

ANNUAL REPORT

1999 ~ 2000



Ambuja Cement Eastern Limited

AMBUJA CEMENT EASTERN LIMITED

(Formerly known as Modi Cement Limited)

ANNUAL REPORT 1999-2000

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 Eighteenth Annual General Meeting of the Members of the Company will be held on Wednesday, the 4th October, 2000 at 10 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, 2000, the Balance Sheet as at that date and the Reports of Directors and Auditors thereon.
2. To appoint a Director in place of Shri B L Taparia, who retires by rotation and being eligible, offers himself for reappointment.
3. To appoint a Director in place of Shri A C Singhvi, who retires by rotation and being eligible, offers himself for reappointment.
4. To appoint a Director in place of Shri S K Dewan, 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.
6. To appoint M/s. N M Raiji & Co. as the Joint Auditors of the Company to hold Office from the conclusion of this Annual General Meeting till the conclusion of the next Annual General Meeting and to fix their remuneration.

SPECIAL BUSINESS :

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 the Board of Directors of the Company of any of the immovable and/or moveable properties of the Company, wheresoever situate, 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 the UTI Bank Ltd ("the Debenture Trustees") acting as the Trustees for the holders of 2800000 Secured Redeemable Non-Convertible Debentures of Rs. 100/- each of an aggregate face value of Rs. 28,00,00,000 (Rupees

Twenty-eight crores only) allotted at par on private placement basis to Standard Chartered, Mumbai ("the Bank") to secure the said debentures together with interest thereon at the agreed rates, compound interest, additional interest, costs, charges, expenses and all other monies payable by the Company to the Bank in terms of the Subscription Agreement dated 9th December, 1999 entered into with the said Bank."

"RESOLVED FURTHER THAT the Board Directors of the Company be and is hereby authorised to finalise with the Bank as lenders and/or with Debenture Trustees, 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 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 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 ICICI Limited (ICICI) to secure the Term Loan of Rs. 100,00,00,000/- (Rupees One hundred crores only) lent and advanced and/or agreed to be lent and advanced together with interest thereon at the agreed rates, compound interest, additional interest, liquidated damages, up-front fee, costs, charges, expenses and all other monies payable by the Company to ICICI in terms of the Letter of Sanctions and Loan Agreement(s) entered/ to be entered into by the Company in respect of the said Term Loan."

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

9. 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 81 and other applicable provisions if any, of the

Companies Act, 1956 (including any amendment thereto or reenactment thereof for the time being in force), the provisions of the Memorandum and Articles of Association of the Company and subject to the approval of the Securities and Exchange Board of India (SEBI) and all other appropriate authorities and such other approvals, permissions and sanctions, as may be necessary and subject to such conditions and modification(s) as may be prescribed or imposed by any of them while granting such approvals, permissions and sanctions which may be agreed to, by the Board of Directors of the Company (hereinafter referred to as "the Board" which expression shall be deemed to include any committee thereof that the Board may constitute), consent of the Company be and is hereby accorded to the Board to issue, offer and allot to Ambuja Cement India Limited (ACIL), the holding Company on private placement basis, equity shares / any other security convertible into equity shares, which when issued / converted would not exceed 1,70,00,000 equity shares of Rs.10/- each at a price inclusive of share premium as may be determined by the Board in accordance with prevailing SEBI guidelines."

"RESOLVED FURTHER THAT the equity shares, if any, allotted in pursuance of this preferential issue to ACIL shall rank, pari passu with the existing equity shares of the Company except that such equity shares shall carry the right to receive dividend, if any, which may be declared for the financial year in which the allotment of shares shall become effective, pro rata from the respective date(s) of allotment."

"RESOLVED FURTHER THAT the Board be and is hereby authorised to modify or amend any of the terms and conditions of the preferential issue as and when deemed fit in its absolute discretion subject to the condition that such modification(s) / amendment(s) shall be in accordance with the provisions of the applicable guidelines issued by SEBI in this connection and the provisions of the Companies Act, 1956."

"RESOLVED FURTHER THAT for the purpose of giving effect to this Resolution, the Board be and is hereby authorised to do and perform such acts, deeds, matters and things as may be deemed necessary by it in its absolute discretion and to settle any question, difficulty or doubt that may arise in regard to the offer / issue, allotment and utilisation of the proceeds and further to do and perform all such acts, deeds, matters and things and to finalise and execute all documents and writings as the Board may in its absolute discretion consider necessary, proper or expedient."

