



Pennar

Pennar Industries Limited



**Annual Report
2001 - 02**



BOARD OF DIRECTORS

SHRI NRUPENDER RAO (Executive Chairman)
PROF. LAXMI NARAIN
SHRI C. RANGAMANI (GIC Nominee)
SHRI P. BHASKARA RAO
SHRI CH. ANANTHA REDDY (Executive Director)

COMPANY SECRETARY

SHRI P. DINAKAR BABU

AUDITORS

M/s Rambabu & Co.,
Chartered Accountants,
31, Pancom Chambers, 6-3-1090/1/A,
Rajbhavan Road, Somajiguda,
Hyderabad- 500 082.

BANKERS

State Bank of India
State Bank of Hyderabad
Andhra Bank
Canara Bank
The Bank of Rajasthan
IDBI Bank
Bank of Bahrain & Kuwait

PLANTS

Patancheru Unit,
IDA, Patancheru,
Medak (Dist), A.P.

Isnapur Unit,
Isnapur Village,
Medak (Dist), A.P.

Tarapur Unit,
MIDC, Tarapur,
Maharashtra

REGISTRARS & SHARE TRANSFER AGENTS

M/s. Dakshin Consultants (P) Ltd.,
1-10-75/1/1-6, 3rd Floor, Saptagiri Towers,
S.P. Road, Begumpet, Hyderabad- 500 016, A.P.

REGISTERED OFFICE

1-10-75/1/1-6, 3rd Floor, Saptagiri Towers,
S.P. Road, Begumpet, Hyderabad- 500 016, A.P.



NOTICE TO SHAREHOLDERS

Notice is hereby given that the 26th Annual General Meeting of PENNAR INDUSTRIES LIMITED will be held on Thursday, the 19th day of December 2002 at 4.00 p.m. at Bharatiya Vidya Bhavan, Kulapati Munshi Sadan, 5-9-1105, Basheer Bagh, King Koti, Hyderabad - 500 029 to transact the following ordinary business :

1. To receive, consider and adopt the Report of the Directors and Balance Sheet as at June 30, 2002 and the Profit and Loss Account for the year ended June 30, 2002 and the Report of the Auditors' thereon.
2. To appoint a Director in place of Shri P. Bhaskara Rao, who retires by rotation and offers himself for reappointment.
3. To consider and, if thought fit, to pass with or without modifications, the following resolution as a Special Resolution:

"RESOLVED THAT pursuant to Section 224A of the Companies Act, 1956, M/s. Rambabu & Co., Chartered Accountants, Hyderabad, the retiring Auditors, be and are hereby re-appointed as Auditors of the Company to hold office from the conclusion of this Annual General Meeting till the conclusion of the next Annual General Meeting on such remuneration and out-of-pocket expenses as may be fixed by the Board of Directors of the Company".

By Order of the Board

Place : Hyderabad **P. Dinakar Babu**
Date : November 18, 2002 Company Secretary

NOTES:

- (a) A MEMBER ENTITLED TO ATTEND AND VOTE AT THE MEETING IS ENTITLED TO APPOINT A PROXY TO ATTEND AND ON POLL TO VOTE ON HIS/HER BEHALF. A PROXY NEED NOT BE A MEMBER OF THE COMPANY. Proxies, in order to be effective, must be deposited at the Registered Office of the Company, not less than 48 hours before the time fixed for the meeting.
 - (b) The Register of Members and the Share Transfer Books of the Company will remain closed from December 19, 2002 to December 24, 2002 (both days inclusive).
 - (c) The Explanatory Statement pursuant to Sec.173(2) of the Companies Act, 1956 in respect of the business set out under item no. 3 is annexed.
 - (d) The unclaimed dividend up to the Company's financial year 1996-97 has been transferred to General Revenue Account of the Central Government. Members, who have not en-cashed the dividend warrants for the said financial year are requested to claim the dividend from the Registrar of Companies, Andhra Pradesh, Hyderabad.
- As a result of the amendments introduced through Sections 205A to 205C of the Companies Act, 1956, the amount of dividend remaining unencashed/unclaimed for a period of seven years shall be transferred to the Investors Education and Protection Fund.
- (e) Members are requested to bring their copies of the Annual Report to the meeting.



