

# INDAL

ANNUAL REPORT  
1999 - 2000



**Indian Aluminium Company, Limited**

## INDAL : Operating Units



### BAUXITE MINING

Lohardaga, Bihar  
Durgmanwadi, Maharashtra  
Chandgad, Maharashtra



### ALUMINA REFINING

Belgaum, Karnataka (including R&D Centre),  
Muri, Bihar  
Utkal Alumina International Limited (20%)  
Bhubaneswar, Orissa



### ALUMINIUM SMELTING

Hirakud, Orissa (with captive power)  
Alupuram, Kerala



### RECYCLING

Taloja, Maharashtra



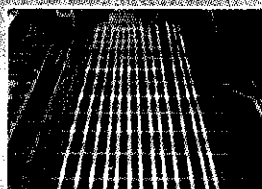
### SHEET ROLLING

Belur, West Bengal  
Taloja, Maharashtra  
(including R&D Centre)



### FOIL ROLLING & CONVERTING

Kalwa, Maharashtra  
Annapurna Foils Limited (26.5%)  
Hyderabad, Andhra Pradesh



### EXTRUSIONS

Alupuram, Kerala  
Orissa Extrusions Limited (26%)  
Balasore, Orissa

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**Registered & Corporate Office :** 1 Middleton Street, Calcutta 700 071. Tel : (033) 240 22 10

**Regional Sales Offices :** **Bangalore** Indal House, 140 Field Marshal K.M. Cariappa Road, Bangalore 560 025. Tel : (080) 558 50 51 • **Calcutta** 1 Middleton Street, Calcutta 700 071. Tel : (033) 240 22 10 • **Mumbai** Air India Building, Nariman Point, Mumbai 400 021. Tel : (022) 202 35 37 • **New Delhi** UCO Bank Building, Sansad Marg, New Delhi 110 001. Tel : (011) 371 14 11

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**Year at a Glance**

	1999-2000	1998-1999
<b>Production (tonnes)</b>		
Semi-fabricated aluminium	53,870	63,020
Alumina hydrate	413,000	379,500
Primary aluminium	43,458	42,193
<b>Sales and Earnings (rupees million)</b>		
Sales and operating revenues	11,742	11,520
of which exports	2,566	1,825
Profit before non-recurring items and tax	1,093	922
Profit after tax	839	764
<b>Cost and Expenditure (rupees million)</b>		
Employment cost	1,139	1,107
Capital expenditure	948	1,000
Research & Development	90	150
<b>Other Information</b>		
Current ratio	3.3:1	3.3:1
Secured term debt : equity	22:78	24:76
Net worth per share (rupees)	106.40	100.37
Earning per share (rupees)	11.80	10.74
Dividend per share (rupees)	5.00	4.00
Interest cover (times)	3.67	3.11
Employees (numbers)	6,316	6,473



## Board of Directors

C. Bark-Jones<sup>+</sup>  
*Chairman & Chief Executive Officer*

N.K. Choudhary  
*Managing Director, Operations*

P. Arseneault

P.K. Choksey\*

S. Fecteau

S.C. Jain  
*Nominee of the Financial Institution*

N.J. Jhaveri\*

G.R. Lucas

A.L. Mudaliar\*

G. Ouellet<sup>+</sup>

B.W. Sturgell<sup>+</sup>

B.R. Sule<sup>+</sup>

S. Thadhani\*

J.J. Zbarsky\*

G.P. Batt  
*Alternate to S. Thadhani*

Vijaya Sampath (Ms)  
*Alternate to B.W. Sturgell*

\* Member of the Audit Committee of the Board

<sup>+</sup> Member of the Personnel Committee of the Board

## Company Secretary

Vijaya Sampath (Ms)

## Management Committee

C. Bark-Jones

N.K. Choudhary

M. George

A. Regie Paul

S. Ray

Vijaya Sampath (Ms)

P.K. Sen

J. Singh

R.P. Singh

M.S. Varma

## Auditors

Price Waterhouse

## Advocates & Solicitors

Sandersons & Morgans

## Bankers

ANZ Grindlays Bank p.l.c.

Bank of America National Trust and Savings Association

Bank of Baroda

Citibank N.A.

