

Seshasayee Paper and Boards Limited

Report  junction.com



Thirty-ninth Annual Report

1998-99

SESHASAYEE PAPER AND BOARDS LIMITED

DIRECTORS

Sri S. VISWANATHAN, *Chairman*

Dr V. GAURI SHANKER

Sri A. NAGARAJAN, I.A.S., Nominee of TIIC

Sri M.R.B. PUNJA

Dr G. RANGASWAMI

Sri N. RAVINDRANATHAN

Sri K.S. SRIPATHI, I.A.S.

Sri R.V. SUBRAHMANYAN, I.A.S., (Retd.)

Sri S.R.S. AYYAR, Nominee of IDBI

Sri N. GOPALARATNAM, Managing Director

**GENERAL MANAGER (FINANCE) &
SECRETARY**

Sri V. PICHAJ

AUDITORS

Messrs SURI & CO., Chennai

Messrs S. VISWANATHAN, Chennai

FINANCIAL INSTITUTION / BANKS

INDUSTRIAL DEVELOPMENT BANK OF INDIA

UCO BANK

SYNDICATE BANK

CENTRAL BANK OF INDIA

CANARA BANK

UNITED BANK OF INDIA

STATE BANK OF INDIA



REGD. OFFICE & WORKS


PALLIPALAYAM, CAUVERY R.S.P.O.,

ERODE - 638 007, TAMIL NADU

CONTENTS

	Page
NOTICE	3
DIRECTORS' REPORT	5
AUDITORS' REPORT	12
BALANCE SHEET	14
PROFIT AND LOSS ACCOUNT	15
SCHEDULES	16
BALANCE SHEET ABSTRACT AND COMPANY'S GENERAL BUSINESS PROFILE	36
CASH FLOW STATEMENT	38

SESHASAYEE PAPER AND BOARDS LIMITED**NOTICE**

 OTICE is hereby given that the Thirty-ninth Annual General Meeting of the Members of the Company will be held at the Community Centre, SPB Colony, Erode - 638 010 on Wednesday, the July 21, 1999 at 11.00 A.M. to transact the following business:

ORDINARY BUSINESS :

1. To consider and adopt the Balance Sheet as at 31st March, 1999, the Profit and Loss Account for the year ended on that date and the Reports of the Board of Directors and Auditors thereon.
2. To declare a dividend.
3. To appoint Directors in the place of Sri M.R.B. Punja, and Dr V. Gaurishanker, who retire by rotation and being eligible offer themselves for re-appointment.
4. To consider and, if thought fit, to pass with or without modifications, the following resolution as a SPECIAL RESOLUTION :

"RESOLVED THAT pursuant to Section 224-A of the Companies Act, 1956, Messrs Suri & Co., Chennai and Messrs S. Viswanathan, Chennai, the retiring Auditors, be and are hereby re-appointed as Auditors of the Company to hold office from the conclusion of this meeting until the conclusion of the next Annual General Meeting on a remuneration of Rs. 1 15 000 for each of them in addition to reimbursement of travelling and other out-of-pocket expenses actually incurred by them in connection with the Audit".

SPECIAL BUSINESS :

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

"RESOLVED THAT the consent of the Company be and is hereby accorded in terms of Section 293(1)(a) and other applicable provisions, if any, of the Companies Act, 1956, and subject to the approval of the Financial Institutions / Banks, to mortgaging and/ or charging by way of second charge by the Board of

Directors of the Company of all the immovable properties of the Company wheresoever situate, present and future and the whole of the undertaking of the Company together with power to take over the management of the business and concern of the Company in certain events, to or in favour of the following namely :

- ♦ UCO Bank (UCO)
- ♦ Syndicate Bank (SYB)
- ♦ Central Bank of India (CBI)
- ♦ Canara Bank (CB) and
- ♦ United Bank of India (UBI)

to secure on second charge basis the due repayment of working capital limits not exceeding Rs. 3 500 lakhs (Rupees three thousand five hundred lakhs only) lent and advanced/agreed to be lent and advanced by the Banks, viz., UCO, SYB, CBI, CB and UBI together with interest thereon at the respective agreed rates, compound interest, additional interest, liquidated damages, commitment charges, premia on pre-payment or on redemption, costs, charges, expenses and other moneys payable by the Company to UCO, SYB, CBI, CB and UBI under the respective Deeds of Hypothecation / Bills Purchase agreement / counter guarantees for issuing Letters of guarantee / Application for opening Letters of Credit / Letters of sanction entered into / to be entered into by the Company in respect of the said working capital limits.

