



INDSIL

INDSIL ELECTROSMELTS LIMITED

16TH ANNUAL REPORT FOR THE YEAR ENDED 30TH JUNE 2006

BOARD OF DIRECTORS

SRI.S.N.VARADARAJAN
CHAIRMAN & MANAGING DIRECTOR

SRI.VINOD NARSIMAN
CHIEF EXECUTIVE OFFICER

SRI S. INDERCHAND

SRI B. BALCHAND

SMT. D. PUSHPA VARADARAJAN

DR. S. RAMA IYER

SRI K.S. MAHADEVAN

SRI M.K. RAVINDRANATHAN, IAS (RETD.)
NOMINEE OF KSIDC

DR. A.K. SREEDHARAN

SMT. S. USHA
NOMINEE OF IDBI

SRI SAJI V. MATHEW

COMPANY SECRETARY

SRI S. MAHADEVAN

AUDITORS

M/S. K.S.G. SUBRAMANYAM & CO.,
CHARTERED ACCOUNTANTS, COIMBATORE

INTERNAL AUDITORS

M/S. SURI & CO.,
CHARTERED ACCOUNTANTS, COIMBATORE

REGISTRAR & SHARE TRANSFER AGENT
(PHYSICAL & DEMAT)

SKDC CONSULTANTS LTD.
No.11, Street No.1
S.N. Layout, West Power House Road, Tatabad
COIMBATORE 641 012
Phone : 0422 - 6549995
E-mail : info@skdc-consultants.com

BANKERS

STATE BANK OF INDIA
STATE BANK OF TRAVANCORE
THE FEDERAL BANK LIMITED
INDUSTRIAL DEVELOPMENT BANK OF INDIA
LIMITED
UTI BANK LIMITED

REGISTERED & ADMN. OFFICE

'INDSIL HOUSE', T.V.SWAMY ROAD. WEST
R.S.PURAM, COIMBATORE 641 002

WORKS

SMELTER UNIT

VI-679 PALLATHERI
ELAPULLY
PALAKKAD 678 007
KERALA

RAJAKKAD HYDRO ELECTRIC POWER PLANT

VIII/351 RAJAKKAD
IDUKKI DISTRICT - 685 566
KERALA

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NOTICE OF THE 16th ANNUAL GENERAL MEETING

NOTICE is hereby given that the 16th Annual General Meeting of the Company will be held at Chamber Towers, 8/732 Avanashi Road, Coimbatore 641 018 on Monday, the 18th December 2006 at 10.15 A.M. to transact the following business :

Members are requested to make it convenient to attend the meeting.

AGENDA

ORDINARY BUSINESS

1. To receive, consider and adopt the audited Balance sheet as at 30th June, 2006 and Profit & Loss Account for the year ended on that date and the Reports of the Auditors and Directors of the Company.
2. To declare dividend on equity shares.
3. To appoint a Director in place of Smt. D. Pushpa Varadarajan who retires from office by rotation, but being eligible, offers herself for reappointment.
4. To appoint a Director in place of Sri.S. Inderchand who retires from office by rotation, but being eligible, offers himself for reappointment.
5. To appoint Auditors to hold office from the conclusion of this Annual General Meeting till the conclusion of the next Annual General Meeting on such remuneration as may be decided by the Board of Directors of the Company. The retiring Auditors M/s. K.S.G. Subramanyam & Co., Chartered Accountants are eligible for reappointment.

SPECIAL BUSINESS

6. To consider and if thought fit to pass with or without modification the resolution under Section 293 (1)(a) and other related provisions of the Companies Act, 1956 regarding creation of charge on the assets of the company as an Ordinary Resolution.

"RESOLVED THAT consent of the company be and is hereby accorded to the Board of Directors of the company in terms of Section 293(1)(a) and other applicable provisions, if any, of the Companies Act, 1956, to mortgage and/or charge on all the immovable and movable properties of the company whatsoever situated both present and future and/or conferring power to enter upon and take possession of the assets of the company in certain events to or in favour of Industrial Development Bank of India Limited (IDBI) to secure :

- a. Repayment of Corporate Loan of Rs.100 Lakhs.
- b. Interest thereon at the respective agreed rates, compound interest, additional interest, liquidated damages, commitment charges, premia on prepayment or redemption, costs, charges, expenses and other monies payable by the company to IDBI under the loan agreement to be entered into by the company in respect of the said Corporate Loan. "

"RESOLVED FURTHER THAT the Board of Directors of the Company be and is hereby authorised to finalise with IDBI the documents for creating aforesaid mortgage and/or charge and to do all such acts, and things as may be necessary for giving effect to the above resolution "

"RESOLVED FURTHER THAT for the purpose of giving effect to the above resolutions, the Board be and is hereby authorised to do all such acts, deeds, matters and things and execute all such deeds, documents, instruments and writings as it may in its absolute discretion deem necessary or desirable and pay fees and commission and incur expenses in relation thereto".



7. To consider and if thought fit to pass with or without modification the resolution under Section 293 (1)(d) and other related provisions of the Companies Act, 1956 regarding borrowing powers as an Ordinary Resolution.

“RESOLVED THAT pursuant to the provisions of Section 293(1)(d) and other applicable provisions, if any, of the Companies Act, 1956, the consent of the members of the company be and is hereby accorded to the Board of Directors of the Company (“the Board”) to borrow such sums of money as may be considered fit for the purpose of the business of the company notwithstanding that the monies to be so borrowed together with the monies already borrowed by the Company (apart from temporary loans obtained from the Company's bankers in the ordinary course of business) may exceed the aggregate of the paid up share capital and free reserves of the Company, provided however, that the total borrowings at any one time and outstanding shall not exceed Rs.250 Crores.”

“RESOLVED FURTHER THAT for the purpose of giving effect to the above resolution, the Board be and is hereby authorized to do all such acts, deeds, matters and things as it may in its absolute discretion consider necessary, proper, desirable and to settle any question, difficulty, or doubt that may arise in this regard.”

8. To consider and if thought fit to pass with or without modification the resolution under Section 293 (1)(a) and other related provisions of the Companies Act, 1956 regarding creation of charge on the assets of the company as an Ordinary Resolution.

" RESOLVED THAT consent of the company be and is hereby granted in terms of Section 293 (1)(a) and all other applicable provisions, if any, of the Companies Act, 1956, (including any statutory modifications or re-enactment thereof, for the time being in force) to the Board of Directors to mortgage and/or charge either as first charge or second or subsequent charge in addition to the mortgages/ charges created / to be created by the Company in such form and manner and with such ranking and at such time and on such terms as the Board may determine, on all or any of the moveable and/or immovable properties of the Company, both present and future and/or the whole or any part of the undertaking(s) of the company together with the power to take over the management of the business and concern of the company in the events of defaults, in favour of the Financial Institutions, Banks, other Lender(s), Agent(s) and Trustee(s), person(s) entities which give, provide or extend loans/facilities for securing the borrowings of the company availed/to be availed by way of Loan(s)/Working capital facilities/Deferred Payment Guarantees/Equipment Finance/Asset Credit Schemes (in foreign currency or rupee currency) and other Securities comprising convertible/Non convertible Debentures/Bonds, Foreign Currency Bonds (FCBs), Foreign Currency Convertible Bonds (FCCBs), issue of Securities/Bonds/Warrants/any other debt instruments to the Qualified Institutional Buyers, Indian Financial Institutions, Mutual Funds or any Bodies Corporate/Lenders or other debt instruments issued/to be issued by the Company from time to time subject to an aggregate sum of Rs.250 Crores (Rupees Two Hundred and Fifty Crores only) together with interest at the respective agreed rates, additional interest, compound interest in case of default, accumulated interest, liquidated damages, commitment charges, premium (if any) on redemption, all other costs, charges and expenses, including any increase as a result of devaluation/revaluation/fluctuation in the rates of exchange and all other monies payable by the Company in terms of the loan Agreement(s)/Heads of Agreement(s) or any other document, entered into/to be entered into between the Company and the Financial institutions, Banks, Other Lenders, Agents(s) and Trustee(s) in respect of the said loans, borrowings/debentures and containing such specific terms and conditions and covenants in respect of the enforcement of security as may be stipulated in that behalf and agreed to between the Board of Directors or Committee thereof and the Financial Institutions, Banks, Other Lenders, Agent(s)/Trustee(s)."

“RESOLVED FURTHER THAT for the purpose of giving effect to the resolution, the Board/Committee of Directors be and is hereby authorized and empowered to enter into, sign, seal and execute and deliver such arrangements, assignments, conveyances, covenants, contracts and to finalise, settle and execute such documents/deeds/writings/paper/other instruments/agreements as may be required and do all such acts, deeds, matters and things, as it may in its absolute discretion deemed necessary, proper or desirable and to settle any question, difficulty or doubt that may arise in regard to creating mortgages/charges as aforesaid.”

9. To consider and if thought fit, to pass, with or without modification(s), the following resolution as an Ordinary Resolution regarding appointment of Director under section 257 of the Companies Act, 1956.

“RESOLVED THAT Sri Saji V. Mathew who was co-opted as an Additional Director of the Company on the Board as per Article 72 of the Articles of Association of the Company and who holds office till the conclusion of the ensuing Annual General Meeting be and is hereby appointed as a Director of the Company.”

Place : Coimbatore
Date : 25.10.2006

By Order of the Board

S.MAHADEVAN
Company Secretary.



NOTES FOR MEMBERS' ATTENTION:

1. A member entitled to attend and vote at the Annual General Meeting is entitled to appoint a proxy to attend and vote instead of himself and the proxy need not be a member of the Company. The proxy form should be lodged at the Registered Office of the Company atleast 48 hours before the commencement of the meeting.
2. The Register of Members and Share Transfer Books of the Company will remain closed from 15.12.2006 to 18.12.2006. (Both days inclusive)
3. Details in respect of appointment/reappointment of Directors retiring by rotation, pursuant to Clause 49 of the Listing Agreements are annexed hitherto.
4. Consequent upon amendment in Section 205A of the Companies Act, 1956 and introduction of Section 205C by the Companies (Amendment) Act, 1999, the amount of dividend remaining unclaimed for a period of seven years shall be transferred to the Investor Education and Protection Fund of the Central Government and no payments shall be made in respect of any such claims by the Fund. After completion of seven years, unclaimed dividend amount for the financial years 1995-96, 1996-97 and 1997-98 were transferred to the abovesaid fund accordingly. Members who have not encashed their Dividend Warrants for the subsequent years are requested to make their claim to the Company.
5. Members holding shares in physical form are requested to notify change in their address, if any, to the Registrar & Share Transfer Agent of the Company and Members holding shares in dematerialised form are requested to notify change in their address to their respective Depository Participants.
6. Members are requested to bring their copy of the Annual Report to the Annual General meeting. No fresh copies will be issued at the Meeting.
7. Members who have not yet given their Bank's Name, Address and Account Number are requested to furnish the same to the Registrar & Share Transfer Agent of the Company.
8. The equity shares of the Company are listed on The Bombay Stock Exchange Ltd., The Annual Listing fee has been paid upto date to the said exchange.
9. Members who have multiple accounts in identical names or joint accounts in same order are requested to send all their share certificates to the Registrar & Share Transfer Agent of the Company for consolidation of all such shareholding into one account to facilitate better service.
10. For the convenience of the Members, an attendance slip is annexed to the proxy form. Members are requested to affix their signatures at the space provided and hand over the attendance slip at the place of the meeting.
11. All the documents referred to in the Notice of the AGM are open for inspection at the Registered Office of the Company during the office hours (9.30 A.M to 5.30 P.M) on all working days except Holidays before the date of the Annual General Meeting.
12. Shareholders seeking any information with regard to accounts are requested to write to the Company seven days prior to the meeting so as to enable the management to keep the information ready.
13. Equity shares of the Company have been placed under Compulsory Demat Trading. Members who have not dematerialised their physical holding in the Company are advised to avail the facility of dematerialisation of equity shares of the Company.
14. The ISIN of the equity shares of your Company is **INE867D01018**.