Deutsche Bank

Punjab National Bank

State Bank of India

Syndicate Bank

The Hongkong and Shanghai Banking Corporation Limited

Union Bank of India

# Chairman's

## Statement



### Excellent Performance

The year 1999-2000 has been one of growth and development for your Company. The 19% rise in pre-tax profits and significant increase in export volumes are a reflection of this growth. Underlying profits, adjusted for one-off items, were better by over 30% compared to the previous year. Resolution of various issues relating to shopfloor management and completion of the upgrade and modernisation programme in the sheet plants, reflects the development process which will reap major benefits from the coming year.

In keeping with the primary objective of increasing shareholder value and as a result of improved profits, a total dividend of Rs 5.00 per ordinary share has been declared, an increase of 25% over the previous year.

The Full Business Potential Programme launched by your Company in September 1999 has already started to yield good results. Your Company will continue its thrust on maximising value from all assets and reducing costs to ensure better value to the shareholder and the customer. The Programme will achieve an improvement of Rs 500 million in the Company's cost base by end 2001.

Productivity linked agreements of 3 years duration have been signed at six of your Company's operating units and these will ensure better shopfloor management, flexible work norms and higher utilisation of assets. Considerable progress has been made towards the productivity and flexibility required to be globally competitive.

### Management Change

As you are aware, on 23 March 2000, an agreement was signed between Alcan Aluminium Limited (the majority shareholder of your Company) and Hindalco Industries Limited, a member of the Aditya Birla Group, to divest Alcan's entire stake of 54.6% in Indal to Hindalco. A public offer to acquire an additional 20% of the share capital of your Company is being made by Hindalco under the provisions of the SEBI Takeover Code, 1997. The offer opened on 26 May and closes on 24 June.

The divestment by Alcan is in line with its global strategy to focus on low cost alumina and smelting together with high value world class flat rolled products, particularly in the beverage can and automotive sectors. Alcan also believes that shareholder value in Indal would most likely be optimised in future by local ownership able to focus on and to

**INDAL**

capture the considerable opportunities developing in the Indian aluminium market. Your Company's strengths in alumina and semi-fabricated products and Hindalco's strong base of competitive cost metal, would provide opportunities for synergy.

On completion of the open offer, the directors representing Alcan on your Company's Board, namely Messrs P. Arseneault, S. Fecteau, G.R. Lucas, G. Ouellet, B.W. Sturgell, S. Thadhani, J.J. Zbarsky and I, will step down and your Board will be reconstituted under the new ownership. The relationship with Alcan, which has continued for over 60 years, will not be completely severed, as your Company and Alcan are partners in the million tonne Utkal Alumina Project in Orissa.

### **Corporate Governance**

This Annual Report contains a separate section on Corporate Governance. This is based on the recommendations of the Committee on Corporate Governance constituted by SEBI under the chairmanship of Mr Kumar Mangalam Birla. You will be pleased to know that your Company already complies with most of these recommendations and has long upheld the principles of good corporate governance.

### **Future Prospects**

The outlook for the year is encouraging. Your Company's performance during the first two months of 2000-01 is already on a good growth track for sales and profits. International aluminium demand appears to be firming up and global consumption is forecast to grow by around 4.5% in the current year, with the bulk of this increase coming from Asia and Europe. In India too, the demand in downstream markets has been picking up and there is a lot of potential to widen the scope of aluminium applications, specifically in building, packaging and transportation. In the longer run, your Company's continued efforts towards becoming globally competitive in cost, quality and service will certainly help it gain competitive advantage.

As I will soon be stepping down as Chairman and CEO of your Company, I take this opportunity to express my gratitude to all shareholders for their support and confidence in this Company. I would also like to thank the employees of Indal who have achieved results through commitment, effort and good teamwork; suppliers who have delivered quality products on time and particularly the customers who have had confidence in Indal's product quality and service.

Finally, I would like to add that the 21 months working in India have been a fascinating experience. I have enjoyed working with my Indal colleagues and I wish them every success with their new majority owner.

12 June 2000



Chris Bark-Jones

## Report on Corporate Governance

The need for qualitative improvement in corporate governance has received both national and international attention in the last few years. Globalisation of the economy envisages greater transparency and accountability to all stakeholders in a company.