RESOLVED FURTHER THAT the Board of Directors of the Company be and are hereby authorised to finalise with Industrial Development Bank of India (IDBI), UCO, SYB, CBI, CB and UBI, the documents for creating the aforesaid second mortgage / charge and to do all such acts and things as may be necessary for giving effect to the above resolution".

(By Order of the Board)

For SESHASAYEE PAPER AND BOARDS LIMITED

(V PICHAI)

GENERAL MANAGER (FINANCE) & SECRETARY

Chennai
May 29, 1999

SESHASAYEE PAPER AND BOARDS LIMITED**Notes:**

1. The relative Explanatory Statement pursuant to Section 173(2) of the Companies Act, 1956 in respect of the Special Business set out under item 5 is annexed hereto.
2. A Member entitled to attend and vote at the meeting is entitled to appoint one or more Proxies to attend and vote on a poll instead of himself and such Proxy need not be a Member of the Company.
3. Proxies, in order to be effective, must be filed not later than 48 hours before the meeting.
4. The Register of Members and Share Transfer Books will be closed from Friday, the July 16, 1999 to Wednesday, the July 21, 1999 (both days inclusive).
5. Dividend, if declared, will be paid to the Members whose names appear on the Register of Members as on July 21, 1999.
6. Members are requested to notify promptly any change in their address to the Registered Office of the Company quoting their Membership Number besides changes, if any, in the Dividend Mandates given by them.
7. The latest amendments to the Companies Act, 1956 provide for Nomination facility to Members. Members are requested to write to the Registered Office of the Company for more information on Nomination facility and/or to get a copy of Nomination Form.
8. Pursuant to Section 205A of the Companies Act, 1956, all unclaimed dividends upto the financial year ended March 31, 1995 have been transferred to the General Reserve Account of the Central Government. Members who have not encashed the dividend warrants for the said period are requested to claim the amount from the Registrar of Companies, Tamilnadu, Coimbatore. In case any assistance is required in this regard, please write to the Registered Office of the Company.
9. As regards dividends pertaining to the financial year ended March 31, 1996 and thereafter, amounts remaining in the unpaid dividend accounts of the Company shall, at the expiry of 7 years, be transferred to the Investor Education and Protection Fund, being established by the Central Government. Thereafter the Member shall have no claim against the Fund or the Company in respect of his unpaid dividend. Members are, therefore, requested to lodge their claims for unpaid dividend, if any, immediately with the Company.

EXPLANATORY STATEMENT

(AS REQUIRED UNDER SECTION 173(2) OF THE COMPANIES ACT, 1956)

Item No. 5

At the request of the Company, the consortium of working capital Bankers viz., UCO, SYB, CBI, CB and UBI has sanctioned various working capital limits consisting of Working Capital Demand Loans, Cash Credit, Bills Purchase, Letters of Credit and Letters of Guarantee. While these limits are secured by way of hypothecation of stocks of stores, raw materials including goods-in-transit, stock-in-trade, stock-in-process and book debts of the Company, the bankers have stipulated that these limits are also to be secured by a second charge on all the immovable properties of the Company, present and future.

Section 293(1)(a) of the Companies Act, 1956, provides that the Board of Directors of a Public Company shall not without the consent of such public company in General Meeting sell, lease or otherwise dispose of the whole or substantially the whole of the undertaking of the Company.

Since the mortgaging / charging by the Company of its immovable properties as aforesaid in favour of the Banks may be regarded as disposal of the Company's properties, it is necessary for the Members to pass a resolution under Section 293(1)(a) of the Companies Act, 1956, before creation of the said second mortgage/charge.

Copies of sanction letters from Bankers / Minutes of the Meeting of the Consortium of Bankers and other relevant documents are available for inspection of Members on any working day at the Registered Office of the Company between 10 A.M. and 2 P.M. prior to the date of the meeting.

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

(By Order of the Board)
For SESHASAYEE PAPER AND BOARDS LIMITED

(V PICHAI)
GENERAL MANAGER (FINANCE) & SECRETARY

Chennai
May 29, 1999

SESHASAYEE PAPER AND BOARDS LIMITED**DIRECTORS' REPORT**

7 The Directors hereby present their Thirty-ninth Annual Report and the Audited Accounts for the year ended 31st March, 1999 :

WORKING RESULTS

	1998-99 (Actuals) (in tonnes)	1997-98 (Actuals) (in tonnes)
Production	59083	54079
Sales	59873	50263
	(Rs lakhs)	(Rs lakhs)
Sales (exclusive of Excise Duty & Cess)	15781	13733
Other Income	1181	978
Increase / Decrease in Stock-in-Trade	(-) 594	594
Sales and other income (net of Excise Duty and stock adjustment)	16368	15305
Profit before interest and depreciation	2409	2089
Less:		
Interest	737	629
Depreciation	1246	1192
Profit before tax	426	268
Provision for taxation	100	155
Net Profit	326	113

DIVIDEND

The Directors recommend a dividend of Rs 1.20 per share, absorbing a sum of Rs 135 lakhs. As per the provisions of Income tax Act, 1961, no tax will be deducted at source on dividend distributed. However, the Company has to bear additional income tax on the dividend so distributed.

