

ANNUAL REPORT 1998 - 99



SATHAVAHANA ISPAT LIMITED

Sathavahana Ispat Limited**BOARD OF DIRECTORS** (as on 01.06.1999)

Shri Ghulam Ghouse	Chairman
Shri A.S.Rao	Vice Chairman
Shri K.Thanu Pillai	Director
Shri M.P.Desai	Director (IDBI Nominee)
Shri A. Naresh Kumar	Managing Director
Shri S.N.Rao	Executive Director (Works)

**GENERAL MANAGER (FINANCE) &
COMPANY SECRETARY**

K.V. Krishna Rao

AUDITORSM/s. P.V.R.K. Nageswara Rao & Co.,
Chartered Accountants**BANKERS:**State Bank of Hyderabad
Canara Bank
State Bank of Travancore**REGISTERED OFFICE**314, Sri Rama Krishna Towers,
Nagarjuna Nagar, Ameerpet,
Hyderabad - 500 073.**CORPORATE OFFICE &
SECRETARIAL DEPARTMENT**505, 5th Floor, Block - 1
Divyashakti Complex,
Ameerpet,
Hyderabad - 500 016.**WORKS**Haresamudram Village,
Bommanhal Mandal,
Ananthapur District,
Andhra Pradesh.

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Sathavahana Ispat Limited



NOTICE OF 10th ANNUAL GENERAL MEETING

NOTICE is hereby given that the 10th Annual General Meeting of the shareholders of SATHAVAHANA ISPAT LIMITED will be held at Sri Sagi Ramakrishnam Raju Community Hall, Madhura Nagar, Hyderabad - 500 038 on Thursday the 30th September, 1999 at 3.30 p.m. to transact the following business:

AS ORDINARY BUSINESS:

1. To receive, consider and adopt the Audited Accounts of the Company for the year ended 31st March, 1999 alongwith the Reports of directors and auditors thereon.
2. To appoint a director in place of Shri Ghulam Ghouse, who retires by rotation and being eligible, offers himself for reappointment.
3. To appoint a director in place of Shri A.Naresh Kumar, who retires by rotation and being eligible, offers himself for reappointment.
4. To appoint auditors for the current year under section 224A of the Companies Act, 1956 and fix their remuneration. The retiring auditors M/S. P.V.R.K. Nageswara Rao & Co., Chartered Accountants, Hyderabad, are eligible for reappointment.

To consider and, if thought fit, to pass the following resolution, with or without any modifications as a special resolution:

"RESOLVED that, pursuant to section 224A of the Companies Act, 1956, M/s. P.V.R.K. Nageswara Rao & Co., Chartered Accountants, Hyderabad, retiring auditors of the Company, be and are hereby reappointed as auditors of the Company till the conclusion of next Annual General Meeting on a remuneration to be decided by the Board of Directors of the Company plus service tax and out of pocket expenses".

AS SPECIAL BUSINESS:

5. To consider and, if thought fit, to pass, with or without any modifications, the following resolution as an ordinary resolution:

"RESOLVED that Shri K. Thanu Pillai who was appointed as an Additional Director at the meeting of the Board of Directors of the Company held on 29th January, 1999 and whose term expires at this Annual General Meeting as a Director under Section 260 of the Companies Act, 1956 read with article 107 of the Articles of Association of the Company and being proposed by a member under section 257 of the Companies Act, 1956 to be appointed as a Director of the Company, be and is hereby appointed as a Director on the Board of Directors of the Company whose period of office is liable to determination by retirement by rotation."

6. To consider and, if thought fit, to pass, with or without any modifications, the following resolution as an ordinary resolution:

"RESOLVED that Shri S.N. Rao who was appointed as an Additional Director at the meeting of the Board of Directors of the Company held on 29th January, 1999 and whose term expires at this Annual General Meeting as a Director under Section 260 of the Companies Act, 1956 read with article 107 of the Articles of Association of the Company and being proposed by a member under section 257 of the Companies Act, 1956 to be appointed as a Director of the Company, be and is hereby appointed as a Director on the

Board of Directors of the Company whose period of office shall be liable to determination by retirement of Directors by rotation."

