

Annual Report 2001-2002

Commitment lives • Quality stays • Expansion proves

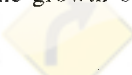


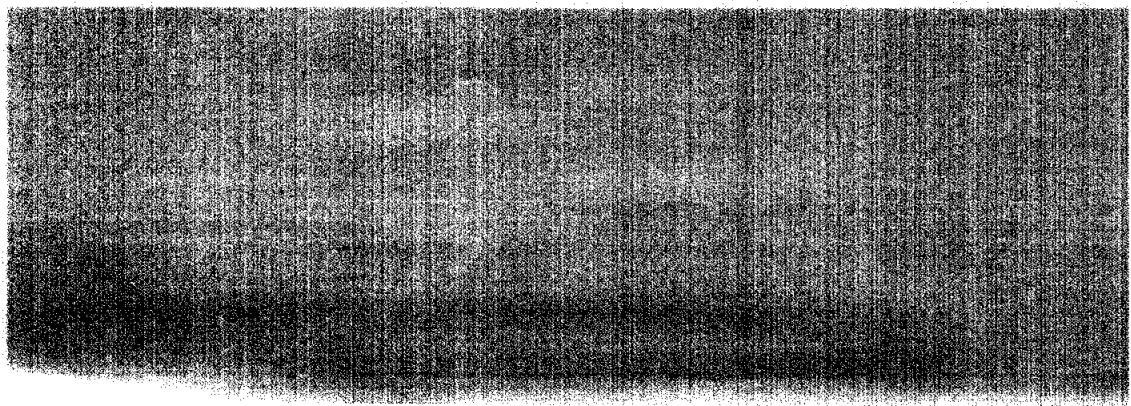
HEG Limited

***“To me Bhilwara Group is not a business house,
I see it as an institution that is committed to seeking excellence”
L. N. Jhunjhunwala, Chairman-Emeritus.***

The LNJ Bhilwara Group follows the belief of creating modern, stable and successful companies that benefit all its stakeholders and begets their prosperity. For decades, the Group has been concentrating all its resources to bring greater enrichment in product designing, creativity, innovation and work practices, with continuous ethos of quality & excellence. Realizing the need for worldwide integration, the Group's activities have been centered on quality, efficiency, customer satisfaction and sharing of ideas of people of all levels and going to great lengths to achieve them.

To bring the fruits of its philosophy to a greater number of people, it has taken up the task of continuing to identify new focus areas that will drive the growth of the group in the years to come.

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HEG LIMITED

Regd. Office : Mandideep (Near Bhopal), Distt. Raisen, Madhya Pradesh - 462 046
Corporate Office : Bhilwara Towers, A-12, Sector-1, Noida- 201 301 (U.P.)

NOTICE

Notice is hereby given that the 30th Annual General Meeting of the members of HEG Limited will be held on Friday, the 27th day of September 2002, at 11.00 A.M. at the Registered Office of the Company i.e. Bhilwara Sabha Grah, Mandideep (Near Bhopal), Distt. Raisen, Madhya Pradesh 462 046, to transact the following business :-

As Ordinary Business :

1. To receive, consider and adopt the audited Balance Sheet as at 31st March, 2002 and the Profit & Loss Account for the year ended on that date and reports of the Directors and Auditors thereon.
2. To declare dividend on Equity Shares.
3. To appoint a Director in place of Shri Shekhar Agarwal, who retires by rotation and being eligible, offers himself for reappointment.
4. To appoint a Director in place of Shri B V Bhargava, who retires by rotation and being eligible, offers himself for reappointment.
5. To appoint a Director in place of Shri Kamal Gupta, who retires by rotation and being eligible, offers himself for reappointment.
6. To appoint Auditors and to fix their remuneration.

In this connection, to consider and if thought fit, to pass, with or without modifications, the following Resolution as a SPECIAL RESOLUTION:

"RESOLVED THAT pursuant to the provisions of section 224-A and other applicable provisions of The Companies Act 1956, if any, M/s S S Kothari & Co., and M/s. Doogar & Associates, Chartered Accountants, from whom certificates pursuant to Section 224 (1B) of The Companies Act, 1956 have been received, be and are hereby appointed as Joint 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 on a remuneration to be fixed by the Board of

Directors plus out of pocket expenses that may be incurred by them in the course of audit."

