

SPEL Semiconductor Limited

17th Annual Report

2001 - 2002



for a Brighter Future



SPEL Semiconductor Limited

BOARD OF DIRECTORS

Dr. A.C. MUTHIAH	Chairman
Ar Rm ARUN	Vice Chairman
S.R. VIJAYAKAR	Director
C.N. GANGADARAN	Director
M.G. THIRUNAVUKKARASU	Director
R. VENKATESH KUMAR	Finance Director

SECRETARY

B. PUSHPARAJ

AUDITORS

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

REGISTERED OFFICE

SPIC House, 88 Mount Road,
Guindy, Chennai 600 032, India.

USA OFFICE

1673 Mabury Road,
San Jose, CA 95133.

FACTORY

5 CMDA Industrial Estate,
MM Nagar (Near Chennai) 603 209, India.

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
E-mail : cameosys@satyam.net.in

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NOTICE TO SHAREHOLDERS

NOTICE is hereby given that the SEVENTEENTH ANNUAL GENERAL MEETING of the Members of SPEL Semiconductor Limited will be held at 3.00 P.M. on Monday, July 29, 2002, at Sathguru Gnananda 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, 2002 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. Ar Rm Arun, who retires by rotation and being eligible, offers himself for re-election.
3. To elect a Director in the place of Mr. C.N. Gangadaran, who retires by rotation and being eligible, offers himself for re-election.
4. 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 Eighteenth 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

5. To consider and if thought fit, to pass with or without modifications, the following Resolution as an ORDINARY RESOLUTION :

"RESOLVED THAT Dr. A.C. Muthiah, whose period of office shall not be liable to determination by retirement of Directors by rotation, be and is hereby appointed a Director of the Company."

6. To consider and if thought fit, to pass with or without modifications, the following Resolution as an ORDINARY RESOLUTION :

"RESOLVED THAT Mr. M.G.Thirunavukkarasu, whose period of office shall be liable to determination by retirement of Directors by rotation, be and is hereby appointed a Director of the Company."

7. 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 subject to such consents, permissions and sanctions as may be necessary from the appropriate authorities or bodies, the Articles of Association of the Company be and is hereby altered as follows :

To insert the following Article after existing Article 75 and to be named as 75A:

"Article 75A - Notwithstanding anything contained in the Articles of Association of the

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Company, the Company do adopt the mode of passing a resolution by the members of the Company by means of a postal ballot and/or other ways as may be prescribed by the Central Government in this behalf in respect of the following matters instead of transacting such business in a general meeting of the Company:

Resolutions relating to such business as the Central Government may by notification, declare to be conducted only by postal ballot.

The Company shall comply with the procedure for such postal ballot and/or other ways as may be prescribed by the Central Government in this regard."

(By order of the Board)
for SPEL Semiconductor Limited

Place : Chennai

Date : June 11, 2002

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 a 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&5 of the Notice is annexed hereto.
3. The Register of Members and the Share Transfer Books of the Company will remain closed from July 25, 2002 to July 29, 2002 (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 share held in demat form, change in address may be intimated directly to the members' DP.
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 dematerialized 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 certificate/multiple folios into one share certificate/one folio to save on the cost of dematerializing 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 it 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 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. 5 to 7 of the accompanying Notice convening the Seventeenth Annual General Meeting of the Company.

ITEM No. 5

DR. A.C. Muthiah was co-opted as an Additional Director of the Company by the Board of Directors at its Meeting held on April 3, 2002. As per the provisions of Section 260 of the Companies Act 1956, read with Article 94 of the Articles of Association of the Company, Dr.A.C. Muthiah will hold office upto the date of this Annual General Meeting and being eligible, he has offered himself for election as a Director of the Company. A written notice has been received from a Member of the Company pursuant to Section 257 of the Companies Act, 1956, together with requisite deposit notifying his intention to propose the appointment of Dr. A.C. Muthiah as a Director of the Company.