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

Item No. 3

This explanatory statement is given in respect of the resolution mentioned in this item of Notice, since the resolution for the re-appointment of the retiring Auditors will be proposed as a Special Resolution. Section 224 A of the Companies Act, 1956 provides that in the case of a Company where not less than 25% of the subscribed share capital is held by any Public Financial institution or any Government or Nationalised Bank or other financial institution referred therein, the appointment or reappointment of Auditors shall be made by a special resolution. As more than 25% of the subscribed share capital of the Company is held by institutions covered by the said Section, the resolution for the re-

appointment of the retiring Auditors is proposed as a Special Resolution.

A Certificate has been received from the Auditors to the effect that their appointment if made, will be in accordance with the limits prescribed in Section 224 (1B) of the Companies Act, 1956.

None of the Directors are concerned or interested in the resolution.

The Directors commend the resolution for your approval.

By Order of the Board

Place : Hyderabad

P. Dinakar Babu

Date : November 18, 2002 Company Secretary

INFORMATION ON DIRECTOR SEEKING RE-APPOINTMENT AT THE ANNUAL GENERAL MEETING

1. Name of the Director : Shri P. Bhaskara Rao
2. Date of Birth : October 12, 1948
3. Date of Appointment : December 24, 2001
4. Qualification : M.Tech.
5. Expertise : Over 29 years of experience in various fields of Management
6. List of Companies in which out side Directorship held as on June 30, 2002 : i) Pennar Aluminium Company Limited
ii) Pennar Profiles Limited
7. Chairman / Member of the Committees of other Companies on which he is a Director as on June 30, 2002. : 2



DIRECTORS' REPORT

To,
The Members,

Your Directors present the 26th Annual Report together with the Audited Accounts for the year ended June 30, 2002.

FINANCIAL RESULTS :

During the year under review, your company continued to have strained operations and incurred losses. The Company's sales were low during the year under review (25614 MT as against the previous fifteen month period - 52096 MT). In rupee terms, sales were Rs. 7559 Lakhs (previous period Rs. 16405 Lakhs). The company has incurred a net loss of Rs. 3873 Lakhs (previous period Rs. 3447 Lakhs), which has been carried forward to the Balance Sheet.

PERFORMANCE :

The industrial sector in the country continued to be under strain during the year under review due to general slowdown in the economy. The manufacturing sector has been going through a difficult phase due to the combined influence of increased competition due to globalisation and liberalization and a fall in demand. In the steel sector, the entry of the integrated steel plants with large cold rolling capacity has resulted in your Company facing erosion of margins and to struggle to retain its market share.

Efforts were intensified to upgrade the product mix to increase the sale of value added steel products. This has resulted in reduction of the sale of Cold Rolled Steel Strips and an increase in the sale of Cold Formed Metal Profiles and Engineering Components. Your Company continued to maintain its quality rating through ISO 9001, ISO 9002 and QS9000 certifications for the various divisions.

During the current year, the Steel Industry is witnessing a revival. The auto sector has also improved. This will result in your company improving its performance during the current year.

EROSION OF NET WORTH:

During the year 1997, in order to strengthen its market position, it was considered desirable by your company that NSL Ltd., of the Nagarjuna Group, engaged in similar activities in the steel business, be merged into your Company. The merger process was successful in rationalizing products between the two plants, reduction of manpower and reduction in fixed costs including marketing

overheads. However, the benefit of merger could not be realised due to continued economic slow down in various sectors of the economy. Consequently, the sales performance of the company, post-merger, deteriorated.

The cold rolled steel products business in the country is today characterized by over-capacity. The industry has been facing intense competition both from within the country and imports, especially from CIS countries. The major players in the country include integrated steel producers and large cold rollers.