Place : Coimbatore
Date : 25.10.2006

By Order of the Board

S.MAHADEVAN
Company Secretary.



INDSIL

EXPLANATORY STATEMENT :

As required by Section 173 of the Companies Act, 1956, the following Explanatory Statement sets out all material facts relating to the business mentioned under Item Nos. 6 to 9 of the accompanying Notice dated 25.10.2006.

ITEM NO.6

Industrial Development Bank of India Ltd., (IDBI), vide their Sanction Letter no.IDBI/CMB/30 CB.34 dated 18th April 2006 and Individual Facility sanction letter no. IDBI/CMB/31 CB.34 dated 18th April 2006 has sanctioned a Corporate Loan of Rs. 100 Lakhs towards meeting the general corporate requirements. As per Section 293 (1)(a) of the Companies Act, 1956, shareholders' approval is required for mortgaging/charging the assets of the Company in this regard.

The Board of Directors recommend the resolution and the same is placed before the shareholders for their approval.

None of the Directors of the Company are concerned or interested in this resolution.

ITEM NO. 7

Your company may be in need of funds from time to time for expansion and for investment in new projects. In order to accommodate borrowings to meet the requirements of funds for implementation of its proposed expansion projects, the permission of the shareholders is sought to enable the company to borrow a sum not exceeding Rs.250 Crores.

As per Section 293(1)(d) of the Companies Act, 1956, the Board of Directors of a Public company shall not except with the consent of the Company in general meeting, borrow in excess of the aggregate of the paid up capital and its free reserves.

The Board of Directors recommend the resolution and the same is placed before the shareholders for their approval.

None of the Directors are concerned or interested in this resolution.

ITEM NO. 8

Section 293(1)(a) of the Companies Act, 1956, however, does not require approval of members for obtaining of loans by mortgaging of whole or substantially whole of undertaking except in case of usufructuary mortgage. But in practice, Financial Institutions/Banks insist for the members' approval. Keeping in view the increase in borrowing powers as well, it is felt that it may be necessary to pass an enabling resolution to mortgage and/or charge the properties of the Company present and future in favour of the Banks and Financial Institutions, Trustees etc., for securing the requisite finance upto a maximum of Rs.250 Crores (Rupees Two Hundred and Fifty Crores only).

The Board of Directors recommend the resolution and the same is placed before the shareholders for their approval.

None of the Directors are concerned or interested in this resolution.

ITEM NO.9

Sri Saji V. Mathew was co-opted as an Additional Director of the Company with effect from 19th April 2006. He holds office upto the conclusion of the ensuing Annual General Meeting.

A Notice proposing Sri Saji V. Mathew as a Director has been received from a shareholder alongwith a deposit of Rs.500/- as required under Section 257 of the Companies Act, 1956. Sri Saji V. Mathew has given his consent to act as Director, if so appointed.

The Board of Directors recommend the resolution and the same is placed before the shareholders for their approval.

None of the Directors, except Sri Saji V. Mathew are interested in this resolution.

Place : Coimbatore
Date : 25.10.2006

By Order of the Board

S.MAHADEVAN
Company Secretary.



Details of the Directors seeking appointment/reappointment at the forthcoming Annual General Meeting

Sri. Saji V. Mathew (Non-executive Director) was appointed as an Additional Director by the Board of Directors at its meeting held on 19th April 2006.

He has the necessary qualification for discharging the functions of an Occupier and to administer the Factories Act and other connected legislations. He is backed by 14 years of industrial experience in the areas relating to personnel and administration of factory functions.

Sri.S.Inderchand (Non-executive Director) is a reputed businessman of Coimbatore region with considerable contacts among business communities. He joined the Board since the date of the Company's inception. He is also the Member of the Shareholders Grievances Committee and Share Transfer Committee.

Smt.D.Pushpa Varadarajan, B.A B.Ed., (Non Executive Director) is the wife of Sri S.N. Varadarajan, Chairman & Managing Director and she is the first Director of the Company since its inception. She is also the Member of the Shareholders'/Investors' Grievance Committee and Share Transfer Committee.

Place : Coimbatore
Date : 25.10.2006

By Order of the Board

S.MAHADEVAN
Company Secretary.



DIRECTORS' REPORT

To

The Shareholders,
Indsil Electrosmelts Limited,
'INDSIL House'
T.V Swamy Rd. West
R.S. Puram
COIMBATORE 641 002.

Ladies and Gentlemen,

Your Directors have great pleasure in presenting the 16th Annual Report of your Company together with the Audited statement of accounts for the year ended 30th June 2006.

FINANCIAL RESULTS

Rs. in lakhs

Particulars	2005-06	2004-05
Profit before depreciation and Financial charges	1088.35	1820.16
Less : Financial charges	382.71	475.12
Profit before Depreciation	705.64	1345.04
Less : Depreciation	345.76	343.11
Profit before tax	359.88	1001.93
Less : Provision for Tax	27.47	141.27
Add : Deferred Tax asset	25.55	16.62
Profit after tax	357.96	877.27
Add : Balance brought forward	581.36	(-)215.11
Surplus available for appropriation	939.32	662.16
Less: Proposed Dividend	94.49	70.87
Less: Tax on Proposed Dividend	13.25	9.94
Balance to be carried over to Balance sheet	831.58	581.36

OPERATIONS:

The year 2005-06 witnessed a major glut in the ferro alloy markets worldwide. This led to a severe squeeze in operating margins. Consequently, extended periods of shut down were taken at your company's smelter division and this led to poor operating performance from this division.

Adding to the problem was the fact that manganese ore prices remained high through the year and for most part of the year, there was very little parity between the price of finished alloy and the key input, manganese ore.

However, the hydro electric power plant witnessed two very good monsoon seasons and this led an average PLF of around 33%. The HPP has seen the best year since inception.

The performance of the hydel division largely made up for the losses in the smelter division and overall, the company managed to record a PBDIT of Rs.1088 Lakhs and PBT of Rs.359.88 Lakhs. In the above, the hydel division recorded a PBDIT of Rs.1746 Lakhs (net) and the smelter division recorded a PBDIT of (-) Rs.658 Lakhs.

The hydro electric power division generated a total of 520 lakh units during the monsoon year 2005-06.

FUTURE PROSPECTS :

Low carbon Silico Manganese prices have started looking up towards the end of the year. The stainless steel industry, after a brief lull, has started picking up steam and is expected to drive demand for your company's products in a strong manner.

The coming year should witness stable operating profits on the smelter side and the hydro electric division subject to normal monsoon conditions, should witness an average PLF of about 25%.

Your company has recently acquired rights to set up hydro electric power projects totaling to 20 MW capacity in the State of Kerala. The company is also bidding for rights to set up another 8 to 10 MW and in sum total, generating capacity of the hydro electric division is expected to touch 50 MW by the year 2008-09 yielding operating profits of about Rs.75 crores per annum.



FINANCE :

Long term debt levels have come down from Rs.3034 Lakhs to Rs.2561 Lakhs during the year. The average interest cost on long term debts is now at 10%

SHIFTING OF REGISTERED OFFICE

The Registered Office of the Company was shifted from 49 Avanashi Road, Coimbatore 641 037 to 'INDSIL House', T.V Swamy Rd. West, R.S. Puram, Coimbatore 641 002 for administrative convenience with effect from 17th April 2006.

DIVIDEND :

Your directors recommend payment of dividend at 10% on the equity share capital of Rs.94490750 for the year ended 30th June 2006.

INSURANCE

All the properties of the company including buildings, plant & machinery and stocks have been adequately insured.

ADDITIONAL DISCLOSURES

In line with the requirements of the Listing Agreement with the Stock Exchange, Management Discussion and Analysis report, Corporate Governance report, Segment reporting and Related Party Disclosures are made part of this annual report.

DELISTING OF SHARES

In accordance with the approval granted by the shareholders, the equity shares of the company were delisted from the Coimbatore Stock Exchange Ltd. with effect from 10.02.2006.

The company's equity shares shall continue to be listed on the Bombay Stock exchange which has nation wide terminals.

DIRECTORS' RESPONSIBILITY STATEMENT UNDER SECTION 217 (2AA) OF THE COMPANIES (AMENDMENT ACT) 2000

The Board of Directors report

1. That in the preparation of the annual accounts, the applicable accounting standards have been followed alongwith proper explanation relating to material departures.
2. That the Directors have selected such accounting policies and applied them consistently and made judgements and estimates that are reasonable and prudent so as to give a fair view of the state of affairs of the Company at the end of the year and of the profit of the Company for the year.
3. That 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 for preventing and detecting fraud and other irregularities.
4. The Directors have prepared the annual accounts on a going concern basis.



DEPOSITS

No deposits are received or renewed during the year.

DIRECTORS.

Sri Saji V. Mathew was appointed as an Additional Director by the Board of Directors at its meeting held on 19TH April 2006 and his appointment as Director is placed before the shareholders at the forthcoming Annual General Meeting.

Smt. D. Pushpa Varadarajan and Sri S. Inderchand are retiring by rotation at the forthcoming Annual General Meeting and being eligible for re-election offer themselves for re-appointment.

AUDITORS

M/s. K.S.G. Subramanyam & Co., Company's existing Auditors are to retire at the ensuing Annual General meeting and being eligible for reappointment, they have consented to continue to be the Auditors of the Company.

PARTICULARS REQUIRED UNDER SECTION 217 OF THE COMPANIES ACT, 1956.

Particulars required under Section 217 of the Companies Act, read with relevant rules are annexed in Annexure-A.

Information in accordance with Sub-section (2A) of Section 217 of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules, 1975 is not applicable as of now.

BANKERS

Besides State Bank of Travancore, The Federal Bank Limited, State Bank of India and UTI Bank Limited facilities and services are being availed from Industrial Development Bank of India Limited as well.

ACKNOWLEDGEMENT

Your Directors are extremely thankful to Industrial Development Bank of India Limited, Kerala State Industrial Development Corporation Limited, State Bank of Travancore, State Bank of India, The Federal Bank Limited and UTI Bank Ltd for their continued support.

Your Directors place on record their gratefulness to the shareholders for the trust they have reposed on them. They also appreciate the co-operation and contribution made by the Executives, Staff and Workers of the Company.

Place : Coimbatore
Date : 25.10.2006

On behalf of the Board

S.N. VARADARAJAN
Chairman & Managing Director.



ANNEXURE 'A' TO DIRECTORS' REPORT

INFORMATION REQUIRED UNDER SECTION 217 (1)(e) OF THE COMPANIES ACT, 1956.

I. CONSERVATION OF ENERGY

- a. Energy conservation measures : At the time of installation of the equipment, sufficient devices have already been incorporated to conserve energy. These devices and furnace operation practices based on indigenous technology have resulted in maintaining the industry standards of consumption.
- b. Additional Investments proposed for reduction in consumption of energy : Nil
- c. Impact of measures at (a) and (b) above for energy conservation : Nil
- d. Total energy consumption per unit of production as per Form A of the Annexure in respect of industries specified. : As per the prevailing rules, Ferro Alloys and power generation are excluded industries for the purpose of this information.

II. TECHNOLOGY ABSORPTION

- a. Research & Development : The Company through R&D in process control has consistently improved the performance through innovative practices developed and perfected in-house.
- b. Benefits derived as a result of the above R&D : The metallurgical balance and recovery rates achieved through in-house R&D has made this Company outstanding in performance when compared with other industries in this class.
- c. Future plan of action : To concentrate on in-house R&D
- d. Expenditure on R&D : Nil.
- e. Technology absorption, adoption & innovation : The Company's indigenous technological methods have already yielded results that match well with imported ones.