"RESOLVED further that, pursuant to the provisions of Section 198, 269, 309, 310, 311 and Schedule XIII and other applicable provisions if any, of the Companies Act, 1956 and subject to the approval of the financial institutions, approval be and is hereby accorded to the appointment of Shri S.N.Rao, Executive Director (Works) for a period of three years effect from 01.02.1999 to 31.01.2002 on the following remuneration:

1. SALARY:

Salary at Rs. 22000 per month, in the scale of Rs. 22000-3000-28000.

2. PERQUISITES:

The following perquisites may be allowed in addition to salary.

CATEGORY A:

- i. Housing I: The expenditure by the Company on hiring furnished accommodation which will be subject to a ceiling of twenty five percent of the Salary over and above ten percent payable by Shri S.N.Rao, Executive Director (Works); or

Housing II: In case the accommodation is owned by the Company ten percent of the salary of the appointee shall be deducted by the Company; or

In case no accommodation is provided by the Company a house rent allowance subject to the ceiling laid down in Housing I.

Explanation: The expenditure incurred by the Company on gas, electricity, water and furnishings shall be valued as per the Income Tax Rules, 1962 and shall be subject to a ceiling of ten percent of salary of the appointee.

- ii. Medical Reimbursement: Expenses incurred for self and family subject to a ceiling of one month's salary in a year or three month's salary over a period of three years.
- iii. Leave Travel concession for self and family, once in a year incurred in accordance with any rules specified by the Company.
- iv. Personal accident insurance the premium of which shall not exceed Rs. 5,000/- per annum.

CATEGORY B:

- i. Contribution to Provident Fund, Superannuation Fund and Annuity Fund to the extent these either singly or put together are not taxable under Income Tax Act, 1961.
- ii. Gratuity payable at a rate not exceeding half a month's salary for each completed year of service, and
- iii. Encashment of leave at the end of the tenure.

CATEGORY C:

Provision of car for use on Company's business and telephone at residence. Personal long distance calls on telephone and the use of car for private purpose shall be billed by the Company to Shri S.N.Rao Executive Director (Works).

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3. MINIMUM REMUNERATION:

In the event of losses or inadequacy of profits during the above period, the Executive Director (Works) is entitled to the aforesaid salary and perquisites mentioned above as minimum remuneration.

7. To consider and, if thought fit, to pass, with or without any modifications, the following resolution as an ordinary resolution:

"RESOLVED that, pursuant to the provisions of Section 198, 269, 309, 310, 311 and Schedule XIII and other applicable provisions if any, of the Companies Act, 1956 and subject to the approval of the financial institutions from whom the Company availed Term Loans, approval of the members in general meeting be and is hereby accorded to the appointment of Shri A. Naresh Kumar, Managing Director for a period of five years effect from 01.06.1999 to 31.05.2004 on the following remuneration:

1. SALARY:

Salary at Rs. 30000 per month, in the scale of Rs. 30000-5000-50000.

2. PERQUISITES:

The following perquisites may be allowed in addition to salary.

CATEGORY A:

- i. Housing-I: The expenditure by the Company on hiring furnished accommodation which will be subject to a ceiling of sixty percent of the Salary over and above ten percent payable by Shri A. Naresh Kumar, Managing Director; or

Housing II: In case the accommodation is owned by the Company ten percent of the salary of the appointee shall be deducted by the Company; or In case no accommodation is provided by the Company a house rent allowance subject to the ceiling laid down in Housing I.

Explanation: The expenditure incurred by the Company on gas, electricity, water and furnishings shall be valued as per the Income Tax Rules, 1962 and shall be subject to a ceiling of ten percent of salary of the appointee.

