

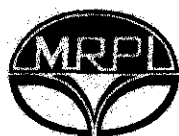
11TH ANNUAL REPORT



1998-99



Mangalore Refinery and Petrochemicals Limited

**BOARD OF DIRECTORS**

Kumar Mangalam Birla, Chairman
H. L. Zutshi
M. C. Bagrodia
S. K. Kerr
Bansi S. Mehta
C. Ramulu
M.P. Modi (ICICI Nominee)
Jagdeesh M. Mehta, Managing Director (F&A)
M. A. Tankiwala, Managing Director (Technical)

SENIOR EXECUTIVES

V. K. Talithaya, Vice President (P&A)
J. C. Laddha, Associate Vice President (Finance)
Vimal Kejriwal, Associate Vice President

ADVISOR (TECHNICAL)

K. T. Krishnamurti

COMPANY SECRETARY

Vimal Kejriwal

REGISTERED OFFICE

Mudapadav, Kuthethoor P.O. Via Katipala,
Mangalore - 574 149, Karnataka.

INVESTOR RELATIONS CELL

Arcadia, 7th Floor, 195 N. C. P. A. Marg,
Nariman Point, Mumbai - 400 021.
E-mail: investor@bom.mrplindia.com

AUDITORS

M/s. Lodha & Co., Chartered Accountants
M/s. Sharp & Tannan, Chartered Accountants

SOLICITORS

M/s. Mulla & Mulla & Craigie Blunt & Caroe

BANKERS

State Bank of India
ABN Amro Bank
Bank of America
Bank of Baroda
Canara Bank
Citibank N. A.
Corporation Bank
Punjab National Bank
Barclays Bank
Bank of India
Credit Agricole Indosuez
HDFC Bank
Oriental Bank of Commerce
Vijaya Bank

CONTENTS

Notice
2

Directors' Report
4

Auditors' Report
9

Balance Sheet
10

Profit & Loss Account
11

Schedules
12

**REGISTRAR AND
TRANSFER AGENTS**

M/s. MCS Limited,
Sri Venkatesh Bhavan, Plot No. 27, Road No. 11,
M.I.D.C., Andheri (E), Mumbai - 400 093.
E-mail: mcsnum@bom2.vsnl.net.in



CHAIRMAN'S LETTER TO SHAREHOLDERS



Dear Fellow Shareholders,

Since its commissioning in 1996, MRPL's Plant performance has been commendable. Operating at a remarkable capacity utilization of 135.33 percent, in 1998-1999, it processed more than 4.0 million tonnes of crude oil. Such an achievement elevates MRPL to the status of being among the best refineries of its kind in the country.

Notwithstanding this aspect, we have to reckon with the fact that an extremely turbulent and complex business environment is placing unprecedented pressure on stand-alone refineries everywhere. And we in MRPL are no exception.

The dismantling of the Administered Pricing Mechanism as of 1st April, 1998, the impact of the international refining margins which were at an all-time low and the heavy interest burden due to non-recovery of dues from the Oil pool have been the factors which impacted MRPL's immediate performance.

The future is wrought with greater challenges. The deregulation of the petroleum sector in India, initiated last year, has brought in its wake, a totally new milieu. Close linkages between revenues and profits to international crude and product prices, which are highly volatile, and shrinking margins - are all the aftermath of deregulation.

The low growth rate in the consumption of petroleum products has added to the issues, which this industry has to grapple with.

Your Company has decided to tackle these challenges head on and in a proactive manner.

MRPL's Expansion Project, geared to raise the refining capacity from 3 MMTPA to 9 MMTPA is a step in this direction. The Project is ahead of schedule and well within costs. Mechanically complete and slated for commercial production shortly, this project will bring in economies of scale.

Importantly, to compete effectively in the changed scenario, MRPL has initiated steps for overall optimisation of refinery process and enhancement of corporate profitability. Among the forward-looking measures are - sourcing crude oil on its own, focusing on higher value added products, optimisation of crude mix and financial re-engineering.