SPECIAL BUSINESS

7. To consider and if thought fit, to pass with or without modifications, the following resolution 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 all the immovable and movable properties of the Company wherever situated, both present and future, and the whole of the undertaking of the Company and / or conferring power to enter upon and take possession of the assets of the Company in certain events to, in favour of :-

- i. State Bank of Indore for its Corporate Loan of Rs. 2000 lacs.
- ii. State Bank of Patiala for its Loan of Rs.1120 lacs.
- iii. State Bank of India for its Loan of Rs.2000 lacs.
- iv. IDBI Bank Ltd. for its Loan of Rs.500 lacs.

to secure the financial assistances, lent / agreed to be lent and advanced to the Company, together with interest thereon at the respective agreed rates, compound interest, additional interest, liquidated damages, premia on prepayment, costs, charges, expenses and other monies payable by the Company to State Bank of Indore, State Bank of Patiala, State Bank of India and IDBI Bank Ltd. under the Loan Agreements / Letters of Sanction / Memorandum of terms and conditions entered into / to be entered into by the Company in respect of the said financial assistance;"

"RESOLVED FURTHER THAT the Board of Directors of the Company be and is hereby authorised to finalise with State Bank of Indore, State Bank of Patiala, State Bank of India and IDBI Bank Ltd. the documents for the mortgages, charges, created / to be created and to do



all such acts and things as may be necessary or incidental thereto for giving effect to this Resolution ;”

“RESOLVED FURTHER THAT the mortgages / charges created / to be created and / or all agreements / documents executed / to be executed and all acts done to be done in terms of this Resolution by and with the authority of the Board of Directors are hereby approved, confirmed and ratified.”

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 contained in section 372A of the Companies Act, 1956 and such other provisions of the law as may be applicable from time to time, and subject to the approval of Financial Institutions/Banks and such other approvals as may be necessary in this regard, approval of the members be and is hereby accorded to the Board of Directors to invest, whether in one or more tranches, and whether in one financial year or more, on such terms and conditions as the Board may deem fit and appropriate, by way of subscription, a sum not exceeding Rs. 8.50 Crores (including Rs 4.50 Crores approved earlier) in the Equity Share Capital of Bhilwara Infotech Ltd. (BIL), notwithstanding that aggregate of such investment together with the investments already made and guarantees already given by the company shall be in excess of the ceilings prescribed by section 372A of The Companies Act, 1956, and / or as may be prescribed hereafter under the said section and / or under any other provision(s) of the said Act.

RESOLVED FURTHER THAT the Board of Directors be and is hereby authorised to decide all or any other matters arising out of or incidental thereto and to do or cause to be done all such other acts and things as may be necessary or incidental to implement this Resolution, provided, however, that the aggregate sum(s) to be so invested shall not exceed a total monetary ceiling of Rs. 8.50 crores.”

By Order of the Board
For HEG LIMITED

Place : Noida

(RAVI JHUNJHUNWALA)