III. FOREIGN EXCHANGE EARNINGS AND OUTGO

Foreign Exchange Earnings and Outgo	Current Year 2005-06 (Rs.in lakhs)	Previous Year 2004-05 (Rs.in lakhs)
1. Earnings (Export)	384.87	68.68
2. Expenditure in Foreign Currency		
a. Travel & Others	11.07	10.60
b. Net dividend	2.18	-

- Initiatives taken to increase exports : The Company is taking efforts to increase the exports by constant quality improvements, change of product and penetrating a wider customer base.



MANAGEMENT DISCUSSION AND ANALYSIS

(Pursuant to Clause 49 of the Listing Agreement with Stock Exchange)

a. INDUSTRY STRUCTURE AND DEVELOPMENTS:

The ferro alloy industry, which the company belongs to, is an integrated player in the steel and stainless steel industry. The company's products are consumed mostly by the stainless steel industry and a part of its production is consumed by the steel industry as well.

After a global boom across all varieties of ferro alloys in the year 2004-05, there was a major correction in the year 2005-06.

The prices slid from all time high levels by almost 60% and the industry went through very challenging times during this year in terms of viable and sustainable operations.

The boom in the ferro alloy prices was accompanied by a massive increase in the price of major inputs like manganese ore. After the correction, manganese ore prices did not correct proportionately and this led to severe losses in terms of operations across the ferro alloy industry in India and worldwide.

Facilities with access to captive power managed to ride the down cycle and from the beginning of 2006, the situation has more or less stabilized. There has been a major shake out in the industry worldwide and unviable plants (including new ones) have been shut down and major consolidation efforts are happening worldwide in the ferro alloy industry. In India too, consolidation measures are starting and it is widely expected that such a shake out would eventually result in the industry remaining healthy and strong.

b. OPPORTUNITIES & THREATS :

The company continues to witness opportunities in the Low carbon silico manganese arena. The stainless steel industry, after a brief, one year lull, is expected to pick up steam once again and this will result in higher demand for Low carbon Silico manganese. The Government of India reduced duty levels to extremely low levels across the steel industry. Ferro alloy industry in India does not have access to cheap power compared to countries like South Africa and China. Therefore, competitiveness of the country's industry is at risk unless captive power generating capacities are built. The company continues to seek opportunities in the power sector, especially the hydro electric power sector in Kerala.

The company has recently acquired rights to build around 20 MW worth hydro electric generating capacities in the State and is planning to bid for rights for another 8 to 10 MW which would take the total generating capacity along with the existing capacity to around 50 MW. The time line given for commercial generation for the expanded capacity is 2009.

In the event the company successfully executes its plans, by 2009-10, the operating profits from the hydro electric power division is expected to cross Rs.75 crores per annum.

In terms of threats, competition from countries like China and South Africa continue to remain.

Poor monsoon performance remains a major threat to the viability of the company's operation and it is a factor that, the company has no control of.

In terms of increasing competitiveness in its ferro alloy smelter, the company continues to enhance productivity levels year on year and with a suitable range of product mix, profitability margins have been seeing continuous improvement over the last few years.

c. SEGMENT WISE PERFORMANCE :

Smelter division

Already covered under Industry structure and developments.

Power division

As always, the risk of monsoons remain an issue as far as the hydel division is concerned. Though the year 2005-06 has seen normal monsoons and early part of 2006-07 is witnessing good monsoons, one could have to keep monsoon behaviour in mind as a legitimate concern as far as the financial performance of the hydel division goes.

d. RISKS AND CONCERNS:

The major risk that the Company is always exposed to is the monsoon weather pattern which is the sole influencing factor behind the captive hydel station's operations.

The utilisation of the hydel station and consequently the availability of own power for smelter operations is a crucial driver of financial performance. Therefore, there is always a concern in terms of expectations of normal monsoon weather patterns.

e. INTERNAL CONTROL SYSTEMS AND THEIR ADEQUACY:

i. COST CONTROL

Every single cost item goes through a thorough internal audit and in several stages as well.

As part of the cost control system, every single aspect of costs goes through stringent pre-expenditure checks and audits as well.

ii. OPERATIONS

Process and deliverables pass through stringent control systems on a continuous basis. These systems are highly adequate and in fact play a large role in productivity growth, efficiency improvement etc.,



f) FINANCIAL PERFORMANCE

Rs. in lakhs

Particulars	15 months ended 30.6.2002	30th June, 2003	30th June, 2004	30th June, 2005	30th June, 2006
I OPERATING RESULTS :					
1. Sales (Gross)	6,408	4,174	6,759	7474	5779
2. Operating Profit (PBIDT)	761	220	1,240	1820	1088
3. Interest	807	616	565	475	383
4. Depreciation	416	340	339	343	346
5. Taxes	(97)	(44)	(43)	125	1
6. Net Income (PAT)	(365)	(691)	379	877	358
7. Dividend Percentage	...	...	...	7.50%	10%
Dividend Amount	...	...	...	71	94
Dividend Tax	...	...	...	10	13
8. Production :					
- Ferro Alloys (MT)	15,451	9,641	13,984	12955	10051
- Power (Lakh KWH)	338	160	203	293	520
II. PERFORMANCE PARAMETERS:					
1. Share capital	945	945	945	945	945
2. Reserves & Surplus	1,118	279	645	1441	1692
3. Secured & Unsecured loans	4,130	3,915	3,711	3600	2908
4. Deferred liabilities	1,056	1,011	1255	1238	1213
5. Fixed Assets (Gross Block)	7,571	7,597	7,582	7930	8246
6. Accumulated Depreciation	1,199	1,538	1865	2203	2545
7. Investments	27	29	18	18	18
8. Net Current Assets	697	59	822	1480	1148
9. Miscellaneous expenditure	153	3	...	...	...
III. RATIOS :					
1. Profit after tax/Sales (%)	(5.70)	(16.55)	5.61	11.74	6.18
2. Return on Net worth (%)	(19.11)	(56.57)	23.84	35.56	13.58
3. Earnings per share (Rs.)	(4.01)	(7.32)	4.01	9.28	3.79
4. Cash Earnings per share (Rs.)	0.56	(3.72)	7.60	12.92	7.45
5. Debt Equity ratio	2.16	3.19	2.33	1.46	1.10
6. Book Value per share (Rs.)	20.21	12.93	16.83	26.11	27.90

g) HUMAN RESOURCES:

Your company has always endeavoured to retain quality man power talents. Conscious efforts are on to develop HR policy accordingly giving thrust for effective participation of potential human resources at all levels in the activities of the company

Place : Coimbatore
Date : 25.10.2006

On behalf of the Board

S.N. VARADARAJAN
Chairman & Managing Director.



REPORT ON CORPORATE GOVERNANCE

As required by Clause 49 of the Listing Agreement with Stock Exchange, a report on corporate governance is furnished here below.

COMPANY'S PHILOSOPHY ON CODE OF GOVERNANCE

INDSIL is committed to the highest levels of corporate governance practices, which are essential to the enhancement in the stake holders value and for the very success of the company. Its corporate governance practices meet stock exchange corporate governance guidelines and other regulatory requirements to ensure transparency and effective governance of the company. The Board of Directors of the company reviews its corporate governance in the light of developing requirement in the field and as new provisions come into effect, such provisions are complied where appropriate.

INDSIL is endeavoring to become a leading advocate for sustainability in business as the key to value creation and growth in the process.

The forms and substance of transactions are reasonably representing the company's state of affairs and the profits for the year.

BOARD OF DIRECTORS

Statutory and material information are placed before the Board on quarterly basis and thus the Board discharges its responsibility in an effective manner.

a. Present Composition of Board of Directors.

The Board comprises of eleven members who in turn in their individual capacity bring collective wisdom to the welfare of the Company.

The present Board of Directors consists of :

Two Whole- time (Executive) Directors namely Sri S.N. Varadarajan, Chairman & Managing Director and Sri Vinod Narsiman, Chief Executive Officer. Both of them are non-independent Directors.

Two Non-executive Directors namely Sri. M.K. Ravindranathan (IAS Retd) nominated by Kerala State Industrial Development Corporation Ltd. (KSIDC) and Smt. S. Usha nominated by Industrial Development Bank of India Ltd., (IDBI) both of them are independent Directors.

Seven Non-executive Directors namely Dr.A.K. Sreedharan, Dr. S. Rama Iyer, Sri S. Inderchand, Sri B. Balchand, Sri K.S. Mahadevan, Smt. D. Pushpa Varadarajan and Sri Saji V. Mathew. Dr. S. Rama Iyer, Smt. D. Pushpa Varadarajan and Sri Saji V. Mathew are non-independent Directors and the other four Directors are independent Directors. Thus the Board has six independent Directors.

b. Board Meetings and attendance

During the year five Board meetings were held and the gap between two meetings did not exceed four months. The Board meetings were held on 18.07.2005, 24.10.2005, 19.12.2005, 27.01.2006 and 19.04.2006.

The names and categories of the Directors on the Board, the attendance at Board meetings during the year and at the last Annual General Meeting and also the number of directorships and committee/chairmanships held by them in other companies and the shares held by non-executive Directors are given below.

Name of the Directors	Board Meetings	Audit Committee	Shareholders/ Investors Grievance Committee	Share Transfer Committee	Last AGM Attended (Yes/No)	No. of shares held by non- Executive Directors
Sri S.N. Varadarajan	5	-	-	-	Y	N.A
Sri Vinod Narsiman	5	-	-	-	Y	N.A
Smt. D. Pushpa Varadarajan	5	-	1	19	Y	318125
Sri S. Inderchand	5	4	1	19	Y	79724
Sri B. Balchand	4	-	-	-	Y	40000
Sri K.S. Mahadevan	3	-	-	-	Y	55800
Sri M.K. Ravindranathan IAS(Retd)	2	2	-	-	N	--
Dr. S. Rama Iyer	1	-	-	-	Y	--
Dr. A.K. Sreedharan	5	4	-	-	Y	--
Smt. S. Usha	4	-	-	-	Y	--
Sri Saji V. Mathew	1	-	-	-	N	--

**c. Other Directorship and Membership**

Name of the Directors	Directorship held in other Companies		Committee Memberships held in other Companies	
	As Member	As Chairman	As Member	As Chairman
Sri S.N. Varadarajan	4	2	--	--
Sri Vinod Narsiman	5	--	--	--
Smt. D. Pushpa Varadarajan	5	--	--	--
Sri S. Inderchand	1	--	--	--
Sri B. Balchand	-	--	--	--
Sri K.S. Mahadevan	-	-	--	--
Sri M.K. Ravindranathan IAS (Retd.)	-	-	--	--
Dr. S. Rama Iyer	3	2	--	--
Dr. A.K. Sreedharan	1	-	--	--
Smt.S. Usha	1	-	--	--
Sri Saji V. Mathew	-	-	--	--

(All the above Directorship in other companies includes Private Limited company and unlisted public limited companies)

DETAILS OF REMUNERATION PAID OR PAYABLE TO DIRECTORS DURING 2005-06

The remuneration paid / payable to the Executive Directors are provided elsewhere in the report and accounts.

At present, the Company pays only sitting fees to all the Non-Executive Directors at the rate of Rs.500/- for attending each meeting of the Board and/or Committee thereof in terms of Clause 70 of the Articles of Association of the Company.