MRPL is cautiously optimistic about the future. The movement of crude and the product prices in the international markets coupled with the Government's policies will have a significant bearing on the performance. MRPL is closely monitoring these developments. On our part, we will continue to pursue all-round excellence to ensure MRPL's sustainable future.

Thank you.

Yours sincerely,

Kumar Mangalam Birla

Chairman

NOTICE

Notice is hereby given that the Eleventh Annual General Meeting of the Members of Mangalore Refinery and Petrochemicals Limited will be held at the REGISTERED OFFICE OF THE COMPANY AT MUDAPADAV, KUTHETHOOR P.O., VIA. KATIPALA, MANGALORE 574 149 on 23rd September, 1999 at 4.00 P.M. to transact, with or without modification as may be permissible, the following business:

ORDINARY BUSINESS

1. To receive, consider and adopt the Audited Profit & Loss Account and Balance Sheet of the Company as at 31st March, 1999 together with the Reports of the Directors and the Auditors thereon.
2. To appoint a Director in place of Shri Bansi S. Mehta who retires from office by rotation and being eligible, offers himself for re-appointment.
3. To appoint a Director in place of Shri C. Ramulu who retires from office by rotation and being eligible, offers himself for re-appointment.
4. To appoint Joint Auditors and to fix their remuneration and in this connection, to pass, the following resolution as a Special Resolution:

"RESOLVED THAT pursuant to the provisions of Section 224A and other applicable provisions, if any, of the Companies Act, 1956 M/s. Lodha & Co., Chartered Accountants, Mumbai, and M/s. Sharp & Tannan, Chartered Accountants, Mumbai, the retiring Joint Auditors be and are hereby re-appointed as Joint Auditors of the Company to hold office from the conclusion of this meeting till the conclusion of the next Annual General Meeting, on such remuneration as may be mutually agreed between the Auditors and the Board of Directors of the Company for the said period."

SPECIAL BUSINESS

5. To consider and if thought fit, to pass the following resolution as an Ordinary Resolution:
"RESOLVED THAT pursuant to the provisions of Sections 198, 269 and 309 and other applicable provisions, if any, of the Companies Act, 1956, read with Schedule XIII thereto and subject to such approvals, if any, as may be necessary, consent of the Company be and is hereby accorded to the appointment of Shri M. A. Tankiwala,

as Managing Director (Tech.) for a period of 5 years w.e.f. 12th March, 1999 on the terms and conditions as set out in the Explanatory Statement attached to this Notice and hereby approved, with liberty to the Board of Directors to revise the terms as to remuneration, from time to time, within the limits provided for in the said Schedule XIII or any amendment thereof for the time being in force."

"RESOLVED FURTHER THAT the Board of Directors of the Company be and is hereby authorised to take such steps as may be necessary to give effect to this resolution."

Registered Office:

Mudapadav, Kuthethoor P.O.
Via. Katipala,
Mangalore 574 149.
Mumbai, 30th July, 1999.

By Order of the Board

VIMAL KEJRIWAL
Asso. Vice President and
Company Secretary

NOTES:

1. **A MEMBER ENTITLED TO ATTEND AND VOTE AT THE MEETING IS ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE INSTEAD OF HIMSELF AND THE PROXY NEED NOT BE A MEMBER. THE PROXY FORMS SHOULD BE LODGED WITH THE COMPANY AT ITS REGISTERED OFFICE NOT LATER THAN FORTY-EIGHT HOURS BEFORE THE TIME OF COMMENCEMENT OF THE MEETING.**
2. Explanatory Statement pursuant to Section 173(2) of the Companies Act, 1956 in respect of Item Nos. 4 and 5 of the notice set out above is annexed hereto.
3. Members are requested to notify the change in address, if any, immediately to the Registrars, M/s. MCS Limited, Sri Venkatesh Bhavan, Plot No. 27, Road No. 11, M.I.D.C., Andheri (E), Mumbai 400 093 quoting their Folio Numbers.
4. Members holding more than one Share Certificate in the same name under different Ledger Folios are requested to apply for consolidation of such Folios and send the relevant Share Certificates to the Registrars.
5. The Register of Members and the Share Transfer Books of the Company will remain closed from 1st September, 1999 to 15th September, 1999 (both days inclusive).



