SPEL®

SPEL Semiconductor Limited

an IC Assembly & Test Company

26th Annual Report 2010 - 11

SPEL Semiconductor Limited

Board of Directors	1. Dr. A. C. Muthiah	Chairman
	2. Mr. Ar Rm Arun	Vice Chairman
	3. Mr. S. R. Vijayakar	Director
	4. Dr. A. Besant C Raj	Director
	5. Dr. T. S. Vijayaraghavan	Director
	6. Mr. Ashwin C Muthiah	Director
	7. Mr. N. Sivashanmugam	Whole Time Director
Chief Executive Officer	Mr. D. Balakrishnan	
Head Corporate Affairs & Company Secretary	Mr. S. S. Arunachalam	
Auditors	Natarajan & Co., 2/342 II Street, Kandaswamy Nagar, Palavakkam, Chennai 600 041.	
Registered Office & Factory	5 CMDA Industrial Estate, MM Nagar (Chennai) 603 209, India.	
US Office	3120 De La Cruz Blvd., Suite # 107, Santa Clara, CA 95054, USA	
Bankers	1. Indian Overseas Bank 2. Allahabad Bank	
Registrar & Share Transfer Agents	Cameo Corporate Services Limited, Subramanian Building, V Floor, 1 Club House Road, Chennai 600 002. Tel : (044) 2846 0390 Fax : (044) 2846 0129	

Vision

*To Be the **Natural Destination** for Global Customers Seeking*

Cost-Effective Offshore Turnkey IC Assembly & Test Services

Mission

SPEL Semiconductor Limited, an IC Assembly &
Test Subcontractor for over 20 years, works as one team
to achieve Zero defect, Just-in-time, Cost-effective solutions
with Service that is uncompromised

SPEL's Partners – Customers, Suppliers,
Employees & Shareholders are confident in the
knowledge that we are consistently meeting and
exceeding their expectations

Quality Policy

Consistently provide products and services that will exceed
the quality expectations of our Customers

Implement process improvement programs, which will enable each
*Employee to do their job, **right the first time***

Work towards continual quality improvement through
training and teamwork

Environment Policy

SPEL Semiconductor Limited is a leading Semiconductor Assembly & Test facility providing high quality Integrated Circuits Packaging solutions and has the following policy for environmental care

Nurture the nature by complying with accepted environmental practices in all our activities, with the following guiding objectives

Gearing up for continual improvement with our Environmental Management System and reviewing it periodically

Respecting and being committed to meet and exceed legal and other requirements

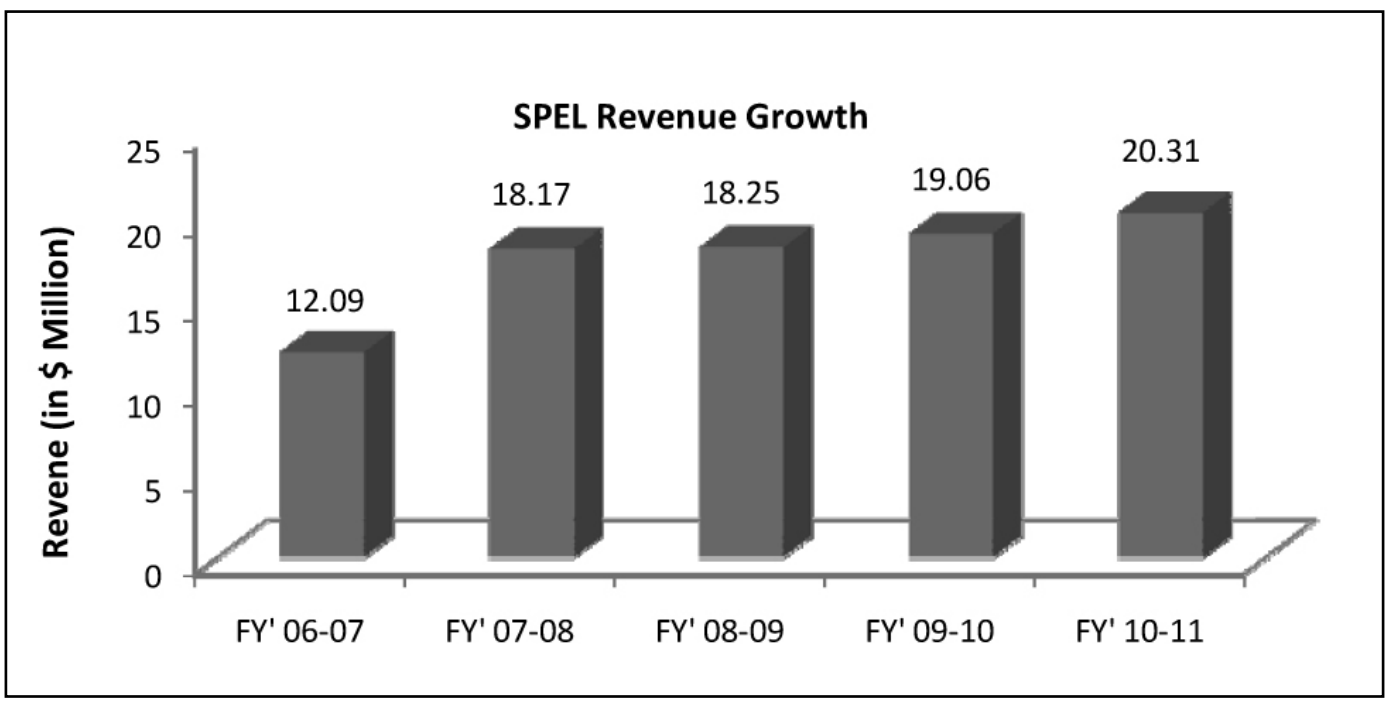
Emphasizing the minimization of significant impacts, wastes and pollution prevention

