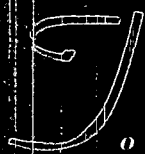


**BSES**  
BSES Limited

## Corporate Mission



*to make available  
uninterrupted & reliable  
power to customers and  
provide value added services  
for the development of the  
power and infrastructure  
sectors.*

As part of its environment consciousness, BSES develops gardens around most of its installations, one of which is portrayed here.



## Cover Theme

*Enriching the ecology.  
Energising the economy.*

## Environment Philosophy

BSES believes in sustainable development. It aims at preservation and promotion of environment with the following basic tenets of its Environment Philosophy :

- ▶ Development of power projects in complete harmony with the environment.
- ▶ Adoption of operational practices for achieving stringent environment norms.
- ▶ Implementation of Environment Policy to encourage enrichment of ecology and community development.

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**R.V. Shahi**  
Chairman &  
Managing Director

**J.P. Thacker**

**N. Ganga Ram**

**Y.P. Gupta**

**Asoke Basak**

**M.P. Modi**

**Ananda Mukerji**  
(Nominee of ICICI)

**S.S. Dua**  
Director (Technical)

**K.H. Mankad**  
Director (Finance)

**Company Secretary**  
Ramesh Shenoy

**Auditors**  
Haribhakti & Co.

**Solicitors**  
Mulla & Mulla &  
Craigie Blunt & Caroe

**Principal Bankers**  
Canara Bank  
UCO Bank  
Union Bank of India  
ANZ Grindlays Bank plc  
Citibank, N.A.  
American Express Bank Ltd.  
HDFC Bank Ltd.  
ICICI Banking Corporation Ltd.  
ABN AMRO Bank N.V.

**Investor Service Centre**  
E-4, MIDC Area, Marol  
Andheri (East), Mumbai 400 093  
Telephone : (022) 8387711  
Facsimile : (022) 8389368  
email : bsesic@bom3.vsnl.net.in

**Audit Committee**  
N. Ganga Ram  
Ananda Mukerji  
K.H. Mankad

**Environment Committee**  
M.P. Modi  
J.P. Thacker  
Y.P. Gupta  
S.S. Dua

**Investment Committee**  
R.V. Shahi  
N. Ganga Ram  
Y.P. Gupta  
S.S. Dua  
K.H. Mankad

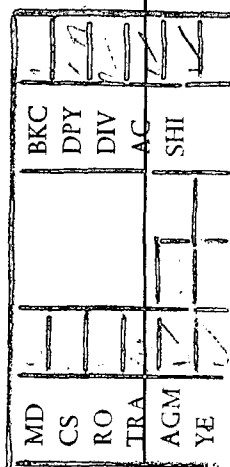
**Compensation Committee**  
R.V. Shahi  
J.P. Thacker  
N. Ganga Ram  
Y.P. Gupta

**Shares Committee**  
R.V. Shahi  
J.P. Thacker  
K.H. Mankad

**Registered Office**  
Nagin Mahal (6th Floor)  
82 Veer Nariman Road  
Mumbai - 400 020

**Corporate Office**  
E-4&7, MIDC Area, Marol  
Andheri (East), Mumbai 400 093  
Telephone : (022) 8327619  
Facsimile : (022) 8387597  
Gram : SUPERPOWER  
email : info@bses.com  
Internet : www.bses.com

**Power Station**  
BSES Nagar  
Dahanu Road  
Thane District 401 602



## Board of Directors



**R.V. Shahi**  
Chairman & Managing Director



**S.S. Dua**  
Director (Technical)



**K.H. Mankad**  
Director (Finance)



**J.P. Thacker**  
Senior Solicitor



**N. Ganga Ram**  
Former Executive Director, IDBI



**M.P. Modi**  
Former Secretary - Coal, Dept.  
of Telecommunication  
Government of India



**Asoke Basak**  
Chairman  
Maharashtra State Electricity  
Board



**Y.P. Gupta**  
Chief Executive  
LIC Housing Finance Limited



**Ananda Mukerji**  
General Manager  
ICICI Limited

## Chairman's Statement



*Dear Shareholders,*

Let me begin by extending to you all a cordial and warm welcome to this 69th Annual General Meeting of your Company. It gives me great pleasure to report that the year under review was yet another outstanding year for the Company, characterised by all round growth and a host of significant achievements.