Indal was one of the earliest to realise the significance of corporate governance and take definitive action to put in practice internationally accepted principles in this regard. Adequate disclosures, information on policies and performance including a separate Management Report have been a part of the Company's Annual Report since 1987. The Company has also adopted a Code of Conduct defining the relationship between the Company and all its stakeholders. Copies of the Code are available with every employee. As explained earlier, many of the guidelines recommended by the Kumar Mangalam Birla Committee constituted by SEBI on Corporate Governance are already in place.

The Company's policies on and level of compliance of the code of Corporate Governance are detailed below:

### 1. Responsibilities of the CEO and Managing Director, Operations

The Company has an executive Chairman and CEO who is responsible for overall management, policy, strategy, planning, external relations and matters relating to the Board. He is on deputation from Alcan Aluminium Limited (Alcan). The Managing Director, Operations is responsible for operations, marketing, production, sales and achievement of annual plan targets.

### 2. Board Composition

The Board has presently fourteen members, twelve of whom are non-executive. Of these, seven are representatives of Alcan, four are independent and one is a nominee of Life Insurance Corporation of India. There are two Alternate Directors, one of whom is in the whole-time employment of the Company.

The non-executive members are experts in their chosen fields and bring with them decades of experience in finance, technology, law and management. None of them is related to an Executive Director or other employee of the Company.

### 3. Membership Term

As required under the Companies Act, a third of the non-executive members retire every year by rotation and are eligible for re-appointment, including the nominee of the Life Insurance Corporation of India. Executive Directors are not subject to retirement by rotation but hold office for five years and are eligible to be re-appointed. There is presently no retirement age prescribed for the non-executive Directors.

### 4. Compensation

The Personnel Committee of the Board recommends the compensation and terms of remuneration payable to the Executive Directors. The matter is then considered and approved by the Board. In addition to salary and perquisites, Executive Directors are entitled to commission based on net profits, subject to a ceiling not exceeding annual salary. They are also eligible to a bonus based on performance linked to Return on Capital Employed.

Besides sitting fees, non-executive independent Directors are eligible for commission, based on net profits, subject to a limit of Rs 1,000,000 p.a. for all of them together. The commission is determined on the basis of the number of meetings attended and membership of various Committees of the Board. No sitting fees or commission is paid to the representatives of Alcan.

### 5. Membership of other Boards

Executive Directors do not serve on the Boards of other companies unless the entity is a related company, a trade association of which the Company is a member, an educational or social institution serving the interests of society and the public. Non-executive Directors hold directorships in other companies within the limits stipulated by company law and it is expected that they will not be a member of competitor companies.

### 6. Board Meetings

Usually, there are six scheduled Board meetings held every year, in January, March, May, July, September and November. The schedule for the meetings and some items on the agenda are fixed in advance for the whole year. Quarterly and half-yearly results are placed before the Board for consideration. The agenda for the meeting, including detailed explanatory notes is prepared by the Secretary in consultation with



the Chairman and circulated to the Directors at least 7 days before the date of the meeting. The senior management of the Company make periodic presentations and are invited to participate in matters of interest, importance and relevance. The Board has access to any information within the Company and every effort is made to ensure that the information is adequate and appropriate to enable the Board to take considered decisions on issues. In certain important areas, the Board or Committee decides the criteria, sets the policy and monitors performance.

## **7. Committees of the Board**

Currently the Board has four Committees, Audit, Personnel, Securities and Banking Arrangements. The mandates of these Committees are clearly prescribed and the members are appointed at Board meetings by consensus. A summary of the proceedings of the Committee meetings are circulated to all the Board members and the Chairman of each of these Committees explains the details of proceedings and recommendations to the other members at Board meetings.

## **8. Company Management**

There is a Management Committee comprising the Chairman & CEO, Managing Director, Operations and the Heads of each of the Businesses and Functions. This body meets every month and sets the policy framework, evolves strategy, annual business plans and monitors performance. Decisions on important issues relating to the Company are also discussed in this forum.

