

# SHRI SHAKTI LPG LTD



**14th ANNUAL REPORT  
2006-2007**

**BOARD OF DIRECTORS**

<b>Mr. D.V. Manohar</b>	Chairman & Managing Director
<b>Mr. D.V. Satya Kumar</b>	Director
<b>Mr. D.V. Raja Sekhar</b>	Director
<b>Mr. D.V. L.N. Murthy</b>	Director
<b>Mr. S. Gopala Krishnan</b>	Director
<b>Mr. R. Prabhakar Rao</b>	Director
<b>Mr. B. K. Sinha</b>	Director
<b>Dr. A. Balasetty</b>	Director
<b>Dr. Bharat H.Barai</b>	Director
<b>Dr. Gorantla Govindaiah</b>	Director
<b>Mr.B.K. Bakhshi</b>	Director

**AUDITORS**

**M/s. Venugopal & Chenoy**  
Chartered Accountants  
Hyderabad.

**COMPANY SECRETARY &  
VICE-PRESIDENT (FINANCE)**

**Mr.T. Anil Kumar**

**BANKERS**

ICICI Bank , HDFC Bank

**REGISTRARS &  
SHARE TRANSFER AGENTS**

**M/s. XL Softech Systems Ltd**  
3, Sagar Society  
Road No.2, Banjara Hills,  
Hyderabad - 500 034.  
w.e.f. 1st October 2007.

**REGISTERED OFFICE**

4th Floor, Venus Plaza  
Adjacent to Airport,  
Begumpet,  
Hyderabad - 500 016.  
Tel : 91-040-27902929  
Fax : 91-040-27908989

**PLANTS**

- (1) Nemam Village  
Beach Road,  
Kakinada - 533 005 (A.P)
- (2) Bibinagar  
Near Railway Station  
Nalgonda District. (A.P.)

**SHRI SHAKTI LPG LTD****14<sup>TH</sup> ANNUAL REPORT****N O T I C E**

NOTICE IS HEREBY GIVEN THAT THE FOURTEENTH ANNUAL GENERAL MEETING OF THE MEMBERS OF THE COMPANY WILL BE HELD ON THURSDAY, THE 27<sup>TH</sup> SEPTEMBER, 2007 AT 10.30 A.M. AT HARI HARA KALA BHAVAN, S.P. ROAD, SECUNDERABAD TO TRANSACT THE FOLLOWING BUSINESS.

**ORDINARY BUSINESS:**

1. To receive, consider and adopt the Balance Sheet, Profit and Loss Account And the Report of Directors and Auditors thereon for the year ending March, 31, 2007.
2. To appoint a Director in place of Mr. D.V.L.N. Murthy, who is retiring at this Annual General Meeting and being eligible, offers himself for re-appointment.
3. To appoint a Director in place of Mr. S. Gopala Krishnan, who is retiring at his Annual General Meeting and being eligible, offers himself for re-appointment.
4. To appoint a Director in place of Mr. B.K. Bakshi, who is retiring at this Annual General Meeting and being eligible, offers himself for re-appointment.
5. To appoint Auditors to hold office from the conclusion of this Meeting until the conclusion of the next Annual General Meeting and to fix their remuneration.

By Order of the Board,

PLACE : HYDERABAD

Date : 20-07-2007

**D.V. MANOHAR**  
Chairman & Managing Director

**NOTE:**

1. A Member entitled to attend and vote the Meeting is entitled to appoint a Proxy and the proxy so appointed need not be a Member of the Company.
2. The proxies in order to be effective must be deposited at the Registered Office of the Company not less than 48 hours before the commencement of the Meeting.
3. Members/Bodies Corporate/Proxies to bring the Entry Pass/Attendance Slip duly filled in for attending the Meeting.
4. The Register of Members and Share Transfer Books will remain closed from 25.09.2007 to 27.09.2007 (both days inclusive).
5. M/s. X.L. Softech Systems Ltd., 3, Sagar Society, Road No. 2, Banjara Hills, Hyderabad - 500 034 have been appointed as Registrars and Share Transfer Agents w.e.f. 1<sup>st</sup> October 2007.