### The Economy

I will now briefly review the trends in the economy during the year 1997-98. Overall, there was deceleration in economic growth during the year. Agricultural sector recorded a negative growth of 3.7%. Industrial growth also declined from 7.5% in the previous year to 4.2% in 1997-98 (since revised to 6.6% taking into consideration the new base of 1993-94). Consequently, GDP too declined from 6.8% in the previous year to 5.5%. Imports grew at 5.8%, leading to trade deficit of US\$ 6.8 billion. Foreign Direct Investment (FDI) inflow was also not significant.

The emerging economic scenario compounded by the recent imposition of economic sanctions on India is a matter of concern and it needs to be managed with consummate dexterity and maturity. The Government have come out with a growth-oriented Budget. With focus on regaining the tempo and momentum of growth, the Budget places reliance, among other things, on speedier development of the infrastructural sector. In this context, the Government have made policy

pronouncements to ensure that requisite resources are available for infrastructure including power.

### The Power Sector

Although the generation capacity has increased from about 1,200 MW at the time of our Independence to about 89,000 MW now, the additions to the capacity have proved inadequate to meet the growing demand which has consistently outstripped supply. Highly inadequate capacity addition in the Seventh Plan (1993-97) has led to further deterioration with average energy shortage being 10% and peaking shortage over 20%.

The situation has arisen principally because of (a) inability of State Electricity Boards (SEBs), which have a major role to play, to set up additional capacities on account of paucity of internal funds and inability to mobilise resources from external sources and (b) not-so-satisfying success of the Private Power Policy. Both these reasons are attributable to inadequate and unremunerative tariff, including high levels of subsidies, excessive distribution loss and poor realisation of bills. It is, therefore, necessary that appropriate initiative is taken for gradual privatisation of the distribution side of the business. Then alone, larger private investments in generation and transmission projects can be expected. Today, 97% of electricity distribution is managed by the public sector and only 3% of the distribution is in the hands of the

## Chairman's Statement

private sector. I would strongly plead for greater role for the private sector in power distribution. While suggesting that the share of the private sector distribution be raised to about 25% during the next 5 years and to about 40-50% in the next 10 years, I also feel that any exercise of total privatisation of distribution in one go may not succeed. If a number of other distribution agencies are allowed to operate in different parts of the country, the system will lead to benchmarking of service and customers will be conscious of what they should demand and the system will work in an environment which will meet the needs of customers.

The National Agenda of the Government strongly underlines the need to accelerate the pace of development of infrastructure and power sector. The agenda has spelt out the priority that the Government accords to the power sector. With greater focus on the power industry, Chambers of Commerce and representative bodies of the power industry organised a number of conferences on the status and prospects of this sector. I had the privilege of addressing these meets and availed these opportunities for emphasising the need for restructuring the power sector to enable it to function commercially. This would need opening up transmission side and the distribution side of the business to private enterprise. During the next

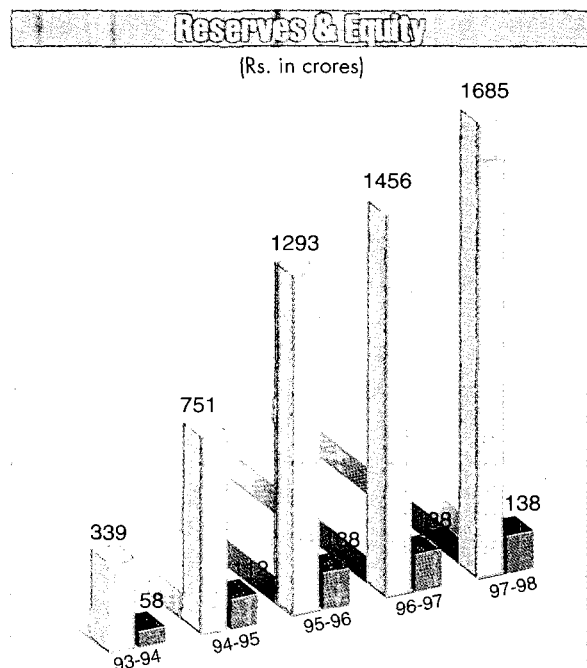
5-10 years, both public sector and private sector have to contribute to expansion and growth of the industry. Private sector role may be less in the beginning and more later with increasing level of confidence about commercialisation of the sector.

