts/arrangements of the nature as specified in Sec.188 (1) of the Companies Act, 2013 entered by the company during the year under review with related party/parties.

During the year, the Company had not given Loans and Advances in the nature of Loans to firm/companies in which directors are interested.

**18. The change in the nature of business, if any:**

There was no change in the nature of Business.

**19. The details of directors or key managerial personnel who were appointed or have resigned during the year:**

The Board at their meeting held on 2<sup>nd</sup> February, 2019, on the recommendation of the Nomination and Remuneration Committee, re-appointed Mr. N Ravi Prasad as Managing Director and Chief Executive officer of the Company subject to the approval of the Members for a period of three years with effect from 13.11.2019.

The Board at their meeting held on 2<sup>nd</sup> February, 2019, on the recommendation of the Nomination and Remuneration Committee, re-appointed Mr. N Rajender Prasad as Joint Managing Director and Chief Financial officer of the Company subject to the approval of the Members for a period of three years with effect from 10.08.2019

The Board at the meeting held on 14.08.2019, on the recommendation of the Nomination and Remuneration Committee, approved re-appointment of Mr. Surya Sessa Prakash Valluru, Mr. Eshwariah Kaparthi and Mr. G. Raghavendra Rao as Independent Directors of the Company for a further period of five years with effect from 14.08.2019 subject to approval of the members at this ensuing Annual General Meeting.

The Board at their meeting held on 29.09.2019 approved appointment of Ms. Ekta Sharma, Member of the Institute of Company Secretaries of India, as Company Secretary and compliance officer w.e.f 01.10.2018. However she had resigned from the company on 15.04.2019.

**20. The names of companies which have become or ceased to be its Subsidiaries, joint ventures or associate companies during the year:**

The Company does not have any Subsidiary, Joint venture or associate company which have become or ceased to be its Subsidiaries, joint ventures or associate company during the year.

**21. The details of significant and material orders passed by the regulators or courts or tribunals impacting the going concern status and company's operations in future:**

There are no material orders passed by the regulators or courts or tribunals impacting the going concern status and company's operations in future. However the company has received few e-mails asking clarifications from stock exchange for which company has replied accordingly.

**22. Particulars of Employees:**

The information required under section 197 of the act read with rule 5(1) of the Companies (Appointment and Remuneration of Managerial Personnel) Rules 2014, are given below:

**a. The ratio of remuneration of each director to the median remuneration of the employees of the company for the financial year:**

Non Executive Directors	Ratio to median remuneration
Mr. Raghavendra Rao Griddalur	NA
Mr. Surya Sesha Prakash Valluru	NA
Mr. Kaparathi Eshwaraih	NA
Mrs. E.Mahalakshmi	NA

Executive Directors	Ratio to median remuneration
Mr. N. Ravi Prasad	14.32:1
Mr. N. Rajender Prasad	13.11:1

**b. The percentage increase or decrease in remuneration of each Director, Chief Executive Officer, Chief Financial Officer, Company Secretary in the financial year:**

Director, chief executive officer, chief financial officer, company secretary	% of increase in remuneration in the financial year
Mr. N. Ravi Prasad –MD and CEO	10.84
Mr. N. Rajender Prasad – Jt.MD and CFO	3.92

**c. The percentage decrease in median remuneration of employees in the financial year : - (6.25)%**

**d. The number of permanent employees on the rolls of the company: 20**

**e. average percentile increase already made in the salaries of employees other than the managerial personnel in the last financial year and its comparison with the percentile increase in the managerial remuneration and justification thereof and point out if there are any exceptional circumstances for increase in the managerial remuneration:**

Average increase in salaries of employees other than managerial personnel in 2018-19 was 7.30%

Average increase in salaries of managerial personnel in 2018-19 was 7.42%.

**f. Affirmation that the remuneration is as per the remuneration policy of the company:**

The Company affirms remuneration is as per the Remuneration policy of the company.



**23. The details about the policy developed and implemented by the company on corporate social responsibility initiatives taken during the year:**

The Company has not developed and implemented any Corporate Social Responsibility initiatives as the said provisions are not applicable.

**24. Disclosure as per Sexual Harassment of Women at Work Place (Prevention, Prohibition and Redressal) Act, 2013:**

Your company has zero tolerance for sexual harassment at work place and has adopted a policy on prevention, prohibition and Redressal of sexual harassment at work place in line with the provision of Sexual Harassment of Women at Work Place (Prevention, Prohibition and Redressal) Act, 2013 and rules framed there under.

No complaints have been received by the company on sexual harassment during the financial year 2018-2019.

**25. Disclosure Requirements:**

As per Regulation 15 of SEBI (LODR), 2015, corporate governance report with certificate from Practising Company Secretary thereon is **not** applicable to the company. Management Discussion and Analysis as required is attached hereunder and forms part of this report.