Dated : 7th August 2002

Chairman & Managing Director

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 of the company. The instrument appointing a proxy must be lodged at the Registered Office of the Company at least 48 hours prior to the time of the Meeting.
2. Explanatory statement pursuant to the provisions of section 173 (2) of The Companies Act, 1956 in respect of item Nos. 7 & 8 is annexed herewith and forms part of the Notice and details in respect of item Nos. 3,4 & 5 are given in the Corporate Governance Section which is forming part of the Annual Report.
3. The Register of Members and Share Transfer Books of the Company will remain closed from 20th September, 2002 to 27th September, 2002. (both days inclusive).
4. MEMBERS ARE REQUESTED TO NOTE THAT ALL CORRESPONDENCE, INCLUDING SHARES FOR TRANSFER / CONSOLIDATION / SPLIT-UP ETC., SHOULD ALWAYS BE ADDRESSED TO THE COMPANY AT ITS REGISTERED OFFICE I.E., **SHARE DEPARTMENT, HEG LIMITED, MANDIDEEP (NEAR BHOPAL) – 462 046 (M.P.)** FOR EXPEDITIOUS DISPOSAL THEREOF.
5. In order to avoid fraudulent encashment of Dividend Warrant(s), members are advised to inform details of their Bank A/c number, name and address of the Bank, for incorporating the same in the Dividend Warrants. Shareholders who desire receipt of dividend through ECS can obtain application form from the Company's registered office for physical shareholding and for demated shares, particulars should be sent directly to their DPs.
6. Members who hold shares in dematerialized form are requested to bring their Client ID and DP ID numbers for easy identification of attendance at the meeting.
7. The Company has already transferred unclaimed dividend declared upto the financial year 1993-94 with the Central Government in terms of Section 205A(6) of The Companies Act, 1956. Members who have not claimed their dividend upto the aforesaid financial year may lodge their claim with the Registrar of Companies, M.P. & Chattisgarh, 3rd Floor, Jayendra Ganj, Sanjay Complex, A Block, Gwalior - 474 009.



GROUP SALIENT FEATURES

The LNJ Bhilwara Group, founded by Mr. L.N. Jhunjhunwala, is a business group with a global presence. It actively seeks growth and profitability by investing in a variety of systematically identified businesses making it a multi-product conglomerate with interests in a range of industries such as textiles, graphite electrodes, power generation, sponge iron, information technology and IT enabled services.

The Group started its operations in 1961 and more than 4 decades later, it has risen to become one of the largest business firms in the Indian federation, with over 20,000 employees and production units positioned at strategic locations across the country. Following the success of their earlier Hydro Electric Power Project - the 15 MW at Tawa Nagar (M.P) in early 1997, the group has recently commissioned, in July, 2001, India's first hydroelectric IPP 86 MW Malana Power Project in a record time of 30 months at Kullu (H.P).

Sensing the trend of greater integration in global economy it embarked on a strategy of its businesses abroad. It is no wonder hence that the export earnings has comprised as much as 46% of the group's turnover of Rs.1682 crores during 2001-2002.

The Group launched an innovative range of Flame Retardant, Lycra, Polynosic, Viloft and Tencel yarns & fabrics. In recent times, it has emerged as the leading supplier of specialised Automotive fabrics to all key automobile companies in India. The Group has been servicing world class customers and leading several global brands and for their knitted garments.

The domestic brands, Mayur Suitings, BSL Suitings, La Italia Fashions and Buddy Davis Leisurewears have a long and prosperous association in India.

Fulfilling its promise of giving its customers the highest level of quality and world-class products has led to the Group receiving coveted top export awards in different fields for several years in a row. Seven Group companies have also been awarded ISO certification for their continuous exemplary quality services.

It is evident that the Group's forte lies in finding new challenges for growth and identifying key operational improvements to maximise results.

GROUP FINANCIAL HIGHLIGHTS

(Rs. in Crores)

PARTICULARS	2000-2001	2001-2002
Turnover	1671	1682
Export Sales	750	767
PBIDT	271	272
PBDT	167	158
PBT	71	50
PAT	69	41
Gross Fixed Assets	1768	1899
Net Worth	851	695*

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* Net worth has declined due to deferred tax liability fund of Rs. 141 crores, created out of net worth.



FINANCIAL HIGHLIGHTS

PARTICULARS	(Rs. in Crores)		
	1999-2000	2000-2001	2001-2002
Turnover	465.93	545.03	563.49
Exports	219.67	303.54	325.43
PBIDT	87.61	97.60	94.67
Interest	38.01	35.08	33.96
PBDT	49.60	62.52	60.71
Depreciation	19.58	20.28	22.60
Taxation	(0.37)	2.13	1.18
PAT	30.39	40.11	30.94
Net Worth	237.42	257.65	219.72
EPS (Rs.)	7.22	9.80	7.68
CEPS (Rs.)	12.08	14.70	13.28
Book Value per share (Rs.)	55.80	63.67	54.51