The action of the Government of India to constitute an authority to regulate tariff and related matters is a historic decision. The Central Electricity Regulatory Commission (CERC) and the State Electricity Regulatory Commissions (SERCs), envisaged under the Act, passed by the Parliament in June 1998, would be nodal agencies for all tariff related matters. The Act aims at improvement of the financial health of SEBs and at generation of resources for the growth of the industry. State Governments have the option to set up SERCs. Since the Regulatory Commission would hold key to commercialisation of the electricity business, it is expected that States would go in for this Institution sooner than later. Because only such of the States will be able to attract private investment, and may be even funds from Government agencies, as decide to restructure and reform.

### Performance Highlights

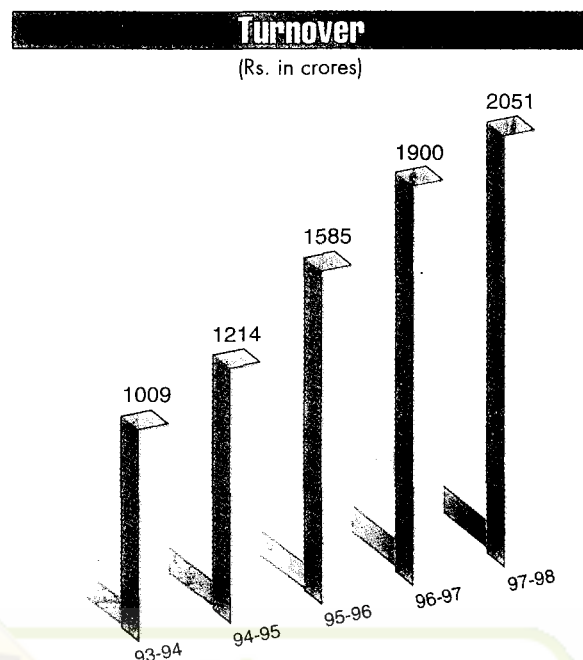
I now proceed to summarise the major accomplishments of the Company during the year 1997-98. These were :

- ◆ Gross assets of the Company rose to Rs.3,508 crores from Rs.3,322 crores in the previous year.
- ◆ Turnover of the Company crossed the Rs.2,000 crore mark at Rs.2,051 crores. The Company more than doubled its turnover in the last 4 years. While it took 65 long years for BSES to reach the milestone of Rs.1,000 crores plus turnover, it took only 4 more years to double it to reach Rs.2,051 crores.
- ◆ Gross Profit (before tax) rose to Rs.297 crores, compared to Rs. 218 crores in 1996-97. Profit after tax also recorded an all time high of Rs.262 crores, a rise of 23% over previous year.
- ◆ Dahanu Power Station achieved an average Plant Load Factor (PLF) of 85% (up from 73% in the previous year) with Plant Availability of over 90%.



## Chairman's Statement

- ◇ PLF achieved by BSES is the highest among all State Electricity Boards and Licensees.
- ◇ Dahanu Power Station further improved upon all the major operating norms like heat rate (2,336 kcal/kg), specific oil consumption (0.5149 ml/kwt) and auxiliary power consumption (8.24%).
- ◇ Distribution loss in the Supply Division declined for the fourth year in succession to 11.6% from 14.9% in 1993-94, 13.9% in 1994-95, 12.5% in 1995-96 and 11.7% in 1996-97.
- ◇ Vigilance efforts in the Supply Division were further stepped up by conducting a record number of about 4,000 raids resulting in detection of pilferage of about 21 million units.
- ◇ Pursuant to the order of the Hon'ble Special Court, the Company received Rs.14 crores in two instalments from the subsidiary of a nationalised bank, against the amount due to the Company.
- ◇ Contracts Division achieved an all-time high in turnover of Rs.89 crores, notching a rise of 15%.
- ◇ Orders on hand with Contracts Division rose sharply from Rs.180 crores to over Rs.519 crores, at the end of the year, signifying substantial growth in business in the coming years.
- ◇ BSES Institute of Power System and Distribution Management conducted over 81 courses on management subjects for upgrading professional skills of executive and managerial personnel.
- ◇ A new Research and Development Centre is now operational with specialised cells for analysing problems and adopting new technology in order to improve the quality of service to our customers.
- ◇ Contracts Division Unit at Silvassa commenced manufacture of 'Elastimold' make cable accessories for XLPE cables, in technical association with Amerace Corporation of U.S.A.
- ◇ Business Development Group in association



with Contracts Division secured a turnkey project contract valued around Rs.155 crores from Dubai Electricity & Water Authority, for setting up two 132 kV sub-stations equipped with Gas Insulated Switchgear at Dubai.