ANNEXURE TO THE NOTICE

EXPLANATORY STATEMENT PURSUANT TO SECTION 173(2) OF THE COMPANIES ACT, 1956.

ITEM No. 4

Section 224A of Companies Act, 1956 provides for the appointment or re-appointment at each Annual General Meeting of an Auditor or Auditors of a Company by a Special Resolution if the Company is one in which not less than 25% of the Subscribed Share Capital is held singly or in combination by the Public Financial Institutions, Government Companies etc. The shareholding of Hindustan Petroleum Corporation Limited, a Government Company, exceeds 25% of the Subscribed Capital of the Company and hence a Special Resolution is required for the re-appointment of Auditors.

As required by the above Section, M/s. Lodha & Co. and M/s. Sharp & Tannan, have forwarded their respective certificates to the Company stating that the re-appointment, if made, will be within the prescribed limits specified in Section 224(1B) of the Companies Act, 1956.

ITEM No. 5

In terms of Articles 134 and 137 of the Articles of Association of the Company and Sections 198, 269 and 309 of the Companies Act, 1956, the Board of Directors has appointed Shri M. A. Tankiwala, nominee of HPCL, as Managing Director (Tech.), for a period of 5 years w.e.f. 12th March, 1999 in place of Shri S. K. Mukherjee whose nomination was withdrawn by HPCL. Shri M. A. Tankiwala is a Bachelor in Mechanical Engineering. His wide and varied experience in the Oil Industry extending to a period of nearly 24 years can advantageously be availed of by the Company to its benefit. The terms and conditions of appointment of Shri M. A. Tankiwala are as under:

1. **Period :**
Period of appointment is for five years with effect from 12th March, 1999.
2. **Salary :**
Rs. 24,542/- per month (including D. A. and other allowances) Salary Scale : Rs.11,500/- - 13,500/- subject to revision by the Board as per the applicable rules of HPCL for the time being in force.
3. **Annual Increment :**
4% of Basic salary plus Personal Pay i.e., Rs.15,660/-.
4. In addition to salary and Personal Pay the following perquisites will be provided as per the relevant applicable Rules of HPCL whose nominee he is on the Board.
 - a. **Housing :** Company owned accommodation with standard deduction calculated as per HPCL Rules.
 - b. **Housing Loan :** Upto 7.5 lakhs (Interest upto Rs. 5 lakhs @ 5.5% p.a. & beyond Rs.5 lakhs @ 8% p. a.)
 - c. **Vehicle Loan :** Upto Rs. 5 lakhs (Interest @ 2.5% p. a.)

- d. **Furniture Advance :** Rs. 75,000/-
Office facility at Residence Rs. 15,000/-.
- e. **Medical Reimbursement :** Reimbursement of Medical expenses for self and family as per the HPCL's Medical Insurance Scheme with M/s. New India Assurance Company Limited.
- f. **Leave Travel Allowance :** Entitled for Air or First Class A/C Rail Fare for self, spouse, dependent children and parents from the place of posting to anywhere in India by shortest route once in two years as per HPCL Rules.
- g. **Personal Accident Insurance :** Personal accident insurance cover as applicable in line with HPCL Rules.

Apart from the above, other entitlements are as follows :

- a. Contribution to Provident Fund, Superannuation Benefit Fund Scheme in accordance with the Rules of HPCL.
- b. Gratuity at a rate not exceeding half month's salary for each completed year of service.
- c. Car with Driver at the place of posting as per MRPL Rules in force from time to time.
- d. Reimbursement of entertainment, travelling and all other expenses incurred for the business of the Company.
- e. Leave as per the Rules of HPCL.

The appointment will be subject to termination by three months' notice in writing by either side.

So long as Shri M. A. Tankiwala functions as the Managing Director (Tech.) of the Company, he shall not be paid any sitting fees for attending the Meetings of the Board or any Committee thereof.