- ii. Medical Reimbursement: Expenses incurred for self and family subject to a ceiling of one month's salary in a year or three month's salary over a period of three years.
- iii. Leave Travel concession for self and family, once in a year incurred in accordance with any rules specified by the Company.
- iv. Club Fee subject to a maximum of two Clubs. This will not include admission and life membership fee.
- v. Personal accident insurance the premium of which shall not exceed Rs. 5,000/- per annum.

CATEGORY B:

- i. Contribution to Provident Fund, Superannuation Fund and Annuity Fund to the extent these either singly or put together are not taxable under Income Tax Act, 1961.
- ii. Gratuity payable at a rate not exceeding half a month's salary for each completed year of service, and

- iii. Encashment of leave at the end of the tenure.

CATEGORY C:

Provision of car for use on Company's business and telephone at residence. Personal long distance calls on telephone and the use of car for private purpose shall be billed by the Company to Shri A. Naresh Kumar, Managing Director.

3. COMMISSION:

1% commission on the net profits of the Company computed in the manner laid down in Section 309(5) of the Companies Act, 1956.

4. MINIMUM REMUNERATION:

In the event of losses or inadequacy of profits during the above period, the Managing Director is entitled to the aforesaid salary and perquisites mentioned above as minimum remuneration.

"RESOLVED FURTHER that the office of Managing Director held by Shri A. Naresh Kumar pursuant to this resolution shall not be liable to determination by retirement of Directors by rotation".

By order of the Board

Hyderabad
Date : 31.05.1999

(A.S. RAO)
MANAGING DIRECTOR

NOTE:

1. A MEMBER ENTITLED TO ATTEND AND VOTE AT THE MEETING IS ENTITLED TO APPOINT PROXY OR PROXIES TO ATTEND AND VOTE INSTEAD OF HIMSELF AND A PROXY NEED NOT BE A MEMBER OF THE COMPANY.
2. THE REGISTER OF MEMBERS AND SHARE TRANSFER BOOKS OF THE COMPANY WILL REMAIN CLOSED FROM 25.09.1999 TO 30.09.1999 (BOTH DAYS INCLUSIVE).
3. MEMBERS DESIROUS OF SEEKING CLARIFICATIONS ON ACCOUNTS ARE REQUESTED TO SEND THEIR QUERIES TO THE HEAD OFFICE ADDRESS OF THE COMPANY ATLEAST SEVEN DAYS BEFORE THE DATE OF THE ANNUAL GENERAL MEETING TO ENABLE THE COMPANY TO COMPILE AND FURNISH REQUIRED INFORMATION.
4. THE SHAREHOLDERS ARE REQUESTED TO INTIMATE IMMEDIATELY ANY CHANGE IN THEIR ADDRESS REGISTERED WITH THE COMPANY.
5. THE SHAREHOLDERS ARE HEREBY REQUESTED THAT ALL THE CORRESPONDENCE IN CONNECTION WITH THE SHARES BE ADDRESSED TO THE CORPORATE OFFICE OF THE COMPANY ONLY, AS THE COMPANY HAS NOT ENGAGED THE SERVICES OF ANY SHARE TRANSFER AGENTS.
6. THE EQUITY SHARES OF THE COMPANY ARE LISTED ON HYDERABAD, MUMBAI, AHMEDABAD AND MADRAS STOCK EXCHANGES. THE EQUITY SHARES OF THE COMPANY ARE ALSO TRADED ON THE NATIONAL STOCK EXCHANGE. THE ANNUAL LISTING FEE TO THE STOCK EXCHANGES WHERE THE COMPANY'S SHARES ARE LISTED HAS BEEN PAID UPTO DATE.

Sathavahana Ispat Limited**EXPLANATORY STATEMENT PURSUANT TO SECTION 173 (2) OF THE COMPANIES ACT, 1956.**

Item 4: Under section 224A of the Companies Act, 1956, Where, in a Company more than 25% of the subscribed capital is held singly or in combination by the categories of the Companies/Institutions mentioned therein, the appointment of auditors have to be made by a special resolution. As more than 25% of the subscribed capital of the Company is held by Public Financial Institutions, it is proposed to appoint M/s.P.V.R.K.Nageswara Rao & Co., Chartered Accountants, Hyderabad, retiring auditors of the Company, as auditors for the current year by way of special resolution. Hence, the resolution is commended for your approval.

