

**Ambuja
Cement
Eastern
Limited**

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ANNUAL REPORT 1998-99

AMBUJA CEMENT EASTERN LIMITED

(Formerly known as Modi Cement Limited)

ANNUAL REPORT 1998-99

BOARD OF DIRECTORS

Suresh Neotia

Dr. D.K. Modi

A.L. Kapur

Pulkit N. Sekhsaria

P.B. Kulkarni

B.L. Taparia

A.C. Singhvi

S.K. Dewan

R.S. Rathore (Nominee - BIFR)

Harshavardhan Neotia, *Managing Director*

CORPORATE OFFICE

Vishwakarma
86-C, Topsia Road (S),
Calcutta 700 046.

COMPANY SECRETARY

R. Kalidas

REGISTERED OFFICE & WORKS

Village Rawan,
Tehsil Baloda Bazar,
District Raipur,
Madhya Pradesh - 493 331.

AUDITORS

Lodha & Co.

BANKS

State Bank of India
Canara Bank
State Bank of Travancore
Bank of India
Union Bank of India
UTI Bank Limited
Credit Lyonnais

NOTICE

NOTICE is hereby given that the Seventeenth Annual General Meeting of the Members of the Company will be held on 16th October, 1999 at 10.00 am at the Registered Office of the Company at Village Rawan, Tehsil Baloda Bazar, District Raipur, Madhya Pradesh 493 331 to transact the following business:-

- 1) To consider and adopt the Profit & Loss Account for the Corporate Financial Year ended 30th June, 1999, the Balance Sheet as at that date and the Reports of Directors' and Auditors' thereon.
- 2) To appoint a Director in place of Shri S K Neotia, who retires by rotation and being eligible, offers himself for reappointment.
- 3) To appoint a Director in place of Shri Pulkit N Sekhsaria who retires by rotation and being eligible, offers himself for reappointment.
- 4) To appoint a Director in place of Shri P B Kulkarni, who retires by rotation and being eligible, offers himself for reappointment.
- 5) To appoint M/s Lodha & Co., retiring Auditors, as Auditors of the Company, to hold office from the conclusion of this Meeting until the conclusion of the next Annual General Meeting of the Company and to fix their remuneration.

SPECIAL BUSINESS:

- 6) To consider and if thought fit, to pass, with or without modification(s), the following Resolution as a Special Resolution :-
 "RESOLVED THAT subject to the provisions of the Companies Act, 1956 [including any statutory modification(s) or re-enactment thereof for the time being in force and as may be enacted hereinafter] and subject to such approvals, permissions, sanctions and subject to such conditions and modifications as may be prescribed or imposed while granting such approvals, permissions and sanctions which may be agreed to by the Board of Directors of the Company, consent of the Company be and is hereby accorded to the Board to delist its equity shares from the Bhubaneswar Stock Exchange."
- 7) To consider and if thought fit, to pass, with or without modification(s), the following Resolution as an Ordinary Resolution :-
 "RESOLVED THAT the consent of the Company be and is hereby accorded in terms of Section 293(1)(a) and other applicable provisions, if any, of the Companies Act, 1956, to mortgaging and / or charging by way of second mortgage / charge by the Board of Directors of the Company of all or any of the immovable and / or moveable properties of the Company, wheresoever situate,

both present and future, or the whole or substantially the whole of the undertaking or undertakings of the Company and / or conferring power to enter upon and take possession of the assets of the Company in certain events, to or in favour of the lenders / Industrial Development Bank of India (IDBI) on behalf of the lenders to secure the following working capital facilities sanctioned / to be sanctioned:-