AUDIT COMMITTEE

The company has an audit committee with scope of activities as set out in clause 49 of the Listing Agreement with the stock exchange read with Section 292 A of the Companies Act, 1956. The broad terms of reference of the audit committee are as under :

The primary objective of this committee is to monitor and provide effective supervision of the financial control and reporting process. The terms of reference of the Audit Committee are in tandem with those laid down by stock exchange regulations and the provisions of the Companies Act. In particular the Committee would review the financial reporting process, internal audit process, adequacy of internal control systems, risk management policies and management audit process. The committee would also adopt matters such as auditors report, appointment of statutory auditors and their remuneration before consideration by the Board of Directors.

The audit committee presently consists of three independent non-executive directors viz. Dr. A.K. Sreedharan, as Chairman and Sri Inderchand and Sri. M.K. Ravindranathan IAS (Retd.) as members.

Company Secretary of the Company is the Secretary of the committee.

The committee met 4 times during the year on 18-07-2005, 24-10-2005, 27-01-2006 and 19-04-2006. The attendance of the members at the meetings is stated below.

Members	Committee meetings attended
Dr. A.K.Sreedharan	4
Sri. M.K.Ravindranathan, IAS (Retd.)	2
Sri. S.Inderchand	4

The Chairman of the committee Dr. A.K. Sreedharan was present at the Annual general Meeting held on 19th December 2005.

SHAREHOLDERS'/INVESTORS' GRIEVANCE COMMITTEE**a. Composition**

The Shareholders'/Investors' Grievance Committee was constituted by the Board on 30.07.2001 and it comprises of Sri S. Inderchand (Chairman) and Smt. D. Pushpa Varadarajan (Member).



b. Terms of reference

The terms of reference of this Committee encompasses formulation of shareholders'/investors' servicing policies, looking into redressal of shareholders and investors complaints viz. transfer of shares, non receipt of balance sheet, non receipt of declared dividends etc., and deciding on any other matter as may be required in connection with the shareholders'/investors' servicing and redressal of their grievances.

c. Committee meetings

The Shareholders'/Investors' Grievances Committee met on 03-07-2006 and reviewed the grievances/complaints received and the action taken on the grievances/complaints.

Status of Complaints : 1.7.2005 to 30.6.2006

- Number of shareholders' complaints received so far : 14
(including dividend revalidation requests, non receipt of dividend warrants and non receipt of Annual Reports)
- Number not solved to the satisfaction of shareholders : Nil
- Number of pending complaints : Nil

SHARE TRANSFER COMMITTEE

a. Composition

To expedite the process of share transfers, the Board has delegated the powers of share transfers to a Committee comprising of two Directors namely Sri S. Inderchand (Chairman) and Smt. D. Pushpa Varadarajan, (Member).

b. Terms of reference

This committee approves transfers, deletion of the names of deceased share holders, transmission of shares, issue of duplicate share certificates, issue of fresh share certificates as a result of split of share certificates and the like.

The business transacted at the Share Transfer Committee meetings is placed before the Board regularly.

c. Committee Meetings

During 2005-06, 19 meetings of the Committee were held on:

16-07-2005	30-07-2005	13-08-2005	27-08-2005	10-09-2005	24-09-2005
08-10-2005	22-10-2005	05-11-2005	19-11-2005	10-12-2005	16-12-2005
13-01-2006	04-02-2006	04-03-2006	25-03-2006	20-04-2006	13-05-2006
03-06-2006					

The number of share transfer committee meetings attended by the Directors is as follows :

Members	Committee meetings attended
Sri.S.Inderchand	19
Smt.D.Pushpa Varadarajan	19

REMUNERATION COMMITTEE

a. Composition

This committee comprises entirely of Non-Executive Directors from the Board. It presently consists of three Non-Executive Directors namely Dr. .A.K.Sreedharan (Chairman), Sri.S.Inderchand and Sri.M.K.Ravindranathan, I.A.S. (Retd).(Members).

b. Terms of reference

The role of the Remuneration Committee is to give recommendations to the Board regarding the company's policy and specific remuneration packages of the Executive Directors including pension rights and any compensation payments.



GENERAL BODY MEETINGS

Last three Annual General Body Meetings were held as per details shown below :

Year	Location	Date	Time
2005	Chamber Towers 8/732 Avanashi Road Coimbatore 641 018	19-12-2005	10.15 A.M.
2004	Chamber Towers 8/732 Avanashi Road Coimbatore 641 018	13-12-2004	10.15 A.M.
2003	Chamber Towers 8/732 Avanashi Road Coimbatore 641 018	23-12-2003	10.45 A.M.

No special resolution was put through postal ballot, nor is proposed for this year.

DISCLOSURES

1. Disclosure on related party transactions i.e transactions of the company with its promoters, directors or the management, relatives, bodies corporate in which the directors are interested etc., are annexed elsewhere in the Annual Report. There is no materially significant related party transactions that would have been a potential conflict with the interests of the Company at large.
2. No penalties / strictures were imposed on the Company by Stock Exchanges or SEBI or any other statutory authorities on any matter relating to the shareholders' complaints, capital raised on account of non-compliance of any requirements, legal and otherwise.
3. In compliance of Clause 49(1)(B) of the Listing Agreement, it is disclosed that the Company does not have any pecuniary relationship or transactions with its Non-executive Directors during the financial year ended 30th June 2006.
4. The Company has scrupulously complied with all the mandatory requirements and the Company has at present not adopted the non mandatory requirements of corporate governance except for certain clauses regarding remuneration committee. However in line with its policy to ever improve the good corporate governance practices it is proposed to adopt all such practices in due course of time.
5. The company has not yet established a mechanism for Whistle Blower Policy. However, no personnel have been denied access to the Audit Committee.
6. Accounting Standards and Treatment :
The accounting treatment as prescribed in the Accounting Standards has been followed in the preparation of financial statements.

MEANS OF COMMUNICATION

Quarterly results, dividend announcements, book closure/record dates are intimated to the Stock Exchange where the Company's shares are listed and also published in the Newspapers either in Business Line or Business Standard in English and Makkal Kural in Tamil. The Annual Reports are sent by post under Certificate of Posting to the shareholders. Further Annual Reports and quarterly results are also sent to those who request for the same.

Half yearly results of the Company are published in the news papers as per the listing requirements. Reports on half yearly financial performance are not sent to the shareholders to their registered addresses as it is non-mandatory.

Quarterly results of the Company can be viewed in Company's website i.e. www.indsil.com and also in the SEBI's EDIFAR system.

Management Discussion and Analysis Report is annexed elsewhere in the Annual Report.



GENERAL SHAREHOLDER INFORMATION

1. Annual General Meeting

- a. Date : 18-12-2006
- b. Time : 10.15 A.M.
- c. Venue : Chamber Towers
8/732 Avanashi Road
Coimbatore 641 018

2. Financial Calendar

- Financial reporting for the quarter ended September 30,2006 : 25th October, 2006
- Financial reporting for the quarter ending December 31,2006 : By January, 2007
- Financial reporting for the quarter ending March 31, ,2007 : By April, 2007
- Financial reporting for the quarter ending June 30,2007 : By July, 2007
- Annual General Meeting for the year ending 30th June 2007 : By December 2007.

3. Date of Book Closure

: 15.12.2006 to 18.12.2006

4. Dividend payment

: Dividend amount, if approved will be paid within the stipulated time as prescribed.

5. Listing on Stock Exchanges

Stock code

: The Bombay Stock Exchange Ltd.
522165

6. Stock price data.

High / Low prices during the financial year 2005-06 on Mumbai Stock Exchange.

Month & Year	High (Rs.)	Low (Rs.)
July-2005	66.95	49.75
August-2005	54.00	46.00
September-2005	69.90	47.50
October-2005	61.30	37.05
November-2005	48.90	38.25
December-2005	45.00	37.15
January-2006	42.20	34.95
February-2006	39.50	28.35
March-2006	37.90	28.00
April-2006	37.90	27.05
May-2006	40.45	27.85
June-2006	30.60	19.70

7. Registrar and Share Transfer Agent

Both share transfer work and Demat segment are handled by Company's Registrar & Share Transfer Agent namely SKDC Consultants Ltd., No.11, S.N. Layout, Street No.1, (West Power House Road), Coimbatore 641 012.

8. Share Transfer System

The share transfers are registered and returned within the stipulated time if the documents are in order.



INDSIL

9. Distribution of shareholdings.

Range (Value in Rs.)	No. of Shareholders	%held (% No. of Persons)	Face value of shares (Rs.)	% held (% Value)
Up to 5000	6522	86.00	11990580	12.69
5001 to 10000	583	7.69	4939270	5.23
10001 to 20000	256	3.38	3877280	4.10
20001 to 30000	69	0.91	1767380	1.87
30001 to 40000	33	0.44	1187750	1.26
40001 to 50000	26	0.34	1264850	1.34
50001 and 100000	45	0.59	3188490	3.37
100001 and above	50	0.66	66275150	70.14
TOTAL	7584	100.00	94490750	100.00

10. Dematerialisation of shareholdings and liquidity

As on 30.6.2006, 8761238 shares constituting 92.72% of the total paid up capital of the Company have been dematerialized. In view of the numerous advantages offered by the depository system, members are requested to avail of the facility of dematerialisation of the company's shares.

As on date 8768588 shares consisting 92.80% of the total paid up capital have been dematerialized.

For guidance on Depository services, share holders may write to the Company.

11. Secretarial Audit

The Company gets the Secretarial Audit done by a Practising Company Secretary for the purpose of reconciliation of the total Equity Capital with both the depositories and in physical form with the total paid up capital as per the books. The Secretarial Audit Reports are placed before the Board of Directors on a quarterly basis and are also sent to the Stock exchange where the Company's shares are listed.

12. Details on use of public funds obtained in the last three years

No funds have been raised from public in the last three years.

13. Outstanding GDR/ADR/Warrants and convertible bonds, conversion date and likely impact on equity

The company has not issued any GDR/ADR or convertible bonds.

14. Plant locations

Ferro Alloy plant : VI-679 Pallatheri, Elapully, Palakkad 678 007, Kerala
Rajakkad Hydro Electric Power Plant : VIII/351, Rajakkad, Idukki Dist. 685 566, Kerala

15. Address for correspondence

Indsil Electrosmelts Limited,
"INDSIL" House, T.V. Swamy Rd. West
R.S. Puram, Coimbatore 641 002.
Phone Nos.0422-2210922,23,24
Fax No. 0422-2210925 E-Mail : indsilho@indsil.com

16. Compliance Officer

Sri. S. Mahadevan
Company Secretary
Direct Phone : 0422-2217461
E-mail : mahadevan@indsil.com

ANNUAL CERTIFICATION BY CHAIRMAN & MANAGING DIRECTOR PURSUANT TO CLAUSE 49 1(D)(ii) OF THE LISTING AGREEMENT

As the Chairman & Managing Director of Indsil Electrosmelts Limited and as required pursuant to Clause 49 1(D)(ii) of the Listing Agreement, I hereby declare and certify that all the Board Members and Senior Management Personnel of Indsil Electrosmelts Limited have affirmed compliance with the Code of Conduct adopted by the Company for the year 2005-06.

Place : Coimbatore
Date : 25.10.2006

For **INDSIL ELECTROSMELTS LIMITED**

S.N. VARADARAJAN
Chairman & Managing Director.



INDSIL

AUDITORS' CERTIFICATE

To

The Members of INDSIL ELECTROSMELTS LIMITED

We have examined the compliance of conditions of Corporate Governance by Indsil Electrosmelts Limited, for the year ended 30th June 2006, as stipulated in Clause 49 of the Listing Agreement of the said Company with Stock Exchange(s).

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 the compliance of the conditions of the 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 the explanations given to us, we certify that the Company has complied with conditions of Corporate Governance as stipulated in the above mentioned Listing Agreement.

We state that no investor's grievance is pending for a period exceeding one month against the Company as per the records maintained 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.