APPROPRIATIONS

Your Directors propose the following appropriations:

	Rs lakhs
Net Profit for the year	326
Add :	
Surplus brought forward from the previous year	449
	775
Less :	
Transfer to General Reserve including transfer required under Section 205 (2A) of the Companies Act, 1956	140
Proposed dividend and tax thereon	150
	290
Balance carried forward	485

OPERATIONS

Production achieved during the year, at 59 083 tonnes, was the highest ever so far, registering an increase of 9.25% over the previous year.

Despite sluggish market conditions throughout the year, the gross turnover during the year went up to Rs 16 993 lakhs from Rs 14 765 lakhs in the previous year, registering an increase of 15.09%. This achievement was made possible by increased volume of production, improvement in product quality, concentration on products with maximum realisation and, above all, sale of the entire production and achieving ZERO stock of finished goods as on March 31, 1999. However, the improved realisations were partially neutralised by escalation in costs. Gross Profit before interest and depreciation was higher at Rs 2 409 lakhs, as compared to Rs 2 089 lakhs in the previous year.

After absorbing Rs 737 lakhs towards interest and financing charges and Rs 1 246 lakhs towards depreciation, profit before tax was Rs 426 lakhs, as compared to Rs 268 lakhs in the previous year. A sum of Rs 100 lakhs has been provided for liability towards taxation as against Rs 155 lakhs in the previous year. In the result, profit after tax for the year was Rs 326 lakhs, as compared to Rs 113 lakhs in the previous year.

SESHASAYEE PAPER AND BOARDS LIMITED

Cash generation during the year was higher at Rs 1 572 lakhs, compared to Rs 1 305 lakhs in the previous year.

FINANCE

Out of the Term Loan of Rs 14 600 lakhs sanctioned by Industrial Development Bank of India and other Commercial Banks for the Expansion / Modernisation Project, a sum of Rs 8 119 lakhs was drawn, as on March 31, 1999. The total expenditure (net of MODVAT credit) incurred on the Project upto March 31, 1999 was Rs 8 044 lakhs, of which a sum of Rs 808 lakhs relating to Modernisation was capitalised and the balance amount of Rs 7 236 lakhs was carried under Capital Work-in-Progress.

During the year, the Working Capital Limits sanctioned by the Banks were utilised in full.

Attention of the shareholders was drawn in the Report of last year of the action taken by the Company against the disallowances proposed by the Income tax Department on certain purchase and lease transactions. The Writ Petitions filed by the Company in this regard are pending disposal and the *status quo* continues.

The legal proceedings initiated by the Company to protect its interests, in certain purchase and lease transactions, are progressing.

MARKET CONDITIONS

The sluggish market conditions, triggered by reduction in import duties on paper from 65% to 20% in quick succession during 1995, abolition of import duty on Newsprint in March 1994, removal of 'actual user' condition for import of Newsprint and general economic slowdown, continued unabated during the year under review. However, some of the corrective measures initiated by the Government, like re-introduction of 'actual user' condition for import of Newsprint, enhancement in rate of import duty for paper from 20% to 30% and introduction of across the board import duty of 8% (since reduced to 4%) on all imports, partially arrested further deterioration of the paper market conditions.

There were great expectations from the Union Budget presented in February 1999, like imposition of anti dumping duty on Newsprint imports, removal of anomaly in import duty structure between Standard

Newsprint, Light Weight Coated paper and Glazed Newsprint, etc. However, these expectations did not materialise.

On the contrary, the Union Budget withdrew the Excise Duty concession of 3% enjoyed by the paper mills using unconventional raw materials on the clearance of first 15 000 tonnes of paper and paper boards. This has affected 80% of the paper mills in the country, including our Company. However, as part of rationalisation of the Excise Duty rate structure, paper made from conventional raw materials will now attract Excise Duty at 16% instead of 18%. This will provide relief to units predominantly using conventional raw materials.