- a) Cash Credit / Working Capital Demand Loan of Rs.17,50,00,000 (Rupees seventeen crores fifty lacs only) by State Bank of India;
- b) Cash Credit (Hypothecation) / Working Capital Demand Loan of Rs.5,00,00,000 (Rupees five crores only) by State Bank of Travancore;
- c) Cash Credit / Working Capital Demand Loan of Rs.2,50,00,000 (Rupees two crores fifty lacs only) by UTI Bank Limited;
- d) Cash Credit / Working Capital Demand Loan of Rs.2,50,00,000 (Rupees two crores fifty lacs only) by Credit Lyonnais;
- e) Cash Credit / Working Capital Demand Loan of Rs.7,50,00,000 (Rupees seven crores fifty lacs only) by Canara Bank;
- f) Cash Credit / Working Capital Demand Loan of Rs.10,00,00,000 (Rupees ten crores only) by Bank of India;
- g) Cash Credit / Working Capital Demand Loan of Rs.5,00,00,000 (Rupees five crores only) by Union Bank of India;

together with interest, compound interest, additional interest, liquidated damages, premia on prepayment, costs, charges, expenses and all other monies payable by the Company to the respective Banks in terms of the Letters of Sanction / Loan Agreements / Loan Document entered or to be entered into by the Company in respect of the said credit facilities as amended from time to time."

"RESOLVED FURTHER THAT the Board of Directors of the Company be and is hereby authorised to finalise with the Banks as lenders / 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."

8. To consider and if thought fit, to pass, with or without modification(s), the following Resolution as a Special Resolution :-

"RESOLVED THAT pursuant to the provisions of

Section 31 and all other applicable provisions, if any, of the Companies Act, 1956, and the provisions of other statutes as applicable, the Articles of Association of the Company be and is hereby altered as under :-

After Article 68, a New Article 68A be inserted as under :-

Article 68A –

Notwithstanding anything contained in any other clauses in the Articles of Association, a holder or joint holders of shares or debentures, may nominate, in accordance with the provisions of section 109A of the Companies Act, 1956, and in the manner prescribed thereunder, a person to whom all the rights in the shares or debentures of the Company, shall vest in the event of death of such holder/s. Any nomination so made shall be dealt with by the Company in accordance with the provisions of section 109B of the Companies Act, 1956.”

NOTES

1. A MEMBER ENTITLED TO ATTEND AND VOTE IS ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE INSTEAD OF HIMSELF AND THE PROXY NEED NOT BE A MEMBER. PROXIES IN ORDER TO BE VALID MUST BE RECEIVED BY THE COMPANY AT ITS REGISTERED OFFICE NOT LESS THAN 48 HOURS BEFORE THE MEETING.
2. The Register of Members and the Share Transfer Books of the Company will remain closed from Tuesday, the 5th October, 1999 to Thursday, the 14th October, 1999 (both days inclusive).
3. Shareholders holding shares in identical order of names in more than one folio are requested

to write to the Company's Share Transfer Agents enclosing their share certificates to enable them to consolidate their holdings into one folio.

4. Members are requested to surrender their old share certificates held by them in the erstwhile Modi Cement Ltd. to the Company's Share Transfer Agents to enable them to issue fresh certificates in exchange thereof in respect of the reduced Share Capital pursuant to the Rehabilitation Scheme sanctioned by the Board for Industrial and Financial Reconstruction (BIFR).
5. Members can now avail the facility of nomination in respect of shares held by them, pursuant to the amendment in the Companies Act, 1956. The prescribed Form (Form 2B) is being sent with the Notice. Members desiring to avail this facility, may send their Nomination Form duly filled in, to the Company's Share Transfer Agents.
6. Members are requested to send all communications relating to shares to the Share Registrars and Transfer Agents at the following address :-

MCS LIMITED
(Unit: Ambuja Cement Eastern Ltd.)
SRIVENKATESH BHAVAN
212-A SHAHPURJAT
NEW DELHI 110 049.
Tel No. (011) 649-4830/31

By Order of the Board of Directors

Place : Mumbai
Date : 3rd August, 1999

R. Kalidas
Company Secretary

The following Explanatory Statement sets out all material facts relating to the special business under Item Nos. 6 to 8 of the accompanying Notice dated 3rd August, 1999.

In respect of Item No. 6

The Company's Equity Shares are presently listed at the Stock Exchanges at Indore, Mumbai, Delhi and Bhubaneswar. At the Annual General Meeting of the Members held on 28th October, 1998, a Special Resolution was passed by the Members, granting approval to the Company's proposal to voluntarily delist its shares from the Bhubaneswar Stock Exchange. The Bhubaneswar Stock Exchange has not accepted the Company's request for voluntary delisting on the ground that the technical requirements for voluntary delisting as laid down in the Listing Agreement have not been fully complied with. Hence, the aforesaid Resolution is being proposed for consideration again by the Members, after ensuring necessary compliances in this connection. As already informed, the number of Members belonging to the region which comes within the jurisdiction of Bhubaneswar Stock Exchange is miniscule and the trading volumes are very negligible. The cost involved in continuing with the listing arrangement with the said Stock Exchange would be unjustified. The proposed delisting will not affect adversely any Members located in the above region.