None of the directors is concerned or interested in the resolution.

Item 5: Shri K. Thanu Pillai was appointed as Additional Director of the Company at the Board Meeting held on 29.01.1999. As per the provisions of the Companies Act, 1956 read with Article 107 of the Articles of Association of the Company Shri K. Thanu Pillai retires as Director at this Annual General Meeting. The Company has received a notice under section 257 of the Companies Act, 1956 from a Member proposing the appointment of Shri K. Thanu Pillai as Director. Shri K. Thanu Pillai earlier was a Director on the Board of the Company during 1993-1996. In view of Shri K. Thanu Pillai's vast experience in the Banking and Financial disciplines, the Board recommends that Shri K. Thanu Pillai be appointed as Director on the Board of Directors of the Company.

No other Director, except Shri K. Thanu Pillai is interested in the resolution.

Item No.6: Shri S.N. Rao was appointed as Additional Director of the Company at the Board Meeting held on 29.01.1999. As per the provisions of the Companies Act, 1956 read with Article 107 of the Articles of Association of the Company Shri S.N.Rao retires as Director at this Annual General Meeting. The Company has received a notice under section 257 of the Companies Act, 1956 from a Member proposing the appointment of Shri S.N.Rao as Director.

The Board of Directors of your Company has passed a resolution at its meeting held on 29th January, 1999, appointing Shri S.N.Rao as Executive Director (Works) for a period of 3 years from 01.02.1999 to 31.01.2002.

Shri S.N. Rao is a Mechanical Engineer by profession and had gained wide experience with several leading companies in India engaged in manufacture of Iron & Steel, Chemicals etc.

Shri S.N. Rao is employed with the Company for over two years as Director (Operations). Shri Rao has brought with him good experience in the Iron and Steel sector. During last two years of service with the Company, Shri Rao actively participated in the technical improvements programme including relining in the blast furnace implemented by the Company. The plant operations also have improved substantially under his able guidance and control. It is with a view to entrust more responsibilities and take advantage of his vast experience and expertise and also to have a Board level control on the operations of the Company at plant level, it is proposed to induct him on to the Board of the Company as Executive Director (Works) at a remuneration specified in the resolution.

The appointment and remuneration proposed are as per the provisions of the Schedule XIII of the Companies Act, 1956 and requires approval of the members by way of ordinary resolution. It is also subject to the approval of the Financial Institutions.

Shri S.N. Rao is interested in the resolution to the extent of remuneration and perquisites payable to him. No other Director is concerned or interested in the resolution.

Board of Directors commends the resolution for your approval.

Item No.7: Shri A. Naresh Kumar was appointed as Managing Director of the Company at the Board Meeting held on 31st May, 1999 for a period of five years with effect from 01.06.1999 to 31.05.2004.

Shri A. Naresh Kumar is a Chemical Engineer by profession and holds a Masters Degree from the University of Missouri - Rolla, U.S.A. Shri Naresh Kumar is a Director on the Board of the Company since May, 1992. Shri Naresh Kumar was also a Director on the Board of the Company during 1989-1991.

Shri Naresh Kumar as a Director on the Board of Directors has gained good experience on the operations of the Company. He is the brain behind technical improvements programme implemented by the Company during the last two years. He has actively participated in the technical improvements programme and made it a success. He has closely studied the operations of the Company and rendered valuable advice in the day to day operations of the Company. His contribution to the operations of the Company have yielded good results in the form of improved productivity and production.

The appointment and remuneration proposed are as per the provisions of the Schedule XIII of the Companies Act, 1956 and requires approval of the members by way of ordinary resolution. It is also subject to the approval of the Financial Institutions.

Shri A. Naresh Kumar is interested in the resolution to the extent of remuneration and perquisites payable to him.