**DIRECTORS' REPORT**

To  
The Shareholders,  
Shri Shakti LPG Ltd.

**1. INTRODUCTION**

Your Directors have pleasure in presenting their report together with the audited Accounts for the financial year ended 31<sup>st</sup> March, 2007.

**2. FINANCIAL PERFORMANCE**

The Financial performance of the Company for the year 2006-07 is indicated below:

(Rupees 000 omitted)		
Particulars	2006-07	2005-06
Gross Income	57662	27407
Less: Expenditure excluding Interest, Depreciation, & prior period and Extraordinary items.	39561	33792
Profit/(Loss) before Interest, Depreciation, & prior period and Extra-ordinary items	18101	(6385)
Interest	35860	7721
Profit/(Loss) before Depreciation	(17759)	(14106)
Depreciation	31255	37386
Profit/(Loss) before prior-period and Extraordinary items	(49014)	(51492)
Prior-period and Extraordinary items	3694	1099
Net Profit/(Loss) before provision for MAT	(52708)	(52591)
Provision for MAT	0	0
Add: Excess provision towards Income Tax reversed	0	6000
Net Profit/(Loss)	(52708)	(46591)

During the year, the company incurred cash loss of Rs. 17,759-thousands, (previous year Loss of Rs. 14,106 thousands). After providing for depreciation amounting to Rs. 31,255 thousands (previous year Rs.37,386 thousands), prior period/extraordinary items Rs. 3,694 thousands (previous year Rs.1099 thousands), the total Loss for the year stood Rs. 52,708 thousands (previous year Rs. 46,591 thousands).

All the term loan and working capital liabilities of your Company have been fully paid off under the One Time Settlement (OTS) deal. The One Time Settlement deals with Punjab National Bank, State Bank of Hyderabad and IFCI were finalised in 2005 wherein they agreed to waive the interest and considerable part of

the principal and accept the balance in full and final settlement of their term loans and working capital loans. Your Company got a very good deal from all the three lenders based on our strong contention that our Company from a position of the acknowledged leader of the private sector LPG Industry fell down and became loss making only because we had been badly let down by the Government of India which did not honour its commitments given to the private sector LPG Industry. Under the OTS deals, Punjab National Bank, State Bank of Hyderabad and IFCI agreed to waive about Rs.80.00 Crores and accept about Rs.26.00 Crores in full and final settlement of the overall liability of Rs.106.00 Crores. We could achieve this with your support and encouragement.

**SHRI SHAKTI LPG LTD****14<sup>TH</sup> ANNUAL REPORT****Future Outlook :**

As you are aware, the failure of the Government of India to honour its commitments given to the Private Sector LPG Industry led to the turbulence and turmoil which affected all the Private Sector LPG Companies. However with your support, your company could not only survive the above turbulence but is now gearing to pursue its market revival plans as part of its turn around strategy. Since the Government of India is not removing the subsidy on domestic LPG as committed earlier, your company decided to focus on the non-subsidised markets such as commercial, industrial

and auto LPG. Further, your company has already tied-up / further tying up arrangements with both MNC LPG Companies as well as Public Sector Oil Companies for sharing its infrastructure with them which is expected to generate considerable revenues to your company in future. The market for commercial as well as auto LPG is getting better and your company is confident of achieving greater volumes in the near future. Your company has received two patents jointly with Automotive Research Association of India (ARAI) in June 2007 towards the development of conversion kits for running three wheelers on LPG.

**3. DEPLOYMENT OF FUNDS**

(Rs.000 omitted)

<b>Sources of Funds</b>	<b>31.03.2007</b>	<b>31.03.2006</b>
Share Capital and Reserves	773986	773983
Secured Loans	86750	187721
Un-secured Loans and Trade Deposits	133140	134444
<b>TOTAL</b>	<b>992876</b>	<b>1096148</b>
<b>Application of Funds</b>		
Net Fixed Assets, Capital Work-in-progress	493965	720179
Investments	10250	10250
Net Current Assets	109691	38258
Mis. Expenditure to the extent not written off	27900	29099
Profit and Loss A/c.	351070	298362
<b>TOTAL</b>	<b>992876</b>	<b>1096148</b>

**4. SUBSIDIARY COMPANY**

Your fully owned subsidiary Company namely, Asia LPG Pvt. Ltd's (ALPL) financial results have been appended herewith.

