



SPEL Semiconductor Limited
an IC Assembly & Test Company

28th Annual Report
2012-13

Defining The Future Through Partnerships



SPEL Semiconductor Limited

Board of Directors

- | | |
|-----------------------------|---------------------|
| 1. Dr. A. C. Muthiah | Chairman |
| 2. Mr. Ar Rm Arun | Director |
| 3. Dr. A. Besant C. Raj | Director |
| 4. Dr. T. S. Vijayaraghavan | Director |
| 5. Mr. N. Ramakrishnan | Director |
| 6. 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

4030 Moorpark Ave # 236
San Jose, CA 95117, 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 Packing 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

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Previous 5 years performance

(₹ in lakhs)

	2012-13	2011-12	2010-11	2009-10	2008-09
Sales	8076.92	7978.63	9146.24	8716.00	8100.26
PBIDT	1197.01	1340.67	1828.28	1962.55	2115.28
Interest	584.01	325.12	173.25	214.57	323.98
PBDT	613.00	1015.55	1655.03	1747.98	1791.30
Depreciation	1185.06	937.80	881.34	818.45	830.45
PBT and prior period items	(572.06)	77.75	773.69	929.53	960.85
Tax / Deffered Tax	(117.03)	20.81	320.71	318.69	337.31
PAT	(455.03)	56.94	452.98	610.84	623.54
Net Profit	(455.03)	56.94	452.98	610.84	623.54

Notice to Members

Notice is hereby given that the 28th Annual General Meeting of the Members of SPEL Semiconductor Limited will be held at 4.00 pm on Monday, Jul 29, 2013 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, 2013 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. N. Sivashanmugam, 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 pursuant to Section 224 of the Companies Act, 1956, M. S. Krishnaswami & Rajan, Chennai, Chartered Accountants, be and are hereby appointed as Statutory Auditors of the Company in the place of Natarajan & Co., Chartered Accountants, the retiring Auditors of the Company, to hold office from the conclusion of this Annual General Meeting until the conclusion of the next Annual General Meeting of the Company on a remuneration to be fixed by the Board of Directors of the Company.”

Special Business

5. **To appoint Mr. N. Ramakrishnan as a Director liable to retire by rotation**

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

“Resolved that Mr. N. Ramakrishnan, whose term of office as an Additional Director of the Company expires at this Annual General Meeting and in respect of whom the Company has received a notice under Section 257 of the Companies Act, 1956 from a Member proposing his candidature. Mr. N. Ramakrishnan, be and is hereby appointed as a Director of the Company, whose period of office will be liable to determination by retirement by rotation.

6. **To consider extension of term of office and payment of 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 Aug 1, 2013 to Jul 31, 2014”

“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, 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 Aug 1, 2013 to Jul 31, 2014 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 ₹ 31 lakhs p.a., of which ₹ 18 lakhs p.a. will be performance based incentive. Following are the breakup of fixed remuneration.

Fixed Remuneration

- a. Basic salary : ₹ 6,60,000 /- p.a (Rupees six lakhs sixty thousand only)
- b. Special Allowance : ₹ 1,29,000/- p.a (Rupees one lakh twenty nine thousand only)

Perquisites

- a. Conveyance : At actual subject to a maximum of ₹ 5,04,000/- p.a including chauffeur for official purpose.
- b. Medical : ₹ 15,000 /- p.a

Other benefits

- 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 ₹ 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

Place : Chennai
Date : Apr 23, 2013

S. S. Arunachalam
Head Corporate Affairs &
Company Secretary

Notes

1. Explanatory Statement of material facts pursuant to Section 173(2) of the Companies Act, 1956 for item No.5 & 6 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 DIP 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 19, 2013 to Jul 29, 2013 (both days inclusive).
6. 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' 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

Appointment of Mr. N. Ramakrishnan as a Director of the Company

Mr. N. Ramakrishnan, was co-opted as an Additional Director of the Company at the Board Meeting held on Jan 23, 2013, and will hold office only up to the date of the forthcoming Annual General Meeting. Mr. N. Ramakrishnan has also filed his consent to act as Director, if appointed, as required under Section 264 (1) of the Companies Act, 1956.

