

SPEL Semiconductor Limited



SPEL Semiconductor Limited**BOARD OF DIRECTORS**

Dr. P.R. SUNDARAVADIVELU	Chairman
Ar. Rm. ARUN	Vice Chairman
Dr. B.C. SEETHARAMAN	Director
K. SWAMINATHAN	Director
C.N. GANGADARAN	Director
S.R. VIJAYAKAR	Director
R. VENKATESH KUMAR	Director (Finance)

SECRETARY

B. PUSHPARAJ

AUDITORS

M/s. NATARAJAN & CO.,
Chartered Accountants,
Chennai - 600 041.

REGISTERED OFFICE

"SPIC House"
88, Mount Road,
Guindy, Chennai - 600 032.

USA OFFICE

1290 Oakmead Parkway, Suite 111,
Sunnyvale, CA 94085, USA

FACTORY

No.5, C.M.D.A. Industrial Estate,
Maraimalai Nagar (Near Chennai) - 603 209.

BANKERS

State Bank of Hyderabad
Canara Bank
Allahabad Bank

**REGISTRAR AND
SHARE TRANSFER AGENTS**

M/s. Cameo Corporate Services Ltd.,
"Subramanian Building",
1, Club House Road,
Chennai - 600 002.
Tel : (044) 8460390 (5 Lines)
Fax : (044) 8460129

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NOTICE TO SHAREHOLDERS

NOTICE is hereby given that the SIXTEENTH ANNUAL GENERAL MEETING of the Members of SPEL Semiconductor Limited will be held at 3.00 P.M. on Monday, September 10, 2001 at 'Sathguru Gnanananda Hall', No.314, T T K Road, Alwarpet, Chennai 600 018 to transact the following Business:

ORDINARY BUSINESS

1. To receive, consider and adopt the audited Balance Sheet of the Company as at March 31, 2001 and the Profit and Loss Account for the year ended on that date and the Reports of the Directors and Auditors.
2. To elect a Director in the place of Mr S R Vijayakar, who retires by rotation and being eligible, offers himself for re-election.
3. To consider and if thought fit, to pass, with or without modifications, the following resolution as an ORDINARY RESOLUTION:
 "RESOLVED THAT M/s. Natarajan & Co., Chartered Accountants, the retiring Auditors, be and are hereby re-appointed as the Auditors of the Company to hold Office until the conclusion of the Seventeenth Annual General Meeting on such remuneration as may be decided by the Board of Directors in addition to reimbursement of out of pocket expenses."

SPECIAL BUSINESS

4. To consider and if thought fit, to pass, with or without modifications, the following resolution as an ORDINARY RESOLUTION:
 "RESOLVED THAT Mr R Venkatesh Kumar whose period of Office as an Additional Director of the Company expires at this Annual General Meeting be and is hereby appointed as a Director of the Company."
5. To consider and if thought fit, to pass, with or without modifications, the following resolution as a SPECIAL RESOLUTION:
 "RESOLVED THAT subject to the approval of the financial institutions, sanction of the Company be and is hereby accorded in terms of sections 198,

269, 309, 314 and all other applicable provisions, if any, of the Companies Act, 1956 read with Schedule XIII to the Companies Act, 1956 (including any amendment to or re-enactment thereof), for the appointment of Mr R Venkatesh Kumar, as a Whole-time Director, designated as Director (Finance), for a period of five years with effect from May 14, 2001 to May 13, 2006 on the following terms and conditions as to remuneration and as per the terms of the agreement to be entered into between the Company and Mr R Venkatesh Kumar, the draft of which has been approved by the Board of Directors at their meeting held on April 09, 2001:

Remuneration:**1. Salary:**

Rs.20,000/- (Rupees twenty thousand only) per month

2. Special Allowance:

Rs.1,000/- (Rupees one thousand only) per month

3. Perquisites:

Perquisites shall be allowed in addition to both salary and special allowance. However, it shall be restricted to an amount equal to the annual salary.

Perquisites are presently classified as follows:

(i) Housing/House Rent Allowance:

The expenditure incurred by the Company will be subject to a ceiling of 40% of the salary.

(ii) Gas, Electricity, Water and Furnishing:

As per the Rules of the Company. The expenditure incurred by the Company on gas, electricity, water and furnishing shall be valued as per the Income-tax Rules, 1962.

(iii) Medical reimbursement:

Expenses incurred for the appointee and his family as per the Rules of the Company.