**5. DIVIDEND**

As your Company still has accumulated losses, the Directors regret to inform you that they are not in a position to recommend any Dividend for the year ended 31.03.2007.

**6. DEPOSITS**

Your Company has not accepted any Fixed Deposits during the year.

**7. DIRECTORS**

In terms of Articles of Association of the Company, Mr. D.V.L.N. Murthy, Mr. S. Gopala Krishnan and Mr. B.K. Bakshi retire as Directors at this Annual General Meeting and being eligible offer themselves for re-appointment. Your Directors recommend their re-appointment.

**SHRI SHAKTI LPG LTD****14<sup>TH</sup> ANNUAL REPORT****8. AUDITORS**

The Statutory Auditors M/s. Venugopal & Chenoy, Chartered Accountants, appointed by the Members at their earlier Annual General Meeting retire at the conclusion of this Meeting and they are eligible for re-appointment. The Members are requested to appoint the Auditors and fix their remuneration.

**9. PERSONNEL**

During the year none of the employees is in receipt of the remuneration in excess of the limits prescribed u/s. 217(2A) of the Companies Act, 1956, read with Companies (Particulars of Employees) Rules, 1975, as amended from time to time.

**10. MANAGEMENT DISCUSSION AND ANALYSIS REPORT**

A "Management Discussion and Analysis Report" has been furnished separately and the same forms part of this report.

**11. CORPORATE GOVERNANCE**

A brief report on Corporate Governance in compliance with Clause 49 of the Listing Agreement is annexed.

**12. DIRECTORS RESPONSIBILITY STATEMENT AS REQUIRED UNDER SECTION 217(2AA) OF THE COMPANIES ACT, 1956.**

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

- (i) that in the preparation of the accounts for the financial year ended 31<sup>st</sup> March, 2007, the applicable accounting standards have been followed alongwith proper explanation relating to material departures;
- (ii) that the Directors have selected such accounting policies and applied them consistently and made judgements and estimates that were reasonable and prudent so as to give a true and fair view of

the state of affairs of your Company at the end of the financial year and of the profit or loss of your Company for the year under review;

- (iii) that the Directors have 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 your Company and for preventing and detecting fraud and other irregularities.
- (iv) that the Directors have prepared the accounts for the financial year ended 31<sup>st</sup> March, 2007 on a 'going concern' basis.

**13. ACKNOWLEDGEMENT**

The Board wishes to place on record its deep sense of gratitude and appreciation to all the Promoters and Shareholders for their whole hearted and spontaneous support to your Company during the turbulent period faced. The Board also wishes to acknowledge the help and assistance rendered by all the Banks, Financial Institutions, Dealers, Customers, Suppliers, Collaborators, Consultants and Contractors. The Board wishes to further record its gratitude to various Departments of the Government of Andhra Pradesh and Government of India and other State Governments for their support and encouragement given to your Company. The Board records its appreciation for the contribution of all the team members of your Company at all levels and for their unflinching support and co-operation.

**14. CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION AND FOREIGN EXCHANGE**

The prescribed details as required u/s. 217(1)(e) of the Companies Act, 1956 are annexed.

For and on behalf of the Board of Directors,

**D. V. MANOHAR**  
Chairman & Managing Director

Hyderabad

Date : 20-07-2007



## MANAGEMENT DISCUSSION AND ANALYSIS

SHRI SHAKTI LPG LIMITED (SSLPG) is engaged in the business of LPG Marketing. The Management Discussion and Analysis given below discusses the key issues concerning the LPG Industry in general and SSLPG in particular.

### Industry Structure & Developments :

LPG Marketing was the monopoly of the Government Oil Companies who had piled up a huge waitlist. The government of India in 1993 permitted the private sector participation with a commitment that the subsidy enjoyed by Government Oil Companies would be removed in a phased manner in the next few years. It had also committed that the Commercial & Industrial LPG markets in India would be reserved exclusively for the private sector, till the subsidy withdrawal in the domestic sector is completed. None of the promises were implemented as a result of which all the private sector companies were unable to run the LPG business on a profitable basis due to the total absence of level playing field.