The recession in the domestic industry has also affected the sales and profit margins of the company's customers. This has led to a delay in payments by the customers. Also, raw material suppliers have reduced the credit period. This has adversely affected the working capital of the company. The above factors have led to an erosion of profitability in the earlier years and significant losses during the previous 15 months period and the current year under review.

Since the company's losses as at the end of the financial year under review have resulted in a total erosion of its net worth, the company would be treated as a "Sick Industrial company" under the provisions of Sick Industrial Companies (Special Provisions) Act, 1985 (SICA). Your Directors will therefore make a reference to the Board for Industrial and Financial Reconstruction (BIFR) under the proviso to sub-Section (1) of Section 15 of SICA.

RESTRUCTURING :

Your company commissioned M/s. Deloitte Haskins & Sells (DHS) to make a detailed study of its business profile and suggest modifications as well as financial restructuring. According to the report of the consultant, the company would be viable if the product mix is improved by increasing the proportion of value added steel products, if the interest cost is reduced through debt restructuring and the debt is rescheduled.

The company has submitted a proposal to the lenders for restructuring the term and working capital loans. Industrial Development Bank of India, the lead financial institution for your company, has initiated debt restructuring through Corporate Debt Restructuring Scheme (CDR) leading to a meeting of all lenders who have agreed in principle to restructure the company's debt.

The salient features of the CDR Scheme inter-alia includes deferment of term loans, conversion of part of working capital loans into term loans with a



moratorium for repayment, conversion of interest into term loan, reduction of equity capital, induction of funds by the promoters/ strategic investors and reduction of interest payable on term and working capital loans.

Your Directors while making a reference to BIFR will submit the said CDR Scheme for rehabilitation of the company. Your Directors are optimistic that the company's performance will improve after the Restructuring Scheme is implemented.

DIVIDEND :

Preference / Equity Shares

In the absence of profits, your Directors are unable to recommend dividend on the preference and equity shares for the year under review.

DIRECTORS :

Shri P. Bhaskara Rao retires by rotation at the ensuing Annual General Meeting and offers himself for reappointment.

DIRECTORS' RESPONSIBILITY STATEMENT :

In terms of Section 217(2AA) of the Companies Act, 1956, the Directors would like to state that :

- i) in the preparation of the annual accounts, the applicable accounting standards have been followed, except those that have been referred to by the Auditors in their report;
- ii) the Directors had selected such accounting policies and applied them consistently and made judgements and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profit or loss of the Company for the year under review;
- iii) the Directors had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
- iv) the Directors had prepared the annual accounts of the Company on a going concern basis.

MANAGEMENT DISCUSSION & ANALYSIS AND CORPORATE GOVERNANCE :

Report on Management Discussion & Analysis and the status report on the Compliance of Corporate Governance are annexed and form part of the Annual Report. A compliance certificate from the company's Auditors is annexed.

AUDITORS :

The retiring auditors at the ensuing Annual General Meeting, M/s. Rambabu & Co., Chartered Accountants, are eligible for re-appointment and have indicated their willingness to continue.

PUBLIC DEPOSITS :

The total amount of Fixed deposits as on June 30, 2002, was Rs. 739.40 Lakhs. During the year, no fresh deposits have been accepted or old deposits renewed .

PERSONNEL:

Your Directors compliment the employees of the company, whose co-operation and dedicated team work made it possible to perform in a very difficult year of operation under trying circumstances.

No employee who is in receipt of remuneration which requires disclosure in terms of Section 217 (2A) of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules, 1975.

LISTING OF COMPANY'S SHARES:

Your company's shares are listed at The Hyderabad Stock Exchange Ltd., 3-6-275, Himayat Nagar, Hyderabad and The Stock Exchange, Mumbai, P. J. Towers, Dalal Street, Mumbai and the Company is regular in paying the annual listing fee to these Stock Exchanges.

CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION AND FOREIGN EXCHANGE EARNINGS AND OUTGO:

In accordance with provisions of Section 217(1)(e) of the Companies Act, 1956, the required information relating to Conservation of Energy, Technology absorption and Foreign Exchange earnings and outgo is annexed.