(iv) Leave and Leave Travel Concession:

Leave including encashment of leave as per the Rules of the Company. Leave travel concession,

once in two years as per the Rules of the Company.

(v) Personal Accident Insurance and Group Insurance:

Personal accident insurance and group insurance as per the Rules of the Company.

(vi) Educational allowance:

As per the Rules of the Company.

The individual ceilings under each of the above heads can be refixed so as not to exceed the limit of annual salary.

For the purpose of calculating the above ceiling, perquisites will be evaluated as per Income-tax Rules, wherever applicable. In the absence of any such rule, perquisites shall be evaluated at actual cost.

4. Other payments and provisions which shall not be included in the computation of ceiling on remuneration:

(i) Contribution towards Provident Fund:

Contribution towards Provident Fund will be subject to a ceiling of 12.5% of the salary. Contribution to Provident Fund, to the extent of limit prescribed under Income-tax Act/Rules, 1962 or notification issued thereunder from time to time will not be included in the computation of the ceiling on perquisites to the extent it is not taxable under the Income-tax Act/Rules/Notification.

(ii) Gratuity:

Gratuity payable shall not exceed one half month's salary for each completed year of service.

(iii) Telephone:

Provision of telephone at residence as per the Rules of the Company.

(iv) Reimbursement of expenses:

Reimbursement of travelling/conveyance expenses actually and properly incurred for the business of the Company subject to a reasonable ceiling as may be fixed from time to time by the Company."

Minimum Remuneration:

In the event of loss, absence or inadequacy of profits, in any financial year during the currency of tenure of Mr R Venkatesh Kumar, the remuneration aforesaid shall be the minimum remuneration payable to him. However, any excess over the limits on minimum remuneration prescribed under the Companies Act, 1956 read with Schedule XIII to the Companies Act, 1956 shall be payable to Mr R Venkatesh Kumar, with the approval of the Central Government, if so required."

"RESOLVED FURTHER THAT the Board of Directors of the Company be and are hereby authorised to amend/alter/modify the agreement, referred to above, in terms of the aforesaid approval and as may be agreeable to Mr R Venkatesh Kumar."

6. To consider and if thought fit, to pass, with or without modifications, the following resolution as a SPECIAL RESOLUTION:

"RESOLVED THAT pursuant to section 31 and other applicable provisions, if any of the Companies Act, 1956 and also subject to other approvals as may be necessary from the appropriate authorities or bodies, the existing Article 90(a) of the Articles of Association of the Company be and is hereby altered as under with effect from August 30, 2000:

Article 90(a)

The Board of Directors may from time to time elect one of their body to be the Chairman of the Board of Directors, one as the Vice Chairman of the Board and one as the Managing Director."

(By order of the Board)
for SPEL Semiconductor Limited

Place: Chennai
Date: August 3, 2001

B. PUSHPARAJ
Secretary

NOTES:

1. A Member entitled to attend and vote at the Meeting is entitled to appoint a Proxy to attend and on a poll, to vote instead of himself/herself and the Proxy need not be a Member of the Company. The instrument appointing the Proxy to be valid shall be deposited at the Registered Office of the Company not later than 48 hours before the time fixed for holding the Meeting.
2. Explanatory Statement of material facts pursuant to Article 65 of the Articles of Association read with Section 173(2) of the Companies Act, 1956 for item Nos.4 to 6 of the Notice is annexed hereto.
3. The Register of Members and the Share Transfer Books of the Company will remain closed from September 06, 2001 to September 10, 2001 (both days inclusive).
4. For shares held in physical form, any change in address may be intimated immediately to the Company/Share Transfer Agent by quoting the Folio Number(s). For shares held in demat form, change in address may be intimated directly to the members' D P.
5. Members/Proxies are requested to bring the Attendance slip sent with the Annual Report duly filled-in for attending the Meeting. Members who hold shares in the dematerialised form are requested to indicate their DP ID and Client ID Numbers in the Attendance slip.
6. The Company's Equity shares are listed at Chennai and Mumbai Stock Exchanges and annual listing fees have been paid to the said Exchanges in time.
7. Investors may simultaneously opt for dematerialisation at the time of lodging their shares for transfer. For further details, Investors may write to the Company/Share Transfer Agent.
8. Members are requested to consolidate multiple share certificates/multiple folios into one share certificate/one folio to save on the cost of dematerialising their shareholdings.
9. Members holding shares in physical form can avail of the nomination facility. For further details, Members may write to the Company/Share Transfer Agent.
10. All documents referred to in the accompanying Notice and the Explanatory Statement are available for inspection by the members at the Registered Office of the Company on all working days, between 11.00 A.M. and 1.00 P.M. prior to the date of the Meeting.