For **K.S.G. SUBRAMANYAM & CO.**,
Chartered Accountants

Place : Coimbatore
Date : 25.10.2006

T.C. KERALA VARMA RAJA
Partner
Membership No.6932



AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the attached Balance Sheet of **INDSIL ELECTROSMELTS LIMITED, Coimbatore** as at 30th June 2006 and also the Profit and Loss Account and the cash flow statement for the year ended on that date together with the schedules 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 have conducted our audit in accordance with 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 misstatement. 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 statements' presentation. We believe that our audit provides a reasonable basis for our opinion.

1. As required by the Companies (Auditors' Report) Order 2003, issued by the Department of Company Affairs in terms of Section 227(4A) of the Companies Act 1956 and on the basis of the information and explanations given to us and the books and records examined by us in the normal course of our audit and to the best of our knowledge and belief, we annex hereto a statement on the matters specified in paragraph 4 of the said Order.
2. Further to our comments in the Annexure referred to in paragraph 1 above, we report that
 - a) 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.
 - b) 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 such books.
 - c) The Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report are in agreement with the books of account.
 - d) In our opinion, the Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report comply with the mandatory Accounting Standards referred to in Section 211 (3C) of the Companies Act, 1956, to the extent applicable.
 - e) On the basis of written representations received from the Directors of the Company and taken on record by the Board of Directors, and the information and explanations given to us, we report that none of the Directors is prima facie disqualified as on 30th June, 2006 from being appointed as a Director in terms of Section 274 (1)(g) of the Companies Act, 1956
 - f) In our opinion and to the best of our information and according to the explanations given to us, the Balance sheet, Profit and Loss Account and Cash Flow Statement dealt with by this Report read together with the notes thereon, 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, in the case of the:
 - 1) Balance sheet, of the state of affairs of the Company as at 30th June 2006;
 - 2) Profit and Loss account, of the Profit of the Company for the year ended on that date; and
 - 3) Cash Flow statement, of the cash flows for the year ended on that date.

for K.S.G.SUBRAMANYAM & CO
Chartered Accountants,

Place : Coimbatore
Date : 25.10.2006

T.C.KERALA VARMA RAJA
Partner
Membership No: 6932



**ANNEXURE REFERRED TO IN PARAGRAPH 1 OF AUDITORS' REPORT OF EVEN DATE
(Referred to in paragraph 1 of our report of even date to the members of Indsil Electrosmelts Limited)**

- 1) Fixed Assets:**
 - (a) The Company is maintaining proper records showing full particulars including quantitative details and situation of fixed assets.
 - (b) As explained to us, the fixed assets of the Company have been physically verified by the management at reasonable intervals during the year and no material discrepancies were noticed on such verification.
 - (c) No disposal of a substantial part of the fixed assets has taken place during the year.

- 2) Inventories:**
 - (a) Physical verification of inventory has been conducted at reasonable intervals by the management.
 - (b) In our opinion, the procedures of physical verification of inventory 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 inventories and no material discrepancies were noticed on physical verification.

- 3)**
 - (a) The Company has not granted any loans, secured or unsecured, to / from companies, firms or from other parties covered in the Register maintained under section 301 of the Companies Act, 1956.
 - (b) The Company has not taken any loans, secured or unsecured, to / from companies, firms or from other parties covered in the Register maintained under section 301 of the Companies Act, 1956.

- 4)** In our opinion and according to the information and explanations given to us, the Company has adequate internal control procedures, commensurate with the size of the Company and the nature of its business for the purchase of inventories and fixed assets and for the sale of goods.

- 5) Register under Section 301:**
 - (a) In our opinion and according to the information and explanations given to us, the particulars of contracts or arrangements referred to in Section 301 have been entered into the Register required to be maintained under that section.
 - (b) The transactions in pursuance of such contracts or arrangements have been made at prices which are reasonable having regard to the prevailing market prices at the relevant time.

- 6)** The Company has not accepted any deposits from the public.

- 7)** In our opinion, the Company has an internal audit system commensurate with its size and the nature of its business.

- 8)** The Company is not required to maintain cost records as per section 209(1)(d) of the Companies Act, 1956.

- 9)**
 - (a) The Company is regular in depositing undisputed statutory dues including Provident Fund, Investor Education and Protection Fund, Employees' State Insurance, Income tax, Sales tax, Wealth Tax, Customs Duty, Excise Duty, cess and any other statutory dues with the appropriate authorities.
 - (b) The following statutory dues have not been deposited on account of dispute:



S.No.	Nature of the Dues	Amount (Rs.Lacs)	Forum where dispute is pending
1.	Sales tax for the years 1994-95 and 1997-98	0.97	Assistant Commissioner of Sales Tax (Appeals)
2.	ESI dues for the years 1996 to 2002	9.90	ESI Court

- 10) The company does not have any accumulated losses at the end of the financial year and the company has not incurred cash losses during the year and in the immediately preceding financial year.
- 11) The company has not defaulted in repayment of dues to any financial institution or bank and the company has not issued any debentures.
- 12) Term loans have been applied for the purpose for which the loans were obtained.
- 13) Funds raised on short-term basis have not been used for long term investment.
- 14) No fraud on or by the Company has been noticed or reported during the year.
- 15) The other clauses of the Order are not applicable to the company.

Place : Coimbatore
Date : 25.10.2006

for K.S.G.SUBRAMANYAM & CO
Chartered Accountants,

T.C.KERALA VARMA RAJA
Partner
Membership No: 6932



INDSIL

BALANCE SHEET AS AT 30TH JUNE 2006

PARTICULARS	SCHEDULE NO	30.6.2006		30.6.2005	
		Amount (Rs.)	Amount (Rs.)	Amount (Rs.)	Amount (Rs.)
SOURCES OF FUNDS					
SHARE HOLDERS FUNDS :					
Share Capital	I		9,44,90,750		9,44,90,750
Reserves & Surplus	II		16,91,65,498		14,41,43,026
LOAN FUNDS :					
Secured Loans	III		29,08,05,240		30,34,11,437
Unsecured Loans	IV		-		5,65,51,311
Provision for Deferred Liability	V		11,09,49,430		11,09,49,430
Deferred Tax Liability (Net)			1,03,78,011		1,29,33,083
TOTAL			67,57,88,928		72,24,79,037
APPLICATION OF FUNDS					
FIXED ASSETS					
Gross Block	VI		82,45,79,176		79,29,99,097
Less : Depreciation Reserve			25,45,48,121		22,03,10,267
			57,00,31,055		57,26,88,830
Investments	VII		17,55,000		17,55,000
CURRENT ASSETS, LOANS & ADVANCES					
Inventories	VIII		13,80,81,254		17,58,77,603
Sundry Debtors			4,29,54,582		3,82,90,245
Cash & Bank Balances			1,52,33,839		1,75,30,257
Loans & Advances			2,36,26,490		2,15,54,564
			21,98,96,165		25,32,52,669
Less : Current Liabilities & Provisions	IX		11,58,93,291		10,52,17,462
			10,40,02,874		14,80,35,207
TOTAL			67,57,88,928		72,24,79,037

As per our Report of even date

For **K.S.G. SUBRAMANYAM & CO**
Chartered Accountants

T.C. KERALA VARMA RAJA
Partner
Membership No.6932

S.N. VARADARAJAN
Chairman & Managing Director

VINOD NARSIMAN
Chief Executive Officer

Place : Coimbatore
Date : 25.10.2006

S. INDERCHAND
Director

S. MAHADEVAN
Company Secretary



INDSIL

PROFIT & LOSS ACCOUNT FOR THE YEAR ENDED 30TH JUNE 2006

PARTICULARS	SCHEDULE NO	30.6.2006		30.6.2005	
		Amount (Rs.)	Amount (Rs.)	Amount (Rs.)	Amount (Rs.)
INCOME					
Gross Sales					
-Smelter					
Export		3,84,87,132		68,68,203	
Domestic		36,03,11,255		62,52,17,329	
		<u>39,87,98,387</u>		<u>63,20,85,532</u>	
-Power		17,91,33,065		11,52,72,398	
		<u>57,79,31,452</u>		<u>74,73,57,930</u>	
Less : Excise Duty		5,10,06,822		7,47,51,920	
Net Sales		<u>52,69,24,630</u>		<u>67,26,06,010</u>	
Less: Interdivisional sale of power		17,91,33,065		11,52,72,398	
		<u>34,77,91,565</u>		<u>55,73,33,612</u>	
Profit on Sale of Import Licences		12,32,992		1,73,077	
Other income		22,394		3,13,912	
Increase / (Decrease) in Stock of Finished Goods	X	(-) 1,69,62,622		4,23,45,774	
		<u>33,20,84,329</u>		<u>60,01,66,375</u>	
EXPENDITURE					
Consumption of Raw Materials	XI	14,08,07,374		21,84,90,188	
Manufacturing Expenses (Net of interdivisional purchase of power)	XII	3,66,74,782		15,27,50,522	
Selling Expenses	XIII	1,82,64,988		1,46,36,779	
Administrative Expenses	XIV	2,75,02,276		3,22,73,340	
		<u>22,32,49,420</u>		<u>41,81,50,829</u>	
Profit before Depreciation & Financial charges		10,88,34,909		18,20,15,546	
Financial Charges	XV	3,82,70,643		4,75,11,733	
Profit before Depreciation & Taxes		7,05,64,266		13,45,03,813	
Depreciation		3,45,75,815		3,43,11,314	
Profit before Taxes		3,59,88,451		10,01,92,499	
Add : Deferred Tax Asset		25,55,072		16,62,283	
Less : Provision for taxation - Current		(-) 19,00,000		(-) 1,10,00,000	
Less : Provision for taxation - Prior years		(-) 2,96,743		(-) 30,17,347	
Less : Provision for Fringe Benefit tax		(-) 5,50,000		(-) 1,10,000	
		<u>3,57,96,780</u>		<u>8,77,27,435</u>	
Profit after Taxes		3,57,96,780		8,77,27,435	
Add : Balance of Profit b/f		5,81,36,042		(-) 2,15,10,662	
		<u>9,39,32,822</u>		<u>6,62,16,773</u>	
Amount available for Appropriation		<u>9,39,32,822</u>		<u>6,62,16,773</u>	
Appropriations :					
Proposed Dividend		94,49,075		70,86,806	
Tax on Proposed Dividend		13,25,233		9,93,925	
Nett balance carried to Balance Sheet		8,31,58,514		5,81,36,042	
		<u>9,39,32,822</u>		<u>6,62,16,773</u>	

As per our Report of even date

For **K.S.G. SUBRAMANYAM & CO**
Chartered Accountants

T.C. KERALA VARMA RAJA
Partner
Membership No.6932

S.N. VARADARAJAN
Chairman & Managing Director

VINOD NARSIMAN
Chief Executive Officer

Place : Coimbatore
Date : 25.10.2006

S. INDERCHAND
Director

S. MAHADEVAN
Company Secretary



SCHEDULES ANNEXED TO AND FORMING PART OF BALANCE SHEET AS AT 30TH JUNE 2006

SCH. PARTICULARS NO	30.6.2006 Amount (Rs.)	30.6.2005 Amount (Rs.)
I SHARE CAPITAL		
Authorized:		
2,00,00,000 Equity shares of Rs.10/- each	20,00,00,000	20,00,00,000
5,00,000 Redeemable cumulative preference shares of Rs.100/- each	5,00,00,000	5,00,00,000
	25,00,00,000	25,00,00,000
Issued, Subscribed and paid up		
94,49,075 Equity shares of Rs.10/- each fully paid up	9,44,90,750	9,44,90,750
	9,44,90,750	9,44,90,750
II RESERVES & SURPLUS		
State Subsidy	15,00,000	15,00,000
Share Premium	76,99,811	76,99,811
General Reserve	7,68,07,173	7,68,07,173
Surplus in Profit & Loss Account	8,31,58,514	5,81,36,042
	16,91,65,498	14,41,43,026
III SECURED LOANS		
Term Loans from		
Industrial Development Bank of India Ltd.	7,40,61,837	8,74,11,437
The Federal Bank Limited	10,19,99,810	12,00,00,000
State Bank of India	8,00,00,000	9,60,00,000
	25,60,61,647	30,34,11,437
Cash Credit from		
Industrial Development Bank of India Ltd.	2,00,00,000	-
State Bank of Travancore	37,58,153	-
The Federal Bank Limited	1,09,85,440	-
	3,47,43,593	-
	29,08,05,240	30,34,11,437
IV UNSECURED LOANS		
Infrastructure Bonds	-	75,00,000
Buyers' credit from State Bank of India, Tokyo Branch	-	4,90,51,311
	-	5,65,51,311
V PROVISION FOR DEFERRED LIABILITY		
Electricity charges	11,09,49,430	11,09,49,430