AUDITORS QUALIFICATIONS :

The qualifications made by the Auditors in their report on the accounts for the period ended June 30, 2002 have been dealt with in the Notes to Accounts (Schedule 18) and are self-explanatory.

ACKNOWLEDGEMENTS :

The Board wishes to thank the IDBI, ICICI Bank, IFCI and the Consortium of Banks led by the State Bank of India, customers, suppliers and other stake holders for their continued support.

For and on behalf of the Board

Place :Hyderabad

Nrupender Rao

Date :November 18, 2002 Executive Chairman



ANNEXURE TO DIRECTORS' REPORT

FORM A

| PARTICULARS | 01-07-2001 to 30-06-2002 | 01-04-2000 to 30-06-2001 |
|---|--------------------------------|--------------------------------|
| A POWER & FUEL CONSUMPTION | | |
| 1. ELECTRICITY : | | |
| a. Purchased Units | 6387012 | 12414925 |
| Total Amount (Rs.) | 36589647 | 56652231 |
| Rate Per Unit (Rs.) | 5.73 | 4.56 |
| b. Own Generation | | |
| Through Diesel Generator | | |
| 1000 KVA Units (KWH) | 73284 | 100113 |
| Units per litre of diesel oil | 3.23 | 2.34 |
| Cost of diesel per KWH (Rs.) | 5.73 | 6.84 |
| 2. COAL : | | |
| Quantity (Tonnes) | 1151 | 1541 |
| Total Amount (Rs.) | 2330913 | 2790529 |
| Average Rate (Rs.) | 2026 | 1810 |
| 3. DIESEL OIL : | | |
| Quantity (KL) | 1 | 328 |
| Total Amount (Rs.) | 18341 | 5110553 |
| Average Rate (Rs.) | 18341 | 15596 |
| 4. C IX OIL : | | |
| Quantity (MT) | 531 | 1049 |
| Total Amount (Rs.) | 6817993 | 13046147 |
| Average Rate (Rs.) | 12833 | 12432 |
| 5. L D O | | |
| Quantity (KI) | — | 24 |
| Total Amount (Rs.) | — | 288000 |
| Average Rate (Rs.) | — | 12000 |
| 6. FURNACE OIL | | |
| Quantity (KI) | 1 | 34 |
| Total Amount (Rs.) | 11966 | 367689 |
| Average Rate (Rs.) | 10878 | 10962 |
| B CONSUMPTION PER UNIT OF PRODUCTION | | |
| a. Product : Cold Rolled Steel Strips | | |
| Unit : Tonnes | | |
| Electricity (KWH) | 300 | 261 |
| Coal (Kgs) | 60 | 35 |
| Diesel (Ltrs) | 0.05 | 7.36 |
| C IX (Kgs) | 27.80 | 23.55 |
| LDO (Ltrs) | — | 0.54 |
| Furnace Oil (Ltrs) | 0.06 | 0.77 |
| b. Product : Cold Rolled Metal Profiles | | |
| Unit : Tonnes | | |
| Electricity (KWH) | 66.48 | 64.71 |

**FORM B****RESEARCH & DEVELOPMENT (R&D)**

1. Specific areas in which R&D carried out by the company :
 - i) Thicker Gauge Compressor shells developed for M/s. BPL Limited.
 - ii) Developed materials for direct drawing of Compressor Shells without annealing.
 - iii) Development of Interstitial Free Steels (IFS) for critical and super EDD applications.
 - iv) Cold Formed profiles developed for packaging of Collecting Electrodes resulting in savings of 15 to 20%.
2. Benefits derived as a result of the above R&D:
 - a) M/s. BPL - Additional turnover approximately Rs. 7.00 Lakhs per month
 - b) New business for critical EDD applications
 - c) Cost reduction
3. Future plan of action:

Continue to explore possibility of cost reduction and develop applications for Cold Formed Profiles.
4. Expenditure on R&D: Rs. 1.00 Lakh
5. Technology Absorption, adaptation and innovation :
 - a) Shearing type cut off tools developed for saving of scrap going as slug.
 - b) Shorter annealing cycles for captive consumption of CRCA products.
6. Foreign exchange earnings and outgo : Nil