During the last quarter of the financial year, movement of paper was better, due to temporary closure of some of the big units, resulting in reduced supply of paper to the market. Consequently, as already mentioned, the Company was able to sell 59 873 tonnes during the year and achieve ZERO stock of finished goods as on March 31, 1999, as against 50 263 tonnes sold during the previous year.

EXPORTS PERFORMANCE

During the year the export market witnessed increased competition and consequent softening of prices. 4 095 tonnes of paper and paper boards were exported as compared to 6 061 tonnes during 1997-98. The proceeds amounted to US \$ 27 30 170, equivalent to Rs 1 162 lakhs, as compared to US \$ 45 76 828, equivalent to Rs 1 722 lakhs, during the previous year.

Due to import of capital goods for the Project, there was, for the first time in many years, a net foreign exchange outgo. Net of earnings, the foreign exchange outgo during the year was Rs 1 050 lakhs, as compared to net foreign exchange earnings of Rs 603 lakhs, during 1997-98.

ISO 9001 ACCREDITATION

The Company's quality systems continue to be covered by the 'ISO 9001' accreditation awarded by Det Norske Veritas, The Netherlands.

AWARDS

During the year, the Company received the 'Good Industrial Relations Award' for the year 1993, from Government of Tamilnadu.

— SESHASAYEE PAPER AND BOARDS LIMITED —

CURRENT YEAR (1999-2000)

Production during April 1999, was 5 023 tonnes as compared to 4 600 tonnes produced during April 1998. Sales realisation (net of excise duty and cess) during April 1999 amounted to Rs 814 lakhs (3 214 tonnes) as compared to Rs 823 lakhs (3 181 tonnes) during April 1998.

During April 1999, 131 tonnes of paper and boards valued at US \$ 82 276 (equivalent to Rs 35 lakhs) were exported.

ENVIRONMENTAL PROTECTION

The Company continues to attach paramount importance to the conservation and improvement of the environment. In its efforts to improve the environmental protection measures, the Company has installed:

- ✧ two Electro Static Precipitators for its Boilers, to control dust emissions
- ✧ an Anaerobic lagoon for high BOD liquid effluents and
- ✧ a Secondary Treatment System for liquid effluents.

These facilities will ensure sustained compliance by the Company of the pollution control norms prescribed by the Pollution Control Authorities.

EXPANSION/MODERNISATION PROJECT

The Expansion / Modernisation Project embarked upon by the Company to enhance its production capacity from 60 000 tonnes per annum to 1 15 000 tonnes per annum and to upgrade some of the existing facilities, is under implementation.

The major equipment, viz., Paper Machine, imported from Germany, is under erection. Major items of critical equipment have already been ordered and are either received at site or under shipment. The erection of the machines is likely to be completed by September 1999. Trial production is expected by last quarter of 1999.

While the Company was planning for advancing the trials from the original schedule, the latest EXIM Policy announcement by the Central Government has come in the way, by putting restrictions on the import of second hand capital goods. After the said Policy announcement, import of second hand capital goods

requires a licence. For import of some of the second hand capital goods, already identified and procurement contracts signed with the overseas suppliers, even before the announcement of the new policy, the Company has made applications to the Central Government for issue of import licences, receipt of which, if delayed beyond June/July 1999 may affect the timely completion of the Project.

The following factors have adversely impacted the cost of the Expansion / Modernisation Project, under implementation, to the extent of Rs 2 000 lakhs:

- ✧ weakening of the Indian Rupee by around 20%
- ✧ across the board impost of Special Additional Duty of Customs at 8% (since reduced to 4%) on all imports
- ✧ imposition of a surcharge of 10% on all imports and
- ✧ increase in rate of excise duty on indigenous capital goods from 13% to 16%.

Preference Share issue (Rs 3 000 lakhs) is still to be made in view of unfavourable market conditions prevalent throughout the year.

Under the circumstances, the Company has taken the prudent step of deferring investments on the new boiler and turbo set to Phase II, which may be taken up immediately after successful stabilisation of the new Paper Machine.

Y 2 K COMPLIANCE STATUS

The existing software, hardware and microprocessor based equipment and processes of the Company are being made Y 2 K compliant at an estimated cost of Rs 35 lakhs. While 70% of the work has already been completed, the remaining work will be completed before end August 1999. Contingency plans are in place to take care of any eventuality of system breakdown/failure due to the year 2000 problem.

CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION AND FOREIGN EXCHANGE EARNINGS AND OUTGO

The information relating to Conservation of Energy, Technology Absorption and Foreign Exchange

SESHASAYEE PAPER AND BOARDS LIMITED

Earnings and Outgo, as required under Section 217(1)(e) of the Companies Act, 1956, read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988, is given in Annexure I and forms part of this Report.