Dr. Muthiah completed his Bachelors degree in Engineering from the University of Madras and subsequently did his Management Studies at the University of Detroit. The Anna University, which is one of the internationally renowned Engineering Universities in India conferred on Dr. Muthiah a honorary Doctorate Degree in Science. Dr. Muthiah is connected with several leading industries both in India and abroad in various capacities such as Chairman, President, Vice Chairman and Director. He heads the \$ 650 million Southern Petrochemical Industries Corporation Limited (SPIC), which is one

among the largest industrial conglomerates in the country, with diversified activities in various fields.

Dr. Muthiah is a Member of the Indian Prime Minister's Advisory Council on Trade & Industry. He is currently the Senior Vice President of the Federation of Indian Chamber of Commerce and Industry (FICCI) and is also the President of the Indian Council of Arbitration. Dr. Muthiah is the Honorary Consul of Belgium for Southern India. Dr. Muthiah is connected with a number of Educational, Cultural & Sports Organisations.

The Board commends the election of Dr. A.C. Muthiah, for the approval of the Members.

MEMORANDUM OF INTEREST

Except Dr. A.C. Muthiah, none of the Directors of the Company is interested in this resolution.

ITEM No. 6

Mr. M.G. Thirunavukkarasu, was co-opted as an Additional Director of the Company by the Board of Directors at its Meeting held on Oct 24, 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. M.G. Thirunavukkarasu, will hold office upto the date of this Annual General Meeting and being eligible, he has offered himself for election as a Director of the Company by written notice pursuant to Section 257 of the Companies Act, 1956, together with deposit as required under that Section.

Mr. M.G. Thirunavukkarasu, is an ACA, AICWA, ACS having rich experience in various fields of finance. He is the Finance Director of SPIC Limited and Director of various other companies of diverse activities.

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The Board commends the election of Mr. M.G. Thirunavukkarasu, for the approval of the Members.

MEMORANDUM OF INTEREST

Except Mr. M.G. Thirunavukkarasu, none of the Directors of the Company is interested in this resolution.

Item No.7

Consequent to amendment to the Companies Act, 1956 giving shareholders of public listed companies a right to vote through postal ballot system, the Articles of Association of the Company need to be amended as proposed in the resolution to be in line with the provisions of the Companies Act, 1956.

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

MEMORANDUM OF INTEREST

None of the Directors of the Company is interested in this resolution.

By order of the Board
for SPEL Semiconductor Limited

Place : Chennai
Date : June 11, 2002

B. PUSHPARAJ
Secretary

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DIRECTORS' REPORT

Your Directors herewith present the Seventeenth Annual Report along with the audited accounts for the year ended March 31, 2002.

Dear Members, if you think there is a growing sign of sickness even among well established organizations due to globalization and intense competition, then Your Company has been an exception. In order to share the Management's view on the Business Environment, Challenges & Opportunities and to analyze the Company's Performance, the Management Discussion and Analysis Report is presented below :

Environment

During the year, the industrial growth in many sectors has slackened and the demand is not keeping pace with production. If we think of business environment in the year 2001-02, what flashes in our mind is the global IT slow down, September 11 Black day, Pink slips and recession in US economy. Your Company engaged in the assembly and testing of Integrated Circuits and catering entirely to the US market has been affected by the US slow down. The year 2001 has been the worst-ever with 32% drop in semiconductor business according to the World Semiconductor Trade Statistics Inc. The global semiconductor industry was battered by last year's Information Technology slump which saw a retreat in demand for traditionally high-growth products such as Personal Computers & Cell Phones. This drop was magnified by several folds as the industry had increased capacity across the board to cater to the boom years of the late nineties. The industry also felt severe price drop last year as the supply exceeded the demand.

In spite of this business scenario, Your Company has performed well with a reasonable growth. Export of Integrated Circuits (ICs) increased by 34% in volume from 21 million in the year 2000-01 to 28.25 million in the year 2001-02. Sales revenue

was Rs. 35.95 Crores as against Rs.27.69 Crores of previous year with a growth of 30%. Certainly a true positive performance against all odds ! Your Company's ability to supply quality products at low cost with fast turn around time along with aggressive marketing in the US has played a key role in staying ahead of the competitors.

