NAVA BHARAT FERRO ALLOYS LIMITED

27th ANNUAL REPORT 1998 - 99

NAVA BHARAT FERRO ALLOYS LIMITED

"Nava Bharat Chambers", 6-3-1109/1, Raj Bhavan Road, Hyderabad - 500 082

CONTENTS

Five Years at a Glance

(Rs. in Lakhs)

	1998-99	1997-98	1996-97	1995-96	1994-95
Sources of Funds :					
Share Capital	**2,073.32**	1,543.27	1,039.29	639.77	528.14
Share Application/ Allotment/Call Money	—	—	—	325.54	90.86
Reserves	**7,260.42**	7,602.48	6,463.13	3,715.59	2,190.82
Loans	**17,863.37**	17,515.25	15,981.52	5,523.10	2,829.23
	27,197.11	26,661.00	23,483.94	10,204.00	5,639.05
Application of Funds :					
Fixed Assets less Depreciation	**19,284.07**	19,530.69	14,241.06	4,284.57	1,907.77
Investments	**374.30**	439.17	479.30	465.76	420.52
Net Current Assets	**7,521.72**	6,669.30	8,737.37	5,453.67	3,306.45
Miscellaneous Expenditure	**17.02**	21.84	26.21	—	4.31
	27,197.11	26,661.00	23,483.94	10,204.00	5,639.05
Profits :					
Profit after Taxation	**420.34**	1,433.46	1,049.68	1,143.73	409.53
Dividend	**249.75** @	313.99 @	271.99 @	164.97	92.63
Retained Profit	**170.59**	1,119.47	777.69	978.76	316.90
Other Data :					
Dividend per Share (Rs.)	**1.50**	2.50	2.50	3.00	2.00
Debt Equity Ratio	**1.52**	1.47	1.74	0.90	0.45
OUR CONTRIBUTION TO REVENUE					
Sales Tax, Purchase Tax etc.	**662.62**	574.73	396.77	475.65	371.35
Excise Duty	**1,018.09**	1,317.88	1,166.30	841.84	777.98
	1,680.71	1,892.61	1,563.07	1,317.49	1,149.33

@ Includes Corporate Dividend Tax

Board of Directors

Dr. D. Subba Rao	***Chairman & Managing Director***
Sri P. Punnaiah	
Sri J. Narayana Murthy	***IDBI Nominee***
Dr. G. Sreeramjee	
Dr. E.R.C. Shekar	
Dr. M.V.G. Rao	
Sri K. Balarama Reddi	
Sri V.S. Prasad	***Executive Director***
Sri D. Ashok	***Executive Director***
Sri P. Trivikrama Prasad	***Executive Director***

Company Secretary &
Chief General Manager
(Corporate Affairs)
Sri T.R. Rao

Registered Office
"Nava Bharat Chambers"
6-3-1109/1
Raj Bhavan Road
Hyderabad - 500 082

Auditors
Messrs Brahmayya & Co.
Chartered Accountants
920, Tilak Road
Hyderabad - 500 001

Works :
Electrometallurgical Division
Ferro Alloy Plant (A.P.) &
Power Plant
Paloncha - 507 154
Khammam District
Andhra Pradesh

Sugar Division
Samalkot - 533 440
East Godavari District
Andhra Pradesh

Bankers
State Bank of India
Andhra Bank
Bank of India
IDBI Bank Ltd.

Ferro Alloy Plant (Orissa)
Khadgaprasad Village,
Dhenkanal District-759 121
Orissa

Machine Building Division
Nacharam
Hyderabad - 500 076
Andhra Pradesh

Registrars and Share Transfer Agents
Karvy Consultants Limited
"Karvy House"
46, Avenue 4, Street No. 1
Banjara Hills
Hyderabad - 500 034

Ferro Alloy Plant (M.P.)
Plot 114 to 122, Sector 'C'.
Industrial Area,
Urla - 493 221
Raipur District.
Madhya Pradesh

Marine Products Division
Victory Court
Nowroji Road
Maharanipeta
Visakhapatnam - 530 002
Andhra Pradesh

Directors' Report

Dear Members,

Your Directors have pleasure in presenting their Twenty Seventh Annual Report of the Company together with the Audited Accounts and the Report of the Auditors for the year ended 31st March, 1999.