10. To consider and if thought fit, to pass with or without modification(s) the following Resolution as an ordinary

Resolution :-

"RESOLVED that pursuant to the provisions of Sections 16, 94 and all other applicable provisions of the Companies Act, 1956, the Authorised Share Capital of the Company, be and is hereby increased from Rs. 180,00,00,000/- (Rupees one hundred and eighty crores only) divided into 18,00,00,000 (Eighteen crores) Equity Shares of Rs. 10/- (Rupees ten) each to Rs. 195,00,00,000/- (Rupees one hundred ninetyfive crores only) divided into 19,50,00,000 Equity Shares of Rs. 10/- (Rupees ten) each and consequently, the existing Clause V of the Memorandum of Association of the Company, relating to the Share Capital be and is hereby altered by substituting the following new Clause in its place and stead :

V. The Authorised Share Capital of the Company is Rs.195,00,00,000/- (Rupees one hundred ninetyfive crores only) divided into 19,50,00,000 Equity Shares of Rs. 10/- (Rupees ten) each."

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

"RESOLVED that pursuant to Section 31 and all other applicable provisions, if any, of the Companies Act, 1956, the Articles of Association of the Company be and are hereby altered as follows:-

Article 3 of the Articles of Association be substituted by the following as new Article 3:-

3. The Authorised Share Capital of the Company shall be the Capital as specified in Clause V of the Memorandum of Association with the power to increase or reduce the share capital of the Company and to divide the shares in the capital for the time being into several classes admissible in law and to attach thereto respectively any preferential, deferred, qualified or special rights, privileges or conditions as may be determined by or in accordance with the Articles of Association of the Company and to vary, modify, amalgamate or abrogate any such rights, privileges or conditions in such manner as may for the time being be in of the Articles of Association."

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 FORTY-EIGHT HOURS BEFORE THE MEETING.

2. The Register of Members and the Share Transfer Books of the Company will remain closed from Tuesday, the 26th September, 2000 to Wednesday, the 4th October, 2000 (both days inclusive).
3. The Company has entered into an Agreement with National Security Depository Limited (NSDL) on 15th February, 2000 to dematerialise the Company's shares. A Tripartite Agreement is also being entered into with the Central Depository Services (India) Ltd. (CDSL) for the same purpose. Operations in the Company's shares on the depository system on NSDL commenced from 16th February, 2000. Members can hold their shares in the Company in demat form through NSDL and soon through CDSL as well.
4. 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.
5. Members are requested to surrender their old share certificates held by them in the erstwhile Modi Cement Limited 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).
6. Members can now avail of the facility of nomination in respect of shares held by them, pursuant to the amendment in the Companies Act, 1956. Members desiring to avail of this facility, may send their Nomination Form in Form No.2B duly filled in, to the Company's Share Transfer Agents.
7. Members are requested to send all communications relating to shares to our 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 : 27th July, 2000

R Kalidas

Company Secretary

EXPLANATORY STATEMENT

[Pursuant to Section 173(2) of the Companies Act, 1956]

The following Explanatory Statement sets out all material facts relating to the special business under Item Nos. 7, 8, 9, 10 and 11 of the accompanying Notice dated 27th July, 2000.

In respect of Item No.7

The Company has raised finance by Private Placement at par to Standard Chartered Bank, Mumbai, 28,00,000 Secured Non-convertible Redeemable Debentures of Rs. 100/- (Rupees one hundred only) each carrying interest @ 12.25% (per cent) for an aggregate face value of Rs. 28,00,00,000/- (Rupees twenty eight crores only) towards part financing the cost of setting up a 10 MW DG Set and other assets for its Plant at Rawan in Raipur District of Madhya Pradesh. These Debentures are redeemable at the end of 35 (thirty five) months from the dates of allotment at par.

The Debentures are required to be secured by a mortgage /first charge over DG Set and other assets purchased out of the proceeds of the Debenture issue. A Subscription Agreement dated 9th December, 1999 was executed with Standard Chartered Bank, Mumbai. UTI Bank Limited was appointed as Debenture Trustees for the said

Debentures. The security is proposed to be created by way of executing Debenture Trust Deed in favour of UTI Bank Limited ('the Debenture Trustees'), mortgaging / charging thereby certain assets of the Company to or in favour of Debenture Trustees. As the creation of the security as envisaged hereinabove may be considered as disposal of the whole or substantially the whole of the undertaking or undertakings in terms of section 293(1)(a) of the Companies Act, 1956, consent of the shareholders is being sought.

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

Copies of the Letters of Sanction, Subscription Agreement executed with the Standard Chartered Bank, Mumbai in respect of the said Debentures are available 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.

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

In respect of Item No.8

The Company's Cement Grinding Unit Project with an installed capacity of 1 Mln. tonnes at Sankrail, West Bengal is in the process of being implemented. In addition, the Company is also carrying out substantial capital investment for upgradation of its manufacturing facilities at Bhatapara, Madhya Pradesh.

To part finance the above capital expenditure programmes, the Company has been sanctioned by ICICI Limited (ICICI), a term loan of Rs. 100 crores (Rupees one hundred crores). The term loan from ICICI is required to be secured by way of a pari passu, first mortgage / charge on the fixed assets of the Company both present and future in favour of ICICI.