Shri A.S.Rao, Vice Chairman - Designate being relative of Shri A.Naresh Kumar is deemed to be interested in the resolution. No other Director is concerned or interested in the resolution.

Board of Directors commends the resolution for your approval.

Hyderabad
Date : 31.05.1999

By order of the Board
(A.S. RAO)
MANAGING DIRECTOR

Sathavahana Ispat Limited



DIRECTORS' REPORT

To
The Members,
SATHAVAHANA ISPAT LIMITED,

Your directors have pleasure in presenting the 10th Annual Report together with the audited accounts of the Company for the year ended 31st March, 1999.

FINANCIAL RESULTS:

Your directors report the following financial results for the year 1998-99:

for the year 1998-99.

		(Rs. in Lakhs)	
Sl No.	Particulars	Year ended 31-03-1999	Year ended 31-03-1998
1.	Sales	7556.27	5684.17
2.	Other Income	118.72	129.30
3.	Operating profit before Interest and Depreciation	927.42	1065.41
4.	Interest	447.32	548.14
5.	Depreciation	267.57	258.23
6.	Profit before Tax	212.53	259.04
7.	Income Tax adjustment and provision	26.48	30.00
8.	Net Profit after Tax	186.05	229.04

Your Directors are glad to report that the Company has been able to maintain a steady performance inspite of the competition and depressed market conditions. The net profit before tax for the year is Rs. 212.53 Lakhs as against profit of Rs. 259.04 Lakhs in the last year. Despite significant improvement in performance and sales, the profitability is lower mainly due to imposition of anti dumping duty on import of Metcoke from China and further drop in the sales realisation. Moreover, the Iron and Steel sector both in domestic and global markets is passing through a very critical phase and hit by industrial recession, leading to a significant fall in demand and consequent fall in sales prices. Viewed from this depressed scenario, the results are considered to be satisfactory.

In view of the marginal profits and with a view to conserving the resources to meet the long-term fund requirements of the Company, your directors do not recommend any dividend for the current year.

OPERATIONS:

Your Directors are glad to report that the operations of the Company have substantially improved during the year under review. The Company had achieved a production of 107658 MTs of Pig Iron, which is yet another record since commencement of Commercial production in 1994. This constitutes about 90% utilisation of the installed

capacity of the Plant. The volume is higher by over 12% as compared to the previous year. During the year the capacity utilisation in some months has peaked to about 110% of the installed capacity resulting in substantial benefits in the form of lower coke consumption rate and better productivity and production. The operation of the co-generation power plant is also satisfactory. This improved performance could be achieved only on account of the technical improvements carried out by the Company during the last two years. Efforts are on to further improve the operations of the plant.

MARKET:

The market during the year has become more price-sensitive than before. The prices have further come down by about 8-10% as compared to the last year. The realisations have reached to a rock bottom level, and touched almost to a level prevailing in the early 90's. This being so, the demand for Pig Iron has also slackened significantly due to poor off-take by the end users which in turn was due to negative growth in the respective segments. The fall in demand coupled with fall in sales realisations have led to crisis like situation, resulting in cut-throat competition not experienced by the Pig Iron industry in the last decade or so. In the midst of this depressed scenario, your Board of Directors is glad to report that the Company had achieved a record volume of sales of 108931 MTs, breaking it's previous record of 1997-98. This constitutes an increase of over 28% compared to the previous year. In value terms the Company has achieved a gross turnover of Rs.7556.27 Lakhs as compared to Rs.5684.17 Lakhs of last year, an increase of about 33%. This is highest turnover achieved by the Company since commencement of commercial operations in 1994. The competition in the Pig Iron industry is further hotting-up and your company is firming up its position by evolving appropriate marketing strategies.