The Government of India even failed to implement its G.O.MS. No.224 dated 27th November, 1997 wherein the government committed a phased withdrawal of subsidy on LPG over a period of three years ending with March, 2001. This was subsequently shifted to end of March, 2002. Because of the Government's failure to honor its commitments as above and the consequent absence of level playing field, the entire private sector LPG industry was badly affected and became loss-making. During the previous year, the Ministry of Petroleum issued a notification stating that the subsidies on LPG and Kerosene will be removed in a phased manner by the year 2007 only. However the same is yet to be implemented.

SSLPG were the pioneers in the field of LPG marketing and established a large integrated infrastructure to carry LPG from the Dock (Port) to the Door of the customers, which consisted of dedicated port facility, large storage terminals, network of bottling plants and distribution and marketing networks. Your Company was able to do well from the commencement of commercial operations in 1995 till 1999 and became profitable. Infact your Company emerged as the Country's largest private sector LPG Company. However, due to abnormal rise in Crude Oil prices during 1999-2000, the international LPG prices also shot up. Despite the big spurt in sourcing costs, it was not possible to proportionately increase the prices due to competition

with the Government subsidized gas by virtue of which the Company incurred losses. This was further aggravated in the subsequent years due to the growing disparity in the prices between the private LPG operators and the PSU Oil Undertakings, on account of non removal of subsidy as mentioned earlier. Because your company's dedicated customer base was much larger, it had to suffer greater losses as more sales meant more losses. Inspite of the difficult times, the Company built a strong brand image viz., Shakti Gas which is still/quite popular.

SSLPG entered into the LPG Auto Fuel Market and developed for the first time patented technology for converting the 2-stroke engines of both 3 wheelers & 2 wheelers to run on LPG in collaboration with Automotive Research Association of India (ARAI) in June 07, SSLPG received two patents jointly by with ARAI for the above. The Government of India which agreed in principle to permit LPG as auto-fuel, took a very long time to enact the legislative amendments. The highly potential auto fuel market which was to open by 1998, was not available till recently due to delay in finalization of norms by the Government and setting up of adequate number of LPG dispensing stations.

### Opportunities & Threats :

Your Company has taken up a three pronged strategy for its turn around which is as follows:

- One Time Settlements (OTS) with the term loan and working capital lenders wherein the entire accumulated interest along with considerable part of the principle amount is waived .
- Tie up financial arrangements to raise the amounts required for meeting the OTS commitments.
- Marketing Action Plan to aggressively sell LPG in the commercial industrial and auto fuel markets in addition to extensive and accelerated marketing of Shakti Gas Auto Kits in all the cities where the Supreme Court has made it mandatory to convert three wheelers to run on environment-friendly fuels such as CNG at the earliest.

SSLPG achieved a major breakthrough when the Company paid off all the term loans and working capital liabilities under the One Time Settlement ( OTS) deal, wherein the Banks & Financial institutions agreed to waive the interest and considerable part of the principal and accept the balance in full & final settlement of their term loans and working capital loans. The Company got a very good deal from all the three Banks/ Financial

Institutions based on our strong contention that the Company from the position of the acknowledged leader of the private sector LPG Industry fell down and became loss making and sick only because the Government did not honor the commitments given to private LPG industry.

The Company after herculean efforts succeeded in raising the necessary funds for the OTS through sale of its surplus land at Kakinada as well as short term loan, from various entities. Accordingly Punjab National Bank (PNB) was paid in 2005 and thereafter State Bank of Hyderabad (SBH) in 2006 and IFC Ltd. (IFCI) in January, 2007.

The Government of India has to remove the subsidy which it has not been doing. Therefore the Company has decided to focus on the non-subsidized markets such as Commercial, Industrial & Auto LPG. Further the Company is tying up with MNC LPG Companies as well as Public Sector Oil Companies for sharing its infrastructure with them which is expected to generate considerable revenues to the Company. The market for commercial as well as auto LPG is getting better and the Company should be able to achieve higher volumes.