MANAGEMENT DISCUSSION AND ANALYSIS REPORT

(Forming part of Directors' Report)

(a) Industry Structure and Developments

OVERVIEW OF GLOBAL STEEL INDUSTRY

The global trade in steel has stagnated for the last few years. Due to United States of America's decision on March 5, 2002, to impose anti-dumping duties ranging from 8% to 30 % on ten product groups, the steel business has come under increased pressure. Although the United States Administration indicated that the developing countries would be excluded from its safeguard action, specific products from seven developing countries, including India, have not been excluded.

There is a global over capacity of about 130 Million Tonnes of steel. The main countries having over capacity include Russia, Ukraine, some of the Republics of CIS and Brazil. The absolute volume drop can be attributed to a fall in demand in major markets.

The Hot Rolled Steel (HR) prices in the US and Europe have surged by over \$ 30 to \$ 40

per Tonne during the year 2002 and are quoting at \$ 420 per Tonne in the US.

OVERVIEW OF INDIAN STEEL INDUSTRY

The Indian steel industry is nearly a century old with Tata Iron and Steel Company (TISCO) being the first integrated plant set up in 1907. At present India is the ninth largest producer of steel in the world.

The Cold Rolled Steel (CR) industry includes, apart, from cold rolled sheets, galvanised steel, colour coated steel and electrical steel sheets. Auto and Consumer Durables are the two sectors that consume the maximum CR steel. The auto sector consumes about 7 Lakhs Tonnes of CR steel, while consumer durable companies use 2.5 Lakhs Tonnes per annum.

The total CR capacity in the country is 6.5 Million Tonnes with the production at 5.2 Million Tonnes. Apart from Tata Steel and Steel Authority of India Ltd. (SAIL), other major producers of CR products include Bhushan Steel, Uttam Steel, Thyssen Arm EBG India, Tube Products and Ruchi Steel.

The installed capacity of the Indian Galvanised Steel Industry is 2.7 Million Tonnes while production stands at 2.3 Million Tonnes. The



US imports on an average 5.0 Lakhs Tonnes of galvanised steel, of which more than 12% or 60,000 Tonnes, comes from India alone. Major players here include Tata Steel, Jindals' Jisco and Bhushan Steel.

In the domestic market, the Hot Rolled Coil prices have gone up by Rs. 3,500/- per tonne between April '02 and June '02 to Rs.15, 500/- per Tonne. The total hike in steel prices was more than 25% since March this year. The increase in the prices of Hot Rolled Coil in the domestic market has affected the cold-rolled steel industry. Many down stream units had to reduce turnover due to non-availability of hot rolled coils (HR) or availability at higher prices.

(b) Opportunities and Threats

In India, major part of flat steel products is consumed in engineering applications, followed by automobiles and construction. The auto sector includes tractors, heavy vehicles, motor cycles, scooters and components. Consumer durables include refrigerators and washing machines.

The current indications are that the year 2002 would be better than last year as far as demand is concerned. Of late there has been some revival in the automobile sector. The demand for two wheelers, passenger cars and Heavy Commercial Vehicles are on the increase. This recovery in the automobile sector will benefit the steel industry. Any step up in government expenditure on infrastructure projects is also likely to benefit the steel sector.

The Indian steel sector has been hit hard by low prices, over capacity, economic slow down and to top it all, an almost closed US market. Import of CR coils from CIS countries has also affected the domestic steel industry. Most major steel companies, with the exception of Tata Steel, have thus been reporting losses. As the international market is firming up, primary producers are now more oriented towards exports.

(c) Product-wise Analysis

COLD ROLLED STEEL STRIPS

The Cold Rolled Steel Strips market is expected to grow at 5% per year. The Company's share is below 1% of the market. There is much opportunity to grow with the growth in the economy.