A notice has been received from a Member as per Section 257 of the Companies Act, 1956, along with the prescribed fee of ₹ 500/- proposing the candidature of Mr. N. Ramakrishnan, as a Director of the Company liable to retire by rotation. A resolution seeking his appointment as Director is being placed before the Shareholders for approval.

The Board commends the election of Mr. N. Ramakrishnan as a Director liable to retire by rotation, for the approval of the Shareholders

None of the Directors of the Company except Mr. N. Ramakrishnan is concerned or interested in the resolution.

Item 6

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

The Shareholders of the Company at the 27th Annual General Meeting held on Jul 30, 2012 approved the appointment of Mr. N. Sivashanmugam, as Whole Time Director for a period commencing from Apr 1, 2013 to Jul 31, 2013 and had also approved the remuneration payable to him.

Considering the contribution made by Mr. N. Sivashanmugam, Whole Time Director, the Board at its meeting held on Apr 23, 2013 considered the extension of his term of the office from Aug 1, 2013 to Jul 31, 2014 and also decided the terms of remuneration from Aug 1, 2013 to Jul 31, 2014 on the recommendation of the Remuneration and Compensation Committee, which it had decided, at its meeting held on Apr 23, 2013

Except Mr. N. Sivashanmugam, no other Director of the Company is in any way concerned with or interested in the resolution at item No. 6 of the Notice.

This resolution and explanatory statement shall also be 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 in Item No. 6 for approval of the Shareholders.

(By order of the Board)
For SPEL Semiconductor Limited

Place : Chennai
Date : Apr 23, 2013

S. S. Arunachalam
Head Corporate Affairs &
Company Secretary

Directors' Report

Your Directors hereby present the 28th Annual Report of the Company together with the Audited Accounts for the year ended Mar 31, 2013.

Semiconductor - Global & Indian scenario

Global Scenario : The Global Semiconductor sales for the year 2012 were US\$299.9 Billion, a decrease of 2.6% compared to 2011 according to Gartner Inc. The normal drivers of Semiconductor industry growth — the computing, wireless, consumer electronics and automotive electronics sectors — all suffered serious disruption in 2012. Even the industrial / medical, wired communications and military/aerospace sectors ordinarily less affected by changes in consumer sentiment suffered severe declines in Semiconductor consumption. Excess inventory levels also remained a growth inhibitor.

As per World Semiconductor Trade Statistics organization (WSTS), highest growth of 10.5% achieved in America and 7.8% growth in APAC. However Europe (-4.9%) & Japan (-12.3%) markets slowed down.

QFN is still widely used in applications across all segments. However, there is excess capacity in the industry for the traditional QFN packages that was built during the industry boom in 2010. Chip designers are designing more products in the Fan-in and Flip Chip categories. The next recovery cycle expected in 2013 will help to utilize the capacity built at SPEL. The growth for leaded packages is declining but SPEL is able to maintain similar performance as of FY 2011-12 due to Customer bases in niche packages and applications

Indian Scenario : Your Company adequately represented the Electronics policy to the concerned Ministry through various industry associations. The Ministry is planning to rollout new policy on the IT Hardware during the current year. This will give an impetus to the Domestic units as the Ministry is planning to procure their requirements to various Government departments from these companies.

Your Company is making its presence felt in the IC requirements for the Government organizations/Ministry of Defence and domestic Industries. Your Company is looking for volume growth in commercially viable projects with various Government Departments.

Forecast for 2013 by segment

Internet-capable converging technologies and mobile electronic systems will keep demand for ICs strong through 2016.

The PC industry is struggling to identify innovations that differentiate PCs from other products and inspire consumers to buy and instead is meeting significant resistance to changes perceived as cumbersome or costly. PC industry efforts to offer touch capabilities and ultra slim systems have been hampered by traditional barriers of price and component supply, as well as a weak reception for Windows 8.