SCHEDULES ANNEXED TO AND FORMING PART OF BALANCE SHEET AS AT 30TH JUNE, 2006
SCHEDULE VI - FIXED ASSETS

Particulars	Gross Block		Cost as on 30.6.2006	Depreciation		Nett Block	
	Cost as on 1.7.2005	Additions Deletions		Upto 30.6.2005	For the year on deletions	WDV As on 30.6.2006	WDV As on 30.6.2005
Land	2,04,54,983	4,49,960	2,09,04,943	-	-	2,09,04,943	2,04,54,983
Buildings	27,53,62,423	9,01,746	27,62,64,169	5,21,05,085	92,14,298	21,49,44,786	22,32,57,338
Plant & Machinery	38,58,45,493	16,86,768	38,75,32,261	12,76,74,477	2,03,88,817	23,94,68,967	25,81,71,016
Electrical Installation	2,05,76,135	-	2,05,76,135	1,38,17,772	14,54,744	53,03,619	67,58,363
Pollution Control Equipments	1,77,86,788	-	1,77,86,788	87,17,649	9,39,142	81,29,997	90,69,139
Water Treatment Plant	61,82,332	-	61,82,332	30,73,865	3,26,430	27,82,037	31,08,467
Workshop Equipments	7,18,353	-	7,18,353	4,89,784	50,788	1,77,781	2,28,569
Laboratory Equipments	4,76,396	12,480	4,88,876	3,03,349	25,755	1,59,772	1,73,047
Fire Fighting Equipments	50,616	-	50,616	31,703	3,578	15,335	18,913
Air Conditioner	11,73,357	31,310	12,04,667	5,78,843	55,953	5,69,871	5,94,514
Air Cooler	8,950	-	8,950	6,592	633	1,725	2,358
Electrical Fittings	2,76,264	-	2,76,264	2,18,560	19,532	38,172	57,704
Office Equipments	21,75,862	67,100	22,42,962	8,11,219	1,05,298	13,26,445	13,64,643
Generator	17,33,386	-	17,33,386	10,84,504	1,22,550	5,26,332	6,48,882
Weighing Scale	74,189	-	74,189	35,832	3,524	34,833	38,357
Computer	26,21,895	32,928	26,54,823	19,86,800	1,79,879	4,88,144	6,35,095
Vehicles	53,78,242	6,85,803	55,05,983	31,28,437	5,07,001	22,08,506	22,49,805
Tractor & Trailor	12,10,128	-	12,10,128	8,80,410	89,255	2,40,463	3,29,718
Furniture & Fixtures	31,10,846	31,938	31,42,784	17,30,660	1,99,501	12,13,623	13,80,186
Transmission Lines	2,67,04,115	-	2,67,04,115	36,34,726	8,90,137	2,21,79,252	2,30,69,389
	77,19,20,753	39,00,033	77,52,62,724	22,03,10,267	3,45,75,815	52,07,14,603	55,16,10,486
Capital W.I.P	2,10,78,344	2,82,38,108	4,93,16,452	-	-	4,93,16,452	2,10,78,344
TOTAL	79,29,99,097	3,21,38,141	82,45,79,176	22,03,10,267	3,45,75,815	57,00,31,055	57,26,88,830
Figures for Previous Year	75,82,49,585	3,55,50,396	79,29,99,097	18,65,24,906	3,43,11,314	57,26,88,830	57,17,24,679



SCHEDULES ANNEXED TO AND FORMING PART OF BALANCE SHEET AS AT 30TH JUNE 2006

SCH. NO	PARTICULARS	30.6.2006		30.6.2005	
		Amount (Rs.)	Amount (Rs.)	Amount (Rs.)	Amount (Rs.)
VII	INVESTMENTS				
	<i>Unquoted (At Cost)</i>				
	1,50,000 equity shares of Rs.10/- each in Malayalam Communications Ltd.,		15,00,000		15,00,000
	25,500 equity shares of Rs.10/- each in Indsil Ennergy & Electro Chemicals Ltd.,		2,55,000		2,55,000
			17,55,000		17,55,000
VIII	CURRENT ASSETS, LOANS & ADVANCES				
	1. INVENTORIES				
	Raw Materials		8,79,66,051		10,91,15,160
	Finished Goods		3,84,79,988		5,54,42,610
	Consumables		244,714		,80,159
	Stores & Spares		97,98,986		99,10,074
	Work in Progress		15,25,874		12,70,462
	Packing Materials		65,641		59,138
			13,80,81,254		17,58,77,603
	2. SUNDRY DEBTORS				
	(Unsecured, Considered Good)				
	Debts exceeding 6 months		-		25,958
	Other Debts		4,29,54,582		3,82,64,287
			4,29,54,582		3,82,90,245
	3. CASH & BANK BALANCES				
	Cash on Hand		1,59,639		95,364
	Balances with Banks				
	- in Current Accounts	58,24,320		79,63,383	
	- in Fixed Deposits	87,31,190		90,17,390	
	- in Unpaid Dividend Accounts	5,18,690		4,54,120	
			1,50,74,200		1,74,34,893
			1,52,33,839		1,75,30,257
	4. LOANS & ADVANCES				
	Advances for Equipments & Purchases		35,18,217		21,88,509
	Modvat Claim Receivable		26,21,698		1,180,396
	Deposits Recoverable		1,17,49,816		1,14,19,996
	Prepaid Expenses		54,35,785		66,55,270
	Staff Advances		3,00,974		1,10,393
			2,36,26,490		2,15,54,564



SCHEDULES ANNEXED TO AND FORMING PART OF BALANCE SHEET AS AT 30TH JUNE 2006

SCH. NO	PARTICULARS	30.6.2006		30.6.2005	
		Amount (Rs.)	Amount (Rs.)	Amount (Rs.)	Amount (Rs.)
IX CURRENT LIABILITIES & PROVISIONS					
A. CURRENT LIABILITIES :					
	Sundry Creditors				
	Creditors for Purchases (Includes dues to small Scale undertakings Rs. NIL)	3,55,95,129		2,68,08,661	
	Creditors for Equipments & Capital goods	16,62,378		6,48,653	
	Creditors for Expenses	1,79,31,690		1,29,25,753	
			5,51,89,197		4,03,83,067
	Other statutory liabilities		28,97,881		44,63,796
	Advance against supplies		4,43,013		5,841
	Outstanding expenses		3,67,31,869		3,56,20,301
	Interest accrued but not due on Unsecured Loans		-		2,21,353
	Investor Protection & Education Fund Items - Not due -- Unpaid dividends		5,16,690		4,51,120
	TOTAL (A)		9,57,78,650		8,11,45,478
B. PROVISIONS :					
	Provision for Gratuity		42,75,000		39,75,000
	Provision for taxation (net of advance taxes)		50,65,333		1,20,16,253
	Proposed Dividend		94,49,075		70,86,806
	Tax on Proposed Dividend		13,25,233		9,93,925
	TOTAL (B)		2,01,14,641		2,40,71,984
	TOTAL (A+B)		11,58,93,291		10,52,17,462

As per our Report of even date

For **K.S.G. SUBRAMANYAM & CO**
Chartered Accountants**T.C. KERALA VARMA RAJA**
Partner
Membership No.6932**S.N. VARADARAJAN**
Chairman & Managing Director**VINOD NARSIMAN**
Chief Executive OfficerPlace : Coimbatore
Date : 25.10.2006**S. INDERCHAND**
Director**S. MAHADEVAN**
Company Secretary



SCHEDULES ANNEXED TO AND FORMING PART OF PROFIT & LOSS ACCOUNT FOR THE YEAR ENDED 30TH JUNE, 2006.

SCH. NO	PARTICULARS	30.6.2006		30.6.2005	
		Amount (Rs)	Amount (Rs)	Amount (Rs)	Amount (Rs)
X	INCREASE / DECREASE IN STOCK OF FINISHED GOODS				
	Closing Stock		3,84,79,988		5,54,42,610
	Opening Stock		5,54,42,610		1,30,96,836
			-1,69,62,622		4,23,45,774
XI	CONSUMPTION OF RAW MATERIALS				
	Opening Stock				
	Raw Materials	10,91,15,160		4,20,81,199	
	Consumables	80,159		1,17,807	
	Work-in-Progress	12,70,462		13,14,826	
			11,04,65,781		4,35,13,832
	Add : Purchases				
	Raw Materials & Consumables	7,56,24,863		23,24,28,692	
	Carriage Inwards	4,44,53,370		5,30,13,445	
			12,00,78,232		28,54,42,137
	Less : Closing Stock				
	Raw Materials	8,79,66,051		10,91,15,160	
	Consumables	2,44,714		80,159	
	Work-in-Progress	15,25,874		12,70,462	
			8,97,36,639		11,04,65,781
			14,08,07,374		21,84,90,188
XII	MANUFACTURING EXPENSES				
	Salary, Wages & Bonus - Factory		1,50,18,514		1,53,27,057
	Provision for Gratuity		2,20,000		3,50,000
	Electricity Charges (Net of interdivisional purchase of power)		1,68,00,538		12,94,59,449
	Repairs & Maintenance - Buildings		2,56,405		89,171
	Repairs & Maintenance - Plant		38,64,222		69,22,816
	Repairs & Maintenance - Electricals		1,03,787		79,782
	Repairs & Maintenance - Others		4,11,316		5,22,247
			3,66,74,782		15,27,50,522
XIII	SELLING EXPENSES				
	Packing Materials		21,30,002		25,49,967
	Freight outward & Forwarding Expenses		1,11,89,310		50,09,445
	Royalty on Sales		33,84,785		55,56,451
	Advertisement		6,72,792		8,19,627
	Sales commission		7,55,911		6,10,920
	Sales Promotion Expenses		1,32,188		90,369
			1,82,64,988		1,46,36,779



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SCHEDULES ANNEXED TO AND FORMING PART OF PROFIT & LOSS ACCOUNT FOR THE YEAR ENDED 30TH JUNE, 2006.