The Board recommends the passing of the Resolution as it is in the best interest of the Company. Copy of the Special Resolution dated 28th October, 1998 and copy of letter No.BSE/S/2225 dated 9th April, 1999 from the Bhubaneswar Stock Exchange, conveying their objection to the voluntary delisting are available for inspection by the Members during business hours on any working day at the Registered Office of the Company up to the date of the Meeting.

None of the Directors of the Company is, in any way, concerned or interested in the said Resolution.

In respect of Item No. 7

The Company has sought an upward revision in its working capital facilities from the Consortium of Bankers. In response to its Application, revised working capital limits have been sanctioned by State Bank of India, State Bank of Travancore, UTI Bank Limited and Credit Lyonnais, Mumbai. The proposal is under the active consideration of the other members of the consortium of Bankers, namely, Canara Bank, Bank of India, and Union Bank of India.

The financial assistance obtained / to be obtained from

the above Bankers is required to be secured by way of a second pari-passu mortgage / charge of the immovable and / or movable properties of the Company, both present and future to be created in favour of these Banks / IDBI, the monitoring Agency, on behalf of these Banks. The creation of such a security may be considered as a disposal of the Company's undertaking/(s) within the meaning of section 293(1)(a) of the Companies Act, 1956. Hence, consent of the Members is being sought for the adoption of the Resolution as an Ordinary Resolution.

None of the Directors of the Company is, in any way, concerned or interested in the said Resolution.

The Board of Directors recommends the passing of the Resolution at Item No. 7

Copies of the Letters of Sanction, Loan Agreements and other documents executed with the respective Banks in respect of the said Loans are open for inspection by the Members during business hours on any working day at the Registered Office of the Company, upto the date of the Meeting.

In respect of Item No. 8

The Companies (Amendment) Act, 1998 has inter-alia, made a provision through sections 109A and 109B whereby a holder or joint holders of shares can nominate a person to whom all the rights in the shares or debentures of a Company shall vest in the event of death of such holder/s. Such a nominee can elect either to be registered himself as the holder of the shares or debentures or make such transfer of the shares or debentures as the deceased holder/s of shares or debentures could have made. It is therefore, proposed to introduce a New Article in the Articles of Association of the Company by way of an enabling provision to provide for nomination facility in accordance with the provisions of section 109A and 109B of the Companies Act, 1956.

None of the Directors of the Company is, in any way, concerned or interested in the said Resolution.

By Order of the Board of Directors

Place : Mumbai
Date : 3rd August, 1999

R. Kalidas
Company Secretary

To The Members,

We have pleasure in presenting the Seventeenth Annual Report together with the Audited Statement of Accounts of the Company for the corporate financial year ended 30th June, 1999. This happens to be the first full financial year since the change of management of your Company.

The year under review has been a difficult year for cement. During the year, the capacity increased by 8.46 million tonnes whereas the demand grew by 5.87 million tonnes. The increase in demand thus failed to absorb the additional capacity created and the situation of oversupply aggravated.

The industry saw some improvements in off-take in the latter half of the financial year. However, the spectre of excess supply continued to keep prices under pressure and thus affected the earnings.

Despite the difficult market conditions, your company has completed the year with a vastly improved performance as compared to the previous year. Cement production was up at 10.57 lac tonnes against 6.15 lac tonnes in the previous financial year of 15 months and sales was up at 10.55 lac tonnes valued at Rs.239.64 crores as against 5.95 lac tonnes valued at Rs.120.04 crores in the previous financial year.

FINANCIAL RESULTS

The operating results for the corporate financial year ended 30th June, 1999 are given below. The figures are not strictly comparable with those for the previous period which are in respect of a fifteen month period ended 30th June, 1998.