- Tablet and Ultrabook PCs — Demand continues to surge for Table PCs and anticipation is building for new Ultrabook PCs.
- Smartphones — Smartphones remain by far the fastest growing segment of the cell phone market IC content represents about 31% of the average selling price of a smartphone, whereas IC content in a basic cell phone is 23%. The success of 3G/4G smartphones is set to continue having a big impact on the future analog, DSP, logic, and NAND flash memory IC markets.
- Smart TVs — Internet capability has replaced 3D as the must have technology in 2013. Despite “upgrade fatigue,” consumers are drawn to Internet-connected Smart TVs, a favourite trend for suppliers of LED drivers, power management ICs, and MCUs/MPUs, which are expected to be big winners in this market segment.
- Smart Grids and Advanced Metering Infrastructure (AMI) — Home appliances and other residential electrical systems are being designed to interact and communicate with power-utility companies and Customers via the Internet. Global investment in smart grid technology is forecast to grow 19% annually through 2016.

SPEL performance during the year

SPEL got into supply chain of a consumer electronic major in Q1 and registered impressive volumes in Q2. However, these volumes dropped to Zero due to the cold response for their latest products. Also, the volumes for TDFN's/UDFN's fell sharply amongst two of the major Customers from Q3 due to the falling demand for feature cell-phones & end Customer preference to other packaging options like WLCSP

Migration to Cu wire happened briskly in the second half and currently 15% of volumes processed in Cu wire that had a revenue impact in terms of ASP. Continued slowdown in PC market has affected business for SPEL as they are the major consumers of Semiconductors. Some of our Customer's business are affected due to decrease in product life cycle because of frequent design changes / uncertainty in demand.

SPEL has focused on markets in Taiwan / Europe, have made progress and qualified new Customers. It expects to see revenues coming in from FY 2013-14. Your Company has formalized aggressive marketing strategies across the globe to tap the potential market.

Cause of concern

PC market continued its downward trend for the most part of 2012 falling further sharply in 1Q13. Industry observers are surprised at the steep fall of 13.9% during 1Q13 which is more than their estimated 7.7% decline.

Despite some mild improvement in the economic environment and some new PC models offering Windows 8, PC shipments were down significantly across all regions



compared to a year ago. Fading Mini Notebook shipments have taken a big chunk out of the low-end market while tablets and smartphones continue to divert consumer spending.

Continued power crisis and its consequent increase in power cost because of DG usage, and substantial outflow of interest payment, has strained the operating cost.

How addressed

The Management with its strong commitment and extensive support from its Employees, Suppliers & Customers, maintained its position, despite the Global Slowdown and Economic Crisis in Europe. Investments were made to address the vital requirements of operation with Bank's assistance. Your Company is also sourcing alternate power solutions to combat ever increasing power cost.

Sales Network established to serve Asia Pacific / Europe regions.

Financial Performance

The Operating results of your Company for the year ended Mar 31, 2013 are given below :

(₹ in Lakhs)

Particulars	Year ended Mar 31, 2013	Year ended Mar 31, 2012
Sales	8076.92	7978.63
Other Income	122.75	86.38
PBIDT	1200.02	1338.53
Interest	584.01	325.11
Depreciation	1106.95	937.93
Exceptional Items	78.38	-
Profit before Taxation	(569.32)	75.49
Tax / Deferred Tax	(116.15)	21.20
Profit after Taxation	(453.17)	54.29

Due significant reduction (20%) in Average Selling Price, sales revenue of your Company for current year has decreased by 13% over the previous year even though volume grew by 10%. Due to this 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 Values

Your Company has adopted the following as its Values. The Management is highly committed to put these in practice such that all Employees understand. Training sessions are conducted every month such that all Employees attend this program at least once in 6 months :

- Business Ethics : defines us as a Company
- Professionalism : defines us as individuals
- Citizenship : defines our contribution to society

Corporate Social Responsibility (CSR)

SPEL encourages its Employees to participate actively in CSR through SPEL Employees Social Service Organization (SESSO). Following activities were undertaken though SESSO during the previous year.

- Provided educational assistance to the needy people in and around Factory.
- Conducted a voluntary Blood Donation camp.
- Provided assistance to an orphanage and old age home located near Factory.

Dividend

Due to loss dividend cannot be paid during the year.

Fixed Deposits

The fixed deposits for the period were ₹ 2.00 Crores.