Enhancing the environmental performance by resource conservation, awareness through training and by reducing, recycling and reusing waste and packing

Notifying this policy to all Stakeholders

Previous 5 years performance (Rs. in lakhs)

	2010-11	2009-10	2008-09	2007-08	2006-07
Sales	9133.01	8716.00	8100.26	7281.33	5399.67
Operating Profit	1828.28	1962.55	2115.28	1977.77	1208.66
PBIDT	1828.28	1962.55	2115.28	1977.77	1208.66
Interest	173.25	214.57	323.98	278.96	145.77
PBDT	1655.03	1747.98	1791.30	1698.81	1062.89
Depreciation	881.34	818.45	830.45	606.71	426.23
PBT and prior period items	773.69	929.53	960.85	1092.10	636.66
Tax / Deferred Tax	320.71	318.69	337.31	361.03	245.48
PAT	452.98	610.84	623.54	731.07	391.18
Net Profit	452.98	610.84	623.54	731.07	391.18



Contents

Sl. No.	Description	Page
1.	Notice of 26th Annual General Meeting	6
2.	Directors' Report	8
3.	Management Discussion & Analysis	12
4.	Report on Corporate Governance	16
5.	Report of the Auditors	23
6.	Balance Sheet	26
7.	Profit & Loss Account	27
8.	Schedules	28
9.	Notes on Accounts	33
10.	Abstract of Balance Sheet & Business Profile	40
11.	Cash Flow Statement	41
12.	Statement Regarding Details of the Subsidiary Company	43
13.	Consolidated Financial Statements	44

Notice to Members

Notice is hereby given that the 26th Annual General Meeting of the Members of SPEL Semiconductor Limited will be held at 2.30 pm on Wednesday Jul 27, 2011, at the Registered office of the Company No. 5 CMDA Industrial Estate, Maraimalai Nagar 603 209 to transact the following Business :

Ordinary Business

1. To receive, consider and adopt the audited Balance Sheet of the Company as at Mar 31, 2011 and the Profit and Loss Account for the year ended on that date and the Reports of the Directors and Auditors thereon.

2. To elect a Director in the place of Mr. S. R. Vijayakar, Director who retires by rotation and being eligible, offers himself for re-election.

3. To elect a Director in the place of Dr. A. Besant C Raj, Director 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 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 27th Annual General Meeting on a remuneration of Rs.1,50,000/- including out of pocket expenses."