	Current Year Rs. in lacs	Previous Period 15 months Rs. in lacs
Sales	23963.28	12004.56
Operating Profit	2254.61	(3768.12)
Interest and Finance Charges	720.47	1010.77
Gross Profit	1534.14	(4778.89)
Depreciation	1400.96	1674.40
Profit before Taxation	133.18	(6453.29)
Provision for Wealth-tax	0.50	1.01
Net Profit after Taxation	132.68	(6454.30)
Add/(Less) :		
Investment Allowance Reserve written back	-	(2788.17)
Extraordinary Items :		
Waiver of interest pursuant to BIFR Scheme	-	(18543.33)
Loss brought forward from previous year	14600.81	32913.15
Capital Reduction pursuant to BIFR Scheme	-	(3435.14)
Loss carried forward	14468.13	14600.81

REVIEW OF PERFORMANCE

We took charge of the Company's operations in December, 97. The first thing on which we concentrated was the problems and bottlenecks which were needed to be tackled immediately for overall improvement in the plant operations. The major issues identified were improving quality, reduction in direct costs, logistic management, marketing network and human resource

development. We are pleased to report that we have been able to bring about significant improvements in most of these areas.

For improving the quality of cement, the quality of major inputs, viz. limestone and coal were monitored. The limestone quality was improved by beneficiation and screening. Similarly, high quality and low ash content coal was sourced during the year albeit at high cost. The

limestone and coal feeds were analysed at rapid frequency so as to ensure high consistency of raw materials being processed. Also close monitoring was done of the clinker grinding process to ensure that cement produced is of high strength consistently.

Our engineers operated the plant quite efficiently. Operation of each of the process was closely monitored which helped in optimal running of the plant as a whole and thereby improving the productivity. Adequate emphasis was given on preventive maintenance. As a combined team effort, idling of the equipments was reduced substantially. All these efforts resulted in substantial improvement in the cement production, reduction in major input costs, viz. power and coal. Our focus will continue for further reduction in the various input costs as well as for improving the productivity of the plant.

A fresh look was given to the logistic management appreciating the fact that material handling cost, the freight and the distribution cost play a vital role in the bottom line. Our people have minimised the multiple handling of the raw materials as well as the finished goods. The distribution and transportation practices were reviewed and requisite steps were taken to ensure efficient and cost effective distribution of cement.

We started selling our cement under the brand "Ambuja Cement". This was backed up by consistently high quality of cement. We had targeted to place our cement as a prime brand in the market place. To achieve this, we started the exercise of strengthening our dealer and stockist network in all our markets. While a lot more has to be done in this area, the response that we have received in the market place is extremely encouraging. Our Technical Services Cell together with our sales team have taken up a mass consumer education programme on the technical attributes of the product. Extensive communication coupled with substantially upgraded quality of cement has helped in widespread acceptance of our brand "Ambuja Cement" in all our markets. The result - we have increased our sales volume by 120% over the previous year on annualised basis. And more significantly - in the eastern region which is our major market, we have increased our volumes by nearly 100% whereas the overall demand in the region grew merely by 2%.

When we took charge of the unit, the employee morale was at a low ebb because of the huge losses incurred. Constant efforts on motivating the people at all levels have paid rich dividends. Our people are now a transformed lot. They are committed to give out their best in their respective areas of functions.

The result of all the above efforts have been extremely gratifying as is evident from quantum leap achieved in sales both in terms of value and quantity, increase in

production, reduction in major input costs and substantially improved bottom line as compared to the previous year.

CAPTIVE POWER GENERATION

The next area that has now been identified is further reduction in power cost which is one of the major components of cost in cement manufacture. The cost of power supplied by MPSEB is as high as Rs.4.50 per KWH approx. whereas the cost of power generation from captive D.G. sets is about Rs.2.50 per KWH. For the speedy revival of the Company, it is of utmost importance and a necessity to reduce the cost of power which can be achieved only through captive generation. With this end in view, the Company proposes to install one more D.G. Set of 10 MW capacity, at an estimated cost of Rs.25 crores. With the existing two D.G. Sets of 4 MW each, the captive power generation capacity will increase to 18 MW.

The D.G. Set when installed will result in substantial savings in power cost. In addition, company shall get uninterrupted power supply which in turn will improve the productivity.