FINANCIAL RESULTS

	(Rupees in lakhs)	
	31.3.1999	31.3.1998
Turnover and Income	**22917.91**	20643.57
Profit before Interest, Depreciation and Taxation	**5041.35**	4134.68
Less : Interest (net of interest income and interest capitalised)	**3168.04**	1615.63
Profit before Depreciation and Taxation	**1873.31**	2519.05
Depreciation	**1402.97**	915.59
Profit after Depreciation	**470.34**	1603.46
Provision for Taxation	**50.00**	170.00
Profit after Tax	**420.34**	1433.46
Investment Allowance Reserve written back	**52.80**	26.83
Debenture Redemption Reserve withdrawn	---	210.00
Balance brought forward from last year	**636.04**	329.73
Profit available for Appropriation	**1109.18**	2000.02
Appropriations:		
Dividend on Equity Share Capital	**157.05**	260.82
Dividend on Cumulative Redeemable Preference Share Capital	**70.00**	24.62
Corporate Dividend Tax	**22.70**	28.54
Capital Redemption Reserve	**150.00**	50.00
General Reserve	**28.00**	1000.00
Surplus carried to Balance Sheet	**681.43**	636.04
	1109.18	2000.02

DIVIDEND ON PREFERENCE SHARE CAPITAL:

A sum of Rs 70.00 lakhs being dividend for 1998-99 on the Cumulative Redeemable Preference Share Capital and Corporate Dividend Tax thereon of Rs 7.00 lakhs are proposed to be appropriated out of the current year's profit.

DIVIDEND ON EQUITY SHARE CAPITAL:

Your Directors recommend Dividend @ 15% pro-rata on the Paid-up Equity Share Capital absorbing a sum of Rs 157.05 lakhs towards Dividend and Rs 15.70 lakhs towards Corporate Dividend Tax for your approval.

The aggregate dividend pay-out for the year 1998-99 amounts to Rs 227.05 lakhs as against Rs 285.44 lakhs for the previous year.

REDUCTION OF SHARE PREMIUM AND RE-STRUCTURING OF SHARE CAPITAL:

The Hon'ble High Court of Andhra Pradesh at Hyderabad by an Order dated 22.03.99 confirmed the reduction of share premium from Rs.50/- per share to Rs.20/- per share relating to the Rights Equity shares allotted in January, 1996, making the partly paid shares as fully paid-up by restructuring the share capital and also approved the issue and allotment of 12% Non-cumulative Redeemable Preference Shares of Rs.100/- each fully paid-up to the members holding such Rights Equity Shares on which sum in excess of Rs.30/- per share had been paid.

The Paid-up Equity Share Capital as on 31st March, 1999 amounted to Rs 1191.43 lakhs. Allotment of 12% Non-cumulative Redeemable Preference Shares for the sum of Rs 381.89 Lakhs has since been made in terms of the Company's Petition and High Court's Order.

REVIEW OF OPERATIONS:

The operations of the Company for 1998-99 have been severely affected by the recession in the Steel and Ferro Alloy Industry which has prevailed for the last three years. With international prices of ferro alloys keeping low and moving in tandem with low off take, gross margins have been under stiff pressure. This situation has, to some extent, been redeemed on account of captive power generation in the ferro alloy plant in Andhra Pradesh. However, the high interest burden on the long term loans which the Company has had to discharge has eroded the operating profit margins leaving the Company to break-even on cash basis. Divestment of shares in Andhra Pradesh Gas Power Corporation Limited (APGPCL), the power from which has not been utilised, enabled the Company to post marginal net profit for the year besides augmenting internal generations.

Your Company strived hard to sustain high level of production against the back drop of low demand and high power costs in Orissa and Madhya Pradesh where the production has been curtailed. While increased thrust on export of ferro alloys was adopted as a measure to ensure liquidity in operations, dismal international prices continue to be a cause of concern.

The Sugar Division commenced export of surplus co-generated power to the local grid under an agreement during the year under review. Owing to the modernisation efforts, the plant has achieved a higher crushing rate of about 2200 tcd on an average although the rate of recovery of about 9% requires improvement. The Sugar Industry continues to suffer with inadequate realisations under both the levy and free pricing. The prices of molasses and spirit are ruling very low and slowing down of the stock releases by the Government has resulted in the Company carrying huge stock of sugar affecting the working capital costs.