Opportunities & Threats

Industry analysts are predicting a 2.3% growth for the year 2002. This, as we can see is not anywhere close to the growth rate in the boom years. It is comforting to know that we have seen the worst of it and the only place to go is up. Your Company had successfully qualified for supply of products during the year to four new Customers. Opportunity for SPEL lies in consolidating its business with these new Customers and enhancing its product base with its existing Customers. SPEL's advantages are its pool of well-educated technical talent and strong orientation towards constantly enhancing its Customer satisfaction. Testimony to this fact is the ISO 9001:2000 Certificate of Approval awarded by BVQI in March 2002, that concentrates more on Customer satisfaction.

Your Company is the only IC assembly and test sub-contractor in India competing with SUBCON in China, Korea, Malaysia, Indonesia, Taiwan and Philippines. Government incentives in these countries have far reaching impact in the performance of a SUBCON as compared to Your Company. This industry needs 24 hours & 7 days customs clearance, uninterrupted power & water supplies and a better communication system. Recent Government initiative to double the KVA demand charges for power with a negligible 20 paise per unit reduction in power tariff will have its impact on Your Company's manufacturing costs. Retention and development of knowledge based human resource for the growth of the organization will have significant impact on wages & salaries. Your Company with its Process Approach Quality Management System will remain ahead of competition and sustain growth.

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Product-wise Performance

Your Company is serving the logic product group in the IC market. These products are part of the growing market for personal computers, flat screen LCD and telecommunications in developing countries such as India, China, Indonesia, Malaysia etc. Your Company will have assured growth with its participation in these market segments through some of its well-known Customers.

Outlook

Your Company has just gained reputation of catering to "creme de la creme" of the semiconductor industry with addition of a few well-known semiconductor companies to its Customer list. This resulted in higher production and export sales of QSOP & VSOP high pin count value added ICs to the tune of 13.11 million ICs constituting 46% of sales volume during 2001-02. A new 8 pin single in-line IC Package (8 SIP) was developed and supplied to a new Customer. Your Company's investments in the TMT tester platform gave the opportunity to supply products to Customers as "Assembly + Test" with value addition. Software exports on IC product characterization with deployment of Engineers for Onsite and Offshore development projects is expected to improve the bottom line of Your Company's performance during coming years. With the increase in the number of Customers and packages handled, substantial growth in the volumes and revenues are expected for Your Company. Plans for adding new and advanced products to the existing portfolio in the future years are also in place.

Risks & Concerns

The SUBCON business depends on the market demand for its OEM Customers products. Customers will have the option of loading more than one SUBCON to meet their requirement. Keeping pace with technological advancements, continual improvement in process, cost cutting measures pruning overhead expenditure and reduction in input raw materials, elimination of waste through GEMBA

KAIZEN techniques and total people involvement will make Your Company stay with the Customers it has served till date. Efforts to increase Customer base with focused marketing on qualifying SPEL supplies to potential Customers during the year will result in volume growth and revenue. Your Company does not anticipate major risks or concerns.

Financial Review

The operating results of Your Company for the year ended March 31, 2002 is as given below:

	(Rs. in lakhs)	
	Year ended	Year ended
	March 31, 2002	March 31, 2001
Sales Value	3595	2769
Other Income	29	39
Deferred Tax	53	
Profit before depreciation and interest	230	161
Interest	202	235
Operating Profit / (Loss)	28	(74)
Depreciation	186	180
Profit / (Loss)	(158)	(254)

Your Company has achieved a marginal operating profit of Rs.28 lakhs as against an operating loss Rs.74 lakhs in the previous year. The net loss for the year is Rs.158 lakhs as against the net loss of Rs.254 lakhs in the previous year. During the year the interest expenditure has come down due to the lower interest rate on the Institutional loans. A deferred tax credit of Rs.170 lakhs relating to the earlier years has been taken by the Company and is not included in the above.

Internal Controls Systems and Adequacy

Your Company has adequate internal control systems commensurate with the size and the nature of operations. The coverage of the internal audit function and the review by the Audit