FUTURE OUTLOOK:

The year under review is no better than the last year. The much expected turnaround during the year, atleast in the Iron and Steel had not taken place. The Iron and Steel sector and in particular the Pig Iron industry is passing through a very critical phase. The public sector units (PSUs) and the integrated steel plants (ISPs) continue to dump pig iron in the domestic market contrary to their main objective of export and steel making. Consequently, there is an unhealthy competition in the market. A few of the pig iron units were forced to shutdown their operations. This being the situation, the Government of India inspite

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of several protests by the pig iron industry, has gone ahead and slapped Anti Dumping Duty in the final investigations on import of Metallurgical Coke from PR China. This is really a big blow to the pig iron industry, as it could not pass on the additional burden to the end users. The woes of the pig iron industry were completely ignored and the dumping duty was imposed although it is detrimental to the survival of the pig iron industry. Further, after much persuasion the Government of India had considered and gave an exemption from special duty on Metcoke imports in the month of November, 1998 but surprisingly the concession was withdrawn and the duties were again enhanced in the Finance Act, 1999. These measures will have adverse impact on the functioning of the pig iron industry. It is earnestly hoped that the Government will look into these problems faced by the industry and evolve appropriate relief measures at the earliest, so as to save the industry from falling sick. The depreciation of Rupee vis-à-vis Dollar has rendered imports further dearer and the additional burden arising out of the same could not be passed on to the end users due to adverse market conditions. The profitability of the Company, inspite of high efficiency in operations, continues to be adversely affected by these macro level factors which are obviously beyond the control of the Company. In so far as future of the industry is concerned there is a sign of revival in the South East Asian crisis which will give some positive hope to the Indian industry and in particular to the iron and steel sector. The thrust on housing and infrastructure investments proposed and rationalisation of duty structure introduced by the successive Finance Acts will give some impetus to the sagging iron and steel sector. Your company is geared up to meet these challenges and to remain fit and competitive continues to improve the techno-economic norms. Your Company is striving hard to reduce costs and improve the productivity and production levels so that maximum efficiency in operations could be maintained. Your Board of Directors carries a positive hope on the industry and barring unforeseen circumstances hopes to maintain a steady performance in the coming years.

DIRECTORS:

Shri S.N. Kaza had resigned as Director of the Company during the year. Your Board of Directors places on record its appreciation of services rendered by Shri S.N. Kaza during his tenure of office as a Director and conveys best wishes for a happy and long life.

Shri A.S.Rao had resigned as Managing Director of the Company effective from 01.06.1999. However he

expressed his willingness to continue as Director on the Board of Directors of the Company. In view of his vast experience in the iron and steel sector the Board of Directors had elected him as Vice Chairman effective from 01.06.1999. Your Board of Directors places on record its appreciation of services rendered by Shri A.S.Rao during his tenure of office as Managing Director.

Shri Ghulam Ghouse and Shri A. Naresh Kumar retire by rotation as directors and are eligible for reappointment.

Shri K. Thanu Pillai and Shri S.N.Rao having been appointed as Additional Directors of the Company during the year retire at this Annual General Meeting and are eligible for reappointment.

Shri S.N. Rao has been appointed as Executive Director (Works) during the year and approval of the members for the said appointment is being sought in the next Annual General Meeting.

Shri A. Naresh Kumar has been appointed as Managing Director effective from 01.06.1999 and approval of the members for the said appointment is being sought in the next Annual General Meeting.

AUDITORS:

M/s. P.V.R.K. Nageswara Rao & Co., Chartered Accountants, Hyderabad retire as auditors at this Annual General Meeting and are eligible for reappointment.

EMPLOYEES:

Pursuant to section 217(2A) of the Companies Act, 1956 read with the Companies (particulars of employees) rules 1975, as amended, your Directors report that there was no employee who was in receipt of remuneration of Rs. 6,00,000/- or more per annum if employed through out the year, or Rs. 50,000/- or more per month if employed for a part of the year.

STATUTORY INFORMATION:

Information on conservation of energy, technology absorption, foreign exchange earnings and out go required to be disclosed under section 217 (1)(e) of the Companies Act, 1956, is given in the Annexure forming part of this report.

DEPOSITS:

During the year the Company has not accepted any deposits from the public.