The company has formulated a whistle blower policy. A copy of the same is made available at the registered office of the company and also at the website of the company. The provisions of this policy are in line with the provisions of section 177(9) of the act.

Your Company has a vigil mechanism to deal with instances of fraud and mismanagement, if any. The Whistle Blower Policy enables reporting of unethical behaviour, actual or suspected fraud or violation of the Company's code of conduct or ethics policy, to the management. The vigil mechanism also ensures strict confidentiality is maintained and provides adequate safeguards against victimization of employees who avail of the mechanism and also provided for direct access to the Chairman of the Audit committee in exceptional cases.

**26. Auditors:**

Company has appointed M/s. Brahmayya & Co., Chartered Accountants (Firm Registration No. 000513S) Hyderabad, as Statutory Auditors of the Company at its AGM held on 29.09.2017 to hold office as statutory auditor for a period of five years and being eligible they continue to hold office.

**27. Auditors Report:**

Management replies to the observations, comments and qualifications made by the statutory auditor are as under:

- i) **The Company did not have an appropriate internal control system for customer acceptance, credit evaluation and establishing customer credit limits for sales, which could potentially result in the Company recognizing revenue without establishing reasonable certainty of ultimate collection.**

The company largely deals with government entities and has not had any default in customer payments in past 3 years and directors are positive about payment from existing parties.

**28. Secretarial Auditors' Report:**

The company has appointed M/s D. Hanumanta Raju & Co, Company Secretaries, Hyderabad as the Secretarial Auditor of the company to undertake audit as per the provisions of section 204 of the Companies Act, 2013 and the report of the secretarial auditor is annexed to this report. Management's reply to the observations, comments and qualifications made by the secretarial auditor are as under:

1. ***The Company had "Company Secretary" and the "Compliance Officer" as required under Section 203(1) of the Companies Act, 2013 read with Rule 8 of Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014 and Regulation 6(1) of SEBI (LODR) Regulations, 2015 from 01.10.2018 till 15.04.2019.***

The board of directors of the company post resignation of Ms. Ekta Sharma have discussed that the company is required to appoint a Company Secretary as per the provisions of section 203 of the Companies Act 2013, and the relevant rules made thereunder and as per SEBI (LODR) Regulations, 2015.

They have discussed the requirement of a good candidate with a few professionals and reputed Practicing Company Secretaries and Chartered Accountants known to them and are hoping to find a suitable candidate soon to meet the requirements as per the Act and the Regulations.

2. ***The company has received few emails asking for clarifications from Stock Exchange. The company replied to such notices & there is no further communication/ information from Stock Exchange.***

The company has received few emails asking clarifications from stock exchange. Company replied to these and there is no further communication/ information from stock exchange. If any further communication/ information will be required by stock exchange, the same will be relevantly replied and dealt with by the company.

3. ***As required under Regulation 31(2) of Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, hundred percent of the shareholding of promoters and promoters group in not in dematerialized form.***

The board of directors of the company is discussing the matter with the promoters and has requested them to complete de-materialization of their share holding immediately.

**29. Annual Return Web Link:**

Pursuant to the provisions of Section 36 of the Companies (Amendment) Act, 2017 notified effective from July 31, 2018 read with Section 92(3) of the Companies Act 2013, the prescribed return is placed on the Company's website www.southernmagnesium.com. Further Form MGT-9 is attached as an annexure to this report.

**30. Conservation of energy, technology absorption, foreign exchange earnings and outgo:**

The information pertaining to conservation of energy, technology absorption, Foreign exchange Earnings and outgo as required under Section 134 (3)(m) of the Companies Act, 2013 read with Rule 8(3) of the Companies (Accounts) Rules, 2014 is as under

<b>(A) Conservation of energy</b>	<b>:</b>	<b>NIL</b>
<b>(B) Technology absorption</b>	<b>:</b>	<b>Not Applicable</b>
<b>(C) Foreign exchange earnings</b>	<b>:</b>	<b>NIL</b>
<b>(D) Foreign exchange outgo</b>	<b>:</b>	<b>Rs.80,60,685/-</b>

**31. Maintenance of Cost Records:**

Maintenance of cost records is not specified by the Central Government under sub-section (1) of section 148 of the Companies Act, 2013 to our company.

**32. Acknowledgement:**

Your Directors wish to place on record their gratitude to shareholders and thank the customers, bankers, vendors, State and Central Governments Authorities for their continued support to your Company's growth. Your Directors also wish to place on record, their appreciation for the contribution made by the employees at all levels, who, through their competence, sincerity, hard work, solidarity and dedicated support enabled to your company to make continued progress.

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

**Sd/-**

**N. Rajender prasad**

Jt. Managing Director & CFO  
(DIN- 00145659)

**Sd/-**

**N. Ravi Prasad**

Managing Director & CEO  
(DIN- 00319537)

**Place :** Hyderabad  
**Date :** 14.08.2019