- ◇ 160 MW Power Project at Kochi in Kerala being developed by BSES Kerala Power Ltd. is in advanced stage of construction with first Unit scheduled for commissioning in September 1998.
- ◇ 2.5 million tonne Coal Washery at Korba in Madhya Pradesh being developed by ST-BSES Coal Washeries Ltd is expected to be commissioned in September 1998.
- ◇ Work on 200 MW combined Cycle Power Plant at Samalkot near Kakinada in Andhra Pradesh being developed by BSES Andhra Power Ltd. has commenced.

### Financial Performance

I now turn to some of our significant financial achievements and initiatives.

Notwithstanding the sluggish trends in the economy, your Company recorded all round growth during the year. The turnover of the Company rose from Rs. 1,900 crores to Rs. 2,051

## Chairman's Statement

crores and net profit from Rs. 213 crores to Rs. 262 crores. The Company further improved its earnings per share from Rs. 15.07 to Rs. 18.56.

**Financial Ratios :** The Company has improved on almost all the financial and operating ratios thus reflecting even stronger financial fundamentals. Debt equity ratio at the end of the year stood at 0.57 : 1 and current ratio at 2.51 : 1. While return on net worth rose from 13.29% to 15.88%, return on net fixed assets has gone up from 10.75% to 12.84% in the year under review. Book value of the Company's Equity Share has gone up from Rs.116 to Rs.132 at the end of the financial year. A statement setting out various financial and operating ratios is separately given in the Annual Report for the information of our shareholders.

**Ratings :** Crisil and ICRA have awarded the highest ratings to you Company, both for short term and long term debt servicing.

**Dividend :** In keeping with the progressive track record of your Company, the Board of Directors have recommended a higher equity dividend of 32% for 1997-98. On this basis, the gross outlay on account of dividend inclusive of 10% corporate tax on dividend would be Rs. 48.48 crores. Taking into account the need for conserving internal resources for implementing the Corporate Plan and executing the ongoing and proposed projects,

the Board is of the considered view that the proposed rate of dividend would be in the best interests of the Company and its shareholders alike.

### Operating Performance

It is gratifying to record that all the Divisions of your Company registered further improvement in their performance, establishing new benchmarks in many areas.

**Dahanu Power Station :** The performance of the Dahanu Power Station during the year earned the appreciation of the then Hon'ble Prime Minister, which was conveyed by Secretary (Power), Government of India. During his review of the performance of the Power Stations during 1997-98, Hon'ble Prime Minister expressed satisfaction on the performance of the Power Station which recorded generation much in excess of the target fixed by the Central Electricity Authority (CEA).

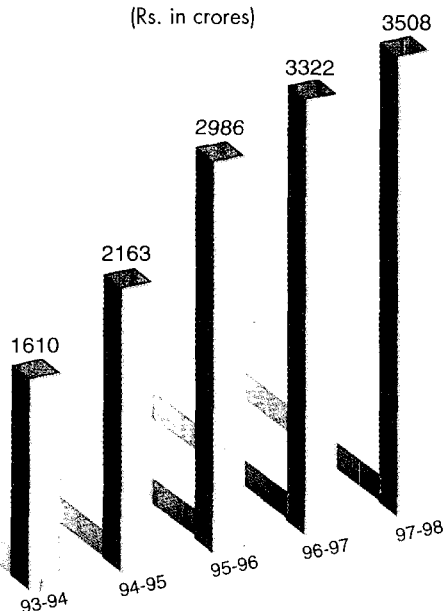
**System Loss Reduction :** The Company continued to make concerted efforts to contain the distribution loss in the power supply system. As a result, the loss declined for the fourth year in succession to 11.6%. The Company could succeed in controlling the loss with a series of measures and effective follow up and monitoring. For this purpose, a record number of meters were checked and defective meters replaced. This apart, the Company could detect a large number of theft cases and recover substantial amounts with co-ordinated efforts of the Supply Division and the Vigilance Department. The Company will continue its efforts to contain the system loss in the coming years.