Where in any financial year, the Company has no profits or its profits are inadequate, the remuneration payable to Shri M. A. Tankiwala will be as mentioned above.

The above may be treated as an abstract of the terms of the contract in relation to his appointment between the Company and Shri M. A. Tankiwala pursuant to Section 302 of the Companies Act, 1956.

The Company stands to gain considerably by the appointment of Shri M. A. Tankiwala as Managing Director (Tech.) of the Company in view of his experience and expertise and in the circumstances the Directors recommend the resolution set out in this Item No. 5 of the accompanying Notice for your approval.

Shri M. A. Tankiwala is deemed to be interested in the resolution as it relates to his appointment.

Registered Office:
Mudapadav, Kuthethoor P.O.
Via. Katipala,
Mangalore 574 149.
Mumbai, 30th July, 1999.

By Order of the Board
VIMAL KEJRIWAL
Asso. Vice President and
Company Secretary



DIRECTORS' REPORT

TO THE MEMBERS

Your Directors have pleasure in presenting the Eleventh Annual Report of your Company together with the Audited Account for the Financial Year ended on 31st March, 1999.

1. FINANCIAL RESULTS

	(Rs. in Crores)	
Turnover	2,418.77	1,354.34
Profit before Depreciation, Interest and Tax	493.02	554.16
Interest	342.83	392.69
Gross Profit/(Loss) after Interest but before Depreciation and Tax	150.19	161.47
Depreciation	134.45	129.67
Provision for Taxation	1.67	3.42
Profit after Tax	14.06	28.38
Profits available for Appropriation	14.06	28.38
Appropriations:		
Debtenture Redemption Reserve	14.06	28.38

2. OPERATIONAL PERFORMANCE

During the year 1998-99, the Company has processed 4.061 million metric tonnes (MMT) of crude oil (previous year 3.953 MMT), produced 3.737 MMT of finished products (previous year 3.638 MMT) and has despatched 3.70 MMT of finished products (previous year 3.650 MMT). Although the operational performance of your Company has been satisfactory, the profitability has been affected due to the introduction of Market Determined Pricing Mechanism (MDPM) as a result of which the profitability of your Company is now linked with the international crude and product prices, which have been at their historic lows during the Financial Year 1998-99. Further, high interest cost due to large outstandings from the Oil Pool Account and low import duty differentials between the crude and finished products have also contributed to the low profitability for the year under reporting.

3. DIVIDEND

Although your Company has made profits, in order to meet the statutory requirements for creation of Debtenture Redemption Reserve, the Directors have not recommended any dividend for the year.

4. RETENTION MARGINS

MRPL was covered under 'Administered Pricing Mechanism' (APM) upto 31st March, 1998. The provisional Retention Margins which has been fixed by the Oil Co-ordination Committee (OCC) has not been accepted by the Company. The Company has represented to the Ministry of Petroleum and Natural Gas (MOP&NG) for reviewing the various issues involved in fixing the Retention Margins. During the year the Company has, pending final approval from OCC, revised the Retention Margins as per APM norms.

5. CRUDE PROCUREMENT

Import of Crude Oil, which is the main raw material used in the refinery, has been decanalised by The Government of India. Accordingly all private and joint sector refineries are allowed to directly import crude oil. Your Company is accordingly taking necessary steps for importing crude oil on its own.

6. OIL BONDS

The Government of India had in March 1998 issued 10.50% Oil Companies' (Non-Transferable) Government of India Special Bonds, 2005 (Oil Bonds) to the extent of Rs.1,242 crores to your Company in lieu of the amounts receivable from OCC. During the year Oil Bonds aggregating to Rs. 451 crores have been redeemed by the Government. Since the date of the Balance Sheet, Bonds of a value of Rs.77 crores have been further redeemed. The Company has raised funds from the banks by pledging the Oil Bonds as security. The borrowings outstanding as on the date of the report is Rs.313 crores.