OUTLOOK FOR THE CURRENT YEAR:

The Company hopes to achieve a production target of 60,000 M.T and 30,000 M.T. of ferro alloys at its units in Andhra Pradesh and Orissa respectively. Although marketing and selling such quantity in this recession poses a tough task, it is in line with the continued endeavour of your Company to set high standards and meet them despite severe odds facing the industry.

The trend of international prices or domestic prices of ferro alloys during the first quarter of the current year do not hold out a promising outlook for this year too. However, with the inevitable shake out in the industry, your Company hopes to significantly improve its presence in the ferro alloy market during the current year.

The Company is targeting a PLF of 90% in Captive Power Generation in Andhra Pradesh unit. This should not only take care of full power requirement of Ferro Alloy unit but also enable the Company to export surplus power to the grid under the contracted arrangement.

Your Company is taking steps to achieve higher recovery besides higher crushing rate in the Sugar Plant this year. The Company has reviewed gradation of cane based on quality and initiated remedial measures to achieve higher recovery.

It is expected that the sale of surplus co-generated power would form a distinct revenue stream for the Sugar Plant.

GENERATION OF POWER:

The Power Plant at Paloncha generated 214 mil. units during the year under review compared to 188 mil. units in the previous year.

Export of Power to APSEB grid during the year was 74 mil. units compared to 35 mil. units in the previous year with corresponding increase in the value from Rs 735.73 lakhs to Rs 1547.22 lakhs.

With a view to fully balance the existing steam turbine generating capacity and achieve higher generation from the present 30 MW to 50 MW, your Company has taken up a Balancing cum Expansion scheme of the Power Plant. The eco-friendly circo fluidised bed combustion technology in the boiler, being fairly new to this country called for frequent down time and maintenance affecting plant availability and necessitated this balancing exercise.

The Company will be benefited by higher availability of the Captive Power Plant throughout the year with two boilers and one single turbine generator after this expansion scheme is completed.

This expansion scheme, estimated to cost about Rs 45 Crores, is proposed to be financed by way of lease assistance of Rs 30 - 35 Crores and internal generations for the balance. The expansion scheme is expected to be commissioned by June, 2000.

Your Company has taken a considered view of sourcing of power from APGPCL and decided to divest this power and to utilise higher captive generation as a long term measure. While the Company could immediately save on payment of minimum charges to APGPCL for non-utilisation of the power, divestment has helped the Company to augment internal resources which would be partly deployed in the proposed expansion of power plant.

SUGAR DIVISION:

The quantity of sugar cane crushed during the year increased to 315605 M.T. as against 291753 M.T. in the previous year. The recovery has improved from 8.87% to 9.10%. Steps are taken to increase the crushing capacity up to 2500 tcd and for setting up a plant for manufacture of Extra Neutral Alcohol (ENA) from the rectified spirit in the distillery section as a down stream product with attendant value addition.

During the year under review, this Division has generated and exported 674390 units of Power to the grid from co-generation with bagasse as fuel.

MACHINE BUILDING DIVISION:

The turnover of the Division improved considerably from Rs 697.32 lakhs to Rs 1846.05 lakhs. The order book position is quite impressive, having accredited clientele including major oil refineries in the country, for fabrication and supply of pressure vessels, heat exchangers, columns and air separation plant and equipment. In order to further improve the quality control measures and up-gradation of standards, certification for ISO 9001 and "U" Stamp from ASME Authorities are being sought.

INFORMATION TECHNOLOGY AND Y2K COMPLIANCE:

Your Company has initiated number of steps to bring about a paradigm shift in the use of Information Technology as a management tool. An integrated approach to connect all the units of the Company is underway for smooth dissemination of data. A review has been made on the susceptibility of the Company's systems to Year 2000 problem. A sum of Rs 35 lakhs has been provided to rectify some of the Control & Information Systems in the Power Plant to ensure Year 2000 compliance. Your Directors foresee no problem in achieving Year 2000 compliance well in time.