Since the creation of such a security may be considered as disposal of the Company's undertakings within the meaning of Section 293(1)(a) of the Companies Act, 1956, the consent of the Members is being sought. Copy of the letter of sanction received from ICICI and copies of relevant correspondence / documents are available 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.

The Board of Directors recommends the passing of the Resolution at Item No. 8.

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

In respect of Item No.9

With a view to augment resources for its ongoing capital expenditure and other general corporate purposes, the Company proposes to raise finance upto Rs. 175 crores (approx.). In this direction the Company has borrowed/ proposed to borrow a sum of Rs. 128 crores. Any additional borrowing would result in additional interest burden for the Company. The balance funds requirement is intended to be met out of further issue of equity shares/ any other security convertible into equity shares.

It is therefore, proposed to make a preferential issue of equity shares/any other security convertible into equity shares which when issued/converted would not exceed 1,70,00,000 equity shares of Rs. 10/- (Rupees ten only)

each to Ambuja Cement India Limited (ACIL), the holding Company at a price inclusive of premium to be determined by the Board of Directors in accordance with the SEBI guidelines applicable for such preferential issue.

To facilitate the above preferential issue, consent of the Members is being sought pursuant to the provisions of Section 81 of the Companies Act, 1956 and the Listing Agreement with the Stock Exchanges.

Shri S K Neotia, Shri Harshavardhan Neotia, Shri A C Singhvi, Shri P B Kulkarni and Shri A L Kapur, Directors of the Company who are also on the Board of ACIL may be deemed to be interested or concerned in the aforesaid Resolution.

Save as above, none of the Directors of the Company is, in any way, concerned or interested in the said Resolution.

The Board of Directors recommend the passing of the Resolution at Item No. 9 of the Notice.

In respect of Items No.10 and 11

To facilitate the issue and allotment of equity shares to ACIL as explained above, it is proposed to increase the Authorised Share Capital of the Company from Rs.180 crores to Rs. 195 crores. Consequently, it is necessary to alter Clause (V) of the Memorandum of Association and Article (3) of the Articles of Association of the Company and hence, the Resolutions proposed under Items No.10 and 11.

A copy of the Memorandum and Articles of Association of the Company together with the proposed changes is available 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.

The Board of Directors recommended the passing of the Resolutions at Item Nos. 10 and 11 of the Notice.

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

By Order of the Board of Directors

Place: Mumbai
Date : 27th July, 2000

R Kalidas
Company Secretary

DIRECTORS' REPORT

To The Members,

We have pleasure in presenting the Eighteenth Annual Report together with the Audited Statement of Accounts of the Company for the corporate financial year ended 30th June, 2000.

The year under review has shown a good growth in demand for the Cement Industry. Demand grew during the year by 12 ml. tonnes, representing a growth of 15%. Capacity additions were negligible. The capacity utilisation for the Industry grew from 78% to 87%. The spectre of excess supply which has characterised the Industry in recent times was thus greatly reduced.

In spite of the above encouraging backdrop, the prices remained depressed throughout the country generally. In some parts of the Country, due to drought conditions, market sentiments were disturbed leading to downward trend in prices. In our primary markets, prices were abysmally low almost throughout the year. Coupled with this, cost of inputs also recorded sharp increase. Hike in oil prices led to an increase in the cost of captive power generation. The cost grid supply also went up. Freight costs too have registered a sharp increase.

All these factors culminated in an adverse bottomline for the Company.

FINANCIAL RESULTS

The operating results for the corporate financial year ended 30th June, 2000 are given below:

	Current Year Rs. in lacs	Previous Year Rs. in lacs
Sales	26092.28	23963.28
Operating Profit / (Loss)	(1670.53)	2254.61
Interest and Finance Charges	1062.64	720.47
Gross Profit / (Loss)	(2733.17)	1534.14
Depreciation	1431.66	1400.96
Profit / (Loss) before Taxation	(4164.83)	133.18
Provision for Wealth Tax	0.36	0.50
Profit / (Loss) after Taxation	(4165.19)	132.68
Transfer to Debenture Redemption Reserve	320.00	—
Add: Loss brought forward from previous year	14468.13	14600.81
Loss carried forward	<u>18953.32</u>	<u>14468.13</u>

REVIEW OF PERFORMANCE

Production

During the year cement production of your Company was 12.50 lac tonnes as compared to 10.57 lac tonnes in the previous financial year — an increase of 19%.

It is a matter of great pleasure to report that the production recorded this year is the highest ever achieved by the plant since its inception. This has been possible mainly because of the initiatives taken by our motivated team.

Marketing

Sales Volume was 12.56 lac tonnes as compared to 10.55 lac tonnes in the previous financial year, an increase of 19%.