7. EXPANSION PROJECT

The Company's expansion project for increasing its refining capacity from 3 MMTPA to 9 MMTPA is in the final stages of completion with more than 97% (as on May 15, 1999) of the total work having been completed. The Gas Oil Hydrodesulphurisation unit (GOHDS), Hydrogen Unit and Sulphur Recovery unit (Unit No. 2) are mechanically completed and pre-commissioning activities have commenced. Mechanical Completion of the other Process Units except Continuous Catalytic Reformer-2 are in advance stage of completion. The



expansion project is expected to be completed within the scheduled time of November 1999.

As per the original Means of Finance for the expansion project approved by ICICI Limited, (the lead institution) the Company was to raise an amount of Rs.2,293 crores by way of debt (both foreign currency and rupee) and an amount of Rs.1,397 crores by way of equity (including Promoters' contribution). While the entire debt portion has been tied-up, and the Company has received the Promoter Companies' contribution of Rs.726 crores as their share of the total equity required for the expansion project, in view of the adverse market conditions, it is proposed to raise the balance amount required by means of debt. ICICI Ltd., has already conveyed their approval for the above change in the means of finance.

The Company has already committed an expenditure of more than Rs.3,000 crores on the expansion project. Your Directors are confident that the project would be completed within the scheduled time which will enable the Company to compete effectively in the deregulated scenario.

8. MARKETING ARRANGEMENTS

The Company continues to market its Finished Products through HPCL.

9. DIRECTORS

During the year HPCL has nominated Shri M. A. Tankiwala as Managing Director (Technical) in place of Shri S. K. Mukherjee. Also, ICICI Limited withdrew the nomination of Shri A. J. Advani as a Director of the Company, and have advised Shri M. P. Modi as their nominee. The Board places on record its appreciation for the services rendered by Shri S. K. Mukherjee and Shri A. J. Advani during their tenure.

In accordance with the provisions of the Companies Act, 1956 and the Articles of Association of the Company, Shri Bansi S. Mehta, Director and Shri C. Ramulu, Director retire by rotation at the Eleventh Annual General Meeting of the Company and being eligible offer themselves for re-appointment.

10. CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION AND FOREIGN EXCHANGE EARNINGS AND OUTGO

The additional information required to be disclosed pursuant to Section 217(1)(e) of the Companies Act, 1956 read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 is given in the Annexure forming part of this report.

11. FIXED DEPOSITS

The Company has not accepted any Fixed Deposits from the public.

12. DEBENTURES

Your Directors confirm that the proceeds of the Partly Convertible Debentures and Non Convertible Debentures have been utilised for the purposes declared in the Prospectus dated 13th April, 1992.

13. CONVERSION OF FULLY CONVERTIBLE DEBENTURES (FCDs)

The Company had issued 376947036 FCDs of Rs.19.26 each to the Promoter Companies for raising part funds required for the expansion project which were converted into 376947036 equity shares of Rs.10/- each at a premium of Rs.9.26 per equity share. The promoter companies' shareholding after conversion of FCDs has increased to 74.76%.

14. DEPOSITORY

Your Directors wish to inform you that The Securities and Exchange Board of India (SEBI) has notified your Company's shares for compulsory settlement in dematerialised form with effect from 31-05-1999 which would help in minimising the problems of loss of certificates, bad delivery, forgery, etc.

15. Y2K COMPLIANCE

The Company has reviewed the risk associated with Y2K compliance and has in place a comprehensive plan to address the same in a systematic manner. All the critical applications softwares and hardware systems have been made Y2K compliant, excepting few, which are expected to be completed by September '99. Necessary contingency plan has been made. The Company is in a position to meet the cost which is not material.

16. AUDITORS

M/s. Lodha & Co., Chartered Accountants and M/s. Sharp & Tannan, Chartered Accountants, Statutory Auditors of the Company hold office until the conclusion of the ensuing Annual General Meeting and are recommended for re-appointment. The Company has received a Certificate from them that their re-appointment, if made, would be within the prescribed limits under Section 224(1B) of the Companies Act, 1956.

17. AUDITORS' REPORT

The Notes on the Accounts referred to in the Auditors' Report