HEG LIMITED

BOARD OF DIRECTORS

Shri L.N. Jhunjhunwala, Chairman - Emeritus
 Shri Ravi Jhunjhunwala, Chairman & Managing Director
 Shri Shekhar Agarwal, Vice Chairman
 Shri V. K. Mehta, Director
 Shri D. N. Davar, Director
 Shri B. V. Bhargava, Director
 Shri Kamal Gupta, Director
 Shri P. Murari, Director
 Shri S.L. Rao, Director
 Shri E.I. Thomas, (Nominee LIC)
 Shri P.S. Mehrotra, (Nominee UTI)
 Shri Nikki Mehta, (Alternate to Shri V.K. Mehta)

KEY EXECUTIVES

Shri V. P. Singh, Executive Director (Sponge Iron & Tawa Unit)
 Shri R. C. Surana, President (Graphite Unit)
 Shri Prakash Meheshwari, President (Rishabhdev Unit)
 Shri R. K. Panagariya, Vice President (Durg Unit)

COMPANY SECRETARY

Shri Ramesh Gupta

AUDITORS

M/s Doogar & Associates
 M/s S.S. Kothari & Co.

BANKERS

State Bank of India
 State Bank of Patiala
 State Bank of Indore
 State Bank of Bikaner & Jaipur
 The Bank of Rajasthan Ltd.
 Bank of Baroda
 Punjab National Bank
 UTI Bank Ltd.
 Central Bank of India

CORPORATE OFFICE

Bhilwara Towers,
 A-12, Sector-1,
 Noida-201 301 (U.P.)
 Ph. : 91-4541810 (EPABX)
 Fax : 91-4531648, 4531745
 E-mail : heg ltd@vsnl.com

REGISTERED OFFICE

Mandideep, (Near Bhopal).
 Distt. Raisen, M. P.-462 046
 Phone : 07480-33524 to 33527
 Fax : 07480-33522
 E-mail: heg mddp@sancharnet.in

WEB SITE

www.heg ltd.com

OFFICES

Mumbai

62/63, Maker Chambers No.6
 Nariman Point, Mumbai-400021
 Phone : 022-2838891, 2831712
 E-mail : heg ltd@bom7.vsnl.net.in
 Fax : 022-2870375

Calcutta

604, Central Plaza,
 Block-4, 6th Floor
 2/6, Sarat Bose Road
 Calcutta-700 020
 Phone : 033-4759963, 4745803

Bangalore

1-1304-04 (13th Floor)
 Brigade Tower,
 135, Brigade Road,
 Bangalore - 560 025
 Phone : 080-2271067
 Fax : 080-2218940

WORKS

Graphite

Mandideep, (Near Bhopal)
 Distt. Raisen M.P., Pin : 462046
 Phone : 07480-33524 to 33527
 Fax : 07480-33522

Textile

Rishabhdev
 Distt. Udaipur (Rajasthan)
 Pin - 313802
 Phone : 02907-30322 to 30325
 Fax : 02907-30320

Sponge Iron and Waste Heat Recovery System (Power Plant)

Industrial Growth Centre,
 Borai, Distt. Durg (M.P.)
 Phone : 0788-467215, 417573-574
 Fax : 0788-647201, 208, 647248.

Hydel Power

Village Ranipur, Tawa Nagar.
 Distt. Hoshangabad, M.P. 461 001
 Phone : 07572-72859
 Telefax : 07572-72849