Special Business

5. **To consider extension of term of office and payment of revised remuneration to Mr. N. Sivashanmugam, Whole Time Director.**

   To consider and if thought fit, to pass, with or without modification, the following resolution as a Special Resolution :

   "Resolved that pursuant to the provisions of Sections 198, 269, 309 and other applicable provisions, if any, read with Schedule XIII of the Companies Act, 1956, including any statutory modification(s) or re-enactment(s) thereof, for the time being in force, subject to the Shareholders approval, the term of office of Mr. N. Sivashanmugam as a Whole Time Director be and is hereby extended from Apr 1, 2012 to Mar 31, 2013"

   "Resolved further that pursuant to the provisions of Sections 198, 269, 309 and other applicable provisions, if any, read with Schedule XIII of the Companies Act, 1956, including any statutory modification(s) or re-enactment(s) thereof, for the time being in force, and subject to the approval of the Central Government, approval of the Company be and is hereby granted for paying the following remuneration to Mr. N. Sivashanmugam, as Whole Time Director, with effect from Jul 31, 2011 to Jul 31, 2012 on the following terms and conditions and as per the terms of the agreement entered into between the Company and Mr. N. Sivashanmugam. The cost to Company will be Rs.31 lakhs p.a., of which Rs.18 lakhs p.a. will be performance based incentive. Following are the breakup of salary.

Remuneration

a.	Basic salary	:	Rs.6,60,000 /- p.a (Rupees six lakhs sixty thousand only)
b.	Special Allowance	:	Rs.1,29,000/- p.a (Rupees one lakh twenty nine thousand only)
c.	Performance linked Incentive	:	Rs.18,00,000/- p.a (Rupees eighteen lakhs only).
	Perquisites	:	This will be in addition to the above.
a.	Conveyance Reimbursement	:	At actual subject to a maximum of Rs.5,04,000/- p.a including chauffer for official purpose.
b.	Medical Reimbursement	:	Rs.15,000/- p.a.
	Other benefits	:	This will be in addition to the above.
a.	Provident Fund	:	As per the rules of the Company
b.	Gratuity	:	As per the rules of the Company
c.	Telephone	:	Mobile expenses at actual and use of telephone at residence for official purposes to the extent of Rs.12,000/- p.a.

"Resolved further that Mr. S. S. Arunachalam, Head Corporate Affairs & Company Secretary be and is hereby authorized to do such acts, to sign and file the necessary documents with statutory authorities"

(By order of the Board)
For SPEL Semiconductor Limited

S. S. Arunachalam
Head Corporate Affairs &
Company Secretary

Chennai
Apr 29, 2011

Notes

1. Explanatory Statement of material facts pursuant to Section 173(2) of the Companies Act, 1956 for item No. 5 of the Notice is annexed hereto.
2. 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.
3. 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.
4. The Register of Directors Shareholding maintained under Section 307 of the Companies Act, 1956 will be available for inspection by the Members at the AGM.
5 The Register of Members and the Share Transfer Books of the Company will remain closed from Jul 20, 2011 to Jul 27, 2011 (both days inclusive).
6 For shares held in physical form, any change in address may be intimated immediately to the Company/Share Transfer Agents by quoting the Folio Number(s). For shares held in demat form, change in address may be intimated directly to the Members' DP.
7. Members are requested to address all correspondences to the Registrar and Share Transfer Agents, Cameo Corporate Services Limited, Subramanian Building, 1 Club House Road, Chennai 600 002.
8. Members seeking any information with regard to accounts are requested to write to the Company at an early date so as to enable the Management to keep the information ready.
9. 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.
10. Members are requested to consolidate multiple share certificates / multiple folios into one share certificate / one folio to save on the cost of dematerializing their shareholdings.
11. Members are advised that the copies of the Annual Report will NOT be distributed at the venue of the AGM and hence they are advised to bring their copies of the Annual Report, which are mailed by the Company to them at their registered address.

Inspection of documents

All material documents relating to the aforesaid items of the Agenda of the Notice are available for inspection by the Members at the Registered Office of the Company on any working day between 11.00 am and 1.00 pm prior to the date of the Meeting.

Explanatory Statements pursuant to Section 173 (2) of the Companies Act, 1956

Item 5

To Consider extension of term of office and payment of revised remuneration to Mr. N. Sivahanmugam, Whole Time Director

The Shareholders of the Company at the 24th Annual General Meeting held on Jul 31, 2009 approved the appointment of Mr. N. Sivashanmugam, as Chief Financial Officer and Whole Time Director for a period of 3 years commencing from Dec 6, 2009 to Mar 31, 2012 and had also approved the remuneration payable to him.

Considering the contribution made by Mr. N. Sivashanmugam, Whole Time Director, the Board at is meeting held on Apr 29, 2011 considered the extension of his term of the office from Apr, 1, 2012 to Mar 31, 2013 and also revised the terms of remuneration from Jul 31, 2011 to Jul 31, 2012 on the recommendation of the Remuneration and Compensation Committee, which it had decided, at its meeting held on Apr 28, 2011.