DEMATERIALISATION OF SHARES:

Securities and Exchange Board of India approved the Company's shares as eligible security for dematerialisation. The Company has entered into a Tripartite Agreement with The National Securities Depository Ltd and M/s Karvy Consultants Ltd. This system facilitates quick transfers without involving stamp duty and eliminates bad deliveries, fake certificates and all risks associated with physical certificates such as loss, theft, mutilation etc.

FIXED DEPOSITS:

There are no overdue deposits remaining unpaid beyond the date of maturity.

INSURANCE:

All the properties of the Company including Buildings, Plant and Machinery and Stocks have been adequately insured.

DIRECTORS:

The existing term of Dr D. Subba Rao as the Managing Director of the Company is up to 31st December, 1999. He is one of the founders of the Company and has been the Technical/Managing Director since its inception. Dr D.Subba Rao has also been the Chairman of the Board of Directors from 25th September, 1997. The Company has immensely benefitted by his rich experience in metallurgy and he has been responsible for the diversified business and growth of the Company during the last 27 years. Dr D.Subba Rao has expressed his desire to relinquish the position of Managing Director after the ensuing Annual General Meeting. Whilst the Board thinks it fit to continue to avail of Dr D.Subba Rao's vision, guidance and services, it has agreed to consider re-designating him as Executive Chairman with effect from 14th August, 1999 for the remainder of his existing term. Dr D.Subba Rao has kindly consented to continue thereafter as Chairman of the Board.

The Board has appointed Sri D. Ashok as the Managing Director for a period of 5 years with effect from 14th August, 1999. Sri D. Ashok possesses vast experience and he is the main driving force for Corporate Policy Planning for the various units of the Company during the last 16 years. He has been instrumental in setting up of the Captive Power Plant and strengthening the ferro alloy operations of the Company.

Requisite approvals are being sought from the members at the ensuing Annual General Meeting.

In accordance with the provisions of the Companies Act, 1956 and the Articles of Association of the Company, Dr G. Sreeramjee and Sri P.Trivikrama Prasad will be retiring by rotation at this Annual General Meeting and are eligible for re-appointment.

AUDITORS' COMMENTS :

The note no. 10 of Schedule 22 to the attached Balance Sheet, referred to by the Auditors in their Report, is self explanatory. The Company has been pursuing for recovery of the outstanding amounts and has initiated legal proceedings against some parties, who have defaulted in paying lease rentals and repayment of short term loans and other receivables. A positive outcome is expected and hence provision is deemed not necessary or advisable at this stage.

AUDITORS:

M/s Brahmayya & Co., Chartered Accountants, Hyderabad, the Auditors of the Company will retire at the conclusion of the ensuing Annual General Meeting and they have conveyed their consent to be re-appointed.

COST AUDIT:

The approval of the Central Government for the appointment of Sri A.V. Ramana Rao, FICWA, Cost Accountant to conduct the Cost Audit in respect of Sugar and Industrial Alcohol manufactured by the Company for the year ended 31st March, 1999 as recommended by the Board has been received vide Order Nos. 88 and 89 dated 31st December, 1998.

CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION AND FOREIGN EXCHANGE:

As required under the provisions of Section 217(1)(e) of the Companies Act, 1956 read with Rule 2 of the Companies (Disclosure of Particulars in Report of Board of Directors) Rules, 1988, the particulars relating to Conservation of Energy, Technology Absorption, Foreign Exchange Earnings and Outgo have been given in the annexure, which forms part of this Report.

PARTICULARS OF EMPLOYEES:

As required under the provisions of Section 217(2A) of the Companies Act, 1956, read with Companies (Particulars of Employees) Rules, 1975 as amended, the names and other particulars of the employees are set out in the Annexure to the Directors' Report. However, as per the provisions of Section 219(1)(b)(iv) of the Companies Act, 1956, the Report and the Accounts are being sent to all Shareholders of the Company excluding the aforesaid information. Any Shareholder interested in obtaining such particulars may write to the Company Secretary at the Registered Office.

ACKNOWLEDGEMENT:

Your Directors wish to place on record their appreciation of the co-operation extended by the Financial Institutions and the Company's Bankers from time to time. Your Directors also appreciate the sincere and efficient services rendered by the employees of the Company at all levels towards successful working of the Company. Your Directors wish to thank the Governments of Andhra Pradesh, Orissa and Madhya Pradesh and the State utilities for their continued support. The Board is thankful to the Shareholders for their continued warm co-operation to the Company.