DIRECTORS' REPORT

TO THE MEMBERS

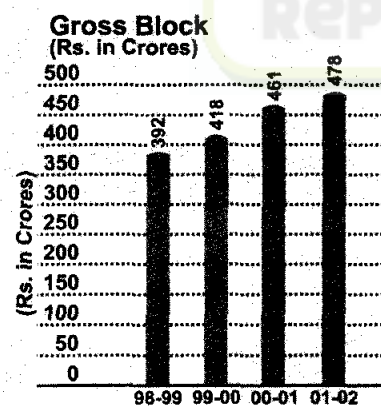
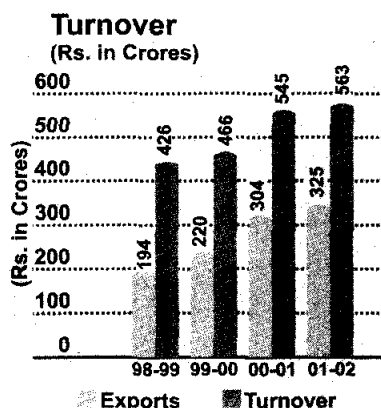
The Directors are pleased to present the 30th Annual Report together with the Audited statement of Accounts for the year ended the 31st March 2002. These are as follows.

Financial Results & Appropriations

Financial Results

(Rs. in Crores)

	THIS YEAR	PREVIOUS YEAR
Turnover		
~ Domestic	238.06	241.49
~ Export	325.43	303.54
Total	563.49	545.03
Profit Before Interest, Depreciation and Taxes	94.67	97.60
Interest	33.96	35.08
Profit before Depreciation and Taxes	60.71	62.52
Depreciation	22.60	20.28
Profit before Tax	38.11	42.24
Provision for taxation		
Current year	1.18	2.13
Deferred	5.99	—
Net Profit (Including extra-ordinary items)	30.94	40.11
Net Profit (Excluding extra-ordinary items)	30.94	42.53
Gross Block	477.65	461.40
Net Worth	219.72	257.65
EPS	7.68	9.80



Appropriations

Amount available for appropriation	46.77	82.41
Dividend :-		
a) On Equity Shares	7.26	8.06
b) On Preference Shares	—	0.82
c) Corporate Dividend Tax	—	1.00
Transfer to:-		
a) Debenture Redemption Reserve	(11.70)	6.70
b) General Reserve	36.70	40.00
c) Capital Redemption Reserve	—	10.00
Balance carried forward	14.51	15.83



DIVIDEND

The Board recommends payment of dividend on equity shares at the rate of 18% amounting to Rs 726 lacs.

OVERALL REVIEW

The Company’s turnover improved by 3.38% mainly due to higher volumes achieved by Graphite Division. Export turnover was up by 7.21% due to consistent quality and long term orders from customers. Export turnover constituted 57.75% of the total turnover of the Company.

The Company posted a net profit of Rs 30.94 Crores (Rs 40.11 Crores).

The Graphite division has done well in achieving higher volumes especially in the export market during a period when most world producers struggled to maintain previous levels. The Company has steadily maintained growth and has developed a niche position for its products in the world market which actually decreased last year due to recession in the steel industry.

The Company is the market leader for graphite electrodes in India and exports 80% of the production to international markets including U.S., France, Italy, Germany, Turkey, Iran, Qatar, Egypt, South Korea, Japan, Taiwan, Indonesia, South Africa and South America.

Today, the quality of our graphite electrodes enjoys high reputation in the world market and is bench-marked with the top multi-national companies.

The Company has adopted Six Sigma and Business Excellence Models which has helped to reduce production cost to survive in a market characterised by declining prices for graphite electrodes during the last three years. The recent expansion of Graphite plant has also helped the Company to achieve economies of scale.

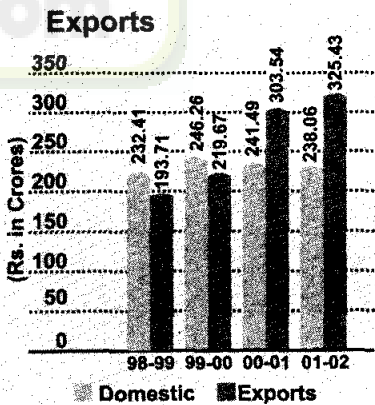
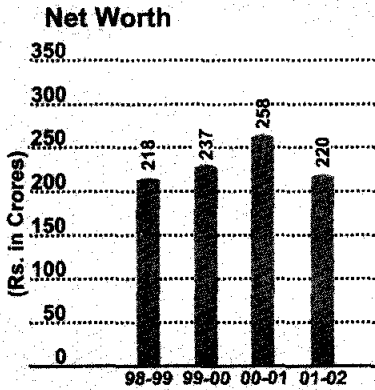
The power generation plants at Tawa and Durg have helped the Graphite Division to remain competitive. The performance of the Sponge Iron Division and the associated co-generation of power have shown improved results during the year under review.