ANNEXURE TO NOTICE EXPLANATORY STATEMENT

(Pursuant to Article 65 of the Articles of Association of the Company read with Section 173(2) of the Companies Act, 1956)

The following Explanatory Statement sets out the material facts referred to in Item Nos. 4 to 6 of the accompanying Notice convening the Sixteenth Annual General Meeting of the Company.

ITEM NO. 4

Mr R Venkatesh Kumar was co-opted as an Additional Director of the Company by the Board of Directors at its Meeting held on April 09, 2001. As per the provisions of Section 260 of the Companies Act, 1956 read with Article 94 of the Articles of Association of the Company, Mr R Venkatesh Kumar will hold Office of the Director only up to this Annual General Meeting. Being eligible, Mr R Venkatesh Kumar has offered himself for election as a Director of the Company by a written notice under Section 257 of the Companies Act, 1956 and has deposited Rs.500/- as required under that Section.

Mr R Venkatesh Kumar, is a Chartered Accountant with about 25 years post qualification experience in various capacities in reputed companies in India and abroad. He joined the Company as Deputy General Manager (Finance) on deputation from SPIC in November 2000.

The Board recommends the resolution for the approval of the Members.

MEMORANDUM OF INTEREST:

Except Mr R Venkatesh Kumar, none of the Directors of the Company is interested in this resolution.

ITEM NO. 5

The Board of Directors of the Company at its Meeting held on April 09, 2001 appointed Mr R Venkatesh

Kumar as a Whole-time Director, designated as Director (Finance), for a period of five years with effect from May 14, 2001 to May 13, 2006 on the terms and conditions as mentioned under Item No.5 of the Notice. An Agreement will be entered into between the Company and Mr R Venkatesh Kumar in this regard. Members' approval, by way of a Special Resolution is required for the aforesaid appointment.

The Board recommends the resolution for the approval of the Members.

MEMORANDUM OF INTEREST:

Except Mr R Venkatesh Kumar, none of the Directors of the Company is interested in this resolution.

ITEM NO.6

The Board of Directors of the Company at its Meeting held on August 30, 2000 appointed Mr Ar Rm Arun, Director as Vice Chairman of the Board of the Company. Since the Articles of Association of the Company has no provision for the Office of Vice Chairman, it is necessary to alter the Articles suitably, with effect from August 30, 2000. In terms of Section 31 of the Companies Act, 1956, a Special Resolution is necessary for alteration of the Articles of Association of the Company.

The Board recommends the resolution for the approval of the Members.

MEMORANDUM OF INTEREST

Except Mr Ar Rm Arun, none of the Directors of the Company is interested in this resolution.

(By order of the Board)
for SPEL Semiconductor Limited

Place: Chennai

Date: August 3, 2001

B. PUSHPARAJ

Secretary

DIRECTORS' REPORT

Your Directors herewith present the Sixteenth Annual Report along with the audited accounts for the year ended March 31, 2001.

The Semiconductor Industry currently slogs through one of its **ever steepest and sharpest downturns**. *"Industry still mired in slowdown", "Forecast still grim", "Tech outlook is sluggish", "Chip market to decline", "Hopes of rebound sink"* are some of the captions that have captured the U.S.A economy slowdown and its impact during the year under review. It is not only an inventory overstock situation but also a reduced Customer demand that is the cause for this recession. This reduced demand had driven "stop spending" by Telecommunication Companies, Internet Service Providers, Cell Phone and Personal Computer Manufacturers

Your Company as a 100% EOU with primarily a U.S.A Customer base has had to share the impact of this plummeted manufacturing activity. This has resulted in a 45% reduction in sales volume and a 50% reduction in net sales revenue as compared to the previous year.

Things will get worse before they get better is the belief the Semiconductor Industry currently seems to be in during the flat portion of U-shaped curve. Your Company could not therefore become an exception and has in fact performed better against the tide of the U.S.A economy slide. It is predicted that the Semiconductor Industry will return to growth in Year 2002 expanding by 14% to US\$201 billion.

In spite of the above, Your Company has sustained well, due to its size of operation compared to many international SUBCONS that have had to take punitive measures for sustenance. In line with the industry growth predictions, Your Company has invested in Assembly & Test equipment to handle new packages and improve on its IC Characterization & IC Test Development value added services. Your Company had earned 5 to 6% of net sales revenue from this SOFTEX value added service. Potential in this business is being further harnessed with investments in new test platforms and training to manpower.