For and on behalf of the Board

Hyderabad
16th June, 1999

D. Subba Rao
Chairman & Managing Director

Annexure to Directors' Report

INFORMATION PURSUANT TO SECTION 217(1)(e) OF THE COMPANIES ACT,1956, READ WITH COMPANIES (DISCLOSURE OF PARTICULARS IN THE REPORT OF BOARD OF DIRECTORS) RULES, 1988 AND FORMING PART OF THE DIRECTORS' REPORT FOR THE YEAR ENDED 31ST MARCH, 1999.

A. CONSERVATION OF ENERGY :

a. Energy conservation measures taken :

Co-generation of power by using surplus bagasse has been stepped up resulting in optimal utilisation of process steam and bagasse.

b. Additional investments and proposals, if any , being implemented for reduction of consumption of energy :

Nil

c. Impact of measures at (a) and (b) above for reduction of energy consumption and consequent impact on the cost of production of goods :

The sale of surplus energy generated from the co-generation plant to the local grid has augmented revenues without significant accretion to the cost of production.

d. Total energy consumption and energy consumption per unit of production :

	Current Year	Previous Year
1. Power & Fuel Consumption		
a) Electricity		
i) Purchased :		
Units (KWH)	**4,80,429**	6,44,711
Total Amount (Rs.)	**21,76,343**	25,46,608
Rate/Unit (Rs.)	**4.53**	3.95
b) Own Generation :		
ii) Through Diesel Generator		
Units (KWH)	**21,666**	16,884
Diesel-Litres	**11,054**	17,228
Diesel-Value (Rs)	**1,17,863**	1,68,333
Units per Litre of Diesel Oil	**1.96**	0.98
Cost/Unit (Rs.)	**5.44**	9.97
2. Coal		
Quantity (MT)	—	—
Total Cost (Rs.)	—	—
Average Cost (Rs.)	—	—
3. Furnace Oil	—	—
4. Others	—	—

As per the prevailing rules Ferro Alloys, Power Generation and Machine Building are excluded industries for the purpose of this information and hence the above particulars pertain to sugar plant only.

B. TECHNOLOGY ABSORPTION :

a) Research and Development :

i. Areas in which R&D is carried out by the Company :

Shell modification has been carried out in the Ferro Alloy Plant - Orissa as a part of in-house Research and Development.

ii. Benefits derived as a result of above R&D :

The daily output is expected to be increased from 1999-2000 onwards.

iii. Future plan of Action :

On-going measures include achieving higher recovery of metal in ferro alloys, lower heat rate in power generation and expansion of co-generation plant.

b) Technology Absorption, Adaptation and Innovation :

The Company has not used/imported any technology in its operations. The R&D activity is aimed at process and efficiency improvements.

C. FOREIGN EXCHANGE EARNINGS & OUT-GO :

		Current Year Rupees	Previous Year Rupees
1.	Foreign Exchange Earnings at FOB Value	**16,94,71,564**	17,52,84,957

		Current Year Rupees	Previous Year Rupees
2.	Foreign Exchange outgo :		
i.	CIF Value of Imports	**4,26,59,823**	5,92,12,780
ii.	Others	**2,74,11,711**	1,30,15,108

For and on behalf of the Board

Hyderabad
16th June, 1999

D.Subba Rao
Chairman & Managing Director

Information pursuant to Clause 32 of the Listing Agreement with National Stock Exchange of India Limited

The securities of the Company are listed in the Stock Exchanges as stated below and the annual listing fees has been paid to each of the Exchange.

	Name of the Stock Exchange	Address
1	The Hyderabad Stock Exchange Limited	3-6-275, Himayat Nagar, Hyderabad - 500 029
2.	Madras Stock Exchange Limited	Exchange Building, Post Box No. 183, 11, Second Line Beach, Chennai - 600 001
3.	The Stock Exchange, Mumbai	Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai - 400 001
4.	National Stock Exchange of India Limited	Trade World, Senapati Bapat Marg, Lower Parel, Mumbai - 400 013

NOTE : A leaflet containing information prepared by Securities and Exchange Board of India for the benefit of common investors is enclosed.