#### Segment-wise Performance :

The Company is organized into two main business segments namely -

- Liquefied Petroleum Gas - Comprising of Bulk & Packed LPG; and
- LPG Conversion Kits for Three-wheelers.

The LPG business constituted 91% of the total turnover of Rs. 310.03 lacs and there are no significant operations from the Auto Conversion Kits Division as of now.

#### Outlook :

The Company is focussing on the non-subsidised markets such as Commercial, Industrial & Auto fuel markets. It is also tying up with Public Sector Oil Companies and MNCs to share the infrastructure in order to generate revenues. Negotiations are in advanced stage for further tie-ups in this direction.

#### Risks & Concerns :

The Management of the Company analyses and evaluates on a continuous basis the various risks associated with the business and adopts Risk Management Practices to minimize the adverse impact of these risks. Both external as well as internal developments are assessed regularly.

The Management constantly scans the environment covering areas like LPG prices, Government policies, global developments in respect of LPG availability, technological changes etc. Business risks and uncertainties are identified and prioritized. Appropriate strategies are planned and implemented.

#### Internal Control Systems:

The Company has an effective internal Control System with regard to purchase and sale of inventory, fixed assets and goods. It has an internal audit department wherein audit of the transactions of the plants and the corporate offices are done at periodical intervals in order to ensure that recording and reporting are adequate and proper. The internal audit also verifies whether internal controls and checks and balances in the system are adequate, proper and upto date. Corrective actions for any weaknesses in the system that are disclosed by the audit are taken.

The Audit Committee of the Board is chaired by Mr. S. Gopalakrishnan, Sr. Partner, PWC and consists of eminent Independent Directors such as Mr. B K Bakshi former CMD, Indian Oil and Mr. DVLN Murthy former MD, AP industrial Development Corporation. It reviews the important observations of the internal Audit and suggests corrective actions for the management to implement. It also meets periodically to review and recommend quarterly, half, yearly and annual financial statements of the Company. The Committee also holds discussions with the internal auditors, statutory auditors and the management on the matters relating to internal controls, auditing and financial reporting. The Committee also reviews with the statutory auditors, the scope & results of the audits.

#### Financial performance Vs. Operational performance :

During the year the Company incurred cash loss of Rs. 17,759 thousands (previous year Rs.14,106 thousands) After providing for depreciation of Rs. 31,255 thousands (previous year Rs.37,386 thousands), the total loss for the year stood at Rs.52,708 thousands (previous year Rs.52,591 thousands).

#### Human Resources & Industrial Relations

The Company continues to maintain cordial industrial relations. Retention of the workforce is a key challenge considering the exponential growth in the industrial sector. The Company has been consistently working on learning development of employees to enable them to take on larger responsibilities.

The Company had on its rolls 34 permanent employees at the end of financial year 2006-07.

#### Cautionary Statement :

Statement in this Management Discussion & Analysis describing the Company's Objectives, projected estimates and expectations may constitute forward looking statements within the meaning of applicable laws and regulations. Actual results might differ marginally or materially from those either expressed or implied.



### A Report on Corporate Governance

#### a) Company's Philosophy

Shri Shakti LPG Ltd. is committed to the highest standards of Corporate Governance in all its activities and processes. The driving forces of Corporate Governance at Shri Shakti are its core competence and core values – Belief in Core Competence, people, leadership, consumer orientation and pursuit of excellence and strive to achieve the best in all the fields.

#### b) Board of Directors

##### (i) Composition and Category of Directors :

The Board comprises 11 Directors, who bring in a pool of collective knowledge from various disciplines. The Board has been constituted in a manner which results in an appropriate mix of Executive and Non-Executive Directors. The Non-Executive Directors bring independent judgement in the Board's deliberations and decisions. This has been done to preserve the independence of Board and effective discharge of its functions of Governance and Management.