Your Company has been taking cost cutting measures on all fronts. One of the major measures undertaken was the shifting of the administrative work force from the city office to the factory site. This has resulted in substantial savings to Your Company.

A significant effort is being spent on transitioning Your Company from being a single Customer company it was earlier towards becoming a multi-Customer company. This ensures that the dependence on any one Customer is absent and hence ensures better stability of the business. As a result of this effort, Your Company has secured four new Customers and a few other Customers have started (and in some cases completed) qualifying our products. The fruits of this qualification will be seen soon. Business associations to assemble high pin-count packages for some of the "more stable" Silicon Valley companies are also being vigorously pursued. Your Company is confident that these pro-active measures will increase the Customer base and help tide over the current crisis.

The entire Organization structure has also been revised to improve the efficiency and performance. GEMBA KAIZEN techniques are being adopted to bring about people involvement in improving Quality, Cost, Delivery and Service of Your Company's manufacturing operations.

Your Company has in the past experienced difficulties in regulating the high attrition rate of Engineers, especially in the wake of liberalization and globalization. In order to retain people and minimize exodus, Your Company carried out a study on compensation bench marking by an external agency and has implemented their recommendations. With the result, the Employees have been motivated considerably. Even a few Employees who left the Company for services abroad have since returned.

Your Company is also in the process of re-structuring the term loans from the Financial Institutions in order to provide better operating comfort. ICICI, the major loaner, has agreed for the restructuring and the other Financial Institutions are also expected to finalize the restructuring shortly.

Your Company had obtained "GREEN CHANNEL" export facility at Chennai Air-Customs and

consequently improved its Cycle Time in delivery of worldwide drop shipments.

Operating Results

The operating results of Your Company for the year ended March 31, 2001 is given below :

	(Rs. In lakhs)	
	Year ended March 31, 2001	Year ended March 31, 2000
Net Sales Value	2769	5531
Other Income	39	54
Profit before		
Depreciation & Interest	161	638
Interest	235	242
Operating Profit / (Loss)	(74)	396
Depreciation	180	174
Profit / (Loss) before tax	(254)	222

Marketing

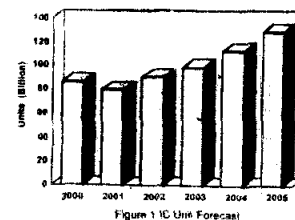
In the past, an absence of its own marketing office in the U.S.A. had affected Your Company towards establishing new Customers. Realizing this, it was decided to open a liaison office in the U.S.A. during FY Q1 2000. The results of this can be seen in terms of the new Customers who are now coming to Your Company. Your Company has also been working with several major Silicon Valley based Customers for the last few months. A good number of these Customers are in the process of Product Qualifications with Your Company. With the new marketing activities, we are confident that a good number of the Customers will start production activities by the end of the calendar year.

Your Company's U.S.A. marketing office has also helped significantly in providing timely Customer Service to Your Company's existing Customers. This has ensured that Your Company's Customers are happy to be dealing with Your Company.

Future Plans

The year 1999-2000 was a very good year for the Semiconductor Industry. Unfortunately we cannot say the same thing about the current year. However, the forecast through the year 2005 looks very promising. Given below is the Worldwide IC Packaging Market

Trend and Forecast published by Electronic Trend Publications, San Jose, California.

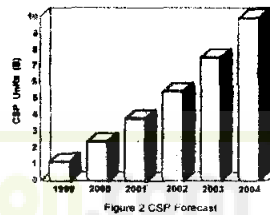


As shown in Figure 1, the IC industry is predicted to grow from a total of 86 billion units in 2000 to 129 billion units in 2005. In its entirety, this is a compound annual growth rate of 8.3 percent.

With ongoing marketing efforts, Your Company will be in position to capitalize on the growing market.

Your Company currently offers products that are widely used in the industry for several years. While these are still in demand, the industry has also been developing and using new and advanced products to meet the ever increasing sophisticated demands. In order for Your Company to be a key player in the market place, it is required to be at par with competitors by adding these new and advanced products to the existing portfolio.

One such product that is catching on quickly is Chip Scale Packages or better known as CSP. As per the Advanced IC Packaging Markets and Trends published by Electronic Trend Publications, CSP volume will grow from 1.2 billion units in 1999 to 9.9 billion units in 2004, as shown in the below figure.



Your Company is currently working with some of its existing Customers to have the CSP capability developed and thus be more competitive in the global market.