Except Mr. N. Sivashanmugam, no other Director of the Company is in any way concerned with or interested in the resolution at item No. 5 of the Notice.

This resolution and explanatory statement shall also treated as an abstract of variation in terms and conditions of the appointment of Mr. N. Sivashanmugam and Memorandum of interest under Section 302 (7) of the Companies Act, 1956.

The Board recommends the resolution set forth item 5 for approval of the Shareholders.

(By order of the Board)
For SPEL Semiconductor Limited

Chennai
Apr 29, 2011

S. S. Arunachalam
Head Corporate Affairs & Company Secretary

Directors' Report

Your Directors have great pleasure in presenting the 26th Annual Report of the Company together with the Audited Accounts for the year ended Mar 31, 2011. Your Company completed its Silver Jubilee year with the whole hearted support and contribution from all its Stakeholders.

Global and Indian Industry scenario

The global "Great Recession" during the year 2009 shook up the global Semiconductor industry in a major way but the year 2010 has brought in a lot of confidence to the Semiconductor industry and to the global economy as a whole.

The Semiconductor industry has risen by 31.8% in the year 2010. The outlook for the year 2011 looks promising with a 9% growth predicted; global Semiconductor revenues are expected to reach US$ 325 Billion up from US$ 298 Billion in 2010.

Of the total revenues forecasted for the year 2011, about 40 percent can be attributed to the computing industry, which accounted for sales of $113 Billion. The rapidly growing smart phone segment accounted for about $80 Billion in sales in 2010 and is expected to grow although there is pressure on price points to remain low.

There are huge growth opportunities for the electronic industry in India, but there have been some missed opportunities in the past decade. So, while the future holds a lot of promise, we need to address existing challenges in infrastructure, taxation, supply chain and logistics, labour laws, R&D and funding.

SPEL performance during the year

Your Company still continues to be First & only Semiconductor IC Assembly & Test production facility. It is continuously maintaining this position despite the market fluctuations and other external factors. SPEL continues to be a trusted & strategic contract manufacturing partner for many of the world's leading Semiconductor companies.

Your Company had invested around Rs.6.00 Crores during the 1st Quarter, to address (a) Production bottlenecks to improve productivity (b) Modernization of equipment for enhanced product mix and (c) equipping itself for future expansions. This would enable SPEL to address increased outsourcing from present & potential Customers during FY 2011-12.

Various cost & energy saving measures initiated during FY 2009-10 have started producing positive results. Due to these proactive approaches and manpower rationalization SPEL effectively handled the pricing pressures that resulted from the recession and emerged with reduced impact.

The Computing segment reported a sliding trend in the US & Europe during Q2 FY 2010-11. However, SPEL was able to maintain revenues during this quarter due to its balanced exposure across Communications, Computing & Consumer Electronics. The impact on sales was mainly due to the comparable impact on volatile foreign currency parity. It was also due to change in pattern of raw material consumption of smaller pin count packages, without corresponding price increase. The rising power & diesel cost is a major cause for concern.

Rise of gold prices has propelled your Company towards investment in copper-process tools. SPEL will place most of its above expansion on leading-edge process and cooper-interconnect process capacities, both of which are estimated to boost the Company`s revenue and earnings during FY 2011-12.

Towards the beginning 2011 SPEL started investing Rs. 22 Croes in production equipment which will increase its capacity. Funded by a term loan from nationalized banks, this expansion is primarily on leading-edge process & copper-interconnect capacities. The additional capacity will be available from 1st quarter of FY 2011-12, fetching increased sales and enabling SPEL to further diversify package & market base.

The Management with its strong commitment and extensive support from its Employees, Suppliers & Customers, has continued to maintain its position as Profit Making Company, despite the Global Slowdown and Economic Crisis.

Financial Performance

The Operating results of your Company for the year ended Mar 31, 2011 are given below

(Rs. In Lakhs)

Particulars	Year ended Mar 31, 2011	Year ended Mar 31, 2010
Sales	9133.01	8716.00
Other Income	173.74	149.17
PBIDT	1828.28	1962.55
Interest	173.25	214.57
Depreciation	881.34	818.45
Profit before Taxation	773.69	929.53
Tax / Deferred Tax	320.71	318.69
Profit after Taxation	452.98	610.84

Sales of your Company for current year have increased by 4.78% over the previous year. Increased expenditure on manpower, power, marketing expenses, other overheads, which were necessitated due to operational growth, had an impact on contribution. All the package lines of your Company are in good demand and are expected to increase the contribution in future years.