Name	Category	Designation	No. of meetings held during the last financial year	No. of meetings attended	No. of memberships in Boards of other Companies	Attendance of each Director at last AGM
Mr. D.V. Manohar	Promoter and Executive Director	Chairman & Managing Director	6	6	6	Yes
Mr. D.V.Satya Kumar	Promoter and Director	Director	6	6	5	Yes
Mr.D.V.Raja Sekhar	Promoter and Director	Director	6	5	4	Yes
Mr. B. K. Bakhshi	Independent and Non-Executive Director	Director	6	1	3	Yes
Mr.D.V.L.N.Murthy	Independent and Non- Executive Director	Director	6	5	-	Yes
Mr.S.Gopala Krishnan	Independent and Non-Executive Director	Director	6	3	1	Yes
Dr.Bharat H.Barai	NRI Director	Director	6	-	2	No
Dr. A. Balasetty	NRI Director	Director	6	-	1	No
Dr. Gorantla Govindaiah	NRI Director	Director	6	-	-	No
Mr. B.K. Sinha	Independent and Non-Executive Director	Director	6	6	1	Yes
Mr. R. Prabhakara Rao	Independent & Non-Executive Director	Director	6	3	-	Yes

## (ii) Board Meetings:

The Board has a formal schedule of matters reserved for its consideration and decision. These include approving business strategy, setting performance targets, reviewing performance, approving investments, ensuring adequate availability of financial resources and reporting to the Shareholders. Board Meetings were held during the year on 29.05.2006, 30.06.2006, 31.07.2006, 23.10.2006, 16.11.2006 and 27.01.2007.

## (iii) Directors seeking re-appointment:

Mr. D.V.L.N. Murthy, Mr. S. Gopala Krishnan and Mr. B.K. Bakshi, retire by rotation at the forthcoming Annual General Meeting and seek re-appointment.

## (iv) Board Committees:

To enable better and more focussed attention on the affairs of the Company, the Board delegates certain matters to the Committees of the Board set up for the purposes.

## (v) Shares held by Independent &amp; Non-Executive Directors:

None of the Independent and Non-Executive Directors hold any Shares in the Company.

c) **Audit Committee**

As a measure of good Corporate Governance and to provide assistance to the Board of Directors in fulfilling the Board's overall responsibilities, an Audit Committee has been constituted as sub-committee to the Board. The functions of the Audit Committee include;

- Reviewing the adequacy of internal control systems and the Internal Audit Reports, and their compliance thereof.
- Overseeing of the Company's financial reporting process and the disclosure of its financial information to ensure that the financial statements are correct, sufficient and credible.
- Recommending the appointment of external auditors and fixation of their audit fee, and also approval for payment for any other services.

- Reviewing with Management the quarterly, half yearly and annual financial statements before submission to the Board.

## Composition and other details

The Audit Committee of the Company consists of three Independent Directors and one Promoter Director viz.,

- 1) Mr. S. Gopala Krishnan, Chairman
- 2) Mr. D. V. L. N. Murthy, Director
- 3) Mr. D. V. Raja Sekhar, Director
- 4) Mr. B. K. Bakshi, Director

The Company Secretary is the Secretary of the Committee.

During the year under review, the Audit Committee met 4 times. Mr. D. V. Rajasekhar and Mr. D V L N Murthy attended 4 meetings while Mr. S. Gopala Krishnan attended 2 meetings and Mr. B. K. Bakshi has attended one meeting. The Committee met on 4 (four) occasions during the year i.e. on 30.06.2006, 31.07.2006, 23.10.2006 and 27.01.2007.

The meetings of the Audit Committee were attended by the heads of Finance, and Auditors as invitees. Members held discussions with the Statutory auditors during the meetings of the Committee and the quarterly and annual Audited Financial results of the Company were reviewed by the Audit Committee before consideration and approval by the Board of Directors.

d) **Remuneration Committee**

The Remuneration committee is constituted to evaluate remuneration and benefits for Executive Directors as per Clause 49 of the Listing Agreement. The committee, which has the following members last met on 06.12.2004 to review the remuneration of the Managing Director.

Mr. D. V. L. N. Murthy	-	Director
Mr. S. Gopala Krishnan	-	Director
Mr. D. V. Raja Sekhar	-	Director

## (i) Remuneration Policy:

The Directors are paid a Sitting fees of Rs.1,000/- for attending each of the meetings of Board.