PARTICULARS OF EMPLOYEES

The statement of employees referred to in Sub-Section (2A) of Section 217 of the Companies Act, 1956, is given in Annexure II and forms part of this Report. The employee shown therein is not a relative of any Director of the Company.

LABOUR

Relations between the Management and the labour were cordial throughout the year under review.

DIRECTORS

Sri M R B Punja and Dr V Gaurishanker retire by rotation under Article 104 of the Articles of Association of the Company and being eligible, offer themselves for re-election at the ensuing Annual General Meeting.

AUDITORS

Messrs Suri & Co., Chennai, and Messrs S Viswanathan, Chennai, Auditors of the Company, retire at the conclusion of the ensuing Annual General Meeting and are eligible for re-appointment. Necessary resolution for their appointment is proposed as a Special Resolution pursuant to Section 224-A of the Companies Act, 1956.

ACKNOWLEDGEMENT

The Directors place on record their great appreciation of the splendid efforts of Sri N Gopalaratnam, the dynamic Managing Director of the Company, in achieving substantially improved results during an extremely difficult year, besides steering a major Expansion / Modernisation Project, and the fine performance of his team of dedicated executives and employees of all ranks. The Directors also express their sincere thanks to the Government of India, Government of Tamil Nadu, Financial Institutions and Banks, for their understanding, guidance and assistance, at all times.

On behalf of the Board

S VISWANATHAN
Chairman

Chennai
May 29, 1999

Report  junction.com

SESHASAYEE PAPER AND BOARDS LIMITED

ANNEXURE - I

**INFORMATION UNDER SECTION 217(1)(e) OF THE COMPANIES ACT, 1956,
READ WITH THE COMPANIES (DISCLOSURE OF PARTICULARS IN THE
REPORT OF BOARD OF DIRECTORS) RULES, 1988**

A. CONSERVATION OF ENERGY**a) Measures taken for conservation of energy:**

- i. Replacement of MS tubes with SS tubes in the Black Liquor evaporator plant.
- ii. Installation of new medium consistency pump for wood pulp.
- iii. Stoppage of primary centricleaner system for wood pulp in pulp mill.
- iv. Arresting of air infiltration in GV Boiler and B & W Boiler.
- v. Installation of two new high consistency pumps for wood pulp refining.
- vi. Installation of six numbers of energy efficient stock pumps.
- vii. Replacement of steam traps and arresting steam leaks.

b) Additional investment and proposals, if any:

- i. Upgradation of Boiler No. 7 to Fluidised Bed Combustion.
- ii. Upgradation of 5 MW Turbo Generator Set.
- iii. Installation of Desuperheaters for all Paper Machines.
- iv. Installation of 'Conflow' Sunds Conical Refiners.

Additional investment envisaged for the above proposals is estimated at around Rs 400 lakhs.

c) Impact of the above measures on consumption of energy:

The above measures have resulted in reduced consumption of energy.

d) Total energy consumption and energy consumption per unit of production as per Form - A :**FORM - A**

Year ended
31-3-1999 31-3-1998

I POWER AND FUEL CONSUMPTION**1 Electricity****a) Purchased**

Unit - lakh kwh	595.59	651.77
Total amount - Rs lakhs	2203.58	2182.71
Rate/unit - Rs	3.6998	3.3489

b) Own generation

Through Steam Turbine		
Units- lakh kwh	444.02	330.46
Units per kg of fuel	-	-
Cost/unit - (Variable) - Rs	1.40	1.29

2 Coal

Quantity - tonnes	23014	11099
Total cost - Rs lakhs	499.96	243.17
Average rate - Rs/tonne	2172	2191

3 Lignite

Quantity - tonnes	76031	89278
Total cost - Rs lakhs	751.93	864.62
Average rate - Rs/tonne	989	968

4 Others

Quantity - tonnes	40287	23537
Total cost - Rs lakhs	491.14	369.02
Rate / Unit - Rs	1219	1568

5 Furnace Oil

Quantity - Kilo litres	1234	1275
Total cost - Rs lakhs	70.41	77.08
Average rate - Rs per kilo litre	5706	6045

II CONSUMPTION PER UNIT OF PRODUCTION

Electricity - kwh	1760	1816
Coal - tonne	0.390	0.205
Lignite - tonne	1.287	1.651
Furnace oil - Kilo litre	0.021	0.024
Others - tonne	0.682	0.435