**Consumer Care :** Coinciding with the celebrations of 50th Year of Independence of the country, the Company is celebrating the one-year period from 15th August, 1997 to 15th August, 1998 as "Consumer Year" to focus attention on and emphasise its commitment to quality of service to consumers. Some of the important steps towards this objective are :

- ◆ The Company organised / instituted consumer meets, workshops on customer focus, suggestion schemes and awards for identifying problems and seeking solutions

### Gross Assets

(Rs. in crores)



## Chairman's Statement

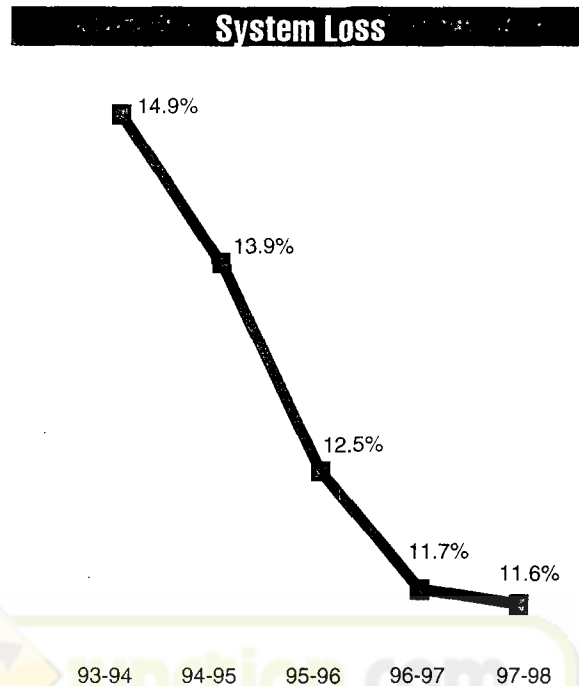


towards rendering efficient service.

- ❖ For the convenience of attending to billing complaints of consumers, on-line computer facilities have been installed at all the Consumer Centres of the Company.
- ❖ A separate centre has also been set up for 'no supply complaints' to attend to and facilitate prompt action for restoration of supply.
- ❖ For easier registration of power failure complaints, a centralised round the clock enquiry exchange has been set up with large number of telephone lines and a common 4 digit number for the entire area of supply.
- ❖ With a view to enhancing supply reliability and improving the voltage profile, a number of sub-stations have been strengthened, new sub-stations commissioned and a large number of capacitors installed.
- ❖ The scheme of 'benchmarking' of services as a part of several measures initiated during the Consumer Year was set in motion by identifying a Consumer Service Centre, making it a model centre and then extending similar facilities to all other consumer centres. The concept of benchmarking has also been extended to other services viz. complaint centres, bill collection centres and to the cell dealing with request for new connections.

**Tariff :** The Company's basic tariff to the consumers remained unchanged during the year. In fact, out of our 18 lakh consumers, the tariff for about 14 lakh consumers has either gone down or remained the same since August 1994.

An important element in tariff fixation is the cross subsidy given to the residential group of consumers. The Company has been able to maintain such cross subsidy by charging a relatively higher tariff to industrial and commercial consumers. With the gradual decline in industrial consumption from 34% in 1993-94 to 25% in 1997-98 and corresponding increase in residential consumption from 48% to 53% during the same period, the scope and the Company's capacity to cross-subsidise the residential group is declining. Any further substantial reduction in industrial and



commercial consumption will leave the Company with no alternative but to make an upward revision of the tariff of residential consumers. It is, therefore, in the larger interest of our consumers that the present pattern of our supply profile of electricity remains undisturbed. It is heartening that Ministry of Energy, Government of Maharashtra has issued instruction that the existing consumers will not be allowed to shift their supplier of electricity as any duplicating of infrastructure, which will require avoidable expenditure of capital, will not be in the long term interest of consumers.