The Textile industry is still facing difficulty in a market of over supply. In this context the Jammu unit which had ceased to be viable is in the process of winding up. Various alternatives of re-structuring are being considered in respect of the Rishabhdev unit keeping in view our focus on the core business of Graphite, Sponge Iron and Power.

Opportunities & Challenges

Internationally, Electric Arc Furnace (EAF) route is a growing segment in steel making and its share in the steel business has gone up from 90 million tons in 1975, representing 14% of the total steel to 275 million tons in 2001, representing a little over 33% of the total world steel.

EAF is considered to be the preferred mode for steel making due to its cost advantage and as such it is likely that future investments in the steel sector will be more the EAF mode rather than in other modes producing steel. New





capacities to the tune of 29 million ton in the EAF sector, are likely to be added by 2005. In view of this, the demand for graphite electrodes which are only used in the EAF segment is also likely to grow, although the per unit consumption of electrodes has been steadily declining due to improved quality and technology.

Internationally large-scale reorganization has taken place in this industry wherein the leading Western manufacturers have either totally closed down their high cost locations or have moved to cheaper locations. These developments have resulted in a reduction in total capacities available for production of electrodes in the Western world.

This offers an opportunity to low cost countries like ours to grow further in this field. Being in India, we are ideally located, since most of the growth in the steel sector is happening in the Asian continent, which is geographically closer to us. Your company has been looking at possibilities of expanding its existing plant, which can be done at a fraction of the cost compared to a new Greenfield plant. Your company is also studying various possibilities of a new Greenfield plant in one of the overseas countries.

In order to be competitive internationally, your company undertook a serious cost cutting exercise during the year through Business Process Re-engineering (BPR) and Supply Chain Management. This effort has given encouraging results and we feel that the company is well positioned to compete internationally in the years to come. This of course is a continuing process.

The investments in the power sector – hydroelectric as well as co-generation have been beneficial and have not only enabled us to get reasonably priced power but has also ensured uninterrupted power to our units.

OPERATIONS

Graphite

It was a satisfying year for the Division, wherein several new records were established. Production scaled to a new high of 27,698 tons (24,567 tons) a growth of 13%, and exports reached 22,445 MT (18,639 MT) a growth of 20%. The focus continues on improving export performance. Your company has become a global player by constantly expanding to all major geographic markets.

The steel industry world wide was faced with recessionary conditions in the year 2001. This also had a negative effect on EAF Steel which recorded a negative growth of 4.4% over the previous year. The inventory of steel with producers piled up to the extent of 120 million tons and steel prices witnessed a steep fall. Anti-dumping measures were taken by US and there was retaliation by European Commission. The Steel Industry Association (Organisation for Economic Cooperation and Development) announced a 20% production cut in order to partially overcome the depressed market situation and improve prices to reasonable levels. U.S. has seen an unprecedented level of closure of steel mills as well as application for bankruptcy protection by 21 steel mills. This has had an adverse impact on the graphite electrode demand.

Despite recession in the Industry, your Company has been able to shown growth both in terms of production as well as exports. This should be seen in the backdrop of most of other large international Graphite producers reducing their production and sales by 10 -20%. Some positive indications regarding the steel industry have emerged recently and steel prices as well as steel demand seem to be improving. Hopefully this trend will continue and help your company maintaining the same growth in the current year as well.

To strengthen the competitiveness of your company at all levels intensive training on Statistical Process Control (SPC) has been adopted to attain high level of quality and consistency in operations.

During the year your Company completed the expansion of installed capacity of Graphite Electrodes to 30000 MT per annum at a cost of Rs 47 Crores, the plant is currently running at rated capacities. Besides providing increased capacities, your company is now in a better position to meet the required product mix of the world market. This expansion was done at a very competitive cost and has helped in attaining economies of scale.