Research & Development (R&D)

The Company has carved out an ambitious plan for investment in R&D. This will include investment in developing Semiconductor electronic designs for our Customers, offering verification services for Semiconductors designs and developing package designs which are cost effective and application friendly. 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 Limited (NSDL) and M/s. Central Depository Services (India) Limited (CDSL). Going by the percentage of demat Shareholders, it is found that as many as 26,38,097 shares (5.72% 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 19, 2012 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, has informed the Company that they do not propose to offer themselves as Statutory Auditors of the

Company at the forthcoming Annual General Meeting since they are discontinuing the Audit Practice. The Company has received notice from a member recommending the appointment of M. S. Krishnaswami & Rajan, Chennai as Statutory Auditors in the place of M/s. Natarajan & Co.

M/s. Krishnaswami & Rajan, Chennai have expressed their consent for the appointment as Statutory Auditors for the Financial Year 2013-14 and have confirmed that the appointment, if made, will be in accordance with the limits specified under Sec 224 (1B) of the Companies Act, 1956.

Directors

Dr. A. Besant C. Raj and Mr. N. Sivashanmugam 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 :

Dr. A. Besant C. Raj

Dr. A. Besant C. Raj is an MBA from the Indian Institute of Management, Ahmedabad (First Batch). He also holds a doctoral degree in Business Administration from the Harvard Business School, Harvard University, USA. He has a Master's degree in Philosophy from Madras University and a Master's degree in Psychology from Banaras Hindu University. Dr. Raj is the founder Chairman of the institute of Chartered Financial Analysts of India (ICFAI), Hyderabad. He is closely associated with development of several educational institutions. He has held various senior positions in the Government of India. He is the Chairman of SPEL Board's Audit Committee and a Member of SPEL Board's Securities Transfer & Investors Grievances Committee (STIGC).

Mr. N. Sivashanmugam

Mr. N. Sivashanmugam is a Chartered Accountant with 35 years background in Domestic and International Finance & Accounts. He has worked in Indo-Jordan Chemicals Company Limited in Amman, Jordan as Asst. Managing Director – Finance since May 2000. In his earlier tenure, he had the experience of effectively handling large Company's Treasury, Banking, Insurance and Accounts. He also has good exposure in Project Finance

Directors' Responsibility Statement

Pursuant to the requirement under Section 217(2AA) of the Companies Act, 1956 with respect to Directors' Responsibility Statement, it is hereby confirmed :

1. That in the preparation of the annual accounts for the year ended Mar 31, 2013 the applicable Accounting Standards had been followed along with proper explanation relating to material departures
2. That the Directors had selected such accounting policies and applied them consistently and made judgment and estimates that were 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 your Company for the year under review

3. That 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.
4. That the Directors had prepared the accounts for the year ended Mar 31, 2013 on a 'going concern' basis.

Corporate Governance

Your Company is committed to the standards of Corporate Governance and in this direction has laid down well documented internal policies, procedures including Board and Committee procedures and practices in particular relation with Shareholders, Customers, Suppliers and Employees in order to enhance the long-term Shareholder value and maximize interest of all Stakeholders.

Your Company has complied with the provisions of Clause 49 of the Listing Agreement relating to Corporate Governance.

A detailed Report on Corporate Governance and a Management Discussion and Analysis report have been attached to form part of the Annual Report.

A Certificate from the Auditors of your Company regarding the compliance of conditions of Corporate Governance has been annexed to this report.

Information pursuant to Section 217 of the Companies Act, 1956

In terms of Section 217 (1) (e) of the Companies Act, 1956 and the rules framed there under, the particulars relating to the conservation of energy, technology absorption & foreign exchange earnings and outgo are given below :

a. Conservation of Energy

The Company has in place an Energy Committee which meets once a month. This Committee consists of Cross-functional Executives. This Committee identifies the potential areas to conserve energy and implements novel energy saving measures, apart from recommending investment proposals to the Management.

Various measures to conserve water were undertaken, notable amongst them being, reuse of Dicing process water & Rain Water Harvesting. Following are the details of power & water consumed.

Power	Water
7560889 Units	77725 K Lits

b. Technology Absorption

The particulars regarding Technology Absorption are not applicable to your Company.

c. Foreign Exchange Earnings and Outgo

Your Company is a 100% Export Oriented Unit and is constantly striving to increase its exports.

Foreign Exchange used during the year : ₹ 44,08.10 lakhs

Foreign Exchange earned during the year : ₹ 83,94.84 lakhs