Emphasis on Value system

Your Company has adopted the following as its Core Values. Management is highly committed to put in practice all these to make sure that they understand the values that we are into. Training

sessions are conducted every month to make all the Employees aware of the Core Values. All the Employees attend this program at least once in six months and put it to practice

a. Business Ethics : defines us as a Company

b. Professionalism : defines us as individuals

c. Citizenship : defines our contribution to society

Socio Economic Concept (SEC)

Understanding human behavior and tuning it towards self-disciplined citizen underlines the concept of the SEC being implemented in your Company. Employees were given to apprehend their roles as an individual and his/her responsibility to bring up fellow citizen so as to make the Country proud. SPEL appreciates its Employees commitment and complements them by assisting their growth to become future leaders. In spite of all the recessionary trends Stakeholders may appreciate the fact that SPEL stood up to the times and posted positive in PAT.

Dividend

Your Directors would like to place on record their appreciation for the Shareholders' patient waiting for these days.

SPEL believes in business sustenance. Sustainability is not about what a Company does with its profits but how it makes profits. It is the business process itself. Towards this Company had invested in the Capex around Rs. 23 Crores, from the Allahabad Bank and through internal generations. These investments had helped the Company in offsetting the falling ASP, and had assisted to improve the PE ratio. Your Company is keenly concentrating on creating cash reserves, as the need for this is increasing, as Customers want to see this in place.

Your Company's above initiatives have assisted in maintaining PAT. However, you would concur that your Company has consolidated itself for achieving a strong financial position conducive for this.

Fixed Deposits

The fixed deposits for the period were Rs. 4.45 Crores.

Research & Development (R&D)

The Company has carved out an ambitious plan of investment in R&D. This will include investment in PIP and MODLIB. This will assist Company's revenue and profitability in the future years.

Dematerialization of Shares

As the Members are aware, the Company's shares are in the compulsory demat mode, facilitated through arrangement with M/s. National Securities Depository Ltd. (NSDL) and M/s. Central Depository Services (India) Ltd. (CDSL). Going by the percentage of demat Shareholders, it is found that as many as 27,06,573 shares (5.87% of total shares issued), continued to be in physical mode. Your Directors earnestly appeal to all of you to demat the shares and derive the benefits of holding the shares in electronic form.

Subsidiary

The Wholly Owned Subsidiary Company, SPEL America Inc, in California, USA has been rendering the marketing services to your Company resulting in enhanced Customer base and satisfaction.

Pursuant to the Circular No.2/2011 dated Feb 8, 2011 of Ministry of Corporate Affairs, the Board at its Meeting held on Apr 29, 2011 resolved not to enclose the Subsidiary Company's accounts for the year in the Annual Report.

The Annual accounts of the Subsidiary Company and related detailed information will be made available to the Shareholders at any point of time. The annual accounts of the Subsidiary Company will also be kept for inspection by any Shareholders in the Head Office of the Holding Company.

Auditors

Your Company's Auditors, M/s. Natarajan & Co., Chartered Accountants, retiring at the conclusion of the ensuing Annual General Meeting, are eligible for re-appointment.

Directors

Dr. A. Ramakrishna resigned from the Board and his resignation was accepted at the Board Meeting held on Apr 29, 2011. The Board placed on record its appreciation for the commendable services rendered by Dr. A. Ramakrishna.

Mr. S. R. Vijayakar and Dr. A. Besant C. Raj are the directors retiring at the ensuing Annual General Meeting. As both are being eligible, offering themselves for reappointment. A brief profile of both directors is provided as follows :

Mr. S. R. Vijayakar

Mr. S. R. Vijayakar holds an Honours Degree in Electrical and Mechanical Engineering. After two years experience in the U.K. in the power industry he worked with the Ahmedabad Electricity Co., till 1967. Thereafter, he worked with the Electronics Corporation of India Ltd. under the Department of Atomic Energy, culminating as its Chairman and Managing Director till 1984. He was appointed as Secretary, Department of Electronics, Government of India until he retired in 1986. Post retirement he was Chairman of MELTRON, Government of Maharashtra and was associated with several Companies. He is a member of SPEL Board's Remuneration and Compensation Committee.