SCH. NO	PARTICULARS	30.6.2006 Amount (Rs.)	30.6.2005 Amount (Rs.)
XIV	ADMINISTRATIVE EXPENSES		
	Rent	14,38,618	16,50,551
	Salaries & Bonus - Admn. Office	41,14,448	39,08,735
	Contribution to Provident Fund	10,55,645	11,07,968
	Contribution to ESI	5,19,720	5,65,554
	Provision for Gratuity	80,000	1,25,000
	Staff & Labour Welfare Expenses	26,07,534	28,08,423
	Sitting Fees	42,500	53,500
	Chairman & Managing Director's Remuneration	19,27,458	39,29,147
	Chief Executive Officer's Remuneration	2,19,924	2,20,133
	Remuneration to Other Directors	-	5,00,000
	Insurance	14,10,600	15,44,102
	Security Service Charges	11,22,355	11,59,665
	Building Maintenance	3,89,314	5,66,672
	Garden Maintenance	2,14,435	4,84,880
	Printing & Stationery	4,07,847	4,50,452
	Postage, Telephone & Telegram	17,05,934	16,99,082
	Travelling & Conveyance	34,58,049	34,45,532
	Petrol & Vehicle Maintenance	12,21,350	18,41,918
	Rates & Taxes	6,44,541	5,44,059
	Legal Fees	5,58,000	4,79,250
	Auditor's Remuneration	80,000	80,000
	Professional & Consultancy Fees	22,32,180	13,12,333
	Subscriptions	17,09,032	20,93,492
	Miscellaneous Expenses	3,42,792	17,02,892
		2,75,02,276	3,22,73,340
XV	FINANCIALCHARGES		
	Bank Charges	30,92,295	25,95,735
	Interest on Bills Discounted	26,88,336	11,59,723
	Interest on Cash Credit/WCDL		
	- The Federal Bank Limited	1,46,416	-
	- State Bank of Travancore	3,65,756	-
	- Industrial Development Bank of India	12,43,700	-
	Interest on Term Loans		
	- State Bank of India	93,36,505	1,13,79,957
	- The Federal Bank Limited	1,06,91,575	1,41,04,951
	- Industrial Development Bank of India	99,53,089	1,70,25,079
	Interest on Infrastructure Bonds	2,43,493	7,50,411
	Interest to State Bank of India on buyers' credit facility	8,64,765	7,99,620
	Exchange fluctuation	33,057	66,615
		3,86,58,987	4,78,82,091
	Less : Interest receipts	3,88,344	3,70,358
		3,82,70,643	4,75,11,733

As per our Report of even date
For **K.S.G. SUBRAMANYAM & CO**
Chartered Accountants

T.C. KERALA VARMA RAJA
Partner
Membership No.6932

S.N. VARADARAJAN
Chairman & Managing Director

VINOD NARSIMAN
Chief Executive Officer

Place : Coimbatore
Date : 25.10.2006

S. INDERCHAND
Director

S. MAHADEVAN
Company Secretary



NOTES FORMING PART OF PROFIT AND LOSS ACCOUNT AND BALANCE SHEET AS ON 30th JUNE 2006

1. SIGNIFICANT ACCOUNTING POLICIES

a) Accounting Convention :

- i) The Financial statements have been prepared under the historical cost convention on the basis of a going concept and in accordance with applicable accounting standards referred to in Section 211 (3c) of the Companies Act, 1956.

b) Fixed assets and Depreciation

- i) Fixed assets are stated at original cost net of tax / duty credits availed if any, less accumulated depreciation. Cost include pre-operative expenses and all expenses related to acquisition and installation of the concerned assets.
- ii) Depreciation on Fixed assets is provided on straight line method in accordance with the rates specified under Schedule XIV of the Companies Act, 1956. It is provided on prorata basis on additions made during the year.

c) Investments

The investments held by the company are longterm investments and are stated at cost. Provision for diminution in value of long-term investmens is made, if the dimution is other than temporary

d) Inventories

Raw Materials and Stores & Spares are valued at cost, finished goods at lower of cost or net realisable value and Work-in-Progress at average cost.

e) Foreign Currency Transactions

- i) Foreign currency transactions are recorded at exchange rates prevailing on the date of such transaction.
- ii) Foreign currency assets/liabilities at the end of the year are re-aligned at the exchange rate prevailing at the year end and the difference on re-alignment is recognised in the Profit & Loss account.

f) Revenue Recognition

- i) The Company generally follows the mercantile system of accounting and recognises income and expenditure on an accrual basis except those with significant uncertainties
- ii) Sale of goods is recognised when the risk and rewards of ownership are passed on to the customers, which is generally on despatch of goods.

g) Taxes on Income

Tax on Income for the current period is determined on the basis of taxable income and tax credits computed in accordance with the provisions of the Income Tax Act, 1961 and based on the expected outcome of assessments / appeals. Deferred tax is recognised on timing differences between the accounting Income and the taxable income and quantified using the tax rates and loss enacted or substantively enacted as on the Balance Sheet date. Deferred tax assets are recognised and carried forwad to the extent that there is a reasonable certainty that sufficient future taxable income will be available against which such deferred tax assets can be realised.

h) Retirement Benefits

- i) Contribution to Provident Fund is made monthly and charged to Profit & loss account.
- ii) The company has provided for the liability towards Gratuity as on 30.6.2006 on accrual basis.

i) Contingent Liabilities

All Liabilities have been provided for in the accounts except liabilities of a contingent nature, which have been disclosed at their estimated value in the notes to accounts.



II. OTHER NOTES ON ACCOUNTS.

1.a) The Term Loans from Financial institutions are secured by first equitable mortgage on all Company's immovable properties, both present and future and a second charge by way of hypothecation of all Company's movable properties including book debts and subject to prior charges created or to be created in favour of Company's bankers on Company's stocks of raw materials, consumables and such other movables for securing Company's working capital requirements. The term loans are further guaranteed by personal guarantees of Sri S.N.Varadarajan, Chairman & Managing Director. Aggregate of such personal guarantees is Rs.3,510 Lakhs. A portion of the term loans to the extent of Rs.2,310 Lakhs have also been guaranteed by Mr. Vinod Narsiman, Chief Executive Officer.

b) Working capital facilities from State Bank of Travancore, The Federal Bank Ltd and State Bank of India are secured by hypothecation of stocks of raw materials, consumables, book debts etc., and also by a second charge on immovable properties of the Company. A portion of these facilities are further guaranteed by

- personal guarantee of Sri.S.N.Varadarajan, Chairman & Managing Director to the extent of Rs.945 lakhs
- personal guarantee of Sri Vinod Narsiman, Chief Executive Officer to the extent of Rs.410 lakhs

2. CONTINGENT LIABILITIES

	As at 30.6.2006	As at 30.6.2005
a) Claims against the Company not acknowledged as debts Disputed sales tax and ESI liabilities	Rs. 10.87 Lakhs	Rs. 12.84 Lakhs
b) Contingent liabilities in respect of bills discounted	Rs. 691.17 Lakhs	Rs. 765.36 Lakhs
c) Letters of credit issued by banks on behalf of the Company	Rs. 579.33 Lakhs	Rs. 619.20 Lakhs
d) Guarantees issued by banks on behalf of the Company	Rs. 283.79 Lakhs	Rs. 282.54 Lakhs



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NOTES FORMING PART OF PROFIT AND LOSS ACCOUNT AND BALANCE SHEET AS ON 30th JUNE, 2006.

3. SEGMENT REPORT	As at 30.6.2006 Rs. In Lakhs	As at 30.6.2005 Rs. In Lakhs
Primary Segments (Business Segments)		
1. Segment Revenue		
a. Smelter	3,490.25	5,575.07
b. Hydro Power	1,791.33	1,152.72
	<hr/>	<hr/>
	5,281.58	6,727.79
Less : Intersegment Revenue	1,791.33	1,152.72
	<hr/>	<hr/>
Net Revenue	3,490.25	5,575.07
	<hr/> <hr/>	<hr/> <hr/>
2. Segment Results (Profit / Loss before Financial charges & Tax)		
a. Smelter	(783.20)	584.02
b. Hydro Power	1,525.57	889.86
	<hr/>	<hr/>
	742.37	1,473.88
Add / Less : Unallocable Income/Expenses	0.22	3.14
	<hr/>	<hr/>
Operating Profit	742.59	1,477.02
Less : Financial Charges	382.71	475.12
	<hr/>	<hr/>
Total Profit / (Loss) before Tax	359.88	1,001.90
	<hr/> <hr/>	<hr/> <hr/>
3. Capital Employed (Segment Assets - Segment Liabilities)		
a. Smelter	(303.47)	921.78
b. Hydro Power	6,090.20	5,374.42
	<hr/>	<hr/>
	5,786.73	6,296.20
	<hr/> <hr/>	<hr/> <hr/>
4. RELATED PARTY DISCLOSURES:		
a) Associates	: Sun Metals & Alloys Pvt. Ltd.	
b) Key Management Personnel	: Sri S.N.Varadarajan Sri Vinod Narsiman	
c) Relatives of Key Management Personnel	: Smt.D.Pushpa Varadarajan (W/o Sri.S.N.Varadarajan)	

Particulars	Associates	Key Management Personnel	Relatives of Key Management Personnel
	Rs.	Rs.	Rs.
Current Year			
Services rendered	33,84,785	-	-
Rent	-	3,90,000	90,000
Sitting fees	-	5,000	11,000
Managerial remuneration	-	21,47,382	-
Previous Year			
Services rendered	55,56,451	-	-
Rent	-	3,90,000	90,000
Sitting fees	-	6,000	15,000
Managerial remuneration	-	41,49,280	-



NOTES FORMING PART OF PROFIT AND LOSS ACCOUNT AND BALANCE SHEET AS ON 30th JUNE, 2006.

5. CHAIRMAN & MANAGING DIRECTOR'S REMUNERATION

	2006-07 Rs.	2005-06 Rs.
Salary	6,00,000	6,00,000
Company Leased Residential accommodation	90,000	90,000
Contribution to PF	72,000	72,000
Commission	11,44,075	31,45,253
Reimbursement of Medical Expenses	21,383	21,894
	<u>19,27,458</u>	<u>39,29,147</u>

6. CHIEF EXECUTIVE OFFICER'S REMUNERATION

Salary	1,92,000	1,92,000
Contribution to PF	23,040	23,040
Reimbursement of Medical Expenses	4,884	5,093
	<u>2,19,924</u>	<u>2,20,133</u>

7. REMUNERATION TO STATUTORY AUDITORS

For audit (Current year excluding Service Tax)	50,000	50,000
For other Services	30,000	30,000
	<u>80,000</u>	<u>80,000</u>

8. EARNINGS PER SHARE

Profit after Tax (Rs.)	3,57,96,780	8,77,27,435
Weighted average Number of Equity Shares (Face value of Rs. 10 each)	94,49,075	94,49,075
Basic EPS (Rs.)	3.79	9.28

9. COMPUTATION OF COMMISSION PAYABLE TO CHAIRMAN & MANAGING DIRECTOR:

Net Profit before Tax as per Profit & Loss Account	3,59,88,451	10,01,92,499
Add: Chairman and Managing Director's Remuneration	19,27,458	39,29,147
Chief Executive Officer's Remuneration	2,19,924	2,20,133
Remuneration to Other Directors	-	5,00,000
	<u>3,81,35,833</u>	<u>10,48,41,779</u>
Net Profit as per Sec. 349 of the Companies Act	<u>3,81,35,833</u>	<u>10,48,41,779</u>
Commission @ 3% on the above	11,44,075	31,45,253

10. COMPUTATION OF COMMISSION PAYABLE TO OTHER DIRECTORS:

Net Profit as per Sec. 349 of the Companies Act	-	10,48,41,779
Commission @ 1% on the above	-	10,48,418
Subject to a maximum of	-	5,00,000



NOTES FORMING PART OF PROFIT AND LOSS ACCOUNT AND BALANCE SHEET AS ON 30th JUNE, 2006.