In value terms, sales were Rs. 260.92 crores as against Rs. 239.64 crores in the previous year, an increase of 9%.

The lower growth in sales value during the year is attributable to the depressed prices that prevailed in the Company's main markets of West Bengal, Orissa and Bihar. Despite an increase in demand in these States, prices were under severe strain due to demand-supply imbalance and steep competition. In West Bengal, which accounts for nearly 37% of our sales volume, the average price dropped to Rs. 113/- per bag as compared to Rs. 131/- in the previous year — the lowest price recorded in the last two years. In Bihar, the average prices were Rs. 100/- as against Rs. 111/- in the previous year. The drop in prices in Orissa was however, marginal in comparison to other states.

Despite such aggressive competition we have maintained our market share in all our markets. The Ambuja brand has been positioned in all our markets as a premium quality brand and has received preference from the discerning consumer.

It has been our constant endeavour to ensure that the consumer is supplied with consistently high quality cement. Our Technical services Cell has also been educating the consumer on sound construction practices. All this has helped build on the brand loyalty.

During the year, the emphasis has been on consolidation of our marketing initiatives in the existing markets and increasing the penetration level in some newer markets.

Cost Reduction Efforts

We have realised that it is of utmost importance to reduce costs. Hence we have embarked on a mission of continuous cost reduction.

The cost of captive power generation has gone up steeply as a direct consequence of the substantial increase in the cost of furnace oil. The cost of grid power also recorded an increase. Through operational and efficient use of our DG Sets and control over power consumption, we have been able to restrict the over all increase in the cost of power to only 7%.

The marketing department has initiated a major cost rationalisation drive. Despite increasing sales volume by 19% the selling expenses have been brought down by 6%.

FUTURE PLANS

Captive Power Generation

The installation of a new DG Set of 10MW at Bhatapara at an estimated cost of Rs.28 crores is nearing completion and will be operational by September,2000. This will save substantially, the cost of power. Besides, this will also ensure availability of high quality uninterrupted power supply to the Company. With this the captive power capacity will become 18 MW.

Grinding Unit in West Bengal

The Company is in the process of setting up a 1 MPTA capacity Cement Grinding Unit at Sankrail, West Bengal, on the outskirts of Calcutta at an estimated cost of Rs.115 crores.

Clinker for the Unit will be supplied from our Bhatapara Unit. This Plant will produce cement mainly to our markets in West Bengal. The setting up of this Unit will lead to saving in freight costs, handling costs and distribution costs. Besides it will enable the Company to service the markets in West Bengal better and more efficiently.

It is envisaged that our market share in West Bengal will improve considerably once the unit becomes operational.

Major civil and structural work at the site has been completed and most plant equipments have already

reached the site. The delivery of the remaining equipment is expected as per schedule. The Unit is expected to commence production by December, 2000.

Upgradation of Plant at Bhatapara

The Company is in the process of increasing clinker capacity at Bhatapara from 3300 TPD to 4000 TPD at an estimated cost of Rs.15 crores. This is being done mainly to cater to the additional demand for clinker once the Grinding Unit in West Bengal is commissioned. The upgradation is expected to be complete in December 2000 to coincide with the commissioning of the Grinding Unit in West Bengal.

Financing of Capital Projects

The Company has placed secured non-convertible 12.25% redeemable debentures with Standard Chartered Bank for an amount of Rs. 28 crores for financing the cost of the DG set.

The Company has tied up with ICICI to borrow Rs.100 crores for part financing the Grinding unit at Sankrail and upgradation at Bhatapara both estimated to cost Rs.130 crores approximately. The balance amount is proposed to be funded by the shareholders.

FUTURE PROSPECTS

As a product, cement has certain unique attributes. It is a material of mass consumption and has no substitute. It is a well known fact that development of infrastructure is a pre-requisite to economic growth. The major initiatives that have been taken by the Central Government for developing housing and other infrastructural facilities, we hope, will act as a stimulus to the growth of the cement industry in the future. Despite the fact that India is the second largest producer of cement in the world, its per capita consumption of cement is only 1/3rd of the world standards. There exists therefore, an enormous potential for the growth of the cement industry, given the unfulfilled needs for housing and other infrastructure in the country. Viewed against the above perspective, it is expected that the industry should record an annual growth rate of 8-10% in the coming years. Further, capacity additions in the near future are expected to be insignificant. This augurs well for the industry.

The company is fully geared to avail of the opportunities that lie ahead.

TRANSFER OF SHAREHOLDINGS BY GUJARAT AMBUJA CEMENTS LIMITED TO AMBUJA CEMENT INDIA LIMITED

In March 2000, Gujarat Ambuja Cements Limited have sold their entire holdings of 166057827 Equity Shares, representing 93.58% of the Company's Equity Share