**Rate of Return to Licensees :** There may be a reduction in the rate of return allowed to licensees consequent upon downward revision of the Bank Rate by Reserve Bank of India. The Company as also the representative bodies of the industry have submitted memoranda to the Central Government either to enhance the standard rate of return to ensure that the reasonable return is restored at 17% or delink the standard rate from the Bank Rate and co-relate the return to specified performance norms with incentives aimed at encouraging efficiency in the industry. Under the provisions of the Sixth Schedule to the Electricity (Supply) Act, 1948, the Central Government have the authority

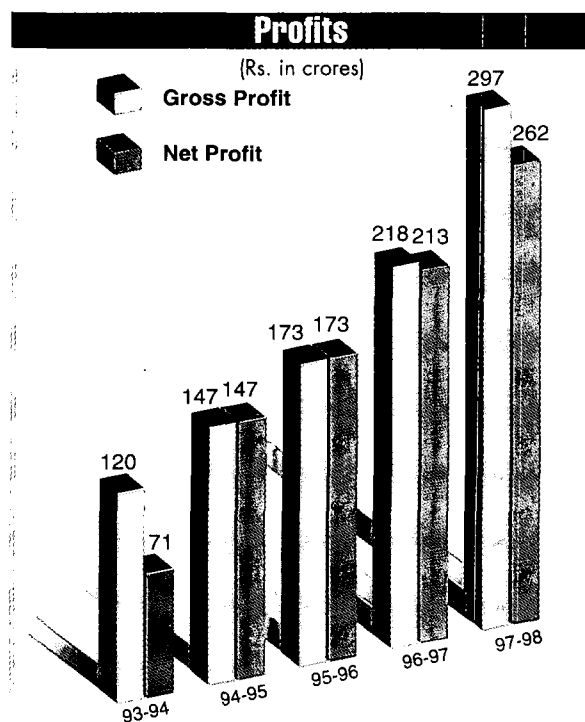
## Chairman's Statement

to change the standard rate, in consultation with the Central Electricity Authority, to ensure that any rise or fall in the Bank Rate does not adversely affect the reasonable rate of return. The Company is hopeful of an early and positive decision from the authorities on this issue.

**Contracts Division :** The Contracts Division achieved an all time high turnover of Rs. 89 crores. During the year, the Division secured new business with outstanding orders of Rs.519 crores at the beginning of the current year. This has been possible due to a shift in strategy. The focus now is more on high value contracts covering small and medium size power projects, transmission and distribution projects rather than traditional small value electrical contracts. Three new Business Groups have been created – EPC Business Group at Delhi to cover EPC contracts for Power projects of clients, EPC Business Group at Mumbai to cover projects of subsidiary companies and International Division to focus on contracts in the Middle East.

### New Projects

The various projects that the Company has taken up in the last couple of years are making progress as briefly outlined below :



► **Palghar Project :** The proposed 495 MW Palghar project to be set up outside the notified area of Dahanu has received consent from the Maharashtra State Pollution Control Board and confirmation from the State Irrigation Department for water availability. The Technical Committee constituted by the State Energy Department has given a positive recommendation and final clearance from the Government of Maharashtra is expected soon. In the meantime, action on engineering, tendering, land acquisition, etc. is in progress.

► **Coal Washery :** The Company's joint venture, ST-BSES Coal Washeries Ltd. has made substantial progress in implementing its 2.5 million tonne per annum Coal Washery at Korba in Bilaspur District of Madhya Pradesh. The project is the first ever power grade Coal Washery developed by a utility in the private sector in India and is expected to be commissioned on schedule in September 1998.

► The 160 MW naphtha based power project at Kōchi in Kerala, being developed by BSES Kerala Power Ltd., is progressing satisfactorily. Work was started in November 1997 and the first Unit is expected to be commissioned in less than a year by September 1998. All the three Units on open cycle will be operational by December 1998 and the Steam Turbine Unit latest by June 1999.

► In Gujarat, a total of 165 MW capacity is planned to be developed. Fuel linkage, water, land procurement, power evacuation, various statutory clearances, EIA study, engineering activities, construction of township, procurement of equipment, PPA for the 57 MW naphtha based combined cycle power project at Dahej are in process. The PPA for the 108 MW power project at Kheralu has been initialled and the Letter of Intent is awaited.

► Based on an international tender for EPC Agency, 20 parties were shortlisted for 250 MW Srimushnam Power Project in Tamil Nadu. Land acquisition, techno-economic clearance, survey work and soil investigation,