11. STATISTICAL INFORMATION

Particulars	30.6.2006			30.6.2005		
	Quantity (M.T)	Value (Rs.)	Value (Rs.)	Quantity (M.T)	Value (Rs.)	Value (Rs.)
a. TURNOVER (Net):						
Silico Manganese	10,171.700		34,77,91,565	11,911.350		55,73,33,612
b. CONSUMPTION OF RAW MATERIALS:						
Quartz	5,436.500	38,09,954		5,752.693	35,06,783	
Carbon Reducers	7,406.287	5,54,11,282		10,275.094	9,37,86,645	
Carbon Paste	289.951	54,86,556		350.846	58,42,310	
Manganese Ore	19,147.974	6,47,41,604		23,444.350	9,43,57,678	
Flux	989.572	28,20,588		1,496.990	43,60,477	
Slag	1,580.456	48,33,267		4,168.692	1,19,24,630	
Tor Steel (Nos.)	1,880	11,96,944		3,243	18,56,692	
Lancing Pipe (Nos.)	1,180	1,13,423		1,062	1,12,878	
C.R.Sheet (Nos.)	480	7,70,803		652	10,54,813	
Other Items	Different units	16,22,953		Different units	16,87,281	
		-----	14,08,07,374	-----	21,84,90,188	
			0		-	
c. STOCK OF FINISHED GOODS:						
Opening Stock						
Silico Manganese	1,255.615	5,54,42,610		262.100	1,30,96,836	
		-----	5,54,42,610	-----	1,30,96,836	
Closing Stock						
Silico Manganese	1,018.056	3,84,79,988		1,255.615	5,54,42,610	
		-----	3,84,79,988	-----	5,54,42,610	
d. LICENCED CAPACITY		Not applicable			Not applicable	
e. INSTALLED CAPACITY:						
Silico Manganese		12000 M.T.			12000 M.T.	
Power		21 MW			21 MW	
f. ACTUAL PRODUCTION:						
Silico Manganese		10,050.650 M.T.			12,955.150 M.T.	
		(Incl. 114.859 M.T. for captive consumption & 1.650 MT handling loss)			(Incl. 50.285 M.T. for captive consumption)	
Power		5,20,48,174 KWH			2,92,64,558 KWH	
g. Value of imports (on CIF basis)						
Raw Materials		Rs. 1,84,70,652			Rs. 7,22,38,825	
h. Percentage consumption of raw materials:						
Imported		11.43%	1,60,88,026		13.18%	2,87,97,007
Indigenous		88.57%	12,47,19,348		86.82%	18,96,93,181
		100.00%	14,08,07,374		100.00%	21,84,90,188



NOTES FORMING PART OF PROFIT AND LOSS ACCOUNT AND BALANCE SHEET AS ON 30th JUNE, 2006.

Particulars	30.6.2006 (Rs.)	30.6.2005 (Rs.)
j. Expenditure in foreign currency: Subscription & others	Rs. 11,07,389	Rs. 10,59,965
k. Dividend in Foreign currency:	Rs. 2,17,502	NIL
l. Earnings in foreign exchange	Rs. 3,84,87,132	Rs. 68,68,203

12. The Kerala State Electricity Board (KSEB) has raised certain demands on the company towards payment of maximum demand charges and certain other charges related to the working of the hydro electric power division of the company. The company has disputed these demands on account of the fact that these demands are not in line with the existing agreement between the company and KSEB for operation of the hydro electric power plant. The company is confident of getting these demands withdrawn, waived or cancelled at various forums and hence no provision is made for these disputed amounts.
13. There are no amounts due to Small Scale undertakings for more than 30 days. These have been determined to the extent such parties have been identified on the basis of information available with the company.
14. Deferred tax liability of Rs.103.78 lakhs as on 30.6.2006 is on account of timing difference relating to depreciation.
15. Amounts have been rounded off to the nearest rupee and previous year figures regrouped wherever necessary.

As per our Report of even date

For **K.S.G. SUBRAMANYAM & CO**
Chartered Accountants

T.C. KERALA VARMA RAJA
Partner
Membership No.6932

S.N. VARADARAJAN
Chairman & Managing Director

VINOD NARSIMAN
Chief Executive Officer

Place : Coimbatore
Date : 25.10.2006

S. INDERCHAND
Director

S. MAHADEVAN
Company Secretary



PART IV - SCHEDULE VI OF COMPANIES ACT, 1956
BALANCE SHEET ABSTRACT AND COMPANY'S GENERAL BUSINESS PROFILE

A. REGISTRATION DETAILS:

Registration No.	:	181-2849
State Code	:	18
Balance Sheet Date	:	30.6.2006

B. CAPITAL RAISED DURING THE YEAR: (Amount in Rs.Thousands)

Public Issue	:	NIL
Rights Issue	:	NIL
Bonus Issue	:	NIL
Private Placement	:	NIL

C. POSITION OF MOBILISATION AND DEPLOYMENT OF FUNDS: (Amount in Rs.Thousands)

Total Liabilities :	6,75,789	Total Assets :	6,75,789
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Sources of Funds

Paid-Up capital	94,491
Reserves & Surplus	1,69,166
Deferred Tax Liability	10,378
Secured Loans	2,90,805
Unsecured Loans	-
Deferred Liability	1,10,949

Application of Funds

Net Fixed Assets	5,70,031
Investments	1,755
Net Current Assets	1,04,033
Misc. Expenditure	-

D. PERFORMANCE OF THE COMPANY: (Amount in Rs.Thousands)

Turnover (Net)	:	3,47,792
Increase/Decrease in Stock	:	(16,963)
Other Income	:	1,255
Total expenditure	:	2,96,097
Profit(+)/Loss(-) Before Tax	:	35,987
Profit(+)/Loss(-) After tax	:	35,797
Earning Per share	:	3.79
Dividend Rate %	:	10%

E. GENERIC NAMES OF THREE PRINCIPAL PRODUCTS / SERVICES OF THE COMPANY:

Item Code No. (ITC Code)	:	7202 30 00
Product Description	:	Silico Manganese Generation & supply of power

As per our Report of even date

For **K.S.G. SUBRAMANYAM & CO**
Chartered Accountants

T.C. KERALA VARMA RAJA
Partner
Membership No.6932

S.N. VARADARAJAN
Chairman & Managing Director

VINOD NARSIMAN
Chief Executive Officer

Place : Coimbatore
Date : 25.10.2006

S. INDERCHAND
Director

S. MAHADEVAN
Company Secretary



INDSIL

CASH FLOW STATEMENT FOR THE YEAR ENDED 30.6.2006

Particulars	Year ended 30.6.06 Rs.	Year ended 30.6.05 Rs.
A. CASH FLOW FROM OPERATING ACTIVITIES:		
Net profit / (loss) before tax	3,59,88,451	10,01,92,499
Adjustments for		
1. Depreciation	3,45,75,815	3,43,11,314
2. Financial charges	3,82,70,643	4,75,11,733
3. Dividend & Income from investments	-	(-) 3,05,665
4. Profit/Loss on sale of assets	(-) 22,394	(-) 8,247
5. Provision for gratuity	3,00,000	4,75,000
OPERATING PROFIT BEFORE WORKING CAPITAL CHANGES	10,91,12,515	18,21,76,634
Adjustments for changes in		
1. Inventories	3,77,96,349	(-) 10,98,91,455
2. Debtors	(-) 46,64,337	1,39,41,838
3. Other advances	(-) 20,71,926	(-) 43,28,409
4. Current liabilities	1,46,33,172	2,31,91,566
Cash generated from operations	15,48,05,774	10,50,90,174
Income Tax Payments	(-) 96,97,663	(-) 28,87,804
NET CASH FLOW FROM OPERATING ACTIVITIES (A)	14,51,08,111	10,22,02,370
B. CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of Fixed Assets	(-) 3,21,38,141	(-) 3,55,50,396
Sale of Fixed Assets	2,42,495	2,83,178
Purchase/Sale of Investments	-	-
Dividend & Income from Investments	-	3,05,665
NET CASH FLOW FROM INVESTING ACTIVITIES (B)	(-) 3,18,95,646	(-) 3,49,61,553
C. CASH FLOW FROM FINANCING ACTIVITIES		
Proceeds from Issue of Share Capital	-	-
Proceeds through share premium	-	-
Unsecured Loans (Net)	(-) 5,65,51,311	4,15,51,311
Repayment of long term borrowings	(-) 1,26,06,197	(-) 5,27,11,800
Financial Charges	(-) 3,82,70,643	(-) 4,75,11,733
Payment of Dividend & Tax	(-) 80,80,731	-
NET CASH FLOW FROM FINANCING ACTIVITIES (C)	(-) 11,55,08,883	(-) 5,86,72,222
NET INCREASE IN CASH AND CASH EQUIVALENTS (A+B+C)	(-) 22,96,418	85,68,595
Cash and Cash Equivalents as on 1.7.2005 (Opening Balance)	1,75,30,257	89,61,662
Cash and Cash Equivalents as on 30.6.2006 (Closing Balance)	1,52,33,839	1,75,30,257

As per our Report of even date
For **K.S.G. SUBRAMANYAM & CO**
Chartered Accountants

T.C. KERALA VARMA RAJA
Partner

S.N. VARADARAJAN
Chairman & Managing Director

VINOD NARSIMAN
Chief Executive Officer

Place : Coimbatore
Date : 25.10.2006

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S. INDERCHAND
Director

S. MAHADEVAN
Company Secretary



INDSIL

INDSIL ELECTROSMELTS LIMITED

"INDSIL House", T.V.Swamy Road, West, R.S.Puram, Coimbatore 641 002

Phone: 91 422 2210922,3,4

Fax: 91 422 2210925

E-mail indsilho@indsil.com

Dear Shareholder,

RE: PAYMENT OF DIVIDEND THROUGH ELECTRONIC CLEARING SERVICE (ECS)

The Securities and Exchange Board of India (SEBI) has advised companies to mandatorily use ECS facility wherever available for distributing dividends to the investors. This facility provides instant credit of dividend amount to your bank account electronically at no extra cost. ECS also eliminates the delay in postal transit and fraudulent encashment of warrants.

Under this facility, the amount of dividend payable to you would be directly credited to your bank account. Your bank's branch will credit your account and indicate the credit entry as 'ECS' in your pass book /statement of account. We would be issuing an advice to you directly after the transaction is effected.

In respect of shareholders holding shares in dematerialized form, the Company will make payment through ECS if the bank account details are furnished by the shareholder to the concerned depository participant with whom the shareholder is maintaining his demat account. In case you are holding shares in demat form and the bank details have so far not been furnished to the depository participant or the bank details furnished to the depository participant are desired to be altered, we would request you to kindly submit the same to the **depository participant immediately**.

In case you are holding the Company's shares in physical form, you may kindly return the ECS Mandate form given overleaf duly completed and signed by you immediately to SKDC CONSULTANTS LTD., No.11, Street No.1, S.N. Layout, West Power House Road, Tatabad, COIMBATORE 641 012, Phone : 0422 - 6549995, E-mail : info@skdc-consultants.com

In locations where ECS facility is not available, the Company will print the bank account details on the Payment Instrument, on receipt of the same.

Thanking you,

Yours faithfully,
For **INDSIL ELECTROSMELTS LTD.,**

Place: Coimbatore
Date: 25-10-2006

S.MAHADEVAN
Company Secretary



**Electronic Clearing Service (Credit Clearing) ECS Mandate form
for payment of dividend on equity Shares**

1. First Shareholder's Name (In Block Letters) _____

2. Shareholders Folio No. _____

3. Particulars of Bank Account

A. Bank Name _____

B. Branch Name, Address & Phone number _____

C. Account No. (as appearing on the cheque book) _____

D. Account Type

(SB Account/Current A/c or Cash Credit) with codes 10/11/13 (tick the correct box)

10.S.B		11. Current		13. Cash Credit	
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E. Ledger Folio No. of the Bank A/c. (if appearing on the cheque book) _____

F. 9 Digit Code No. of the Bank & Branch appearing on the MICR Cheque issued by the bank

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Important : Please attach the photocopy of a cheque or a blank cancelled cheque issued by your Bank relating to your above account for verifying the accuracy of the code number

I, hereby declare that the particulars given above are correct and complete. If the transaction is delayed or not effected at all for reasons of incomplete information, I would not hold the Company responsible.

Date:

Signature of the First Shareholder