### **Compliance with the mandatory recommendations of the Kumar Mangalam Birla Committee (Committee) on Corporate Governance instituted by SEBI**

As earlier explained, the Company has complied with almost all the recommendations of the Committee, though mandatory only for the fiscal year 2001. In the interests of good order, the level of compliance against each of the mandatory recommendations and some of the desirable guidelines is explained below:

#### **1. Board of Directors**

##### **1.1 All pecuniary transactions of the non-executive Directors should be disclosed in the Annual Report**

None of the non-executive Directors have any pecuniary transactions with the Company.

##### **1.2 The Committee lays emphasis on the calibre of non-executive Directors, especially of the independent Directors**

The non-executive Directors are all acknowledged experts in different fields and hold/have held senior executive positions in companies/entities of repute.

##### **1.3 The Committee believes it is important for the non-executive Directors to be paid an adequate compensation package to attract talent**

All independent Directors are paid a commission based on net profits as detailed hereinafter for the time spent by them for the Company. The only exception is Mr Jyoti Sagar who has declined to accept any commission.

##### **1.4 The Committee recommends an optimum combination of executive and non-executive Directors, with not less than fifty percent comprising non-executive Directors. In case of an executive Chairman, at least half the Board should comprise independent Directors. An independent Director is one who is not a formal executive and has no professional relationship with the company, not a large customer and/or vendor to the company, not a close relative of the promoter and/or any executive Directors, not holding a significant stake and not a nominee of any large shareholder/creditor**

The Board has only two executive Directors, besides an alternate Director in whole-time employment and more than half its number are non-executive. The total strength of the Board is fourteen. However, the number of independent Directors is four, less than the number prescribed. The Company has an executive Chairman.

## 2. Audit Committee

- 2.1 The Committee recommends that a qualified and independent Audit Committee should be set up with a minimum of three non-executive Directors, one Director having a financial and accounting background and the majority being independent Directors. The Chairman should also be an independent Director and be present at the Annual General Meetings to answer queries. The Company Secretary should be the secretary of the Committee**

The Audit Committee was constituted in 1986 with a clear mandate and defined scope to provide the Board of Directors with additional assurance as to reliability of financial information and statutory financial statements and to review the adequacy of internal accounting and control systems. The Committee acts as a link between the management, the statutory and internal auditors and the Board of Directors. The internal audit function reports directly to this Committee. All the members including the Chairman are non-executive Directors with decades of experience in accounting and finance. The Chairman of the Committee is present at the AGM, though the Chairman of the Board answers the queries. The Company Secretary is secretary to the Committee.

- 2.2 The finance director, chief internal auditor and a representative of the statutory auditor should be permanent invitees to the Committee and other executives may be asked to attend some meetings. Meetings of the Committee should be held thrice a year – once before the finalisation of the accounts and one every six months. The quorum for the meetings should be one third or two, whichever is higher and there should be at least two independent Directors present at a meeting**

The above recommendations are complied with in all respects. The Chairman of the Board is also a permanent invitee. The quorum is two independent Directors.

- 2.3 The Role of the Audit Committee should be in brief as follows:**

- Oversight of financial reporting and disclosure to ensure that the financial statement is correct, sufficient and credible
- Recommending the appointment or removal of statutory auditors and fixation of their fees
- Reviewing with management the annual financial statements before submission to the Board
- Focussing primarily on changes in the accounting policies and practices, major accounting entries, qualifications in draft audit report, going concern concept
- Compliance with accounting standards, stock exchange and legal requirements
- Related party transactions that may have potential conflict with the interests of the company
- Reviewing with management, external and internal auditors the adequacy of internal control systems
- Reviewing the findings of any internal investigations by the internal auditors into matters where there is suspected fraud or irregularity
- Discussion with external auditor before the audit commences, nature and scope of audit as well as post audit discussion to ascertain any area of concern
- Reviewing financial and risk management process, reasons for substantial defaults in payments to depositors, debenture holders and shareholders

All the above recommendations are complied with and the mandate of the Audit Committee has been clearly laid down by the Board way back in 1986.

- 2.4 The powers of the Audit Committee should extend to investigation of any activity within its terms of reference, seek information from any employee, obtain legal or professional advice and secure attendance of outsiders with relevant expertise, if considered necessary**

The Audit Committee has the power and authority to do all of the above.