FUTURE PROSPECTS

Cement offtake has increased significantly from the second quarter of this calendar year. This coupled with certain other macro economic indicators point to an economic revival and we expect the economy to do better than the previous year.

The Government's support on development of infrastructure and the housing sector will provide the much needed boost to the cement industry. We foresee opportunities ahead and we are confident of our ability to make the most of such opportunities.

BIFR SCHEME - IMPLEMENTATION

The implementation of the rehabilitation scheme sanctioned by BIFR has progressed as per schedule. The Govt. of Madhya Pradesh (GOMP) through its various departments and undertakings as well as other agencies involved in the scheme have by and large extended their support as was envisaged in the rehabilitation scheme. Some remaining issues are under the active consideration of the GOMP and the other agencies and we expect a favourable response for the same very soon.

The reliefs and concessions granted have been dealt with appropriately in these accounts.

SANCTION OF WORKING CAPITAL FACILITIES

To finance the increased requirements of working capital consequent upon the increase in volumes, the Company had sought an enhancement in its fund based working capital limits upto Rs.50 crores with the

consortium of its Bankers under the leadership of State Bank of India. The fresh limits have been sanctioned and it is envisaged that the grant of additional facilities will see us achieving higher volumes.

DIRECTORS

Mr. S.K.Sekhsaria tendered his resignation from the Board during the year. The Directors wish to place on record their sincere appreciation of the services extended by Mr. S.K.Sekhsaria during his tenure of association as Director.

Mr. A.L.Kapur was appointed Director in August, 1999 to fill in the casual vacancy caused by the resignation of Mr. S.K.Sekhsaria.

In accordance with the provisions of the Companies Act, 1956, Mr. S.K.Neotia, Mr. Pulkit Sekhsaria and Mr. P.B.Kulkarni, being longest in office, retire by rotation and being eligible, offer themselves for re-appointment.

FIXED DEPOSITS

The Company has not received any fixed deposit from the Shareholders/ Public during the period under review.

AUDITORS

Note Nos.20 and 21 to the Accounts as referred in the Auditor's Report are self-explanatory and therefore, do not call for any further comments or explanations.

M/s Lodha & Co., Auditors of the Company will retire at the ensuing Annual General Meeting and are eligible for re-appointment. You are requested to re-appoint the Auditors and fix their remuneration.

M/s G.P.Agrawal & Co., Chartered Accountants, were appointed as Concurrent Auditors pursuant to the Rehabilitation Scheme sanctioned by BIFR.

M/s Bahadur Murao & Co., Cost Accountants, have been re-appointed as Cost Auditors of the Company for the year 1999-2000.

Y2K COMPLIANCE

Adequate steps have been taken by the Company against the Year 2000 (Y2K) problem in respect of all the business IT applications and process control systems, for both software and hardware. Substantial progress has been made to become Y2K compliant. Full

compliance is expected to be achieved by November 1999. The costs already incurred/ to be incurred in this connection are not expected to be significant.

ENERGY CONSERVATION, TECHNOLOGY ABSORPTION, FOREIGN EXCHANGE EARNINGS AND OUTGO

Information on conservation of energy, technology absorption, foreign exchange earnings and outgo required to be given pursuant to Section 217(1)(e) of the Companies Act, 1956 read with the Companies (Disclosure of Particulars in the Report of the Board of Directors) Rules, 1988 is annexed hereto marked Annexure-I and forms part of this Report.

EMPLOYEES

Labour relations continued to be cordial at the Plant.

Information required to be given pursuant to the provisions of Section 217(2A) of the Companies Act, 1956 is annexed hereto marked Annexure - II and forms part of this Report.

ACKNOWLEDGEMENT

We take this opportunity to express our deep sense of gratitude to the Banks in consortium under the lead of State Bank of India for their continued support to the Company.

We are grateful to the Government of Madhya Pradesh for their continued support and for their favourably considering the reliefs and concessions necessary for the revival of the Unit.

We place on record our sincere appreciation of the total commitment, dedication and hard work put in by all the employees of the Company.

We also thank the BIFR and various Departments of Central and State Governments and local authorities for the continued support received from them.

For and on behalf of the Board

B. L. Taparia
Director

Mumbai,
3rd August, 1999

Harshvardhan Neotia
Managing Director