COLD ROLLED FORMED SECTIONS

The Cold Roll Formed Sections market is expected to grow at 10% per year. The Company is the leading manufacturer of these products in the country and the growth potential is high. Also, increase in the business is expected on account of the usage of more steel for Pre-engineered metal buildings and Road Safety Systems.

PRESSED COMPONENTS

The Pressed Components Industry is not doing well on account of the recession in the auto sector and presence of small players. However, the margins in these products are good.

(d) Risks & Concerns

Slowing down of the global economy and the cyclical nature of the industry are matters of concern. The adverse effect of various factors relevant to the end user segments of the Company's products viz., Auto, and white goods industries will have impact on the performance of the Company. The volatile hot rolled coil prices may also have impact on the performance of the Company.

(e) Internal Control Systems and their adequacy

The Company has in place well defined roles and objectives for people at various levels. This ensures appropriate information flow to management to facilitate effective monitoring and control. The Company has an internal audit system. Effective budgetary control on all capital expenditure ensures that actual spending is in line with the budget. There are adequate internal control procedures commensurate with the size of the Company and the nature of its business.

(f) Discussion on financial performance with respect to operational performance

The financial statements have been prepared under the historical cost convention, on the basis of a going concern.

(g) Material Developments in Human Resources / Industrial Relations

The Company has had an excellent track record of very cordial industrial relations. This year too, the industrial relations in the Company have been excellent and not a single manday was lost.



COMPLIANCE REPORT ON CORPORATE GOVERNANCE

In compliance with Clause 49 of the Listing Agreement with the Stock Exchanges, the Company hereby provides to the shareholders details of Corporate Governance :

1. Company's Philosophy on Code of Corporate Governance

Your Company believes in providing the highest transparency and ethical values in good Corporate Governance. Your Company's philosophy of Corporate Governance envisages that it is a means to empower the executive management to function in a streamlined and systematic manner in the efficient conduct of the business of the Company while meeting its obligations to the shareholders and other stake holders.

2. Board of Directors

(a) Composition of the Board

The Company's Board consists of five Directors including the Promoter Director. The Executive Chairman and Executive Director receives only the remuneration payable to them and do not have any material pecuniary relationship or transactions with the Company. Excluding the Executive Chairman and Executive Director, the Company has three independent directors, one of whom is a nominee of GIC and the other two have wide experience of Business, Finance, Management in Industry.

(b) Attendance of each Director at Board Meetings and the last Annual General Meeting (AGM)

Six Board Meetings were held during the financial year ended June 30, 2002.

| Sl. No. | Name of the Director | Category of Directorship | No. of Board meetings attended | Attendance at the last AGM held on 24.12.2001 |
|---------|-------------------------|--|--------------------------------|---|
| 1 | Shri. Nrupender Rao | Promoter, Executive Chairman | 6 | Yes |
| 2 | Prof. Laxmi Narain | Independent, Non-executive Director | 6 | Yes |
| 3 | Shri. C. Rangamani | Independent, Non-executive Director, GIC Nominee | 5 | Yes |
| 4 | Shri. P. Bhaskara Rao | Independent, Non-executive Director | 5 | No |
| 5 | Shri. Ch. Anantha Reddy | Non-Promoter, Executive Director | 6 | Yes |

(c) Pecuniary relationship or transactions of the Non-executive Directors vis-à-vis the Company:

The Company's Non-executive Directors do not have any pecuniary relationship or transactions with the Company.

(d) Number of other Boards / Board Committees each Director (being a Director of the Company as at the end of the financial year) is a Director / Chairman

| Sl. No. | Name of the Director | No. of other companies in which Director | No. of Committee Memberships held in other Companies in which member / Chairman |
|---------|-------------------------|--|---|
| 1 | Shri. Nrupender Rao | 4 | Nil |
| 2 | Prof. Laxmi Narain | 2 | 1 |
| 3 | Shri. C. Rangamani | 1 | Nil |
| 4 | Shri. P. Bhaskara Rao | 2 | 2 |
| 5 | Shri. Ch. Anantha Reddy | Nil | Nil |